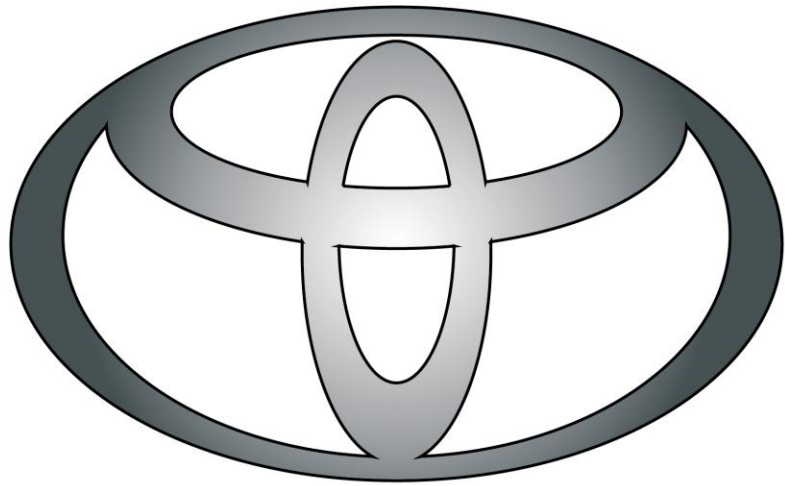


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LEMiMA 2011



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2nd International Conference
**"LAW, ECONOMY AND
MANAGEMENT IN MODERN
AMBIENCE"**
LEMiMA 2011

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Života Radosavljević

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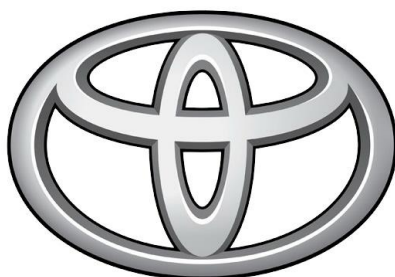


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Preface

The Second International Scientific Conference named "Law, Economics and Management in Contemporary Modern Ambience" – LEMIMA 2011 is being held for the second time in Belgrade, Serbia, organized by Faculty for education of the executives, Novi Sad, which is a part of Alfa University – Belgrade. This conference has a goal to expand acquired knowledge from previous International Conference and to point to new knowledge which are acquired during the time period of year and a half in areas of law, economy and management, especially because of many dramatic changes that took place meanwhile.

Comparing to the previous International Scientific Conference, this one is being held in much more complex conditions of business. This statement refers to the natural disasters that are happening, especially when it comes to a serious of earthquakes in Japan, which caused damage to nuclear power plant in Fukushima with great possibilities to expose a large number of people to radiation, both in Japan and globally. This year there was a general uprising of the people in some African and Middle African countries, where there were general confrontations, between forces loyal to regimes and rebels, as well as the armed intervention of NATO forces. These events were followed by high casualties, massive destruction and disruption of ecosystem, to the extent that it would take several decades to bring some of these countries back to the period before these events. At the last International Scientific Conference works and papers that were presented were announcing that the crisis in the natural and social order will be more frequent and with more devastating effects, or that society will increasingly live with crises, to the extent that the crisis will be something that is normal, and normal situations will be considered as an exception. First International Scientific Conference title explicitly points to its content. Of course, it is about integrating law, economics and management, as three of the dominant sciences and professions that have decisive impact on business performance at the global, national, or corporate level. These three sciences and professions have the primary responsibility for the current situation, because it didn't change in response to changes in the environment, but tried to solve contemporary problems without dated concept and philosophy. Thus, there was a disproportion between theory and praxis, and the outcome was expected, and this is the emergence of major economic crisis during 2009, the social crises which are manifesting itself through the national conflict to deteriorating bilateral relations. Eventually, these stated problems have been expanded with the problems of environmental policy (earthquakes, tsunamis, volcanoes, etc.) which also caused the large scale environmental disasters. Thus, the primary cause of the majority of these events is the result of underdevelopment, but also coordination of legal economic and managerial dimensions of the global or national level. Integrating of stated phenomena, would increase the synergetic effect, which is natural, because the effect of joined activities is always greater than the sum of their parts. We should add one more alpha plus, and that is to be referred to review the science and profession with an international perspective, and by an examination of domestic and foreign



specialists and experts. Diversity of approaches is necessary, because the problems are complex and should be viewed from various aspects, especially from the legal, economic, and management aspects. So, here the technical dimension of contemporary problems is excluded, not only because it belongs to the technical sciences but also because they are less problematic and easier.

It is particularly important that the Second International Scientific Conference had, as active participants, businessmen from Serbia, Montenegro, Bosnia, which was not the case at previous international conferences. In this way, the broadening the number of relevant and competent participants took place, and it leads to connection of theory and praxis, which creates more favorable conditions to contemporary problems in the sphere of business, industry, and government as efficiently and effectively addressed. Considering that one year, as the duration from one to other scientific conference is relatively long for more complex problems that rise in contemporary terms, organizer also launched the international scientific journal "International Journal of Economics and Law". The first issue of the Review was promoted at the International Conference LEMIMA 2011. With the idea that, by the end of the year the same will be presented to the appropriate ministry for evaluation and placement on the national list of journals in Serbia for stated spheres.

The organizer would like to thank all participants of the International Conference, who sent their scientific works and in that way made the Conference successful, and particularly foreign colleagues and friends who were in conditions of crisis but managed to attend this conference and take an active part in its work. Also, big thanks to domestic and foreign businessmen chambers and organizations that have recognized this conference and their participation showed the time and practice to be followed.

Special thanks organizer owes to the Ministry of Education and Technological Development of Serbia which moral and financial support made this conference successful, the numerous donors who financially supported the organizer, but also the Republic of Serbia presents itself in the best light to the international representatives who took part in this conference. Thanks to everyone who, in any way made an effort to make this conference successful, believing that every successful business is based on friendship.

Belgrade, Serbia, April 12-15, 2011

CHAIRMAN OF SCIENTIFIC COMITEE

Prof. dr Života Radosavljević



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DETERMINANTS AND DIAGNOSIS OF THE FINANCIAL CRISIS

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Abstract:

This document discusses the basic determinants and diagnosis of the financial crisis and the special emphasis is given to banking and currency crisis. In addition, document provides a summary of the forecasts of banking and currency crises - in fact, the system of early recognition of the crisis and its key elements were analyzed. In essence, banking and currency crises cannot be overlooked for sure; however, certain indicators that suggest the crisis will occur could be identified. The author does not introduce the current crisis, since it is still in progress, but also pays attention to current crises that have occurred in the world in present analysis.

Keywords:

crisis, forecasting, costs, banking crisis, currency crisis

INTRODUCTION

Today crisis is a normal business companion of every country. Special attention in the present circumstances, is given to current global crisis, which dates from the end of 2008, and is still ongoing. What is crucial is the attempt to answer the question whether it is possible to anticipate the crisis and its proportions. There are many models and studies in this field. However, this document will show the method of the system of early recognition of the crisis, its key elements, and entry points. Of course, before that, the emphasis will be given to the clarification of the term crisis, the types of crises that occur, the costs that any crisis wears. Therefore, this paper provides an overview of the current world crisis by 2008, and on that basis will be made concrete conclusions in this analysis. Therefore, the current crisis will not be taken into consideration.



FINANCIAL CRISIS – KEY POINTS

There are numerous examples of financial crises that occurred in different regions of the world. During the 1990s, there was an outbreak of financial crises in Europe (ERM currency mechanism crisis within the European Monetary System between 1992-1993), Latin America ("Tequila crisis" 1994-1995), as well as in East Asia (crisis in Indonesia, Korea, Malaysia, Philippines, and Thailand, 1997-1998). These crises have had a high price - especially when they imply problems in the banking sector - in terms of lost production, and fiscal and quasi-fiscal costs for supporting a weakened financial sector. In addition, after the outbreak of the crisis the effects of contagion and spillover were often reported, so that in many cases international financial support and cooperation was required to limit the volume and costs of these crises and their contagious spread of the spilling over to other countries. Overall, the banking crises during the 1970s were quite rare, due to the regulated nature of financial markets during this period. However, after financial liberalization during the 80's and 90's the number of banking crises have increased substantially, as opposed to currency crises whose frequency during this period did not change significantly.¹ The financial crises are not unique characteristics of modern financial systems: history is littered with banking and currency crises. In the 20th century, for example, in the post war period there was an outbreak of numerous financial crises - crises of pound sterling and French franc during the 1960s, the collapse of Bretton Woods's system in the early 1970s, as well as the debt crisis during the 1980s. Earlier periods have also been filled with financial crisis - two prominent examples are the Barings crisis in 1890, which has a surprisingly many characteristics in common with the Mexican crisis of 1994-1995, the U.S. currency crisis of 1894-1896, which is considered a speculative attack on U.S. accession to the gold standard and it is an early example of the efficiency of lending foreign exchange reserves to prevent a currency crisis. Indeed, most modern institutions and practices, such as the function of the final creditor of central bank, deposit insurance, prudential and regulatory standards, various international financial arrangements, as well as the IMF, have been established in response to various financial crises.

TYPES OF FINANCIAL CRISIS

Financial crises can be grouped into three main categories: currency crises, banking crises, and debt crises. a currency crisis occurs when a speculative attack on a currency of exchange results with devaluation (or sharp depreciation) of national currency rate, i.e. it forces the government to defend the value of the currency by selling large amounts of foreign exchange reserves or

¹ More about the frequency of banking and currency crises seen in Kaminsky and Reinhart (1999.), str. 477



raising interest rates. The term banking crisis refers to a situation where actual or potential problems threaten the ability of banks to settle short-term financial obligations,² or where the state, to prevent this to happen, is forced to intervene in the banking market, providing of abundant financial aid to individual banks or banking system as a whole. Debt crisis is a situation in which the country is no longer able to service its foreign debt, be it public or private debt.³

Different types of crises often have common causes - accumulation of unsustainable economic imbalances and imbalances in asset prices and exchange rates, often in the context of disorders of the financial sector and structural rigidity. The crisis can be caused by sudden loss of confidence in the currency or the banking system, due to trends such as sudden assets price correction, or disorders of flows of external financing, loans or that cause the appearance of economic and financial weakness. Crisis may include severe price drops and assets of financial institutions bankrupt and nonfinancial corporations. Of course, not all correct imbalances lead to the emergence of crises. Will the emergence of the crisis to come or not, apart from the very imbalance, depends on the credibility of economic policies that are applied to correct these imbalances to ensure a "soft landing", as well as stability and resilience of the financial system of the country.⁴ Empirical analysis shows that banking crises typically precede currency crises.⁵

IDENTIFICATION OF BANKING AND CURRENCY CRISIS

Before any analysis of the financial crisis, it is necessary to establish operational criteria for identifying banking and currency crisis. Measuring the intensity and determination of the date of commencement of banking and currency crisis was followed by various difficulties. For example, the results of the process of identification of currency crises are often sensitive to the applied statistical criteria, while the determination of the duration and fundamental characteristics of banking crises are often associated with subjective assessments and experienced analysts. Availability of data often plays a significant role. All that is necessary to take into account when interpreting of the analysis results and making general conclusions.

² In other words, banks suspending internal convertibility of their liabilities

³ In the literature (IMF, 1998) another kind of crisis differs, a systemic crisis, which occurs most frequently when banking crisis becomes extensive to take on system performance. Systemic financial crises are potentially severe disruptions in financial markets, which prevent that these markets function efficiently and that can have significant negative

effects on the real economy. Systemic financial crisis may include a currency crisis, when a currency crisis does not necessarily includes significant domestic payment system disorders and, therefore, often does not lead to the outbreak of the systemic financial crisis.

⁴ Simultaneous occurrence of banking and currency crisis is a phenomenon known as "twin crises".

⁵ It must be emphasized that the authors found no evidence that banking crises are statistically significant variable for predict currency crises but not vice versa (see Kaminsky and Reinhart, 1996).



Currency crisis can be easily identified as a significant nominal depreciation rate of national currency. Thus, for example, some authors (Frankel and Rose, 1996) define "currency crash" as a nominal depreciation of currencies in the amount of at least 25% annually, with the depreciation rate over the previous year increased by at least 10 percentage points.⁶ This definition, however, exclude cases in which the exchange rate shall be subjected to significant pressures, and the authorities fail to defend it on any large-scale interventions either in the foreign exchange market, or by raising interest rates, or in some other way. An alternative approach would be to construct the index of speculative pressure (turbulence) in the foreign exchange market, which takes into account not only changes in exchange rates but also changes on the level of foreign exchange reserves and interest rates that absorb pressure and thus relieve themselves of change in exchange rates. It is believed that the emergence of a currency crisis occurs when the index exceeds preset threshold value of the index. For example, works of Eichengreen, Rose, and Wyplosy (1996) for research crises in industrialized countries use the weighted arithmetic mean of exchange rate changes, foreign exchange reserves, and interest rates to the values of these indicators in Germany as the reference country. Currency crisis is identified when the index of speculative pressure takes extreme values. Also, in the work of IMF (1998) on the sample of 50 industrialized and developing countries, currency crises are identified using the index of speculative pressure that is calculated as a weighted arithmetic mean of monthly data on the movement of the exchange rate and foreign exchange reserves, from which is excluded component of the trend. The weights are chosen in such a way to equalize the variance of two components, avoiding the possibility that one component dominates the index. Data on interest rates are not included in the index because of the unavailability of comparable, market-determined data on interest rates for a large number of developing countries covered by the sample in this period. Crisis threshold is equal to the average size of the index increased for one and a half standard deviation of calculated index.

Weights and the thresholds for low and high periods of inflation were specially calculated, with the latter defined as periods in which the 12 - month inflation rate higher than 80%. Crises identified using the index of speculative pressure include not only cases of significant depreciation of the exchange rate of national currency, but also instances in which governmental action prevents a large depreciation of the exchange rate, i.e. abandonment of fixed exchange rate. Applying the procedure of identifying currency crises based on the threshold of the index of speculative pressure, a set of crisis periods is obtained, which is the basis for further analysis, but certain problems arise in that way. Choice of threshold level to identify the crisis is arbitrary. In the literature are applied different levels of threshold⁷ that

⁶ The second condition is given in order to avoid the inclusion of the continuous depreciations in the long run that occur in countries with high inflation.

⁷ In Abdul document (2003), a review of papers in which the identification of currency crises used different thresholds index

of speculative pressure: $1.5 \times \sigma$ (σ denotes standard deviation of the index of speculative pressure for the considered sample) in Aziz and others (1999), $1.645 \times \sigma$ in Caramazza et al (2000), $1.75 \times \sigma$ in Kamin and others (2001), $2.5 \times \sigma$ in Edison (2000) and $3 \times \sigma$ in Kaminsky, Lizondo, and Reinhart (1999).



resulted in a variety of dating crises and evaluated different coefficients. Moreover, the threshold is sometimes treated as a free parameter and is chosen to maximize suitability of the model to the actual data (Kamin et al, 2001) or that a certain percentage, e.g. 5% of all observations present crisis (Caramazza et al, 2000). In addition, the nature of the threshold depends on the considered sample data imply that future data may affect the identification of past crises. Therefore, it is possible that there is a power of some crisis when we take into account new data, as documented in Edison (2000).

Banking crisis is difficult to identify empirically, partly because of the nature of the problem, and partly due to lack of relevant data. Although data on bank deposits are regularly available in most countries, and is, therefore, are used to identify the crises associated with bank runs, the most significant problems of banks in the last few years, not originate from the foreign liabilities balance sheets of banks. The recent banking crisis generally originate from the balance sheet assets of banks - usually occur because of deterioration in asset quality of banks (credit portfolio) in the long run. This suggests that indicators such as the growth of certain types of loans, the share of non-performing loan portfolio of banks, large fluctuations in prices and shares, as well as indicators of bankruptcy can be used to identify episodes of banking crises. The problem is that data on these variables for many developing countries often are not regularly available or are incomplete (e.g., data on uncollectible loans). To cover uncollectible loans and to maintain the illusion of solvency, banks may begin to extend new loans to bankrupt customers, sometimes even with the approval of the authorities, that these can continue to service outstanding debts. Postponing the evaluation of losses, however, may eventually lead to even greater losses, as more money is lending to companies, which most likely will never regain profitability. Also, bank managers may be tempted "to gamble for resurrection" pay interest rates that are above market in order to attract deposits and grant credits based on the collected funds to finance high-risk projects that promise high returns, since they do not expect to bear the full consequences of such behavior (for example, because of the limited liability, explicit or implicit deposit insurance, or expected help from the state). All this makes it difficult to identify the actual moment of the crisis. Given these limitations, banking crises are identified by the researchers based on a combination of events, such as forced closure, merger or acquisition by the authorities of various financial institutions, bank runs, providing assistance to one or more financial institutions by the appropriate government agency - or using a core assessment of financial conditions, as in many studies.⁸ Accordingly, in the work of Kaminsky and Reinhart (1999), it is believed that the banking crisis occurs when there is a withdrawal of funds invested by the depository in which there is a closure or takeover of one or more banks, or to extensive government interventions in order to provide assistance, acquisitions, mergers or closing of one or more financial institutions, leading to the need for intervention in other segments of the financial system. This approach of determining the date of commencement of

⁸ List of banking crises for the selected sample of data, for example, in the works of Caprio and Klingebiel (1996), Kaminsky and Reinhart (1996), and Demirguc-Kunt and Detragiache (1997).



banking crises has certain disadvantages. An alternative definition of banking crises is given, for example, in the work of Demirguc-Kunt and Detragiache (1997). Arbitrarily is determined that the episode of disorder in the banking sector in the considered countries panels can be classified as a banking crisis if it is filled with at least one of four conditions:

- The ratio of non-performing assets to total assets of the banking sector exceeds 10 percent,
- The costs of rescue operations of the banking sector amount to at least 2 percent of gross domestic product,
- Problems in the banking sector resulting in a comprehensive nationalization of banks,
- Can lead to the extensive bank runs, or use of emergency measures such as freezing of deposits, extending the vacation of employees in banks, or establishing a generalized scheme of deposit insurance by the government in response to the crisis

EARLY CRISIS WARNING SYSTEM - CREDIT GROWTH AS AN INDICATOR - BANKING AND CURRENCY CRISIS – TWIN CRISES

As the 1990s of last century there was spreading of financial crisis, to improve the monitoring capacity of financial vulnerabilities at both national and international level has become a current need. Various authors in their empirical studies have identified variables that displayed unusual behavior before the crisis. A certain number of papers focused on the question of anticipation - the construction of early warning system to give relevant policymakers and market the participants a warning that the crisis will probably arise, which led to the intensification of the search for useful early warning indicators. Early warning system, in essence, is an econometric model that generates a prediction of financial crises. This is the most appropriate signal model or a model of discretionary choices whose main purpose is to provide statistically reliable predictions of economic and banking and currency crisis. In order to predict crisis reliably using appropriate models of crisis means that the model gives systematically better results when assessing the likelihood of crisis in relation to the market. Financial crises are often unsuccessful attempt to predict and prevent, or, as the Dornbush (1998) said, "Of the six crises that experts predicted, five never happened." Quality and reliability a model of the early warning system depends primarily on the results these models achieve the forecasts out of sample forecasts. In fact, the most important issue of empirical models of the early warning system is not connected to the possibility that, based on selected variables in sample forecasts, explains and predicts the last crisis, but the ability to predict future crises.

Although the observed sample can determine the appropriate relationship between the given variables and the likelihood of crisis, the next crisis may be fundamentally different from



previous ones. Thus, the model that provides accurate predictions outside the sample has passed much more demanding test. Of course, the only such models are useful for real crisis predicting. On the other hand, many empirical models that have been proposed in the literature are based on the simultaneous relationships between the dependent and explanatory variables. Therefore, these models are designed to explain the crisis, not to predict. Lagged values of individual variables often are not statistically significant when applied in the model, in contrast to the observations in the current period. However, the practical usefulness of such empirical models as early warning system for accurately predicting the likelihood of crisis is obviously limited.

CONSTRUCTION OF EARLY WARNING SYSTEM

In the construction of early warning system regarding the possibility of a banking or currency crisis starts with a proper definition of crisis in order to identify crisis within the studied samples. In contrast to the currency crisis, in which sharp changes in high-frequency variables such as foreign exchange reserves, interest rates, and exchange rates help determine the start times of crisis, lack of high-frequency data can be used to consistently mark the beginning of the difficulties in the banking sector makes it difficult to identify banking crises. Determining the schedule of the banking crisis is less accurate in relation to starting date of the currency crisis, since depends on events such as the closure of financial institutions or their takeover by the state, bank runs, and the like. Therefore, there is increased risk to determine that the crisis began much later than the actual moment of the crisis - as the problems in the banking sector generally occur much before it comes to the closing of banks and bank runs. Starting from the definitions depending on the purpose of an early warning system, identifying of the period in which the subsequent banking and currency crises i.e. twin crises - when both crises occur simultaneously must be performed at the first place. After identifying crisis periods in the given sample, the next question is the choice of variables that will be used to predict the crisis. Starting from the approximate start of data currency and banking crises, the analysis of indicators of behavior around the time of the crisis start should provide the answer to question which variables are most suitable for the design of an early warning system. Today opinion (Kaminsky and Reinhart, 1999.) that the basis of the vast majority of crisis, whether it comes to banking and currency crises, is the weaknesses of the main macroeconomic variables prevails. Although there are alternative explanations of the crisis, such as, for example, speculative attacks on the currency when it comes to changing preferences in the markets, i.e. when the horde effects are obvious, it seems that such self-fulfilling crises are pretty rare. The choice is largely determined by understanding the causes and determinants of similar crises. For example, if you consider the currency crisis is mainly caused by fiscal problems, then the variables such as fiscal deficit, government spending, and loans to public sector by the banking system is likely to take a prominent place in a selected set of indicators. If we start from the premise that the weaknesses in the financial sector are the main cause of currency crisis, then variables such as private sector credit growth, measures of financial liberalization, short-term debt of the



banking sector abroad, the structure of domestic interest rates, changes in asset price, the quality of banking assets measured as a share non-performing loans, etc. can be taken as an indicator. Similarly, if the problems in the external sector are held accountable for the currency crisis, then it can be used as indicators of real exchange rate, balance of payments current account, changes of terms of trade, the difference between interest rates in the country and abroad, changes in the level and maturity structure of inflows of foreign capital and other similar variables. Some of the real sector variables such as production growth rate, unemployment rate, variables that represent institutional and structural factors, i.e. the level of political development can be used also.

RESUME

It can be concluded that without appropriate structural model of banking or currency crisis, there is no reason to expect that the models of the early warning system will give satisfactory results if applied to data on different countries or if is applied to different samples of countries. Generally, it illustrated the risks of a reduced form of financial crises model. In fact, it is unlikely that such set of indicators that could detect early enough future crises with a high level of security while not providing false signals will be identified. Indeed, if it were possible to identify such indicators, they would probably lose quickly their utility, because it would have changed behavior: the market would start to consider them, and due to the possibility of anticipating crises, this would result in their acceleration, or policy makers will take the steps to prevent occurrence of such crises. Consequently, the indicators would lose its ability to predict crises. Thus, if economic policy-makers recognize the indicators by which the crisis in the past predicted or effectively react to information provided by these indicators, it is reasonable to expect that these indicators are different every time. The fact that models of early warning systems are usually not precise enough to be used as the sole method of predicting the crisis. Econometric analysis of financial crises is a relatively new field of economics, so that the development and evaluation tools for monitoring and forecasting are based on that analysis, too, at an early stage of development. So far, early warning systems have had limited success, since the accuracy of forecasts in a given sample can be difficult to replicate outside of the sample which is a problem that is common to many fields of economic science. Advantage of the early warning system is in its objectivity and systematic nature. Models provide mechanical process of data and aren't blurred with the traditional misconceptions or biases based on previous experiences. For example, in the wake of the Asian crisis, the models of early warning systems have signaled the possibility of a crisis in Korea, one of the most successful countries in terms of economic performance in recent decades. However, because of well-functioning and the results in the past, analysts and markets are not signaled an increased risk before the currency crisis in December, 1997.



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CREATION OF THE NEW SERBIAN CIVIL CODE

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Abstract:

In Serbia, there is an ongoing process of codification of civil law. Commission for creation of the Serbian Civil Code, formed by the Government of the Republic of Serbia, has announced so far, their work in two books, the first one entitled "Report of the Commission on the Draft of Civil Code," in November 2007 and the second book, "The work on the Civil Code of the Republic of Serbia - Contractual Obligations" (draft) in March 2010. This paper presents a brief history of the adoption, amendment, and (failed) attempts to reform the Serbian Civil Code of 1844, and the reasons and the need for Serbia to gain new Serbian Civil Code.

Keywords:

Civil law, passing of the new Serbian Civil Code, the codification of the Serbian Civil Rights, the Serbian Civil Code of 1844, legal gaps

INTRODUCTION

The work on a capital project legal relating to the codification of the Serbian civil rights and the development of the Serbian Civil Code is ongoing process Serbia. Implementation of this project, which is expected in the near future, will be solved one difficult to understand and easy explainable situation that Serbia has not its own Civil Code, although it had it 167 years ago, as one among the first European countries at the time of 19th century that had its own Civil Code.

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REASONS AND THE NEED OF PASSING SERBIAN CIVIL CODE

Serbian Government in 2006 passed the Decision on Education of Special Committee on the Civil Code Draft¹¹ for the codification of civil law of the Republic of Serbia and the drafting of the Serbian Civil Code. The committee consists of prominent representatives of the Serbian legal doctrine, the judiciary, and legal profession.¹² In reaching this decision, the Government had in mind the following basic reasons that point to the need and ability to pass the Serbian Civil Code:

- a) The current state of Serbian legislation governing civil legal relations, state case law, and developed legal theory created the necessary conditions for the codification of civil law and the creation of the Serbian Civil Code;
- b) The Civil Code should include the classical field of civil law, which means: the general part of civil law, real right to property as a central institution and the rights derived from property, such as easements, mortgages, mortgage law, contract law with a contract and inflicting damage, as the principal sources of commercial relations, but also with other sources of obligations, such as unjust enrichment, management, etc. without a warrant; hereditary rights with legal line of succession and testamentary respectively; family legal issues;
- c) Serbia is late in passing the Civil Code, in comparison with other European countries. In other words, Serbia is among the rare countries that have not their own Civil Code. The truth is, it is well known that Serbia passed its Civil Code in 1844, which was in force for 100 years, i.e. until 1946, when the then new government put out the full legal force complete legal system.¹³ Since then, however, passed 65 years, and Serbia still has no Civil Code;
- d) Most of the material of the future Civil Code is regulated by specific laws, some of which are legal texts, such as the current Law of Obligations, the high level of European legal culture, which provides a solid basis for the development of the Civil Code in a relatively short time of several years;

¹¹ Odluka o obrazovanju Komisije za izradu Građanskog zakonika, doneta je 16.11.2006. ("Službeni glasnik RS", br. 104/06, 110/06 i 85/09).

¹² Za Predsednika Komisije imenovan je akademik prof.dr Slobodan Perović, za članove, prof.dr Miodrag Orlić, prof.dr Mirko Vasiljević, prof.dr Oliver Antić, prof.dr Predrag Šulejić, prof.dr Marina Janjić Komar, prof.dr Olga Cvejić Jančić, Snežana Andrejević, prof.dr Dragor Hiber, Vojislav Nedić, Đurđe Ninković, Dragoljub Đorđević i Vojkan Simić, a za sekretara Komisije Ratomir Slijepčević.

¹³ Law of importance of legal regulations adopted before 06.april 1941, and during the enemy occupation ("Official Gazette of the FNRJ 86/46, 105/46 and 96/47) stipulates that "Legal regulations (laws, decrees, orders, regulations, etc.) that were in effect as of 6 April 1941, lost their legal force" (Article 2) while other legislation enacted during the enemy occupation, were declared as non-existent (Article 1).



e) The legal solutions in the Serbian law is necessary to comply with ratified international conventions and other international standards, especially with the European Union, Serbia is going towards EU membership;

f) It is estimated that the urgent need for development of the civil code to strengthen the rule of law and contribute to the stability of legal institutions, which is a necessary condition for the establishment of constitutional state. This ensures all legal entities, citizens and corporate entities to have a body of all civil subjective rights in one place;

g) For the purposes of contemporary practice, especially business, which is shaped by diverse factors, for example, under the influence of transnational associations and technical progress, to respond to adequate civil legal regulations in the interest of better and more humane life, to which the new Civil Code will give a big contribution.¹⁴

THE HISTORY OF SERBIAN CIVIL CODE OF 1844¹⁵

Serbian Civil Code promulgated on 25 March 1844.¹⁶ Serbian Prince Milos Obrenovic¹⁷ in 1829 was ordered to translate the French *Code civil* to Serbian to serve as a model law, in making Serbian Civil Code. For translation George Zachariades the Greek was responsible, who translated the French *Code civil* from German into Serbian language. Zahariades' translation of

¹⁴ Izveštaj Komisije za izradu Građanskog zakonika, prva knjiga, novembar 2007. godine, str. 11-15; Prednacrt Građanskog zakonika Srbije, druga knjiga, Obligacioni odnosi, izdavač Generalni sekretarijat Vlade, Beograd, 2009.godina, str. 3-5.

¹⁵ Pravni leksikon, drugo izdanje, Savremena administracija, Beograd, 1970.godina, str. 1088 – 1089; Tomica Nikčević, Postanak i pokušaj prerade Građanskog zakonika Kneževine Srbije, Beograd, 1971, str. 6 – 54; Aleksa S. Jovanović, Rad sa zakonima Knjaza Miloša, Arhiv za pravne i društvene nauke, br. 3/1907 (knjiga III), str. 195 i dalje; Aleksa Ivić, Izrada Zakonika za Kneževinu Srbiju (od 1829. do 1843), Arhiv za pravne i društvene nauke, br. 3/1921, XI, drugo kolo, knjiga III, str. 177. i dalje; Slobodan Jovanović, „Jovan Hadžić“, Sabrana dela Slobodana Jovanovića, knjiga III, Beograd 1932., str. 79. i dalje; Zbornik radova „Sto pedeset godina od donošenja Srpskog Građanskog zakonika“ SANU, Beograd, 1996; Miroslav Đorđević, Pravni transplant i Srbijski građanski zakonik iz 1844, „Strani pravni život“, br. 1/2008, str. 62-85, Institut za uporedno pravo, Beograd.

¹⁶ Serbian Civil Code was promulgated under the original name Zakonik Gradjanski za Knjaževstvo Srbsko made public at Annunciation, 25 March 1844. In the legal literature, the Code is referred to various names, such as Gradanski Zakonik za Kraljevinu Srbiju; Zakonik Gradanski za Knjaževstvo Srbiju; Gradanski Zakonik za Knjaževstvo Srbsko; Gradanski zakonik za Kraljevstvo Srbsko; Srbijski Gradanski zakonik; Srpski Gradanski zakonik; Gradanski zakonik iz 1844.godine; Gradanski zakonik Kraljevine Srbije; Gradanski zakonik Kneževine Srbije; while for the Code was used part SGZ abbreviation (Serbian Civil Code, which is the name commonly used as its full name). Therefore, we believe that the name of our new Civil Code should be Serbian Civil Code (SGZ abbreviated). However, the Commission on the Civil Code Draft, in its documents marks a new Civil Code as Civil Code of Serbia (which mean, if this name is adopted, the new code would be denoted by GZS abbreviation) and the Civil Code of the Republic of Serbia (which would mean that for Code will be used GZRS abbreviation), as stated in the I book of the Commission on the Civil Code Draft, in November 2007, p.13 ff.

¹⁷ Prince Milos Obrenovic (1780 - 1860) ruled Serbia from 1815 - 1839 and from 1858 - the 1860. He was a leader of the Second Serbian Uprising, a great diplomat and diplomat. It is considered one of the most responsible for the political status of Serbia in Europe.



Code civil was sent to Zakonodateljna Komisija in 1830, which made draft after it, but never transformed into code. Translation of *Code civil* had great gaps, not only it was incomplete, but was virtually unusable because Zachariades translated it from the German language, he did not speak the Serbian language well, and he was not even a lawyer. Translation is actually had a lot of mistakes, was unclear, and because of that Milos refused it saying that "at the beginning is not too bad" but "after that is getting worse and worse, that I do not know these people who written laws were drunk, or completely insane!"¹⁸ "Our lawmakers of that era had a meager legal knowledge, so that, as written by Slobodan Jovanovic "Still remembers the anecdotes that our lawmakers thought that "*servituti*"¹⁹ means "*slavery*" a "*hipoteka*" (mortgage) - "*apoteka*" (pharmacy).²⁰ That was the unsuccessful attempt of transplantation of the French Civil Code into in Serbian law.

However, Prince Milos didn't let go of the idea and the intent to provide Serbian Civil Code. In 1836 Prince Milos addressed two Serbs from Vojvodina, Jovan Hadzic, Senator of Novi Sad and Vasily Lazarevic, the mayor of Zemun, who were excellent lawyers and experts in German language who gained their knowledge in the Austro-Hungarian Habsburg Empire, to review translation by Zachariades and the project based on it. According to the mutual division of labor, Hadzic was responsible for drafting the Civil Code and Lazarevic for making the criminal code. Unlike Hadzic who ended the Serbian Civil Code text in 1842 that, Lazarevic never finished the text of the Criminal Code. Hadzic and Lazarevic in 1837 came to Serbia to persuade Prince Milos that French civil code model is not good as a model for the Serbian Civil Code, because *Code civil* was passed for France, which was a developed and powerful country with different social and economic conditions than those in Serbia. With the onset of labor, Hadzic and Lazarevic felt that it necessary to turn to folk traditions and their codification, but they soon gave up the idea when they take a closer acquainted with the Serbian customs, which they described as backward and obsolete in Europe. However, Milos insisted that the traditional customs are observed in the preparation of the code, and all over the country, he conducted a survey to identify the collection of Serbian folk customs. Collected Serbian folk customs Milos then forwarded to Commission, and requested that part of the Commission is Mateja Nenadovic, the Archpriest, which was "a man of the people" whose task would be to say which civil rules of the future Serbian Civil Code are appropriate for the Serbs and which not.

In 1840 (July 29), Hadzic has signed a contract to complete work on the Serbian Civil Code in two years. Indeed, although with some delay of nearly four months, on November 24, 1842, Hadzic completed project of the Serbian Civil Code and handed it to Prince Alexander

¹⁸ Slobodan Jovanović: Jovan Hadžić (u knjizi „Političke i pravne rasprave“), Geca Kon, Beograd, 1908, str. 72.

¹⁹ *Servituti* are easements, as rights to other people's stuff, which is called the servient fact, service goods. Easements are divided into real and personal easements, etc. See: Dr Obren Stanković, dr Miodrag Orlić, Stvarno pravo, Nomos, Beograd, 1996, str. 180 – 228. Confusion was easily created due to lack of law and Latin language, the Latin noun *servitus-utis*, which means - slavery.

²⁰ Slobodan Jovanović, op. cit. str. 71.



Karadjordjevic, who two months earlier came to the throne by dethroning the government of Prince Mihailo Obrenovic. The following year and a half the text was refined and Hadzic entered some changes, so that the Serbian Civil Code is made public (passed as the law) on March 25, 1844.

Thus, the Serbian Civil Code (Civil Code) was adopted as one of the first in Europe. Earlier French civil code (*Code civil*) in 1804, the Austrian Civil Code 1811 (AGZ) and the Dutch Civil Code 1838 have passed, not counting a few other codes that have been adopted as the translations of the Code civil.

Although it is undisputed that Hadzic work on the project of Serbian Civil Code under the influence of the decision of the Austrian Civil Code of 1811, however, claims that the Civil Code is actually just a shortened version of AGZ appear to be exaggerated, AGZ has 1502 paragraphs, and SGZ contain only 950 paragraphs.²¹ In fact, the Civil Code is an eclectic creation that originated based on the tradition of Roman law, under the direct influence of legal solutions from AGZ and indirect influence of the French Civil Code from which they transferred some decisions first in AGZ and from there to the SGZ.

Some solutions in SGZ have been immediately transferred from the *Code civil*, more precisely, from Zahariades' project of the code for which the French Civil Code was used.²² Finally, to some extent SGZ is the original, because it has taken some, true conservative ideas of Serbian customary law, which were less advanced than AGZ regulations, particularly in family and inheritance law (e.g. the Civil Code only recognizes religious marriage, forbids extramarital paternity investigation, inheritance rights of female children are lower compared to men, etc.).

Civil Code was in force in Serbia for 100 years, formally until 1946, but in practice, the rules of this Code apply even today, filling the legal gap in the absence of recent policies.²³

²¹ Simplified and not entirely accurate is cited in: Pravni leksikon, op. cit, str. 1088; also considers Zivojin Peric (1868 - 1953), Professor at the Faculty of Law, that the Civil Code is only an abbreviated translation of AGZ, by Dragos Jevtic, Dragan Popovic: Narodna pravna istorija, Savremena administracija, Beograd, 2003. str.110; see, I knjiga Komisije za izradu gradanskog zakonika, op.cit., str.43

²² Legal borrowings (transplant) from other legal systems are commonly practiced in both, the old and in today's age. Moreover, "the great number of changes in most systems is the result of borrowing" and therefore transplantation are the most abundant source of legal development," says Alan Watson in his book, "Legal Transplants - Access to Comparative Law", Belgrade, 2000, pp. 47.143 et al.

²³ According to the invalidity of legal regulations adopted before 06.April in 1941 and during the enemy occupation, which was passed in 1946, legal rules contained in laws and regulations that have lost their legal force, under this law can be applied to relations not governed by existing regulations, but only if they are not inconsistent with the Constitution, laws and regulations issued by the competent authorities of the new State (art. 4).



ATTEMPTS TO REFORM THE SERBIAN CIVIL CODE OF 1844

Immediately after the enactment of Civil Code and the beginning of its implementation, legal public has begun to point to the shortcomings of the Code that have occurred during their practical application. Some of the identified deficiencies are corrected changing Code, others by amendments, and third through explanations and interpretations given by the Council or Prince with the consent of the Council, while sometimes ministers provided the interpretation (Popecitelji).

Code has undergone several changes, for example: in 1862 concerning the provisions on annulment of marriage, on divorce, in 1864 about Paulian clam (*Actio pauliana*), in 1868 regarding entering illegitimate paternity in 1872 regarding custody, in 1911 regarding the form of a will.

Over time, criticism of the Code became more severe, so gradually matured thought of the need to conduct a thorough reform of the Serbian Civil Code. We know today that this reform of SGZ has never done even though there were a number of (failed) attempts to reform the SGZ.

History records the proposal of Nikola Krstić²⁴, the first serious attempt at processing the Serbian Civil Code, which remained without result. However, Krstić had a limited field of action, narrower than he suggested, because the State Council decided that they should not thoroughly change the current system of our Civil Code, with which the judges and others were already familiar with, but it would be insisting that the Code is processed only according to amendments and clarifications i.e. interpretations. Finally, work on refining SGZ Krstić was not completed because in 113 articles of the draft he presented only general principles and personal and family law.²⁵ For unknown reasons, Krstić's work on processing Hadžić's work was interrupted.

New initiatives for change of SGZ followed in the early 20th century in form of proposal by Dragoljub Arandjelović.²⁶ Arandjelović drafted a proposal developed for a new Civil Code, instead of the old Civil Code and published his proposal in the journal called *Branic*.²⁷

²⁴ Dr Nikola Krstić (1829-1902), Judge of the Cassation Court and college professor, born in Hungary in Vad.

²⁵ Krstić's Draft was published in Tomica Nikčević, "Postanak i pokušaj prerade Građanskog zakonika Knezevine Srbije", Beograd, 1971, pp. 100 – 120.

²⁶ Dragoljub Arandjelović (1873-1950), professor at the University of Belgrade. He has published books on Contract law, Roman law, Inheritance law and civil procedure, together with Zivojin Perić. He was born in Paracin, Ph.D. at the University of Rostock (Germany).

²⁷ Dragoljub Arandjelović, O izmeni našeg Građanskog zakonika (posvećeno Ministru pravde), Branič, 1904, str. 449-450.



Arandjelovic stated the reasons why it considers that now would not be good to make a genuine Serbian Civil Code, but it is best to take as a model and adapt to our needs one of four Civil Codes, whose advantages and disadvantages has analyzed - French, German, Austrian, and Montenegrin.

Among these four codes, Arandjelovic is firmly convinced that the Austrian Civil Code is the best code, which should therefore be taken as a model for drafting the new Civil Code in Serbia. Thus, Arandjelovic's conclusion is as follows: "Therefore, the question of codification of our private law on the fastest and easiest way would be solved by, to do what Serbian legislature failed to do in 1844: to translate the Austrian Civil Code, to make in it, according to legal traditions and concepts of our people, the necessary changes in family and inheritance law, and that such studies adopt a civil code for Serbia."²⁸ Neither this initiative has led to the initiation of legal proceedings to reform the Civil Code.

To new initiatives come in 1908 when the Serbian Kingdom government passed a decision to undertake reform of SGZ only in the field of property law (general part, property law and contract law), when a commission was formed with task of preparing Code draft. This time, the reviewers, in contrast to earlier models, chose the German Civil Code. How long the work arrived has not been recorded in the literature. It is assumed that the work was suspended because of the Balkan Wars and World War I.

Another in a series of failed attempts is recorded in the Kingdom of Yugoslavia. This attempt, however, stopped at the debates and controversies of two opposite and irreconcilable visions of the future Civil Code, which this time was needed for the new state of the Kingdom of Yugoslavia. Some have insisted that the starting point is Austrian Civil Code, while others were adamant to take General Property Code of Montenegro.²⁹

CONTENTS OF THE FUTURE SERBIAN CIVIL CODE

Future Serbian Civil Code, "by its orientation content, in addition to the appropriate preamble, would have following main sections:

- **Introductory remarks** (with the general principles which apply to all civil-legal relations);

- **General part** (which usually include provisions for natural and legal persons, as subjects of civil law relationships);

²⁸ D. Arandelović, op. cit., str. 452.

²⁹ Neuspeli pokušaj donošenja Građanskog zakonika u Kraljevini Jugoslaviji (u Prvoj knjizi Komisije za izradu Građanskog zakonika Republike Srbije, str. 54-61); Nikolić, D., Dva veka građanskog prava u obnovljenoj Srbiji 1804-2004, Glasnik Advokatske komore Vojvodine, 2005, vol. 77, br. 4, str. 151-185.



- **Family Law** (based on the current Family Law);
- **Inheritance** (based on the current Inheritance law);
- **Obligations** (general part based on the current Code of Obligations);
- **Contracts** (the classic civil-legal agreements and commercial contracts);
- **Property right relations** (which had not been comprehensive and consistently standardized)

From the above-mentioned, it is obvious that the future Civil Code would be based largely on existing regulatory entities that would be based on comparative analysis and the results of past business and legal practice would be **supplemented** (new modern legislation solutions), **corrected** (based on previous experience in their use and knowledge in jurisprudence) and **harmonized** (on the principles and basic solutions adopted in international conventions, particularly the European Union rights).³⁰

Commission for the creation of the Civil Code published a second book – Obligation Relations in 2009, as the Draft of the Civil Code relating to contractual relations, as one of the most extensive parts of the future Serbian Civil Code. The Commission is continuing with further work on the remaining parts of the Civil Code.

OPEN QUESTIONS

So far, the Commission has recorded a number of open questions in all units of the future Civil Code.³¹ It is generally agreed that the matter of obligations and inheritance law, thanks to the high achievements of law in those areas, are closest to the final text. The regulations of the Family law have a good basis to be based on the current Family law with some modifications.

However, the situation is different in property law; we would say it is the most complex and difficult. The area of property law remained poor and not finished with the regulation of property rights and sparse regulation of other real rights and solutions that met the pre-existing social arrangement (e.g., public property, nationalized urban land, rights of foreigners to real estate). Today, comprehensive reforms of property law that affect the most important questions

³⁰ Rad na izradi Građanskog zakonika Republike Srbije – Izveštaj Komisije sa otvorenim pitanjima, Beograd, novembar 2007., str. 79.

³¹ Prva knjigu Komisije za izradu Građanskog zakonika Republike Srbije, str. 91-134 (porodično pravo), str.135-144 (nasledno pravo), str.145-208 (obligacije, opšti deo), str.208 i dalje (pojedini ugovori), itd.



of legal and socio-economic system of the state are necessary. Following issues were opened here: the ownership on building site, ownership of the land and ownership of the building (housing); acquisition of the ownership presumption on real estate in public ownership, public registry system (land registry or cadastral records system) construction Law; mortgage, pledge entitled to movables, the right of condominium, right of retention, etc.³²

RESUME

Creating a new Serbian Civil Code is of great importance to Serbian law, which must first be supplemented with current legal arrangements, which are obviously missing in our positive law and the lack of communication, primarily with European legal systems, which our legal system belongs to which part bother us. At the same time, through this codification, our legal system needs to remove outdated legal provisions that hamper our development. Finally, the Serbian law must be harmonized with the fundamental solutions of the adopted international conventions, especially with the *Acquis Communautaire* of the European Union. The right way and contribute to achieve these goals is through codification of civil law in the form of Serbian Civil Code.

³² Zakonik o svojini i drugim stvarnim pravima (Radna verzija), www.mpravde.gov.rs



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VOLUNTARY PENSION FUNDS IN SERBIA

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Abstract:

The subject of this article is to discuss the operations of pension funds and insurance companies in Serbia and the possibility of investing in pension funds for a better future financial market in Serbia. Upon the adoption of 31.03.2006, many concerns appear and the first concern is what is the reform of the pension system on which threshold we are, i.e. but the reform began to be implemented? Voluntary pension aimed to draw up interest in respect of investors. Voluntary pension funds are controlled by NBS under the law. Pension insurance is a very important component of overall social policy of almost every country in the modern world. It poses a form of "forced" savings of individual at an age when he/she is no longer able to work. Private pension systems are an ordered set of processes and relationships of their holders.

Keywords:

Pension funds, voluntary pension funds, investment funds, capital markets and the role of the state

INTRODUCTION

Citizens of Serbia are not yet aware of or do not know what possibilities there are for savings, in addition to those at banks, and how reliable they are. This is supported by research that have made the insurance company where the majority of citizens surveyed did not know the difference between life insurance and private pensions, i.e. investments in pension funds. Although the insurance company clients and members of the voluntary pension fund, at the end of the contract, itself provides a monthly sum of money, there are differences. When security, it is based on the payment of insurance premiums according to agreed method of payment. In the voluntary pension funds per month is paid the agreed amount to the personal account in the fund and the sum is paid out after the age of 53 years. Payments to the funds accumulate, and in the long run will be increased the income from the investment fund. As a main advantage of life



insurance is the fact it includes protection against the risk and a guaranteed sum assured, with a height of pre-defined contract. Life insurance means providing financial security of loved ones in case of death of the insured, as well as financial security in case of disability or sickness or disability due to accident. Joint venture life insurance for death and survival is a savings and insurance involves risk, is not the case with the pension fund. In addition, the advantage enjoyed by the people who have a life insurance policy is the right to a corresponding gain, which is payable after the expiry of the contract. The main difference between traditional life insurance and pension funds in risk-taking investment. Insurance companies take risk of investments for customers and they, at the end of the contract of insurance, get the insured sum, which is guaranteed by the insurance contract, and the overall imputed income. One of the advantages of investing in the voluntary pension fund is certainly a way of saving through investments, which in front of all place free will. Thus, members choose the amount of payment, payment frequency, choice of fund, and a possible change of it, without any limitations, conditions or loss of rights secured by law. Commitment to investing for the future in scope of the voluntary pension fund, the preservation of living standards in the old days ensure to members. Another advantage is definitely a safety; where with the minimum payment of 1,000 dinars can achieve an adequate income in the future. Accumulated funds are invested in safe securities, property, and cash deposits with banks. Voluntary pension funds are currently faced with major problems due to the financial crisis in the world. It has more influence on the rest of the financial markets. As the benefits of life insurance stand out accurately determined amount to be paid for insured events, the insured sum is paid in full after the insured period. At the beginning of the contract, the insured and the insurer agreed on the insured sum, to which the Insured is insured during the entire period of insurance. Insurance company is obliged to pay the beneficiaries of insurance the insured sum in case of death of the insured, regardless of the number of premiums, if premiums are properly paid and that the contract is active.

THE ROLE OF THE STATE

The role of the state is undeniable in regulating the voluntary pension system, but the question is how it should be in routine clinical practice? The answer can only be a basic one, the role of government in the voluntary pension system is as, how defines itself! Given the importance and complexity of the pension industry, and interconnections with other segments of the financial system, regulatory and control functions of the state is indisputable, in greater or lesser extent. The state is, in principle, directly included as an active driver in the process of accumulation, investment, and distribution, because voluntary pension insurance should be an important note of liberality and privacy. In principle, the interest of the state for larger or smaller share of a passive actor depends on "the role of the state." Is the situation of the joint stock companies the same? Namely, if the government decides to stimulate voluntary pension insurance with fiscal instruments and tax exemptions and incentives, it is logical that the state would seek for itself a greater "role." Moreover, why would not do that, when in that way it "invest" in their assets, creating a temporary deficit in the budget, if not a deficit, then the opportunity cost. Therefore,



here is also the general principle is valid: greater investment, more commitment! However, one thing is certain, someone has to propose, adopt, and implement laws and regulations, and that kind of responsibility bears departmental public bodies. The need for regulation of private pensions exist due to the same reason there is a need for regulation in the entire financial sector, thus promoting the mobilization and allocation of resources through a system that provides transparency, security and stability, reducing costs and promoting quality of investment decision. In the context of the voluntary pension system models that "comes out for" the work of state bodies is a large and complex task. What does it consist of? *First*, it is necessary to pass a law on voluntary pension insurance, then adopt and implement laws. *Second*, if in any sequence include insurance companies; it should urgently review the procedure of the Insurance Law, and laws that will relate to relationship with insurance companies, pension funds. *Third*, it is necessary to harmonize the said regulations with already existing legislation governing the operations of financial markets. *Fourth*, to provide quality information system and personnel structure that will track daily market processes. *Fifth*, to promote the system in the population (consumers) that still is not sufficiently aware of the need for this form of savings. *Sixth*, to ensure efficient operation and improvement of the system in the long run. Therefore, if base is set properly, then the upgrade will have a better chance of success! Translated into the context of voluntary pension insurance, if you create an adequate model of pension insurance; if it is good in the simulation, the chances of success are great. In addition, if you make a good regulation with mechanisms of control, learning, and correction, if there is power in the economic system of law enforcement, if the conditions for the stability of the market allow capital inflows, there is a basis for success.

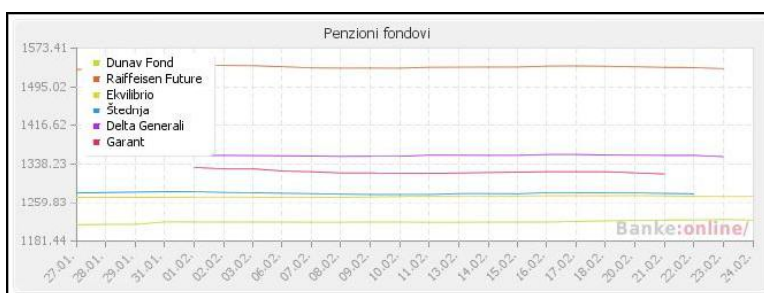


Figure 1³³

³³ <http://www.politika.rs/rubrike/tema-dana/SHtednja-za-deblje-penzije.lt.html> preuzeto dana 28.02.2011.god.



BASIC CONDITIONS AND DIRECTIONS OF THE VOLUNTARY PENSION INSURANCE DEVELOPMENT

The term "insurance" in our theory and practice is useful for three key activities - for property and life insurance, the activity of the voluntary pension and disability insurance and health insurance. Similarities and differences of these kinds of insurance in theory are not analyzed, but it may be seen that the case of three separate systems with certain similarities that the term "insurance" highlights more than the real situation is.³⁴ Basic laws governing property and life insurance are of course the Insurance Law and the Law of Obligations, and the basic law that defines the pension and disability insurance - Law on pensions and disability insurance. The Law on Basic Pension and Disability Insurance define the basics of so-called the first pillar i.e. mandatory, state pension insurance define. The basic principles that define the said law are that the rights of pension and disability insurance and personal rights are not transferable to other persons, to holders of pension and disability insurance cannot be obsolete, except the right to claim due and unpaid amount is based on pension and disability insurance funds to be provided from contributions paid by insured persons and employers, to ensure that the increased liabilities arising from the acquisition and exercise of rights under the special conditions provided in the budget, that the right to pension and disability insurance are provided, or make over funds for pension and disability insurance. Basic rights that can be achieved based on this law are:

- The right on old-age pension - for old age, the disability pension - in case of disability;
- Right to a survivor benefits - in case of death

Joining Serbia in transition, the problem of financing the pension systems according to the principle of "intergenerational solidarity" has become very pronounced. The material status of the insured is worsened, and operation of pension funds largely attacks the budget of the Republic of Serbia. The reform of the pension system is inevitable, but before entering into this process, the positive and negative effects of each of the possible solutions must be thoroughly examined. The system of mandatory pension insurance in Serbia operate on the principle of "pay as you go", i.e. currently active working population by contributions funds pension compensation of current retirees. The application of this system of funding calls into question the existence of any "fund", because the contributions paid are immediately directed to the

³⁴ Mrkšić D. Miloradić J. Žarković N. Uvod u osiguranje i životna osiguranja, Monart, Sremska Mitrovica, 2006, str 246



payment of a pension and all through the "transitional account" - the fund. The current state of pension system is significantly influenced by demographic trends, but also developments in the national economy. The negative trends of natural population (decrease in fertility levels, increasing mortality rates) are present in our area for decades, but in the last few years are growing. The fact that the current fertility rate is not sufficient for the "replacement of generations" is more than devastating. Permanent decline in economic activity has started in the '80s of the last century and culminated with the introduction of UN Security Council sanctions and hyperinflation in early '90's. Significantly weakened the economy was additionally pressured by a large number of displaced persons who have immigrated to our country after the war. The final blow to the national economy was the bombing by NATO. Past thirty years, our economy is characterized by deterioration of overall economic activity, decline in living standards, rising unemployment, underdevelopment of the labor market, inefficient legislation and significant political pressure. Previously described demographic trends and the state of the national economy had a negative impact on developments in Mandatory Pension Insurance: Constantly increasing number of beneficiaries of a pension. In 2002, the ratio of active insured persons and beneficiaries of a pension was 1.16. This relationship is conditioned by both unfavorable natural movement of population and liberal conditions of retirement, and an increasing number of working-age population engaged in "informal economy" (people who are not registered and do not pay contributions). One cannot exclude the fact given the high percentage of disability (31.6%) and survivors (24%) of the total number of users.

It is important to note that the ratio of active insured persons and beneficiaries of a pension that allows normal functioning of the pension system is 3.5:1 (the ratio in our country existed in 1981, but it was followed by permanent decline). One possible solution to the problem would be to increase the age for retirement. However, such a solution would entail the employment problem of young people, i.e. the problem of unemployment. The ratio of average pension and average compensation salary ranges above 70%, as compared to other countries in an extremely high percentage (Germany 45.2%, 42.8% of Macedonia, United Kingdom 38%, U.S. 34.7%). Another problem is the fact that a significant part (40%) of the total amount of pensions is paid directly from the budget and the remaining 60% from contributions paid by insured persons and employers. When you take into account the realistic fact that much of the budget in previous years provided the funds obtained from privatization, it raises the logical question of what will be when privatization complete through the sale of the company and when there is a significant source of "filling up" of the budget. By changing the way of the indexation of a pension, reducing relationships retirement compensation and average wages could be achieved. The amount of a pension is very low. Pension compensations are on the level of subsistence minimum. In 2002, around 60% of pension compensation users received less than average. It is also necessary to note the existence of delays in payment of a pension. High rates of contribution rate are no contribution to the Law on Pension and Disability Insurance (from 2003), increased from 19.6% to 20.6% (10.3% by the employer and 10.3% paid by employee). Nevertheless, increasing the rate did not contribute to solving the problem of financing funds, but had the opposite effect - evasion of contributions. This occurred due to difficulties in the



functioning of a large number of companies that have great difficulties in payment of wages, but also because of the "informal economy".³⁵ Looking at the functioning of the pension system in such conditions, there is the fact that current system is in crisis and the reforms are necessary. The reform should include including package of measures that would create mandatory insurance system economically viable, fiscally tolerable system that is the purpose of economic development. These measures would, among other things, referred to revise the calculation of pension benefits and increase the age limit for acquiring the rights to compensation, are to some extent achieved by changing the law in October 2005, in the National Assembly of Serbia;

- Introduction of the pension insurance system with three pillars:

I pillar - mandatory pension insurance, based on the principle of intergenerational solidarity,

II pillar - mandatory pension insurance, based on the principle of individual capitalized savings; for its introduction required conditions does not exist.

III pillar - voluntary pension insurance

For the introduction of mandatory supplementary pension insurance (second pillar), it is necessary to pass a specific law. There is no doubt that the voluntary pension insurance companies need a special law, but the prevailing opinion that the existing law of insurance is sufficient grounds for the introduction to our practice of voluntary pension insurance. For example, preparations for the introduction of the second pillar in Croatia lasted several years and meant, among other measures the adoption of the Law on Compulsory and Voluntary Pension Funds Act and the pension insurance companies and pension payments based on individual capitalized savings, as well as many other laws. Agency for Supervision of Pension Funds and Insurance (HAGENA) was also established the central government institutions for collection of contributions and keeping of individual accounts of insured persons - the Central Registry of Insured (REGOS). In conditions of our country - rising unemployment, aging population, significant political pressure and the presence of financial market that is still in development, the solution is a combined approach, which implies the existence of first and third pillars. Compulsory pension insurance is irreplaceable, but the full assurance of a secure future, encouraging savings and economic development, requires the introduction of voluntary pension insurance.

³⁵ Dr Tatjana Rakonjac-Antic, „Dobrovoljno penzijsko osiguranje (aktuarska i finansijska analiza)“, Ekonomski fakultet, Beograd, 2004, str 255



PRINCIPLES OF VOLUNTARY PENSION FUNDS

The basic principles underlying the pension funds are:

1. Voluntary membership;
2. Distribution of investment risks;
3. Equality of membership;
4. Transparency;
5. Accumulation of funds

The principle of voluntary membership includes, first of all, completely free access to pension funds, without any obligation which is a key feature of the statutory pension insurance or so-called the first pillar of pension insurance. Compulsory membership includes the possibility of free transition of the member from one fund to another, and complete independence in terms of the amount and dynamics of payments, which is quite contrary to the way of state pension system.³⁶ The principle of distribution of investment risk includes, first of all, the dispersion of risk in investment funds that are in the voluntary pension fund, where care must be taken not only on the amount of profit that is expected, but the safety of investments. Therefore, it is not allowable in order to realize the greater profit, to endanger the safety of investments. In economic theory, this approach involves the so-called conservative method of investment funds. Saving for old age can be one of the most significant investments in life. Planning income in old age is a long-term goal. To maintain the comfortable lifestyle after retirement, additional income, as early as the user starts saving, the pension will be higher because following the mathematical logic means have more time to grow. The role of the voluntary pension fund is to provide preservation, i.e. increase their value, and thus the amount of private pensions through the investment. Savings for superannuation is a long-term savings, the operation of these funds is strictly regulated by law, and it is subject to continuous monitoring by the regulatory bodies of the state, in the case of Serbia, the function is performed by the NBS. States often encourage saving for private pensions through tax reliefs. Private pension funds sponsored by companies, organizations, individuals and unions, became popular when people began to doubt the capacity of state pension funds.

³⁶ Dr Dejan Eric, „Finansijska tržišta i instrumenti“, Cigoja Štampa, Beograd, 2003. str 216



FORMS OF PENSION PLANS

In relation to the characteristics, pension plans can be divided into: Plans with defined contributions (defined contribution plans) - where the plan sponsor is responsible to ensure only the appropriate amount of funds each year as a contribution plan for eligible participants i.e. pensioners, while the amount of the pension in the future is unknown. The amount of contribution is determined in different ways, either as a percentage of income employees, either as part of the profit sponsors, and so on. Sponsor does not guarantee a fixed amount of pensions in the future to participants of the plan. Future pensions of participants will depend on the financial performance of the pension fund. If well-managed fund assets, i.e. if investments in different financial instruments are effective, the assets of the fund will be financial strong, and therefore will come to an increase in pension to members. At the end of the fourth quarter of 2007, the number of contracts³⁷ signed with management companies in Serbia was only 158,461. The law provides only such plans. Defined benefit plans - by which a sponsor is committed to provide a fixed amount of funds in the future (when they retire) to eligible participants (retirees). Size of the pension (benefit) that pensioners will receive, in this kind of plans, depends on several factors: the income of the participants (i.e. employees, i.e. future retirees), years of service, expectations regarding the amount of future pensions, period of usage and the like. There are a number of formulas for determining the amount of pension. Users of these types of plans offer greater security in terms of social peace, with often minimal amount of the pension can be determined in consultation with the unions. In addition, these plans include no investment risk. Sponsor guarantees a fixed level of pension. However, in this case, pensioners could miss a substantial increase in pension resulting from a successful portfolio management in the financial markets. That is why sometimes these plans offer participants the opportunity to combine a pension scheme with life insurance policies. Hybrid pension plans are a relatively new phenomenon. In Serbia,³⁸ the issue of pension plans is precisely defined. Of the total funds paid to the individual payments 55,111,163.07 dinars, most of 343,056,843.26 dinars constituted payment of employers.³⁹ The pension plan is a contract between the organizer of the pension plan that can be an employer, an association of employers, professional associations, or trade unions and the management company, which is the organizer that undertakes to pay pension contributions for their employees/members and the management company to invest the funds raised. Pension contributions for the pension plan cannot be without the consent of employees deducted from earnings. Member of the pension plan, whose employment with the employer is no longer, may continue to be a member of the same voluntary pension fund, or to transfer the account to another fund. The right to withdraw funds from the member becomes

³⁷ Izveštaj o radu DPF u IV kvartalu 2007. godine, strana 12.(izveštaj dostupan na sajtu NBS adresa <http://www.nbs.rs>)

³⁸ Clanovi 57, 58, 59, 60 i 61 Zakona o dobrovoljnim penzijskim fondovima i penzijskim planovima, "Službeni glasnik RS", br. 85/2005

³⁹ Izveštaj o radu DPF u IV kvartalu 2007. godine, strana 8.(izveštaj dostupan na sajtu NBS adresa <http://www.nbs.rs>)



valid at 53 years of age. Exceptionally, a member may withdraw funds earlier in the case of extraordinary medical expenses and permanent disability. The withdrawal must begin at the age of 70. In the golden age of pension insurance, funds were having in reserve enough money to pay up to the next five pensions. Bleak situation is now that almost every worker in Serbia supports one pensioner, and for pensions, although modest, the state allocates 40 percent of additional funds each month. Minimum payment in the VPF is determined by each fund, the majority of them defined the level of one thousand dinars. In "Raiffeisen Future" this amount is currently 1,200 dinars, and is defined as the 10 percent of minimum gross salary in Serbia. A member may in its fund to pay more, as appropriate, and there are no "sanctions" if a payment has "skip". Money is available at the personal account of the fund and increases for its profit. Portfolio managers of companies on a daily basis analyze investment opportunities and respecting the prescribed legal framework and investment policies of the corporation invest the fund's assets with which the company managed to achieve returns for fund members. Yield from the investment fund's assets directly affects the level of investment fund units, which are published daily in newspapers and on Websites of management companies.

RESUME

According to regional standards, the position of obligatory pension insurance in Serbia, which makes 1/3 of consolidated public expenditure and expenditure on pensions as part of GNP, are high. Delays in pension payments, high budgetary transfers, as well as the latest demographic changes and the deterioration ratio of the number of employees and retirees, according to the pension reform is necessary in order to improve the financial positions and medium-term sustainability of pension funds. Foundations of pension reform encompass improvement of regulations that will, by gradual increase of retirement age and changing the mode and frequency of pension adjustments, enable reduction in the deficit of pension funds in a short period of time. Measures to improve recording (unique register of contributions on an individual basis), control, and simplification of contributions will result raising pension funds. Voluntary pension insurance is a good source of additional pension benefits. In this system, so far, the employees in public companies participated. However, in conditions where the average salary in Serbia is low and when large numbers of employees receiving the minimum wage, we cannot expect the massive involvement of employees in this type of insurance. At the same time one part of wealthier citizens is already involved in some types of life insurance so in the structure of this population we can expect a larger number of participants. As the standard of living and average wages grow, and tax policy stimulation, this type of insurance will increase the number of those interested in voluntary pension insurance. In circumstances of high deficit of current financing - I pillar of pension funds, it is much better to encourage the development of III pillar, voluntary, private pension funds, than to develop pillar II, because it means a reduced inflow of funds into the first pillar due to obligation to transfer payment in the II pillar. Encouraging the development of additional voluntary pension system should provide long-term



sustainability of the system. One of the most important prerequisites for successful reform of pension system in Serbia is approaching its goals to citizens through adequate explanation and popularization leading to broad community support of further economic reforms. Encouraging the development of III pillar - voluntary pension insurance on the strict basis that will ensure maximum sustainability of the value of the paid funds, i.e. the least risk, should lead to the development of capital markets, provide development and improving the level of employment. Opportunities for growth in voluntary pension funds are still significant.

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ГЛОБАЛЬНЫЙ ФИНАНСОВЫЙ КРИЗИС, ЕГО ПОСЛЕДСТВИЯ И ОТВЕТ НА ВОЗНИКШИЙ КРИЗИС

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Резюме:

Несколько финансовых кризисов было в последние несколько десятилетий. Здесь входят в число финансовый кризис 1930-х годов, Азиатский кризис в конце 1980-х годов, также и недавний кризис, начавший в Соединённых Штатах Америки в течение 2007 года, который результировал одним из самых больших биржевых крахов на мировом финансовом рынке за всю историю мира.

Существует много причин появления финансового кризиса, продолжения и их последствий. Они приводят к потерям миллиардов долларов, что доводит до снижения всех видов экономической деятельности, как и до резкого снижения цен на ценные бумаги. Большие рискованные вложения пользуясь кредитными соглашениями привели к чрезмерной задолженности. Кроме того, существуют и другие причины, вроде ослабления роли надзорных и контрольных органов, которые ускорили появление финансовых кризисов. Ключевые вопросы, которые будут рассмотрены в этой работе, каким способом можно узнать и предотвратить появление потенциального финансового кризиса и каким способом ответить и смягчить его последствия.

Ключевые слова:

финансовый кризис, последствия и восстановление после финансового кризиса, экономической деятельности, ответ на возникший кризис.

Изображение и последствия возникновения финансовых кризисов

От появления первых бирж до сих пор, отмечено несколько финансовых кризисов, которые за собой оставили длительные последствия. В течение прошлого века отмечено несколько больших финансовых кризисов и биржевых крахов, среди которых одна из самых известных большой экономический кризис в периоде 1928-1939 гг. Потом, в



конце 80-х, отмечен знаменитый Азиатский кризис и недавно, в 2007 году, большой финансовый и банковский кризис в Америке, который распространился на все глобальные финансовые рынки. Большой мировой экономический кризис, возникший в 2007 году довел до краха все мировые биржи, последствие чего были негативные движения всех биржевых индексов в мире. Кризис сначала захватил рынок недвижимости в Соединённых Штатах Америки, а потом распространился на финансовую систему и экономику США. Среди главных причин этого кризиса упоминаются слабости которые годами существуют в области финансовой контроли и финансового регулятива в Соединённых Штатах Америки. Обзор всех больших финансовых кризисов в истории дает возможность анализировать причины и последствия движений финансовых рынков в мире, а один из самых значительных сигналов - резкое снижение цен на ценные бумаги на бирже. Из-за связи экономического сотрудничества и банковских соглашений кризис вызвал замедление экономической деятельности и создание рецессионных цепных эффектов "как эффект домино" финансовых рынков по всему миру. Последствия ощутились на глобальном уровне, они и сегодня все еще присутствующие в большинстве стран, в том числе и страны Европейского Союза. Так возникновение финансового кризиса привело к общему непрерывному падению рыночной цены финансовых инструментов из-за повышения предложения по отношению к спросу, то есть когда всеобщее предложение ценных бумаг, на долгое время, больше их спроса. Именно это большая дисгармония между предложением и спросом является в случае когда у инвесторов нет средств или не хотят вкладывать эти средства в ценные бумаги. Это дальше приводит к падению экономических деятельностей, и если при постоянном спросе предложение снизится, это неминуемо приводит к росту инфляционных влияний причем деньги теряют свою прежнюю стоимость. Также, когда деньги теряют стоимость, это доводит до падения курса домашней валюты по отношению к иностранной, то есть надо выделить больше домашних денег для покупки иностранной валюты.¹ Нужно подчеркнуть несколько важных фактов связанных с возникновением больших финансовых кризисов. Один из главных фактов – нельзя каждое снижение цен акций, то есть негативную конотацию движений назвать кризисом, ибо в некоторых случаях это может быть какой-то вид циклических явлений, спорадических изменений или мгновенное снижение цен на рынке. Финансовый кризис сам по себе несет более глубокие последствия, преодолеть которые нельзя так быстро и эффективно любыми мерами. Причины финансовых кризисов также могут быть весьма различными. Недавний финансовый кризис был инициирован на совсем небольшом сегменте кредитного рынка и затем перенес на глобальный финансовый рынок. Финансовые потери и значительно ухудшена ситуация на рынках, в первую очередь в банковском секторе, превратились в глобальный экономический кризис. Самые большие потери отмечены в развитых европейских странах. Одна из главных причин, которую многие аналитики выделяют - одобрение "кредитов высокого риска физическим лицам", которые одобряются с гораздо большими процентами от других кредитов, в американском финансовом жаргоне называются "сабпрайм кредиты". Принимая во внимание, что финансовые кризисы различаются, существуют также и сходства.



Большинству кризисов исторически предшествовала финансовая либерализация, как документировано Каминский и Рейнхард (1999). В случае Соединённых Штатах Америки фактически уже существовала либерализация.² Многие аналитики предупреждали, что рынок недвижимости нереален и что низкие процентные ставки в комбинации с новыми финансовыми инструментами искусственно поднимают спрос и ведут к нереальному повышению цен. То же самое имело силу и в экономической конъюнктуре в условиях роста цен энергии, высоких затрат на войну в Ираке и ощутимого снижения продуктивности. В этих предупреждениях особенно апострофированна проблема новых ипотечных инструментов и сомнительной практики, которую применяли некоторые специализированные финансовые учреждения, которые не подвергались стандартному контролю.³ Очень трудно предвидеть, то есть предупредить возникновение будущих кризисов. Один из примеров – как недавние волнения в Египте и в остальных странах в этом районе отразились на движении биржевых индексов в мире. Это может привести к распространению неизвесности движения цен на рынках, особенно нефти и остальных продуктов или волнения распространятся на другие страны Среднего Востока.⁴ Последствия недавнего мирового экономического кризиса ощутились и в Сербии, потому что ощутился значительное снижение экономических деятельностей и отступление иностранных инвесторов на рынке.

Влияние мирового кризиса на финансовый рынок в Сербии

Непосредственные эффекты мирового экономического кризиса оставили глубокие последствия на страны, которые наиболее участвовали в международных потоках финансового капитала и международной торговле. В отличие от этих стран, развивающиеся страны и страны, проходящие через процесс транзиции ощутили не так сильно косвенные эффекты кризиса в финансовом секторе, которые манифестировались через снижение ликвидности, осложненный дальнейший рост и реформу финансовых учреждений, так и на реальный сектор через замедление экономической деятельности. К этой группе стран относится и Сербия, страна находящаяся в заключительном этапе процесса транзиции, которая ощутила эффекты нововозникшего финансового кризиса в первую очередь на бирже, что представляет и барометр движений экономических деятельностей и на национальном уровне. Одна из негативных коннотаций – что вследствие возникшего мирового экономического кризиса, в 2008 году, под влиянием событий на больших мировых финансовых рынках, пришло к значительному отступлению иностранного капитала и инвестирования в Сербии. Последствие мирового экономического кризиса большое или небольшое снижение цен на мировом рынке ряда продуктов, у которых в структуре вывоза большое участие, среди которых особенно выделяются продукты черной и цветной металлургии. Большая выдвинутость нашей Биржи иностранным инвесторам, и как бы ни желательна была, последствие ее было снижение объема работы, потом по отношению к началу кризиса на ведущем мировом финансовом рынке еще в 2007 году. Хотя это тогда еще не считалось началом кризиса, иностранные инвесторы начали с отступлением своих инвестиций с рынков высокого риска, к чему относится и наша страна.



Движения тиржевых индексов в первой половине 2007 года ясно отражали и сигнализировали процесс распространения финансового кризиса и чувствительность финансовых рынков от переоцененной стоимости торговых акций. Несмотря на то, что это касается относительно маленького рынка, это значительно влияло на ухудшение движения экономических деятельностей и положения финансовом рынке, где последствия все еще ощутимы.

Ответ на возникновение фенансового кризиса

С появлением финансового кризиса всегда задается вопрос каким способом международное сообщество должно реагировать и ответить на такое положение. Прежде всего надо установить причину появления финансового кризиса. Исторически рассматривая классическое объяснение – появление монетарных эксцессов, то есть причин, которые привели к буму и огромному росту. У недавнего кризиса был бум в области недвижимостей, который привел к финансовому краху в Соединённых Штатах Америки и в других странах.⁵

¹ Gregori N. Menkiju sa ostalim autorima sa Ekonomskog Fakulteta, *Principi Ekonomije*, Ekonomski Fakultet, Beograd, 2008 (<http://cid.ekof.bg.ac.rs/izdanje.php?naslov=principi-ekonomije>).

² Carmen M. Reinhart, Kenneth S. Rogoff „ Is the 2007 U.S. Sub-Prime Financial Crisis So Different? An International Historical Comparison”University of Maryland and the NBER and Harvard University and the NBER,2008, p.10

³Dušan Vujović, Globalna Finansijska Kriza: Poruke i Pouke za kasne tranzicione privrede, FEFA, 2009.str.10

⁴ Nelson D. Schwartz, “ Unrest in Egypt Unsettles Global Markets”, The New York Times, January 31, 2011.

⁵ John B. Taylor The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong, 2008.p.1

После упомянутого краха и турбулентностей на финансовых рынках, ситуация на бирже улучшилась, рынки акций снова стабилизировались. Важные финансовые учреждения систематически образовали и приняли значительные меры, чтобы возместились огромные потери, возникшие во время финансового кризиса.

Цель восстановление постоянного равновесия на рынке, восстановление баланса производством и потреблением, за чем можно следить и движением курсов и индексов на биржах, ради оценки движения национальной экономики.



Но, проблема может возникнуть в одном секторе в рамках финансового рынка, после чего путем эффекта домино и переходом на банковую систему перерастает в глобальный финансовый кризис.

Как ответ, надо стабилизировать финансовую систему, избежать цепной реакции финансовых учреждений и банковской системы. Причины возникновения финансового кризиса могут быть разными, но одна из ситуаций появление бесконтрольного повышения и снижения количество денег в обороте, путем кредитования экономики, причем наступает инфляция и значительное падение экономических деятельностей. Дополняющие причины могут быть политическими, экономическими, или какого-то другого характера. Одна из фундаментальных проблем потеря стоимости на рынке ценных бумаг банков и других финансовых учреждений. Эта потеря представляет и проблему ликвидности, где у финансовых рынков меньше покупателей для своих акций. Это приходит к вопросу платежеспособности в традиционном смысле и реальной стоимости средств.⁶

Оптимальный подход был бы, когда аналитики следовали бы движения, быстро, откровенно и флексибельно реагировали на измененные обстоятельства. Комплексность одна из категорий, которая сопровождает появление финансовых кризисов. Это представляет метафору характерную для современной финансовой системы и потенциальных ошибок и промахов.⁷

ВЫВОД

Очень трудно предвидеть появление финансовых кризисов, и существует ряд причин, которые могут их вызвать, так очень важно обратить внимание на каждый сегмент финансовой деятельности и движения всех экономических потоков в одной стране. Принимая во внимание что упомянуты многочисленные причины возникновения и распространения кризиса, роль государства ключевая ради обеспечения стабилизации финансовой ситуации на рынке и принятия определенных мер в цели санирования причин и их преодоления. Недавний глобальный финансовый кризис вызвал огромные причины, что влияло и на ухудшение движения на финансовом рынке в нашей стране.

Адекватное определение и применение мер деловой политики во всех ключевых сегментах, которые наиболее "под угрозой" представляет большой вызов, ибо путем настоящих решений, которые ускорят выход финансово кризиса и "нормализацию" функционирования всех экономических потоков в одной стране.

В этом контексте, надо подчеркнуть роль государственных мер и оказание помощи ради обеспечения ликвидности центрального банка, гарантий банков, и путем „capital injection“, возвращая доверие инвесторам и остальным участникам в рамках банковской системы работы, что представляет ключевые элементы ответа и быстрого реагирования на ситуацию на рынке. Нужно обеспечить ряд стимулятивных мер, ради обеспечения



уровня производства, экспортной ориентации, социальной безопасности и других адекватных мер.

⁶Steven L. Schwarcz, „Understanding the Subprime Financial Crisis“, Duke Law School Faculty Scholarship Series, 2009. p.555.

⁷Petrović.P, Berze i berzansko poslovanje, Prometej, Beograd, 2009.

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INVESTMENT PROMOTION AND THEIR

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Abstract:

This paper examines the impact of uncertainty on the profitability of vertical and horizontal foreign direct investment (FDI). It can be said that the inflow of foreign capital introduction to higher growth rates, accelerating structural reforms, improving the external financial situation of the country, increasing foreign exchange reserves and obtain more favorable credit rating. On the other hand, foreign investment is attributed to the negative effects of the arrangement of foreign investors in the domestic economy, related to the growth of trade deficit, tax evasion and the like.

The main objective of horizontal FDI the domestic market. When the investment of transnational companies (TNC) increased plant that already exist in the host country. This type of FDI is a substitute for exports.

The task of vertical FDI is the internationalization of the production chain within the transnational corporations (TNC). The main objective of production in this case is the local market but also exports products to the market or country of origin of FDI in the world market.

Key words:

foreign direct investment (FDI), vertical and horizontal foreign direct investment, transnational corporations (TNC).

INTRODUCTION

Countries wishing to attract foreign capital must be diluted and developed a scheme also targeted measures to encourage and support foreign investment. Such measures, foreign investors consider important segment of the investment climate of a country. They range from tax relief measures, through the Export to financial support. Macroeconomic conditions to encourage investment is certainly the stabilization of domestic economy. Foreign direct investment (FDI) are a form of investment in which the investor provides the right of ownership, control and management of the company in which the funds invested to achieve a long-term economic interests. Vertical FDI as multinational fragments of the production process internationally, locating each stage of production at least cost in a country where it can be done. Horizontal FDI occurs when multinational companies are taking the same basic activities in several countries. Multinational companies have monopoly power and



confronts two types risk. To may face random productivity shocks or encounter a host country that is trying to take away their rents. Increased uncertainty reduces the expected revenue from vertical FDI but increases the expected revenue from horizontal FDI. In addition, predatory actions of the host country are more expensive to multinational companies, which has structured its production vertically instead of horizontally. Consequently, increased uncertainty should encourage horizontal FDI but discourage vertical FDI.

FOREIGN DIRECT INVESTMENT - FDI

Through this form of foreign investors provided their active attitude in work and business firms in which the funds were invested. These investments are intended to create a permanent economic and legal interests, and so an active interest in which lies the desire of investors to the control and management of the invested capital, profit-making. These are entrepreneurial investment, which is not necessarily to influence investors to be complete and absolute, but it is sufficient that the degree of control and management is such that it can influence the policies of companies and other legal entities invested capital. As the threshold for classification of a foreign investment in FDI is usually taken an equity participation in companies of 10%, or equivalent right to participate in the effective management of the company (management bodies). Direct investment is observed from three aspects:

- motive of investment - investment management,
- time horizon of investments - unrestricted,
- type of investor - investors are companies that invest in the business who know and which directs the willingness to accept high risks and the temporary nature of the losses that business dictates.

According to the American view, the concept of direct foreign investment means investing in companies based in USA with foreign investment exceeding 10%. Also under the direct investment of American companies abroad are those investments in which U.S. investors have at least 25% of capital. According to the OECD under the direct foreign investment shall mean such form of investment where a foreign investor owns 10% or more of ordinary shares with voting rights or less than 10% if the foreign investor, thus providing crucial administrative rights over the company.⁴⁰ For these and other definitions of direct foreign investment we can

⁴⁰ Dr Mehmedalija Hadžović: „Direktna strana ulaganja”, Sarajevo 2002. godine, str. 49.



conclude that any definition puts the control function in operations of joint ventures, followed by the interest in regulation of property, ie. property rights in the relevant part of the joint venture. It is important that the foreign investment should not be viewed only in terms of financial transactions, since foreign direct investment means other than the transfer of capital and transfer to the host country of new technological processes, organizational skills, management, etc.. In our case this means, above all, what is needed for a better start to the economy, which will indirectly start the other processes, particularly economically and politically.

BENEFITS OF FOREIGN DIRECT INVESTMENT

FDI inflow in the first place, raises the level of investment and overall economic activity in a country or region. Direct consequences of the growth of output or service, and usually but not necessarily, increase in employment. In general, FDI inflows from abroad are no different from the placement of domestic investment capital, not counting changes in the balance of payments. Often the question of whether investment abroad reduces domestic investment capital has been a jump in a number of empirical studies refuted. "New evidence from an analysis of U.S. multinational firms indicate that they have instead increased foreign investment associated with a higher level of domestic investment, the estimated complementarity implies that firms combine home production with foreign production to generate the final production at lower costs than would be possible production in one country, making each stage of the production process more profitable, and thus, in equilibrium, more abundant."⁴¹ FDI provides a tremendous amount of domestic capital, production levels and employment opportunities in developing countries, a major step towards economic growth of the country. FDI is a factor that is flourishing, which is supported by the country's economic life, but on the other hand, FDI can also be blamed for the overthrow of domestic inflows. The effects of FDI are mainly transformation.

By establishing a series of well prepared, and appropriate policies to boost profit ratio of direct foreign investment and by doing that investment will be higher.

⁴¹ Desai *et al.* "Foreign Direct Investment and the Domestic Capital Stock", NBER Working Paper 11075, Cambridge,

MA: National Bureau of Economic Research, 2005, pp. 10–11.



Some of the biggest advantages of FDI in activities enjoyed by the country in which they invest are:

- **Economic growth** - This is one of the main sectors, which are enormous benefits from foreign direct investment. Remarkable inflow of FDI in various industrial units in the country increases the economic life of that State.
- **Trade** - Foreign Direct Investment opening a wide range of opportunities in trade of goods and services in the country in which to invest, both in terms of import and export production. The products of superior quality are manufactured by various domestic industries of the state, because a larger amount of FDI in the country.
- **Employment and skills** - FDI also provides many opportunities for employment by helping to establish industrial units in different angles.
- **Technology diffusion and transfer of knowledge** - FDI obviously helps, especially in the sector of information technology. FDI helps to develop knowledge, in the consolidation of technological progress in a developing country.
- **Ties and spilling over into domestic firms** - a variety of foreign companies, now occupies a position in the market through joint ventures, cooperation, caring, etc. The maximum amount of profit gained foreign firms through these joint ventures is spent on the domestic market.

BASIC MECHANISMS OF FUNCTIONING FOREIGN INVESTMENT

In the professional and scientific literature are accepted definitions and classifications that are established the IMF and the OECD, and, accordingly, FDI is defined as "type of international investment undertaken by a resident of an economy / country (direct investor - direct investor) in order to take permanent stake in the company that operates in a different industry / country (company direct investment - direct investment enterprise). It is believed that a permanent share if the direct investor took at least 10% of ordinary shares (or other forms of equity) or the voting rights of the company direct investment"⁴²

⁴² Alfaro, Laura, and Charlton, Andrew, "Intra-Industry Foreign Direct Investment", NBER Working Paper 13447,

National Bureau of Economic Research, Cambridge, MA, 2007.



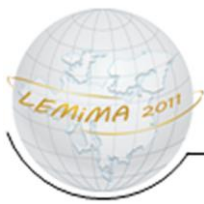
According to the legal domicile of the investors and their destination, FDI can be divided into internal (*Inward FDI*) and external (*Outward FDI*), where the first represents the inflow and outflow of capital from other countries.

According to the purpose of investment and type of connections that are established between the parent company and its subsidiaries abroad, FDI can be divided into three groups:

- first, horizontal, or market-oriented (*market-seeking FDI*),
- second, vertical, or resource-oriented (*resource-seeking FDI*), and
- third, the export platform FDI (*export-platform FDI*), which may have elements of both horizontal and vertical.⁴³

FDI can be shared at: *brownfield*, which means taking of existing firms or their parts, and *greenfield*, which is a completely new asset. All elements of these divisions are present in almost every country, countries, and importing and exporting capital firms, especially large and TNC have diversified investment, production and activity of location, and finally, sometimes it is very difficult to determine the prevailing nature of some of FDI. All this points to the complexity of research problems of international capital flow and investment activity, where FDI is only one aspect. In all forms of FDI, making companies to internationalize business activities across borders and becomes a TNC, driven by the economic limits. As suggested by Coase, in principle, every economic transaction is the result of *ad hoc* market interventions by economic entities, or as a consequence of internalization within the company. Between these two extremes there are many intermediate solutions, such as licensing and other forms of strong contractual arrangements between independent companies. The choice between these alternatives depends on the balance of their relative costs. For example, in the case of renewable and relatively complex transactions, information problems and problems of coordination can lead to higher transaction costs if it is implemented through the market. This stimulates their internalization within the company, where the transactions can be more easily controlled. On the other hand, dissipation of the hierarchical organization of information leads to new problems. This can also weaken the incentives for innovation, which normally occur in conditions of competition. If the owner is away culturally, functionally and geographically, the more difficult to effectively manage the company. Cost-benefit analysis (*cost.benefit analysis*) underlying FDI and capital flows TNK has a similar approach. In other equal conditions, a foreign investor is faced with relatively higher costs compared with

⁴³ Richard E. Caves, *Multinational enterprise and economic analysis*, Cambridge University Press, Cambridge, 1996.



local competitors because of the smaller local market knowledge.⁴⁴ Knowledge of the local market is the reason why is 9 / 10 of world production is still in the hands of local owners, and the reason why most of the cross-border transactions conducted through the market and not by internalization within the company. In order for domestic business grew into TNK, TNK need to express the advantages of not having their competitors in the domestic market.

In the case of *horizontally integrated FDI*, ownership structure is the main source of their advantage. It is possible that TNK owns the brand (*brand*) or production technology that is available to its local competitors. Since this form of ownership of assets as a rule, the result of fixed costs such as investment in R & D (*research and development, R & D*), there is a correlation with large economies of scale production. Therefore, the company that invests encouraged to distribute the fixed costs of as many different markets. In some cases this is achieved by exports, particularly of industrial products. In other cases the transport costs of trade can be a serious obstacle, for example in the case of services. So, if the larger economy volume of domestic production, the more powerful incentive to produce in one place and exported to the rest of the world. If the larger economies of scale production that comes from ownership of assets (as it is a brand product), is all the more incentive to double the production for market access. Analysis of costs and benefits in the event of a *vertically integrated FDI* differs slightly from the foregoing analysis. While horizontally integrated companies internalize the market for asset ownership, vertically integrated companies internalize intermediate markets. This phenomenon occurs when markets are semi-indeterminate. It may happen, for example, that local manufacturers semi unable to produce identical products or products of adequate quality, or there are a number of manufacturers. High costs incurred because of interruption of supply could encourage companies that are in the chain after the company observed the internalization of vertical supply chain within the TNC, instead of developing long-term market interrelations with their partners in front of the considered companies in the supply chain. However, foreign investors must compare the costs due to interruption of the supply chain with the costs incurred due to poor knowledge of the domestic market and the problems that may arise in the integrated enterprise due to inaccessible information.

UNITED NATIONS AND FDI

The body of the United Nations, said that global FDI flows in 2010, estimated at about 1,122 billion dollars, compared with 1,114 billion in the previous year, representing 0.7 percent growth. The European Union has suffered a drastic decline in foreign direct investment by 19.9

⁴⁴ Ronald H. Coase, .The nature of the firm., *Economica*, 4, 1937, pp. 386-405.



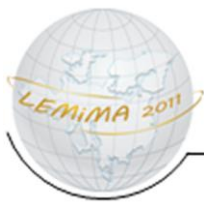
percent from 361.9 billion in 2009 to 289.8 billion dollars in 2010, far below the 2007 increase to 923.8 billion dollars.⁴⁵ Among developing economies, Latin America and South America, then east and south-east Asia are leading strong growth in foreign direct investment, Western Asia and Africa continue to have only a drop in foreign direct investment. Inflows to South, East and South-East Asia is exceptional in 2010, rose by 18 percent, thus restore a drop of 17 per cent drop from 2009. The growth was largely led by foreign direct investment in the economies of countries such as Singapore, Hong Kong, China, Indonesia, Malaysia and Vietnam. China has registered 101 billion dollars of direct foreign investment inflows in 2010, an increase of 6.3 percent from the previous year. Among developed countries, the U.S. has always been the preferred destination for foreign investors. This situation is maintained for decades, despite the huge trade deficit and U.S. current account. It is the inflow of foreign capital an important source of financing. For its part, the United States the largest investor abroad. The motives of foreign investors in the U.S. are mostly: return on liquid and efficient U.S. financial markets, good corporate governance, stable and strong intitucije, or risk diversification, the large volume of trade, geographic location, etc.. One of the recent research development of the country's financial investors is determined as the deciding factor in making investment decisions. Strongest and most consistent result is that the financial development of the country an important factor affecting its investment. More specifically, countries with less developed financial markets invest more shares of their portfolios in the United States and the size of this effect decreases with income per capita.

CONCLUSION

Motives for foreign direct investment among countries differ according to their developmental level. Developing countries poor capital counted a number of positive effects of FDI are, generally, often accepting of negative charges, such as environmental pollution, fire or discharge from the market of some domestic producers and the like. The largest volume of global FDI takes place between the developed industrial countries, which are usually abundant investment capital. The positive effects that they expect to use, and why foreign investors offering different kinds of amenities and facilities include:

- first, raise or maintain the general level of business activity (thereby preventing stagnation or recession),

⁴⁵ UNCTAD, *World Investment Report: Cross-border mergers and acquisitions and development*, UN, New York.



- secondly, the development of less developed regions,
- third, the development of certain industries or maintaining their level of production (for example the automobile industry)
- fourth, introduction of new knowledge and technologies, improving productivity, usually related to new, especially information and communication technologies - ICT,
- fifth, connecting and involving local companies in international technology, manufacturing and distribution TNC Network.

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INTERNATIONAL BANKING AND FINANCE SPECIFICS OF ISLAMIC BANKING

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Abstract:

The Islamic banking is characterized by the absolute prohibition on charging or paying interest in any form, no profit without undertaking entrepreneurial activity, or excessive risk or speculation. This caused specific, financial instruments permissible by Sharia, and financial market that allows only certain types of financial transactions. Although Islamic banking is absorbed into the Western legal system, its further growth is expected, given the fact that millions of Muslims still do not use banking services.

Keywords:

ban on interest, Islamic financial instruments, Islamic financial market

INTRODUCTION

In many philosophical, ideological, and religious teachings and theories, interest is considered unacceptable way of acquiring wealth (money). Plato and Aristotle treated interest as "unnatural" way of getting rich. The major world religions - Judaism, Christianity, and Islam, business with interest was a sin, because in that way man is making money without working, without effort. Disagreement with the principles on which conventional banking system is based has led to the alternative system, i.e. certain forms of interest-free banking practice. The best example of interest-free banking is Islamic banking. This term might seem inappropriate, but today this term is adopted extensively in the literature, media, and banking practice. What is the essence of the prohibition of interest? What are the main problems in relations between commercial banks and Islamic religious consciousness? What are the instruments and financing models that are applied in practice Islamic banks? How Islamic banking was created and developed? Is this a viable concept? What is the perspective of development of Islamic banking?



DEFINITION OF ISLAMIC BANKING

Accurate and precise definition of the Islamic financial and banking system is not easy, and maybe is impossible. The existing definitions of those immediate - it is interest-free banking, to the widest - financial operations carried out by Muslims; do not give an accurate picture. Criteria such as belonging to the International Association of Islamic Banks (IAIB), owned by Muslims, managed by Sharia commission... do not allow a precise definition. Even the criteria for self-identification - it is an Islamic bank if declare itself so - for example, omits Saudi *Al Rajhi* Bank.

The most widely accepted definition is the one who says that Islamic financial institutions are *"those whose goals and operations are based on the Principles of the Koran, basis on which can also be separated from conventional financial institutions that have no such concerns."*⁴⁶

PRINCIPLES OF ISLAMIC BANK

The guiding principles of Islamic banking are a set of laws and decisions of Sharia principles that govern economic, social, political, and cultural life in Islamic countries. Sharia is derived from the Koran. The basic principle is that this is a banking liberated of interest - **riba**. Prohibition of giving or receiving of interest is prescribed in more **surah** (chapter) of the Koran. Koran says that *"interest deprives wealth of God's grace,"* and that *"interest is the wrong approach to someone else's property."* In addition, the Koran calls Muslims *"to stay out of interest for their own good"* and makes a clear distinction between interest and trade. Al-Mawdudi says *"What rational approach, which logic, which legislation and which correct economic principle could give the right to those who spend their time, energy, facilities, and resources, and whose efforts and ability to make business progress, is not guaranteed profit at some fixed percentage, while those who simply just borrow its capital, fully insured against all risks and losses, and guaranteed profit in a fixed amount?"* Among Muslim scholars, there is almost full consensus that the billing of a guaranteed returns on the financing of illogical, unreasonable and unjustified action. Koran says that anyone who does not respect the prohibition of interest is in the war with God. The one who receives interest and one that is given are condemned. Sharia law prohibits making money from money. Money is just a medium of exchange, a way of defining the value of things. Money has no value in itself. Sharia also prohibits **gharar** - risk or speculation. Any transaction in which Muslims engage must be exempt from risk, uncertainty, and speculation. Investments must be in the

⁴⁶ Iqbal, Mirakhor, *Uvod u islamske financije, teorija i praksa*, Mate, Zagreb, 2009.



ethical sector, as the company's business must be ethical. A key aspect of Islamic banking is an ideal that the economic and social development is achieved through an Islamic investment and giving mercy - *zakat*.

In short, the principles of Islamic banking would be as follows⁴⁷ the absolute prohibition on charging or paying interest, in any form; liability of sharing profits or loss, no profit without risk-taking (without taking the entrepreneurial activity); money cannot create money, ban of gambling, uncertainty, excessive risk and speculation, no funding and cooperation with companies that engage in activities that are forbidden in Islam - *haram*.

SHARIAH COMPLIANT FINANCIAL INSTRUMENTS

Given the fact that trade is allowed in Islam and interest prohibited, the first group of financial instruments represent instruments based on models of sale – *a jal*. The second group represents funding models realized as a rental or lease - *Ijar*. The third is a business partnership based on joint participation in the profit or loss - *Musharakah*. The fourth group is a partnership based on mutual participation in profit sharing - *Mudharabah*. The fifth group consist models without the cost of financing fees – *qard hassan*.

Murabahah. This is the most important model of financing its operations used in Islamic banks. By using this instrument over 70% of all the activities of Islamic banks is implementing. Murabahah is a technique of short-term financing. It is a sale agreement under which goods are sold at purchase price plus a certain profit. The seller is obliged to inform the buyer on the purchase price of goods and profits to be made. It is a type of retailing where the customer requires from the bank to complete the purchase for him, necessary trade goods, capital equipment, or other, because, for lack of funds is not able to have that done. In its request client specifies the properties of the item and submit the "promise to buy", as a commitment to the bank that he will buy the ordered goods. The Bank takes on the responsibility, under the best possible conditions, to supply goods with properties specified by the client. According to Shariah, the bank has become the owner of the goods. After that, the bank sells the goods to the customer, at a price that covers the purchase, plus commission, or the bank's revenue. Height of banking fee previously agreed with the client, in practice, rarely exceeding 10% of the purchase price of the goods. The customer pays the goods to bank based on repayment, which is made in installments and with the agreed conditions. Of course, in accordance with the schedule of payments and other incentives levels of profit that the bank will make in this business will be different. Murabahah as a financial instrument is particularly suitable for financing trade in the short term.

⁴⁷ Halalbić, J., *O kamati*, Ibn Sina, Sarajevo, 2001.



Salam. It is a sale of goods for cash in the entire amount for the delivery that would follow later according to contract terms. Benefit to the retailer is that resources necessary for the production process likely to occur earlier and the buyer will thus achieve a lower price than it would be paid after the delivery and simultaneously protect itself from price growth. It is significant that price, quality, and other conditions are precisely defined by contract. If the bank appears as an agent or buyer upon completion it will be able to purchase the goods delivered in full, in cash or by paying on credit. In this model of financing is not allowed for bank to make further sales of goods before they become the owner of the goods. ***Salam*** is commonly used in the financing of industrial production and exports, and as a flexible model is applied in almost all areas of the economy.

Istisna`a. Some say this is one of the variants of the ***salam*** model, while others feel that it is a specific financial instrument. There are two conditions for its realization: that at the time of closing traded does not exist and does not require that price be paid in advance as with the ***salam*** model. Therefore, ***Istisna`a*** occurs in cases where the manufacturer accepts the order, with or without the payment of advances, in manufacturing which will be implemented in the future. The subject of this work is usually a separate project. The Bank may appear as an intermediary between seller and buyer by financing business. The ***Istisna`a*** contract is concluding, under which the partners have no right to give up work, except in cases where products do not match previously coordinated specification. In this type of contract, procurement of materials is needed for the implementation of agreements made by the manufacturer. If the purchaser makes the procurement contracting, then it is an ***ijarah*** contract. This financing model isn't used in agricultural production, but is used to implement minor, and major projects.

Ijara. This is a business relationship in which the banks buys the subject of lease and then lease it to their customers. This is a classic leasing work popular with Islamic banks. The length of the lease and the rent is determined by agreement between the bank and the client. The bank, as the owner of the lease, transfers the right of use to the customer. During the lease period the user can pay, in addition to rent, and part of the price of the lease. The subject of the lease may be movable or immovable property.

Musharakah. It is a business relationship between a bank and its client, i.e. the type of association in order to implement successfully business activities. Partners are involved in financing investment and jointly lead the work. It is a kind of joint venture. The type of work is determined by partnership, a framework in which the work will be realized, and the relationship of distribution of profits. Profits are shared according to the contribution of each participant in the implementation work. The eventual loss is shared proportionally. What cannot be determined is the fixed amount to one side to get the job done. Two basic forms of ***musharakah*** are permanent ***musharakah*** - duration of the company is not time limited, the company ceases to exist upon the decision of the founders or in other cases stipulated by law. Each buying or selling shares is acceptable because it is about trade. What is not acceptable is all forms of



shares associated with the interest or shares pursuant to any form of guarantee minimum rates of profit; temporary or declining *musharakah* - gradual decline in the share capital of banks in the joint company. Bank gradually, with the previously agreed conditions reduces its stake to zero, and withdraws from the project.

Mudarabah. It is a special business arrangement between banks and entrepreneurs, in which the bank appears only as a joint project financiers, without active participation in governance and its implementation. The entrepreneur is the one that make an idea, knowledge, works, and part of the building or equipment, has the knowledge and ability, but no financial resources, and the bank is the one that owns the capital, but not the knowledge to manage a project. The Bank is authorized to prevent the entrepreneurs to take harmful, illegal, unlawful actions that will cause a loss. Both parties agree to a percentage amount of sharing profits. It is determined at the time of signing the contract. A fixed sum of money to be paid one side cannot be determined, but the distribution ratio should be expressed only in percentages. The bank here isn't a shareholder in a company or business owner, it is only the financier - side that provides capital. Its responsibilities at work are limited by the amount of borrowed funds. Entrepreneur takes the responsibility of conducting a successful job. It must not use business funds for their personal interests. Partners share profits according to earlier agreed percentage. In case of loss, the owner of the invested capital bears it. In case of loss, the diligence, professionalism and integrity of the *mudarabah* - entrepreneur are appreciated. If these criteria are not met, *mudarabah* is required to reimburse the bank the incurred damage. This is the first developed model of financing in Islamic banking, which is considered primary. However, due to high risk for business on these principles, the application of this instrument is quite reduced.

In this financial instruments two variants used in the segment of agriculture appear, those are: *muzara* - one side insuring or providing land, and other labor and management; after the harvest yield is distributed according to the previously agreed percentages and *musaqah* - one party provides land for fruit plantations and other provides work and management, after ripping and gathering fruit, the yield is divided according to the previously established percentages.

Qard hassan. This is the loan without the costs and benefits, loans to user, with his obligation to return the basic amount received loans or equity to the bank after a certain period. Will the borrower repay the bank increased amount and how much that will be - it is left to the free will of credit user. In some Islamic banks, the privilege of obtaining such loans has the owners of investment deposit accounts. Other banks use the funding model when granting loans to students, and other economically weaker clients, with a view to their economic empowerment, or allow them to run its own business. This principle applies when in the realization of the work, certain difficulties appear, and the bank already has relationships with the client, *mudarabah* or *murabahah*.

Islamic investment banking. Investment banking does not represent conventional banking in the ordinary meaning of that term. Investment banks are not intermediaries in financial market



in terms of collecting deposits and granting loans. When a company is in need of issuing securities, then it hired investment bank, which helps it in handling the technical part of the program, as in the sale of newly issued securities. Firstly, advise the company whether and which securities to issue, second, suggests maturity, price and yield, a third mediate the relationship between issuers and government agencies that grant program, eventually made their public sale.

Islamic mutual or investment funds. Mutual or investment funds represent intermediaries on the market of shares and bonds created to enable small savers who do not have enough experience to make themselves more easily in a complicated market. Their role is similar to the role of the investment funds at the West, except for those operating on Islamic principles and Sharia acceptable securities. There are two types of investment funds - those whose commission is paid on entry and those with the commission that needs not to be paid.

ISLAMIC FINANCIAL MARKET

Islamic money market. The subject of trade on this market is a cash and short-term loans i.e. liquid funds. The money market is characterized by absence or very low risk, short-term and high loan amounts. Reason for forming this market is to resolve the issue of excess or shortage of liquid assets at disposal of commercial banks and other institutions, and citizens too. Islamic banks are in much unfavorable position than conventional banks in terms of money market. They cannot participate in the conventional money market based on the principles of interest. On the other hand, the underdevelopment of Islamic money market, its instruments, and its institutions is evident. Islamic banks have a strong need to develop financial instruments that will be in accordance with the Sharia laws. Absence of an Islamic money market Islamic banks are faced with the problem of maintenance of a high level of cash that does not bring profit, and cannot be directed to deposit or invest in government bonds, which are mainly based on interest.

Islamic capital market – consist of companies that issue securities i.e. financial instruments. Depending on whether the securities appear first in the financial market, or to carry traffic of existing securities, we distinguish between primary and secondary financial markets. By sale of the securities in the primary market, the company receives liquid assets. Turnover of the existing securities is performing on the secondary market. Their resale does not provide liquid assets to company. Secondary market does not contribute to increasing the assets of the economy; it just helps the process of changing the owners' structure. There are more criterions for sorting securities, but the most basic classification is on bonds and shares. Some securities



are combined basic characteristics of others; those are hybrid securities - preferential stock, options, warrants, futures.

Bonds. Bonds are one type of collateral or credit. Bonds can be defined as securities that provide to its owner the payment of interest at pre-determined order. Commonly used name for bonds is the name fixed-income securities because the interest rate is fixed and known in advance. There are bonds with variable interest rates, and revenue bonds - whose income is variable. Since the bond is closely linked with interest, their issuance, trading, and sales are strictly prohibited from the aspect of Sharia, i.e. learning Islamic economy.

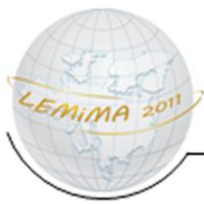
Shares. Actions are significant instrument of capital markets and one of the main types of long-term securities. Shares are proprietary or corporate bonds. Based on shares, customers have the right of ownership over a piece of the equity of shareholders. Owner of shares becomes co-owner of a company that issued shares, and as a reward for money gets a dividend, which is variable and depends on the operating results. The owner of shares is entitled to manage stock company. The main classification of shared is into ordinary and preferential, or priority.

Common shares. Ordinary shares have the following characteristics. If they come from companies involved in *halal* (permitted) activities; if they acquired their property in any *halal* way; and if the sales of their shares is one of the permissible ways of trade, then the common stock and its market were completely acceptable from the point of Islam and Sharia.

Preferential or preferred shares. These are hybrid securities that have characteristics of the stocks and bonds. In respect of ordinary shares, include the right to charge dividends in a certain fixed amount. The fixed dividends on preference shares can be determined in two ways: the absolute amount of dividends per share, percentage, compared to shares nominal value. Preferential dividends are usually cumulative, meaning that the obligation of unpaid preferential dividends is transferring from one year to the next. Holders of these shares have certain privileges in relation to holders of ordinary shares. They are entitled to higher dividends, especially those with the right to be elected to the governing bodies of society, the priority charge on the liquidation of the society.

Preferential shares carry less risk than conventional and higher risk relative to bonds, but they are offering higher profits realized by bonds. *Islamic Fiqh Academy* and numerous Islamic theorists are trying to modify the basic characteristics of preferential shares, to make them acceptable from the standpoint of Islam. In that sense, a new way of calculating preferred dividends is suggested. They are trying to introduce the concept of "Islamic preferential shares". However, there is the view that the preferential shares, even modified preferential shares, cannot be acceptable financial instrument from the standpoint of Islam.

Warrants. Warrants are issuing to holders of common or preferential shares as the right that they



could purchase common shares of shareholders at a predetermined fixed price. Usually they have fixed time in which they could be used, and after the expiry of that period, the warrant right ceases. The main reason for issuing the warrant is to increase the issuing securities activities. According to the position of *Islamic Fiqh Academy*, warrants do not offer any privileges to their owners over other shareholders, so, from the Islamic point of view, they are acceptable.

Futures and options. Both belong to the derivatives i.e. derivative securities. They are called derivative securities, since being created on different basic assets, such as goods, other securities, foreign currencies, market indices, interest rates. Movement of the prices of primary assets has a direct impact on the movement of prices of derivative. Future is a term contract on purchase certain assets, according to which the delivery and payment are going to be made in the future. It is high-standardized contract, in terms of traded assets, delivery, and payment method so that it can be traded on the stock market. Usually there is no actual delivery of goods, but only paying the difference in price. Option gives its owner the right to buy or sell certain assets at pre-agreed (fixed) price within a specific period. Relations between the buyer and option seller regulate an optional agreement, which is by its nature an incomplete contract, as an option buyer has a limited right (to buy or sell the assets), but not the obligation to do so. It is a fundamental difference between the futures and options. In futures, operators must unconditionally to perform their obligations, and the option buyer does not need to buy or sell assets. The only obligation of the option buyer is to purchase or to pay an optional premium. From the Islamic point of view, the conventional options and futures are examples of unacceptable forms of commercial contracts where the price is determined in the present, while the delivery and payment occur in the future. According to Islam, they contain a series of prohibited elements: do not belong to any kind of acceptable agreement, the premium in option is the purchase and payment of the right not the real value; contracts are unrelated to the real value of goods; sellers sell and buyers buy what they do not possess, i.e. things they do not own, which is prohibited because it contains a high degree of uncertainty and such activity can lead to later misunderstandings and disputes; financial instruments contains a high degree of "gambling" or speculative betting on price changes in the future, prices of goods on these markets are not always determined by the based on supply and demand, but based on "rumors", monopolies, exploitation, and other forbidden elements in Islam; these markets include elements of interest, which is not permitted under Sharia.



RESUME

Today Islamic banking is integrated into the German and British legal system, and soon in French too. It operates in the Netherlands, Denmark, and Luxembourg. *Union Bank of Switzerland*, the largest Swiss bank has set up a bank in the Gulf. Austria's largest bank, *Raiffeisen Zentralbank*, offer to Muslims a bank account in accordance with Islamic regulations. In Japan, begins implementing of Islamic banking. The Tokyo Stock Exchange in cooperation with *Standard & Poors*, has developed an index of companies that operate according to Sharia rules. Previously, London and New York Stock Exchange did it. Leading power in Asia in the research and application of Islamic banking is Malaysia. There are also Pakistan, Iran, and almost all Muslim countries. It is expected that millions of Muslims in Asia, who still do not use banking services, affect the long-term growth and that Islamic banking is becoming the dominant way of doing business in Asia. In addition, universities in Canada, USA, Australia, study Islamic economics, finance, and banking. So why not believe that the development of ethical approaches in the economy act as a stabilizing and preventive factor in the emergence of the new crisis? In recent months, warnings about a possible bankruptcy of Islamic appear banks. They warn if Islamic banks continue with this business practice, and if they do not turn to capitalism, the failure is guaranteed. It is emphasized that prayers cannot lead banks, religious leaders, but financial experts with their knowledge. Their future is not bright. We will outcome of events.

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LEADER MANAGEMENT RELATIONSHIP WITH CONSUMERS

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Abstract:

At the center of operations of each company that is oriented towards consumers are current and potential consumers. The company's goal is to provide satisfaction to consumers to meet their current and future needs and desires. In order to company decide to implement and enforce the orientation toward consumers and customer relationship management, you need to know what it involves, how it all may seem to consumers that can determine and create a competitive advantage over other companies. Consumers today not only want the right product at reasonable price, they want more, something more. They want personalized, individual product and service. They want a personal relationship with your dealer. They do not want to be forgotten after the sale. In order to understand the desires of consumers, companies must continually move towards a holistic view, to manage relationships with consumers. If implemented correctly, managing relationships with the consumer creates an environment that can offer the consumers what they want and to always identify the best customers with whom companies deepen relationships. Managing relationships with consumers requires leaders focused on technology, environment and innovation, requires leaders who can motivate staff, on a human level, that are focused on managing relationships with consumers and are focused on business prosperity. The aim is to emphasize the importance of managing customer relationships in companies - banks in modern business conditions, as well as to the exact area of focus caused by customers' satisfaction in order to achieve better integration of managing relationships model with customers and relationships with consumer leaders.

Keywords:

consumer, manager - a leader, marketing in banking

INTRODUCTION

Customer Relationship Management (CRM) is a broad business strategy, designed to reduce costs and increase profitability by increasing customer loyalty. CRM collects in one place information from all sources within the organization (and where possible, and outside of the organization) to provide a unique image of each client, in real time. This allows employees in the organization, which directly communicate with clients (those in the field of sales, technical support and marketing) to make quick, correct decisions based on the number of available



information. CRM process is a well-balanced composition consisting of three segments: technology tools, business processes, and human resources. All employees within the organization, from general manager to the door attendant, must participate and give full support to CRM system. In addition, it is necessary to perform re-engineering of business processes within the organization so all of them could customize to CRM initiative, often from the point of answering the question: What specific process can effectively serve the client?⁴⁸ Companies that opt for the organized CRM should provide the right technology, to lead the improvement of business processes, provide timely information to employees and will be easy enough to use.

MANAGING RELATIONSHIPS WITH THE CONSUMER

Managing relationships with the consumer is a new management concept. It is a model of management of technology, processes, and information resources. We need to create an environment that will allow entrepreneurs to perceive its customers. CRM systems environment is complex and requires organizational change and new way of thinking and observation of consumers and business in general. Creating such an environment requires more than managing relationships with customers or new technologies, it also requires a new form of leadership. Business is like puzzle: composed of many individual segments that need to match to provide a meaningful unit. Company's business has overgrown a simple level of production or service line, which is very close to a vertical understanding of sales and customer service, consumer, with little or no horizontal expansion. Managing relationships with the consumer is defined as an activity in business performance of identifying closer determination, coping, development, preservation, and increasing of customer loyalty. Qualitative consumer relationship management requires the integration of sales, marketing, service planning company resources, supply chain, the choice of technology and information resources in order to maximize every contact with consumers.

SATISFYING CUSTOMER'S NEEDS

In its marketing research, Frederick Reichheld,⁴⁹ consultant in the field of management reveals how consumers react to their current suppliers. Reichheld's researches are summarized in the book "Beyond Customer Satisfaction to Customer loyalty", which gives emphasis to the dramatic economic momentum, with its positive and negative sides, and the importance of the share of consumers in the financial success of the company. Based on Reichheld's researches

⁴⁸ Zelenović Vera, Marketing u bankarstvu, Kopi Komerc, Novi Sad, 2008, str 195

⁴⁹ Reichheld F., Loyalty Rules!: How Leaders Build Lasting Relationships in the Digital Age, 2001, str. 115



through various types of industry, business must be focused on the question of what satisfies their customers on an individual basis. This level of satisfaction is very difficult because of individual values and traits of each person with whom the company has cooperation. The main mechanism for making the purchase is that the consumer buys the product when its expectations are met or exceeded, in terms of supply and attention by the company producing goods. Jobs that are not in the area of consumer interest and expectations in the basic mechanism of decision-making are unlikely to succeed, especially today, in the era of global competition market. Following period of three business areas will be fundamental in order to meet consumer's demands and needs, such as **Customer orientation, Personal relations, after - sales service support.**

Consumer orientation - The consumer wants a product or service that meets or exceeds their individual requirements. Industrial age of mass mentality and mass production of standardized products is left behind us in the last century. The famous Ford's T Model was marketed only in black; the phones are made only to a limited color palette. In the information age and the era of knowledge, opinions have changed. The advantage of competition in an economy based on knowledge is no longer growing in mass production, mass marketing, mass distribution, uniform appearance. Business success lies in the individualization of individual consumers and establishing ways of his thinking. It is a new era of mass orientation towards the consumer. Mass orientation towards the consumer will be very important lever to the orientation of the consumer's wants and needs in the future. Eric Schönfeld⁵⁰ in Fortune magazine (Fortune) wrote, "The mass consumer orientation will be the principle of organizing business activities in the 21st century, as mass production was the organizing principle in the 20th century."

A personal relationship - a relationship is communication in two directions. From the point of view consumer – manufacturer, that is certainly true. Marketing research by Frederick Reichheld⁵¹ showed that many jobs might be lost over 40% of consumers in a single year. For any business, that is a serious indicator. Creating long-term relationships and loyalty becomes a basic rule of business. Building relationships with the consumer demands suppliers to pay attention. This means not only to obey the consumer, but also to actively use their feedback in order to establish and improve relations. This means consistently delivering increased value to consumers.

After-sales service support - Rockefeller Foundation⁵² in its study provides an overview of the

⁵⁰ Internet prezentacija: <http://www.fortune.com/>

⁵¹ Reicheld. F.F. and Sasser, W.E. Jr., Zero Defections: Quality Comes to Services, Harvard Business Review, Sept.-Oct 1990, str. 84

⁵² Jeremy Galbreath and Tom Rogers, Customer relationship leadership, The TQM Magazine, Volume 11, Number 3, November 1999, str.113



main reasons why customers leave their suppliers: 14%, because their views are not adopted, 9% due to competition, 9% due to relocation, 68% leaves them without a special reason. Last point, 68% of customers leaving or changing suppliers without special reason, it is very challenging for research. We can conclude that "no special reason" means that many consumers are, in fact, most of them, leaving their suppliers due to unintentional neglect.

Author Bhote,⁵³ in order to establish customer loyalty, wrote the following, "Loyalty is provided by the fact that customer must not be forgotten. Servicing customers is five times more important than the product price, and close attention to the consumer after the sale is five times more important than service, all aimed at establishing long-term loyalty." Why company should focus on after sales service and support? Today, in an era of high standards of quality, quality is just the minimum requirements for market competition; quality is no longer overriding differentiator of competitiveness. By giving attention to the consumer after the sale, with full understanding and proactive service and support, companies can stand out from the competition.

MANAGING RELATIONSHIPS WITH CONSUMER – A NEW MANAGEMENT CONCEPT

As noted, to managing relationships with consumers is a new management concept that refers to the technology and process of automation in creating the environment. Creating of such an environment leads to permanent changes in processes, people, technologies, and management styles. This level of changes in business can cause dissatisfaction among employees, if the business model is not clearly presented and with clear purpose. With the aim to overcome the gap between the elements of CRM models, it is necessary to create leaders who will lead this change. To this end, a model for business leadership is created, to evolve and create the optimal management of relations with the consumer in the region. As the model (Figure 2) shows, three key components of the CRM show effects of CRM model. Those three key areas are **Technology, Organization Environment, and Innovation.**

Technology - Leaders and consumers relationship model means supreme technology. If leadership and professionalism do not permeate the entire organization with an aggressive information technology, there will be a significant reduction in the effective capabilities of management relations with customers. Patricia Seybold analyzes technology information for a long time.⁵⁴ She believes these technologies are designed to help companies manage the total relationship with the consumer, "We are now entering an era when the total care of the

⁵³ Internet prezentacija: <http://www.csmassociation.org>

⁵⁴ Internet prezentacija: <http://www.managementfirst.com/>



customer enters a transition from a slogan into reality. Reality that is able to improve the technology infrastructure that connects several systems and databases with the aim of uplifting the consumer on a pedestal. If this principle is used, the employee shall be supported with fresh and comprehensive databases of information. The combination of information and access to technology with a direct analytical software and process with trained workers, it also becomes a potential recipe for providing total customer satisfaction and gains its loyalty.” As a result of rapid technical and technological development, shorter product life requires settings of intensified competitive pressures, customer expectations of continued growth, increased interest in protecting consumers and the general globalization, the market becomes much more dynamic, and changes caused by various factors, manufacturers generally cannot control. All these factors have caused market segmentation.⁵⁵ Analyst Patricia Seybold received following parameters of polled managers: 77% of 250 respondents said that managing relationships with the consumer becomes a top priority in their business. In a survey in which 700 information technology managers participated who is responsible for the execution of the business–technological initiatives, at the first place they put consumer satisfaction.

Organizational environment - Many analysts of modern organizations agree that today's and future business systems must be decentralized in decision making. Intense market competition and market globalization are exerting pressure on companies to be more flexible, mobile, and oriented to consumers. Rigid organizational schemes of companies in the previous century were replaced by a flexible grid structure of the teams, who are responsible for the planning and execution at the local level. In order to avoid the risk of fragmentation of operational activities finally, leaders must create an environment that will support the changes and state employees to work locally and think globally. The first step that a leader must do is the formation of vision and its implementation in the organization. The second step is to create organizational environments that will be of action and ability to learn.

Innovation - Michael Porter⁵⁶ in his work argues that strategic superiority ultimately comes from innovation. Innovation ensures the company to be ahead of the competition and create investment - technological gap that can discourage competition. Anticipation of consumer/leader relationship leads the atmosphere of innovation and encouragement of employees to remove barriers around CRM. Innovations often come from middle-aged people employed in the research and development. However, innovations can often come from employees at the top of the hierarchy of the company, as well as those who are at intermediate level, to seek out opportunities to do something better. Great ideas come from employees; they know what needs to be done. Therefore, leaders need to eliminate barriers to management and

⁵⁵ Dragan Rajević, Market Segmentation, International Conference “Law, Economy and Management in Modern Ambience”, LEMiMA 2009, Soko Banja, Septembar 2009

⁵⁶ Internet prezentacija: <http://www.benchmarkingnetwork.com/>



to allow people to freely express their opinions. To create an atmosphere of innovation leader "should build innovation in the direction of organizing the company, to lead the work force, to use teams and plans. Then the innovation becomes a natural part of business culture and thinking" (Peter F. Drucker).⁵⁷

CUSTOMER/LEADER RELATIONSHIP

Motivation is a key part in the client/leader relationship model (CRL). Employees can be provided with the latest and best technology, they can be surrounded by an atmosphere of innovation, consumer demands, but their thoughts and actions do not go forward without the daily motivation and incentives to work. The leader cannot simply implement a CRM and CRL into the company and watch what happens. Even the greenest lawn requires daily watering. For effective implementation of consumer/leaders relationship in business, leaders must be personally present in the company, to follow the system of values and behavior. The leader must be able to transmit personal values into calculated action. Authors James M. Kouzes and Posner Barrz in the book, "The Leadership Challenge"⁵⁸, gives five basic principles of exemplary leadership: **Challenge of the process, Inspiring and implementation of the vision, Ability to motivate others to work, Modeling Development, Encouraging of core.** These five elements are integrated into the motivational elements in CRM - CRL model (Figure 1):

Challenge of the process - the leader who creates and manages the process is asking, "Why do we do it this way?" "Because we always have done it that way" is not an acceptable answer. Leader who is oriented on creating good relationships with customers and employees looking for additional value in the process to further employ the company. For example, many companies are oriented to satisfy the desires of consumers. In such companies, each consumer is seen as a good consumer. No method or process that closely defines desires of the consumer. In other words, there is little concern over the methods that will keep consumer. The sale is sale. You never think about improving business performance and strategic value, or the actual costs of sale. Sales agents offer the same constant conditions of sale, in the same way for all consumers. The level of service standard is the same for large and complex, as well as small, trivial consumers. One level of services and activities include all consumers. In the future, focus, and building good relationships with consumer rights will be of utmost importance to maintain the company's growth. A leader who cannot reveal the real reason for the stagnation and resignation of consumers and who treat everyone equally, is not a true leader. Mask of loyalty of the sub-standard consumers can cause sudden blocking function in many companies,

⁵⁷ Internet prezentacija: <http://www.marketingpower.com/>

⁵⁸ Internet prezentacija: <http://www.marketingpower.com/>



because the leaders diluted the labor force to jobs that are unprofitable and not give priority to profitable and large jobs.

Inspiring and implementing a vision - Vision is one that inspires the future. Shared vision of the company is a picture of the future that can bring together and integrate workers through their personal vision. The attitude of consumers and leaders and help create a company image that will help everyone to feel like part of a team and a vital constituent in achieving that vision. Shared vision is a powerful "tool" that helps company to motivate its best employees.

The ability to motivate others to work - Ability to motivate others to work contains informative aspect of leadership. Manager, the leader of customer relations, keeps its people in constant and direct contact with all that is related to interaction with consumers, including feedback from them. Author Peter Drucker concluded that more than 90 percent of the database in every organization was collected on information within the organization, a very rare and few from outside sources, such as consumers. In order to provide this information, leaders must help create effective lines of communication between consumers and employees.

Modeling development - a true leader, customer relationships manager, lives and breathes every day with a vision of the company. Modeling development time of interaction with customers means understanding their needs. This means that the business system is sensitive to the voice of the consumer.

Encouraging of core - Manager, leader of the relationships with consumers must have a softer side of its character. He or she will require high performance, but at the same time, in return, must also commend the employees. Managers, leaders of the relationships with consumers must be the first to find time for what is best for the company. They must be optimistic and always look to the future, and workers who feel they are valued will behave even better towards its customers.

RESUME

The situation on the global banking market, the competition among banks turned into a battle for the client, where only satisfied client guaranteed profit and survival. Successful implementation, and implementation of marketing, depends on the positioning and marketing manager - a leader within the bank. The role of marketing is crucial, since it creates both, banking products and services, and their price, decides on the economic propaganda and sales channels, and hence its positioning in a bank must be high, next to the management of the first order of governance. Positioned in that way, marketing can provide substantial implementation



of marketing philosophy in the bank, which essentially assumes that all employees are considering marketing, which means they start from the market, customer needs, and creating programs to meet those needs.

No companies succeed by emphasizing their virtues and superiority, intimacy with customers, and innovation of products or services without considering and understanding the needs and desires of consumers. This requirement will raise the importance of relationship management applications with the consumer and developing strategies to interact with customers and set it in the center of the problem. Successful companies will offer products and services defined by the individual needs of consumers. Today, many companies are investigating how to move from mass marketing and sales management relationships with individual consumers. Managing relationships with consumers is ultimate focus on the effective information, because many jobs are burdened with unnecessary information, in order to achieve intelligent business with more efficient management of relationships with customers. Information can come from either side of an interior or exterior, and they require a successful integration into wide databases, such as the Internet, information centers, data networks, sales information in order to be converted into intelligent business information. Therefore, managing relationships with consumers is turning to the substance of any business, the science of consumer economics. This knowledge greatly helps in the business decision to sell and provide services to individual specific requirements. Of course, the company should treat all customers well. However, in reality it is simply impossible to work carefully with everyone. The biggest effort has to be reserved for those who make the largest value for the company. To achieve the main goal, focusing operations on a "real" consumer, we must develop the appropriate mix of strategies, processes, technology, information resources, and human resources as essential. Creating the "customer advantage" today begins with understanding what consumers want, in order to get it.

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CONSUMER SEGMENTATION ACCORDING TO THE LEVEL OF FINANCIAL MATURITY OF BANKING SERVICES

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Abstract:

Modern enterprises, among other things, differ in the fact how they are successful translate challenges into opportunities. Radical response of the marketing is connecting with consumers on various grounds, in order to achieve the target efficiency. Mass marketing, as marketing approach, established in the fifties, could not answer the complex and dynamic business environment, because the basis on which it was based have changed, such as mass production and consumption, low competition, fragmentation of the world market and the development of mass media. Differences among consumers are increasing. On the other hand, they create specific forms of association based on common interests and activities. New connections and differences among customers mean increased market fragmentation. The practice of developed economies has shown that the company responded to this change by accepting and changing the principles of marketing relationships based on a cautious, thorough, and efficient selection of consumers. The aim is to analyze the key advantages of consumer, through the relationship between behaviors of consumers towards distribution channels and to perform segmentation of consumers according to their level of maturity banking services.

Keywords:

consumer, segmentation, banking services

INTRODUCTION

Orientation towards customers is a set of values of the company and its employees, which places an emphasis on consumers and their needs. Needs and desires of consumers are not fixed size, but change over time according to their satisfaction, but also the activities of competitors. The above facts cause that the needs and desires of consumers are constantly monitored and



study. Starting from the objectives and purposes of establishing and developing relationships with consumers, it is necessary to conduct a detailed, extensive, and comprehensive strategic analysis of consumers, in order to select those with which it is profitable to develop long-term relationships. In the essence of marketing relationship is that different consumers need to be treated differently. Along with the increasing selectivity of consumers, companies are developing programs for managing relationships with them. They are characterized by its offer consisting highly customized or personalized product or service, continuous and interactive communication with individual consumers. The marketing relationships with customers do not guarantee a priori success of the company. It takes a much broader involvement of the organization and design strategies and programs based on current knowledge, marketing skills, and reliable information. As a result, corporate culture and climate, internal marketing (marketing focused on employees), the organizational structure of enterprises and the technical - technological factors, are the major limiting factors of the development of long-term customer relationships.

ANALYSIS OF CONSUMER CHARACTERISTICS

Dwyer, Thibaut, and Kelly develop the matrix of consumer behavior in their works.⁵⁹ This approach is based on "ideal types of consumers", which is the theoretical considerations introduced by theorist Max Weber. "The ideal types of customers" are a form of behavior that is designed according to reality, and is used to simplify the complex behavior of consumers. Ideal types, therefore, have a large number of characteristics⁶⁰ specific to a particular group of consumers. To these findings, Fishbein added that attitudes of consumers themselves having condition the consumer behavior. Two important factors motivate and determine the behavior of consumers when choosing and buying financial products. These are:

- Safety of consumers;
- Entrepreneurship of customers

Combining these two factors, we can conclude there are four specific types of consumers:

1. Passive

⁵⁹ Dwyer F.R., Schurr P.H., "Developing buyer-seller relationship", Journal of Marketing, 1987, Vol.51 str. 50

⁶⁰ Fishbein M., Readings in Attitude Theory and Measurement, John Wiley, New York, 1994, str 26



2. Rational – Active

3. Non-consumers, those who do not buy financial products

4. Dependent consumers

This matrix represents the input to the analysis of customer satisfaction and loyalty to the banking services. Each type of consumer is a different combination of factors of safety and activity of consumers. We must take into account the complexity of the factors that can be broken down into several sub factors. The notion of entrepreneurship includes control by a consumer, customer activity, the number of contacts to achieve when making decisions and buying. Security is a term that depends on the consumer's perception of risk that arises while purchasing banking services, depending on the complexity of products being purchased. Apart from the perception of risk, it depends on the independence of consumers in making purchasing decisions

In addition to these factors, there are external, institutional factors, which affect the willingness of consumers to buy financial products and services. These factors relating to the trust and loyalty of consumers and is strongly associated with the choice of distribution channels. Great attention should be given to information of consumers. The availability of information to consumers is the factor that is neglected, since knowledge is a prerequisite of each purchase of products and services, particularly banking, where there is great uncertainty while buying.

Information > attitude > shopping - a logical consequence in making decision on purchase.

When the segments are identified, it can be considered making profiles. In is necessary to analyze each segment identified in order to obtain information about the characteristics of its typical representative (the customer). For specific segments, different profiles are mostly established. If all the profiles of the segments are too similar, the management will deal insufficient information regarding the services of a segment that has a specific market program.⁶¹

⁶¹ Dragan Rajević , Market Segmentation, International Conference "Law, Economy and Management in Modern Ambience",
LEMIMA 2009, Soko Banja, Septembar 2009

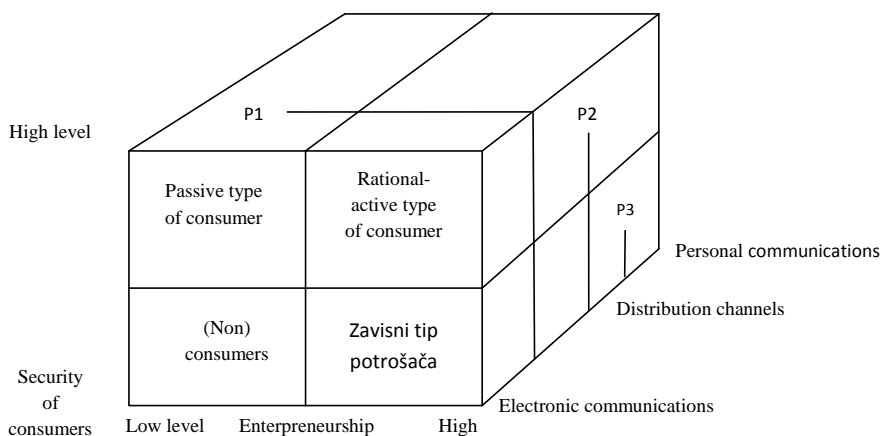


THE RELATONSHIP OF CONSUMER BEHAVIOR TO DISTRIBUTION CHANNELS

Consumer behavior, besides the two previously mentioned factors (safety and enterprise customers) is significantly influenced by the third, and that are channels of distribution. Well-known theorist of Grönroos (1984), in its research of service quality allocated two-dimensional observations of the quality of services, such as technical and functional dimensions.

Technical quality refers to content of the service, while the *functional quality* refers to the way in which the client comes to these services. This dimension of quality includes distribution channels as a significant component. Distribution is characterized by two extremes: on the one hand, financial transactions can be conducted *electronically*; on the other hand, the same transaction can be made by *personal contact*, face to face. Between these two extremes, there is a wide range of options when choosing distribution channels. Choice of distribution channels must be in accordance with the wishes of consumers, in order to maximize customer satisfaction.

Figure No.: 1 - Consumer behavior and distribution channels matrix



Source: Dwyer FR, Schurr, PH, "Developing buyer-seller relationship", Journal of Marketing, 1987, Vol.51, p.50



STRATEGIC IMPLEMENTATION OF CONSUMER BEHAVIOR MATRIX

When forming service marketing strategies, banks must take into account the study of consumer behavior in order to properly access their customers and increase their level of satisfaction achieve a competitive advantage in the financial market.

Passive type of consumer - Most consumers are passive regarding simple banking services, such as, for example, the checking account. Their interest and entrepreneurship are limited, so their behavior when purchasing repeat in the same way. The ratio of banks towards the consumers depends on the type of experience they have in dealings with consumers. Youth bank will strive to "make" active of passive consumers, while the older banks will try to retain them, so they prefer the passivity of their clients. It used to be easy to keep customers in a group of passive consumers, because the benefits from changing banks were small and costs were high. Increasing of competition reduces costs of switching from one bank to another and it is increasingly difficult to rely on the passivity of the consumers.

Rational-active type of customers - this type of customers is the most delicate category of customers for banks, because of their tendency to changes. However, some financial institutions, such as Direct Line, the insurance company, base their marketing strategy on this type of consumer, such as passive consumers of "real" rational - active consumers by providing them with better and faster service at lower prices.

Non-consumers - (Non) consumers of this type, represent the potential for banks. A strategy that encourages entrepreneurship and safety (non) consumers is recommended. The easiest way to implement the appropriate marketing strategy is the use of distribution channels to use for this type of consumer. It should bear in mind that the service marketing campaigns designed this segment of consumers are very expensive and risky.

Dependent type of customer - Dependent type of consumers is important customer profile for the banks. With the right marketing strategy and product differentiation according to different needs of these customers, banks can easily develop customer loyalty. Product differentiation by heterogeneous needs of this type of consumer is the cornerstone of establishing a relationship between consumers and banks. Loyalty just comes from this relationship. Bearing in mind the strong competition in the financial market many banks resort to consolidate the image of its products by forming specific brands. However, this is not a sufficient remedy against the imitation of competitors, but a dynamic approach to the formation of service marketing strategies for this type of consumer is necessary.



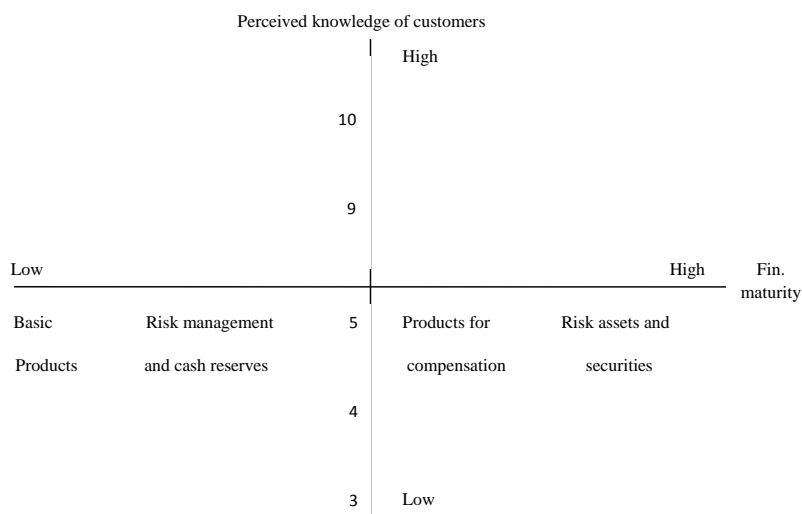
CONSUMER SEGMENTATION ACCORDING TO THE LEVEL OF FINANCIAL MATURITY OF BANKING SERVICES

By increasing the number and types of financial services that appear on the market, banks are faced with the problem of how to supply consumers with appropriate types of services that meet their needs and expectations. The importance of identifying profitable group of loyal customer increases and banks recognize the importance of concentrating on meeting the needs of homogeneous consumer groups within the large heterogeneous market. So far, variety of segmentation of consumers towards the use of banking services were carried out, however, commonly they are either too simplistic or too broad. Segmentation methodology is aligned in two approaches. The first relates to the *a priori* segmentation approaches, which is the basis for segmentation selected, such as the use of the service and results and segment size. Characteristics used to carry out demographic segmentation are usually one-dimensional, focusing on a single criterion. As the first variable in the segmentation, is the stage in the life cycle of the family, since it was established that individuals have different financial needs and goals at different stages of life. Subsequent investigations led to the conclusion that these are mostly external features, which have fundamental importance in determining consumer behavior. The second group of studies in this area is based on cluster models that grouped individuals according to their homogeneous responses based on inter-correlation between items. In these models, there is a problem of inaccessibility of markets, given that there is often a weak link between the results of clustering, demographic, and socioeconomic characteristics of individuals. The lack of clustering approach is that it makes no distinction between dependent and independent variables. Analysis of financial needs-goals can be presented with coordinate system. On the vertical axis is a subjective assessment of consumers' own knowledge of banking services. This variable takes into account the level of confidence that the individual is manifested in their behavior. Respondents rated their knowledge on a scale of 1 to 10, where the one is a minimum level of knowledge, and ten is full knowledge. Thus, the map illustrates the high and low perceived knowledge, where the low range from 1 to 5, a high of 6 to 10. The horizontal axis measures the degree of maturity of financial services, by Kamakura's definition, 1991. According to exposed discussion on the hierarchy of financial goals and product maturity, capability, in financial terms, to be included in the purchase of basic services, current accounts, savings - deposit accounts, loans and mortgages, is a prerequisite for the purchase of complex products with long-term attachment of financial assets, higher investments, and risks. This hierarchy of banking services is what we call financial maturity and at which the consumer purchases evolve from simple to more complex product. However, financial goals and financial needs of consumers evolve over time, corresponding with the stage of family life cycle and other relevant factors. It is necessary to consider two groups of banking services, credit and loans, savings and investments that individuals and households are buying. Service savings can be seen as a means of financing future consumption based on current earnings, while loans and advances may be seen as a method of financing current spending based on future earnings. The purchase and possession of these services depend on the financial



needs and goals, and purchasing capabilities. For example, goals could be saving (or borrowing) for emergencies, maintenance of liquidity of large purchases, children's education, retirement, growth of capital values or generating future revenues (Kamakura, 1991). Specific needs, i.e. objectives must be met and it is a prerequisite for fulfilling of subsequent. Diagram shows that the banking services range on the scale of financial maturity of products: **basic products** - current accounts, deposit/savings accounts, credit cards, mortgages, loans, **risk management and cash reserves** - life insurance, investments, pension plan, time deposits; **products that compensates the impact of inflation** - shares, stocks, personal equity plans; **risky assets, securities**. As well as knowledge, the safety of consumers and financial maturity are measured on a scale from low to high, where the low financial maturity are considered products from basic products and groups of product for risk management and cash reserves (first and second group). High financial maturity characterizes products to offset effects of inflation and risky assets and securities - (third and fourth groups). The combination of these two variables gives the four segments of consumers of banking services, according to the level of their knowledge and understanding of financial services on the one hand, and the level of maturity of financial services they buy, on the other hand. These are **financially confused consumers, uninterested consumers, wary investors, accumulators of capital**.

Figure No. 2 - The hierarchy of financial needs/goals



Source: Harrison T., *Mapping Customer Segments for Personal Financial Services*, Journal of Marketing, 1994, Vol.12, Issue 8, p.20



RESUME

All four segments show different goals, motivations, attitudes, and behavior towards financial services.

Financial confused and apathetic consumers are watching their future in the short term. Financial confused consumers are facing an emergency savings, while disinterested consumers have slightly higher level of knowledge, and use products with significantly higher financial maturity. The level of financial maturity of services they buy, mostly is the result of successful marketing campaigns of banks. From the perspective of banks, this is a very important element, because it has high confidence and a willingness to accept the advice of financial advisers.

Accumulators of capital use the services with an equal level of financial maturity and disinterested consumers. The difference is that the first ones are conscious; more interested, and have more knowledge about their abilities, while others rely solely on the advice of experts. Cautious investors are similar to batteries of capital to its long-term orientation. The difference is that the first are oriented to risky products, while others prefer the safer. Consumers are the most valuable assets of market-oriented enterprises, and relations with them are significant source of competitive advantage. Retention of customers of strategic importance for the company is important, but also a difficult task. Applications and intense rivalry of companies for the loyalty of consumers reach unimaginable limits. Only those companies that adequately identify and understand problems, desires, and needs of consumers and finding better ways for their solving manage. Problem of customer retention is especially evident in the global environment, where they have a greater ability to choose and satisfy their sophisticated requirements. Modern companies differ in how successfully turn challenges into opportunities.

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УПРАВЛЕНИЕ РИСКОМ ПРОЦЕНТНОЙ СТАВКИ И ИНСТРУМЕНТЫ ЗАЩИТЫ

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Аннотация:

Банки - все это финансовые учреждения, которые предлагают широкий спектр финансовых услуг, в первую очередь кредиты, сбережения и услуг платного трансфера и выполняют широкий спектр финансовых функций любого бизнеса учреждения. Это множество услуг и функций привело к тому, что банки теперь называются «финансовыми универмагами». Благодаря увеличению числа банковских услуг, увеличиватс и риски банковской деятельности.

Риск процентной ставки является одним из ключевых финансовых (рыночных) рисков для банка. Поскольку банк не можно изолировать от влияния процентного риска, ради защиты от неблагоприятного воздействия процентных ставок, менеджмент должен знать источники и формы процентного риска. Закон о банковской деятельности предусматривает, что банк должен выполнять измерения, оценки и управления всеми рисками, которыми их бизнес подвергается. Учреждения надзора хотят убедиться, что риски в банковской системе правильно определены, что ими правильно управлется, и что поддерживаются капиталом.

Только зная, что существует риск банк может принимать определенные защитные механизмы. Влияние риска процентной ставки на финансовое состояние банков рассматривается через влияние на экономическую и рыночную стоимость банка.

Ключевые слова:

банк, риск процентной ставки, источники процентного риска, инструменты защиты.

ВВЕДЕНИЕ

Рассматривая банковское дело являются определения, которые характеризуют его как управление бизнес-рисками. Как и любое другое предприятие, банки используют свой капитал для поддержки своей деятельности, однако, большинство ресурсов, имеющихся в банке (и рискующих), принадлежат другим лицам, исключая акционеров банков, в первую очередь ее вкладчикам. Банки, пользуясь депозитами своих клиентов, дают кредиты и инвестируют, чтобы достичь доходы и разумную прибыль на инвестиции их акционеров, и для обеспечения финансовых потребностей сообщества, в котором они работают. Государство обеспечивает особую защиту и страхование депозитов, и



подвергает банки специальному виду надзора. Важность безопасной и стабильной банковской системы отражается в обществе в целом. На этой основе мы можем сказать, что риск и управление им, основы банковского дела. Риск сам по себе не обязательно вызывает озабоченность. Для того чтобы положить рисков в перспективе, необходимо определить являются ли разумными риски принимаемые банком. Риск является оправданным, когда является понятным, измеримым, когда его можно контролировать, и, когда внутри способности банка возможно превзойти негативное действие. Если риск является неоправданным, финансовое учреждение должно уменьшить или устранить такой неоправданный риск. Соответствующие меры могут включать в себя снижение воздействия, увеличение капитала или укрепление управления рисками.

УПРАВЛЕНИЕ РИСКОМ ПРОЦЕНТНОЙ СТАВКИ И ИНСТРУМЕНТЫ ЗАЩИТЫ

Определенный баланс между активами и пассивами чувствительными к процентным ставкам должен помочь свести к минимуму влияние на доходы вызванное неточным прогнозированием процентных ставок со стороны управления. Для управления рисками должны быть определены руководящие принципы и ограничения, касающиеся максимального дисбаланс между активами и пассивами чувствительными к ставкам в отношении текущего дохода, капитала, рыночной стоимости или ресурсов.

Принципы управления и контроля процентного риска

Основными задачами банковского дела является избежание несостоятельности банка и максимальное увеличение нормы прибыли на капитал. Процессы укрепления интернационализации крупных банков создали необходимость согласования стандартов капитала на международном уровне, которые должны всем банкам на рынке позволить уникальное положение в конкурентной борьбе на международном уровне. Базельские правила о капитале, принятые 1988 года, должны поощрять ведущих банков на международном уровне, чтобы твердо поддерживать высокий уровень капитала, т.е. сократить уровень неравенства в высоте ставки капитала между различными странами в целях содействия добросовестной конкуренции. Из-за неэластичности и жесткости, необходимо было провести проверку существующего Базельского соглашения, что привело к новому соглашению 1997 года, принятого 2001-го под названием Базель-2. Соглашением Базель-2 определено пятнадцать принципов. Принципы должны быть использованы в ⁶²:

⁶² *Kamatni rizik u bankovnoj knjizi*, POTECON doo: 2007, str 25e



- Оценке адекватности и эффективности управления процентным риском;
- Оценке масштабов процентного риска в банковском портфеле;
- Развитии ответов уполномоченного по процентной ставке банка.

Учитывая, что различные банки имеют различные степени риска, и поэтому должны использовать различные модели оценки рисков, второе Базельское соглашение позволило банку определить свой уровень риска и определить собственные потребности в капитале, что способствует большей гибкости в реагировании на меняющиеся рыночные условия.

Основами второго Базельского соглашения являются⁶³:

- Требования к минимальному размеру капитала на основе собственных оценок риска,
- Пересмотр в порядке надзора в целях определения процедур оценки риска каждого банка и достаточного уровня капитала в целях обеспечения их обоснованности (чтобы каждый банк имел новые правила и предоставлял данные для преобразования его внутренних оценок риска).
- Повышение общественной информации об истинном финансовом состоянии банков, чтоб рыночная дисциплина могла стать решающим фактором для того, чтобы много рискованные банки снизили свои уровни риска.

Значение и особенности управления риском процентной ставки

Управление банком представляет собой навыки, основанные на уважении к определенным принципам или общепринятым, на практике приобретенных позиций. Задача управления банком согласовать так оптимально сочетание теории и практики, чтобы банк выжил в переменных законодательных, финансовых и экономических условий. Однако, не существует единой, как правило, приемлемой везде и применимой теории управления банком. Основопологающим элементом в оценке надежности и безопасности каждого банка является наличие управления рисками, которыми подвергается банк.

⁶³ Peter, S Rose.2004. Banakrski menadžment i finansijske usluge. Beograd: Data Status, str. 502



Управление процентным риском включает в себя управление активами и пассивами банков, в целях мониторинга влияния изменения процентных ставок на финансовые результаты банка. Таким образом, практика которой банк оптимизирует путь принятия процентного риска в своей деятельности, называется управлением рисками. Совокупность усилий для управления риском процентных ставок должна быть включена в политику и процедуры по управлению рисками процентных ставок.

Значение и особенности управления риском процентной ставки варьируются от банка к банку, в зависимости от:

- размера банка,
- характера и сложности его активов и обязательств,
- высоты его позиций, подвергающихся риску процентной ставки,
- рискованной толерантности банка и его рискованной позиции.

Установленная политика и процедуры управления риском процентных ставок должны обеспечить контроль характера и размера процентного риска, которому подвергается банк.

Политика и процедуры для управления процентным риском должны включать: критерии для классификации имущества в различные портфели, сбалансированно потребностями управления процентными рисками и целями банка, психологию принятия риска в банке и допустимые воздействия на риск процентной ставки, а также и определение ограничения (лимита) воздействия процентного риска согласно психологии банка. Разделение активов банка в различные портфели может быть реализовано на основе различных критериев, таких, как экономические условия, которые влияют на обязательства банка, характер продуктов и услуг банка и инвестиционные (бизнес) цели. Психология банка в принятии риска представляет собой уровень риска, который банк может принять. Банки должны устанавливать ограничения (лимиты) в своем выступлении к процентному риску и пытаться не превышать установленных лимитов. Ограничения банка на воздействие процентного риска обычно связаны с нетто процентным доходом.

При выборе подходящего способа измерения эффективности изменения процентных рисков на свои доходы, банк рассмотрит возможность волатильности процентных ставок в течение определенного периода времени, в котором они реально могут реагировать на неблагоприятные изменения процентных ставок.

Банки используют один из методов измерения риска, но желательно сочетание методов в управлении рисками. Каждый метод имеет другой подход к процентному риску, имеет



различные преимущества и недостатки, поэтому техники надежнее сочетат. Выбранные методы измерений должны быть в соответствии с психологией банка и ограничениями в портфеле имуществ. Основной предпосылкой в управлении риском процентной ставки является тот факт, что процентные ставки постоянно меняются.

Для того чтобы система управления рисками процентных ставок функционировала следует предоставлять соответствующую информацию, с тем чтобы принять соответствующие меры, в относительно короткий период времени. Если требуется больше времени для выявления рисков и мер по их удалению или уклонению, банку грозят большие потери в бизнесе. Основная задача управления активами и пассивами в банке – прогнозирование процентных ставок. Прогнозирование является одним из способов, что банк выполнил свои цели на сумму денежных средств, которая направлена на достижение и что вероятность сюрпризов (потрясений в процентных ставках) в своей деятельности сводится к минимуму. По этим причинам, управление активами и пассивами может быть определено как создание наилучшего выбора, «trade off» компромисса между доходностью и риском для банка.⁶⁴

На самом деле управление активами и обязательствами могут быть сведены к двум фразам - "максимизировать прибыль" и "свести к минимуму риск". Такую систему управления риском процентной ставки банки должны развивать.

Каждый банк должен разработать и осуществить эффективные процедуры и системы управления, мониторинга и контроля, управление процентным риском в соответствии с психологией и политикой банка. Процесс контроля управления риском процентной ставки в банке должен быть уделен внутреннему контролю. Система контроля должна уделять особое внимание созданию и эффективной системе внутреннего аудита и системе лимитов риска воздействия.

Процесс контроля должен быть правильным, если учесть сложность и размер банка, и в то же самое время необходимо обеспечить.⁶⁵

- Адекватность политики и процедур управления процентным риском,
- Успешное управление рискованными позициями банка
- Обеспечит точность и адекватность управленческих отчетов,

⁶⁴ G.Uyemura, D. R. Van Deventer: Financial Risk Management in Bankin – The Theory & Application of Assets & Liability Management, McGraw-Hill, New York, USA, 1993, str. 59-77

⁶⁵ Živko, Igor. 2006. *Ekonomska misao i praksa* dbk.god XV br.2, str. 211



- Обеспечить личное участие сотрудников банка в области управления риском процентной ставки с полным пониманием политики процентных ставок и ограничений.

В целях успешного управления банком риском процентной ставки, модель управления должна быть основана на способностях сотрудников ведомств, ответственных за управление рисками, чтобы признать и определить потенциальный риск для банка, для мониторинга воздействия процентного риска для банка, и принять определенные меры для банка. Процедуры и деятельности в процессе управления должны постоянно развиваться, но и наблюдаться и рассматриваться.

Инструменты управления риском процентной ставки

На сегодняшнем рынке банк имеет возможность защитить себя от риска процентной ставки, используя различные инструменты для регулирования рисков или защиту от риска изменения процентных ставок. Наиболее известными являются так называемые методы хеджирования, которые работают на спот и форвард рынках. Спот рынок включает в себя операции транзакции в течение двух дней, форвард включает в себя транзакции в определенный день в будущем.

Финансовые инструменты для управления рисками процентной ставки:⁶⁶

- Соглашение о будущей процентной ставке (. англ. Forward rate agreement, FRA),
- Процентная ставка фьючерсного контракта (англ. Interest rate futures),
- Процентный своп (англ. Interest rate swap),
- Вариант процентной ставки (англ. Interest rate option),
- Процентная крышка, дно, или ожерелье (англ. cap, floor and collar).

Соглашение о будущей процентной ставке «форвард» представляет договор, которым стороны в контракте определяют уровень процентных ставок по условной основной суммы за определенный период времени. Например «форвард» контракт определен 6 на 9 месяцев, стороны в контракте определяют процентную ставку, которая будет

⁶⁶ Peterlin, Joško i Marijana Mladenović. 2007. *Finansijski instrumenti i menadžment finansijskih rizika*. Banja Luka: Univerzitet za poslovni inženjring i menadžment, str. 186.



применяться в течение трех месяцев, а начинает применяться после шести месяцев с даты подписания контракта. FRA покупатель, как правило, пытаются защитить себя от повышения процентных ставок, учитывая, что в случае роста процентных ставок на рынке получают разницу между договоренной и рыночной процентной ставки, применяемых по условной основной сумме. В случае падения рыночной процентной ставки клиент FRA будет заплатить разницу между договорной и рыночной процентной ставки, которые применяются на условную основную сумму.

Элементы соглашения о будущей процентной ставке:⁶⁷

- Условная сумма, на которую начисляются проценты,
- Валюта договоренной суммы, которая также определяет рыночную процентную ставку, определяющую движение от процентных ставок, на которые согласились в контракте (если согласованная сумма в фунтах стерлингов и срок действия контракта 6 месяцев будет использоваться рыночная процентная ставка шестимесячного LIBOR в GBP),
- Процентная ставка договоренная в контракте,
- Срок подачи,
- Срок действия договора.

Процентной ставкой фьючерсного контракта (англ. *Interest rate futures IRF*) является контракт, который по своим характеристикам идентичен FRA, наряду с основным отличием, что приходится на стандартизированные контракты, торгуемые на признанных фондовых биржах. Другое различие, которое важно отметить, что покупатель *IRF* защищен от повышения процентных ставок.

Фьючерсные контракты имеют следующие характеристики:⁶⁸

- Они юридически обязательные договоры,
- Контракты в стандартной форме,
- Высокая ликвидность,
- Точная дата и место,

⁶⁷ Peterlin, Jožko i Marijana Mladenović. 2007. *Finansijski instrumenti i menadžment finansijskih rizika*. Banja Luka: Univerzitet za poslovni inženjring i menadžment, str. 186.

⁶⁸ Pušara, Kostadin. *Menadžment bankarstva*. Interna skripta fakultet PIM, str 27.



- Заключаются с расчетно-клиринговыми корпорациями.

Процентный своп (*swap*) представляет собой договор, в котором обе стороны соглашаются обмениваться процентным платежом разного характера, который основан на сумме долга, который никогда не может измениться.

Есть три типа процентного свопа:⁶⁹

- Купон своп или изменение фиксированного курса на переменные инструменты в той же валюте,
- Основные свопы или изменения переменной процентной ставки на переменные инструмент в той же валюте,
- перекрестный валютный процентный своп, который предполагает изменение инструментов процентной ставки в одной валюте для переменной ставки в другой валюте.

Банк, который вступил в процентный своп оплатой процентой ставки регулирует свой баланс воздействия процентной ставке сопоставимо с фиксированной на которой средства взяты в заем. С другой стороны, ввести процентный своп в качестве получателя фиксированной процентной ставки похоже на покупку средств по фиксированной процентной ставке и их влиянию на воздействие баланса. Процентный своп является долгосрочным инструментом менеджмента процентного риска.

Вариант процентной ставки дает держателю право на покупку или продажу ценной бумаги в определенный промежуток времени, и по определенной цене. Кредитор может воспользоваться этим правом, но не обязательно. Кредитор имеет право на покупку (Call) определенного количества ценных бумаг по согласованной процентной ставке в течение определенного периода времени, или право продажи (put).

Процентная крышка, дно, или ожерелье – также долгосрочный инструмент для управления процентным риском. Это тип документа, который замораживает высокую и самую низкую процентную ставку. Процентной крышкой фиксируем самую высокую процентную ставку, процентным дном самую низкую, а процентное ожерелье представляет диапазон от минимальной до максимальной процентной ставки, если это указано в контракте.

⁶⁹ Pušara, Kostadin. *Menadžment bankarstva*. Interna skripta fakultet PIM, str 27.



ЗАКЛЮЧЕНИЕ

Как мы видели в этом исследовании, рост конкуренции и увеличение банковских услуг, предлагаемых банком для своих клиентов, влияют на увеличение банковских рисков. Само понятие риск несет определенную долю неопределенности. Риск может быть выше или ниже, но всегда существует, поскольку производство или продажу услуг рыночной экономике или неизвестному покупателю несет со собой определенную степень риска. В настоящее время увеличилось число банковских рисков, а также увеличилось количество способов и методов для защиты банка от увеличенного числа рисков.

Банковское дело не без риска, но он может быть уменьшен до определенного уровня.

Наибольшую роль в управлении рисками и до сих пор имеют опыт и знания управления банком, но для надзора необходима система институтов регулирования, а также наличие внутреннего аудита.

Влияние процентного риска на банк зависит от: значения баланса и сбалансированных позиций, которые являются чувствительными к риску, то есть от структуры баланса, изменчивости процентных ставок и сроков.

Основными источниками (типами) риска процентных ставок, которыми банки подвергаются, являются: риск погашения несоответствия (maturity risk, repricing risk), риск потери дохода (yield curve risk), основной риск (basis risk) и риск вариантов (optionality).

Изменение процентных ставок влияет на уровень доходов и расходов через активов банка и ответственности структуру его баланса.

При наличии повышения процентных ставок, вкладчикам хочется снимать средства со счетов, особенно если есть такая возможность предусмотрена контрактом, с тем чтобы добиться большей отдачи от инвестиций с более высокими процентными ставками.

Наконец, мы можем сказать, что ни один метод управления рисками, независимо от того сколько он прогрессивен, не может заменить опыт и знания управления банком. Основными мерами для успешного управления рисками являются не только наличие стандартизированных методов прогнозирования рисков, но и система регулирующих институтов надзора, наличие внутреннего аудита в организации, и последовательное осуществление рыночной дисциплины.



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ROLE AND IMPORTANCE OF BANCASSURANCE IN TERMS OF DYNAMIC DEVELOPMENT OF FINANCIAL SERVICES MARKET

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Abstract:

Bancassurance is one of the latest trends in modern banking in order to faster and more easily meet the needs of banks' customers in a way that banking and insurance services are brought together in one place.

The aim of this paper is to introduce us to the concept of insurance, in brief, the elements of insurance, types of insurance, bancassurance, collateral loans, collateral security, and ultimately to gain insight into examples of links between banks and insurance.

Keywords:

banking, insurance, bancassurance, collateral loans, policy

INTRODUCTION

Banking is in a constant process of large or small changes manifested in varying degrees in different countries. Innovation providers in global banking are banks and, in general, "banking industry", in developed countries, but the large international commercial banks are the main leaders in this field.

In banking, during the last decade certain the trends appear.

First, the trend of "creation of new banking products" on what requirements and desires of consumers but competition too force is constant. Secondly, the achievements of modern information technologies and their practical business applications significantly changed the world of banking, that do not resemble to traditional banking from just twenty years ago. Third, clear boundary between banking and other financial institutions such as insurance companies or brokerage and financial companies are disappearing because they all are now engaged in



financial intermediation, and deregulation and liberalization of financial transactions and financial market development have enabled non-banking financial institutions to deal with the many jobs that were reserved for banks, and banks, in their constant quest for profits, were forced to enter into new areas and activities in order to sustain the market.

Fourth, the process of competition and concentration in banking is growing, so a number of mega banks, international business orientation, which virtually dominate the market stands out.

The focus of this paper is directed to occurrence of "bank insurance" as a new form of connecting banking and insurance i.e. the consequence of disappearing traditional barriers between banking and insurance.

ROLE OF INSURANCE IN BANKING⁷⁰

There are fundamental differences in the way of business and risk management between banks and insurance companies. In banking, all of the obligations related to the amount and payment schedule and terms of the contract are fixed accurately identified by contracts. Confidence in the banking, which enables the system to work, based on the commitments that are fulfilled on time. The institutions of insurance (which does not include life insurance), the amount to be paid is usually a matter of treaty interpretation, and there is uncertainty over the timing and amount should be paid. This fundamental difference in banks and insurance companies may affect financial stability, liquidity, and other participants in financial markets. With scale increasing, complexity and interdependence of contract, the need to maintain security and control of monetary authorities that are responsible for the overall financial system stability grows. In addition, regulatory authorities give special attention to reducing the risks associated with the contracts concluded by the insurance company.

The success of the banking system in the diversification of risk has increased its ability to take greater shocks in recent years, particularly the Asian crisis, the collapse of the Soviet Union, the rapid development of information technology, loss of some big companies and so on. Therefore, the market's ability to transfer credit risk is very important because it provides institutions with the highest ratings to structure credit, without their necessary to expose to risk or to minimize it.

Banks often mutually transfer risks for greater diversification and in order to avoid their concentration, but also because of the possibility of achieving higher earnings from

⁷⁰ B. Krstić: „Bankarstvo“, Univerzitet u Nišu, 2003.



commissions. At the same time, banks often make transfer of risk in different areas of the insurance sector.

Banking and insurance are financially separate segments, as well as their regulation and supervision. Accesses in insurance regulations vary between different countries. Now in many countries there are special institutions involved in order to create a unified regulation and supervision of banks and insurance companies, but this process is very slow. In some countries, there has been significant progress, such as the UK where a separate institution (FSA) was formed to supervise banking, insurance, and other parts of the financial system. At the same time, the institution creates a modern regulatory framework for insurance companies and develop solvency regime that would be connected with the amount of risk. However, still in the field of regulation and supervision of insurance companies there is no equivalent of Basel I and II, as in banking i.e. in insurance there is no common international standardized model.

International Association of Insurance Supervisors is engaged in creating a unique standardized international regulations and agreements in the insurance industry.

For contracts concluded by the insurance companies, it is important to create uniform principles of accounting reports. It is a condition to form standardized requirements for capital, and thereby ensure greater transparency, which has limited value if they cannot make comparisons. Therefore, the formation of uniform accounting reports for insurance companies by the International Accounting Standards Board is in progress.

Risks involved in business and their transfer are potential weaknesses, but also provide significant benefits, particularly in terms of better risk distribution and greater opportunities for protection against it. In order to achieve the highest possible benefits of transfer and mitigate risk, but with their deficiencies at an acceptable level, it is important to ensure adequate business environment. This implies coordination, harmonization, and standardization of environment key elements, especially in accounting, regulation, and supervision related to banking and insurance, which aims to create favorable conditions for business and increase confidence in the financial system.

BANCASSURANCE

Bancassurance includes a package of financial services that include banking and insurance services at the same time and in one place, i.e. bancassurance represents a strategy by which banks and insurers work together, in a more or less integrated way, the performance of financial markets and this includes the distribution of insurance products by banks. The concept of "one-stop shopping" or "full-service provider" is generally present in all of the above mentioned.



Bancassurance is the result of deregulation and liberalization of financial services, but also the appearance of giant financial firms that were able to provide a wide range of financial services, from traditional banking, investments, operations with securities and asset management, to insurance services. Competition going on between the banks in our market has led to positive developments, with new products, and increasing quality in the provision of services. Increasing quality in the provision of banking services is the fastest step that the bank may take in the process of acquiring customers for its business partners. Range of services, or types of products offered by banks have to meet the interests and wishes of the client, as these products do not make their own purpose. This means that the product purchased has been used or that a customer of this product delivers the greatest benefit and value in use. In addition to the banking products, customer as a business partner is interested in the possibility that upon arrival at the bank carry out as many different jobs.

Therefore, there has been the emergence of new loan products (bancassurance) and their effective use and benefits that clients receive by purchasing these products at banks. The dynamic development of life insurance market and brought at the local areas the concept of bancassurance model of business association of banking and insurance sectors that in western countries has a long tradition. Bancassurance is the joining of banking and insurance, which means that to customers of banks, will be offered banking services and benefits of making contract related to insurance products by banks. Offering the widest range of financial services in one place, bankers and insurers believe that through this link they efficiently exploit the potential clients and achieve significantly higher profits. Through bancassurance, customers/users of banking services protected by the insurance policy their investments and business investments, and banks and insurance companies, thus effectively solve possible problems that may arise for the client because of adverse events.

The main reasons for the expansion of bancassurance are profit and competition.⁷¹ It is estimated that bancassurance participate with 20-30% of the banks' profit in continental Europe. Intense competition among banks, in terms of margin reduction in interest rates, has led to an increase in administrative and marketing costs and limited profit margins for traditional banking products, resulting in the need to find new products to increase productivity and profitability. At the same time, there have been significant changes in the preferences of customers of banks and reduction of the share of classical savings deposits, which is traditionally the core potential and profitability of banks that manage their clients' money.⁷²

⁷¹ Mahmutović: „Posredovanje u osiguranju“, Sarajevo, 2007.

⁷² www.pks.komora.net



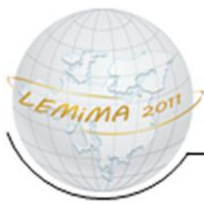
IMPORTANCE AND BENEFITS OF BANCASSURANCE FOR BANKS AND INSURANCE COMPANIES

Life insurance products, which are mainly supported by favorable tax treatment, in order to encourage private investment in retirement income planning function, proved to be very attractive, and some of them have expressed an investment component. Banks see the opportunity to make a profit in these jobs. Banks are suffering from increased mobility of clients who tend to have accounts in several banks, and how to ensure greater "loyalty" or "binding" clients can be seen in the fact that (along with insurance companies) to provide as broad range of financial products in one place as it possible. Benefits of bancassurance for banks is reflected in increasing income in the form and/or commission (depending on the type of arrangements), reducing the high fixed costs of operating the branch network and the ability to increase "productivity" of full-time staff. Bank through bancassurance provide additional and permanent source of income, and made up diversification to reduce the reliance on the difference between lending and deposit rates as the main source of income for banks. Selling the entire range of financial services increases the level of client retention, and possibly qualifies for special products that are created by the customer life cycle. The benefits of bancassurance for insurance companies is reflected in the fact that it allows them to expand their coverage to new clients, i.e. bank's clients, or to areas where insurance company had some form of territorial presence, and bank has its business units. In this way, the bank does not need to build its own network of insurance agents for which it is necessary lots of money and time. We should not neglect the specific reasons, such as demographic ones, since the bank's clients represent a completely different segment of the population (by age, gender, and purchasing habits) than one that is generally the insurer previously had. Banking and insurance enables insurance companies to expand their range of insurance products offered by or through banking channels to sell their products, which are not adjusted for traditional distribution channels of insurance companies. Connection with the bank allows the insurer that under the relatively favorable conditions gets to additional capital, and development of new financial products for insurers is more efficient if it works with a bank partner.

MODELS OF REALIZING BANCASSURANCE IN MODERN BANKING

There are several ways that can be achieved by banking insurance, but it boils down to four basic models with sub-variants:⁷³

⁷³ www.singidunum.ac.rs



1) According to the first model so-called **distribution agreement**, a distribution channel partner gets access to a database of the other partner. This is the simplest form of bancassurance, without deeper cooperation and the need for more investments, but can easily be unused, if the partners do not cooperate sufficiently in sharing data. Under this arrangement, the bank typically provides the "friendly" insurance company with "warm leads" from the bank's customer base, from which a very profitable income for both partners can generate. It is possible to execute the distribution arrangement whereby the bank became an authorized agent of an insurance company in marketing its products. This type of arrangement may prove very profitable since it requires a small investment, but the insurance products that are the subject of investments, must have a "brand" (although bank may sell them under their firm) and are usually standardized.

2) The second model is a **strategic alliance**, which represents a higher level of business integration, coordination of management, with joint product development and possible sharing of client's base. It requires smaller investments, primarily in information technology and sales staff. The first and the second model, the lack of integration represents the possibility that systems and resources are often duplicated, and that synergy is not realized.

3) The third model is a **joint venture** and includes joint ownership of products and clients (databases) that require long-term close cooperation and significant investments. Institutionally, this joint venture can be established on a corporate basis by creating a new insurance company by the existing banks and insurance companies. Mutual participation in the share capital and the management of banks and insurance companies (cross shareholdings) is possible in any way that realize connecting of their business activities and services which provide, but also to preserve a significant proportion of independence level.

4) The fourth model is the creation of **Financial Service Group** through acquisitions of the existing banks (fully or partially) by the insurance company, i.e. establishing of a new bank by the insurance company (so-called, new start without association). It is similar to buying of existing insurance companies (fully or partially) by the bank, or the establishment of new insurance companies and banks, on a, more or less, equal footing. The operating systems of these entities are fully integrated in providing one-stop financial services. If a highly converged model is achieved, operations and infrastructure are integrated, with a reduction in costs through the sharing of customer database and distribution channels.

There are other models of bancassurance, such as possible model based on holding company where the financial institution, organized as a holding company, owns several companies (insurance companies, bank, finance company, broker, etc.) which are "dependent" companies,



but relatively autonomous in servicing each of their traditional market segments, with little integration. Model based on holding company provides diversification of risk, but difficult to integrate, often leads to duplication of systems and resources

Banks and insurance companies have a lot in common, but perhaps the most important common feature is that the core of their business process is mediation. The choice of appropriate model for bancassurance depends largely on regulatory and cultural environment of the host country. Models based on the distribution of arrangements, to a greater or lesser extent, are suitable for simple insurance products i.e. traditional insurance products. To models that are in the transition between the distribution arrangements, and genuine integration suite "blended insurance - banking products" that are "tailored" for bank insurance. In any case, bank and insurance company must agree which sale channel they are going to use, to which clients "belong", ensuring that products will be offered and how they will be offered. With regard to the modalities of association of the banks and insurance companies, few examples can be cited.

RESUME

Over the past ten years, application of bancassurance in the world significantly increased, although there are large differences in individual areas. Bank's strategy is to implement bancassurance, which implies that for strategic partners take the insurance companies that can offer quality and innovative, especially banks, customized products and appropriate technology.

Life Insurance in Western Europe is seen as long-term investment and an integral part of various portfolios (stock shares, bonds, and savings) anyone who saves money. Bank clerk represents a natural counselor for all those who try to increase their savings, because the bank insurance became important in Europe and will become an important sales channel in our country too.

Besides the classic forms of investment as the investment in bank deposits, the introduction of new kind of investment through bank insurance allows customers based on their own preferences and desires to choose how much they want to invest in which of the various financial products offered by the bank and thus optimize their savings.

Banks as a channel of life insurance sales have an important role in many countries of Western Europe. In Spain, 73% of the total contracted life insurance is sold through the channels of bancassurance. In France and Italy, this percentage exceeds 60%, while more than half of the life insurance contracts in Belgium is signed at the bank's windows. The trend of bancassurance is becoming increasingly popular in Central and Eastern Europe. In Poland, this year is expected that bancassurance premiums reached a dozen, about eleven in Romania, and in Croatia, more than €8.000.000.



To clients (of insurance companies and banks) greater importance has "all-in-one" service due to saving time, lower commissions, and premiums (because the part of the reduced distribution costs of the insurance companies is transferred to policyholders by reducing premiums) and the ability to obtain complex information in one place. One of the reasons that selling insurance at bank's window becomes more important is the fact that insurers often believe advisers at the bank more than an insurance representative.

In addition to saving time and integrated offerings, developed system of bancassurance allows customers to invest their investments in the bank invest into different financial products. Therefore, we can conclude that, as one of the innovations in banking, bancassurance is a real breakthrough on the financial market.

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PREVENTION OF MONEY LAUNDERING - THE PROBLEM OF CONTEMPORARY BANKING

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Abstract:

The author presents a system of money laundering prevention and terrorism financing. Basic notions are defined and principles and fundamentals of international regulations are analyzed.

Infiltration of dirty money is a serious problem for the national economy. Buying stocks, real estate, establishing of "dirty investment funds" and usage of the banking system for depositing such funds endangers credibility of the entire country, especially for the safety of the financial and banking system. Money launderers constantly find new ways, using new, non-financial channels and expand their activities to real estate, art, and insurance. It is therefore necessary to keep up European solutions and recommendations, to strive for further improvement and modernization of laws and enact new regulations harmonized with international standards, particularly with the 2005/60 EC Directive.

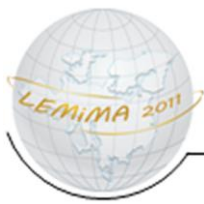
Keywords:

money laundering, terrorism financing, prevention, harmonization with international standards, the implementation of in-depth analysis, information on the suspicious transactions

INTRODUCTION

The concept of money laundering

Money laundering is a process that aims to cover traces of the real source of illegally acquired money, taking advantage of financially, but more often, and non-financial sector and the profession. In accordance to 2005/60 EZ Directive, this process includes covering up of real source of the money, converting, and transfer of assets in terms of its unlawful origin i.e. acquisition, possession, or use of property derived from criminal acts or complicity, connection, helping, encouraging, and enabling of performing any such act. Dirty money is the money acquired through criminal acts and all property derived from that money. This means that money laundering do not exist without such criminal activities.



Money laundering is the process of disguising the illegal source of income generated through criminal activity, to include such income in the flow of legitimate financial business. The issue of money laundering is integrally linked with corruption, organized crime, financial fraud, smuggling, and other criminal acts aimed at making profit. This problem causes serious consequences if not resolved properly. The ability of criminals to collect and legitimize the gains can lead to the undermining of democratic institutions and the abuse of economic systems. Illegally earned income allows criminals to develop its political and economic power at the expense of honest citizens and legitimate business. Countries that are not adequately addressed the issue of money laundering have established that officials are also susceptible to corruption, and that therefore there comes to a complete interruption of legitimate international investments. Thus, programs to combat money laundering are more than a simple means of implementing the law, which is used in case of incomes derived from criminal activities. They are essential in the process of protection of democratic institutions and economic freedom of each country. Money laundering is also becoming international activity on a global scale. For this reason, many international organizations have established standards, procedures, and recommendations to solve this phenomenon. Today, money laundering, in most countries is consider as serious crime, and that the authorities are at risk of coming into a situation where they undermine organized crime and corruption is the generally accepted opinion, if you do not have adequate laws and procedures aimed at resolving issues related to prevention, detect, investigate and take legal measures in cases of money laundering. It is also believed that financial trading is a matter of international character, so the implementation of these laws should be consistent. Council of Europe, the European Union, and the Financial Action Task Force (FATF) established by the member countries of G-7, and the United Nations, defined guidelines for the implementation of effective programs to combat against money laundering for its Member States.

What is money?

Money is the idea. The idea that value of an object can be determined and that can be used in trading is very old, but universal. Money is a very old tool, but the notion that it is believed that is reliable artifact, something that one can accept without question and without checking, but something that appeared in history of money only occasionally; in fact, such a viewpoint was created during the last century.

Everyone sees the money in a different way and it is not at all surprising that these opinions differ, especially in a world of diverse cultures.



Clear understanding of money laundering as such requires an understanding of the nature and role of the money. The money is usually seen as cash. How really one convertible mark, dollar, or euro worth? Perhaps a better definition would be that the money is "all that is widely accepted as a way to settle the costs." Money appeared thousands of years before the paper and coins, but it is impossible to know who came up with the idea that an object determines the value and assigning it such an important place in the business. Money is, therefore, the idea that a particular item has a value that is accepted in all kinds of exchanges. As a concept, the money can have any shape. At different times in different places, the money can be almost anything you can imagine. Why is all this so important for the prevention of money laundering? We must be aware that although most of the money laundering process involves some form of money, everything can be used in the process of money laundering: diamonds, gold, credit cards, stock, warranty, rare coins, insurance, and many other different forms of money. These kinds of transfer of money in various forms are limited only by the imagination of people, not the form in which money appears.

The process of money laundering

U.S. Office for the prevention of money laundering (FinCEN) has described the process of money laundering through three stages: placement, refinement, and integration.

Investment Stage

Phase of investment in which money or cash came directly from criminal activities inserted into the financial mainstream. This money enters the financial system in the way that is designed to avoid detection of origin by the bank or the legislature. Money launderers usually invest large amounts of money in a number of smaller banks or companies. In the phase of the investment, funds from criminal activities are invested in the financial system or in real estate and movables. The main goal is to put money in financial flows and transfer it abroad. Doing that, money launderers expose their earnings, so this is the most important phase, due to possibility of detection of dirty money. No matter whether money that comes from criminal activities appears in the form of cash or not, investment is the most dangerous phase for the criminals. At that time, a direct link between money and criminal still exist. From that moment, the money is not cash but is converted into numbers on paper or on the display screen.



Concealment phase

Concealment phase is known as the *refining*, but is also called swamping or mixing. During the refining stage, money launderers start to cover traces of the real source of with numerous money transactions. Using legal transactions they transfer money to accounts in the country and abroad, and changing its shape, to increase inability to do any monitoring of its route. At this stage, all existing offshore banking centers may be used as suitable means. The ultimate goal of transferring money is the dispersal of money and obtains as many paper traces in order to disrupt the supervision of an ongoing or future investigation, and eventually collected a false origin or source of money. This is precisely the reason why the laws, regulations, and changes of the authorized persons and officials who work directly with clients, should be based on taking thorough analysis of the diligence and data-acquisition of the purpose and intended nature of the business, as well as constant monitoring business relations and transactions. Furthermore, it is important to establish the identity of the beneficial owner, and take all necessary measures based on risk and the type of customers, business relationships, products, or transactions. The very nature of the invention allows finding of certain characteristics that indicate possible money laundering. These are financial transactions having no logical justification, created exclusively for the transaction itself and for the frequent buying and selling goods, especially with the fees and commissions to advisers. That may be accounts created from many smaller accounts, the accounts of which there is no connection, and a lack of interest in investment losses, costs, bank charges, or counsel fee. Money launderers are interested only in profit as a secondary objective - the concealment of the real source of money is the only motive.

Integration phase

Integration phase, money launderers integrate its resources into the economy and financial system and can interfere with its full resources, which make it difficult to detect the real source of money. The final phase of the money laundering process is actually the integration of illegal funds that have become legitimate and which were successfully embedded in the financial system. This phase is called phase drying or centrifuging. Money laundering is a developing complex system, implementing new techniques, and money launderers are improving constantly. Criminals are hiding behind complex transactions involving international transfers, cut transaction into smaller amounts, or transformed into the accounts of a number of people, changing the shape of money, using the advices of top banking executives, brokers, investment bankers, accountants, consulting firms, civil servants, and lawyers. The money laundering process never stops no matter in what phase dirty money went and how many forms of illegal means changed, such funds will never be clean in the eyes of the law.



DEFINITION OF MONEY LAUNDERING

It is by accident that just in the U.S. in 1986, "legislative premiere occur". In Washington State the law on money laundering, which strictly punish any failure to report cash transactions above \$10,000 was adopted. Otherwise, the literature mentions that the term "money laundering" promoted "The Guardian" from London thirty years ago in connection with the famous Nixon's Watergate scandal, and it was the amount of \$200,000 meant to fund the Republican election campaign. In the early 1980, the term was included in the documents the Council of Europe (Giunio, 1998:40). Considering the fact that money laundering usually happens in three phases and often extends across international borders, which involved small or large groups of people established an ad hoc or permanent effect, and that different of criminal acts precede it, it is clear that the process of money laundering is very complex.

Precisely for this reason in the literature different definitions of money laundering appear, some of which we quote:

1. Money laundering is any technique aimed at converting unfairly and illegally acquired income, so it seems a fair and lawful wage (Heršak, 1992:741).
2. Money laundering is an activity aimed at collecting unfairly or illegally acquired income through legal businesses (Vukelic, 1994:29).
3. Money laundering can be defined as the transformation of illegally obtained income into illusory legitimate (Novoselec, 1996:41).
4. Money laundering include new actions aimed at concealing the proceeds obtained by crime work, inclusion, disposal, and other disposition of this products (money, securities, jewels, etc.) creating the illusion of legal acquirement of these products, 1998:40).
5. Money laundering is a financial transaction made to hide illegal activities or to conceal profits from illegal activities (DeGabrielle, 2001:192).
6. The term money laundering applies to change of the shape of illegally obtained money so that it is legal. In addition, it is covering up illegal sources of income or its use (Claessens, 2000:22).
7. Traditionally, money laundering is (among other things) the cleaning of dirty money derived from illegal activities that are probably related to drug trafficking in the collective consciousness is (Lilley, 2000:1).



Return effects of money laundering

Money laundering has a wide range of feedback effects on economic, political, and social structures of each country. The most significant consequences of money laundering are decline of business legal private sector, the impact on exchange rates and interest rates, economic disturbances and instability, reducing state revenues and loss of control of economic policy, jeopardizing the reform program and privatization, declining reputation of the country.

PREVENTION OF MONEY LAUNDERING PROCESS

The most important is to prevent that financial system is used for washing dirty money by appropriate measures. The central bank needs to establish regulations and supervise the banks to prevent and detect money laundering. This regulation is necessary to prescribe measures for banks and financial institutions that include the obligation of reporting supervisory body if there is doubt about the origin of money, prepares appropriate sanctions, strict rules for issuing licenses to banks and financial institutions. Together with the association of banks, central banks should set the rules of banking practices against money laundering, measures to assess, monitor and control clients, determine limits on the amount of transactions in foreign currency by individuals; bank's obligation to determine those responsible for supervision in relation to money laundering and provide staff training on the techniques of money laundering. For the banking sector is important that risk management system and corporate governance structure are well organized and adapted to enable the prevention and fight against the entry of dirty money into the financial system. In addition to local cooperation between central banks and the banking sector, it is important to develop international cooperation in the fight against money laundering.

The roles of the main factors in determining cases of illegal transactions have the financial institutions because of their unique role in the payment system in the collection and transfer of funds. It is very difficult (perhaps impossible) to make comprehensive recommendations to banks for a fully successful against money laundering.

William C. Gilmore (1995), professor of public international law from the University of Edinburgh, Scotland, lists several recommendations:

- Know your party: banks should try to learn the identity of their parties and to have a proper investigation of the origin of their funds.



- Operate in accordance with regulations: bank management should ensure that business is conducted in accordance with high moral standards, to respect the laws and regulations not to realize service if there are good reasons to doubt about case of money laundering.

- Cooperate with relevant authorities to prevent illegal actions: bank in all suspected cases of money laundering should cooperate fully with the relevant authorities and take appropriate measures required by law.

- Pay attention to training and informing employees:

- All bank employees should be well informed about the adopted policies of the bank,

- Consistently implement decisions on the mandatory establishment of legal identity of the parties, and

- Keep proper records of accounts, at least five years, to successfully determine the sequence of individual transactions.

Grown problems present in the world do not recognize national borders and require global solutions. Although money laundering is a global problem, there are significant differences between countries. This is especially evident in countries in transition. The countries that are more involved in world economic developments and which are quite advanced in transition (Hungary, Poland, and Slovenia) have considerably smaller problems in adjusting its monetary market and banking institutions than countries that are late in transition (Albania, Romania, and Russia) where these problems are more pronounced. Prevention of money laundering process is not only a fight against crime, but also an attempt to preserve the integrity of financial institutions and financial system as a whole. International money laundering is based on the differences between financial and banking provisions in the legislation of individual countries.⁷⁴ It is therefore necessary to minimize these differences, if they cannot be completely eliminated. Also important is the finding of new laws to combat money laundering, the creation, and development of new specialized services. The successful prevention of money laundering is probably the most important development of international co-operation with the use of modern and successful methods. Otherwise, all the individual efforts will bring poor results and cause high costs.⁷⁵

⁷⁴ United Nations 1992: „*Money Laundering and Associated Issues: The Need for International Cooperation*“, Doc. E/CN. 15/1992/4.

⁷⁵ Support to the Special Department for Organised Crime, Economic Crime and Corruption, www.registarbih.gov



RESUME

Corruption, organized crime, financial fraud, smuggling, and bribery are alternative ways of acquiring illegal income that after legalization and laundering of so accumulated capital directly enable criminalized people to achieve economic power and strong influence on politics at the expense of society and the legitimate operation of most businesses. Money laundering means activities aimed at the legalization of money earned from criminal activities. Participants in the money laundering use many different types of financial transactions to disguise the true origin of money, and so transform it into legal means of transport in the money market, which enables them to use it normally in business relations in which they place their capital.⁷⁶ The phenomenon of money laundering is a threatening phenomenon of criminal activities and is present in developed countries, countries in transition, and developing countries. It is manifested in different forms and performed in a variety of ways. Participants in the process of money laundering continuously improves and invent new methods and ways, so that the forms of money laundering improve along with progress in technique and technology with the development of financial and economic relations at the international level. One of the most widespread forms of money laundering is done as part of organized crime, where strong relationships between state institutions and state bodies and the criminal organization are established. State institutions - their employees deliberately abuse their position, function, power, and prestige with high reimbursement in order to legalize illegally acquired cash. Simultaneously, criminal organizations seeking to, through rapid maneuver transactions, legalize dirty money. Under the term money laundering, we assume all settlement activities, converting or cleaning criminal money, and its transformation into a regular cash flow or assets. Eliminating and preventing money laundering is not only a fight against organs of direct crime but efforts to preserve the integrity of the financial system, financial institutions in general, and the legality of business undertakings.

⁷⁶ Dr M. Kulić 2001. „*Pranje novca, Privredni kapital i korupcija*“, Institut za kriminološka i sociološka istraživanja, Beograd



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КРИЗИСНЫЙ МЕНЕДЖМЕНТ – НОВАЯ ПАРАДИГМА В СОВРЕМЕННОЙ ДЕЯТЕЛЬНОСТИ

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Резюме:

В работе анализируются основные понятия кризиса в деятельности предприятий. То, что мы стараемся сообщить касается основных причин кризиса, его возникновения, факторов, действующих на его развитие. Автор дает особый взгляд на современную эпоху, ключевое определение которой переменна, а кризис и переменна часто являются вместе.

Ключевые слова:

кризис, современная эпоха, предприятие, внутренние и внешние факторы

ВВЕДЕНИЕ

Почему предприятия оказываются в кризисе? Один из ответов на этот вопрос, что предприятия не приспособливаются к переменам, и надо иметь в виду, что в этой бурной и турбулентной деятельности единственная постоянная переменна и всегда надо иметь в виду приспособливание к переменам.

Предмет этой работы предпринимательские кризисы, а основная цель, как ответить на кризис, когда он возникнет из-за перемен в окружающей среде. Особые цели этой работы:

- Понять, что такое переменна и каким способом надо приспособливаться к переменам
- Что такое кризис и какие причины кризиса



СОВРЕМЕННАЯ ЭПОХА

Наша эпоха – эпоха перемен. Поэтому каждая современная организация должна в свою структуру встроить управление переменами и организованное покидание всего, что работает, но и способность создания нового. В этом смысле Питер Дракер отмечает, что организация требует, чтобы в ее ткань встроили три системных определения.

- Во-первых, каждая организация требует постоянное улучшение всего, что работает, это процесс, который японцы называют "каизен".

- Во-вторых, каждая организация должна будет выучить пользоваться, то есть, разрабатывать новые примеры из собственного успеха.

- Во-третьих, каждая организация должна будет выучить инновировать и понять, что инновацию можно и надо организовать как системный процесс. Имплементация данного подхода становится императив будущего, так как рынки будут меняться, технологии будут меняться, и может быть самое главное то, что выборы потребителей, поставщиков и собственников предприятий будут меняться все быстрее. Предприятия, которые примут необходимость перемены и создадут такую структуру и культуру, которая позволит планирование перемен, управление ими и их ускорение, являются теми, которые будут процветать.

Надо следить за глобализацией и ее эффекты. Все меняется с новыми возможностями и азартами.

- Двигаться к небольшому и предпринимательскому, а дальше от большого и бюрократического предприятия.

- Помагать большим работам в рамках и вне рамок предприятия, пользуясь консультантами и другими, которые дают новые возможности.

- Для успеха надо иметь и лидерство наряду с менеджментом.

- Немало работ позволяют предприятиям отметить свою ловкость.

- Надо повысить способность и возможность конкурировать, иметь высокие стандарты, также и желание за победой очень важное ныне и в будущем.

- Никогда не перестать с попытками обеспечить рост, а учение на протяжении всей жизни становится все важнее для делового успеха.

Организации, которые не понимают, что идет речь о дисконтинуитете и не находят своевременно новые способы удовлетворения потребителей, входят в так называемую "мертвую спираль". Быстро теряется доля рынка, а те, которые уже приспособили, взяли на себя потребителей.



Drucker⁷⁷ считает, что причина, которая приводит к кризисам в больших и успешных предприятиях, в том что их теория бизнеса больше не валидна. Под теорией бизнеса он подразумевает предположения о рынках. Они относятся на идентификацию потребителей и конкуренции, их поведения и стоимости, на технологию и на сильные и слабые стороны предприятий.

Под кризисной деловой ситуации подразумевается такое положение в котором находятся под угрозой жизненные интересы предприятия. Такая ситуация требует быстро реагировать, что уменьшает возможность выбора разумного стратегического варианта. Однако, требуется быстрое конкретное действие, чтобы преодолеть кризис или смягчить его. Главным образом прибегаются к мерам экономии и введения лучшей системы контроля.

Последствия кризиса на предприятие могут быть позитивные и негативные. Некоторые смотрят на кризис как на опасность, а другие как на возможность. По некоторым мнениям кризисный менеджмент должен заниматься планированием в случае кризиса в целях минимизации потерь и как можно быстрее вернуться к нормальной работе. Для некоторых менеджеров кризис представляет ситуацию, когда ставится под вопрос существование предприятия, а для других каждая деловая ситуация в которой под вопросом осуществление определенных целей предприятия. Отмечена необходимость проведения различий между кризисами, которые ставят под угрозу существование предприятия и тех, которые подрывают существование.

Анализ некоторых результатов о принятию решения очень успешных менеджеров прежде всего показывает, что у них очень активное отношение к риску. Вопреки предположению нормативной теории, что окружение нельзя контролировать, менеджеры считают, что они могут влиять на условия ведения бизнеса, а также и контролировать риск делового решения. Это они достигают своим глобальным подходом к проблемам и их периодическим повторным определением, пользованием интуицией и открытым отношением к окружению.

Стратегию иногда можно определить как способ коммуникации предприятия с окружением, то есть каким способом отвечает на его "сигналы", позитивные как шансы или негативные как угрозы.

⁷⁷ P.F. Drucker: The Theory of the Bussines, Harward Bussines Review, 1994, str 96.



В мире постоянных перемен, наблюдающаяся система должна приспосабливаться к ним (реактивное поведение), предвидеть их (проактивное поведение) или вызывать и вести перемены (активное поведение).² Таким образом проблемы, вызванные переменами трансформируются в шансы, возможности для роста и развития системы, а решения более адекватные, надежные, качественные. Успешные предприятия находятся в постоянном процессе перемен и учения.³

Один из самых лучших современных методов стратегического анализа – SWOT- анализ, который дает анализ внешнего-конкурентного и внутреннего окружения, позволяя преимуществам системы выйти на первый план в связи с шансами из окружения. Цель SWOT- анализа выделить главные шансы и угрозы в идентификации ключевых аспектов способности организации в целях обеспечения силы и обозначения слабости в реагировании на перемены в окружении. В рамках его находится основа для конкурентного преимущества, стратегического выбора и аспектов применения твердых и мягких компонентов.⁴

В начале 90-х годов прошлого века появился реинжиниринг как средство менеджмента, чтобы экономика и менеджмент попытались ответить на измененные требования окружения. Реинжиниринг подразумевает вернуться к самому началу, то есть отыскать лучшие способы выполнения работ. Как современный подход путем которого совершаются перемены, относятся к процессам, а не к предприятиям. Далеко идущие организационные перемены проводятся, как правило, ради изменения конкуренции и новых требований потребителей. Реинжиниринг деловых процессов обуславливает перемены целой организации, и она меняется от традиционных вертикальных, функциональных моделей к междифункциональной структуре, направленной на процессы. Управление переменами представляет новую концепцию в современном менеджменте, который уважает факт, что сегодня быстрые перемены специфический указатель времени в котором мы живем, и что предприятие нельзя эффикасно работать и развиваться, если не шагает в ногу с переменами и если не пользуется ими. Приспосабливание к переменам – условие для успешного управления предприятием. Хорошие менеджеры должны быстро замечать перемены в окружении, анализировать их и осуществлять их в своем предприятии. Хороший менеджер должен преодолеть отпор переменам и создать атмосферу в своем предприятии для перемен. На перемены надо смотреть не как на угрозу, а как на шанс.

Инновации и перемены ключевой фактор успешного управления предприятием, так концепция управления переменами представляет нынешнюю и будущую управляющую концепцию, которой пользуются в мире и которая должна быть использована нами.

Концепция управления переменами значит увидеть и ввести перемены в организационной структуре предприятия, производственной и рыночной стратегии, стратегии развития предприятия, способе управления, пользование кадровских и других ресурсов, введении и пользовании знаний и так далее. Эта концепция подразумевает



понимание и анализ всех перемен в среде, ожидающих предприятие, и сообразно этому предприятие делает изменения в своей организации, стратегии, деловой политике и так далее, чтобы лучшим способом приспособилось наступающим переменам.

Концепция управления переменами зависит от менеджера и его подхода и реагирования на перемены. Поскольку менеджер способен быстро заметить и реагировать на перемены и если ему удастся побуждать и осуществлять перемены в своем предприятии, ему удастся успешно управлять предприятием.

¹ P.F. Drucker: The Theory of the Bussines, Harward Bussines Review, 1994, str 96.

² I. Adižis: Upravljanje promenama, Grmeč- Privredni pregled, Beograd, 19 94.

³ M. Guzalić:, Sistem preduzetništva, Ekonomski fakultet Brčko, 2005. str. 98.

⁴P. Kotler: Marketing menadžment, Analises, Planning Implementation and Control, 8 edition, N.J.Prentice-Hall, 1984, str.72.

Менеджер должен обладать лидерскими качествами, знаниями и способностями, которые предоставят ему возможность преодолеть перемены. Он не смеет быть консервативным в своем подходе и не смеет бояться изменений, пытаясь сохранить текущее положение. Он должен смотреть на перемены, как на шансы для улучшения положения и позиции предприятия.

ПРИЧИНЫ КРИЗИСА

Причины кризиса сигналы, которые нам посылает наше внутреннее или внешнее окружение. Их надо во-время заметить и адекватно реагировать, что предприятие не попало бы в кризис. У большого количества предприятий установлено, что нередко причиной кризиса является отпор принятию новых деловых направлений и деловой политики со стороны предприятия. Флексибельность предприятия и готовность принятия новых программ и новой деловой политики являются условием существования на сегодняшнем рынке.

Вопрос причины делового кризиса охватывает познание структуры и взаимозависимости причины и последствия. Более четкое познание причины дает возможность более деятельное введение мер по оживлению.



Существует множество причин, которые могут вызвать деловой кризис. Как и на формирование организации влияют внешние и внутренние факторы, так и причины кризисов можно разделить на:

- Внутренние причины кризисов
- Внешние причины кризисов

Внутренние причины кризисов:

- ресурсы,
- организационная структура,
- коммуникационная политика,
- неадекватное планирование деятельности,
- недостатки в системе контроллинга,
- миссия, видение и цели предприятия,
- персонал.

Внешние ресурсы, влияющие на вопрос кризиса и его развития:

- правительство и его регулятивы,
- иностранные группы,
- конкуренты,
- поставщики,
- акционеры,
- терроризм,
- стихийные бедствия,
- информационная технология,
- СМИ,
- потребители.

Важно подчеркнуть, что эти элементы взаимно обусловлены и работают интерактивно.



ВЫВОД

Ничто не вечно кроме перемены и именно перемена дает возможность осуществить что-то новое и что-то другое. Быстрота и сложность сил изменений, которые находятся под нашими деловыми субъектами, огромные и устрашающие. Большое внимание уделить среде и большому окружению, изучить причины кризиса и адекватно применить к предприятию, принимая во внимание, чтоб это были реальные перемены, которые могут осуществиться в определенной сфере деятельности. Именно перемены представляют самый большой вызов для следующего столетия для всех деловых людей, ориентированных на будущее. Предприятия сталкиваются с новыми вызовами на которые трудно успешно реагировать интерментальными переменами в объеме и структуре деловой деятельности. Что такое кризис на самом деле? Некоторые на кризис смотрят как на опасность, а другие как на возможность. Так как предприятие, которое приспосабливается к переменам на рынке, то есть оно на самом деле инициатор перемен, кризис понимает как возможность, в то время как эти предприятия, которые не приспосабливаются к переменам кризис понимают как опасность. По некоторым мнениям кризисный менеджмент должен заниматься планированием в случае кризиса в целях минимизации потерь и быстрого возвращения к нормальной работе. Именно приспособление к переменам создал новую концепцию в современной деятельности, а это "управление переменами", который уважает факт, что сегодня быстрые перемены специфический указатель времени в котором мы живем и что предприятие нельзя эфикасно работать и развиваться, если не шагает в ногу с переменами и если не пользуется ими. Приспосабливание к переменам – условие для успешного управления предприятием. Концепция управления переменами влияет на менеджмент, и он должен уметь приготовить людей на перемены, разбить атмосферу, которая владеет среди людей, что перемены ставят под угрозу положение отдельного человека. Перемены должны стать частью работы отдельных людей и стиль управления менеджера. Неспособность приспосабливаться к переменам вызывает проблемы в работе, а проблемы тянут вопрос кризиса для одного предприятия. Цель каждого предприятия – управление переменами. Причины кризиса сигналы, которые нам посылает наше внутреннее или внешнее окружение. Их надо во-время заметить и адекватно реагировать, что предприятие не попало бы в кризис.

Когда предприятие попадет в кризис, оно должно разработать свою стратегию выхода из кризиса. В настоящее время существует большое количество различных стратегий, однако, предприятие должно формировать стратегию, которая лучшим способом поможет его преодолению возникших проблем в деятельности.



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CORPORATE MANAGEMENT AND SOCIAL RESPONSIBILITY IN SERBIA

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Abstract:

At the time of severe economic crisis, the Government of the Republic of Serbia in July 2010 adopted a strategy of corporate social responsibility, primarily, to promote this business concept and later its full implementation in business organizations of all kinds. In our country, few people dealing with this subject, which is a major barrier to implementation of such concepts. However, large and powerful companies, particularly those present in our country, should be „the leaders“ who will run the application through their own strategies and practice and be an example to others, especially the public sector in which the degree of knowledge about this concept is very low. Development and implementation of the concept of social responsibility in our area is hampered by the poor, economic, social, and political conditions, and along with that there are inherited bad practices, the mentality, and culture of business people.

The aim is to emphasize the importance of social responsibility concept because its implementation provides a balance between the economic interests of organizations, socio-economic prosperity of the state and numerous aspects of the wider community, such as foreign market, protection, and preservation of the environment, conserving natural resources, etc. In this way, society i.e. people are going to meet their immediate needs and in doing so will take into account the needs of future generations in the right way.

Keywords:

management, corporate social responsibility, business ethics

INTRODUCTION

Today, in the business world, and in the world in general, nothing is constant, such as constant changes. Pace of change is very great because everyone aspires to success. In order to reach business success it is necessary to perform the job properly. Manager, leader, boss,... is the one who is paid by the employer - the company's owner, to ensure that others do their job i.e. he/her



is directing his/hers subordinates through a process of discreet surveillance, to get the job done in the right way. As P. Drucker said, „it is science and art of managing people. “

Since '90s of the twentieth century, there were many talking and writing of management in Serbia, some of that was partly applied in practice, while social responsibility and business ethics bypassed practices. There are many reasons for this, and one of the most important is the failure of the economy and the lack of large and powerful organizations that could perform a crucial impact on preventing the application of social responsibility. For business ethical judgments and social responsibility it is necessary to meet the minimum, i.e. to provide a strong economic base and respecting law that regulate certain business activities of companies, prescribed by the state. Corporate social responsibility is a kind of business through which organizations achieve their economic objectives (profit), and the social, i.e. objectives imposed by the environment or wider community in which they exist. Therefore, it is an investment made by the organization in order to enhance its long-term value and competitive position in the market. To achieve that, organizations need to gain the trust of the environment, i.e. to obtain organization - environment feedback. The basis of social responsibility is the relationship of the organization to employees, owners, primarily to consumers, the state, environment, etc. and all other actors with which the organization achieves direct or indirect contact.

Analyses show that on the issue of implementation of social responsibility in Serbia there are only sporadic cases, there are no wider researches from which to draw conclusions, which should tell us at what level development and the applicability of the concept of corporate social responsibility is. In terms of management and related phenomena, Croatia has made great empirical research.⁷⁸ The survey showed that of the first five undesirable characteristics of managers in Croatia, dishonesty takes first place at all hierarchical levels of management, followed by: the tendency to gossip, unethicity, bias, etc. At the same time, respondents considered honesty as the most important moral trait.

Bearing in mind the similarity in the business and cultural - sociological being of business people in Serbia and Croatia, and that both countries have lived for decades in the same political - legal environment, that both countries are in the transition process, the conclusion of honesty is more or less acceptable in Serbia too. This is not just about common problems in business and life, such as bribery, corruption, fraud, irresponsibility, etc. it is about disturbed system of social values in which unethicity, irresponsibility, and similar things has become an integral part of life and work of most of the population.

⁷⁸ The research was conducted and processed under the supervision of two eminent experts in the field of human resources,

Pero Sikavica and Fikreta Bahtijarević in the study entitled *“Menadžment, teorija menadžmenta i veliko empirijsko istraživanje u Hrvatskoj,”* Masmedia, Zagreb, 2004., pp. 270 - 274th



CORPORATE MANAGEMENT AND SOCIAL RESPONSIBILITY IN SERBIA THROUGH HISTORICAL ASPECT

The need for responsibility and ethics Serbia has realized some 127 years ago. In that time, the Serbian government paid its attention to the state, artisan, trade, banking organizations that had governed the rules of functioning and their code of conduct. The most striking example is Serbian Railways. In 1884, in Serbia time rail transport was introduced – it was an event of historical significance. The introduction of this service, which was at the level of other European railways, was accompanied by the appropriate ethical framework, as well as social responsibility for its conduct. Normative acts were adopted, namely: 1) The railway-police law of 1884 that prescribes elements of social responsibility in terms of railway operation and safety; 2) Regulations for railways which prescribes duties and rights of staff and, 3) The first code named „*The behavior of the transport staff towards passengers*“ in 1931.⁷⁹

During the '70s, in former Yugoslavia, whose members was Serbia, the concept of workers' self-management was introduced formed whose basis was social ownership and self-organizing. This meant that those who produced (employees) are the carriers in the distribution of produced effects, not the subject based on ownership.

Responsibility for the fate of the organization took over the workers through their self-managing bodies i.e. works councils. The Law on Associated Labor stated that the main purpose of the organization is not profit but realization of a self-management, social socio-economic relations.⁸⁰

In this way, full security of staff was provided, there was no possibility of easy dismissal, and there were mutual funds, solidarity funds, and then funds for financing and investment in general social needs. In the period of self- management, a significant progress in the socialization of the organization has been recorded. The famous scholar of business ethics R. T. Di George said, „Workers' self-management was an experiment that was performed with some success in the former Yugoslavia. Its other forms successfully apply in Sweden. Several experiments such as informing of employees about overall operations of the company and using teams rather than individuals to working on the assembly line in manufacturing, also proved to be somewhat successful and deserve careful study as a future model for future development.“⁸¹ Therefore, in this period a social responsibility was on the workers who were deciding on their fate. There was a high level of ethicity, immoral actions appeared to a lesser extent, which will later get the diversity. No matter this project is not survived, it showed its quality in the treatment of employees, relation to the wider community, solidarity, etc.

⁷⁹ „Ponašanje železničkog osoblja prema putnicima“, Generalna direkcija državnih železnica, Beograd, 1931., str. 1

⁸⁰ Zakon o udruženom radu, Službeni list SFRJ, 1976, član 1.

⁸¹ R.T.Di Džordž, *Poslovna etika*, Filip Višnjić, Beograd, 2003, str. 626.



BUSINESS ETHICS AND SOCIAL RESPONSIBILITY IN SERBIA TODAY

According to public opinion in Serbia on corporate social responsibility, public had no awareness of how and in which way can and should be responsible for the good of society, and also does not see the connection between business and ethics.⁸² Awareness of the Serbian population on the importance of corporate social responsibility towards the environment and the organization of society, in general, is very low so it makes the process of introducing and encouraging social responsibility very hard. The lack of ethical and socially responsible business components in Serbian enterprises, institutions, and individuals can be illustrated with examples in practice. 8. February 2011 in Belgrade, the Serbian Police have arrested two doctors, neurosurgeons for the crime of accepting bribes. They are suspected of having, on several occasions, demanded money from patients to perform surgical procedures.⁸³ Both have denied they took bribes, saying they do not know why they were arrested. Meanwhile, the leadership of Clinical Center of Serbia where suspected doctors were employees reacted and suspended them. In January 2002, Serbian police said they arrested a former director of Elektrodistribucija Beograd (EDB) was arrested on suspicion of having committed criminal acts of misconduct and neglect of business in the economy. The legality of its operations, financial operations, and the use of EDB funds was suspicious. In addition, criminal charges were brought against leaders of the Elektrodistribucija Beograd and owners of private companies that have cooperated with them. It was found that the former director gain the enormous material benefits, bought 30 houses, flats, and business premises in Belgrade.⁸⁴ Thus, socially irresponsible and unethical business is the result of inherited social relations and values. In 1990's of the twentieth century wars in the environment, lack of subsistence products, runaway inflation, illegal acts, etc. led to a complete crisis of society and its morals.

THE NECESSITY OF ESTABLISHING CORPORATE MANAGEMENT AND SOCIALLY RESPONSABLE BUSINESS IN SERBIA

According to the above mentioned, it is obvious that Serbia has a need to introduce socially responsible value system and the introduction of corporate management that works in developed countries. Serbia, as well as any other state, is characterized by specific cultural -

⁸² www.smartkolektiv.org

⁸³ Zvanična prezentacija Vlade Republike Srbije, www.srbija.gov.rs

⁸⁴ Časopis „Vreme“, br. 579, 7. februar 2002., <http://www.vreme.com/cms/view.php?id=307308>



social, self, and historical heritage, customary features and business - the legal system. Many outdated values are retained, and new ones were not accepted or is it done under pressure from international organizations and legal regulations.

Serbia, like other countries in transition, has a greater need to apply the experiences of developed countries in terms of ethics and moral responsibility, because in most segments of the economy and society is at stake. Firstly, it should accept European values, because this is the path to integration into the European Union and the road to accession to markets of developed countries, i.e. to the global market. Accepting of corporate management and making ethical business decisions of individual organizations will be committed in relation to the other, arising from the concept did not accept, and build the image of responsible organizations. Such organizations staff themselves come, are more motivated to work longer to keep. Acting in accordance with environmental protection to create savings, create new markets, achieve a better contact with the environment, etc. In doing so everybody wins, and the organization and environment strengthen their symbiosis.

PROFESSIONALIZATION OF MANAGEMENT

„Many executives from the former Yugoslavia for their failure were blaming negotiated economy. After elimination it, the reasons are sought in the environment and lack of understanding of the world. U.S. economic sanctions were blamed for ineffective functioning of many organizations. After suspension of sanctions, many managers stressed that they must get used to life without sanctions and that it takes a certain period of time for that. By all accounts new reasons and formulas for failure will be searched for. It can be argued that the reasons for any problems amateur directors will not find in your own being and disabilities.“⁸⁵ The above mentioned is one of the reasons for failure of the Serbian economy and the cause of immorality, and corporate social irresponsibility. Full integration of professional management would lead to changes in the style of management and bureaucracy would switched to the softer style of management, which treat human resources as the most important resource to which is treated with respect and confidence in relation to work. In Serbia, in the last decade high business schools and universities produced many professionals with title of managers, managers-specialists in certain fields, such as trade, banking, tourism, communications, etc. Therefore, professionalism solves corporate performance that is the basis for social responsibility. Potential of managers constantly must be refreshed, through trainings, professional trainings, specialized scientific and professional meetings, etc.

⁸⁵ Radosavljević Života, Tomić Radovan, *Menadžment u modernom biznisu*, BBO, Beograd, 2006., str. 142.



Professional management through personal example (attitudes and practices) is an indicator of employees' behavior, as a tool in the management of social responsibility. Employees behave in the same way managers behave. Codes of ethics or standards have been formulated in most organizations, but these are not respected because of sanctions are minor. Ethical codes are variable category, must be updated as operations of an organization innovate.

BUSINESS TRANSPARENCY

As long as there are situations in which the profits of companies and public interest are in compliance, while company and owners of capital getting profit, i.e. shareholders of the positive effects of corporate social responsibility is not questioned. Nevertheless, as the company exploitation of natural resources is limited, society and the environment will pressure of responsibility and transparency in the work and reporting. It is in fact a communication of a company with the public. „What is the communication (transfer of information, transfer and understanding of meaning and knowledge, ideas exchange, attitudes, values, opinions and facts, etc.) is more functional, they are more likely to achieve organizational goals.⁸⁶

The public can be informed requesting information directly from companies or using the resources available to the public, for example, data on the Web site. The main requirement for this type of communication is the existence of the willingness of corporate management and transparency in reporting it. In Serbia, transparency is still not fully observed, because the number of reports, ranging from financial, investment and others, adjust and kept as the biggest secret. In addition, at state level has not built the responsibility for the operation of public authorities.

However, in addition to Serbian government and individual companies, there are independent organizations (e.g. SMart Kolektiv) involved in promoting and establishing a corporate social responsibility, development of social communication and linking of different stakeholders. The goal of these organizations is to create a database to identify best practices in respect of corporate social responsibility and to stimulate it. Good examples of corporate socially responsible business:

- Japan Tobacco International is a major donor of the first specialized living for adults with disabilities in Belgrade;
- Coca-Cola Hellenic is listed on the Dow Jones Sustainability Index because it applies the high standards in business, environmental and community development in 28 countries worldwide;

⁸⁶ Miljević Milan, *Poslovna etika i komuniciranje*, Univerzitet Singidunum, Beograd, 2010., str. 285.



- Delta Maxi Group, through numerous actions show their commitment to socially responsible business, for example: bank of food, Health comes through the mouth, Promotion of healthy eating habits of children, Support for young artists, and many more;
- Telenor company is one of the first in terms of respecting social responsibility in Serbia with a number of actions. One of them was the construction of Telenor Internet Parks in order to develop information literacy of citizens of Serbia and the availability of the Internet to as many people, and many other actions.

RESUME

Management has now become more important than it ever was before. Its task is to organize human resources in turbulent times, an organization that makes it unique and different from each other, which represent a competitive advantage. Management is managing people, people only. In Serbia that is underestimated, because the current situation regarding to corporate social responsibility is adverse. There is no successful environment, if corporate management has not carried out its primary role that is the success of corporations, their survival, growth, and development. However, in Serbia there is awareness and the need to establish corporate responsibility of the same management. Serbia must use the experience of Europe on the principle of „best fit“, i.e. taking into account the specifics of the Serbian national, socio - cultural, religious, customary, and other creatures, then our experiences from the workers' self-management. It must be done to promote their own social values in order to better understand our world and our economy could work better. Turbulence, uncertainty, increasing demands and expectations in all spheres of life and work, by interest groups, each day is increasing. In order for the corporation to be successful in such conditions, i.e. to attain the expected results, increasing its value and competitive advantages, must gain the confidence of the wider community and must not cause damages for generations to come. Finally, corporate management in Serbia can and must play an important role in promoting positive business practices and social responsibility. Companies need to show its performance through economic prosperity, environmental quality, and wealth of the community.



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DIVERSITY OF EMPLOYMEES AS A FACTOR OF COMPANY SUCCESS

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Abstract:

Managing workforce diversity, i.e. human resources has recently gained importance in human resource management, particularly in countries of developed democracy and markets. Such delay is unreasonable, given that people are different and that on Earth there are no two same human, so the problem of managing a variety of people should be earlier discussed. Problem of managing diversity is still present in the classical management and organization, where people are perceived as machines, i.e. in developing, transitional, and non-democratic countries. This problem also exists in Serbia as a multicultural and multiethnic country, and as a country in transition.

The aim is to show the phenomenon of diversity as an important factor in achieving corporate success and to prove that a variety of employees above all is a chance, which is not exploited.

Keywords:

management, diversity, workforce

INTRODUCTION

Management diversity include things such as recruitment, training, promotion, and taking advantage of individuals in different dreams, beliefs, abilities, culture and so on. Today the differences mean much more than skin color or gender. These differences include religion, age, degree of disability, military experience, sexual orientation, economic class, education level and lifestyle, and so on. The essence of diversity management of human resources is in determining the meaning of diversity and management skills, as well as an organizational processes involved in successful management of diversity in human resources. In the above mentioned, social, demographic and economic changes of employment as reasons for these changes are explored. Managing diversity is not new or future managerial issue. In the late 1800 to early 1900, most groups that have immigrated to the United States were from Italy, Poland, Ireland, and Russia. Members of these groups were perceived as people who remain on the sidelines i.e. foreigners, because they did not know English language, or had different customs and different working style. They often fought violently to be adopted by companies dealing in steel, coal, automobile manufacturing, insurance, and finance. At the beginning of the nineteenth century, it was seen



as unproductive work for white Protestants, in which insurance company dominates, employing Irish, Italians, Catholics, or Jews. In the sixties, the struggle for acceptance by the various ethnic and religious groups has succeeded. The moment when the white male members of different ethnic and religious groups joined the company successfully, a space was created for the next "outsiders": cultural and racial minorities and women. Today, more than half the labor force in America consists of people who are not white, male born in America. In the future, we expect a continuation of this trend.

DIVERSITY IN MODERN CONDITIONS

A man is only consciously but also unique and unrepeatable creature. All humans are similar in their anatomical and physiological characteristics, but also differ in their intellect, knowledge, skills, and abilities.⁸⁷ Thus, individuals and different groups share common values, behaviors and beliefs, but they also have significant differences. This makes the problem more complex, bearing in mind that even within individual groups (whites, women, disabled, homosexuals); there are also differences, often greater than those that exist between individual groups. An example, there is a greater difference between the three groups of Asians from Thailand, Hong Kong, and Korea, but between Whites African-Americans and Asians born in Chicago. Diversity of its workforce consists of the following components and parts, as follows:⁸⁸

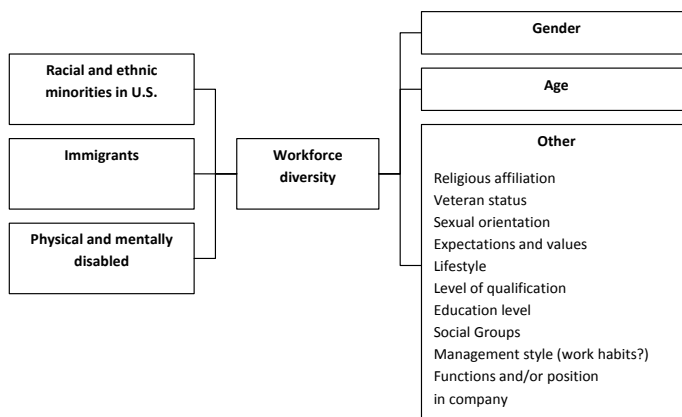


Figure 1 - The components of diversity of human resources

⁸⁷ Ž. Radosavljević: „Menadžment medicine ili medicina menadžmenta“, Stylos, Novi Sad, 2004

⁸⁸ Prema T. Bateman and S. Snell: „Management - The New Competitive Landscape“, Mc Graw Hill-Sixth Edition, Boston, 2004. p. 331.

From this figure implies that groups of employees have some common, but also a number of special characteristics and peculiarities. Managing diversity means not only tolerating or accepting all kinds of differences, but also supports in order to really benefit from this diversity of organizational improvement and achieving competitive advantage in the market. In developed democracies and markets it shows that business has no alternative and that companies are forced to use a diverse workforce. Accordingly, managers of all levels and functional areas must learn to manage a diverse workforce. Successful will be those who accept this philosophy before, but that the establishment of better strategies to manage differences of philosophy. In this context, companies organize courses for obtaining skills for managing diversity, but also for employees to acquire basic knowledge about diversity, and to increase awareness and understanding, and raising greater business success.

Surveys conducted at the end of the last millennium have shown that companies that have developed diversity training programs have greater success. Even in 8% of cases, it was estimated that these programs are highly effective, 22% as effective, while only 2% of respondents said that the programs and the effects achieved are inefficient, as can be seen from the following review:⁸⁹

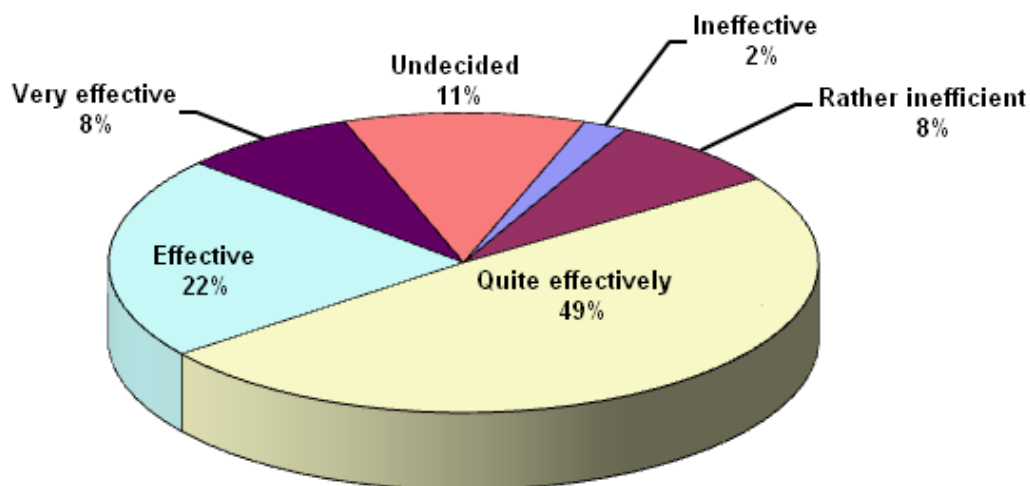


Figure 2 - The impact of staff training on diversity to the success of the company

⁸⁹ H. Lippman: „*Harnessing the Power of Diversity*“, Business and Health, june 1999



Training programs on diversity are trying to identify hidden value and develop the skills necessary for managing a diverse workforce in an efficient manner. Traditionally, most management training is based on the assumption that "management" means managing a homogeneous workforce, often composed of white men. However, gender, race, culture, and other characteristics create an additional layer of complexity, but impose the need for the creation of special training programs at different levels of the organization. It shows that over 50% of U.S. organizations sponsoring some sort of training on diversity. Training is mainly focused on building awareness and appreciation of the necessity of diversity, as well as building skills in communication with different cultures, religions, mentalities, and so on.

GOOD SIDES OF MANAGING DIVERSITIES

In the past, the phenomenon of diversity approached from moral and social responsibility aspects. Legislation in developed countries also promote diversity, especially through the sanctioning of the many forms of discrimination, and in that way many companies avoid paying high court charges if the companies were convicted of discrimination. The study of the *Odeljenje radnog instituta Stakleni Svod* has shown that shares of companies that have devoted significant goals related to diversity, increased twice as compared to those that have neglected variety and diversity.⁹⁰ Advantages and disadvantages of managing diversity can be presented in the following relations:

Table 1 - Advantages and disadvantages of managing diversity

Advantages	Disadvantages
- Meets social responsibility	- Low cohesiveness
- Helps in attracting, retaining and motivating employees	- Communication problems
- It promotes creativity, innovation and solving problems	- Distrust and tension
- Generates more knowledge of the diverse market	- Stereotypes
- Increases organizational flexibility	

⁹⁰ K. Labich: „No More Crude at Texaco“, Fortune, Septembar, 6, 1999, p.p. 205-212



Fulfillment of social responsibility. This reason is gaining in importance, because the equality of ethnic, religious, and other groups and individuals is appreciated, considering that this is a universal human value that is proclaimed at the global level.

Ability to attract and retain employees. Companies that provide opportunities for employment of individuals have higher ratings, and more choices for the recruitment and selection of top quality personnel. On the other hand, when employees believe that their differences are not only tolerated but also valued, can become more loyal, more productive, and more committed to the company, leading to greater corporate success.

Better perspective on the various markets. Companies such as Avon, Prudential, Eastman Kodak and Toys "R" US are committed to diversity, because as the demographics of the American workforce changes, so does the customer base of these companies. Just as women and minorities may prefer to work for an employer that values diversity, they may also prefer to protect such organizations.

Ability to use creativity and innovation in solving problems. Diversity of staff promotes creativity and innovation, as people of different backgrounds, experiences, level of education have different access to various issues. Diversity gives a higher quantum of experience, different opinions, which create greater potential for larger color alternatives, and thus more solutions to specific problems. Therefore, when well managed diversity leads to more options and make more decisions than homogeneous groups does. Above this, various groups are free to step down from traditional approaches and practices. The presence of diversity can also help to minimize "group think".

Strengthening organizational flexibility. A diverse workforce can enhance organizational flexibility, since successful management of diversity requires such a corporate culture that tolerates a variety of styles and approaches. Less attractive policies, procedures, and less standardized business methods, enabling organizations to become more flexible and thus be able to respond quickly to changes in the business environment in which it works. Executive officers of PepsiCo, Verizon, Kodak, and Prudential are particularly encouraging for the realization of the company's success through a variety of labor. Thus, companies that achieve the same success in business will vary by the level of diversity, and the company that employs individuals of different ethnic and other characteristics will be more valued.



NEGATIVE SIDE OF MANAGING DIVERSITY

A diverse workforce can be a major problem for management. Many of the problems that are briefly presented in the previous table can be converted into advantages, which will depend on the professionalism of the management structures and a willingness to accept diversity as a reality in the modern world.

Lower cohesiveness. Diversity can create a lack of cohesiveness. Cohesion refers to the way that group is linked and the extent to which members of the group observe, interpret, and act upon their environment in similar or mutually agreed upon manner. Because of differences in language, culture, and/or experience, diverse groups are typically less cohesive than homogeneous groups. Often the mistrust, misunderstandings in communication, stress, and differences in attitudes reduce cohesiveness, which in turn may reduce productivity.

Communication problems. Perhaps the most common adverse effect of diversity is a problem in communication. These problems include misunderstanding, inaccuracy, inefficiency, and slowness. Speed is lost when group members do not speak the same language fluently, or when you need extra time to explain things. Namely, group members may interpret the same things in different ways and different things the same way.

Distrust and tension. People prefer to identify with others. This tendency often leads to mistrust and misunderstanding of those who are different due to the lack of contact and poor command. This also causes stress and tension and can be very difficult to reach agreement on the problem. The problem of distrust is complex when in the past was conflicts or bad events, particularly among individuals and groups who are willing to forgive or forget.

Stereotypes. Slave to stereotypes, and ensuring that the world is watching based on learning and experience is a big problem in today's world. It turns out that we often see and hear what we expect to see and hear, not what is actually happening. Group members often inappropriately create stereotypes about their "different" colleagues, when they do not recognize and do not accurately assess their individual contributions, capabilities, aspirations, and motivation.

Stereotypes on the other hand affect the treatment of people. When the employee created a stereotype that they are unmotivated or emotional, they will be assigned to less stressful jobs in contrast to other colleagues. These business objectives will create frustration among employees, resulting in underutilized skills, and thereby reducing the effects of the business.



RESUME

The diversity of human resources in business systems can be a problem, but a great opportunity to achieve greater competitiveness and thus greater profitability and success. Practice shows that successful companies are now paying great attention to diversity of the workforce, not only because discrimination is unacceptable behavior from a legal standpoint, but also because the quality management of diversity can achieve greater business success.

Serbia, as a country in transition has not paid enough attention in promoting diversity in the hiring workforce, by national and religious, gender, and other characteristics. By joining the EU, Serbia will face this problem, and the most efficient way for the introduction of various labor forces is in the professionalization of management and promoting values that condemn discrimination against employees on any basis.

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THE NECESSITY OF PROFESSIONALIZATION OF PUBLIC SECTOR MANAGEMENT

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Abstract.

The public sector is one of the most sensitive areas of each state. As such, exists in every society, regardless of the type of structure, size, development land, etc. The way in which the public sector is organized and how well function, can be taken as a criterion for assessing the level of organization of each community.

It turns out that the management of public sector is far behind in relation to the management of business and profit organizations. The paper will consider the situation and the possibility of improving public sector management, through the professionalization of management, to enhance the business performance of public sector in Serbia, a country where public sector management is not present enough.

Keywords:

public sector, professionalization of management

INTRODUCTION

Research shows that the public sector is far behind in terms of marketability and functioning of the modern business principles. In the broader context of the public sector should include public enterprises and other state institutions and organizations that on behalf of the state provide certain services, or are engaged in the production of certain products and services. Typical examples are power supply, post office, railways, hospitals, utilities, public administration, educational, cultural and other systems that are under the jurisdiction of the state.

The result of this should be sought in the undisputed fact that state institutions and public enterprises are not subject to competition and to citizens as users of public services often do not have alternatives to their use. The main question in public enterprises and institutions is the policy of prices, given their monopoly position. The following sections in public enterprises impose greater need social control, than in others, especially private enterprises. Thus, the public sector is monopolistic focused, because the jobs can be done only in state



institutions and at the predefined conditions and procedures. Therefore, the state entities may act contrary to the behavior of business organizations. They are not forced to fight for the buyer, as is the case in business and market-oriented organizations, because of the monopoly they have in performing certain activities. The epilogue of this is known, and that is smaller business efficiency. It turns out that in many cases state has become weaker than the large transnational and multinational companies have and these companies play a decisive role in the conduct of certain national, and policies at the global level. An example of a large American retail giant Wal-Mart confirmed it, because its total turnover of gross domestic income exceeds the gross income of Benelux countries i.e. Netherlands, Belgium, and Luxembourg.⁹¹ To this, another alpha plus should add, and that is insufficient professionalization of management in the public sector, with the dilemma of whether the underdevelopment of public sector is cause, or consequence of non-professionalized management. more complex problem makes the fact that in some countries of transition occurs attitude, which is increasingly transformed into official policy, that is the ideology and the politicization of public sector management, which goes to the cheap politics, as the opposite to policy. The most extreme view is that the public sector can be left to political leaders, or people of certain political options and that should not be managed by professionals i.e. managers. It is clear that in this way create the conditions for public companies, as well as other state institutions rather be a function of certain political options, and enable numerous privileges of the party to which they belong and less or not at all a function of general interest for which is also established.

PUBLIC SECTOR IN MODERN CONDITIONS

A deeper analysis shows that the state or the public sector should be viewed like any other business system. Therefore, each organization has its own inputs, transformation processes and outputs, which are expressed through products, or services. Each country is trying, or at least should be trying, that with minimal inputs achieve the greatest possible value of output. This means that the first plan has put the economic dimension of the organization, which is natural, because the realization of the economic effects of the condition for further operation of any organization. To what extent does it realized in a higher level, so much the state will, like any other system to be acceptable, because with the lowest economic victims defined social goals achieve. Accordingly, each state must be viewed like any other company, in which are carried out almost all the functions that exist in any enterprise, namely: technical, economic, and social. The state has to satisfy the provision of citizenship and to collect certain amounts, indicating a need for pre-defined number, type, and scope of services that states must provide. In general, they are unattractive or unprofitable activities that are not interested in the private sector, or

⁹¹ Radosavljević Života: „Trgovinski menadžment“, CERK, Beograd, 2007., str. 334.



sectors that are sensitive and risk to life, health, and general security of the country. Everything else can be privatized or separated from state influence and thus reduce the number of „leeches“ who suck the material budget. Of course, the state like any other company can go bankrupt, and it will happen, if not able to respond to the tasks and challenges put before it, or if the outputs are less than inputs. In this case, measures as with any other company are taken, provided that the state cannot be liquidated, because there are common or general interest for which there must be a central authority that will articulate those interests. In other words, inefficient state must be restructured by the depth and breadth of the company, dismissed the government that has failed to meet goals and expectations of citizens, and so on. If the state is viewed in this way, i.e. that it is a complex social and economic organism with which should be well managed, it can be concluded that the state must operate on economic principles i.e. those principles any business organization operates on. This approach addresses the need to expose the public sector in transition countries to market forces, which would lead to the introduction of professionalized management in all parts of the state or in state institutions and public sector. Practical operationalization of this idea is in greater privatization of traditional governmental institutions, as many developed market countries in the West have done and work with, through the liberalization of the energy sector, railways, education, health, culture, etc. Experience and research show that the private sector in the developed countries took over many activities of the public sector and traditional public companies within the field of armament, military equipment, and repair of military hardware, which for decades have operated under the „veil of secrecy“. Private enterprises in defense are now internationalized to the extent that thousands of subcontractors from different countries perform the production of some weapons.

PROFESSIONALISATION OF PUBLIC SECTOR MANAGEMENT

The attitude of major international management gurus on the need of professionalization of public sector is exposed in sentence of the father of management P. Drucker who said, „The public sector is crying out for good managers.“ Research and experience show that the performances of the need for management in the public sector was more like a vision, rather than a strategy for successful management of government organizations and the general public.

There is no need to explain the need for professionalization of management, because it is an obvious and logical. In fact, the professionalization leads to specialization, which is gradually transformed into a craft i.e. professional activity, which has its own technology, like other professions and trades. It turns out that the management is a trade, which considering the success of all other activities and crafts in society, i.e. at the global level and that organizational performance largely depends on it. This creates conditions that management as a craft turns in



something incredible, as a modality in which management in addition to knowledge, skills and abilities use the wisdom to find new technologies to increase business performance.⁹²

Previous facts apply to public sector management too. Therefore, the main reason for the professionalization of the public sector should be sought in the following three facts or elements, namely: (1) crisis and the increased public confidence in the private sector, (2) increased demands for public sector achievements, and (3) the tendency of modernization of public sector, and ensuring that it is up to the time in which it operates.

THE CRISIS OF THE PUBLIC SECTOR AND INCREASED CONFIDENCE IN THE PRIVATE SECTOR

From the theory of economic development is evident that the private sector proved more successful than the sector that is based on a public or mixed ownership. Former U.S. President R. Reagan once warned to this in his statement, „The greatest minds are not in government institutions. If they were, industry would already bought them.“ Hence, the state has lost primarily economic power, and they often become economically weaker than large corporations do. In this context the case that successful businessmen taking political positions, and most important positions as members of the government or its institutions is very often.

For example, in the United States, a prominent businessman Ross Perot ran presidential campaign with the idea to restore the confidence of potential voters. Today it is virtually impossible to imagine any candidate for local or state political office who do not promote their own skills in the private sector as one, sometimes the only, qualified for the position of public office or to conduct a public sector or public enterprise. Presidential elections in the U.S. in 1994 experienced a political novice, including cardiac surgeons, and real estate tycoons, who have dashed into office, promising to lead the government and business that they were doing. An unsuccessful Republican presidential candidate in 1995, Lamar Alexander, grounded his campaign from his personal experience in the private sector, not saying a lot of his position as secretary of education under the government of George Bush, and the governor of Tennessee.

Similar was the situation with the administration of President Clinton. It especially loved the successful entrepreneurs, those who have made their empire from scratch. Finally, Clinton's family deals with trade and investment. It especially had to do with dealings in Arkansas, mostly from the Wal-Mart, Tyson Foods, and Stevens's financial empire. It was noted that Al Gore do the real thing, i.e. visiting *Southwest Airlines* and General Motors *Satur* factory, and

⁹² See: Marković i drugi: „Izvorišta holističke teorije organizacije,“ FORKUP, Novi Sad, 2011., str. 144-146



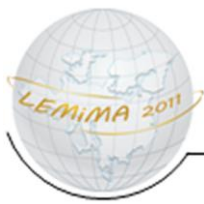
held seminars with business leaders such as Von Beal, chairman of *Harley-Davidson*, and Jack Welch of *General Electric*, and so on. What the degree of confidence in the U.S. government was in the late nineties can be seen from the fact that only 19% of the American public believed that the federal government „is doing the right thing.“ Just 30 years ago, a positive evaluation of the government expressed 76% of citizens. Such drastic drop in is considered by many⁹³ in the fact that public sector „tripped“ in the treatment of consumers. It turned out that public administration often treats the state's services with indifference, not taking into account the interests and needs. The problem is certainly more complex, given that citizens forced to use much of the state services, and that often there are no alternatives. For example, mandatory registration of motor vehicles, transfer of property, insurance, obtaining certain solutions, certificates, confirmations, etc. confirms it. It is clear that the private sector plays in the level of customer satisfaction and often comfort and hospitality in the provision of services becomes the basis for formulating policies and strategies for implementation.

HIGHER DEMANDS FOR THE ECONOMY OF OPERATIONS

Another reason for the increased role of management theory is a common desire to do „a lot with a little“: to continue to deliver public services or service, without spending a larger share of GDP to government officials, and administration. In other words, more and more demand is set to do the right things the right way“. Politicians have noticed that a large number of companies reduced the number of employees on the one hand, while on the other hand, and produce more and better products, which was great signal to accept this practice in the public sector. „Watchdogs“ such as the British Audit Commission and the U.S. Office of Management and Budget repeatedly were giving an example of public sector inefficiency, and still does, to indicate the irrationality, and often the arrogance of spending taxpayers' money. For politicians remained the only option that instead of increasing tax rates, transfer public sector and the ministry of teaching in the professional competence of management, because it was shown that permanent orientation to swell the budget by increasing tax rates and others rates leading state in the state of poverty and social misery. Therefore, the emphasis now is placed on reducing costs through increased efficiency of the public sector.

In the United States, and similar situation is in other Western European countries, there are a number of agencies, which often are a burden for the state administration and are often ineffective. Bearing this in mind, Al Gore in the nineties concluded that agencies need „to justify their continued existence.“ Since 1993 to 1995, the presidency of Democrats reduced the federal workforce by 100,000. Britain has reduced the number of agencies and wants to reduce

⁹³ Elaine Kamarck, Al Gore's senior policy adviser



them to 100 agencies that work with short-term contracts, or the private sector. All over the world, local government is under constant observation. „Inside every fat and flatulent local authority is the skinny one, which is struggling to survive and come out of anonymity,“ said Nicholas Ridley, one of Thatcher's ministers.

THE EFFORT THAT PUBLIC SECTOR KEEPS PACE WITH THE TIMES

The third reason why governments have turned to the practice of management in the public sector is the need for the public sector to keep pace with the times, which is natural, as if behind it is doomed to failure. Just as the private sector must take into account the spread of information technology and respect for customers and consumers as the most valuable asset of every company, so state must behave. Al Gore once complained that the Americans had suffered „from the old government in the era of perfect world.“ Many senior officials in Washington gained vast experience in the private sector when it is turned in the '80s. Therefore, it can be concluded that the need for changes in the government sector, followed by enthusiasm and not only declarative, but practical and logical in order to achieve greater prosperity in state. That is why P. Drucker noted that the needs for management in the public sector are big because of its greatest abundance, complexity, and monopoly position established by the state.

From the above we can conclude that the professionalized management „provided its place in the sun“, not from compassion, but primarily because of its positive impact on the management process in the public sector. It was confirmed as such in the private sector can certainly be beneficial in the management of the public sector.

HOW DEVELOPED COUNTRIES OF THE WEST DO THAT?

Half a century ago, Peter Drucker was claimed that the public sector is the place where the theory of management is most needed. However, for many people - including Drucker - management theory in the public sector has proved to be disappointing. Many of its easiest victory originated from the privatization of some parts of the public sector that should never be public. When the theory of management applied to the areas that must remain within the public sector, mainly in health and education - its results were often very limited. Victories were won, but they were often Pyrrhic.

However, one of the few management scholars who were particularly engaged in the field of public sector, in '80s was a professor at the Harvard business school Michael Porter. Thanks to the membership in the commission, Porter became impressed by the huge role that the national government have in creating a favorable business environment that directly affects the success



of business organizations. The result of this conversion was *The Competitive Advantage of Nations* (1989), a book with over 800 pages, illustrated charts, grouped maps, and pictures, scattered details about the British manufacturer of biscuits and Korean companies for the production of pianos. The book is a general survey of what makes a successful state economy and how governments should act to improve the competitiveness of their country. This book, which they read (or at least bought) eager intellectuals, induce Porter to perform consulting work for many governments, writing reports on the competitive positions of New Zealand, Canada and Portugal.⁹⁴

No matter who and how started the implementation of management as a science and profession in the public sector, the fact is that today it is an institutionalized part of the government in developed countries, namely: the United States, Britain, Australia, Canada, and Scandinavia. The introduction of professional management began at the highest level of the hierarchical pyramid. For example, most ministers in the government of Margaret Thatcher did the economists. In this way, the „Iron Lady“ made it clear the emphasis of its government and who are the holders of its policies, though the question of whether it is for anything she was asked appear. She has set a series of powerful body headed by businessmen from large business systems, consultants for the public sector, etc. Thus, agencies for efficiency were established led by Marks and Spencer, who successfully ran the system in conditions of maximum competition in the retail sector. „Iron Lady“ established the agency for financial management, the office of the auditor and the Audit Commission. It has also introduced a wide range of „market oriented“ reforms including the privatization of traditional public companies. There are even special Internet site where the civil servants of all nations can log on and discuss topics such as „TQM for public servants.“

Management as a science and profession was first introduced to American universities. According to data, „in '60s in the U.S. was about 160 universities on which future business managers were educated.“⁹⁵ First agencies were established here, consultants and other home agents and the entire business structure that has served the purpose of improving management.

In this context, the famous Harvard Business School more than three decades has opened a studio management program of public administration at the school where political leaders, believing that by their ability to create a business environment, largely depends the business performance of companies.

In G. Britain, that hasn't a cult of business schools, the British Labor Party leader Tony Blair, in the mid-nineties sent his entire cabinet at Templeton College in Oxford, to spend a weekend learning the theory and practice of management.

⁹⁴ See: „The Competitive Advantage of Massachusetts“ (1991), and „The Competitive Advantage of the Inner City“ (1995).

⁹⁵ Wayne, L.: *Preduzetnici u Americi*, Pregled, američki časopis ambasade SAD u Srbiji, br. 230., str. 3.



Practice shows that it is difficult today to go through any corridor of power and not to hear a new and disgusting language – „management by objectives“, „outsourcing of non-crucial functions“, „negotiation on measures to improve performance“, and more. Even the generals and admirals „reduce the number of people“ and „determine the measure of their competitors.“ „Of course, this determination of standards is only a rough guideline,“ admits one of the bureaucrats at the Pentagon. „The final determination of standards is a war.“

Theory of management in the public sector is gained dynamics in March 1993, when Bill Clinton made a national overview of leadership performances under Al Gore. One of his first followers was Bob Stone, who supported the famous expert on quality E. Deming.

All this proved as a rich field for consulting services related to management. In America, the public sector has proven to be a lucrative client that most of the big consulting firms have several classes dedicated to their needs. The company *CSC Index* has special center that focuses on federal customers, such as the Ministry of Defense and NASA in order to monitor their needs and interests.

In mid-1995, the government of John Major admitted in a series of parliamentary questions that has spent at least 320 million pounds on consultancy services relating to management, although it is considered that the figure is much higher. However, Parliament has realized that this was not a cost but an investment.

From the above we can conclude that the idea of professionalization of management in the public sector has its theoretical basis in the works of world famous management gurus. M. Porter generally gave its practical operationalization in his works, but also as a consultant in Canada, New Zealand, and Portugal, and in many companies around the world.

RESUME

The analysis showed the situation and problems of public sector governance, both in theory and in practical action in the public sector. It is evident that the public sector is „crying out“ for professional management and developed infrastructure that could serve to increase the effectiveness of the state, public enterprises, and all that carry the prefix „state“. However, it shows that public sector management does not have the place it deserves, although as a profession it provided leading place in the management of business organizational systems. Transition countries, including Serbia, on this issue are far behind. Here management as a science and profession have not received the importance it deserves. Public sector in Serbia is ideologically driven and politicized to such an extent that it is difficult for professional managers to be appointed to leading positions. Of course, Serbia has trained business people from the spheres of business, i.e. management with faculty diplomas, but they perform other



tasks of low level of complexity, while the top management positions are political leaders or people from the political option to which they belong. This is one of the main reasons for inadequate performance of the public sector, which has a negative effect on the performance of other organizations.

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FEDERAL DECENTRALIZATION AS A CONTEMPORARY WAY OF STRUCTURING BUSINESS ORGANIZATIONS

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Abstract.

Organizing, reorganizing, and disorganizing are the ongoing processes taking place in business systems. These processes are in the causal connections and relations, which mean that there is no organization, without disorganization, that disorganizing is often condition to make a new rule and the organization at a higher level. If not, disorganizing would make no sense and would be primarily economically useless work i.e. process.

The same situation is with the reorganization. Of course, as soon as the man builds an organizational structure, especially in turbulent economic conditions, it is determined whether should be changed or not. Top management deals with business organization and disorganization i.e. reorganization, when various modalities are used.

It is believed that these jobs are complex, i.e. businesses that inflict the greatest problems of top management, since it is through appropriate design of the organization to achieve a satisfactory competitive advantage, and on the other side to satisfy the employees. Therefore, it is necessary that top management should meet both, and in modern terms provide constituents who directly or indirectly, have interests in the organization.

The paper discusses the federal decentralization as a special mode of organization and location, which may be aimed at increasing organizational effectiveness.

Keywords:

federal decentralization, IT

FEDERAL DECENTRALIZATION AS A MODEL FOR DESIGNING THE ORGANIZATION

Federal decentralization is a modern way of designing and building business organizations. As other modalities of decentralization assumes that the management of transfers of competence or authority to achieve performance at lower organizational units. This mode of organization is especially gained strength after World War II, and today is the most common form of



organization of transnational and multinational corporations, and government organizations. Analysis of the U.S. presidential elections in the U.S. has shown that all the presidents who participated in election races from the Second World War to the present day, advocating for decentralization generally were winning election. Therefore, candidates for U.S. president who favored centralization were generally losing the elections, which say a lot about the degree of acceptability of this model of organization design. Key feature of a decentralized federal organization is in highlighting the location of responsibility for making and implementing operational decisions and attempt to locate the same as low as possible in the hierarchical pyramid. In this way, top management became responsible for the quality of strategic decisions and development, financial stability and staffing resources, and leaves the rest to lower hierarchical levels. Federal decentralization is characterized by the existence of relatively autonomous organizational units, which are responsible for the results of operations of existing program settings. We say relative autonomy, as organizations in which there is complete i.e. were absolute independence is doomed to failure. On the other hand, any independence occurs in certain space and time, but in the current program settings, which means that the operational management cannot come out of the framework established by policy, elaborated by a company strategy.

BASIC PRINCIPLES IN THE FUNCTIONING OF FEDERAL DECENTRALIZATION

Every organization operates on some principles, or rules. These phenomena should be understood as general principles, which should be taken into account in designing, building, and sustaining of decentralization. The same should be applied flexibly, since each organization is unique creation, and principles or rules in an organization is shown to be effective, the other may give a lower level of performance, even failure.

Although there are different approaches to this issue, into account will be taken principles given by one of the best experts in management and organizations, P. Drucker. He defined five basic principles underlying the federal decentralization, as follows:

- Each federal decentralization requires at the same time a strong center and strong parts. This principle is logical, because if the organization had a strong center and weak parts, this leads to centralization and autocracy, which can be turned into a dictatorship. On the other hand, if these parts are strong and whole, or a center is weak, it would lead to increased centripetal forces, which would outweighed the cohesiveness of the whole and threatened to lead to physical separation. It happened in former Yugoslavia, because parts i.e. the republics were stronger than the federal center and there was a disintegration of the country. That will happen with any other organization if parts become stronger than the center. Therefore, the solution is in a strong center that could articulate the centrifugal force, to keep strong parts together.



- The second principle of federal decentralization parts are sufficiently large and economically strong, to withstand the cost of parts, and to successfully contribute to the effects of the whole. If this principle is not met, the part will have to be funded by other parts, or from the federal center, which will usually destroy the economic entity and thus endanger it. At the same time, parts of a whole should be balanced for its size in terms of economic or other parameters. If parts are very different, a whole cannot survive. A relatively good example of the unsustainability of the federal organization is the creation of Serbia and Montenegro. It turned out that Serbia has been for almost twenty times larger than Montenegro and as such could not establish equality in the Federation. Any attempt to both federal units are equally represented in the bodies of the Federation is in fact the inequality in relation to the potential they have.

- Each federal unit should have the possibility of growth, but development too. The idea of this principle is to create dynamic organizational units that will become the nucleus of the development of the whole. Shows that the growth and development of parts of organizations to increase the quality of the whole, where it should be noted that the quality would be even greater if between the parts on one side and the parts on the other side exist high quality iterative relations. This is a natural law, because in this way, a greater synergistic effect, i.e. a phenomenon in which the effect of common parts in each action, is always greater than the sum of partial effects. In other words, when two or more forces simultaneously acting on an object, the effect of their actions is greater than their individual effects.⁹⁶

While we talk about growth, so long as the development of the phenomenon and the economic category is marginalized. Reasons for this are in the fact that growth and development is often considered synonymous, which is unacceptable. It turns out that living things can grow not developing and that this natural law is obeyed in the organization. Therefore, the organization can grow and it will happen when expanding their production or transport capacity within the same program. Organization can develop, but not to grow and this situation will be when in the same capacity introduces a new philosophy, new organizational establishment, new methods of communication, etc. An example is the trading company, which under one department store may change modes. In this situation, there is development, not growth. Hence, the necessity for the construction of federal decentralization, creating the conditions for parts to grow, but also to develop.

- Federal units should be placed next to each other, i.e. at least distance, independent in performing certain tasks, but also the function of other parts within a whole. In other words, designed parts should be placed next to each other, "where first one helps another and other in

⁹⁶ Detaljnije o navedenom može se videti u: Radosavljević, M., „Holistička tehnologija uspešnosti“, FORKUP, Novi Sad, 2011.



its acting depends on the first.”⁹⁷ Yet it seems that this principle is increasingly losing its significance by introducing information technology, which has abolished the traditional importance of the site, market, and general standard of the organization. In other words, with the introduction of virtual organizations, some other elements of business, compared to traditional organizational settings are getting importance.

From the above we can conclude that the essence of federal decentralization in the existence of autonomous parts within an organized entirety, which are responsible for the results of its operations within the existing program settings. Its quality is to increase the dynamism of the organization by reducing the hierarchical levels and creates conditions for faster and better decision making. Accordingly, this method of organization is more democratic than the centralized or other modalities of decentralization, especially in relation to functional decentralization, because it creates the possibility that every individual and parts of the organization express their quality and according to rewarded results. Because of this, companies in modern conditions use this model of organization by the introduction of information technology.

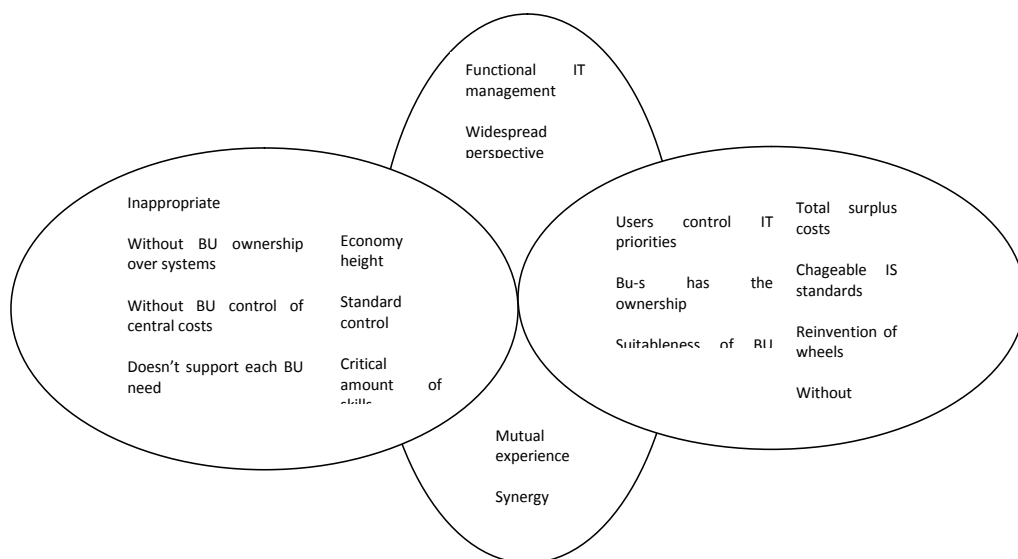
FEDERAL DECENTRALIZATION AND IT

As noted above, federal decentralization functions on the principle of autonomy of parts within a whole whose parts are relatively independent. The key problem of federal and other modalities of decentralization is the interconnection of parts, connecting parts of the city and connecting the organization with the environment to which it belongs. If this connection is successfully completed, then it increases the integrity of the organization, which creates the conditions to be competitive compared to other organizations.

Federal decentralization modality is particularly important given the introduction of information technology (IT). It has reduced, i.e. marginalized location, as the traditional factors that influenced business performance. Therefore, it is possible that the organization is dispersed on the merits, territorial, according to the criteria of customers, or other criteria. Dispersion does not diminish the quality of functioning of the whole, thanks to the application of information technologies, which are able to provide a fast flow of information for making strategic decisions.

⁹⁷ Vučenović, V., „Menadžment-filozofija i tehnologija“, Želnid, Beograd, 1998. str. 136.

Accordingly, the introduction of IT has allowed greater use of federal decentralization, and design of different modalities of its practical application. Of course, the marginalization of radial locations as a territorial or spatial phenomenon enabled a more precise locating of responsibility for the effects of a decentralized part, which can be seen in the figure below:⁹⁸



As can be seen from the previous image, a federal IT is not both centralized and decentralized. In the federal IT organization, a corporate IT department has some degree of explicit mandate that coordinated IT activities of relatively independent business units of IT functions.

Therefore, how decentralization gain in importance, so decentralization of IT activities increase. Many companies have abandoned the centralization of IT activities. "Now, the typical IT function contains a federation of many IT functions placed at the top, on the divisions or business units at the same time." In this way, the federal IT organization manages to reinforce the benefits of centralized and decentralized IT functions and reduce their weaknesses. Thanks to IT, organizations are able to disperse over long distances, and so to say, central, or direction is not excluded from daily insights into specific elements of their business.

⁹⁸ Preuzeto od M.J. Earl: „Information Management-Organizational Dimension“ Oxford University, 2003. p. 249.



MULTI-PROGRAMMING SYSTEMS AND SOFTWARE MODELING

Federal decentralization is in imitation of many elements of what is happening in the natural i.e. eco-system. Looking at part of the ecosystem such as the ant colony, a swarm of bees, flocks of birds or herds of animals, artificial intelligence experts have constructed a software-hardware and software, and organizational settings that often confuse with their type of organization. In large part, human behavior is similar to animal behavior, which is understandable, bearing in mind that the human in its evolutionary development derived from animals and that it is an organization in a way more efficient, as compared to other animals. Researching the behavior of individual animal groups, including insects i.e. birds and wild animals it is possible to construct models of human behavior, as follows:

- How will the human systems i.e. organized groups of human behave,
- How will the organization behave under certain conditions, particularly in terms of dynamic and turbulent changes that exist today,
- Based on the experience and knowledge obtained, is it possible that organization, as an artificial creation, make more efficient and effective.

Federal organization is complex and made up of individuals and groups who are in their mutual relations and connections. A similar organization exists in colony of ants or swarm of bees. Moreover, these animal groups are made up of separate groups i.e. individuals. Individuals and groups have different roles, following its specific rules and respond to changing circumstances. Researches show that even any group or individual do not react in the same way, indicating diversity, and complexity of managing these systems. In addition, no individual or group is important for itself, but is a function of another group, or swarm or colony to which it belongs. There is a precise division of labor where each individual takes into account the interests of the entirety. All of the above exists in organized human groups, or in the production of various products by a number of partners. Therefore, the natural laws of organization and organization of animal groups can be used with modeling and increasing the efficiency of decentralized federal system.

Example of car production shows it. Namely, an organization produce cars, others are engaged in the distribution in a given market, third provide maintenance service, fourth for recycling, etc. In the end, they appear to customers as the last, and most important link in channel marketing, who choose to buy a car. Each group or organization does affect another, and is located in the same causal connections and relationships. Therefore, if production does not do a good job, the problem occurs in a group, or organization that deals with the distribution, or for customers, where it is possible that the whole series of car return, when a failure or defect



appeared. This organizational unit and method of operation is analogous to what happens in the swarm of ants, or some other intelligent group of animals. The traditional approach to studying the organization, as is the case, would attempt to examine any group of people and organizations as well as the sum of their individual behavior to build organizations, or groups that reflects the sum of the behaviors of individuals or groups. However, this type of construction had serious limitations, because the interaction and connection with each other or other groups should be ignored or studied separately. The difficulty of studying the relationships that exist in the system as a whole is what is a complex and very difficult to track all variables and their interaction. Traditional model cannot be well acquainted completely, because the whole is always more than a simple sum of its parts. That something more than a simple sum of the parts, Aristotle called spirit or soul of a whole, because it essentially determines the specific quality in relation to the quality of parts of which is made.⁹⁹ In recent years, artificial intelligence has created a lot of progress in the understanding of complex organizations as a whole with the help of multi-programming systems. It is a group of intelligent programs with the ability to work independently and mutually. Simulation of human organizations using multi-program system is called modeling and programming and it is a way of simulating human organizations using multi intelligent programs, each of which follows a set of simple rules and can be adapted to changing circumstances. Typical modeling systems software are used in modeling fluctuations in the stock market, the prediction of security at the door of a burning building, assess the effects of interest rates to consumers with different types of debt, as well as predicting the quality of supply chain operations in the changed circumstances. This instrument (modeling software) may be useful in the design of federal decentralization, given that markets are different and that everyone should prepare "a bid package".

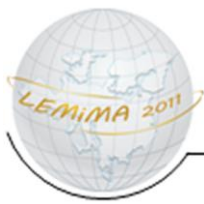
INTELLIGENCE OF ANIMAL GROUPS AND THE POSSIBILITY OF USAGE IN FEDERAL DECENTRALIZATION

Ecosystems of ants are widely used as a type of simulation in problems of organization of human groups, as well as in federal decentralization. Therefore, individual ants are autonomous, act, react independently, and are very persistent. What is less known is the fact that the ants are very social creatures, and insects, as well as some types of bees and wasps. The term social meaning that all members of the colony work together to establish and maintain a global system that is efficient and stable. Therefore, although the ants are autonomous, each ant contributes to the system as a whole. Ants live on the earth 40 million years compared with man's relatively brief presence of 100 thousand years. Their collective ascent is a result of their group behavior,

⁹⁹ Radosavljević, M. i drugi: „Holistička tehnologija uspešnosti-Kako postati uspešan“, FORKUP, Novi Sad, 2011. Str. 134.



known as swarm intelligence, or colonies. Swarm intelligence is the collective behavior of a group of simple agents that are able to develop solutions to problems when they occur, leading to the creation of coherent global patterns i.e. complex collective behavior may result in individuals in the system, consistent performance of a small number of simple rules. Swarm intelligence allows you to create and manage organizations that are flexible, coherent; functioning on the principles of decentralization and individual and swarm, or colony operates on the principle of self-organization. A key determinant in the above mentioned flexibility which means the ability (self-) organization to adapt to changing environments and decentralization, in which each individual is doing its part of the task independently, but routinely, or without warrants, surveillance, special incentive system, which is one of the main characteristics and federal decentralization. Therefore, in self-organization there is no supreme authority, which all should obey, or precise regulation, even though everyone is ready to help each other. For example, if an ant finds a piece of food that is too large for an ant, others will come to help him, the other ants running around, changing its positions until they balance the burden so the piece of food can be carried up to its "warehouse" or anthill. Functioning of ants can be used to successfully connect information technology to modern business. Example of car market that we have mentioned is the best way to confirm this. Therefore, no one is directing, nor dictate users to buy a certain type, or color, or to sell only to a particular market. All groups and participants in the automobile industry act in ways that they think will advance their cause; a result of their interaction is a benefit realized by seller and buyer. Considering that in each ants swarm there are divided roles between ants suppliers, ant protectors, ants responsible for the restoration of species, etc. comparison of the activities of ants suppliers and freight activities in the Southwest Airlines provides an excellent example of the similarities in the functioning of ecosystems and business systems. In fact, the ants suppliers have a duty to supplies food to the colony. They do not call meetings or developing strategies and do not seek guidance from the central leaders for their actions. They simply find food and bring it to their nest and it follows a simple process. If a change occurs such as to tend to a food source, ants will stop coming back to where was the food and the trail disappears. Then the process starts again, so ant supplier finds a new source of food and creates a pheromone trace to be followed by other ants. The problem that the ants just solved is one of the oldest problems that people were experiencing. It is known as a problem of the shortest way or traveling salesman problem. Anyone who plans routes of delivery truck, who plans to work in a factory, or even color maps, is confident that the two coupled components have the same color, and according to the above must find a solution for the same kind of problem. Taking that model from nature, researchers and IT have made a series of small robots and insert software that allows robots to follow rules and interact in the same way as ants. They have freed themselves of physical fitness creating virtual ants in the form of small autonomous units with the code that we call intelligent programs. Each code was able to follow certain rules, interact, and adapt. These virtual ants are then organized into multi-program systems, which are further transformed into model programs. An example is a world famous air carrier Southwest Airlines. Although the operations of loading and unloading luggage in the Southwest are marginal to its management, however, it is a real headache in busy airports. West consulted with experts in swarm intelligence, which they used a virtual model of



an ant suppliers to simulate the process of transferring cargo. Therefore, the managers of Southwest discovered that there are better ways to transfer the burden than to put it in the first plane to a desirable direction. To their surprise, a computer model of swarm intelligence has shown that it may be better to leave the burden on the plane going in the wrong direction. For example, cargo going from Chicago to Boston would be better to leave the plane going from Chicago to Atlanta and then switch to a flight to Boston, which requires less of unloading and reloading. Applying the model of an ant, Southwest has reduced its costs for the transfer of freight by 80%, reduced staff work by 20%, and realized that there was an empty space in the schedule of flights that had previously been filled, allowing the company to increase its workload. The total profit of Southwest was \$10 million per year, a significant sum, bearing in mind that this is a trivial job for such a large company.¹⁰⁰

RESUME

Summarizing the advantages and disadvantages of federal decentralized organization it is clear this organizational form found its place in the world's largest companies. However, top management needs to find a balance between work and activities that are performed by centralized and decentralized, i.e. to model federal decentralization taking into account diversity that exists in different markets. Researches show that the consideration of this element depends on commercial success. In some cases, top management can coordinate activities across all business units and that the details involved in formulating their strategies. On the other hand, top management may be interested only in strategic matters, and other activities to let to decentralized parts. In any case, the modality will depend on the competence of lower management and support capabilities in terms of using IT. In the future intelligent software and software modeling based on swarm intelligence will be increasingly applied. This analogy is increasingly used in planning and resource allocation and routes. Other applications in the early stages include the networks that have self-organized components and robots that are mutually connected. Some believe that intelligent programs will replace many other types of simulation in the future, as swarm intelligence supports individuality, flexibility, and entities that can adapt quickly and effectively in a business environment, that has all the turbulence and uncertainty. Federal decentralization as efficient model of designing organization can respond to new challenges posed by the business environment.

¹⁰⁰ Examples of the functioning of natural groups, i.e. self-organization and its analogous application in commercial organizations i.e. the federal decentralization can be found in the Automated Truck-Painting Booths Scheduled Themselves study.



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BIOMIMICRY AS A NEW CONCEPT OF ORGANIZATIONAL LEARNING

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Abstract.

The time of severe economic crisis in 2009 has shown that the classical concepts of organization and business management are unsustainable and that it is necessary to apply new concepts that would eliminate the causes of the crisis, and then minimize the consequences that that implies. This applies particularly to the elimination of mechanistic concept of the organization that once set up by Democritus and generally applied in modern organizations. In this context, it is necessary to introduce a biologist and medical concept that is based on the concept of holistic system that once set up by Aristotle and Sled. The introduction of this concept would greatly enhance the business performance of organizational system. Advantage is certainly higher if we consider that for the acquisition of knowledge on bio-mimicry, as self-organized structures funding are not necessary, but observation and reasoning and the ability of management structures for the implementation of existing knowledge in organizational practice.

The work aims to draw attention to bio-mimicry, i.e. any portion of the ecosystem functioning on the principle of self-organization, so the principles of legality and conduct of ecological system transfer to design and construction, i.e. maintenance of organizational systems.

Keywords:

self-preservation, bio-mimicry, organizational learning

INTRODUCTION

Medicine and biology have found that today exist the most perfect self-organizing systems. They have some common, but also a number of special characteristics of the organization as an artificial creation. It turns out that the organizations, more or less are an imitation of what is happening in the natural order. In each pack of animals, there is a leader and communication between individuals from flock and leader on whose sign the entire flock or herd will set in motion. Analogous to the above, in organizing of the common work there is a leader i.e. a leader that influence to other group members on specific performance, or non-performance and who has been instrumental in successfully carrying out of joint work.



Also, watching an ant colony, or swarm of bees, it is clear that there is highly organized order, the division of labor and the desire of each individual to contribute to a common goal, without the existence of a central authority to issue orders and awards the most successful. Scientists in the field of artificial intelligence use behavior of insects to transfer these behaviors to the design of human behavior and design of technical systems. An example of migratory birds was used to construct a plane with the nose, to make it easier to overcome air resistance. A similar situation exists with the flight of the flock of birds. In fact it is known that birds fly in a flock, or in a "V" to help overcome the air resistance and thus with the same energy consumption traveled a much longer time. Cyclists and other athletes to better use its energy resources accept this analogy. All the aforementioned systems are complex and adaptive to a number of changes occurring in the natural order. The concept of learning from the ecosystems and especially of animals and transfer their properties to human and organizational systems called bio-mimicry. This system includes the study of all living beings, i.e. from animals, plants, and man as the typical examples of self-organizations. **(* See: "Teorija Organizacija", Z. Radosavljevic, FTB, Belgrade, 2007).**

Bio-mimicry is largely applied in the design of technical systems. Thanks to this, a number of technical systems, hardware and software have become more efficient and effective in spending of matter, energy, and information as necessary elements of each (self-) organization. However, its application is lacking or is insufficient in design and construction of organizational systems, although their application is much more natural in organizational than technical systems. This is because technical systems are entirely made of artificial subsystems, components, and subassemblies and the organizational systems composed of people, as a natural element that functions on the principle of self-organization. It is shown that the introduction of processes within ecosystems, and self-organization in the design of organizational systems contribute significantly to the increase in business performance. Therefore, the organizational systems were less successful, especially when it comes to the ability to adapt to changes that occur in the natural order.

THE FUNCTIONING OF NAUTRAL AND MAN-MADE ORGANIZATIONS

It is known that each animal group consists of individuals who operate on the principle of self-organization. Individuals have different roles, following their own specific rules of functioning and react to change that is happening in the environment. Of course, research shows that each individual in the group does not react the same way and that there are often completely opposite ways to behave and react to changing conditions of environment. **(* Seen "Holistička tehnologija uspešnosti", Milan Radosavljevic et al., FORKUP, Novi Sad, 2011. p. 120-140.)**



In each colony of ants, there are ant leaders, guardians, logistics, etc. Each of them performs a role that is in the interest of the whole nest. What every ant does, affect other ants and the ant farm as a whole. The same simplified is with organizations, as artificial creations. One individual is engaged in manufacturing, the second packs, the third transfer and fourth sale, certain products or services. Analogous to the nest, each individual makes or does not make, affect other individuals, parts, or whole organization. The traditional approach to investigation and research organization and other systems is to examine each individual or group of people based on their characteristics and behavior of formulating a model of behavior or performance that is expected at the level of the organization or entity. Summing up the individual abilities and potential in the traditional way it is possible to come to effects at the level of the whole system, or organization. This research and concluding model at one time gave Democritus indicating that the effect of the whole equals the sum of the individual i.e. separate effects. In this context, it is necessary to investigate the quality of works to be on their individual qualities, concluded about the quality of the whole. The practice clearly established that this type of research has serious limitations, because it shows that this concept ignores interactions that objectively exist between individuals, groups, and organizations as a whole system. Therefore, this model of research or management cannot successfully used to manage organizational systems, particularly in managing complex organizations. The difficulty of studying the system as a whole is in the fact it is complex, and very difficult to track all variables and their interaction.

In recent years, studies of artificial intelligence has created a lot of progress in creating a complex organization as a whole with the help of multi-programming system in which a group of intelligent program has the ability to work independently and interacts. Simulation of human organizations using multi-program system is called modeling software as a way to simulate human behavior in carrying out joint work. The organization using multi intelligent programs, each follows a set of simple rules and can be adapted to changing circumstances. Programming modeling systems are used, to name a few, to model the fluctuations in the stock market, provide the security that people seek out in a burning building, assess the effects of interest rates to consumers with different type of debt and to predict how changes in conditions affect the supply chain.

INTELLIGENCE OF ANIMAL GROUPS

Ecosystems ants are widely used as a type of simulation in solving the problems of organization and management of human groups and joint work. It shows that ants are unusual insects that are very social, since they belong to the 2% of social insects. The term social meaning that all members of the colony work together to establish and maintain a global system that is efficient



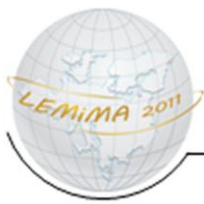
and stable. Therefore, while the ants are autonomous, each ant contributes to system as a whole. They are also smart and persistent. Therefore, although the ants are tiny insects, nature has given them enough to ensure their own survival in the eco system. Ants exist 40 million years compared with man's relatively brief presence of 100 thousand years, and their extraordinary evolutionary success of their collective behavior known as swarm intelligence. Swarm intelligence (collective) is the collective behavior of a group of simple agents that are able to develop solutions to problems when they occur, leading to the creation of coherent global patterns. i.e., complex collective behavior may result in individuals in the system, consistent performance of a small number of simple rules. Intelligence ant colony, a swarm of bees, flocks of birds, a pack of animals and so on, allows successful creating and maintaining of organizational system. Their studying and using it is possible to establish a new quality in connecting individuals i.e. groups toward achieving common goals. Using intelligence of animal groups the organization with the following characteristics are created: **(* Reither, E. and R. Dale, "Building Natural Language Generation System", Cambridge, UK Cambridge University Press, 2000).**

- *Flexibility.* Organization can successfully respond to incremental or radical changes that occurred in the environment. In other words, flexibility creates the conditions for adaptation in which the organization is changing, or adapting to changing circumstances. This characteristic is particularly important in terms of dynamic and uncertain environment. Therefore, organizations that have managed to create adaptive organization, having hard time to come to a crisis, and if that happens, they are more likely to emerge from the crisis quickly, but with less damage too.

- *Stability.* The use of swarm intelligence, i.e. animal groups it shows that organizations survive, even if some members of the system fail to do their job, or do not perform their tasks. Stability and strength is provided due to the ability of changing the group in the same pattern of change.

- *Decentralization.* Each individual in an intelligent animal group has relative autonomy in carrying out its functions. They do it without a warrant and without oversight. Zoology has found that "in the colony of ants there are ant suppliers, the ants that protect the nest, queen been producing offspring, the ants that take care and feed the larvae, etc. Ant suppliers have a duty to supply the food the whole colony. They do not call meetings or develop strategies and do not seek guidance from the central leaders to act in certain situations. They simply find food, bring it to their nest, and follow a simple process that is embedded in their genetic code.

Analogous to the above and carrying out joint work, and organizations there is a division of labor, where individuals perform the tasks set forth the organizational setting. Thus, the human organization is an imitation of what happens in the animal world, where it should be noted that



this impersonation is done at a much higher level. Living beings, animals, and human survive based on the principle of self-organization. In the process of problem solving, self-organization functions independently and in accordance with the situation. There is no central authority giving orders, but individuals in the group who are responsible to complete the job develop the problem-solving strategies. For example, if an ant finds a piece of food that is too large for an ant, others will come to help him, run around changing position until they balance the load, so they can take it up to final destination. Alternatively, when one of the birds from flocks is ill, the other two birds together with the ill bird, leave the flock, staying together in one location and remain there until the affected birds recovers, or die. Of course, the previous properties are not manifest independently, but are in a dialectical unity. The division of labor in animal or human groups imposes the need for association of individuals, so the interaction and helping could provide achieving of greater synergy.

THE POSSIBILITY OF USING BIOMIMICRY IN SOLVING BUSINESS PROBLEMS

Analogy of ant colony functioning can be applied to the design and construction of technologies including information technology, as well as in solving business problems in organizations of different types and sizes. "Most experts agree that artificial intelligence is related to two basic ideas. First, it involves studying the processes of thinking of people, and secondly, it deals with the representation of these processes over mechanisms i.e. technology or organization as artificial creations. The ultimate goal in studying natural intelligence that creates machines, or organizations that will mimic i.e. imitate human intelligence .*(*** Turban, McLean, Wetherbe Information Technology for Management, 3th Edition, John Wiley and Sons Inc.. 2002nd P. 524-525).**

Swarm intelligence offers us the way to examine the collective systems in which groups of individuals with specific goals, solve problems, and make decisions without central control or overall plan. The problem that the ants just solved is one of the oldest problems that people were experiencing, and that is the optimization of the way. It is known as the problem of shortest traveling or salesman problem. Anyone who plans routes of truck delivery, who plans to work in a factory, or even color maps, is confident that the two coupled components haven't the same color, had to find a solution for the same kind of problem. Base on this model from nature, information technologies researchers have made a series of small robots and insert the software, which enables robots to follow the rules and act the same way as ants. They have freed themselves of physical fitness creating virtual ants in the form of small autonomous units with the code that we call intelligent programs. Each code was able to follow certain rules, react, and adapt to certain situations. These virtual ants are then organized into multi-program systems, which are further processed in programming models. The example of world famous Southwest Airlines Company is the best way to confirm this.



Although the loading, i.e. loading and unloading, is a smaller part of the work in the Southwest, it gave headache to management in busy airports. Southwest management consulted with experts in swarm intelligence, which used a virtual model of ant suppliers to simulate the process of transferring cargo. Therefore, to their surprise, the managers discovered that Southwest has a better way to transfer the load, but to put it on the first plane to a desirable direction. To their surprise, a computer model of swarm intelligence has shown that it may be better to leave the burden on the plane going in the wrong direction. E.g., burden going from Chicago to Boston would be better to leave on the plane going from Chicago to Atlanta, and then switch to a flight to Boston, which requires less of unloading and reloading. Following model of ants, Southwest has reduced its costs for the transfer of freight by 80%, reduced staff work load by 20% and also realized that there was an empty space in the schedule of flights that had previously been filled, allowing the company to accept more work and thus way more fully use their capacity. Total profit Southwest was \$10 million per year. Comparing activities of ant suppliers and freight activities in the Southwest Airlines provide an excellent example of the similarities between ecosystems and human organizations. (* Examples of business models, which are taken from nature, can be seen in considering the industrial perspective, "*Automated Truck-Painting Booths Scheduled Themselves*".

Prospects of using bio-mimicry in organizing are bright. The future will require much more intelligent programs. It is a safe assumption, given that the survey includes swarm intelligence and software modeling. Swarm intelligence is already widely used in planning, resource allocation, and route. Other applications in the early stages include the networks that have self-organization components and robots that join together. Practice shows that there are many systems and situations in which is possible to apply self-organization, or bio-mimicry. Some believe that intelligent programs will replace many other types of simulation in the future, as swarm intelligence supports individuality, flexibility, and entities that can adapt quickly and effectively in a business environment that rapidly changing and becomes more uncertain.

RESUME

From the previous text, we can conclude that the bio-mimicry is the new feature of organizational learning. This technique is far from being used, although its potential is unlimited. The reason of this is the reluctance of management to use knowledge of science and objective laws, which act independently of the will of the people and regardless of whether people knew them, or denied.

Another reason is the insufficient knowledge of natural law, since man is not able to discover the secrets of the functioning of ecosystems. It turns out that it will not long be able to achieve



it. How and to what extent, the man knew the processes within the natural order, especially self-organization; it will be able to successful designs, builds, and manages organizational systems analogous to developments in the eco system. This is a real fact, because it shows that each organization is an artificial creation made from natural and artificial elements. Given the fact that human, as self-organization is the only natural element of the organization, introducing bio-mimicry it would be able to create a more efficient organization, and to solve complex business problems.

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FOREIGN EXCHANGE RESERVES OF CENTRAL BANKS OPERATING ACCORDING TO CURRENCY BOARD PRINCIPLE

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Abstract:

It is generally known that in the currency board full coverage of reserve money with foreign exchange reserves must be provided, because, in accordance with the principles of operation of monetary policy arrangements, full convertibility of domestic currency into reserve currency is provided. High and stable level of foreign exchange reserves is the main guarantor of stability of the national currency, i.e. maintaining a fixed exchange rate in relation to reserve currency, and thus the credibility of the central bank. It is for this reason the Central Banks of the currency board countries use different modalities of discretion in implementing monetary policy in managing its foreign exchange reserves to which special attention must be given – especially regarding the issue of liquidity and safety. In the following text a detail proposal of the ways of managing foreign exchange reserves held by central banks of Bulgaria, Estonia, Lithuania and Bosnia is given.

Keywords:

currency board, central bank, foreign exchange reserves, Bosnia & Herzegovina, Bulgaria, Estonia, Lithuania

INTRODUCTION

The currency boards are monetary authorities that emit paper money and coins convertible into foreign currency "anchors" or a commodity (which is also called the reserve currency), at a fixed rate and on demand. The true currency board typically does not accept deposits. The currency board can exist instead of the Central Bank, or in parallel with the existing central bank; cases of parallel issuing were rare. Currency Board Agreement – CBA is a commitment to broadcast unrestrictedly a certain amount of money against the purchased currency at the fixed exchange rate. In addition, only through the exchange of national currencies for foreign can increase the monetary base. Namely, the currency board cannot approve loan to state, banking sector or any other entity.



Reserves of the currency board are low-risk bonds that carry interest and other assets denominated in the anchor currency. Reserves of the currency board are equal to 100% or more of its paper money and coins in circulation, as required by law. Currency board makes profits from the difference between the interest on its reserve assets and maintenance costs of its liabilities - the need to cover costs and maintain reserves at a level is prescribed by the law. The true currency board has no discretion in deciding on monetary policy, market forces determine the money supply. This paper will demonstrate the essence of the "currency board" rules and will show the way of managing foreign exchange reserves of certain European countries that conduct monetary policy in accordance with Currency board arrangement.

CURRENCY BOARD SYSTEM

Currency board system is only a part of the monetary system in each country that has banks and other financial institutions. The currency board is a very important part, it "determine" what the monetary standard will be. However, we must not neglect the other monetary institutions. The main feature of the currency board system is that it allows freedom of entry over foreign banks. Since most of the currency board systems weren't the latest sources of liquidity, risk diversification, provided by the network of branches, was the main source of stability of the banking system. The most prominent banks under the currency board were international banks with a widespread network of branches, including branches in the county of reserve currency, which enabled successful use their money markets. Another feature of the currency board system was the free movement of capital. The currency board is ready to convert all of its currency for reserve currency, on demand and under the fixed exchange rate. It also accepts to convert unlimited amounts of reserve currency into its own currency. Thus, the currency board system is not compatible with the control of capital in the exchange with the reserve currency. Capital controls may exist when it comes to the reserve currency, introduced by the government of the reserve currency country. United Kingdom has introduced capital control from 1939 to 1979, under the currency board system that is linked to the British pound; the movement of capital outside the „pound zone“ was not as free as it would be if the reserve currency was the U.S. dollar. Nevertheless, the currency board does not care for the convertibility of currencies into third currency, but only for the convertibility into the reserve currency.¹⁰¹ State budgets in countries with currency board, historically were, on average, in balance or in a small surplus. In theory, the government may have a constant budget deficit under the currency board system, if it can continue to borrow to finance the deficit. In practice, creditors are not willing to allow the government having persistently budget deficits. Currency board system can

¹⁰¹ Kovačević, R., „*Međunarodne finansije*“, Ekonomski fakultet Beograd, 1998. godine, pp. 205.



be an independent source of inflationary financing, although it can transfer inflationary or deflationary pressures from the reserve currency country.

HISTORY OF THE CURRENCY BOARD

The currency board is an arrangement with a fixed exchange rate, which is linked to "anchor" currency, gold or even to a basket of currencies, where all the money in circulation can be freely converted into a reserve currency and where the main action of the central bank are clearly defined by the central bank. Currency board system was developed in Britain in the early 19th century and since then this model of monetary policy applied 80 countries or regions. Over time, systems of currency boards were introduced and annealed for various political and economic reasons. The abandonment of the system is mainly terminated by switching to the classic central bank, through which the political influences on the manipulation of the amount of money in circulation became possible. Usually after leaving currency board system, country enters a phase of inflation, even stagnation in development. In recent years, leaving it is tied for entry into a currency zone.

History shows that the currency boards were often introduced in following periods:

- After gaining colonial independence (British colonies);
- After a highly emphasized macroeconomic imbalances (e.g. transition economies);
- After first transition reforms and opening up of the economy (small countries of Southeast Europe), or
- After the armed conflicts (e.g. the case of Bosnia & Herzegovina)

In general, countries that have adopted the currency board may be divided into two groups depending on the macroeconomic conditions that were in the country at the time of the introduction of a currency board. The first group of countries can be divided to countries that have had a strong monetary and currency instability, and the second group of countries with small and open economy, lacking experience in conducting monetary policy. Both groups of countries are passing through the complex process of transition towards a market economy, starting with a relatively low level of development. Currency board system is known primarily for its simplicity, transparency and precise rules. Four basic elements generally characterize this system:



- A fixed exchange rate to the reserve currency,
- Automatic convertibility at the request of the holder of the domestic currency,
- Prohibition to give loans to banks or government authorities and institutions, and
- Legal regulations (usually by a separate law)

The way to create the money supply in the currency board system is similar to the system of the gold standard or gold exchange standard.

The first currency board has been set up in 1849 in Mauritius, a British colony in the Indian Ocean. After some experiments, the currency board system has reached its developed form with the West African currency board, established 1912 in the British colonies of Nigeria, the Gold Coast (Ghana), Sierra Leone and Gambia. West African Currency Board was the model for many subsequent currency boards. By the 1930s, the currency Boards were widespread in Africa, Asia, Caribbean, and Pacific islands. Currency Boards also existed in many independent, very different countries, as in Argentina in the early 1990s, on the territory of Poland in 1920 in Yemen also. Currency board system was at the peak of popularity in the late 1940s, when 50 countries had currency boards. Currency board systems were operating effectively, with low inflation, full convertibility of their currency to an anchor currency and good economic growth. Despite this, many have become victims of intellectual fashion in the 1950s and 1960s when central banking systems were favored. Another reason for the disappearance of currency boards has been that most of them existed in the British colonies, and when the colonies became independent, they have replaced many of the former institutions. The most famous currency board now has Hong Kong. Hong Kong dollar is linked to the U.S. dollar. The Chinese government has promised to maintain the existing economic system of Hong Kong 50 years after his return from Britain to China, but that evokes suspicion. Currency board system in China is not entirely true, since 1998, the government has gradually increased the power of monetary authorities in Hong Kong, which in some ways act as the Central Bank. Weakness of Hong Kong is that it relies more on custom than on law. The law does not require the monetary authorities of Hong Kong to maintain 100% reserves, or a fixed rate. In general, the law is compatible with any monetary arrangement, including a ban on Hong Kong dollars for the benefit of the Chinese Yuan, which, in contrast to the Hong Kong dollar, is not fully convertible currency and sometimes was faced with inflation of over 20% per year. The real exchange Boards are also present in other British territories of Bermuda, the Cayman Islands, Falkland Islands and Gibraltar, and the Faroe Islands, which are part of Denmark.¹⁰²

¹⁰² Kovačević, R. "Međunarodne finansije", Ekonomski fakultet Beograd, 1998. godine, pp.205.



FOREIGN EXCHANGE RESERVES OF THE EUROPEAN CENTRAL BANKS THAT APPLY THE PRINCIPLE OF CURRENCY BOARD

CENTRAL BANK OF BULGARIA

General characteristics of the situation of the Bulgarian economy in the first half of the last decade of last century show a classic example of the introduction of the currency board. Namely, continuing high fiscal monetization deficit in nineties, several attempts to stabilize ended hyperinflation in 1996. 5th June 1997 a new law on the Central Bank of Bulgaria passed, which defines the basic parameters of the currency board. A fixed rate of domestic currency was established - Lev, against the German mark in relation to 1000: 1 First appearance of euros in January 1999, the reserve currency has been replaced. Jurisdiction over implementing the decision sets received Bulgarian central bank. Currency risk of the Central Bank of Bulgaria is limited by the Law on Central Bank of Bulgaria according to which the sum of absolute values of open foreign exchange positions¹⁰³ that are not EUR, SDR and monetary gold, cannot exceed the level of 2% of the market value of monetary liabilities.

The only recent available report for analysis of the investments of Bulgarian central bank was a report for the period January - June 2009. According to the same report, the currency composition of international reserves of Bulgaria had the following structure:

Table 1: Currency structure of Bulgaria's international reserves (%)¹⁰⁴

Currency	January - June 2009	2008
EU	91,12	93,05
USD	1,02	0,86
Gold	7,49	5,78
SDR	0,36	0,3
CHF	0,01	0,01

International reserves of Central Bank of Bulgaria are divided into operational portfolios by currency and investment objectives. Each portfolio has a benchmark, investment objectives, and

¹⁰³ Open foreign exchange position is the difference between assets and liabilities in any currency other than EUR

¹⁰⁴ Source: Semi-annual report of Bulgarian central bank



limits. Total share of U.S. dollars in foreign reserves structure is 1.02%. In the financial report is not listed the structure of USD portfolio, i.e., it is not specified how much funds is kept in the securities and how much in deposits, and based on that basis we cannot provide reliable information.

CENTRAL BANK OF LITHUANIA

Macroeconomic instability and obvious problems in the financial sector were sufficient condition for the introduction of currency boards in Lithuania. Initially the board was based on fixing the rate of domestic currency – the litas - to the U.S. dollar in relation 4 (Litas) to 1 (dollar). Selection of dollars for a reserve currency has been drawn from the fact of previously high degree of dollarization of the economy and the nomination of the most important imports in dollars (oil). Neglected development of the banking sector at the beginning of the transition process has resulted in a banking crisis in 1994. The new law on banks and the reconstruction of the banking sector through the budget and a separate credit from the World Bank showed that, in terms of the limited role of central banks as a result of the currency board, the problems of the financial sector can be successfully solved. Data on the stock of foreign exchange reserves and economic developments of the Central Bank of Lithuania are available from the annual report of 2009. Analyzing that it is evident that the entire portfolio of the Central Bank of Lithuania is structured in EUR and gold. The structure is as follows:

Table 4: Structure of the portfolio of the central bank of Lithuania (%)¹⁰⁵

Currency	2008	2009
EUR	97,1	96,3
Gold	2,9	3,7
Total	100	100

As noted, Lithuania holds foreign exchange reserves only in EUR and gold. Lithuania takes a rather conservative monetary policy, monetary policy similar to CBBH politic, where the investment is in highly liquid securities issued by governments and central banks of EU countries, which carry high credit ratings.

¹⁰⁵ Annual report of the Lithuanian central bank, 2009



CENTRAL BANK OF ESTONIA

The introduction of the currency board in Estonia was a logical part of the economic stabilization program advocated by the IMF. The system is designed to stop the decline of economic activities, limit the growth of unemployment, balance the budget and guarantee the stability of the currency. Act of 20 June 1992, new national currency - the kroon – was related to the Deutsche mark in a fixed rate of 8 kroons for a 1 Deutsche mark. Since 1999, the kroon is connected to the Euro in relation 1 euro = 15.6456 kroons. The new Central Bank of Estonia won the responsibility for ensuring the functioning of the system and maintaining 100% coverage of issued domestic currency. Since 01.01.2011, Estonia introduced Euro as its currency and is therefore left the currency board system. Estonian central bank has no authority to control interest rates, but is able to determine the rate of default interest for unseparated reserve requirements of banks. Movement of the inflation rate shows that although the currency board regime in Estonia Central Bank leaves much room for discretionary maneuver, it had not negative effects on price stability. Positive experiences are actually the result of very careful approach in applying those measures. The structure of foreign exchange reserves of the Central Bank of Estonia is divided into two parts: the liquid and investment parts, while the marginal portion is held in gold. Annual report for 2009 stated that foreign exchange reserves are held in the liquid portfolio and the securities of industrially developed countries.

In addition, the structure of the benchmark is as following:

Table 5: Structure of benchmark portfolio¹⁰⁶

	3 months	1 - 3 years	3 - 5 years	5 - 7 years	7 - 10 years	10 years and more
EUR	88,05%	5,26%	2,71%	1,86%	1,37%	0,76%
USD	92,79%	3,50%	1,65%	1,18%	0,89%	

According to available financial statements, there is no reliable information how much funds invest in securities denominated in USD, because the total foreign exchange reserves are

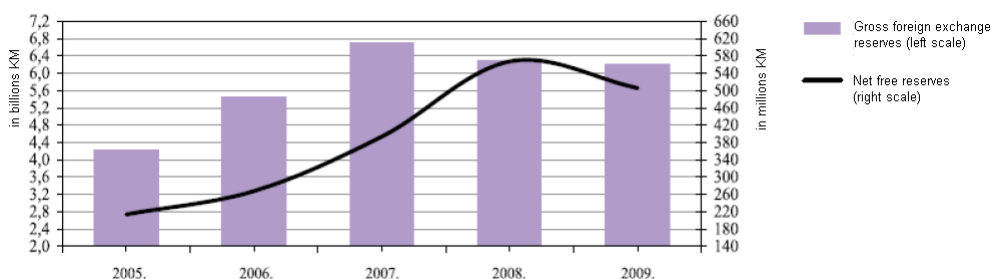
¹⁰⁶ Source: Reports of the Estonian central bank



classified as "assets in convertible foreign currency." However, according to the presented structure of benchmarks portfolio, it is evident that the investments is made in U.S. dollars securities.

CENTRAL BANK OF BOSNIA & HERZEGOVINA

In Bosnia and Herzegovina, the Constitution and Annex 4 of the General Framework Agreement define the currency board and other issues related to the Central Bank of Bosnia and Herzegovina, for Peace in Bosnia and Herzegovina (Dayton Agreement), signed 21 November 1995 in Dayton, Ohio, USA, and 14 December of the same year was officially signed in Paris. In Article III of the Constitution were determined the matter within the jurisdiction of the Bosnia & Herzegovina institutions, where, among other things, was determined that the authority of institutions of Bosnia & Herzegovina is one of *monetary policy, as provided in Article VII*. CBBH manage foreign currency reserves based primarily on the principles of liquidity and investment security. This implies that by maintaining high liquidity of foreign reserves and an acceptable risk exposure, CBBH attempts to ensure the most favorable returns on invested foreign exchange reserves. Portfolio of foreign exchange reserves is exposed primarily to credit, market, interest rate, foreign exchange risk and liquidity risk.¹⁰⁷ Total foreign currency reserves are denominated exclusively in EURO currency. Therefore, CBBH does not perform investments in any other currency. Investments are made in securities of high rated government bonds (AAA) or bonds issued by central banks of the Eurozone. In addition, foreign reserves are invested in deposits with the central and commercial banks in the Eurozone.



Graph 1: Foreign exchange reserves trend¹⁰⁸

¹⁰⁷ Source: Annual CBBH report, 2009

¹⁰⁸ Source: Annual CBBH report, 2009



In 2009, average rate of return on the portfolio of CBBH foreign exchange reserves was 2.1% and in comparison with the previous year rate of return is lower by 2.2 percentage points. Successful managing CBBH portfolio of foreign exchange reserves implied that in terms of adverse developments in the financial market in the Eurozone (lowering benchmark interest rates, interbank interest rates fall)¹⁰⁹ can be considered that the yields achieved in 2009 are appropriate to market conditions.¹¹⁰

RESUME

Currency board operates under the rules of passive monetary policy and has no discretion as a typical central bank has. The basic characteristics of a currency board are:

- Automatism,
- The convertibility of domestic currency,
- Policy and financial independence,
- Confidence

This document emphasize that all central banks, which converted to the currency board system, greatly enhanced its credibility, the value of its currency, that during the entire existence of the currency board managed to keep inflation under control and that have successfully responded to external but internal shocks too. In addition, we notice that every central bank defines the different structure of its portfolio and manage them in a different way - in accordance with its policy. One of the best examples of successful implementation of currency board is Bosnia and Herzegovina - a country that after the war in a relatively short time succeeded to establish and maintain the stability of its currency. However, Bosnia & Herzegovina apply significantly conservative approach of managing foreign exchange reserves than other central banks described in this document.

¹⁰⁹ In 2009, compared to 2008, EURIBOR on deposits restricted at 12 months dropped from 4.83% to 1.61%

¹¹⁰ Source: Annual CBBH report, 2009.



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THE RELEVANCE OF THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY IN THE POST-CRISIS GLOBAL BUSINESS

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Abstract:

The global financial and economic crisis means a breaking point in the development of global economy and global business. Aside from the destructive effects on financial and real economy flows, the crisis also created new opportunities. The way is opened for a critical reconsidering the so far financial and economic system and macroeconomic policy, which actually caused the crisis. The future of the global economy development lays in application of ethical, sustainable and responsible business, more responsible role of the state in macroeconomics and stimulating growth and development of a real economic sector. In this view, the post-crisis development of a global economy sees great possibilities in actualization of the concept of Corporate Social Responsibility – CSR. Possibilities of wider implementation of the concept of CSR are to be found in understanding overlapping and synergetic action of the economic and wider social interests and competitive potential that undoubtedly lays therein.

Key words:

global financial crisis, corporate social responsibility, CSR, competitiveness.

INTRODUCTION

The global financial and economic crisis, which firstly emerged in American economy in 2008, struck with astounding swiftness the most developed economies of the world, also expanding into the developing economies. Aside from the destructive effects on financial and real economy flows, the crisis created new opportunities. The way is opened for a critical reconsidering the so far financial and economic system and macroeconomic policy, which actually caused the crisis. This reconsideration has to be of a fundamental nature, which means that it implies not only rather firm critique of the neo-liberal market approach to a business, but also a radical shift to entirely new model of global business, which would substitute the now existant model.



DEFINING AND THE MEANING OF CSR IN GLOBAL BUSINESS

The concept of Corporate Social Responsibility, or shortly – CSR, has appeared recently as a theoretical and practical issue in business. An origin of CSR should be seeking in the great move of the world economy, characterised by globalization process. One of the most crucial characteristics of the globalization process is a shift of the focus from economic units (companies and organizations) toward environment, both in wider and more specialized context. In other words, the awareness of the importance of environmental issues is rising.

Globalization creates many challenges for companies that transcend the mainly economic function of the company, making the setting within which they compete with other companies highly complex. The very term is pretty much complex and a controversial one. Therefore, there is no single definition of the subject. One of the earliest opinions on CSR has been expressed by M. Friedman, who argued: „But the doctrine of ‘social responsibility’ taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collective doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book *Capitalism and Freedom*, I have called it a ‘fundamentally subversive doctrine’ in a free society, and have said that in such a society, ‘there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.’” [6] This Friedman’s view met strong disapprovals among the economists. Today, Friedman’s definition is oftenly taken as an example of a negative approach to CSR. Thus, J. Mackey argues: “I strongly disagree. I’m a businessman and a free market libertarian, but I believe that the enlightened corporation should try to create value for all of its constituencies. From an investor’s perspective, the purpose of the business is to maximize profits. But that’s not the purpose for other stakeholders—for customers, employees, suppliers, and the community. Each of those groups will define the purpose of the business in terms of its own needs and desires, and each perspective is valid and legitimate.” [10] The World Bank defines CSR as “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development.” [18] The European Commission provided the following definition of CSR: “CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.” [4] Although there is no comprehensive definition of CSR, the proper defining of the CSR term is of crucial importance for evaluating CSR in its business context, regarding the new business and competitive environment after the global financial crisis. In short, the concept of CSR considers the social issues of the business. CSR is as such a point of intersection between business and social-environmental issues. Such position of CSR is the source of conflicts of goals, motives and principles between the three spheres: a) business; b) social and c) environmental.



There are many pro et contra arguments in the attempts to define the importance of CSR in modern business. The problem of defining CSR makes theoretical development and measurement of CSR activities difficult. On the other side, there is increasing interest of managers for the implications and consequences of the application of CSR in business practices. This is especially the case in the period after the global financial crisis. McWilliams, Siegel and Wright [10] broadly analyzed the definitions of CSR and made an effort to properly classify the various theoretical aspects and perspectives of the subject. From the analyzed range of definitions, it can be concluded that there is a trend toward treating CSR as a strategic and competitiveness factor in business. The managers are faced with substantial dilemma, which is manifested as choice between direct involvement in the social and environmental issues and focusing on business and profitability. This dilemma is duly expressed by M. Joshi: "In the longer term, richer consumers and improved worldwide income distribution is obviously good for business. But should business be directly involved in these issues, or simply pay taxes and rely on governments and public organisations to use these taxes wisely? In other words, is it simply enough for business to maximise profits in anticipation that this is in the best interests of human development?" [8]

The CSR is also mentioned as the Triple Bottom Line or TBL (3BL). This conceptual framework helps better understanding the nature of the CSR. The TBL is a system which consists of three fundamental and complementary sub-systems, making a three-dimensional essence of the concept of CSR:

1. **Humans.**
2. **Planet.**
3. **Profit.**

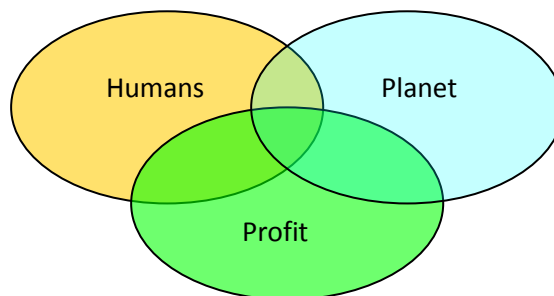


Fig. 1: The three sub-systems of TBL



Humans is the first sub-system of TBL, which refers to the employees (staff, personnel, human resources), as well as to the wider social community, within which the given enterprise makes its business, building and establishing numerous relations and collaborations with it. This dimension of TBL means an appropriate treatment of the staff, acknowledging their own capabilities, qualifications, personality and their general contribution to the business success. This also takes into consideration the interests, relations and mutual benefits proceeding from doing business within certain social community and induces the development of the social community.

Planet refers to the natural environment within which business takes place. The organizations must devote themselves to maintenance of the environment wherein they are acting. This means minimizing of the pollution: reducing the waste, applying measures of protection against pollution and erosion of soil and biosphere.

Profit is the approach to profit that does not mean only acquiring profit, but acquiring it in a fair and ethically way, through business activities based on permanent care on all relevant factors of production and producing highquality goods and services, at acceptable market price, adapted to the needs and interests of the consumers, excluding the machinations, speculations and malversations.

The TBL framework is really helpful, as it describes CSR as a concept and method which joins three entirely different dimensions, integrating them in one heterogeneous system. The role of the government and global organizations is critical in stimulating CSR activities in organizations. Hence, there is a plenty of methods and measures designed for prompting CSR implementation within business.

But the right question that still needs proper answer is: *what encourages organizations to invest in CSR, and to implement and organize the activities of CSR, simultaneously considering the three constituents of it: care about human resources, environment and business performance?*

The basic question is whether CSR is simply a cost to an organization or it is a strategic issue.

Many authors on CSR have attempted to build a proper theoretical framework to explain and support focus on CSR issues. R. Edward Freeman [5] presented a completely new approach to CSR, accepting a view of Chester Bernard. He founded a stakeholder theory, which perceives organization as a network wherein many factors and constituents are involved. Thus, managers must satisfy not only the needs of customers, but a variety of subjects, bodies and organizations, such as workers, agents, distributors, suppliers, buyers, investors, mass media, local community, NGOs etc (as depicted in fig. 2).

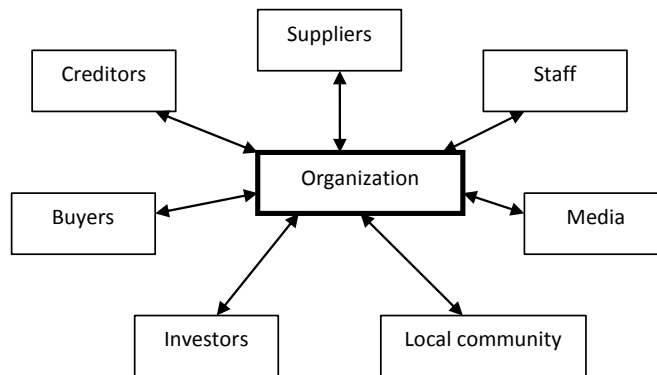


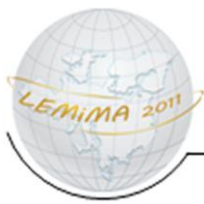
Fig. 2: The relations between organization and stakeholders

Taking this view, it is obvious that organizations have multitude of tasks and responsibilities, undertaken in order to satisfy a variety of interests and aims of many stakeholders that take part in the business. As such, CSR is to be perceived as wider context of doing business, whereby organizations are not only business but also social agents, who contribute actively to the increase of wealth in the society as a whole.

STRATEGIC IMPLICATIONS OF CSR IN GLOBAL BUSINESS

On the basis of the stakeholder theoretical implications, CSR is taken as a strategic issue and a competitiveness factor, which may influence the organization's competitiveness. The globalization process has changed the nature and dynamics of the competition. The Porter's model of five forces that influence the competition process is not valid any more. This new competitive landscape is known as hypercompetition. R. D'Aveni, the author of the concept, asserts that, in the hypercompetitive environment, it is impossible to achieve sustained competitive advantage. Therefore, organizations are constantly re-inventing new sources of competitive advantages [2].

In their seminal work on the relations between CSR and competitiveness – *Strategy and Society*, M.E. Porter and M.R. Kramer criticized the lack of strategy in engaging in CSR activities, and argue for a new, strategic approach to CSR in business. They state: "If, instead, corporations were to analyze their prospects for social responsibility using the same frameworks



that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation and competitive advantage.” [12] There are more and more examples of using CSR as a strategic tool in practice (Among the champions of strategically used CSR are: Danone, Coca Cola, Sony, Nokia, and many other companies). Ž. Radosavljević claims that there is a gap between the economic reality and business and management education, lacking programs for business ethics and social responsibility. He concludes: “Business schools ignore business ethics, because it was not topic surveys traditional academic disciplines that have studied in business schools. The epilogue of this condition is known, but it's too big degradation all areas of life and the marginalization of business ethics and corporate social responsibility.” [14] Referring to the relationship between the CSR and strategy, F. Q. Lanoizelee states that “it is possible to define two types of CSR strategy in competitive situations: a traditional enlightened CSR strategy and symbolic CSR strategy based on reputation.” [9] Clearly stated, a traditional enlightened CSR strategy is a ‘narrow’ vision of CSR, and it aims to improve profitability by traditional methods, like cutting costs and improving efficiency as well as innovations, the launch of products that meet new demands (organic food, recycled paper, anti-pollution facilities, renewable energies), etc. This approach may be qualified as “traditional enlightened strategy”; it offers a ‘narrow’ vision of CSR. This does not entail any change in the managerial paradigm.

The reputation becomes the key lever of CSR, at the intersection between the company's interest and public interest. This strategic intangible asset becomes the source of a competitive advantage concerning customers as well as providers, financial resources investors (especially for Socially Responsible Investment, or SRI) or employees (competence attractiveness). It is a differentiation factor and presents ‘reputation risk’ as a significant threat for the survival of the company. As Lanoizelee notes: “Reputation goes much further than certain aspects of social responsibility. Reputation shows the social status of the company within an asymmetric information context. The implemented CSR strategies all aim at restoring the legitimacy and reputation of the companies in a context where global competition practices are denounced as contradicting the values of sustainable development.” [9]

We may well look at the CSR as a competitiveness factor through the optics of standardization. In other words, engagement in CSR activities may be taken as a prerequisite and a standard of high-performance firms. There is a critical shift of customers' needs and demands, in the hypercompetitive market, towards healthier and more careful business. Competition has been always evolving, growing into a more complex and differentiating one. In terms of relatively easy access to information and telecommunication technologies, competitors seek for other ways of value-creating and gaining competitive advantage in the turbulent global market. However, understanding CSR as a standard border-line or a pressure that could move organizations into an unwilling involvement in CSR issues, is not a proof of CSR-based strategic orientation. CSR must be taken as a part of the strategy itself. The company must include CSR activities as an essential part of its own strategy, and it must count on CSR in gaining long-term competitiveness. Only this view on CSR may be taken as an originally



strategic. The organization must attract and maintain the customer on the basis of permanent investing in CSR.

The strategic role of CSR can be conceived through the process of strengthening and sustaining of the relationships between the organization and the customers. In other words, an organization may build its CSR-based strategy on the platform of continual meeting the needs and interests of all its stakeholders, which implies triple responsibility: toward human resources, environment and social setting. It is a long-term process.

CRITICAL ISSUES OF CSR-DRIVEN BUSINESS IN THE NEW POST-CRISIS GLOBAL ENVIRONMENT

As we have seen earlier, modern global economy and modern business are at the crossroads. The global financial and economic crisis, which exploded worldwide in 2008, has definitely destroyed the current way of performing global financial transactions and gravely harmed many economies, causing large scale unemployment, general fall of economic activities, decrease of investments, massive bankruptcy, indebtedness, social unrest etc. Above all, this crisis is the crisis of values and virtues, of basic ethics. It shown how fragile was a so far financial system and how painful can be the consequences of performing irresponsible business. How did this crisis occur? Which factors caused the crisis? Analyzing the crisis discovers that the main reasons that triggered the crisis were the overheated global financial system, deregulation of the financial market and widely non-controlled and irresponsible use of financial innovations in banking and financial practices, based on the ever growing wave of financialization. These deep flaws in American financial system were supported by the fundamentally wrong monetary policy led by the FED and the controlling system of financial governmental institutions: Government National Mortgage Association, or *Ginnie Mae*, The Federal National Mortgage Association (FNMA) or *Fannie Mae*, and The Federal Home Loan Mortgage Corporation (FHLMC) or *Freddie Mac*. The global financial and economic crisis stimulated many debates on the necessity of the re-organizing failed global economy, in which many eminent experts and analysts participated. There is agreement upon the need of creating novel global economic architecture, which would be built on new paradigm. The global economic crisis overturned the governing paradigm of the global economic system. The urge for a paradigm shift was recognized and articulated through many individual, collective and organizational efforts. This new paradigm should be built on the principles of sustainability, CSR, business ethics and spiritual capital. [13] The global crisis is a big test for CSR, and for the corporations applying CSR. For how long will companies continue CSR activities under these difficult circumstances? Who will continue to proceed in this path and who will fail? In fact, the answer to all these questions depends on how companies perceive and implement CSR.



As a general rule, we can say that the issue of CSR engagement during crisis-time has been a controversial one. A number of researches and analyses of the impact of crisis on CSR practice showed controversial findings [7] The probable answer is that the world is still in the midst of the crisis, in spite of some signs of started recovery, so it is too early to make some sane conclusions. Addressing the future of CSR in a recession, *The Economist* [3] found that to date the deepest cuts in CSR spending have been in the area of philanthropy, declines led by such industries as banking and auto manufacturing. The magazine reported Citigroup's charitable foundation planned to make \$63 million grants in 2009, down from \$90 million last year, while Ford expects its philanthropic arm to shell out 40 percent less this year than last. On the basis of the accessible data, it can be concluded that the maintenance and possible increasing role of the CSR engagement in business may result chiefly from the regulations and suggestions made in favour of socially acceptable practices, and in a certain degree, from the rising consumers' awareness of the importance of CSR and sustainability issues as a response to the ruined post-crisis ethics of business. In that sense, it is inspirative to quote the words of J. M. Barroso, president of European Commission, who made a substantial speech in promoting CSR as a main factor for combating current global crisis. He said: "In the current exceptional circumstances, corporate social responsibility is even more crucial than ever. I know that most business leaders have tried to react to the crisis in a responsible manner.... Looking ahead, the challenge is to re-build the trust in business, which has to some extent been damaged by the crisis.... The crisis resulted, in part at least, from a failure by some businesses to understand their broader ethical responsibilities. Now all businesses must rise to the challenge. This must include a responsible approach to executive remuneration. This is a question of culture. We need a new culture of ethics and responsibility. This is essential – not just to restore the brand image of particular enterprises – but to restore people's faith in the market economy itself. People still want markets – but they want markets with a conscience. Far from being at odds with competitiveness, corporate social responsibility reinforces it. We are determined to use the crisis as an opportunity to speed up the shift to the low carbon economy in Europe.... The key is to have a modern, fresh vision of corporate social responsibility, one which corresponds to current realities." [1] W. Strugatch writes about two thought trends that underlie CSR's apparent resistance to economic pressure: a) the emergence of sustainability as a kind of surrogate for CSR and b) the mainstreaming of CSR into consumer conversations, and its corresponding rise as a factor in reputation management and brand building. [16] The global financial downturn has actually strengthened the business initiatives of investing in CSR. CSR has been taken as a mainstream of the global economy today. Numerous researches have been undertaken to show if the investments in CSR is a main trend in modern economy. Critical question of CSR-driven business in the new post-crisis global environment concerns the sustainability of CSR engagement and it can be formulated as such: How to make CSR a factor of differentiation and competitiveness in the new environment?



CONCLUSION

The global financial crisis has greatly effected the global economy, urging the necessity of implementng new concepts and methods of business and economy. The future of the global economy development lays in application of ethical, sustainable and responsible business, more responsible role of the state in macroeconomics and stimulating growth and development of a real economic sector. In this view, the post-crisis development of a global economy sees great possibilities in actualization of the concept of Corporative Social Responsibility – CSR. The global crisis is a big test for CSR, and for the corporations applying CSR. For how long will companies continue CSR activities under these difficult circumstances? Who will continue to proceed in this path and who will fail? In fact, the answer to all these questions depends on how companies perceive and implement CSR. Possibilities of wider implementation of the concept of CSR are to be found in understandng overlapping and synergetic action of the economic and wider social interests and competitive potential that undoubtfully lays therein.

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THE INSTITUTIONAL FRAMEWORK FOR NON-FINANCIAL SUPPORT AND DEVELOPMENT OF SME IN SERBIA

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Abstract:

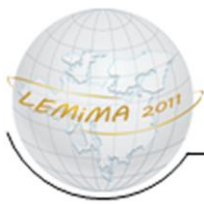
The small and medium enterprises (SME) have a subordinate role and unequal position in the market, so that they should be necessarily protected and supported in their development, especially in the delicate starting-up phase. General conditions for growth and development of SMEE in Serbia are rather difficult. The logic of supporting SMEE is to create a stimulative climate, which means to lessen or limit eventual bureaucratic barriers, and also to offer aid in a sort of services and information, which SMEs are not able to ensure for themselves due to their relatively small size and economic power. In the support of SME, the state and its bodies, specialised agencies and funds have a critical role. Aside from the state, the support of this sector of economy also comes from numerous non-government institutions, as investment funds, banks and other financial organizations, both domestic and foreign, governments of other states and international organizations. All these institutions make an institutional framework for support and inciting of development of SME in Serbia.

Key words:

Small and Medium Enterprises and Entrepreneurship – SME, institutional framework, non-financial support, development, Serbia.

INTRODUCTION

Contrary to big companies, especially the giant MNCs, the small and medium enterprises (SME) have a subordinate role and unequal position in the market, so that they should be necessarily protected and supported in their development, especially in the delicate starting-up phase. The goal of the support is to help SME and individual entrepreneurs start their chosen economic activity and insure necessary knowledge and resources that would enable them a survival and less risky development, in order to insure terms for normal business within a stimulative and competitive ambience.



General conditions for growth and development of small and medium enterprises and entrepreneurship (SMEE) in Serbia are rather difficult. Hereby we think of the political, macroeconomic and social framework for growth and development of SME. The transition process of the Serbian economy still endures. The privatization of social and public companies is not finished yet. The market is limited and underdeveloped, with many elements of monopolistic tendencies and relatively high percentage of „grey economy“. In the support of SME, the state and its bodies, specialised agencies and funds have a critical role. The support of this sector of economy also comes from numerous non-government institutions, as investment funds, banks and other financial organizations, both domestic and foreign, governments of other states and international organizations, all of which make an institutional framework for encouraging development of SME in Serbia.

GENERAL CONDITIONS FOR DEVELOPING SMEE AND NECESSITY OF SUPPORT AND DEVELOPMENT OF SMEE

The big companies, because of their own importance, influence and external effects, have a privileged position in the overall economy of a country. Contrary to them SMEE have subordinate role and unequal position, so that it is necessary to protect them and to support them in their development, especially in the delicate phases, when a small enterprise is emerging. The basic idea of the protection is to *offer terms for normal business doing within the stimulative competitive ambience*. The logic of supporting SMEE is creating climate that could be stimulative for their flourishing, which means to lessen or limit eventual bureaucratic barriers, and also to offer aid in a sort of services and information, which SMEE are not able to ensure for themselves due to their relatively small size and economic power. In this support of SMEE, the government with its bodies, specialized agencies and funds has a critical role. Aside from government, the support of this sector of economy is being realised by a great number of different non-government institutions, as investment funds, banks and other financial organizations, both domestic and foreign, governments of other countries and international organizations. The aim of the support is to help small and medium enterprises and individual entrepreneurs to start their chosen economic activity and ensure the knowledge and resources needed for their survival and less risky development.

The support and promotion of the development of the SMEE sector are also present in developed market economies of the world. European Union has very quickly recognized the dynamic role of SMEE in a global economy, especially their innovativeness and competitiveness, which contributes to the total competitiveness of the global economy. In this way, the EU took a number of measures and undertook numerous activities, with the aim of offering appropriate aid and support to the entrepreneurship.



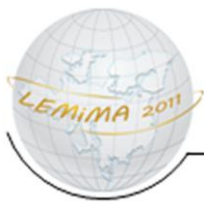
The most important legal act which was brought within the EU is the *European Charter for Small Enterprises*, enacted in 2000. at the Lisbon conference. The Charter stresses the importance and role of the sector of MSEE as a motor of developing global and european economy: „Small enterprises are the backbone of the European economy. They are a key source of jobs and a breeding ground for business ideas. Europe’s efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda. Small enterprises are the most sensitive of all the changes in the business environment..At Lisbon we set the goal for the European Union to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion. Small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe. The best possible environment for small business and entrepreneurship needs therefore to be created.“ [2] In 2008, the Small Business Act was enacted. In the document accepted on that occasion (Communication from the Commission to the Council, the European Parliament, The European Economic and Social Committee and the Committee of the Regions), it is stated: „In a globally changing landscape characterised by continuous structural changes and enhanced competitive pressures, the role of SMEs in our society has become even more important as providers of employment opportunities and key players for the wellbeing of local and regional communities. Vibrant SMEs will make Europe more robust to stand against the uncertainty thrown up in the globalised world of today.“ [6] According to several extensive surveys, conducted by main interational bodies (World Economic Forum and EBRD-World Bank), the main impediments to the development of the SMEE sector, which are the same for both the developed and „catching-up“ economies, can be structured in three clusters of factors [7]:

- **inefficiency of governance (government bureaucracy and corruption);**
- **taxations issues (taxation regulations and taxation rates);**
- **inadequate access to finance.**

The general conditions for growth and development of the SMEE sector are rather difficult in Serbia. According to the analysis of the economic and social conditions in Serbia, which is classified as a „catching-up“ and „pre-accession“ economy [8], there are still many barriers to the further development of SMEs and the enterpreneurship, in general.

The transition process in Serbia is unfinished. The global financial crisis made the conditions for the development of SME in Serbia get worse. Among the numerous problems and difficulties which SMEs in Serbia face, the following can be regarded as the most important ones:

- **limited and relatively underdeveloped market;**
- **tendencies of illegal competition and monopolization;**



- **limited access to credits and bad terms of crediting;**
- **inappropriateness and flaws in the fiscal system (privileges of certain categories of entrepreneurs in the process of fiscalization, lacking tax preferences, etc.);**
- **educational system not corresponding to the requirements of the entrepreneurs (emphasize on theoretical and non-specific knowledge, lack of practical evaluation, no relations among educational institutions and economy);**
- **slow and ill-functioning of judicial system, especially regarding property rights protection;**
- **inappropriate conditions of organizing entrepreneurs in associations of entrepreneurs;**
- **insufficient entrepreneurial tradition and numerous prejudices related to entrepreneurship and entrepreneurs.**

Because of such difficult conditions of growth and development of SMEE sector in Serbia, the government, in cooperation with other relevant institutions, has an obligation, supported by various instruments and measures of macroeconomic policy and by establishing specialized institutions, to create generally positive climate and to offer all necessary support and aid. Implementing measures and instruments of economic policy (accelerated privatization, enacting legal acts in favour of entrepreneurship, policy of employment, customs policy, launching anti-monopolistic laws, stimulative tax policy, trade liberalization, etc.), the government need to create the framework for free growth and strengthening of free market and competition, whereby an opening of new SMEs and an entrepreneurial initiative is being encouraged.

INSTITUTIONAL NETWORK FOR SUPPORTING AND ENCOURAGING DEVELOPMENT OF SMEE SECTOR IN SERBIA

There is a plenty of institutions in Serbia today, aimed at supporting and developing SMEE. A number of various institutions creates a fertile soil for development and expansion of SMEs and encouraging entrepreneurial initiative in Serbia. The government has a dominant role in creating conditions for development of entrepreneurship in Serbia, as well as other entities, such as various individual and collective informative and financial institutions, international



community and separate governments of other countries. All that institutions, taken together, make an offering of various instruments, measures and mechanisms, which may incite the rising of the spirit of entrepreneurship, innovation and private initiative, establishment of new and modifying, reorganizing and improving existant economic organizational forms, with the purpose of speeding up the growth and development of the total economy of Serbia and more efficient exploitation of available human, economic and social resources. Taking into consideration the totality of characteristics and activities of all entrepreneurial factors, we may talk about an institutional network intended for support and encouraging SMEE, which consists of the following institutions:

- **governmental institutions:**
 - **Ministry of economy and regional development**, with its bodies;
 - **National Agency for Regional Development** (formerly the Republic SME Development Agency);
 - **National Bureau of Employment (NBE);**
 - **Development Fund of the Republic of Serbia;**
 - **Development Fund of the Vojvodina;**
 - **Regional Centres for development of SMEE;**
 - **Serbia Investments and Export Promoting Agency (SIEPA);**
 - **Serbian Chamber of Commerce;**
 - **Regional Chamber of Commerce of Vojvodina;**
- **International institutions:**
 - **European Reconstruction Agency;**
 - **European Investment Bank;**
 - **European Bank for Renovation and Development (EBRD);**
 - **World Bank;**
 - **European fund for Central-East Europe (EFCE);**
- **National and foreign business banks and other financial institutions;**
- **National and foreign funds.**



It is highly important to stress that the numbered institutions perform both non-financial and financial support and incentives for the development of the SMEE sector in Serbia. It is also important to emphasize that all institutions and bodies are intrerconnected and make up a unique network – network of information, resources and people, which posits an institutional framework of support and development of SMEE in Serbia.

INSTITUTIONS FOR NON-FINANCIAL SUPPORT AND PROMOTION OF MSEE SECTOR IN SERBIA

Non-financial support has very important role and function within the whole system of support and promotion of SMEE sector in Serbia. The purpose of the non-financial way of supporting and promoting SMEE is to create a favourable market ambience in which the sector of SMEE could freely grow.

The non-financial support of the development of the SMEE sector deals with the wide spectre of various kinds of services, as the following:

- informative and advicable activities;
- education and training of unemployed and employees for entrepreneurship (organizing courses, seminars etc.);
- cooperation and joining;
- consulting;
- mentoring;
- organizing educational programs;
- promotions of the SMEE sector;
- publishing services;
- innovation;
- international cooperation;



- informational support;
- analysis and statistics;
- aid and support in preparing regulations and removal of administrative barriers to the development of SMEE, etc.
- providing finances for establishing business incubators.

A great part of non-financial services comprises **providing various information and advices**, their processing and analysis. The entrepreneurs need different kinds of data, information and knowledge. The entrepreneurs most often require the information on registration procedure, on implementation of certain regulations, on the way of acquiring assets needed for business start-up, on preparation and writing a business plan, etc. The importance of new kinds of non-financial support should be stressed, among which the development of educational programs and mentoring are the main ones.

Educational programs are realized in collaboration with the National Bureau of Employment [4] and its affiliates. The named are designed in a sort of various kinds of training, aimed at different target groups. The educational programs are intended to respond to the needs of both future and existant entrepreneurs, with regards to various issues concerning establishment, registration, insurance from business risks, regulations, analyzing business, business communication, designing business plan, encouraging entrepreneurial initiative, directing the credit placement, etc.

These educational programs are intended for: unemployed persons on evidence at the NBE, employees, owners and managers of SMEs, unemployed workers that were laid off or left the companies in the process of restructuring, education of adults, students, pupils from secondary and primary schools, trainers, consultants and mentors for potential and existent SMEs, employees of the Republic network of regional agencies, etc. [1]

Mentoring is also one of the most important activities. Mentoring involves education, leading and supervising entrepreneurs' work. Mentoring is being done through the process of overseeing and control of the entrepreneurs, by authorized and qualified persons – mentors, in specialized institutions, which provide necessary working conditions. Mentoring consists of the following steps: a) contact; b) selection; c) diagnosis; d) intervention; e) evaluation and reporting [9].

The most important institutions that provide non-financial support to the SMEE sector are the following:



- **Government with its Ministry of economy and regional development and its bodies and agencies;**
- **National agency for developing SMEE;**
- **Regional agencies/Centres for development of SMEE;**
- **Euro info centres;**
- **Business incubators;**
- **Research and Development (R&D) institutions;**
- **Educational institutions;**
- **Trade Commerces;**
- **Enterprenerial associations;**
- **Other institutions (clusters, NGOs, free zones, consulting networks etc.).**

These institutions make a network of institutions for non-financial support and encouraging SMEE development in Serbia. It should be noted that the Serbian government has a fundamntal role, which is to create a necessary legal and administrative environment, bringing about important acts for regulation SMEE in Serbia. It is also the main overseeing and controlling factor.

The Serbian government has the key role in setting up institutional assumptions for development of SMEE sector in Serbia. In fact, the Ministry of economy and regional development (ex the Ministry of economy and privatization) [3] is responsible for defining and realizing strategy of development of SMEE.

The systemic support and promotion of development of SMEE is established within the Serbian government, with the following aspects:

- **Instruments of policy of development of SMEE**
- **Cooperation with EU**
- **Realization of SMEE projects**
- **Promotional activities.**

The policy of development of SMEE is conducted with the help of certain specialized institutions. The aim is to establish direct communication with the SMEE sector. For that



purpose, the Ministry of Economy and Regional Development established a Business Council for Small and Medium Sized Enterprises, where the owners of the SMEs have the opportunity to present their problems and indicate the obstacles they face in their business operations. In addition to that, there is a Council of Small and Medium Enterprises and Entrepreneurship – which is responsible for Government's coordination of SME policy.

The Ministry of economy and regional development also has a legislative role, regulating the normative framework needed for normal functioning and growth of SMEs.

It also designs appropriate strategy of the support and development of the SMEE sector in Serbia. In this context, **The Development Strategy of Competitive and Innovative Small and Medium Sized Enterprises for the period 2008-2013** has been brought. The aim of the Strategy is to create a framework for sustainable, international competitive and export-oriented sector of small and medium enterprises in compliance with the principles of entrepreneurial economy based on knowledge and innovation.

The Strategy is in line with the European Charter for Small Enterprises and the Small Business Act for Europe [3]. The basic principles of the Strategy are contained in the five areas (pillars):

1. **Promotion and support of entrepreneurship and the establishment of new enterprises**
2. **Human resources for competitive SMEs sector**
3. **Financing and taxation of SMEs**
4. **Competitive advantages of SMEs in export markets**
5. **Legal, institutional and business environment for SMEs**

Leading institutions that implement the greatest number of measures aimed at direct support to SMEs are the **National Agency for Regional Development** (formerly the Republic SME Development Agency), with its regional centres, **business incubators** and the **Development Fund of the Republic of Serbia** (Fig. 1).

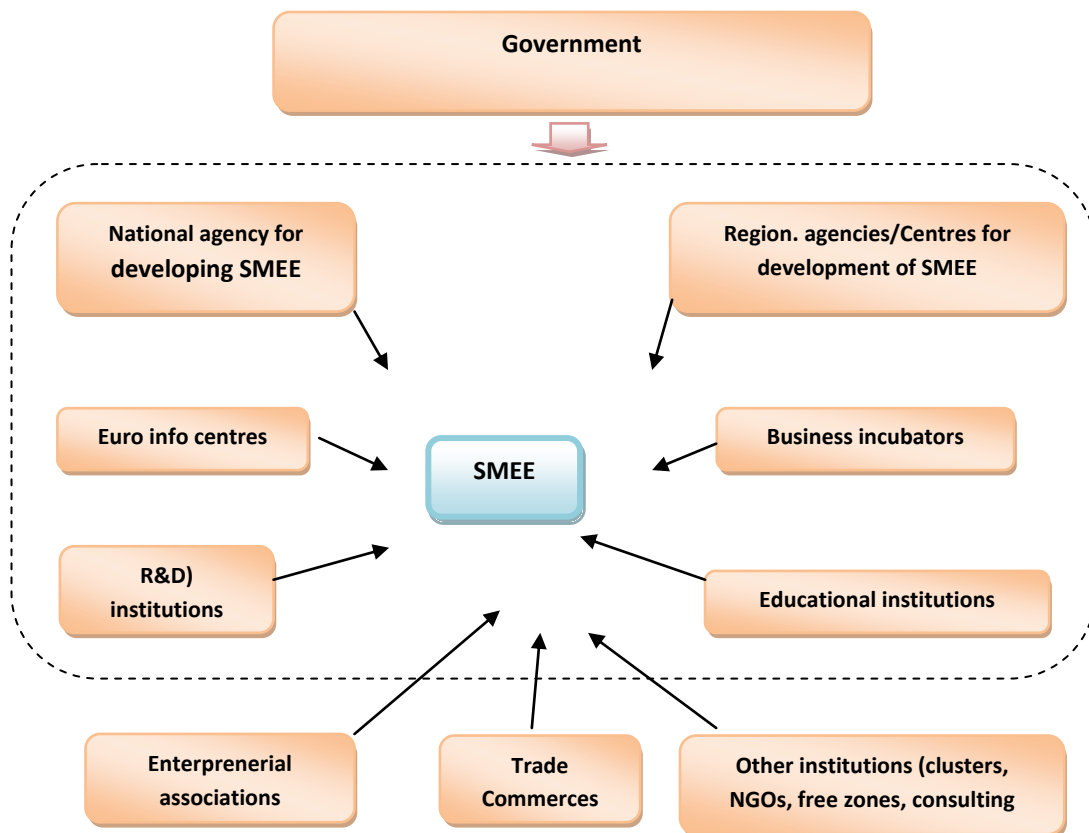


Fig. 1: Institutional network for support and encouraging SMEE in Serbia

The main institution is National Agency for Regional Development [5], established in 2001 from the former Republic SME Development Agency. This agency is the central institution for support and promoting SMEE in Serbia. In 2003, the agency initiated establishing network of regional agencies for supporting and developing SMEE. This network is made of regional agencies throughout Serbia and is coordinated by National Agency for Regional Development.



CONCLUSION

The current complex economic situation in Serbia, characterized with numerous unsolved macroeconomic problems, unfinished transition, combined with intricate external influences of the global financial crisis, produces many problems for building appropriate infrastructure for support and encouraging SMEE in Serbia. There is a set of institutions that provide financial and non-financial support and encouraging of development of SMEE. The government with its institutions should ensure the main framework for supporting SMEE, and other institutions should have various important roles in the domain of supporting and development of SMEE. In this paper, our intention was to show what are the main institutions, which instruments they use and how they build a great institutional network, which will enable SMEs to successfully start-up their own business in this turbulent global economy.

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9. See: *Sa preduzetnikom – 20 sati mentoringa*, Ekonometar, br. 26, 2007., str. 34.



MANAGING RELATIONSHIPS WITH CONSUMERS IN SPORT

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Abstract:

The world of sport, ever since the beginning, was not so good communicatively linked as today is, nor is it today connected good, as it will be in the future. Digital media abolished the longstanding obstacle - the spatial and temporal distance. Today is no longer important in which part of the planet sport events are taking place relevant and important to enjoy the "the most beautiful secondary thing in the world" - the sport, since global media landscape of the sports world, is available at each local level. Such global image, attract, invite and consist of a large number of lovers of this art called sport, consumers, who make up most of the world population. They are unavoidable army of lovers and fans, and the management of relations with them is in the focus of any marketing research. These marketing researches allow identifying basic questions to be answered in order to adequately meet the needs and desires of consumers. Satisfaction, and achievement of desires and needs, provides long-term profitability of each firm. In the conditions of market economy, knowledge, efficient and effective use of information is the comparative competitive advantage of market-oriented companies. The focus of activities, market leading companies, knowledge of customers and manage relationships with them, is one of the key determinants for achieving success in relation to competition, successful business, and gaining a leader in the global market. Consumers' satisfaction is largely conditioned by the values of products and services. The link between customer loyalty and satisfaction is not linear, nor is it independent of competitive conditions in the environment so only those consumers who consider themselves more than satisfied become loyal and faithful.

Keywords:

sports consumer, consumer behavior, customer relations, customer satisfaction

INTRODUCTION

American Marketing Alliance (AMA) defines consumer behavior as "the dynamic interaction of affects and thinking, behavior and environment, by which human beings manage aspects of exchange in their lives."¹¹¹ In this definition, there are three significant points that each in its own way reflects the temperament and the nature of consumer behavior. First, consumer

¹¹¹ J.Paul Peter – Jerry C. Olson, *Consumer Behavior and Marketing Strategy*, 7 Edition Irwin Boston 2005 str. 5-9



behavior is **dynamic**, in both time and space, so there is no universal marketing strategy of companies that would apply at any time, for all products and services, markets, and so on. Another important point, reflecting that behavior of consumers is caused by the **interaction of affect and thinking, behavior, and environment factors**, therefore it is important what people think, what they are feeling, how and what to do, and the events surrounding the most influence in shaping their behavior. Finally, the third point is conditioned by the process of **exchange**, very important for the survival and development of humanity. This indicates and confirms consistency of the definition of consumer behavior with valid and current marketing definitions, which also focus on the process of exchange, for a continuous flow of business activities and growth of living standards of the population. The place and role of consumer behavior in marketing research are defined by the importance of that analysis and forecasting of demand and sales they have in market researches of companies. We are not talking about the knowledge of economic, but also other vocational secondary aspects of consumer behavior, necessary for the planning of marketing activities. Marketing approach, in the study of consumer behavior, incorporates i.e. integrates all the test results, which specialized disciplines such as sociology, anthropology, psychology, history, etc. provide, which from its point of view contribute to a better recognizing and understanding of human needs, to their satisfaction, and to achieve better business success.

According to the level, consumer behavior is among the primary micromarketing researches, whose purpose is to identify specific needs, wants, and desires of consumers, it is important for business companies. Psychological and sociological researches give specificity to micro-approach, given the concepts and methods of their implementation. However, consumer behavior has focused on macro market research, given the demographic, geographic, economic, and cultural - social aspect, in the broader macro environment of the company. It is wrong to think that consumer behavior is often identified with the marketing research. These terms are used as synonyms, however it is the use of formalized concepts, procedures, and methods for the better and faster "systematic collection, recording, and analyzing of all relevant data and information about consumers, relating to the marketing of goods and services."¹¹² "From the standpoint of marketing, consumer behavior related to human responses in the commercial world: how and why people buy and use products, how they are reacting to prices, economic propaganda, and other means of promotion and what are those invisible machinery functions in stimulating and interfering consumption."¹¹³ "Consumers do not want just the right product or service at a reasonable price; they want more than just personalization, personal relationship with the dealer, service, not to be forgotten after purchase. We must observe the consumer behavior as a specialized discipline within the framework of broader marketing research activities where consumers are the centerpiece of the overall business activities, and a source of competitive advantage. Therefore, managing customer relationships (customer relationship

¹¹² Schiffman L., Kanuk L., *Ponašanje potrošača*, Mate Zagreb 2004 str. 5

¹¹³ Robert East, *Consumer Behavior: Advances and Applications in Marketing*, Prentice Hall, London 1997 str. 3



management - CRM) represent a broader business strategy designed to reduce the costs that business risks and increase profitability by increasing loyalty and attention to customers.

CONDUCTING AND MANAGEMENT OF RELATIONSHIPS WITH CONSUMERS IN SPORT

In the field researching the behaviors of sport consumers, marketing researchers have tried to incorporate the theories and models from the broader field of psychology and consumer behavior. Concepts, based on **self-efficacy** (confidence and expanded powers), **self-esteem** (psychological assessment of the relationship between different sets of attitudes towards oneself), **self-schemata** (repeat social behavior), and matching self-image (their own conception of itself), taken out from a wider field of psychology, covered the full attention of sports marketing researchers.¹¹⁴ Emotional approach, as a starting point of the sports consumer behavior, is also the subject of research in the field of sports marketing. Emotions are invaluable in providing answers to consumer behavior. Experiencing feelings may be manifested in various forms, from mild to strong mood emotional outbursts. Consumption is a very critical situation for the sentiments, although communication with the sensations, prior to consumption, may influence the type of individual sensitivity, which is experienced in providing the interpretive framework for consumption. Marketing researchers must know how to provoke feelings and how to provide the right level of stimulation of the same feelings. "**Experience**" and its sale is gaining popularity in marketing researches. Hedonic consumption is associated with the joy, excitement, fantasies, feelings and fun, and highlights the important role of individuals in their own experience. Emotions are, depending on the type and the very act of the event, spontaneous or powerful, unlimited imagination is controlled by the participants, and creates opportunities for hedonism to identify with its own dream.¹¹⁵ Through the pursuit of hedonism or pleasure, people create a fascination with the world or endow the world with magic and happiness. The key determinants of the impact of consumer behavior can be divided into two main groups:

- Determinants having the impact on consumers as a member of the group, and
- Determinants having the impact on consumers as individuals

Group determinants are the cultural and social influences, and individual determinants are the personal and demographic characteristics of the individual, i.e. psychological characteristics.¹¹⁶

¹¹⁴ Ljubojević Č., Menadžment i marketing u sportu, Beograd 200, str. 59

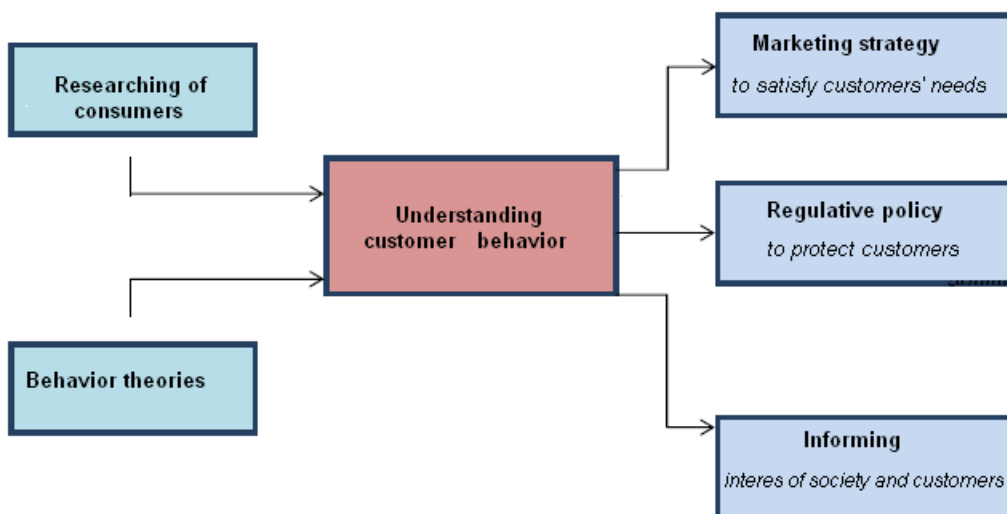
¹¹⁵ Ljubojević Č. Ibidem str. 59

¹¹⁶ Čičić M., Husić M., Kukić S., Ponašanje potrošača, Ekonomski fakultet Sveučilišta u Mostaru, 2009 str. 23



Understanding of all these determinants results in the assessment process, in the minds of consumers ("black box") and contributes to the knowledge of producers, to sell the event.

Figure 1: Functions of consumers' behavior



Source: Hawkins, I. D., Best, J.R., Coney, A. K., *Consumer Behavior – Implication for Marketing Strategy*, IRWIN 1995

Each participant in sport, from producers to sporting event consumers, is a form of hedonic consumption. Sporting event is a ritual for every lover, take place in special places, at certain times and space and has a character of art (whether it is a visitor or participant), whether it's done professionally, at leisure or for entertainment.¹¹⁷

Sports and sporting events deserve full attention and understanding, as an area of public policy and marketing. Athletes are the best and most positive "ambassadors" of their countries and identified as such in every society, so army fans follow them at all events, celebrate, or mourn with them, and every part of their free time devote to sport. The growth in popularity of sports and athletes creates big gains for all participants, i.e. promoters of the sport events, for the

¹¹⁷ Radosavljević M., "Upravljanje sportsko rekreativnim događajima", (magistarski rad) Fakultet za trgovinu i bankarstvo, Beograd, 2004.



places where events are taking place as well as producers and social standard of the state, organizers of big sporting events (e.g. Olympic Games, world, and European competitions).

This fact has led marketing researchers to study factors in terms of satisfaction, depending on the variety of behavior of fans. The concept of their satisfaction, it is primarily based on the concept of the value of games and participants. We already stressed that the party in value (the side of expected benefits) is most affected by the quality and approach to the event, so we can conclude that the concepts of satisfaction and consumer value are the builds on the concept of quality. "Consumers' satisfaction is a free estimate oriented to a certain transaction, or more consecutive transactions; quality of service, on the other hand, is global assessment, which need not be based on actual use."¹¹⁸ Different elements affect pleasure, as well as any other processes, creating and shaping it.¹¹⁹

By studying the definition of satisfaction, it can be concluded that the elements that affect satisfaction are related to:

1. **Product** (perceived through quality and usage value, as the cost of the monetary expression of value, time spent in searching, quality and usefulness of the same company for consumers), and
2. **Emotional state** (experiences of using it, expectations that consumer wants to experience the products that can be positive or negative).

In applying the marketing mix, sports marketers often use pleasure and satisfaction of consumers so they can attract more visitors. All of the analyses show that **identity salience** (identity of the popular personality) is the biggest lure, so that the media creates an image that runs the fans to be present in large numbers at the event.

According to many theorists, motivation, sports fans, and visitors are qualified through the prism of common elements, as follows: *eustress, self-esteem, display, entertainment, economics, aesthetics, group, and family connections.*

RANKING OF CONSUMERS IN SPORT

Sports fans are consumers, who are enthusiasts that dedicate themselves to particular sports subject. Sports consumer's subjects is diverse and is represented by figures such as players, coaches, managers, or individuals who have a strong stake in connection with sports, sports

¹¹⁸ Parasuraman, A.V., *Consumer Perceptions of Price*, Journal of Marketing, vol. 52,1998 str. 22

¹¹⁹ Kotler Ph., *Marketing Managment* , Northwestern University, 2003, str. 56



teams or any local, national or representative. Given the fact that not all see sport product, the basic motivation, and consumer behavior in sport can vary from individual to individual, and based on that different types of sports fans are defined. Hunt and al.,¹²⁰ revealed a high degree of heterogeneity in the fan club and come up with their classification:

- **Casual fans** - support isn't central to self-perception of fans and is limited by time and place,
- **Local fans** - support is directed to local teams and local individuals,
- **Devoted fans** - faithful and loyal support for team, league, or individual
- **Fanatical fans** - support which is adjacent to those occupied with their team or person that becomes important for more things, and
- **Non-functional fans** - those who support exceeding of the normal limits of behavior

Due to its specific diversity in behavior, determined based on motivation and perception of events from its point of view, they serve as an important basis for segmentation and positioning in relation to the target market, and thus determine specific strategies and tactics in the implementation of the marketing mix, by the marketers. To develop the growing popularity, and therefore the greater army of consumers, we need to build long-term and stable relationship and engagement in society, from working in schools, community groups, and organizations. Nurturing relationships with the media, using the support of celebrities (Mayor, the famous film or TV stars, popular politicians) as well as building a good relationship with sponsors, in promoting the team or individual sport in general is very important.

RESUME

Survival, growth, prospects and stability of the company solely depends on the consumers, regardless of current market position. In terms of globalization and expressive market competition with offers that excess demand, it is very difficult to position and to approach to consumer, and gain their loyalty and attention. Market success is not reflected only in the leading position in the competition, but in creating new products, developing new unexplored markets, in order to create new needs to satisfy consumers.

¹²⁰ Ljubojević. Č., Ibidem str. 66



Consumer is no longer viewed from the perspective of short-term and one-way transaction, but it builds up with long-term and fair relations, in order to achieve mutual benefits. Through stimulation and developing of long-term relationships with customers, delivering high-values, and therefore greater customer satisfaction, a base of loyal and devoted customers is creating, which is a competitive advantage of market-oriented organizations. Exploring the levels of customers' satisfaction, current and future needs, and desires of consumers becomes clear how to create and apply marketing activities to promote and develop customer satisfaction. As such, popular and accepted as an important part of the entertainment industry, with the trend of continued and accelerated growth, sports, is a major link in the creation of sports consumers' satisfaction. Covering sports by electronic media and press grown and together with the existing competition between the various products of entertainment, transformed sports market into high-profit industry. The biggest credits for this successful and continuous development of sports industry, belongs to the high level of professionalism in all segments. Proper and timely management of relationships with customers in the sport requires leaders who can improve the success of this industry, as well as to sustain it competitive and profitable in comparison with other industries. Bearing that in mind, connecting, and building fair and correct relations with all participants in sport market, especially with the fans - consumers, as key stakeholders of any sporting collectives, must be more intensive and comprehensive in the future.

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GEOGRAPHICAL INFORMATION SYSTEMS TO SUPPORT ECONOMIC DEVELOPMENT

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Abstract:

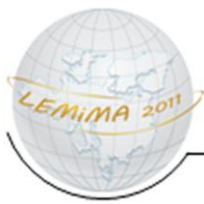
Geographic Information Systems (GIS) are computer systems that are used for entering, storing, managing, analyzing and mapping spatial data. GIS can generate maps of the economic data with spatial components, that generates additional spatial data as inputs for statistical analysis, to calculate the distance, a useful tool for generating information regarding the facilities, demographics and economic opportunities. This information is useful for investors and entrepreneurs who are thinking about expanding your business. Each of these features helps to assess the role that GIS can have in economic analysis. An important aspect of GIS on which this paper will be discussed is the selection of software. Most common use in economics is the use of GIS for visualization and mapping of economic data with spatial components

Keywords:

geographical information systems, spatial economics, business infrastructure, GIS application

INTRODUCTION

Have you ever wondered about the impact of geographic information systems and spatial information on the global or local economy? Or the savings that companies can make more efficient use of spatial information? Or how to use spatial information to predict a healthy and efficient economy? In today's world, countries, provinces and municipalities compete to attract and retain companies for employment and increase tax revenue. Tax incentives are a standard way to attract foreign companies, but an interactive geographic information systems (GIS) are powerful marketing tools. Making decisions about moving work or opening a new business in a municipality is extremely risky and expensive undertaking. Interactive GIS allows foreign investors and companies a visual tour of selected areas. Hyperlinks provide access to images and video clips. Software as a business analyst (ESRI, 2001, 2005), gives companies access to information about competitors, the companies that already operate in the area, demographics, consumer, so that (Schmitz, 1995; Perlman, 2000; Doyle, 2002; ESRI, 2005,) the municipality can effectively and efficiently to assist companies in making decisions (Doyle, 2002; Perlman,



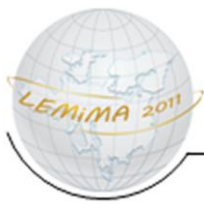
2000). Economic planners often see economic development as a process of expansion of economic activity in the municipality, which provides economic and social goals of the community. Economic planners, particularly in the public sector, aimed at improving the quality of life for all people through employment and expand economic and tax base. They co-operate with partners from other fields, such as, for example, transportation and telecommunications. Companies in other areas see the benefits of economic growth through increased sales of products and services. Economic development is about: location, consulting, engineering companies, lawyers, planners, Commercial Real Estate Agents, expansion or relocation of enterprises and society as a whole. Electrical system relies on GIS technology to better meet consumer needs, efficient service integrated platform for data management, planning and analysis, automation of labor, and other situational awareness. Taking full advantage of GIS technology in companies engaged in electricity are prepared to tackle the challenges, including the latest improvements in infrastructure and implementation of smart grids. Operators of gas transmission has already been using GIS technology to business and decision making. GIS is a key component for routing and engineering, operations and maintenance of the integrity management, regulatory legislation, land and environmental management, mergers and so on. GIS integrate satellite information with other data sets, such as political and socio-economic information, build a model study for the geographical area involved in the construction of the pipeline. GIS has replaced the traditional, overlay maps for analysis and quick and simple risk assessment. With GIS, you get an unlimited number of variations of the original route, which can be viewed and judged. For effective decision-making economic planners are required tools that help to quickly analyze, display and distribute the results and making informed decisions about locating new businesses or new investment in the development of existing ones. Geographic information systems technology in the world has proved a powerful and effective tool in ensuring the functionality and support for economists to keep the economic recovery and growth. Thus, economists in the United States was not surprising for investment in GIS as a method to recover from the current economic crisis. The proposal was presented by Jack Dangermond of ESRI and Anne Hale Miglarese of Booze Allen Hamilton, where only the four sites indicate that *"A National GIS, properly designed and effectively implemented, providing public access and using best technologies, will speed economic recovery by producing jobs and putting Shovels in the ground more quickly."*

Today, more than 12 500 cities, and most of the 100 largest cities in the U.S. with the help of geographical information systems planning economic development. Active construction of scalable systems, provides powerful and economically successful business, even during the global economic crisis. GIS technology, state and local economic development organizations directly serve the needs of millions of companies located in the United States, and assist them in the future. In addition, there is a free web site, GIS, ZoomProspector.com, which allows companies to find the optimal location for start-up, expansion or relocation of companies based on certain characteristics of the community. ZoomProspector.com is used by businesses around the world about him is written in many media, to name just a few: Forbes, Fortune, Bloomberg BusinessWeek, and New York Times.



GEOGRAPHIC INFORMATION SYSTEMS

Making decisions based on geography is the basis of human thinking. Where shall we go, what will happen, what we do when we got there, we wonder whether it comes to big events or everyday activities. Understanding of geography and attitude of the people by location, we can make informed decisions about the way we live. Geographic Information Systems (GIS) technology as a tool for understanding the geography and making intelligent decisions. GIS organizes geographic data so that the person reading the map can select data necessary for the task. Thematic maps allow you to add layers of information to the default folder location in the real world. With the possibility of combining different groups of data, GIS is a useful tool for almost every area of life. Geographic information systems are computer systems that are used for entering, storing, managing, analyzing and mapping spatial data. Spatial data consist of different functions, which are defined by their geographic location and descriptive attributes such as elevation, slope, vegetation, soil, hydrology. These characteristics may have a physical point, line, or spatial characteristics that are visually noticeable, such as streams, roads, lakes, or as invisible boundaries, such as lines of a municipality or county area. Many of these data are available to state agencies or sold commercially in digital form. Data can also be digitized from existing paper maps or generated from a database. Information in digital format are compatible with digital satellite images, are useful for land-cover classification and can be used in digital cell-by-cell/pixel-by-pixel analysis. Geographic Information Systems (GIS) are effectively used in the fields of ecology, Environmental Science, engineering and cartography, National, State, and Local Government, Military Defense, Fire / Emergency Medical Services / Disaster, Law Enforcement, Health, Transportation, Business, Logistics, Media, Real Estate, Retail Business, Natural Resources, Power Management, Electricity, Gas. Many companies have systems for managing databases in which stored data from day to day. Companies maintain information about sales, customers, inventory, demographic profiles, and mailing lists, all of this information associated with geographic locations. If the information attached to contain the characteristics of location, specifically if they are georeferenced, they can be mapped. People say a picture speaks 1000 words. Using GIS spatial data analysis provide that are essential to the success of any economy. GIS can map out the economic data with spatial components, can generate additional spatial data, to calculate the distance between the functions of interest or to define the objects around the village, and to help in the statistical analysis. Therefore, business managers, marketing strategists, financial analysts, and professional planners increasingly rely on GIS to organize, analyze and present their business data. GIS can integrate geographic information, images and data layers or themes and link them with other data sets. It just works, you should imagine that we agree transparent sheets over one another, so that one paper or GIS layer provides a spatial distribution of residential settlement (housing density), the second indicates the location of available commercial properties classified by size and infrastructure, and the third provides information on the location of potential competitors. These geographic images not only show the topography of the border, they also provide a special insight planners in many disciplines, such as health, agriculture, municipal administration, natural resources,



telecommunications and transportation. GIS maps are interactive. On a computer screen, users can scan zoom in or out, and change the nature of the information contained in the folder. They can choose whether to see the roads, as roads to see, and how it should be shown ways. But can select other items that they want to appear alongside roads, such as drains, gas lines, rare plants, or hospitals. Some GIS programs are designed to perform sophisticated calculations to monitor and predict the storms or erosion. GIS allows people the geographic advantage, productivity, awareness, and other responses. GIS can help companies and agencies dealing with economic development to better understand the target market and the settlement, the company, owners, and customers, as well as the general public. It helps users to predict the results of regression analysis that are important to future events and processes. These studies could include: the impact of drought on wild animals, the impact of dams on the urban and agrarian economy, the spread of infectious diseases or the impact of population growth on economic growth municipalities. GIS can also be used to identify a place to start a new business. It is a useful tool for generating information regarding the facilities, demographics and economic opportunities. Many of these data are important for economic development (eg, demography, infrastructure, location of facilities, revenues, services, traffic patterns, human resources, public health). This information is useful for investors and entrepreneurs, especially for those who are thinking about expanding your business. GIS is useful in promoting the city as a business destination [A Weber and D Chapman, 2009]. Economic development agencies are using GIS and the Internet to promote their cities or regions [A Ubaldo and P Monzon 1998]. Entrepreneurs and investors can use GIS to better understand the relationship and integration of consumer and business data and can convert them into useful information. GIS in the economic development benefits for: demographic profiling to show customers or potential market, analysis of high or low income, data on household and labor force, analysis of population by age, employment status and education and many other levels of analysis. Ability to manage, connect, forecasting, modeling and sharing of geographic information makes GIS the basic analytical tool. Decision-makers in industry, GIS software allows you to manage and manipulate data. Analysts may become aware of patterns and processes of work and projects that are not working well or not work at all. Policymakers are in a position to create a successful municipality, or trade, or to manage resources well. Financial analysts use GIS for market analysis, and visualization of needed services. Many insurance companies GIS is a central component of business. It is used for visualization, analysis and distribution of risk. GIS provides the analytical capabilities that make the center successful system of agriculture. It allows farmers to carry out site-specific spatial analysis of agronomic data. In agriculture, GIS can be used to predict the yield and determine the areas where you need more intensive fertilization. Ireland and the Canadian Forest Service, using GIS as a key component in managing resources and maintaining sustainable forest management. Its applications are used to determine the diversity of forest trees, the land value, timber market analysis, route planning reforestation and landscape visualization. Terrain modeling, planning, testing, drilling, irrigation and sanitation are important elements of digital mapping in the mining industry. Oil and gas, hydrology, forest management, mining and require estimates of growth in production and operation, while it is necessary to prevent pollution of land and rivers and destruction of resources. The delicate



balance between industrial development and environmental protection requires sophisticated modeling and spatial analytical tools. Because more than 70 percent of large oil companies use GIS software. Complex interaction between real-world economy and the environment is a major obstacle for applied research in the field of environment and economy. However, geographical information systems, allow economists to tackle such complex issues that directly involve different sets of data in applied research without resorting to simplifying and unrealistic assumptions. GIS performs spatial analysis of complex problems and current land use change or conversion of agricultural land to other uses. In the business of GIS databases may contain:

- Profile customers by location, demographic information, and information on the purchasing power of people
- Selling the products, point of sale, and sales representatives
- Map locations of shops, factories and warehouses
- Funds on the site (eg. Communal information: pipelines and electric, gas, telephone lines)
- Location, staff, products and equipment
- The routes of delivery by land, sea and air

Applications of GIS for Economic Development

The specific role of economic development differs in the business segments. For example, the state government, and economic development agencies should ensure policies and services that will enable communities and enterprises to develop and exploit opportunities for economic development. They help businesses to find information and resources they need to succeed, to thrive and grow. Utility companies have departments dealing with economic development or the department to coordinate economic development with government programs. Utilities are "interest shown by an increase in demand for services resulting from development, but also through grants and tax breaks that encourage their participation in the programs." GIS applications are used to:

- Presentation of infrastructure and business support: display of infrastructure such as roads, rail, water, electricity, telecommunication links, or industrial parks and to analyze the availability of a particular site using the main transport routes.
- Identify suitable locations for new business and identify the geographical advantage in a particular area. In addition, GIS can be used to identify sites that are available in order to achieve competitive advantage.
- Mapping of economic opportunities: Maps showing the options that are available at a particular location, GIS provides the possibility of including spatial analysis



(Geospatial Analysis (GA)), which is able to land for agricultural purposes [A Naudé 2007].

Less common, but interesting, is the use of GIS for the storage and management functions to generate additional data as input for further statistical analysis. In the simplest case, this involves using GIS to manage spatial data from different sources. Many of these sources, for example, data from the census, are known to economists. However, aerial photographs and remote sensing data obtained are less known. Data format depends on the geographic data models. GIS provides tools for different geographical models. GIS has been applied worldwide for: discover where the greatest return on investment in infrastructure, analysis of how long the real estate market will be unproductive, knowing the best location to build office buildings or business parks.

It is also used to find: best of economic growth, types of economic development and best business

environment, transport and other factors that may limit development, in the development of policy and impact analysis. GIS also helps to economists: identify where there are areas with economic growth or stagnation, better understand the economic distribution, decide that financial incentives should be offered, and which made to assess impacts of activities, and in marketing. Marketing is the area where GIS applications are the fastest return on investment. In this case, GIS is used for inventory, organization, analysis and presentation of data for economic development in order to retain or attract companies in the area.

Geographic information systems are the heart of financial institutions

Banking is a competitive business. Market share and brand are not sufficient to attract and retain customers. To be effective, many banks, credit card companies, credit unions and other financial services organizations are turning to GIS to help them better understand their data. The banking industry in recent years is undergoing major changes. Significant advances in communication and information technologies enabled the dissemination of financial information and financial services and led to greater complexity of operation. Another reason for change is the increasing competition among a large number of institutions in providing banking and financial services. The regulations also force banks to adopt better operational strategies. User-oriented model can help address these challenges. The primary function of banks is to provide financial services. Bank, today, should be market oriented and to respond to rapid market changes. The success of banking institutions and the system depends on access to data. Banks manage information about customers, their profiles, and more about lots of things. By adding a component called "Location" in your database, banks can gain enormous advantage in many ways. Long Range Planning is mixed with the geographic modeling that will provide



tangible benefits to the banking / financial institutions. Canadian government some years ago, has developed a standard procedure for reviewing bank mergers in order to ensure healthy competition. Defining geographic markets and calculate market share is an important component of this process, which comes to the fore the need for the introduction of geographical information systems. Today, banks use GIS for many applications, such as site selection, evaluation, targeted marketing campaigns, performance measurement, market research, user's movement, and for improved reporting. GIS can play a key role in helping the government in order to establish a process of reviewing bank mergers. Methods for generating geographic boundaries, as well as "spatial interaction models" are used to estimate market share, and represent key areas.

GIS technology allows banks to:

- Improve their understanding of the risks, interaction with customers, and to improve economic conditions of use of spatial models based on geography and geodemographics.
- Raise the profitability and operational performance in order to exchange knowledge and decision making.
- Develop lines of business cooperation in the departments with economic forecasts, and analysis of the territory.
- Reduce the complexity of the business through a more precise analysis of actual market conditions.
- Increase understanding of the market based on a common view of business performance using business processes.

Perspectives of geoinformation technology in our country

GIS technology is best when dealing with location. It offers advantages over traditional database by adding a spatial, analytical maps and data integration capabilities. Using GIS, economic planners gain a competitive advantage based on: superior analytical multimedia presentations, they have professional quality custom-made, therefore the relevant easy to understand immediately get, saving time on analysis and travel, accelerate during the projects that make a change and new products to market. The most powerful aspect of GIS is its ability to quickly analyze spatial data. These tools are little used in Europe in the space economy, but the availability of GIS software and the growth of interest in spatial matters can change that. If GIS is so potent and powerful tool why not use this technology? For starters, the recent



establishment of a GIS is brought extremely high start-up costs, and municipalities have relatively modest budgets. Trained personnel, it was difficult to find. Data collection requires time and money, and accuracy is crucial (Doyle, 2002). There are many advantages to introducing this technology. GIS saves time and money (Schmitz, 1995; Perlman, 2000). Finding people who know GIS is also easier because you and our universities are now taught by certified programs. Indeed it is time for us to start with the application of this technology not only in economics but also in other areas of life. The only major limitation of GIS applications in economic development is the availability of data.

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PROMOTION MIX UNDER THE INFLUENCE OF CHANGES IN THE BUYERS BEHAVIOR

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Abstract:

Modern information and communication technologies affect changing strategies of companies in today's market, but also the behavior of customers. In marketing, these changes are most pronounced in the area of promotion and use of internet as media. However, traditional means of marketing and continue to play a role, but their participation in the promotional mix decreases at the expense of the Internet. On the other hand, the now is much harder for vendors to attract customers, and according to that, long-term strategy of maintaining good relationships with existing customers becomes even more important. In an attempt to link the behavior of today's customers with an effective means of promotion, it is necessary to consider the reasons that led to changes and opportunities of traditional and modern marketing resources. In this sense it is important to emphasize the potential offered by retailers in the context of the promotion, and internet as a communication channel.

Keywords:

Promotional mix, Internet promotion, shopper marketing, CRM

INTRODUCTION

Promotional and communications mix is a group of elements that can be used individually or in various combinations. Elements that are usually taken into consideration include advertising, promotion, personal selling, promotional sales, public relations, direct marketing, and sponsorships, direct mail, trade fairs, etc. In the last decade, a set of communication elements Internet promotion is added. This medium allows interaction between buyer and seller as it

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ranks among the attractive and increasingly used possibilities for promotion. Besides the Internet, in the role of promotional funds retailing appears more and more. Namely, changes in customer behavior are influenced by the introduction of new knowledge management strategies in dealing with them. For managing relations with customer in the literature we use CRM term that involves the implementation of strategies to attract and retain.

Given these two basic guidelines for the development of the total marketing strategy, it is necessary to create the promotional mix to meet the needs of effective customer relationship management. Today it is much harder to attract customers than previously, which becomes very important to maximize customers' presence in the shop and provide them the experience that will make customers to return. In this work will be highlighted changes in customer behavior that have caused changes in the use and selection of the communication mix elements, in the direction of increasing expectations of retailers in the role of promotional funds.

On the other hand, changes in customer behavior can be observed as a result of the influence of a wide spectrum of information possibilities about products and services, and the most responsible channel to inform customers of today is just the internet. These trends will be discussed separately, and the reasons why they are in the same study are precisely the changes in customer behavior that are the cause of their appearance.

PROMOTION UNDER THE INFLUENCE OF CHANGES

Many factors influence on the choice of promotional mix, but its objectives can be summarized in three basic: informing, persuading, and reminding the target market on the product or service. In developing this strategy, it is necessary to focus primarily on the available resources and promotion of cost and size and concentration of the market. In addition, researching market is necessary to determine what are the needs of consumers for information, based on which is possible to define objectives and ways of promoting communication.

The mass media are generally classified as print (newspapers, magazines, posters), broadcasting (radio, TV) or electronic (primarily, the Internet).¹²⁴ When we talk about the choice of media in the promotion strategy, a difficulty for the bidders is the growing number of TV channels, which reduces the effectiveness of traditional media.¹²⁵

¹²⁴ Schiffman L. & Kanuk L.: *Ponašanje potrošača*, Zagreb, MATE, 2000, str. 229.

¹²⁵ The main reason is media diversification (HBO – 1972, CNN – 1980, MTV – 1981, Discovery channel – 1985, Cartoon network – 1992, itd).

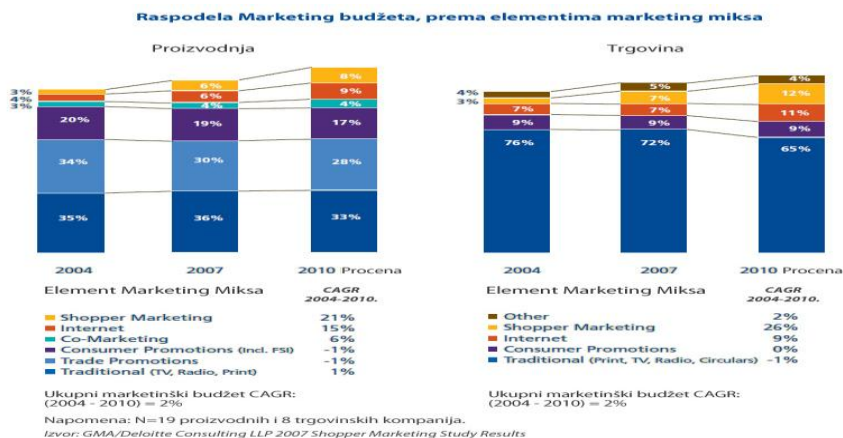


Figure 1: Distribution of marketing budget, 2004-2010¹²⁶

In addition to effect less in the role of television media, a similar situation exists with radio and print media. However, what is the same as in the earlier period is the fact that mass media remain useful and often effective when it comes to advertising of products with low unit value to customers located in most segments. Figure 1 shows the allocation of marketing budget presented by the elements of promotional mix. Here we can see that an increase of the budget to advertise through radio, television, and print media is almost non-existent or even decrease (1% increase for producers and 1% reduction per year for retailers).

There are a few reasons for this, all of which are based on changes in consumer purchasing behavior. As the "primary strategic responsibility of each manager is to continuously observe the environment and to lead company in accordance with changes in it"¹²⁷, in explaining the actual changes we will focus on those that affect the increase in investment in shopper marketing and internet promotion, but first it is necessary to explain the changes in purchasing behavior of consumers that have caused changes in the promotional mix.

¹²⁶ Shopper marketing: *Capturing a shoppers mind, heart and wallet* – Deloitte, 2007, strana 10.

¹²⁷ Milenović B. & Ratković M.: *Strategijski marketing, kako ući na tržište i uspešno opstati na njemu*, Beograd, Fakultet za trgovinu u bankarstvo, 2009. str.9



CHANGES OF CONSUMERS' LIFESTYLE AS THE REASON FOR PROMOTIONS IN STORES

To explain how lifestyle affects the consumption of media, we can point out several factors:

- The share of employed women rises;
- The way of shopping changed, more and more people consume in large format stores (hypermarkets and supermarkets);
- Much more time is spent on shopping, visiting much more retailers;
- Consumers informing on the Internet;
- A number of consumers prefer shopping online

In the European Union, there has been an increase of female persons from 60% in 2000 to 64% in 2009. Moreover, that trend is not diminishing, despite the economic crisis, as *West* reported, an online magazine of the European Union.¹²⁸ In addition, according to the report of the National Office of Statistics of the United Kingdom, in 2008 the number of women reached the number of employed men.¹²⁹ 13.6 million of women, and as many millions of men in 2008 were employed in the UK. Based on the same source, only a quarter century ago, the ratio was very different - just slightly more than 35% of women were employed. According to the RZSS data from 2010, compared to 2008, the number of employed women in the country decreased by 4.1% and in 2009 amounted to 43.0%. Interestingly, the number of employed men in the same period decreased by 6.7%, which suggests the presence of the trend of balancing gender structure of local labor force.¹³⁰

The second change highlights the growing importance of large-format store. Namely, small retail shops so-called convenient stores or the shop next door for years represented the major channel of purchase. With the advent of large format of stores, their shutting down was forecast, but that did not happen. Partly because of habit, proximity, or convenience of buying from the point of time, small businesses survived, but not in great number. Therefore, we can still say that a large store formats are taking lead and that today, almost half of the turnover of consumer goods, is undergoing through major retail chains (Figure 2).

¹²⁸ <http://www.west-info.eu/more-employed-women/>

¹²⁹ <http://www.statistics.gov.uk/default.asp>

¹³⁰ Republički Zavod za Statistiku Republike Srbije (2010), Statistički godišnjak 2010. str. 85-92.



Figure 2: Top 10 key customers in Serbia, a value market share¹³¹

Based on research in Serbia, the top three retailers are Maxi, with a share of 10.2%, followed by Roda & Mercator with a share of 6.3% and Tempo with 4.2%.¹³² Based on the same survey it was noted that even in countries in the region (more often, Czechoslovakia, Croatia, and Slovakia) enlargement of the retail market is forthcoming. In Slovenia, the first three customers account for almost 70% of the market.¹³³

The following factors of changes are related to perceptions of purchase. Customers come in daily contact with various retailers in a position to see how well retail implements or ruins some customer oriented marketing plans.¹³⁴ In fact, offering a wide variety of increasingly dominating shopping malls, shoppers spend more time shopping, so it is necessary to increase the quality and diversity of content in order to increase customer value. As with other factors of consumer behavior, this is not a characteristic of Serbia only, but of the whole region.

Based on the current state of trade and consumer behavior at the global, but also the role of an originator of some other changes, it is necessary to change the participation of elements of promotional mix in the direction of shopper marketing. This concept of marketing involves the promotion in the retail shop, and aims to expand customer value and performance of larger purchases than what was planned.

By definition, shopper marketing is advertising, promotion, and design initiatives within the actions that were agreed with the goals of building brands of suppliers, while continuing to create differentiation among retailers through customized execution thereof, which address the specific needs of customers and activate the shopping at the shopping area.¹³⁵

In recent years, the importance of internal marketing as a concept that affects the quality of products / services and customer satisfaction is emphasized. This can be confirmed on the

¹³¹ GfK Belgrade CT - Serbian Retail Monitor 2008-09. strana 27.

¹³² GfK Belgrade CT - Serbian Retail Monitor 2008-09. str. 40.

¹³³ GfK Belgrade CT - Serbian Retail Monitor 2008-09. str. 40.

¹³⁴ Milenović B.: *Upravljanje marketingom*, Beograd, Fakultet za trgovinu i bankarstvo. 2009. str.357.

¹³⁵ Shopper marketing: capturing a shoppers mind, heart and wallet, Deloitte, 2007, str.10.



example of shopper marketing, because its implementation depends precisely on the support of top management who are carriers of the development of the internal marketing concept. Activities that make internal marketing can directly affect the increase in employee satisfaction, which will create the right offer, and its quality directly affects customer satisfaction.¹³⁶ Without their support, all efforts made in the use of promotional opportunities as a means of actions can be meaningless.

Another reason for implementation of promotion activities is to increase loyalty to the stores. According to a survey of retail trends in Serbia, as much as 75% of customers are loyal to their stores.¹³⁷ Loyal customers expect constant surprises in store they visit, they should be provided by making use of actions as a means of promotion.

PROMOTION ON THE INTERNET

Functional advantages of this young medium over other electronic and non-electronic media, where interactivity is fundamental, completely changes the way we need to access the implementation and evaluation of the effects of promotional activities. As the Internet matures as a medium new forms of promotion appears that remain present for years with some modifications and reducing the presence. Research from November 2007, shows that companies in the U.S. have used following ways of Web promotion: banners (44.5%), blogs (22.8%), e-mail marketing (72.6%), e-mail newsletter (60.8%), browsers (13.7%) and others.¹³⁸

Table 2: The level of various electronic media/devices usage^{139 140} in households in Serbia and European Union

		2010	2009	2008
Serbia	TV	98,7%	98,6%	98,4%
	Mobile phones	82,0%	80,1%	74,5%

¹³⁶ Ratković M.: *Interni marketing u funkciji povećanja zadovoljstva kupaca*, Beograd, časopis Marketing, Vol.40 (2010), br.4, str.274.

¹³⁷ Nielsen, *Shopper trends* 2010, Srbija, str. 69.

¹³⁸ Clow, K. & Baack, D.: *Intergrated Advertising Promotion and Marketing Communication*, New Yersey, Pearson Education, 2010. str. 276.

¹³⁹ Republički Zavod za Statistiku Srbije, *Upotreba informaciono-komunikacionih tehnologija u Republici Srbiji* 2010. str. 12-15

¹⁴⁰ Eurostat Web servis, Information Society Statistics, http://epp.eurostat.ec.europa.eu/portal/page/portal/information_society/data/database



	Cable TV	42,6%	41,9%	40,5%
	Computer	50,4%	46,8%	40,8%
	Internet access	39,0%	36,7%	33,2%
EU 27	Computer	71,0%	68,0%	64,0%
Today's member states	Internet access	65,0%	60,0%	54,0%
EU 15	Computer	74,0%	72,0%	68,0%
EU Founding members	Internet access	68,0%	64,0%	59,0%
	97% EU households (27/15) had TV in 2006, and from 32 to 28% was having cable TV. In 2006, Eurostat stop monitoring this index.		Serbian data were collected in mid-April, while the Eurostat data refer to the previous year, and it is assumed that an equivalent amount was slightly higher, due to a difference of 3 months.	

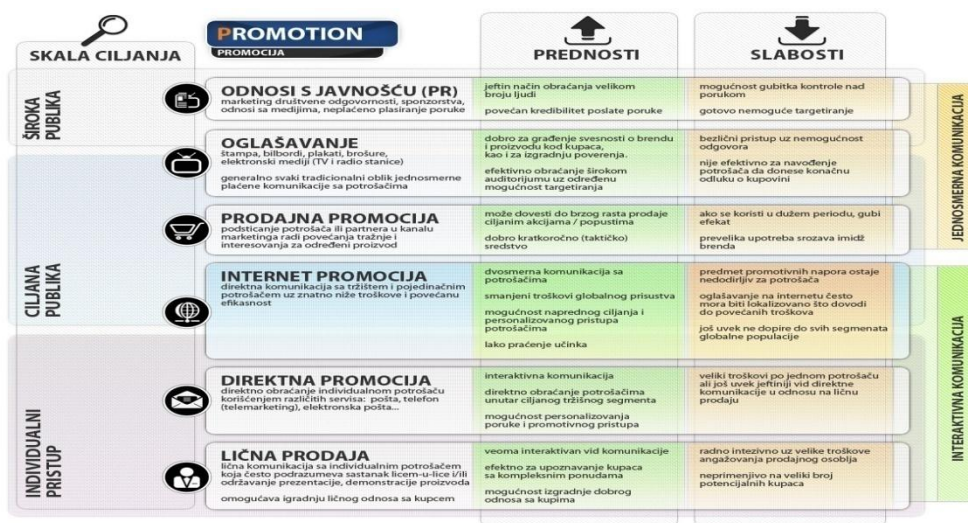


Figure 3: Summary of promotional mix elements with prominent advantages and weaknesses of the offered funds



Managers must recognize the difference between Internet and other media. Achieving success in promoting the marketing channel or channels of customer satisfaction is directly related to the degree of utilization potential of traditional and digital marketing assets. Knowing their differences enables us to achieve a positive effect of channels and their profitability. According to survey conducted by the U.S. Bureau of Statistics in 2000, more than 50 percent of households owned a computer and 42% had access to Internet at least once a day. According to the same source, in 2004 the number of households with computers has reached 60%. From Table 2 we can see that Internet promotion is becoming increasingly important substitute for traditional advertising. Thus, there has been a decline in the use of traditional media, according to research findings, "people watch TV less and less because they spend more time on the Web". Although earlier pointed out that the Internet will reach easier a younger population that is immune on TV advertising, today older users are also present on the Web, up to years old. Figure 3 provides an overview of the elements of the promotional mix with prominent advantages and weaknesses of the offered funds. Thus, the Internet promotion is a set of different techniques and models of promotion. Such promotion enables a combination of interactive communication features enables, individualized approach, and turning to mass market that could be highly effective and efficiently targeted, with the possibility of a completely personalized approach.

RESUME

Today's business environment involves the use of modern information communication technologies. However, these technologies have wider impact, because they often represent integrated means that most of the population uses on a daily basis. In addition, compared to not so distant past, media diversification has become a trend that causes some changes in methods of communication with the market. Thus, increased number of ways of informing and communicating with the target market, create an environment in which it is increasingly difficult to get to the customer. This situation causes a review of previous strategies of promotion and participation of communication mix elements in the overall strategy. In this paper, we emphasize the changes in the behavior of customers that require inclusion of the Internet as a communication channel within the strategy of promotion, but the possibility of promotion at retail is also emphasized. These two options are the innovations that have taken place in the promotion, and because of that, this element of marketing mix again earned the attention of academic and professional community.

Opportunities of promotions in the store gain greater significance if one takes into consideration the efforts that should be made to attract new customers. It is well known that attracting customers cost much more than implementing a strategy of maintaining relations with them. It is therefore important to enable existing customers a good experience during the purchase process that will make them return. In the same context it is necessary to affect the extension of the value of customers, which can be treated as a separate strategy within the CRM.



Changes in customers' behavior cause changes in marketing strategies in the direction of using retail as a means of promoting and integrating the Internet as a technology that has many possible applications. However, this does not mean we should ignore the traditional means of promotion, but we should combine them with the Internet, i.e. applying them within the possibilities offered by the retail environment.

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LEGAL FORCE OF COLLECTIVE AGREEMENTS IN BOSNIA AND HERZEGOVINA

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Abstract:

In this paper I will try to showcase the whole range of laws and legal provisions that are related to concluding a collective agreement in Bosnia and Herzegovina, and to explain their legal importance and force. Collective agreements have an important social significance and due to their creation and content they represent an interesting legal phenomena with aim to protect and achieve rights of employees, as well as to ensure business security of employers who want to build good relationship with employees and set up a safe environment regarding business.

Key words:

employee, labour law, collective contract, verdict/decision

COLLECTIVE AGREEMENTS IN THE LEGAL SYSTEM OF BOSNIA AND HERZEGOVINA

In accordance with the Constitution of BH, the field of labour and social law is under the jurisdiction of entities. Therefore, there is no unique labour law on the state level that would treat and maintain basic principles in the specific area. Labour legislative on the territory of Bosnia and Herzegovina is defined according to the internal territorial structure of Bosnia and Herzegovina, and accordingly, the issue that defines collective agreements was ordered according to the four labour laws.¹⁴¹

141 Law on Labour in the Institutions of Bosnia and Herzegovina (Official Gazette of BH, no: 19/02 and 35/03), Law on Labour of the Federation of BH (Official Gazette of the Federation BH, no: 43/99, 32/00 and 29/03), Law on Labour of Republica Srpska (Official Gazette of RS, no: 38/00, 40/00, 47/02, 38/03 and 66/03), and Law on Labour of the Brčko District BH (Official Gazette of the Brčko District BH, no: 7/00), with the amendments regarding Law on Labour of the Brčko District BH (Official Gazette of the Brčko District BH, no: 08/03, 33/04 and 29/05)



Within the labour legislative in BH, collective agreements are basically territorial, for they are valid only in the area of the entities, and the Brčko District as well. These agreements represent basic contracts on the base of which other collective agreements were/are being signed – on the cantonal level, within some particular branches, for one or more employers.¹⁴² The Article 1 of the Labour Law of the Federation of BH gives a short content review of laws, i.e. the most significant issues that are defined by this law, unless another (specific) law should specify them differently. The set up of this notion anticipates that some specific laws would be of a higher priority in comparison to the Labour law, unless some issues should have been specified differently. The very same article also treats the question of arranging and concluding collective agreements. The General Collective Agreement in the Federation of BH regulates rights and obligations of employers and employees in employment or regarding employment itself, salaries and wages, especially the lowest salaries, activities and working conditions of union, rules/regulation on the procedure of collective agreement negotiating and concluding, system and conduct of authorized bodies regarding a peaceful settling of labour disputes, and strike.¹⁴³

Collective agreement is obligatory and valid for all societies/companies, regardless of their capital ownership structure, administrative authority and services, police, public institutions and other legal subjects. According to the Constitution of Bosnia and Herzegovina there is an authority division between federal and cantonal level, and among others, in the field of social politics as well.¹⁴⁴

Labour law of RS treats the methodology and procedures of employment contract between an employee and employer – working hours, vacations and absences, salaries and wages on the basis of job completed, protection of labour rights, representation of union and employer, concluding collective agreements and its application; dispute solving between an employee and an employer; participation of workers and the union in the protection of labour rights; cessation of employment contracts; law enforcement monitoring and other rights and obligations as a result of employment on the territory of Republic of Srpska. Also, this law determines that a collective agreement, rulebook and a working agreement cannot deprive any worker of his basic rights, unless if it is specifically determined by Law. Therefore, collective agreements, rulebooks and working agreements can only specify more benevolent rights for a worker than this Law prescribes it, unless this Law determines it differently.

¹⁴² Neither for the territory of Bosnia and Herzegovina nor for the territory of the Brčko District collective agreements have been concluded so far.

¹⁴³ Official Gazette of the Federation of BH, no: 54/05

¹⁴⁴ Official Gazette of the Federation of BH, no: 1/94.



In the Republic of Srpska a general collective agreement was passed, which is effective on the territory of the Republic of Srpska, and refers to all employees and employers in accordance with the Labour law, unless some issues in collective agreement have been differently determined.¹⁴⁵ General collective agreement assumes a certain possibility for making branch collective agreement and collective agreements for one or more employers. Fundamental laws that determine rights and obligations regarding employment, salaries and wages in the institutions of Bosnia and Herzegovina are the Law on Labour in the Institutions of Bosnia and Herzegovina and the Law on Salary and Remuneration in the institutions of Bosnia and Herzegovina.¹⁴⁶

The Article 1 of the Law on Labour in the Institutions of Bosnia and Herzegovina determines rights, obligations, salaries and other reimbursements, as well as other issues regarding employment contract. It also determines the employment of:

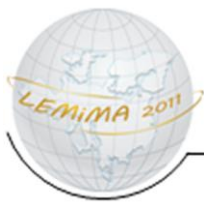
- a) employees in the institutions of Bosnia and Herzegovina and its branches that are not civil servants;
- b) employees in the institutions of Bosnia and Herzegovina that are strictly excluded from the Law on Civil Service in the Institutions of Bosnia and Herzegovina;
- c) employees that work in public institutions of Bosnia and Herzegovina, associations and foundations in Bosnia and Herzegovina, inter-entity corporations and other institutions designed to perform additional services in Bosnia and Herzegovina, unless another law should determine it differently.

This law applies on civil servants as well, unless it is contrary to the Law on Civil Service in the institutions of Bosnia and Herzegovina.

According to the Article 7 of this Law, which had been prescribed by the Decision of the Council of Ministers of Bosnia and Herzegovina, neither employment contract nor official document issued by the employer can proscribe lesser rights or worse working conditions that those proscribed by this Law. Specificum of this Law is that its provisions, though it is a law on the governmental level, do not refer to all employees in the State. It refers only to the employees that work in the government institutions, i.e. public sector on the governmental level. Labour law of the Brčko District treats the question of making employment contracts, including working time, salary, cessation of employment contracts, rights and obligations arising from employment, concluding collective agreements, peaceful solving of collective

¹⁴⁵ Official Gazette of the Republic of Srpska, no: 40/10.

¹⁴⁶ Law on Labour in the Institutions of BH (Official Gazette of BH, no: 19/02 and 35/03), Law on Salaries and Remunerations in the Institutions of BH (Official Gazette of BH, no: 50/08, 35/09 and 75/09), and Law on Civil Service in the Institutions of Bosnia and Herzegovina, (Official Gazette of BH, no: 19/02 and 35/03).



labour disputes and other issues that arises from employment on the territory of the Brčko District in Bosnia and Herzegovina, unless another law should determine it differently.

Besides, this law also prescribes making collective agreement in order to achieve economic and social measures, additional guarantees regarding employment, professional retraining, labour organization, remuneration and occupational safety of employees. It also prescribes that collective agreements shall not assume less benevolent provisions then those provided by law. After having adopted the Labour Law of the Brčko District ten years ago, no collective agreement has ever been made so far in this area. The main reason for being so is the fact that the Government and a large part of employers did not show any interest in this respect. The consequence of failing to conclude a general collective agreement is a disordered relation between the stratum of work and capital. Yet, if the general collective agreement had been signed, some of the basic social issues of employees would have been solved. Not even the Economic and Social Council of the Brčko District is effective in this area. The Council consists of government representatives, Chamber of Commerce and the Union representatives and its running mode is an essential condition for concluding a general collective agreement at all.

LEGAL NATURE OF COLLECTIVE AGREEMENTS

Collective agreements – after some provisions regarding labour law had entered into labour legislative and after case law and law study had approved collective agreements in practise – have become a source of Labour law. Though there are some different theoretical solutions about commitment of collective agreements, they have common landmark which is that they, in their nature, are arising from Civil Law. In fact, collective agreements are a sort of contracts that instigate legal actions for all persons belonging to a particular group (class or organization), who had already concluded (employment) contracts. Legal action of such an agreement covers even those members of the group who did not approve collective agreements, or they became the members of the group after the agreement had been concluded. In order to create such an agreement, it is necessary to have the approval of the majority in the group. Such an agreement mainly consists of general provisions that regulate specific legal relation or general conditions under which individuals, being the members of the group, should sign their employment contracts. A collective agreement set up certain obligation for employers and it should be applied on each and every employee who signed employment contract with the employer. Collective agreements consist of provisions that regulate relationship between the union and the employer, legal rules regarding workers' rights, terms and conditions, content and cessation of contract. A collective agreement is a special contract regarding Labour Law, and it is compulsory for both parties who signed it. In the first place, the purpose of collective agreement is to improve workers' rights, therefore, it is mainly signed for the benefit of employees, but also for the benefit of employer, who is keen to achieve social peace and partnership with the union and also to have a crystal clear situation as for the workers' rights. Existence and conclusion of collective agreements is proscribed by labour law and its very foundations regarding the conclusion can be found in the provisions of the Labour law. Provisions of



collective agreements contain general legal action, and, being as such, they amend or replace legal norms.¹⁴⁷ A collective agreement, not to mention that it has main characteristics of a contract, for it engages both contracting parties to determine mutual relationship/interests on a voluntary basis, has also certain traits of a regulation because it regulates rights of third parties. A collective agreement has another characteristic of legal provisions, for it has to be published in an official gazette. Employees can also achieve their rights through the law proceedings, not to mention the protection of rights for employees that has been proscribed by criminal codes of Bosnia and Herzegovina, the entities, the Brčko District, and let alone protections proscribed by labour laws. The present case law has shown that collective agreements in case of any dispute are treated as a legal provision.¹⁴⁸

CONCLUSION

Collective agreements represent an essential part of labour law, for they, as sui generis source of labour law, are becoming more dominant source of labour law. Collective agreements, regulating the rights of employees and a mutual relationship between an employer and an employee, include the state/country as a protector of socio-economic system that, in order to function properly, needs to improve its labour relations. Also, when it comes to collective agreements in terms of international relations of an employee in a public sector, such as civil servants, public employees, military, police agencies and employees in other public services financially dependant on the state budget, the state has a double role, as an employer and in the same time as the protector and a guaranty of the basic rights for employees. Positive legislation of Bosnia and Herzegovina consists of decisions on freedom of association and collective agreements that are in accordance with the international labour standards. Nonetheless, non-existence of general collective agreements on the state level of Bosnia and Herzegovina and the Brčko District brings us to a thought that Bosnia and Herzegovina has not completely implemented the ILO conventions and its recommendations on collective negotiations.

¹⁴⁷ *Basics of Labour Law*, Mehmed Kenović, Sead Dedi, Sarajevo 1999, p 86.

¹⁴⁸ Decision of the Supreme Court of the Federation of Bosnia and Herzegovina, no: Rev-794/04, date: September 6th..2005), First Instance decision of the Travnik Municipality Court, no: P – 435/01, date: March 19th 2004, Decision of the Cantonal Court in Travnik no: G2-523/01, date March 25th .2005, Decision of the Supreme Court of Republic of Srpska, no: 118-0-Rev-06-000 747 date: December 1st 2006, Decision of the Constitutional Court of Bosnia and Herzegovina no: AP-775/07



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ОРГАНИЗАЦИОННАЯ КУЛЬТУРА КАК СТРАТЕГИЧЕСКИЙ ИНСТРУМЕНТ АДАПТАЦИИ ШКОЛ К ИЗМЕНЕНИЯМ В ОКРУЖАЮЩЕЙ СРЕДЕ

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Аннотация:

В результате стратегической задачи адаптации организации в нестабильной среде произошли изменения в организационной структуре, основных процессов и организационной культуры. Организационная культура школы, как вид социального клея, смесь различных типологий. Исследование показало, что доминирование культуры "Клана", которая характеризуется хорошими человеческими отношениями, совместной работой и открытым общением. Управление в школе в значительной степени поддерживает культуру Адхократии. Учитывая важность лидерства с точки зрения влияния на политику и изменение организационной культуры школы, в ближайшем будущем можно ожидать все сильнее приспособление школы к турбулентным изменениям как во внешней среде, так и во внутренней среде. Исследование в значительной степени "потрясло" теоретические стереотипы и укоренившиеся предрассудки о школах, как вялых и инертных бюрократических организациях, которые плохо приспособлены к изменениям в окружающей среде.

Ключевые слова:

организационная культура, типы организационной культуры, мощь организационной культуры, анализ организационной культуры, изменение организационной культуры.

ВВЕДЕНИЕ

В современном глобальном обществе, на основе информации и знаний в качестве основного ресурса для выживания и конкурентоспособности организации, человеческие ресурсы стали важным (Тавсар, 2005). Организации создают культуру изменения, которая является гибкой и адаптивной в связи с проблемами в окружающей среде. В такой атмосфере человеческие ресурсы оцениваются через призму творческого потенциала, конкретного знания, навыки и практику адаптации к изменениям в окружающей среде (Hasanović, 2008). Большое количество школ в БиГ принимало проблемы окружающей среды и приняла изменения (Agić, 2009). Небольшое количество школ ожидает направления о изменении "сверху" и сопротивляются переменам. Учителя и другие работники с их навыками, умениями и богатым опытом из практики воспитательной



работы представляют огромный потенциал для развития конкурентоспособности школы на рынке образовательных услуг. Постоянное профессиональное развитие и обучение, то есть. обучение отдельных сотрудников, групп и всей школы создает предпосылки для успешной внутренней интеграции и внешней адаптации к изменениям в школьной среде (Hasanović, 2009). Школы отличаются по методам и формам работы, техническим оборудованием, скорости принятия изменений, внутренних отношений и связей с подобными школами. Успешные школы во главе которых успешные директора, не только в качестве менеджеров, но как и дальновидные профилированные лидеры. Они строят и интеграционную культуру обучения, которая через отдельные лица и коллективы интегрируется во все структуры школы как обучающейся организации (Sinanović, 2010). Поощрение и осуществление культуры обучения и трансформационного руководства во многом будет способствовать перестройке организационной культуры школ, как бюрократических организаций в сообщество экспертов, то есть. в "школу, которая учится", как успешная организация, адаптирующаяся к изменениям в турбулентной среде.

ТЕОРЕТИЧЕСКОЕ РАССМОТРЕНИЕ

Концепция организационной культуры

Есть много определений организационной культуры авторами, как сторонников когнитивных, так и символических школ (Mesner, 1995). Организационная культура представляет собой накопленное знание групп - мышление, чувства и знания о мире, которые позволяют успех группы (Schein, 1999:21). Важно, что организационную культуру как социальное существо может выучить и адаптировать к изменениям в окружающей среде. Schein (1997: 17) по критериям прозрачности и понимания, организационную культуру рассматривает на трех уровнях (табл. 1). Организационная культура, считает Schein (1999: 29), возникает, когда организация начинает формировать общее мышление и совместное использование общих норм, ценностей и эмоций, все на основании общих переживаний. Наиболее важными факторами, влияющими на образование и на изменение организационной культуры являются: групповая динамика, лидерство и обучение (Mesner, 1995: 79). Существующая организационная культура представляет собой сумму общего убеждения, предположения, исторические события, события, символы, философию, ритуалы, обычаи, обряды, традиции, мифы, идеологии, рутинные процедуры и практики, которые вплетены в существующую структуру организации (Mesner, 1995).



Таблица 1, Уровни организационной культуры

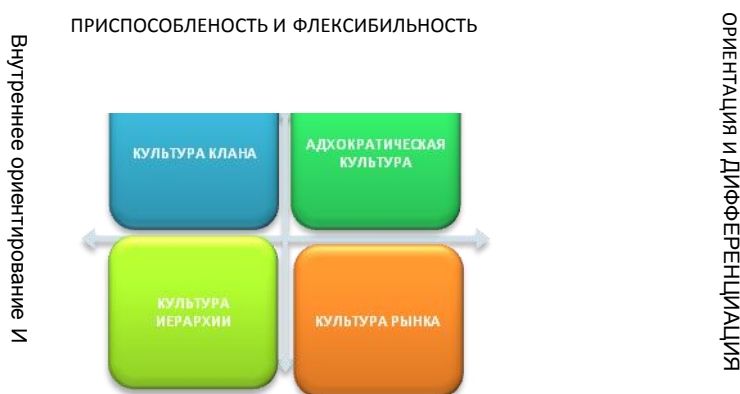
Уровень организационной культуры	Основное содержание
Видимые элементы организационной культуры(артефакты)	Видимые организационные структуры и процессы (видимо, но тяжело объяснимое)
2.Допустимые значения	Стратегии, цели, философия организации (частично видимые)
3.Исходные предположения	Невидимые и сами собой понятные убеждения, знания, мнения, чувства, основные предположения

Источник: Schein, 1997: 17, Organizational Culture and Leadership

Изменения организационно культуры, по мнению многих авторов, происходят в кризисных ситуациях. Tavčar (2005: 65) считает, что изменение организационной культуры должно быть проведено быстро. В таких ситуациях, реализуются, так называемые. преобразовательные (радикальные) изменения, где руководство организации играет ключевую роль в продвижении новых и уделении старых ценностей организационной культуры (Hasanović, 2008: 9). Наибольшее число авторов модель изменения организационной культуры представляет через три фазы (Hasanović, 2008: 10): 1) анализ существующей организационной культуры (культурная оттепель старой культурной формы), 2) оценка организационной культуры (переход к новой организационной культуре), 3) Разработка новых организационных культур (замораживание изменения организационной культуры).

Типология организационной культуры

В литературе можно найти множество моделей для количественного исследования организационной культуры. Общим для всех этих моделей усилия по сокращению культуры несколько основных аспектов, которые отражают основные культурные характеристики, которые можно измерить и сравнить (Hasanovic, 2008:14



СТАБИЛЬНОСТЬ И КОНТРОЛЬ

Рисунок 1: Типология организационной культуры (Quinn, Cameron, 1998: 32)

Модель конкурирующих ценностей (Cameron, 1998, 1999) принадлежит к этой категории исследовательских методологий и лежит в основе для построения инструмента исследования (анкета OCAI).

Модель конкурирующих ценностей - CVF (Competing values framework) основана на двух измерениях, которые описывают две конкурирующие ценности, которые являются ключевыми для успеха любой организации:

1. Гибкость и приспособляемость против стабильности и контроля
2. Фокус наружу и дифференциации, в отличие от внутренней ориентации и интеграции.

Основываясь на этих двух размеров (см. рис № 1) авторы выделяют четыре типа организационной культуры (Cameron, Quinn, 1999: 32): Клана или культура межличностных отношений („Human relations model“), Адхократия или открытая система („Open system model“), Рынок или культуры рациональных целей („Rational goal model“), Иерархия или культура внутренних процессов („Internal process system“). Quinn i Cameron (1998: 47-49) отмечают, что все четыре типа организационной культуры, в определенном отношении присутствуют в организации в зависимости от стадии развития. Они



представляют различные взгляды на мир и систему моральных норм, которые являются сильной идеей работников в их повседневной работе.

МЕТОДОЛОГИЧЕСКИЕ ОСНОВЫ ИССЛЕДОВАНИЯ

Потребности, цели и гипотез исследования

Предметом исследования, представленного в данной работе, на самом деле является достижение более глубокого понимания организационной культуры школы как одного из стратегических сегментов адаптации к изменениям в школьной среде. Мощная культурная организация способствует успеху, и очень важно, чтобы установить, сколько на самом деле культура является мощным фактором успеха школы на рынке образовательных услуг. Создание разрыва между существующей и желаемой организационной культуры в школе, будет служить основой (отправной точкой) для изменения плана выравнивания организационной культуры в сравнении с видением, миссией и стратегическими целями школы.

В соответствии с потребностями нахождения ответов на перечисленные и другие вопросы исследования, предствлены следующие цели исследования:

- Сделать отображение современной теории управления, которая изучает изменения в процесс создания, формирования и изменения организационной культуры школы, особенно в области теории управления в сфере образования,
- Установить какие основные характеристики организационной культуры школы или типы организационной культуры являются доминирующими в школе,
- Установить существование какой-либо разницы между руководством и работниками школы в отношении с существующей и желаемой организационной культуры школы,
- Установить основные различия между существующей и желаемой организационной культуры, в какой степени школа имеет элемент сильной или слабой культуры,
- Предложить программу мер по укреплению или изменению организационной культуры школы в соответствии с результатами эмпирических исследований.



Основная гипотеза исследования (Ho) гласит: "Школа" X ", как успешная образовательная организация характеризуется преобладающим типом организационной культуры, которая делает ее уникальной среди учебных заведений." На основании основных целей исследования гипотеза была разложена и точно определены следующие рабочие гипотезы, чтобы проверить их в исследовании:

Г1: В школе существуют различные организационные культуры,

Г2: Команда менеджеров и сотрудников школы предпочитает различные преобладающие типы организационной культуры,

Г3: В школе есть мощная организационная культура

Методы, образца и научно-исследовательская организация

В контексте количественных парадигма исследования основным методом исследования был использован метод опроса. Техника исследования организационной культуры школы – вопросник OCAI (Organizational Culture Assessment Instrument), который был построен на основе теоретической модели конкурирующих ценностей (Quinn i Cameron, 1998, 1999). Инструмент для оценки организационной культуры включает в себя шесть компонентов вопроса (Quinn i Cameron, 1999: 20-25) и на каждый вопрос предлагает четыре различных требований, которые на самом деле отражают некоторые типы организационной культуры ("Клан", "Адхократия", "Рынок", "Иерархия "). Целевой группы населения для исследования являются рабочие в смешанной средней школе, которая принадлежит к рангу от пяти наилучших школ в кантоне Тузла. В исследовании были включены сотрудники (около 20% от общей численности населения). Опрос был проведен в 2010 году, и те из репрезентативной выборке, участвовали в добровольной основе, и их анонимность гарантируется.

АНАЛИЗ И ОЦЕНКА ОРГАНИЗАЦИОННОЙ КУЛЬТУРЫ В ШКОЛЕ "X"

Результаты исследования и интерпретации

Результаты исследования (см. рисунок 2) показали, что в школе "X" присутствуют все четыре типа организационной культуры (Cameron, Quinn, 1998, 1999): 1 Клан, 2 Адхократии, 3 Рынок и 4 Иерархии. Самой мощной и наиболее интенсивной культурой является культура "Клана" (35,5%), представляющая собой господствующую культуру школы, характеризуется наличием хороших межличностных отношений, совместной



работой и определением, и существованием открытого общения. На втором месте находится культура "Иерархии" (24,5%), которая является мягким преимуществом по отношению к культуре "Адхократии" (22,6%). Это означает, что стабильность, предсказуемость, безопасность труда играет ту же роль, что характерно для "иерархии", больше ловить новые ценности, такие как творчество, новаторство, гибкость и сосредоточиться на развитии, которые необходимы характеристики "Adhokracije". Культура "Рынка" (17,4%) была наименее представлена в организационной культуре школы, что означает, что школа не направлена любой ценой на результат, и не практикует грубую борьбу за распространение своего влияния, осуществление гегемонии и лидирующие позиции на рынке образовательных услуг. Подтверждена основная гипотеза (H₀) исследования, что "Школа X", как успешная образовательная организация характеризуется преобладающим типом организационной культуры, а также и разработка Г1, что „в школе существуют различные организационные культуры".

На основании результатов исследования, организационная культура, "Клан" (см. рисунок 2), как преобладающий тип организационной культуры, сохраняет приемлемые значения для всех членов школы, желательные не только в настоящее время (35,5), но и в будущем (40,5) своего существования. Хотя культура "Иерархии" (24,5) по-прежнему занимает важное второе место в общей культуре в школе, она является менее предпочтительным в будущем (15,3). Культура "Адхократии" в настоящее время (22,6) занимает третье место и в значительной степени угрожает культуру. "Иерархия", в будущем (31,3) должна быть по-настоящему выражена в общей культуре организации (творчество, инновации, новые продукты и услуги и т.д.). Культура "Рынка" не является характерной особенностью организационной культуры в школах ни в настоящее время (17,4), а не будет ни в будущем (12,9).

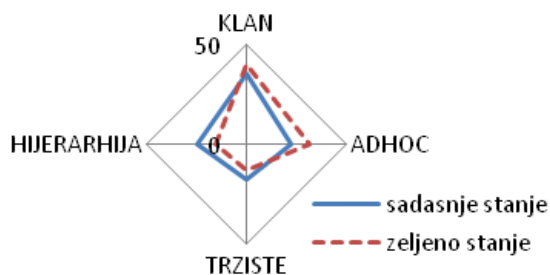


Рисунок 2.: Обзор существующей и желаемой организационной культуры на уровне школы "X"

Если сравнить результаты опроса исследований для руководства школы и учителей (см. рисунок 3), то можно установить, высокую степень согласия на важность культуры "Клан" (35,8 / 35,4) для текущего функционирования школы.

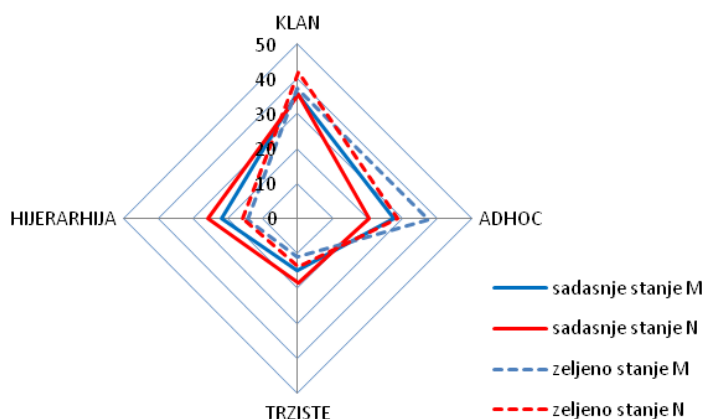


Рисунок 3: Существующая и желаемая организационная культура - управление / сотрудники школы

Такое согласие не видно в других типах организационной культуры, и наиболее выражено различие в культуре "Адхократии" (27,5 / 20,4), где несоответствие является отрицательным (-7,1), или в культуре, "Иерархия" (21,7 / 25,8) с положительным расхождением (4,1). Это говорит о том, что учителя застенчиво наблюдают за управленческой командой школы в их усилиях поощрения таких ценностей, как собственной инициативы, экспериментирования, творчества, инноваций и полной свободы сотрудников взять на себя ответственность за свои собственные и результаты школы в целом. С точки желаемого состояния школы в будущем, культура "Клан" (37,5 / 41,9) до сих пор самое важное место для обеих категорий опрошенных. Положительное расхождение (4,4) говорит нам о сильном желании учителей культуры "Клана" и продолжает укрепляться в будущем. С точки зрения управления школы, культура "Адхократии" (37,5 / 28,5) в будущем должна догнать культуру "Клан". На основе этих результатов, Г2, которая гласит: "команда менеджеров и сотрудников школы предпочитает различные преобладающие типы организационной культуры", не была подтверждена. Это означает, что обе группы опрошенных предпочитают же преобладающую культуру "клан", в то время как различия с другими видами культуры очевидны, но не являются непреодолимыми в адаптации к изменениям в школьной среде.

Гармония организационной культуры со стратегическими целями развития школы означает, что различные виды организационной культуры поддерживают тот же распространенный тип организационной культуры в настоящее время.



Из обзора исследований опроса можно сделать вывод, что во всех шести измерениях организационных исследований культуры (1. способ хранения, 2. школы клея, 3. критерии успеха, 4. основные характеристики, 5 системы управления человеческими ресурсами, 6 стратегическое значение для школы) преобладает культура "Клана". Это говорит нам, что "школа имеет мощную организационную культуру", подтвердив тем самым гипотезу ГЗ данного исследования. По мнению опрошенных, мощная культура "Клан" (39,0 до 42,0) будет влиять на функционирование и жизнь школы не только в настоящем, но и в будущем.

ЗАКЛЮЧЕНИЕ

Это исследование организационной культуры школ "X" привело к очень важным открытиям. Эти идеи будут очень важны для финансирования методологии исследования организационной культуры в средних школах в Боснии и Герцеговине. Самое главное, мы можем сделать следующие выводы:

1. Школа как очень успешное учебное заведение имеет мощную организационную культуру "Клан". Это нарушает теоретические предубеждения о школах как бюрократических организациях, где формальные правила и процедуры ("Иерархия") основа работ всех сотрудников.
2. Мощную организационную культуру "Клана" поддерживает обе группы опрошенных, то есть. менеджмент тим управления и школьные учителя. Во всех шести размеров исследования значением существующей организационной культуры школы, в первую очередь была ценность культуры "Клан". Это теоретическая концепция "конкурирующих ценностей" (CVF) самый мощный доказатель организационной культуры школ, что характерно для успешных организаций.
3. Различия во взглядах и мнениях руководства и сотрудников школы, с точки зрения желаемой организационной культуры, в будущем, не являются непреодолимыми. "Критическая масса" учителей, которые осознают важность культуры "Адхократии", с точки зрения укрепления конкурентоспособности работников и школы в целом, должна быть усилена.
4. Запуск в школе должен быть "модернизированный" в консолидации личной ответственности за достижение своих учителей, и целей развития школы. Трансформационное управление может в значительной степени дополнить и так называемое. "Совместное управление", где инновационные и творческие коллективы и отдельные лица, самостоятельно ставит цели и достигает их в духе общего видения и стратегических целей школы.



5. Школа может сделать "учебный план преобразования изменения" на основе разницы между желаемой и существующей организационной культурой и обеспечить деятельность и меры для поощрения и укрепления культуры "Адхократии", и освобождение от культуры "Иерархии"

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BUSINESS ETHICS IN TIMES OF CRISIS

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Abstract:

Long history appears to be directed according to the simple rules. Century after century, it generalises political freedom and channel its desires according to their economical expressions. Ethics presents rules and principles which define both proper and improper behaviour. Business ethics gives the best diagnosis and reflects the behaviours, actions and life styles of people. Lack of business ethics is the first to show that in the suitable moment in a certain business subject or company a scandal is unavoidable. Mutual trust is essential for running a successful business, for developing creative and working atmosphere at all the levels and in all the communities. However, managing economy has always been obstructed by different, obscure forces, powerful people, who profit on chaos. They plan their moves much longer than simple, honest business people or managers can suppose.

Key words:

ethics, market, globalization, crisis, economy

INTRODUCTION

New international system dominated by the USA resulted from cold war, while the European Union was born in different surrounding, that existed during the life of European union. The European Union never managed to become the third force (the USA – the USSR-European Union) but just the balance to the USA.

The greatest task for EU is its enlargement to provide dimension of security. The next task is implementation of economic and monetary union – EMU, with consolidation of unique market and political cohesion.

When there are radical changes going on, politicians lose control over economy. Analysis of economical courses shows that the politicians to have control over them make strategic compromises with the new elite in power.



Capitalists of catastrophe do not have any reason to restore what once existed. It was best said by Michael Battles¹⁴⁹: „Fear and dissolution gave us the real chance“. This former operative of the CIA recollects how the chaos of postinvasion in Iraque helped his still unknown security firm „Custer Betls“ to extort the contracts with federal government valued 100million dollars. These words could serve as a motto of modern capitalism – fear and dissolution are catalysts for every new leap henceforward. Milton Friedman¹⁵⁰ who in midseventies was the advisory to the Chilean dictator Augusto Pinochet, realised how to use shock therapy or big chrisis. It was the most extreme capitalistic transformation the world had ever seen, and was known as the revolution of Chicago school of economics, for most of Pinochet’s economists were graduates from Chicago School of economics.¹⁵¹ As gaining of knowledge can not be possible without work, human acting can not be imagined without it. That means that in practice (i.e ethics) we face the difference between universal and general, already seen in Kant’s theory of philosophy. As work must rule the moral field, thus moral rules must have the same form as laws of nature, and that is universability, which is sufficient, and because of that the basic law says: "Act only according to that maxim whereby you can at the same time will that it should become a universal law without contradiction." Ethics presents rules and priciples that define proper and improper behaviour. Modern economic and business dinamics demands incrising openmindednes, freedom and liberalism of all the economic subjects. That implies the high level of trust or social capital, i.e. initiates the dilema about the relation of economy and ethics.

GLOBAL MARKET

When the main goal of the Cold War was accomplished, the fall of the Iron curtain, the countries lost the control over market, because the politics was not able to manage economy. Economy did not serve politics that represented its citizens, but it turned to the economy of scums with the aiming only the easy and quick profit at the expense of the consumers. Two symbolic events at the beginning and at the end of Cold War, Marshals Plan and the Fall of Berlin wall, are two opposite egsamples of the complex relation of politics and economy and enable better understanding of the proces, from the control the politics have ove economy to the

¹⁴⁹ Michael Battles, the former officer of the CIA, now the owner of defense contractor “Custer Battles” that offered services to governments all over the world.

¹⁵⁰ Milton Friedman, a professor at the University of Chicago, an inventor of the "shock program", died November, 16 2006 in his ninety-fourth year.

¹⁵¹ Chicago school of economy was attended by a few presidents of the USA, British prime ministers, Russian oligarchs, Polish finance ministers, dictators from the Third world, secretaries of the Chinese Communist party, directors of International monetary fund, as well as the last three directors of Federal reserves of the USA, and many others.



situation in which „rogue economy“ hold politics in check. Paradox is that the process of democratization from the West was the one to provoked undemocratic economic forces to lead the transition of the countries from communism to global capitalism. The whole nations have fallen into poverty and anarchy, and that vacuum, with no social control, were overtaken by exploiters and „protectors“ of globalization. Global market where it can intrude and corrupt, disturb traditional economy from within is the most suitable for rogue economy. To understand nature of rogue economy, we should start from the very roots all to the continuous competition of politics and economy, „underground“ war that characterizes the whole course of history.¹⁵²

The fall of the Eastern block starts global deflation, initiated by the inflow of labour force from the former communist countries to the global economy markets that cut down the salaries. There is too much labour force and insufficient capital.

To global market, since the fall of Berlin wall, together with the workers from Eastern block, have come the Chinese, the Hindus and many others who used to work within closed economies.

CONSEQUENCES OF GLOBALIZATION

One of the former directors of American federal reserves, Alan Greenspan, concludes that the fall of communism is one of the reasons why millions of cheap workers have come to the international market.

In merciless competition with newcomers - outsourcing, a European is forced to compete in cruel competition, which cuts down the price of labour force. Where they do not succeed to lessen the expenses, many companies move their production to foreign countries - offshoring.

Politicians and economists underestimate the consequences of offshoring, especially the bumerang effect, which this movement has on economy of industrial countries.¹⁵³

Trade unions are forced to accept cutting down of the salaries, the increase of productivity and longer work hours to make the production stay in their country (the most recent case in Italy in car company „FIAT“, where the whole action was led by the representative union).

¹⁵² Loretta Napoleoni, *„Rogue economy“*, publisher „HESPERIAedu“, Belgrade, 2010

¹⁵³ Alan Blinder, the former vice president of American federal reserves:



Many employees now work without collective agreements, which in accordance with international law should guarantee minimum wages and contributions and social assistance of unemployed is either minimized or completely abolished. Comparing to the USA, the Europeans are in a somewhat better position. The future and perspective of the new generations are gloomy, because the production expenses are lessened everywhere while the salaries in industrial world stagnate. This could go on for some time, until the salaries become equal both in undeveloped and developed countries, whether they are raised to the level of those developed or cut down to the level of those undeveloped.

Global transition could last a few decades. High education will not be sufficient to protect the future generations. They will become the new proletariat of globalization.

The middle class in the West is pushed to poverty. The reason for this is the fact that the West has lost the East competitive – communism, which was “non perfect” enough to survive but was “balance on the scales” of the working class. After the fall of the communist party, market economy of the capitalism remained as the only way to lead the economy. Thus the governments round the world were given great stimulus to become parts of international economy system.

The development of the internal market of the BRIC states (Brazil, Russia, India and China) and the incorrect attitude of American bank managers leads to a big economic crises with the unpredictable consequences. In 2006, the whole American debt was three times higher than the BDP of the country. Installments that they cannot pay are now financed by the installments of the other credit, with the interest higher than the first one. That politics has dramatic consequences on putting the families and customers into debts.

Banking of the banks which used to give long term loans in 2007, lead to the disturbance of the market of real estates, which influences the complete economy of the USA and provoked the new economic crisis of the world. Independent economists were not surprised by the new economic crisis. Observing the behavior of the politicians, who refused to listen to their warnings, Elizabeth Warren, professor of the Law at Harvard Law School, predicts bankruptcy of more than five million families. Will the financial crisis end with the return of Wall Street?

Maybe the American banks have found the “model” for this behavior in Serbian banking: “From 1993 to 1994 about billion dollars were transmitted out of the country. In military bags money was taken out from the country to the different bank destinations”.¹⁵⁴

¹⁵⁴ Loretta Napoleoni, “*Rogue economy*”, publisher “HESPERIAedu”, Belgrade, 2010 – Expert for international terrorism and economy in the world



AMERICA AND EUROPEAN COUNTRIES¹⁵⁵

The crisis is according to the principle of deflator nature. Pensioners and users of capital profits who are the owners of money properties want the money value to stay stable. They use this influence to insurance their life standards. On the other hand, young people who find work, have to work more and more, having less and less perspectives for the future.¹⁵⁶

The big amounts of capital are responsible for the processes which lead to increasingly powerful capital flows, and thus being the important cause of the crisis. Karl marks was right to claim that the phase of unlimited speculations does not lead to formation of socialist world community but the whole flow of economy starts from its very beginning.¹⁵⁷

The world fell into global finance crisis at the end of 2002. The biggest european bank hsbc announces write-offs up to 10 billion \$ on their subprime papers, and then american hypothecate financier new century financial, had to announce insolvency, having been the great player in businesses with bad credits. Semi phishing structure of the u.s. real estate financing became more and more obvious, and the change of trend in american real estate prices could not be ignored any longer. Case – shiler – index of the prices of houses in america started stumbling, and its end cannot still be seen.

Explanation for this is easy: hedge-fund branch situation was tensed across borders. Many funds had to sell their good positions, just to buy bad ones again, those they got rid of in blank sales. This pressed the price of good positions and simultaneously raised prices of those bad.¹⁵⁸

In the autumn of 2008, politics returned to the world of finances. Banks went over to the state ownership, so they were burdened with additional levies.

The u.s. rescue package of 700 billion dollars from october 2008 is one of the greatest singular state interventions since great depression. Repurchase of credits and bad stocks should relieve the banks. At the repurchase we mentioned, there could be a problem: if the state pays little, then the banks are still in danger. If the state pays too much then the taxpayers are punished. To resolve the problem the banks should, in a kind of “reversed auction” lower the prices of their

¹⁵⁵ Max Otte, *“The breakdown occurs”*, publisher “Romanov”, 2009, Banja Luka

¹⁵⁶ Kurt Hans Biedenkopf, *“Maltreating grandchildren”*

¹⁵⁷ Karl Marks, *“Capital”*, 3rd edition, IGZ “Prosveta”, Belgrade, 1979

¹⁵⁸ Quant-Quake – quant earthquake of hedge funds where good actions and investing classes fall down and bad ones raise.



stocks until the state wants to buy them. This fund of stabilization suits the banking lobby, which would be used by the banks after short hesitation. That is how relatively nonsolid banks are rewarded through the action of state rescue package.¹⁵⁹

Most of the managers are acting as though everything was normal. The us rescue package was, amongst other things, used to pay twenty billion dollars of premiums and prizes for managers in wall street in 2008. Those who are in favor of the free market don't have anything against a small grasp into the state property. It is similar in other countries.

American economy is at the "bottom". The same as it was during the great depression in 1929, the fall of world economy started in this country. There are multiple problems the american economy has been suffering from since the crisis: massive indebtedness, threat of the house values falling, awful state of the car industry, shaky dollar situation, bad infrastructure, big losses in the pension fund seen in the falling prices of the stocks, as well as diminishing number of the ever poorer people of the middle class.

Europe "looks" like a stable and safe haven. European foreign trade is becoming more misbalanced, indebtedness of the citizens slowly becomes as high as in america, and state debts are becoming as high as those of japan. In europe, for now, there are no social differences that are noticeable in other countries, and some europeans are doing "well".

Europe is not ready to combat the crisis the world is facing. The raise of economy is slower, and the citizens are growing old at a faster pace than in america. A scenario similar to the japanese is almost inevitable. Japan's vice position in the world is taken over by the chinese economy, and india aspires towards the third place.

After the inflating of the economic bubble finishes, europe can use this chance, whether it ends in a big and fast catastrophe, or slowly falls into itself¹⁶⁰.

SOUTHEASTERN EUROPE AND THE BALKANS

Will the poverty and inequality in rich countries bring to new violence? Arab countries are going through the same situation the countries of eastern and southeastern Europe were surviving in the past. Will it be the birth of democracy or extreme Islamism? Bringing the whole process of "transition" into countries that don't have a democratic system or any democratic opposition makes it an adventure with a clouded outcome that brings fear of the

¹⁵⁹ "Bank Runs" – it is the situation when people who lost confidence in their banks form the long lines in front of banks waiting to withdraw their finances.

¹⁶⁰ Max Otte, Princeton graduate, Professor of Corporate Finance at the Fachhochschule Worms in Germany



Islamic and radical political parties winning. Nothing good can be built on ruins, especially if everything falls into ruin.

Everything points to the fact that the year 2011 won't bring better economic and political stability to the Balkans. When it comes to stability, conflict and the murder of four demonstrators in Albania are just the first hints at the serious political instability in the region. In the republic of Macedonia the oppositional parliament boycott and the rising dissatisfaction of the Albanian people threaten to cause disarray and conflicts. The discontent of the Croatian people and their plea for equality through creating a Croatian national entity finds incomprehension in Sarajevo. To the pressure on the Serbian communities in the north of Kosovo (and Metohija), we should also add the political insecurity in Priština and also the political instability in Zagreb and Belgrade, and the uncertain transition of administration in Podgorica.

The Pandora's Box with its scenario of threats, theories of culprits and conspiracies, shows of sacrifices, fantasies of defense and cliché heroes, brings to traumatic happenings that aren't necessary¹⁶¹.

SERBIA AND ITS BUSINESS CONDITIONS

The unrelenting statistics say that in Serbia in 2002 life was better; if we look at how high a salary we needed to buy specific products. That same year, the average salary was 320 EUR.

At the end of 2005 the economical growth languished. The situation became very alarming; it requires thorough analysis and redefining of the current concept of economical politics¹⁶². What is the reason for the low salaries workers get – low and under quality work compared to other workers in the world? Are the “duties” so high there isn't any money left for salaries? Or do the “owners” just underpay us?

In the last two – three years over 400.000 workers lost their jobs¹⁶³. In this moment 3.500 highly schooled experts are out of work only in Nis. The statistics calculated that for buying food comparing to the house budget in Europe, we spend the most – 34.1%. Economy concludes that we have small earnings because we don't work enough, and that is the reason

¹⁶¹ Holm Zundhausen: *“History of Serbs from 19th to 21st century”*, “CLIO”, Belgrade, 2010

¹⁶² Pušara, K, *“International finances”*, BK University, 2006, Belgrade

¹⁶³ Statistical data of International Monetary Fund brought up at 7th session, Belgrade, February 2011



why the food is expensive and we spend more than we make. Our trading with the world creates a deficit of five to six billion Euros. In those circumstances we have to spend a quarter of BDP for paying, and that means that even what we create can't be used. Foreigners realize that our salaries are without doubt among the lowest in the world and the expenses that are piled on them (all expenses of a very expensive country) are much higher than in developed countries.

We would all love our standard to be higher, to earn more in shorter work hours and pay less for food. For something like that we need appropriate economical policy, social climate and politics in favor of those who want to work.

Employment, labor market and trade union organizing is very different to what it used to be when we reached the conditions for democratization and more serious transition. They are mostly conditioned by the state in which there are practically two functional, almost completely different economical and social systems. In one of them there is a highly competitive trading market, with all the consequences for the workers and the syndicates. A part of the Serbian economy lives and works in conditions of concluded transition and act according to the characteristics of post transitional period. The other part of the economical structure of the Serbian economy functions in the systematic post socialist vacuum of rules and principals of change, referring to those companies that haven't realigned nor reconstructed their market, and because of the potential social problems, they are exposed to a special, careful state treatment, and even government volunteerism¹⁶⁴.

"What was the logic in closing 200.000 jobs, and then allocating 900 million Euros from the state budget for opening 50.000 new work places, and even calling it a good move? Simple math indicates that, for example in textiles, where the maximum salary is 200 Euros, the employer gives about 140 Euros for contributions. It can't make up for the annual interest on the money that is engaged to open those jobs and even if it is deemed as an interest-free investment, you would need at least six to seven years to recover the invested. The foreign investors have to be equally treated as domestic ones¹⁶⁵".

The year we are in right now will be a year of unemployment, in which people will lose their jobs and no one will be able to put an end to it.

¹⁶⁴ Đukić, P., "*The business climate in Serbia and integration into EU*", Faculty of Commerce and Banking, "Janičije and Danica Karić", Belgrade, 2007

¹⁶⁵ Nicović, Đ., "DANAS", Belgrade, 16th February 2011



WORLD IN GENERAL

Every era comes to an end. The more brilliant the era the more turbulent its ending. The breakdown that started at the end of 2007 was the biggest financial collapse since 1929, and it marked the beginning of the worst economical problems since the Great Depression.

It's not horrible to be in debt. Loans and debit, if used carefully, describe the lifeblood of modern economy. But if misused, they can be fatal. Economy is a science of cross-dependence, and its invisible battery is the market. Discoveries and inventions get a completely new meaning when they are shared with others, i.e. traded. The basic users of the "trade" aren't the inventors and the users of the new products, but the people who charge them. Every day all over the world people do incredible things. It's about time that their governments unite the human genius with their inventions, and to make new means of cooperation. Economy based on huge markets in growing (BRIC – Brazil, Russia, India, China,...) are large enough for significant independent economical activity, i.e. internal demand, which is not based on exporting into western countries. We are living in a time of the third greatest power shift in the modern ages. The "emerging markets"¹⁶⁶ are mostly located in the countries of the third world. In this way an international system is formed in which countries from all over the world aren't objects or observers, but equal participants. The international system that is being formed will surely be different from the previous one.

CONCLUSION

Regulating the world financial market is more an illusion than a reality, but even so it might be reached by taking proper measurements for rehabilitation of the consequences of the economic crisis. Optimistic statements issued by the government about the "crisis being over" are aplenty, but in the everyday life of the citizens, there are no indicators of it being true.

The state of economy in Serbia requires a program of economical recovery in three directions¹⁶⁷. The first and basic course of action of the economic policy is the development of new small and medium private companies and creating a favorable environment for developing new private initiative. The second important course of action of the economic policy should be aimed at repairing public enterprises. Repairing these enterprises is only possible by

¹⁶⁶ Antoine van Agtmael, investment consultant, created the term "emerging markets"

¹⁶⁷ Kostadinović, S, "Company Law", "ŽIG", 2006, Belgrade



reconstructing and privatization. The public sector should be made a corporation that works by abiding to the law about private companies, and in the future it should be working on establishing a public-private partnership. Third important course of action of the future economical policy would have to be aimed at intensifying capital investments into the economical infrastructure. That should be the beginning impulse and generator of the new economical cycle in Serbia. The goal is social progress and profit. It is necessary to make a tripartite dialogue with the state, employer and employees, because all of them are on the same side. Variant choices and making certain economic decisions, being they optimal or not, causes redistribution of material goods, services and manufacturing resources. Changing relationships in the distribution opens the possibility for the confrontation of conflicting interests of individuals, social groups, layers and classes. According to the socio-economic attitude, the responsibility of the managers is beyond the scope of profit and includes the protection and improvement of social benefit. Only those who work hard on the realisation of their creative abilities, who persistently observe people, know their needs and interests and strive to earn their trust, those who are hardworking and methodical and set an example how one should continuously broaden their mind and improve professionally can succeed.

Main indicators of the successful business are the practical results: profit, satisfaction with work, respect of your partners and securing stable money funds in a firm or company.

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EDUCATION AS IMPORTANT FACTOR OF COMPETITIVENESS IMPROVEMENT OF SERBIA

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Abstract:

*National competitiveness has become a new form for the expression of the economic growth of countries. The World Economic Forum ranks national competitiveness according to 12 pillars of economic competitiveness. Among them, three are strongly related to education. According to the Global Competitiveness Index rankings for 2008-2009 Serbia is ranked 85 out of 134 countries. The existing systems of education in Serbia can be seen as obstacles to economic growth and, especially to technological progress. The current educational systems are unable to accept and change themselves in response to the demands of the changing world environment. It is urgent for Serbia to build up a national strategy for the development of primary, secondary and higher education in accordance with the needs of the labor market and anticipated scientific and technological progress and to establish comprehensive, coherent and clear strategies for wide-ranging educational reform. Moreover, the improvement of the educational system should have high priority for financial support from the national budget. To be precise, it is argued that an increase from 3.5% to 5% in GDP reserved for education should be a *conditio sine qua non*.*

Key words:

education, national competitiveness, World Economic Forum, higher education, Serbia

INTRODUCTION

‘Competitiveness’ is a key term in the new era of globalization as countries strive for advantage. Competitiveness is the process by which one country seeks to out-perform others with the goal of winning. At the macro level, national competitiveness is a consolidation of the micro level performances of companies and individuals. In addition, national competitiveness can be defined as the ability of a national economy to compete with its goods and services in world markets with the goods and services offered by other national economies; or as the ability of one economy to develop on a healthy basis and with its own resources.

¹⁶⁸ Modern Business School (Visoka škola modernog biznisa), Beograd, Srbija, sduba@eunet.rs



With the aim of studying national competitiveness, the modern literature on the subject offers a set of indicators used as measures of national competitiveness, and a set of determining factors representing the main stimuli of national competitiveness. The set of indicators includes, for example, standard of living, growth rates, levels of exports and trade balance; and the set of determining factors includes, for example, investment and productivity. Of course, there are additional factors that foster national competitiveness. The Global Competitiveness Report issued by the World Economic Forum is the internationally accepted reference for the analysis of national economies.¹⁶⁹ That Report defines competitiveness as a set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity sets the sustainable level of prosperity that can be earned by the economy. The World Economic Forum ranks competitiveness of nations in relation to 12 pillars of economic competitiveness (according to Michael E. Porter) that are divided into three groups – 'Basic requirements', 'Efficiency enhancers' and 'Innovation and sophistication factors'. Each pillar is carries with it an estimation of 2-18 carefully chosen indicators that optimally define the pillar. The first group, includes three indicators strongly related to education. Thus, in the group of 'Basic requirements' there is the fourth pillar of 'Health and primary education', which includes 11 indicators, 3 of them associated with education: 'Quality of primary education', 'Primary enrolment' and 'Education expenditure'. The second group 'Efficiency enhancers' includes the fifth pillar of 'Higher education and training' that measures education through all 8 indicators – 'Secondary enrolment', 'Tertiary enrolment', 'Quality of the educational system', 'Quality of math and science education', 'Quality of management schools', 'Internet access in schools', 'Local availability of research and training services' and 'Extent of staff training'. This group has also the seventh pillar of competitiveness in 'Labor market efficiency', which includes 10 indicators, 2 of these being associated with education: 'Reliance on professional management', and 'Brain drain', an indicator that measures the altitude of the number of skilled intellectual and technical workers who move to more favorable economic and professional environments.

BASIC DATA REGARDING EDUCATION IN SERBIA

The history of education in Serbia starts in the year 1718, when the first form of primary school appeared in Belgrade. The development of regular secular elementary schools began in 1805, and of grammar schools in 1833, in Kragujevac, the capital of Serbia at that time. The first high school was established in the year 1838 in Kragujevac under the name of Lycée, and the first university was established in 1863 in Belgrade. From these origins the educational system in

¹⁶⁹ According to information found in the Global Competitiveness Report 2008-2009



Serbia has grown substantially. According to statistical data from 2007, there are 3775 primary schools with 656,000 pupils and 525 high schools with 301,000 students, 94 higher schools and 14 (7 public and 7 private) universities with 260,000 students. There are 198 schools. In these institutions there are 48,200 teachers in primary schools, 27,600 teachers in high schools, 12,900 in higher schools and at universities. The last reform of primary education was conducted in 2003 and conditions in this area can be evaluated as sufficient. The last reform of education related to high schools was conducted in 2003 and the condition in this area can be evaluated as unsatisfactory.

Regarding higher education, Serbia signed the Bologna declaration as the 40th country in 2003. This document was signed by 29 countries in Bologna (Italy) in 1999 at ministerial level, with the aim of creating a European Higher Education Area (EHEA). The basic characteristics of the Bologna Process are mobility of students and teachers, the establishment of a European Credit Transfer and Accumulation System (ECTS), the adoption of a system essentially based on two main cycles – undergraduate and graduate and comparable degrees.¹⁷⁰ Higher education reform has been going on in Serbia since 2003, and the bases of this reform were established in the Law on Higher Education that was enforced in 2005.¹⁷¹ The Law was passed in a hurry and it contains a lot of defects and illogical elements and it was clear from the start that this Law should be improved. However, there have not been any changes in this Law since then, which has created dissatisfaction, especially in the private universities. The first accreditation process (assigning new work licences) for all institutions of higher education in Serbia according to the already mentioned Law on Higher Education and the Bologna Process started in 2007.

OECD RESEARCH

The Organisation for Economic Co-operation and Development (OECD) has issued Reviews of national policies for education in South Eastern Europe – Volume 2, in which the situation in Serbia is described in the field of education.¹⁷² The findings of this study are more than interesting.

¹⁷⁰ Bologna seminar *Joint programmes and student mobility*, Chelyabinsk, 16-17 March 2009

¹⁷¹ *National Report on Higher Education: 2007-2009* for Serbia

¹⁷² Organisation for Economic Co-operation and Development, *Reviews of National Policies for Education South Eastern Europe: Volume 2: FYROM, Moldova, Montenegro, Romania, Serbia*



Serbian teachers have been influenced by a highly politicized regime since the late 1980s. For example, school principals were appointed by the Minister. Thus they were in the service of the political leadership. This system did not necessarily guarantee that the best managers and educational leaders were selected. Consequently, it created an atmosphere in which Serbian teachers have been for a long time under close control not only by their chiefs in schools but also by the government inspection system. A common feature of teacher preparation in Serbia, similarly to other republics in the region, is the predominance of subject knowledge over pedagogic understanding of how to develop lessons that enable students to learn and comprehend. All pre-service teacher training is considered to be heavily *content*-oriented, focusing on the delivery of the curriculum. There is little or no emphasis on students' *learning*, or on developing an understanding of child psychology or different learning styles suitable for students of different personalities or levels of ability. Usually, trainee teachers first obtain a university degree or teaching certificate in their chosen subject. However, these study programs do not include practical training in schools. In some cases, brief introductions are given to the topics of educational psychology, child development and teaching. Issues such as curriculum planning, learning assessment, social psychology or special educational needs are not included in these courses. The current pre-service training system in Serbia does not prepare teachers adequately for their work in schools and classrooms. There is a striking discrepancy in Serbia between what can be called good schools and those in a very bad condition. Obviously, the physical conditions in which teachers give their lessons play an important role in the overall quality of education. Most schools in urban areas function in two, three or even four shifts and classes are over-crowded with students. Generally speaking, educational facilities are in poor condition or lacking. In addition, the salary level of those in the teaching profession is so low that it has led to decreasing morale and sense of social status in schools. In large classes, students (as their parents often notice) feel that they do not have opportunities to learn and understand. For this reason, they hire private tutors to teach them properly after normal school hours. Many teachers working in schools also give private lessons to students to improve their income and help the students to achieve their goals. It is some kind of a vicious circle: the fewer opportunities there are in regular schools for students to learn, the more markets exist for private tuition. Teachers have pointed out that the overloaded teaching programs and heavy focus on mathematics and natural sciences are the biggest problems in Serbian schools today. An inspection system that still functions primarily as a control mechanism is a formidable regulative threat against teachers doing anything that is beyond the official curriculum. At the same time, the survival of schools is increasingly a problem. While the numbers for primary education (grades 1-8) have decreased only slightly between 1990/91 and 1999/00, the large influx of refugees and internally displaced persons (IDPs) from other parts of FRY should have caused those numbers to rise rather than fall.



When the OECD mission were conducting their research into the educational system in Serbia, the fixed salary for teachers was 66 DM (\$365 per year), while the minimum amount for covering basic needs in terms of food and housing is 300 DM. Moreover, it is often paid with delays. The average net salaries of teachers and other workers in the education sector in Serbia were 18% below the public-sector average in 2000, when a teacher earned less than 10% of what he or she was making in 1990.¹⁷³ According to what the team observed, many schools had broken windows, inappropriate heating and sanitation facilities and very old furniture and equipment. The discrepancies of infrastructure and facilities have other consequences as well. The so-called "good" teachers move from poorer schools to the better ones, and thus there is a "the rich get richer and the poor get poorer" syndrome. There is also a remarkable mobility among the students as they look for better learning opportunities, especially in upper secondary schools. Teacher training prior to service is weak. Some comments can be found to the effect that "the initial teacher training system is practically non-existent". As mentioned above, the emphasis on educational and practical pedagogical studies is very weak in pre-service training programs; the entire Serbian teacher-training system is not harmonized; and standards for the professional training of teachers are lacking. There is a huge disparity between the theoretical content of subjects and pedagogical skills training at university level and in teacher-training institutions. Teachers, students and parents have little opportunity to participate in the decision-making regarding their school. For historical reasons, it is sometimes difficult for individuals to see how they can be involved. Many teachers seemed to welcome more choice in their work regarding curriculum and teaching arrangements. It was also reported that schools as communities should have more active roles in assessing the achievements of students and the quality of teaching. Teachers also need to be much more aware of the different learning styles of their students, and shift their main focus from "delivering the curriculum" to ensuring that their students really do learn and develop basic competences in the best possible way. University teachers deal with huge numbers of students. As the number of university students has started to increase, so has the size of "courses" or "classes", and generally speaking, professors and university lectures are working with groups that are too large to make teaching effective. Supervision and guidance are practically impossible, because the number of students drives lecturers into presentation-recitation modes of teaching. Significant regional differences can be identified in the number of pre-school institutions which are found mainly in big cities, urban areas, and municipal communities. There are few in rural areas. More than one child can be enrolled per child place; and there are regional differences in this also. Although in the past the achievements of Serbian students were good and comparable with other universities in Europe, it is now evident that the curricula are overburdened, and in some respects outdated. At the same time, they are too much information-oriented and too little skills-oriented. The entire educational system focuses on the implementation of set curricula. Due to the excessively detailed curricula and exceptionally outdated pedagogical methods, the activities of

¹⁷³ Ibid.



students are basically reduced to the pointless memorization of unrelated facts. In other words, the curricula need to be adapted to the needs of society, thereby meeting European standards. It will be difficult to change the old system of teacher-centered teaching techniques, dominated by the "ex cathedra" "frontal" or "directive" approach, and adopt more skills-oriented methods. Consequently, it will be important to combine curricular reform with the retraining of university teaching staff, since the introduction of new programs into a rigid faculty system may have little effect on teaching methods. Another point is that the faculties offer only mandatory courses, and no electives.¹⁷⁴ Due to the fact that school-based curriculum processes have no tradition in Serbia, teachers continue to look for central management and decision-making in curriculum design and development. It seems that in ten years of totalitarian regime and international isolation, personal and local initiative almost disappeared: there is a lack of enthusiasm and personal commitment to change.¹⁷⁵ Students are not encouraged to express their own opinions and engage in debate. They are rarely involved in discovery activities, problem-solving, classroom interaction, group work, individual or group projects. Many teachers are willing to change, but lack the training. Teachers need to assume the role of facilitators, thus enabling students to learn according to their own interests and rhythms. At the same time, many students lack the initiative to engage in their own learning and in developing a "school culture". The quality of departments and faculties has been measured only against the academic achievement of their best students. Little attention or no attention has been paid to the average student's performance, or to the teaching-learning environment. Students have not been involved in evaluating the performance of their university teachers. Evaluation methods are needed in order to enhance curriculum development, improve teaching techniques and develop communication with the scientific community.

CONCLUSION

The trauma of conflict, the rise in poverty, unemployment, violence towards and by children, reflect the dark side of Serbia's troubled two decades of wars and transition. The situation in Serbia is a consequence of a long period of isolation. Today there is a whole generation of students who have never been abroad, and whose experience is limited only to Serbia in the past decade. To include Serbian students and teaching staff from all academic fields in international networks is of great importance for the future of universities and society as a whole. Only about 30% of enrolled students ever finish their studies. Another 30% of students take more exams than all the rest do together. One reason for this is that "being a student" has so far been perceived more as a permanent social category rather than a

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.



temporary occupation leading to an academic degree. Thus the university does not function as an educational institution producing graduates, but as an alternative to the labor market. The existing systems of education can be seen as obstacles on the road to economic growth and, especially, to technological progress. The reason is that the current educational systems are unable to accept and change themselves in response to the demands of the changing world environment. Of course, this conclusion refers more to university level, but the importance of primary and high school education in the creation of future experts is more visible every day. If we take into account the changing nature of the products demanded by today's global market, or, to be more precise, that the most successful commercial technologies are the most complex ones, we can easily understand how educational systems became more and more important and how much they need to be improved. A change in the mode of education delivery is also needed. Advances in communication and multimedia technology, including the Internet, offer new ways of teaching and delivering course materials to students. New disciplines should emerge which will present new methods of forecasting, valuation, assessment and decision-making. Finally, we can conclude that very important issues for Serbia's improvement in competitiveness will depend on better education at all three levels. General recommendations regarding the educational system in Serbia are, to build up a national strategy for the development of primary, high school and higher education in accordance with the needs of the labor market and anticipated scientific and technological progress, and to establish a comprehensive, coherent and clear policy and strategy for education reforms in all three areas. It would be important to increase the percentage of GDP intended for education from 3.5% to 5% and to adopt educational standards in accordance with European and world indicators of quality. In the area of primary education, the number of students per class should be reduced, especially in urban areas. It is crucial to accomplish the project of providing computers to classrooms for all primary schools in the country, considering that in primary schools in southern Serbia there is on average one computer to every 80 students and that there are still a certain number of primary schools which do not have a single computer. High school education should be improved by providing training for education leaders and school principals. Also, it would be important to create a comprehensive strategy for teacher training and to improve professional networking and exchange of ideas and experiences.

In the domain of higher education, serious amendments to the existing Higher Education Law should be adopted and a National Qualifications Framework based on learning outcomes should be realized. Universities should devote more attention to wider humanistic fields such as citizenship, values, culture, economy and ecology. National and international co-operation should be sought to help re-think the role of universities. Communication with other European universities should be encouraged by extending the existing links, establishing new ones, exchanging teaching staff and students and designing joint research programs.

The most important recommendations in the area of higher education are to create a student-oriented curriculum and to reduce the content of curricula. The student curriculum is



overburdened and outdated, and needs to be brought in line with modern developments and practices. Stakeholders (students, teaching staff, representatives of the economic sector, social sector, etc.) should be involved in this developmental process. It is not enough for teachers to simply "deliver the curriculum according to the timetable". The emphasis needs to shift from teaching to learning and the range of student learning activities should be enlarged; exercises, debates, group work, interactive learning, project work, field studies, problem-solving and discovery should be introduced into current classroom practice.

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INTERNATIONAL LEGISLATION IN THE FIELD OF OCCUPATIONAL SAFETY AND HEALTH AT WORK AND SYSTEM OF OCCUPATIONAL SAFETY AND HEALTH AT WORK IN THE LEGAL SYSTEM OF SERBIA

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Abstract:

Searching for the prevention of inter-ethnic and social conflicts and wars, the leading world powers established the International organozaciju labor, capital and government (tripartite principle) on which to harmonize conflicting interests by agreement. ILO adopted proclamations, recommendations, conventions ... which become binding as international treaties, when ratified by national parliaments. System safety and health at work is directly connected logic of profit, the company image, quality proizvod, competitiveness of goods on the open market and enable national and regional integration on the principles of modern capitalism.

Key words:

general well-being; profit and social logic, product quality, competitiveness, integration

INTRODUCTION

Law on Occupational Safety and Health at Work came into force on 29 November 2005. Clear, applicable and fully comply with EU requirements. To enter into the process of substantive system reform, employers, employees, inspection teams, safety and health at work officers, they must understand the language and spirit of the law. Consistent to the ideology of socialism, safety at work was the inalienable right of self-management workers, but the whole logistics of its application was "forced" instead of the market logic. Current law is directly linked the logic of profit, the company image, product quality, the competitiveness of goods on the open market and facilitates national and regional integration, with respect of the principles of modern capitalism.



ILO CONVENTION

International Labour Organization is designed in 1919 with The Versailles peace treaty, which ended the First World War. Searching for the prevention of inter-ethnic and social conflicts and wars, the leading world powers established the International Labour Organization, as a representative world forum of labor, capital and government (tripartite principle) on which the agreement will harmonize conflicting interests. International Labour Organization adopted proclamations, recommendations, conventions ... which become binding as international treaties, when ratified by national parliaments. To understand the new Law on occupational safety and health at work these three conventions are significant: *the Convention 81 on Labour Inspection in Industry and Trade*, *Convention 155 on occupational safety, health and working environment*, and *Convention 161 on Occupational Health Services*.

Convention 81 on Labour Inspection in Industry and Trade

Adopted in July 1947 at the General Conference of ILO in Geneva. Convention laid the foundations of modern labor inspectorates. Article 1 stipulates that *each member of the International Labour Organisation for which this Convention is in force, should have a system of inspection of work in industrial enterprises*. [4] In article 22 of the same is ordered to trading companies.

Convention 155 on occupational safety, health and working environment

Was adopted in Geneva in 1981. The first part defines the area of application, which emphasizes its universality, *to all branches of economic activity*. [5] The second part defines the basic principles of national policy in the field of safety and occupational health and environmental protection. Article 5 cite the main activity that affects the sphere of health and safety at work. [5] The third part directs the action at the national level and requires legislation or other appropriate regulations in this field with the embedding of sanctions and inspections. The fourth part is regulating the same, only at the level of enterprises.

Convention 161 on Occupational Health Services

Adopted also in Geneva in June 1985. Definitions and basic principles of national policy are given in the first section. Requirements are identification, implementation and periodical review of *coherent national policy concerning occupational health services*. [6] In the second part, Article 5 defines the functions of occupational medicine that is still almost literally carried into our normative acts. These are: 1) identification and risk assessment of health hazards in the workplace, 2) monitoring the factors in the workplace and work process that may endanger the health of workers, 3) providing advice on planning and organization of work, 4) participation in the development of programmes to improve the work process, 5) providing advice in health, safety, hygiene, ergonomics, and in terms of personal and collective protective equipment, 6) monitoring the health of workers in relation to work, 7) taking part in vocational rehabilitation measures, 8) continuously improving adaptability of workers, 9) cooperation in information,



professional training and education in occupational health, hygiene and ergonomics, 10) Organization of first aid and intervention, 11) participating in the analysis of workplace injuries and occupational diseases. [6] The third part of the Convention refers to the organization of occupational health services, which is defined by law or by agreements between the interested party. It can be organized for one or several companies and can be established by: a) the interested companies, b) public bodies or civil service, c) social security institutions, d) other bodies authorized by the competent authority or d) a combination of these entities. [6] The fourth section presents the conditions of operation: multidisciplinary, collaboration, independence in performing tasks, determining the necessary qualifications, with no financial burden for employees and others, etc.

SAFETY AND HEALTH AT WORK IN THE DOCUMENTS OF THE EUROPEAN UNION

Treaties of Rome

European story on safety and health at work starts 1957 in Rome, when the **Treaties of Rome** was signed **establishing the EEC**, with the basic idea to eliminate inter-ethnic and social contradictions that have historically led to conflicts and countless wars in Europe. Countries its most developed part agreed on future conditions of their mutual relations in order to allow the free flow of capital and eliminate social tensions. Therefore, from the very beginning European integration insists on several basic principles: freedom of capital movement, egalitarianism (men and women) and a common social policy. Among others, the Articles 100 and 118 provide the basics of safety system and health at work, which is further refined by amendments to the Agreement, the Article 118a of the **Single European Act of Luxembourg** 1987, and articles 136 and 137 of the **EU Treaty of Maastricht** in 1992 as well as articles 209 and 210 (**Treaty of Nice**).

In this alignment particularly relevant is Single European Act (in particular Article 118a) which introduces the principle of qualified majority (instead of previously unanimity), and authorizes the EU Council to *through directives adopt the minimum requirements to be introduced gradually taking into account national specificities and not preventing individual states to maintain or introduce more stringent measures to protect working conditions*. The only limitation given in this section is aimed at the prevention of suppression of private initiative and orders that the directive should avoid *the introduction of administrative, financial and legal constraints in a way that would impede the establishment and development of small and medium enterprises*.

New quality in relations between the countries of European Community introduced with the 1992 **EU Treaty of Maastricht** (in force 1993), which transformed a primarily economic



association into a political Union, which practically means that the Union integration spread far beyond economic issues. This is evident in the part regulating social affairs and labor issues. The Article 136 states that *the Community and Member States target fostering employment, improved living and working conditions, with adjustment during the improvements, adequate social protection, dialogue between the social partners - employers and workers, human resource development, in order to achieve high and sustained levels of employment and combating social marginalization.*

EU Council Resolution on safety, hygiene and health at work

Before, and especially after the introduction of qualified majority, the EU Council issued a series of directives which constantly modified the safety and health at work within the EU. Of great importance is the EU Council Resolution on safety, hygiene and health at work (88/S28/01), dated 21 December 1987, which entered into force 1988. It stressed the need to put equal emphasis on achieving economic and social objectives in completing the internal market. [3]

The new Community Strategy of the EU in the field of SHP 2002-2006.

This is an important strategy in the field of safety and health protection at work of all EU member states and candidate countries to the extent of approaching the Community. This strategy has three new features: 1) a global approach to well-being at work, 2) consolidation of a culture of prevention of risks that includes economic incentives and social responsibility of companies and 3) understanding of social policy as a factor equalizing the competition. *Strategy treated healthy work as a factor in performance of the economy and companies. Investment in health and safety increases costs, and reduce losses due to poor quality and unsafe work, and thus enhances the image of the company. There is a link between profits and safety work, the employer and employees.* At a meeting of the Council of Europe in Lisbon, it was stated that "Europe is going through a transition to a knowledge-based economy", which carries all the deep changes in society and even in the sphere of health and safety at work.

ESTABLISHMENT OF SAFETY AND HEALTH AT WORK IN JURISDICTIONS OF SERBIAN

System of safety and health protection at work which is structured by the new Law (November 21, 2005.) is part of the overall legal system of the Republic of Serbia. The law is grounded in the Constitution, and the issue of safety and health at work is completed in the Criminal Law, Labor Law, Law on Health Protection, Law on Health Insurance and the Law on Pension and Disability Insurance. In addition to the Constitution of the Republic of Serbia, we recognize the Resolution on the EU accession of Serbia and the national strategy for accession of Serbia and Montenegro to the EU.



The Constitution of the Republic of Serbia

System of health protection at work, as defined by the Law on Occupational Safety and Health at Work and relevant parts of other laws that regulate labor rights, is entirely grounded in the Constitution of the Republic of Serbia. [10] in articles as follows: **Article 21** *Prohibition of discrimination ...* **Article 25** *The inviolability of the physical and psychological integrity* **Article 26** *Prohibition of slavery, servitude and forced labor* **Article 55** *Freedom of association* **Article 60** *Right to Work* **Article 61** *Right to strike* **Article 68** *Health protection* **Article 83** *Freedom of entrepreneurship* **Article 86** *Equality of all types of property*

Resolution on the EU accession of the Republic of Serbia

The resolution clearly confirms that Serbia's accession to full membership in the EU and the Partnership for Peace Programme is *strategic and national goal*. [7] **The National Strategy for Serbia and Montenegro, the EU** adopted in June 2005. The strategy represents a comprehensive document that operationalize social commitment to accelerated joining to the EU expressed by the Serbian Parliament in its Resolution on joining the EU. Among other things, in article 3.2.3.3. social protection is described, and in article 3.3.7. protection of the work environment. In the part about the *social protection* it is generally stated that our system is basically good and in compliance with the EU, but there are no funds for its materialization. In part *protection of the work environment*, it is concluded that the existing Law on safety at work does not cover all elements that the EU had set in its regulations and directives and that the proposed new Law on Safety and Health Protection at Work, which follows the EU requirements is in the procedure. 12th May 2005 Serbian Government passed the **Decision on establishing the Council for Safety and Health at Work**. [8] The Council's duties are to: give proposals for legislation in the field of safety and health at work, initiate the development of a national program for development of safety and health at work, conduct activities to contribute to bringing different attitudes of participants in social dialogue in this area, initiate preventive policy in all matters relating to safety and health at work.

Legal regulation of health and safety at work

National Assembly of the Republic of Serbia at the session held on 14 November 2005 passed the **Law on Occupational Safety and Health at Work** [9] promulgated by the Decree of the President on the 21st November 2005. In this case, the complete departure from the legal provisions and the institute of the Law of Occupational Safety and Health and the provisions which are regulated by the Law on Occupational Safety and Health at Work.



CONCLUSION

System of occupational safety and health at work, which is defined by the new Law, complies with EU requirements in this area and is well grounded in the broader legal system of Serbia. The question of realization of the requirements is a matter of knowing the spirit and provisions of new solutions and raise awareness and readiness of all entities to change attitude towards safety and health at work. Only an understanding of its profit and social logic, which essentially means raising the general welfare, it is possible to quickly improve the awareness and responsibility of all stakeholders. For all entrepreneurs, especially for persons who are professionally involved in issues of Occupational Safety and Health at Work it is useful to continuously monitor the stands and recommendations of the EU and the ILO in this area. System of occupational safety and health protection is increasingly treated as an element of product quality. Only thus will we be able to integrate into the world of free movement of labor and capital, ie to engage and participate in a competitive free market.

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STRATEGY OF RECLAMATION LOSSES IN HEATING PLANTS OF SERBIA

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Abstract:

It is necessary to make a turn in business in this sector, so the multiyear losses in the business, which are very important, although not the only indicator of business success, were reduced to a minimum or eliminated. Modern conception of liquidity as the most important indicators of business success, to some extent reduced the primary importance as an indicator of success, but does not mean it is pushed into the background. Therefore, in order to reduce them, both in current and in future years, this paper proposes a series of measures, both economic and financial, and technical and legal-administrative, initiated internally or externally - in cooperation with higher instances. In addition, addition measures related to current operations in certain segments of the aforementioned factors that aren't within the reach of heating plant, but it would greatly contribute to better business and of course correcting losses.

Keywords:

rehabilitation, loss, action, strategy, power plants

INTRODUCTION - CAUSES OF PLANNED LOSS

When we talk about preconditions for the development of a strategy of rehabilitation of losses the company, it should be noted that rehabilitation of losing could be called "eligible" under the condition that can permanently cure the difficulties in doing business in the long term and ensure a normal business. Another factor, which depends on the process, is the willingness of companies to repair or to initiate such a program. Economic theory defines several types of factors that can represent the cause of the aforementioned situation. Long standing problems of business losses of Serbian heating plants is one of the most, but not sole, indicator of business (non) performance of these companies. It is evident that the shift is needed in business enterprises in this sector, and an essential prerequisite in this direction, with the aim of presenting a positive financial result (profit), is minimizing the impact of risk factors, among which are the ones that are difficult to influence (energy prices, USD exchange rate,

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macroeconomic policy, the global economic crisis, etc.) The main activity is the production of Serbian heating and heat supply. Companies perform a range of additional activities in the execution of core business function. Most of these companies each planned operating losses, and this requires measures for the same, with the aim of creating a more stable business conditions in the function of providing increased energy efficiency, reliability of supply and satisfaction of citizens - the remote heating system. Consistency is necessary in solving all problems in business facing heating plants, and that may be affected. The basic idea of this paper is initiating additional measures to reduce losses in the future. Due to continuing growth in energy prices, the current prices of Toplana Srbije services are not high enough to cover projected expenses of business. Partial importance and thus the relative importance of the loss rehabilitation in the financial statements and the plans derived from the contemporary understanding of liquidity as the most important indicators of business success. However, it should be noted that in case of Toplana there is a growing causal link between losses and liquidity problems and reverse (feedback). Non-economic cost of heating is a significant impact on the reduced inflow of funds. Costs of energy are generated mainly in the heating season, which lasts 6 months, and revenue invoiced and paid evenly for 12 months. One of the most important causes of illiquidity is that Toplana fail to collect the income invoiced in a currency run. That resulted in delays in paying suppliers, and therefore the growth of obligations due to untimely payment and calculation of penalty interest. In addition, on generating losses in the financial year significantly affects the amount of unpaid claims (impairment of receivables older than 90 days). It is therefore necessary to increase the collection rate in the future, as well as ongoing analysis of cost of credit lines for monitoring the gas in foreign currency terms.

The most significant causes of loss in operations of Toplana should be noted:

- **Permanent trend of rising prices of energetic** constantly aggravate already delicate situation, because the trend of participation of energy costs in total costs and revenues from year to year growing, and most of the revenue goes to the regulation of energy obligations.

- **Increased energy cost due to the unfavorable status of eligible customer** is perhaps the most important cause of the planned loss. It derives from the relationship of gas prices for tariff and qualified buyers. The decision on the price of gas for tariff made Government of the RS. Qualified customers are Belgrade, Novi Sad, Subotica, and the Pannonia plants. The paradox, that the price of gas to eligible customers is variable and significantly higher than the tariff, is contrary to the laws of economics of scale, or digression of fixed costs per unit. It is important to note that in the first months of treatment (October to December 2009.) prices for eligible consumers was significantly lower than the prices for tariff customers, followed by a price rise for qualified buyers. No efforts of city heating plants using gas to avoid the inconsistency, or regain the status of tariff customers have given results.



- **Seasonal settlement of the high cost of energy generation** is an important cause of losses. Heating plants are required to pay invoices for energy during the heating season (6 months), when they are spending them, and for each delay is calculated default interest, while heat energy is collected within 12 months.
- **Disparity between prices of thermal energy to (input) the price of energy** must also be mentioned as one of the most important causes.
- **Time delay to raise the price of thermal energy** initiated by the fact that price changes depend on Toplana management, so planned annual increase in the price of thermal energy (income), provided for example, at semi-annual level, and such weather and economic gap also contributes to increased losses, as it will give effect only in the second half of the year.
- **The impact of subsidies and internal austerity measures** is of course invaluable, because without them (although it should be noted they are not constant), the losses would be enormous from year to year.

Strategic crisis exists when the potential of success is lost and thereby cannot be rebuilt. Endogenous (internal) causes of strategic crisis are particularly inappropriate location choice, products, services, unfavorable structure of employees, the overwhelming dependence on one customer or supplier, lack of business entertainment and more. Exogenous (external causes of strategic crisis) can be a recession in the economy or industry, seasonal fluctuations in demand, changes in exchange rates, political and military factors and so on. Loss of competitive advantage in the market leads to a crisis of success as the next stage in the development of the crisis. However, since the early stages of development of the crisis still set goals to achieve, such as, for example, adequate yield and liquidity, it is impossible directly from accounting to identify symptoms of strategic crisis. For this purpose, are suitable instruments of strategic early discovering of crisis, using primarily so-called analysis of the "weak signals" that indicate possible disruptions in business. Crisis is characterized by loss of market share, reduced income, i.e. occurrence of the loss, especially business and an increasingly "destruction" of equity - to the emergence of state indebtedness. Endogenous (internal causes of the crisis of success) are increased production costs for products whose price is fixed by specific contract, high interest rates as a result of wrong decisions about indebtedness, sales customer disputes and the like. Exogenous causes of the crisis can be a success strikes of customers or suppliers, the increase of debt, increase of tax rates, changes in customs policy, etc. Liquidity crisis is determined by the following symptoms: company hardly pays its liabilities, both short term and long-term crisis. Above all: accumulation of losses, reduction of business cash flow, the delay in payment of obligations, decrease of the creditors' solvency. Internal causes of the liquidity crisis are driven by slow collection of receivables, non-functioning system of internal controls - embezzlement of money, etc., while the external causes of liquidity crisis are the bankruptcy of business bank, bankruptcy of debtors, blocked funds in foreign banks due to government policies and the like.



MEASURES AND ACTIVITIES TO REHABILITATE LOSS AND MAKING PROFIT

The planned increases of the price of heat are sufficient to cover operating expenses in 2011. Due to rising energy prices, it is difficult to envision the potential loss. It is therefore necessary to pursue the internal saving measures¹⁷⁹ and continuous monitoring of the effects of the reduction of losses.

ECONOMIC – FINANCIAL MEASURES AND ACTIVITIES

All Toplane shall keep monthly records of the physical expenditure of energy, electricity, water and other direct costs of the heat sources, including over 80% of total costs. Heat source is the primary place the cost of heating plants. In detailed observation of cost, cost classification was made according to the thermal sources of energy they use and installed capacity in order to compare and analyze differences in costs regarding to planned, which would provide - more efficient monitoring of costs and taking actions.

In the field of procurement and storage business, according to the Public Procurement Plan for 2011, in order to further reduce inventory, it is necessary to work on additional analysis of optimization, for defining the property to be included in the system of minimum stocks, by type and quantity. Additional analysis and continuous reduction of small value purchases can also make some savings, while maximizing the implementation of the second phase of restricted public procurement procedure for more of similar goods.

In order to constantly increase revenue, continued to initiate activities to increase the degree of control connections, unauthorized charges taken heat and test heating, timely inclusion of objects in the regular heat, shortening the period for the connection after receiving a request to join, increasing the collection of receivables from legal entities and individuals. In that area, the additional space is evident. In this sense, it is necessary to further improve the systematization and updating of data on consumption, as one of the basic conditions for the rationalization of operations and the potential reduction in losses of 2-3%. It is also necessary to run campaign on the issue of exclusion of users who do not pay their obligations for delivered heating energy (finding technical capability to turn off all non-paying customers, regular controls). With these measures, the revenue from the delivery of heat could be increased by about 3-4%. It is

¹⁷⁹ Usled svetske ekonomske krize, inicirane od strane Republike, a detaljno razradene u Programima poslovanja vecine Toplana.



necessary to quickly and efficiently resolve legal disputes, enforcement of court orders, removing uncollectible receivables in order to have access to realistic, uncollectible debt. The effect of these measures would be reflected in the amount of 1-1.5% on increasing revenues. Procedure for reading merits of delivered heat (in the direction of charge by consumption), and monthly readings, accurate information and allowed time feedback on possible failures in the estimated consumption and minimize complaints for the delivered invoice. All this could provide significant effect annually. In order to rehabilitate loss, the companies should development the so-called balance with loss. The logical argument is the appearance of rehabilitation needs in the income statement. The loss usually reduces the capital owners and fall in equity, so the appearance of losing is a sure sign that capital is wasted. Loss can be reported until the reduced amount of capital is below the legal minimum when the company, as a rule, is liquidated or goes bankrupt. Of course, it should be noted that the occurrence of loss does not mean the need for rehabilitation. It is the first warning that the continued accumulation of losses causes financial stress, the more difficult the settlement of liabilities at the end of illiquidity. In some cases, the law governs the need for rehabilitation if the loss covered more than a third or half of the share capital of the company. In cases where the loss exceeds the capital, reserves, and retained earnings, it is necessary to create overburden of the balance. It represents the economic balance of the loss, while available means in the assets does not cover all liabilities of the firm, which means that a part of creditors' capital and involuntary creditors participating in the coverage loss it is lost.

TECHNICAL MEASURES

In heating plants where feasible, economizers on boilers should be installed to reduce flue gas temperatures, and achieving significant savings. Economizer operation (full activation in the next heating season) savings effects in energy consumption are enormous. In order to achieve better parameters of industrial boilers and reduce emissions of harmful substances as products of combustion, it is necessary to develop the idea of treating crude oil with water. In addition to environmental effects that cannot be quantified in financial terms, other effects are reflected primarily in reducing the cost of overhaul of boiler plants using water-crude oil emulsion. The specific effects will be known after the heating season and after repairs of the boiler units. The projected replacement of old hot water distribution and compensators would reduce water losses in the system. Lower production costs of softened water yield a high impact savings. Continued modernization of substations and their release in the automatic mode, is also an important segment. The modernization of substations and reducing energy consumption for heating these areas would bring savings in constant time. Also, rational use of electricity and installation of equipment for reactive power compensation would provide achieving of the effects of savings.



EXTERNAL MEASURES AS THE CONDITION FOR MAKING PROFIT

Implemented modernization of remote heating systems (especially in Belgrade) in the period between 2001 and 2010 provided a significant effect on energy efficiency, reducing energy consumption and other costs. This does not mean that we should not initiate new steps in that direction. Defined temperature in flats in Belgrade, in accordance with the "Decision on the delivery of thermal energy" (upper prescribed limit is 21°C) would bring some savings.¹⁸⁰ Namely, each level initiates an additional cost of 900 million dinars, i.e. increase fuel consumption by around 6% per annum, for total consumption. If Toplane would pay gas from transportation system and not from Srbijagas the distribution system as until now, significant cost reduction effects of the gas would be achieved. That is reason enough to undertake the study and evaluation of investment needed for each heating area. By switching to the measurement and collection of heat energy consumption and the automatic adjustment of prices of output (heat) and inputs (energy), there would be significant effects on the reduction of waste. A prerequisite for this measure is the adoption of the Methodology of calculating and adjusting rates of thermal energy with the price of gas and crude oil. This measure would have the effect of stabilizer and would solve the issue of disparities in prices of inputs and outputs. The latest trends in oil prices in world markets, which will inevitably initiate a further increase in prices of crude oil and natural gas, threaten the reality of 39 din/Sm³. In such circumstances, the condition of positive operating of Toplane becomes the application mentioned methodologies. Price of crude oil on the world market in June 2010 was US\$ 416 per ton, and in February 2011 reached price of US\$ 595 per ton. Price of crude oil with which Toplane defined heating plan for 2011 was 38.17 dinars or 470 USD/t. Important limitation of Toplane operation is not sufficiently effective system of enforced collection. This is especially true for Belgrade, where the existing solution for the distribution costs of a unified collection, in proportion to the funds collected, leads to absurd results. In addition, in cooperation with utilities, authorities and representatives of other utilities, it is necessary to proceed with the actions organized in 2009 and 2010, in order to increase the efficiency of collection of citizens. To activate executive judicial decisions by sequestration of major movable property of the debtor, and forced the suspension of payment on income. In addition, the fact is that the city and state authorities are practically constant debtors of Toplane which endangering its operation. It is necessary, in cooperation with the competent authorities; to insist on regular payment accounts by these institutions because financial expenses due to delay are paying Toplane.

¹⁸⁰ Zbog problema u održavanju propisane temperature u starijim zgradama, grejanje je konstantno na intenzivnijem režimu.



Bearing in mind the consequences of the economic crisis, especially in the investment and consequently decrease in the number of participation, it is necessary to take additional incentive and competitive measures to increase the inflow of participation and revenue growth from new consumption. It is also necessary to escalate requirements for new hook-ups, especially for the category of unscrupulous investors. These measures would provide additional resources for development and modernization of remote heating systems as a prerequisite to reduce indirect losses.

RESUME - LONG-TERM MEASURES FOR THE OPERATION AND DEVELOPMENT WITHOUT LOSS

This work, regardless of its focus on the current year, includes a strategic review of the long time period. Primarily because the energy system requires continuity of sustainable business, and many measures due to volume of the work and investments require a longer period, with the expected results within 5 years. An essential prerequisite for long-term operation and development is a decrease in high dependence on imported energy. Analysis of the available information suggests that domestic customers all tend to be able to pay the inevitable rising cost of heating, due to some increase in energy prices in world markets. With this it should be mentioned and take urgent actions to individual measurements and collection to consumption. To be sustainable energy system must provide the consumer the possibility of rational behavior and energy saving.

To the certain extent, it should initiate the use of domestic energy sources. In addition to coal, those are renewable energy sources (biomass) and other too (waste, waste energy).

Detailed analysis of the effects of building co-generation plants i.e. combined heat and power for rational use of the energy.

It is necessary to develop the entire energy sector, to access to Feasibility Study of heating Belgrade from Obrenovac.¹⁸¹ Stable business conditions and security of supply, while increasing energy efficiency, cannot be provided without any new investments. Therefore, as a matter of urgency opens the question of additional, non-budget sources of funding, such as recapitalization, public-private partnerships, and the like.

¹⁸¹ Ministar rudarstva i energetike je u toku 2010. god. formirao komisiju ciji je zadatak da ispita opravdanost aktiviranja projekta grejanja Beograda iz Obrenovca (Toplodalekovod). Komisija je zauzela stav da je potrebno izraditi Studiju izvodljivosti.



The preceding analysis shows that the recovery of losses and thus the economic and financial consolidation of Toplane are the following elements, as follows:

- Removal of price disparities of heat and energy prices
- Application of the formula (automaticity) for regular adjustment of variable rates of heating (output) with the prices of inputs, especially with energy prices
- Achieving of target collection rate of at least 92%
- Internal cost savings at all costs that may be affected, especially energy savings as far the biggest cost
- Creating conditions to which each buyer of heat with rational behavior can affect, this means an individual measurement and payment for expenditure

With realization of stated measures, with the involvement of top management, it is possible to achieve a turnaround in financial results, even in the current year, so it would not significantly reduce the projected loss, and timely correction of prices can be achieved with positive financial result (profit).

An essential prerequisite of such a shift, is to minimize the influence of risk factors (risk management), including the factors to which Toplane and authorities can hardly affect (energy prices, the USD exchange rate, macroeconomic policy, coming out of the crisis, etc.) In such variants, to relevant institutions remain available measures to keep low prices of heat for social reasons, with the energy subsidies to the extent of available funds.



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THE LISBON TREATY – INSTITUTIONAL CHANGES AND UNIQUE VALUES

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Abstract:

Historically, the process of reform and integration of member states within the European Union, deepening of relations in both political and economic sense, and the component expansion is taking place more than half a century. A careful analysis of the way of functioning and by comparison with the EU national parliaments, as it is today, contains elements of the federation, confederation, and international organizations. Essential definitions are the objectives of the Member States, their strategic orientation, and determination of the minimum interest that is common to all, and the ways and mechanisms of achieving them. This is corroborated by the formation of mutual bodies acting, both within the Union, and in areas of common foreign and security policy. The Lisbon Treaty provided mechanisms to achieve integration and unique values through the reform of institutions.

Keywords:

Lisbon Treaty, the European Union, the objectives of the European Union, European Union institutions, the legal nature of the European Union

INTRODUCTION

The Lisbon Treaty was signed on 13 December 2007 between twenty-seven EU member states. In order the contract came into force, it must be signed by all member states, and states had the opportunity to determine the manner in which the ratification will take place, in accordance with their national law, whether citizens will come out for a referendum or the national parliaments. Ireland is the only country that has chosen as a way of ratification, immediately declaring of citizens in a referendum, while the remaining twenty-six states have chosen to declare the ratification by national parliaments. In a referendum held in Ireland in June 2008, more than half rejected the Lisbon Treaty, which created a new neighborhood in the section of the process of uniting Europe. Certain concessions to the Republic of Ireland regarding to



military neutrality and abortion, the number of commissioners and tax rates; to Poland regarding the exemption of members of the Charter of the restitution of property, and to the Czech Republic, the Treaty has entered into effect in 2009.

FEATURES AND INSTITUTIONAL CHANGES

The Lisbon Treaty is essentially based on the solutions of proposed agreement on the Constitution of the European Union, which failed due to fact that France and Netherlands didn't ratified it in 2005. The essential difference is that the Constitution should replace everything up to now, existing treats, and the Lisbon Treaty only complements them. Based on this, the Union will get a legal framework and necessary mechanisms to be able to effectively confront the challenges ahead, both at the domestic and international level to respond to the needs of their citizens.¹⁸² Some legal writers say that careful analysis of the Lisbon Treaty, one can establish that its content is essentially the same as the contents of the Constitutional Treaty. When this was done so that it can be difficult to spot. Although the constitution carefully avoided the renewed agreement with the EU Treaty on European Union mode is nothing more than the introduction of a new constitutional order of the European Union.¹⁸³ According to the preamble of the Treaty, the Union is based on cultural, religious, and humanist inheritance of Europe. Article 1 of the Treaty underlines that the EU Member States have transferred competence to realizing their common goals and therefore highlights the primacy of contracting national law. Since 2004, the European Union is no longer a community of citizens and the state, but the High contracting parties, which have established the Union. Unique legal personality of the European Union, as in other former European communities is expressed in two parallel tracks: within the national legal system and the level of international legal order.¹⁸⁴ In this respect, the Lisbon Treaty is explicit and it defines to Union formal characteristics as legal entity with all rights and obligations that derive from that status. So, in the territory the Union enjoy the broadest legal and business capacity, which is recognized by their national law legal entities, and it can enter into contracts with individuals and corporate entities, to acquire movable and immovable property and to be a party to proceedings in the courts of the European Union.¹⁸⁵ In terms of international legal personality it is not specifically regulated, namely the Lisbon Treaty contains no explicit provision and subjectivity in international law, but there are provisions that indicate that European Union may conclude international agreements when it is foreseen by the

¹⁸² J. Čeranić, „Ugovor iz Lisabona: Ka efikasnijoj Evropskoj uniji“, Pravni život br.13, Beograd, 2008, str. 808

¹⁸³ T. Opperman, J.Čeranić, „Evropska Unija iz Lisabona“, Pravni život br.13, Beograd,2008, str. 799

¹⁸⁴ Z. Radivojević, V. Knežević - Predić, „Struktura Evropska unija posle lisabonskog sporazuma“, Pravni život br.12, Beograd, 2010, str. 457

¹⁸⁵ Članovi 47. Ugovora o Evropskoj uniji i 355. Ugovora o funkcionisanju Evropske unije.



founding treaties, or where necessary to implement the policy and implementation objectives of the Union. The aim of the Lisbon Treaty in terms of institutional mechanisms is to ensure continuity of current policies and improving the value, efficiency, and compliance to safeguard the interests of member states and their citizens. Now, with seven major organs, the European Parliament, European Council, Council, Commission, Court of Justice of the European Central Bank, and the Accounting Court and changes in body composition and functioning of the EU is able to respond to internal and external challenges and to function efficiently enough. When it comes to the area of security and justice freedom, i.e. the three pillars of cooperation, the same rules as when it comes to other communitarized policy. Some exceptions to this rule are predicted, related to the initiative, which has so far had only the Commission, now belongs to, under certain conditions, to member states too. In the area of judicial cooperation in civil topics, when it comes to family and inheritance law, decisions are still made by unanimous vote. An exception is in the area of freedom, safety, and justice, Republic of Ireland and the United Kingdom and they may be involved in cooperation, when it comes to measures that suit them.

Summarizing the Lisbon Treaty in the communitarisation process of policies, which are very sensitive to impinge on the area of national sovereignty, have gone up as far as is possible.

In the area of foreign policy and security, important innovations are those concerning the introduction of clauses for collective defense and the solidarity clause. In fact, Member States and the Union, in the case of clause of solidarity, by all available means help a country that is a victim of natural or human disaster or terrorist act. When it comes to defense, European Defense Agency is determined by contract, as well as the possibility of broader cooperation between the countries that want and are able to put the EU at the disposal of units ready for immediate intervention. The Lisbon Treaty defines more clearly the role of the EU in the field of common foreign and security policy. In order to preserve peace and security, conflict prevention and strengthening international security in accordance of the UN Charter, it may undertake missions outside its own territory. It also expands the EU's role in disarmament operations, military advice, and assistance to restore stability after conflicts. Lisbon Treaty brings great innovations, when it comes to protecting basic human rights within the European Union. It is envisaged that the Charter of Human Rights has the same effect as the contract itself. By equating the legal force of the Charter with contracts, a long process of improving human rights is completed. Charter of fundamental rights was not a formal source of law, to which the communitarian judge is calling to, but only a source of inspiration.¹⁸⁶ In this way, the Charter has found its place in the system of the European Union. It is mentioned for the first time in the draft Constitutional Treaty of the European Union, and this is a similar solution consisted in the Lisbon Treaty. It is important to note one thing, that contrary to Constitutional Treaty, based on the Lisbon Treaty, the Charter isn't an integral part of the contract, but its legal force it is recognized based on Treaty. Otherwise, the Lisbon Treaty calls

¹⁸⁶ J. Čeranić, Ugovor iz Lisabona: Ka efikasnijoj Evropskoj uniji, Pravni život br.13, Beograd, 2008, str. 810



for a revised version of the Charter whose revision serves the very purpose of revising the Treaty and which was signed on December 2007.

Lisbon Treaty provides changes in respect of legal documents and only in its formal part. In fact, the names of acts and classic names of regulations and directives have been changed and replaced by terms of the law and the framework law. Those are only changes of terminology, and not substantial changes in terms of legal power that these documents produce. In terms of decision-making procedures, regular decision-making procedures have become a regular procedure, which applies in most cases, with exceptions, i.e. the use of special procedures. The Lisbon Treaty facilitates the procedure of decision making within the institutions. The Council of Minister, instead of unanimous decisions establishes a mechanism of qualified majority voting, which will result in faster and more efficient decision-making. Beginning in 2014, for voting of qualified majority and decision making in the Council of Ministers the support of 55% of member states representing at least 65% of population will be needed. This procedure gives double legitimacy to decisions. In this way of making decision, the areas relating to taxation and security policies of the European Union were excluded. The contract also reached a certain target in terms of modernization and democratization of the EU institutions. New features of the High Representative for Foreign and Security Policy and President of the Commission was established to promote activities of the EU on the international stage and to better defend interests and values of the Union abroad. In areas of enhanced cooperation, Lisbon Treaty takes the provisions of the Treaty establishing a Constitution of the European Union Draft.¹⁸⁷ This institution was first mentioned in the Amsterdam Treaty, but never enforced. Member states can deepen (strengthen) cooperation and integration within the framework of the Treaties, leaving the door open to those who would later join them (as is the case with the single currency or the Schengen-Acquis law, in which from the beginning never participated all member states, but they were join later). This approach of cooperating is a great visionary approach, for simplifying the provisions on cooperation, takes into account the heterogeneity of interest within the Union of 27 members, while preserving space for joint activities in perspective. Analyzing the Lisbon Treaty in the sphere of the legal nature of the European Union, we can cautiously say that it has elements of the federation in monetary relations, agriculture, trade and environmental protection; elements of a confederation in the social and economic policy, consumer protection and domestic politics and elements of the international organization when it comes to foreign policy and the security. The Lisbon Treaty clearly defines and complements the objectives of the European Union and introduces the tools necessary to achieve and protect those goals, as already mentioned above. Primarily to the area of freedom, in the broadest sense, security and justice without internal borders; continuous sustainable development policies of the Union based on social growth and price stability; highly concurrent social market economy aiming the highest possible level of employment and social progress, a high degree of

¹⁸⁷ J.Ćeranić, "Ugovor iz Lisabona: Ka efikasnijoj Evropskoj uniji", Pravni život br.13, Beograd, 2008, str. 811



environmental environment, coping with selectivity and all forms of discrimination, promotion of economic, social and territorial cohesion and solidarity among Member States, the preservation and enhancement of economic and monetary union with the euro as its currency, highlighting and promoting the values of the European Union in the world and contribute to world peace, security and sustainable development of planet Earth, solidarity and respect between nations, free and fair trade and poverty eradication, preservation and promotion of human rights, particularly children and the strict implementation and development of international law, including respect for the principles of the Charter of the United Nations. The Lisbon Treaty itself allows and establishes ways of achieving these goals through greater integration institutions.

RESUME

Taking all the above exposed from the historical development, starting from the European Union development, through its institutions and legal acts taken by the European Union, the Lisbon Treaty has brought significant changes in the structure of the European Union. The most important innovation is to simplify the structure of the European Union, which replaced the three pillars of the European Union where it is built. Unambiguous recognition of legal personality of the Union the unique values that have become essential elements of the functioning of the Union were established. Lisbon Treaty have reinforced the existing elements expressed through a unique institutional mechanism and established new mechanisms to create greater unity.

It is premature to talk about the European Union as a state, but there are plenty of arguments that show that in the last several years is rapidly moving in that direction. In its origins, and the process of development can perhaps best to consider the crucial influence of the economy in real life, who led the efforts to achieve individual economic objectives that would lead to the formation of an international organization that has more political character and that takes many features of state organization.¹⁸⁸

Due to the unification of rules, which is made from the very inception of the Union, we can say that the foundations of the Union lay on solid foundations and that is evenly developed, and as such has the potential to take on the attributes of statehood. The Lisbon Treaty confirmed and strengthened this feature. This is corroborated by the fact that the formation of joint bodies within their jurisdiction is made and acts that are binding for all member states, regardless of whether the State has voted for the decision. With the Lisbon Treaty this decision-making mechanism has been simplified for certain issues, so that in the period after the 2014 will be

¹⁸⁸ M.Starčević, „Međunarodno privredno pravo“, Beograd 2007, str.43.



required majority of 55% of Member States representing 65% of the population. It has already been mentioned that the European Union largely takes a common foreign policy, which is defined and adjusted at the highest levels of EU governance and a way of defining and conducting foreign policy, certainly has elements of statehood and amplified the supranational characteristics. At the end, Lisbon Treaty is a developed mechanism in addition to the existing member states, states that have not access to it, including Serbia.

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NEW LEGAL CHALLENGES IN COMBATING SMOKING IN SERBIA AND REPUBLIKA SRPSKA

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Abstract:

The number of produced and sold tobacco products has been reduced in the USA in the past five years. Cigarette manufacturers are relocating their factories to countries in transition, which have "milder" norms concerning smoking and the advertisement of tobacco products. With the implementation of legal norms, the state can influence the citizens' behaviour, which can also be altered by introducing new acts, other than laws. By imposing tax on tobacco products, the state certainly obtains a considerable amount of money. On the other hand, the state allocates a large amount of money to health funds which are spent on treating patients from the effects of tobacco use. Thus a vicious circle is created, which the government cannot escape without a serious approach to the implementation of legal norms regarding smoking prohibition. There is an urgent need to introduce global legal standards on tobacco smoke. Forests are the lungs of the planet, and in some countries, such as Pakistan and Brazil, they are cut down in order to dry tobacco to such an extent that it poses a threat to entire humanity. The Law on protection of population from exposure to tobacco smoke has been passed recently, but it hasn't yielded desired results yet. In this paper, which is based on research, the author indicates that smokers don't regard the warnings printed on tobacco products as serious threats, but rather as part of cigarette pack design. Can the goal be reached, to protect people's health, by enacting legal norms to ban smoking in certain premises? According to the author, the answer to this question is negative. Only the enactment of a fully binding norm by all UN member states could solve the issue of consistent protection of people from the exposure to harmful and life-threatening effects of tobacco smoke on a global level.

Key words:

smoker, protection, health, threat, addiction

INTRODUCTION

On a press conference held on the 19th of June 2010, research team leader Jonathan Smith from John Hopkins University in Maryland published the results of a research conducted by twenty nine experts from fifteen countries on harmful effects of tobacco smoke on non-smokers. According to this report, the results indicate that the consequences to non-smokers are far more severe than the earlier research implied.



Tobacco is grown in 120 countries in the world. Its annual global production has reached 6 million tons. The world leader is China with over 1 million tons. According to the World Health Organization report, tobacco factories put around 4 trillion cigarettes on the market every year. Their sale revenue amounts to 100 billion dollars. Five years ago, it was concluded in the US that society's loss greatly exceeded the revenue generated from taxing tobacco products. For this reason, strict legal measures were imposed and the courts began to award millions in damages to smokers who became ill from their habit. Tobacco factories were sued and forced to pay damages. Therefore the factories began to move further east, to countries in transition, such as Serbia. The relocation of tobacco factories to other places does not permanently solve the problem of smokers' and non-smokers' poisoning with tobacco smoke. If society wants to sanction its members' behaviour, claiming that it poses a threat not only to themselves but also to their surroundings, then it can do so by enacting laws whose sanctioning of the perpetrators would benefit both the individuals and the society. If the legislator truly intends to solve the problem, then it can do so by monitoring the implementation of the norm. However, the results of such implementation in practice depend on several factors. Is it sufficient to threaten with sanctions, if smoking is permitted in public places, or should other measures also be introduced? It is a complex issue which requires research among groups of tobacco consumers in order to receive a concrete answer. Since the Law on prohibition of smoking in public places was enforced in Republika Srpska, and the Law on protection of population from exposure to tobacco smoke has recently been adopted in Serbia, this paper will attempt to analyze all difficulties in their implementation.¹⁸⁹ What are the legislator's aims of enacting the norms to ban smoking and the advertisement of tobacco products? ¹⁹⁰ Can this goal – to protect people's health – be reached by adopting legal norms on smoking ban in particular places?

This paper came as a result of research conducted among a group of smokers from 13-20 and 25-50 age groups. Both sexes were equally represented and they were from different educational levels – from primary school students to university graduates. The initial question was: when did they start smoking? The second question was: how were they affected by the alarming text printed on each cigarette pack they smoked? The third question was: what did they think about the norm which prohibits smoking in public places? Was it possible to buy tobacco freely in a supermarket, alongside bread and milk? Then why couldn't I consume it everywhere? Is the smoking ban considered an infringement of human rights and liberties or not? Who will benefit from frightening notes on cigarette packs? Legislators, smokers or tobacco industry? Isn't it, in inverted value system, the greatest commercial for tobacco products? In this paper we will try to prove that the answer to the last question is positive. In this case there is a clash between two human rights – the right to life and the right to health as

¹⁸⁹ The Law on prohibition of smoking tobacco products in public places – *Official Gazette of Republika Srpska* no. 46 /2004

¹⁹⁰ The Law on prohibition of advertizing tobacco products – *Official Gazette of Republika Srpska* no.46/04



opposed to the right to consume the products which the state is selling and that can be legally purchased in every store, even in those where we regularly buy bread and milk.

The protection of people from exposure to tobacco smoke in Republika Srpska and in Serbia

The legislation of Republika Srpska does not include many norms concerning non-smokers' protection. The law on prohibition of smoking tobacco products in public places states in its first act the aim to impose smoking ban in public places. The goal is to protect non-smokers and other risk groups from passive smoking. The law identifies minors, pregnant women and elderly people as risk groups. Non-smokers are thus legally protected from smokers, because smokers, by using their right to smoke, cause harm to non-smokers, poisoning them with the contents of their cigarettes. It can be argued that this legal act stems from the principle of sanctioning the violation of rights which was introduced to our legal system by Valtazar Bogišić in 1888, as part of the General Property Code in the principality of Montenegro.¹⁹¹ But to what extent can a minor be protected from smokers, if the law protects him only in school and school yard?

The law defined public places as institutions which provide public services and where people are gathered. It gave examples of educational institutions, such as: nurseries, kindergartens, primary and secondary schools, faculties, universities and other educational institutions. What is regarded as an educational institution is left to further interpretation in each particular case. The institutions that provide accommodation and residence for pupils and students are deemed as public places where non-smokers should be protected. If a non-smoker finds himself within the premises of a healthcare centre or state, administrative, judicial and cultural institutions, he will be protected according to the law on smoking prohibition. The same rule applies to food institutions, public transport and workplaces. The law does not specify the term workplace, which means every workplace which non-smokers occupy. Finally, the Law states other public places and mentions banks, post offices and stores. With loose interpretation of Act 2 of the Law, it could be concluded that practically everything can be regarded as a public place, besides the house or apartment in which the minor lives with his parents, guardian or adopter.

The law has not managed to achieve such high goals of non-smokers' protection in its five-year application. We can still find stuffy rooms within universities, staff rooms and offices visited by students in order to register for an exam, pick up student cards, attend consultation meetings, examinations or seminar sessions. How educational can it be for a primary school student to see

¹⁹¹ Act 1000 of the General Property Code of the principality of Montenegro: „You cannot use your right if it is detrimental to others or out of sheer boredom“.



his teacher entering a special room to smoke a cigarette at each break? Isn't this a message to the student that it is prohibited to smoke only at certain places, but that everything that is banned can be practised elsewhere? How could someone, who cannot cope with his own smoking addiction, be a role model and protect children and young people? How can he teach them about the harmful effects of tobacco smoke to both smokers and non-smokers? We can conclude that the control of the implementation of the law failed completely. Monitoring of the application of the law should be conducted by health, education, sanitary, labour and safety inspectors. Communal and regular police are also obliged to control the application of this law. Although it is employer's legal obligation to allocate a room for smoking, in such institutions the smokers are often allowed to walk freely with lit up cigarettes, thus leaving non-smokers to choke in their colleagues' or superiors' smoke, with the risk of being fired if they complain about it to their colleagues, on the grounds of disrupting the smokers' harmony. Therefore the legal act on the protection of non-smokers from tobacco smoke didn't prove entirely effective in practice in Republika Srpska, as the protection of non-smokers wasn't maintained. Neither did they manage to send a strong signal to the smoking population that their behaviour would no longer be tolerated by the state; but rather that they were given a small space for poisoning their own bodies and that it aims to protect non-smokers in this way. It can be described as an attempt to protect the others from smokers and that the state intended to confine them in particular space, similar to any other infective disease. Without real intention to put it into effect, we can conclude that non-smokers are even more threatened now, especially children and youth. When a legal norm is adopted in order to protect the consumers of a particular product from the product itself, then there is a logical question: why does the legislator, fully aware of the harmful effects of the product, make it available and closer to consumers? Now we will show how the Law on prohibition of advertizing tobacco products protects the smokers from themselves.¹⁹² The legislator's intention is stated in Act 1. In order to reduce the use of tobacco products and protect public health, it is prohibited to advertise tobacco products. Public health pertains to the entire population, smokers and non-smokers alike. All tobacco manufacturers are obliged to put a note that indicates the prohibition of advertizing on each cigarette pack. Such protection proved insufficient for smokers and it actually has a stimulative effect. In conducted research, all surveyed smokers agreed that smoking was detrimental, but only 5% of them were fully informed about the extent of this threat. However, none of them were aware of the comparative study of smoking risks to health and life in relation to, for instance, traffic accidents.

Smoking can lead to death in case of lung cancer (the so-called smoker's cancer), chronic bronchitis and blood vessel diseases. Statistics from European countries reveal that in 90% of cases smoker's cancer leads to death, 75% in case of chronic bronchitis and 25% in case of heart and bloodstream diseases. Those who died as smokers shortened their lives for 15 years

¹⁹² The Law on the prohibition of advertising tobacco products – *Official Gazette of Republika Srpska* 46/04



on average.¹⁹³ Most surveyed smokers tried to minimize the effects of tobacco use and its deadly outcome. One educated woman, a pedagogue, gave the example of her grandfather who turned 80, and whom she remembers holding a cigarette even in her earliest childhood. She said that she learned to smoke from him, because she admired him and started to imitate him from the 7th grade of primary school. The majority of smokers actually maintain that the risk to health and death is relative. They argue that death could befall us at any time in the street, if someone crashes into us with their car, that we could fall down in the bathroom and hit the tiles with our head. Compared to continental states, England has fewer traffic accidents, but nevertheless death rate from smoking is far greater. Smokers are prone to frequent infections of respiratory organs followed by strong morning cough. They spread tobacco stench through cigarette butts that remained in the ashtray overnight. With each smoked cigarette, blood pressure increases as well as the number of heartbeats per minute, while peripheral arteries start to narrow. Blood clots occur frequently. All this leads to hypertension and heart and blood vessel diseases. If all media regularly published the contents of tobacco smoke, stressing how poisonous it is and if teachers and professors, doctors and other people working in public institutions spoke of harmful effects of tobacco and acted accordingly, then we could say that a real fight against tobacco smoke was initiated, and for the health protection of the entire population. On the one hand, we are developing ecological awareness of our planet's pollution, while on the other hand, one hectare of forest is burned somewhere in the world every minute in order to dry tobacco. Hundreds of thousands of finest paper material aren't used for pupils' notebooks, but end up on cigarette packs instead. Moreover, tobacco is destroying a non-renewable resource – arable land. By imposing tax on tobacco, the state would secure a great amount of money for its budget, but at the same time an even greater sum goes to health funds for the treatment of those who became ill through the consumption of tobacco products. Forests are the lungs of our planet and they are ruthlessly destroyed in order to dry tobacco which will eventually poison smokers' lungs and non-smokers' respiratory organs. Each year there is an increasing number of minors and even children who smoke. Girls, future mothers, start to become addicted to nicotine at the age of 13. What message is sent to a child when he sees big supermarket racks and a huge, colourful cigarette tower above the cash register? How is he supposed to distinguish them from milk and sweets, if they are all equally placed? Insincere intentions to protect people's health are evident from gigantic boxes with cigarette packs above shop assistants' heads. Since everyone has to pass through the cash register, they can't be missed. In this manner, smoking ban has turned into a great challenge to buy cigarettes and consume them. In contrast to Republika Srpska, whose laws intend to protect non-smokers from smokers, the Law on protection of population from exposure to tobacco smoke¹⁹⁴ pertains to everyone. It doesn't make a distinction between smokers and non-smokers, but aims to protect the entire population from exposure to tobacco smoke. Legislator's intention was to maintain this protection by imposing restrictions on the use of tobacco products and by

¹⁹³ The risk factors of smokers www.rvh.khv.ru/people/smoke/index4.htm 28.12.2010

¹⁹⁴ The Law on protection of population from exposure to tobacco smoke - *Official Gazette of Serbia no. 30/10*



controlling the smoking ban implementation. The law makes a selection and for certain professions prohibits smoking even in specially designated rooms. It pertains to state administration, local government, health care, education, social responsibility towards children, social protection, culture, sport and recreation, production, control and distribution of medicines, production, storage and distribution of groceries, nutrition, but also media and space for public shooting and broadcast. Furthermore, smoking is banned at meetings and public gatherings. The law seemingly intended to protect both the smokers from themselves and non-smokers from smokers, but detailed analysis of its acts showed that the protection was perfunctory and cosmetic, rather than genuine. Although the smokers among teaching staff have been forced to leave school premises, they can still satisfy their nicotine addiction in the street, next to the school fence. Again, the same signal is sent to the students – you are allowed to smoke, just not on the school property. Many smokers are trying to convince themselves that tobacco is not an addiction, but merely a habit. How hard is it for a young human being to distinguish the prohibition to leave a classroom for a five-minute break with the smoking ban in a particular place, when he can see his teachers and administrative school workers inhaling cigarette smoke during each break. There couldn't be a better advertisement for tobacco products, so that a non-smoking onlooker considers lighting a cigarette after seeing groups of smokers in the streets and wonders whether such law was suggested by the tobacco industry, because it will benefit most from it.

We couldn't help noticing that with this norm, smokers moved from stuffy rooms to the streets; they are visible and can continue to pollute the environment on a regular basis.

Although the Law stated that smokers have the right to use health insurance in their attempt to quit smoking, thus comparing their addiction to alcoholism and drug addiction, it still failed to define smoking as drug addiction.

But nicotine addiction can only be called drug addiction. Nicotine is discharged very rapidly from the body, thus creating the urge to "feed" the organism with the new dose. Then the smoker quickly lights up another cigarette, poisoning himself and the environment. When the law permits smoking in the premises with: beneficiaries of social care institutions for the accommodation of bed-ridden and nearly immobile persons, disabled people, mentally ill patients, people with developmental disorders; patients from specialized hospitals for treating psychiatric illnesses, patients from psychiatric wards and beneficiaries from the institutions and wards for palliative care, we can easily state that with this act the legislator gave a signal that in such cases smoking was regarded as a cure. Thus we come to the conclusion that certain legal acts, such as the quoted Act 9 of the Law, are discrepant with their names and do not protect the citizens from exposure to tobacco smoke. Bed-ridden patients who are unable to take care of themselves, as well as the patients from psychiatric wards, reside in premises where smoking is allowed. Through such acts it can be concluded that there is no real intention to call the smoking of tobacco and other tobacco products by its true name – addiction, and to take all the necessary steps to cure tobacco addicts. Putting different stickers on cigarette packs, warning that smoking causes cancer and kills, is merely a decoration that smokers are getting used to.



Only 10% of all surveyed smokers said that it bothered them when they saw the note on the cigarette pack for the first time, but later they accepted it as any other design. Remaining 90% didn't pay attention when they read the note for the first time. It poses a real challenge for young people: after reading how harmful it is, they are encouraged to try it. The European Commission launched a big anti-smoking campaign with incentives to each member state to decide whether to include images on cigarette packs as warnings of their harmful effect. David Byrne, European Commissioner for Health and Consumer Protection, said: "The true face of smoking is disease, death and horror, not the glamour and sophistication the pushers in the tobacco industry are trying to portray."¹⁹⁵

A Proposition For The Protection From Tobacco Smoke On A Global Level

As part of global fight against tobacco use, which violates the essential human right to life and the right to planet's survival, we propose that until the UN Declaration on complete ban of production and consumption of tobacco products is introduced, according to which all member states would be obliged to enact their laws, something should be done on a national level, by changing the existing legal acts. We suggest that tobacco smoke be banned on a national level in all institutions, companies, vehicles, and not only reduced to public transport, streets, roads, sports and other cultural events. It should be banned in all restaurants, without allocating any smokers' room or special place.

We would also like:

To prevent public broadcast of TV shows and films in which actors are smoking.

To allocate an hour every day on each TV channel and radio station for the broadcast of materials which confirm the harmful effects of smoking.

To identify smoking as an addiction and to use all means to fight against it, as with other drug addictions.

To invite, through the media, all people who suffer from serious diseases due to smoking and to encourage them to take tobacco companies to court and force them to pay damages.

¹⁹⁵ www.bbc.co.uk/serbian/specials 2.02.2011.



Moreover, tobacco companies should be obliged to make annual donations to insurance funds to pay damages to all those who became victims of tobacco use.

To considerably increase tax rates on tobacco products and limit their sale to specialized shops, at a ten times higher price than today.

Only if this comprehensive fight against nicotine addiction was implemented, it could be claimed that the legislator truly intended to protect the life and health of its citizens.

CONCLUSION

In Republika Srpska 37% of population are smokers and according to the national coordinator for the control of tobacco in Republika Srpska, the existing legislation on smoking prohibition is insufficiently applied in practice. Moreover, the representative of the Institute for health protection stressed an alarming trend that the number of smokers had been increasing among children below 10 years of age since 2008.¹⁹⁶

The consumption of tobacco smoke tied smokers, non-smokers, states, continents and the entire planet into the Gordian knot. The state allows the production of tobacco as a plant. The manufacturers sow it on the fields with the abundant use of various toxic pesticides. Then they reap it, dry the leaves in curing sheds spending great amount of wood in the process, as is the case in Brazil and Pakistan, or they spend great deal of gas and electrical energy instead. Afterwards they sell it to the factories for tobacco processing. And then the product enters the new circle, leading to death and disease. According to Dr. Petar Borović from the Healthcare Institute „Milan Jovanović Batut“ in Belgrade, in the last few years tobacco industry has resorted to putting ammonium chloride into cigarettes, which increases the level of addiction among smokers and hampers their attempts to quit smoking¹⁹⁷.

Putting different stickers on cigarette packs, with the warning that smoking causes cancer and kills, is just a decoration that the smokers are becoming used to. Only 10% of the surveyed smokers said that they were bothered when they first saw the note on the pack, but that they later accepted it as any other design. Remaining 90% did not pay attention when they first read the accompanying notes.

For youth it is a real challenge to try something that is considered to be so harmful. Therefore such warnings are a complete failure of the state and its attempt to protect people from exposure to tobacco smoke. As long as leading film stars smoke on the screen, students can see their

¹⁹⁶ www.rsplaneta.com 2.02.2011

¹⁹⁷ www.blic.rs/vesti 31.1.20011



teachers smoke outside school yards, and a variety of cigarette packs can be found above cash registers in supermarkets where bread and milk are regularly purchased, we cannot speak of a true fight for people's health. Only by increasing tax rates, licensing special stores for tobacco sale and imposing general smoking ban in all places can we reach a significant level of protection of smokers and non-smokers alike. The protection of people from exposure to tobacco smoke cannot be achieved with partial solutions, but with global measures and a global change in attitude towards tobacco products.¹⁹⁸

In order to be regarded as a genuine fight for people's health, a sincere and comprehensive battle should be started against nicotine addiction of the citizens from each segment of society, and in this manner protect their greatest right to life and health.

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INNOVATIVITY, INNOVATION AND SUSTAINABLE DEVELOPMENT

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Abstract:

Innovativity is a great ability of transforming existing ideas into useful new forms or combinations that are different that moment to look brand new. It allows reaching development goals as to do new things and to enable the use of scientific and technological results and potential. The concept and process of harmonization objectives are valid only if made at clearly defined structure and hierarchy strategy. In today's complex conditions, the role of innovation and invention is the most important. For innovativity, on the one hand, the need to multiply more and more ideas is typical, on the other hand, to transform them into technological innovation. Development driven by information technology, on the one hand, contributes to the rapid increase in productivity and, unlike previous technologies; strengthening globalization affects the real and financial relations. On the other hand, not only it promotes sales, but also creates IT products of large market value. What is important regarding information technology is the effect of knowledge itself as a major source of productivity. Moreover, innovativity contributes to ensure adequate qualifications to perform certain tasks in the economy and society as the most important condition of sustainable economic development.

Keywords:

innovativity, innovation, development

INTRODUCTION

Recognizing the market as the ultimate and decisive test of entrepreneurial commitment and expenditure of a wide range of different resources, it is obvious that innovation in the whole process of economic activities has the key role. This role is reflected in its specific meaning and power of individual companies attach to innovation and its realistic representation of the opportunities that a country possesses. Some do it as a continuation of the scored or applied inventions, and some are looking for a new, fully conscious of these values climbing to launch the new mechanisms (freedom of the scale), stimulating development. It highlights society on the move and the appearance of a long period of continuity, which, at the same time, provides greater representation of those innovations that are the most complex and their reflections on



the development of ever more favorable to the relevant knowledge, characteristic of information technology, and offered a good fit for the integration process. It is significant, however, whether innovation takes place, because of the proper role, which changes the relationship between the social base and superstructure, or nature and culture and how it affects all aspects of human life.

THE ESSENCE OF INNOVATIVITY

The essence of developmental changes, it seems, lies in innovation. The fact it is so present in the whole area of human activity, innovation becomes the opening point when analyzing the complexity of the new economy, society, and culture in the making, including individual invention, so the result depends on a complex form of interaction.¹⁹⁹ Innovation, in fact, precedes the invention (invention = cleverness, to figure out) which is an idea,²⁰⁰ a description or model for a new improved device, product, process, or system. Moreover, "it should remember that the interpretation of the observed fact usually remained in the area in which they are initially observed" - Einstein. First, therefore, invention arises, then potential innovation, as usable or otherwise useful new invention, based in innovation. The final member of the inventivity-innovation chain is an innovation, as proven useful innovation. In essence, invention is that new invention that could, perhaps, sometimes could be useful and beneficial. There are two ways of thinking: convergent and divergent thinking. In convergent thinking, all the thoughts are directed toward finding a soluble problem. Divergent thinking is, in fact, a real attempt to discover the more solvable variants. "The innovation is a characteristic of great ability of transforming existing ideas into useful new forms or combination that is different that very hour to look brand new."²⁰¹ Invention is, therefore, the idea, the idea of developing the commodity that serves to final use. Well, this individual inventiveness is desperate quest for knowledge, enlightenedness, and inspiration. "The utilitarian mechanical inventions of artisan type to which people came earlier, stood at the source of modern physics. Sharp individualism of Galileo was the capitalism of incoming capitalist class."²⁰² Before the progress has transformed the living conditions, while its essential causes stay untouched. The current "intellectual" progress affects that people change, given the fact that change comes from within, helping to define development solutions that will enable their achievement. However, "intellectuals are actually people who have the power of spoken and written word, and the only trait that is different from other people who do the same, is the lack of direct responsibility for

¹⁹⁹ Manuel Castells, *Informacijsko doba*, Golden marketing, Zagreb, 2000., str. 41.

²⁰⁰ www.inovativnost.net

²⁰¹ www.inovativnost.net

²⁰² Schumpeter, Joseph: *Kapitalizam, socijalizam, demokracija*, Globus, Zagreb, 1981, str. 161.



practical matters. This explains another drawback - the lack of original knowledge, which only actual experience can provide."²⁰³

It can be assumed that in this methodological uncertainty there are at least somewhat acceptable theoretical systems. The spirit behind the extraordinary enterprise is obvious, the spirit of rational individualism, a spirit that is attracted to the area people strong will and intellect. Genius is a simple mind that finds what no one was unable to find earlier. Therefore, there are a higher purpose and meaning, but the way in which promotes the development of economy and society, i.e. better way of community use of the new, in particular, information technology, (which is not a utopian promise, but a real possibility) for employment, development of occupational and job quality. Development is otherwise full of contradictions that cannot be easily removed. The new society is so strong and globalizing and it turns the whole world in its favor. In addition, throws opponents out of the game and all those, in fact, growing parts of the population, which cannot use²⁰⁴, and there are an "extraordinarily large gap between our technological overdevelopment and our social underdevelopment." Well, "to face the ruthless real-world and a lack of meaning in history could be done only by a person who has necessary qualifications and experience."²⁰⁵

INNOVATION

Peter Drucker defines innovation as "a specific tool of entrepreneurs, and the means by which it is using change as an opportunity for the development of products or services."²⁰⁶

Innovation in the broadest sense is a new approach or problem-solving tasks or in different areas of human activity (art, science, economy, management, law, etc.). In a narrow sense, innovation is considered a new way of solving the problem or tasks in the economy (engineering, production, organization, marketing, etc.). The new solution is actually a relative thing, i.e. it may include the application of the experience of others, i.e. known solutions that have not yet been applied in a particular environment. A special type of innovations are inventions, characterized by an absolute novelty, i.e. these are new solutions which use has not been registered anywhere in the world.

Innovations can be categorized in several ways:

²⁰³ Joseph Schumpeter, *Kapitalizam, socijalizam i demokracija*, Globus, Zagreb, 1981, str. 189 - 198.

²⁰⁴ Manuel Castells, *Informacijsko doba*, Golden marketing, Zagreb, ISBN 953-212-000-9, op. cit. str. 12-13.

²⁰⁵ Manuel Castells, *Isto*, op. cit., str. 29.

²⁰⁶ Drucker, P. : *Innovation and Entrepreneurship*, Harper and Row. 1985.p. 16.



By the professionalism of author:

- Professional innovations
- Amateur innovations

Upon completing site: (randomly created innovations)

- Entrepreneurial innovation
- Innovation of individual inventors

By type:

- Inventions are innovations protected by law on patents
- Know-How is a set of knowledge and experience needed for a defined goal, and so on.

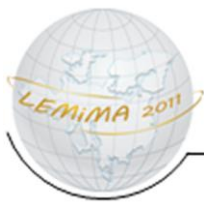
Innovations are often results of organized research of strong professional corporation teams, or small, but innovative and highly motivated group of experts in smaller companies or laboratories and scientific institutions.

Innovation is, by itself, is the function of three main factors: first, the creation of new knowledge in science, technology and management (basic in innovations), second, the availability of highly educated, programmed work force by itself, which may use new knowledge for the improvement of productivity (may be due to the quality and quantity of the education system), and third, the existence of entrepreneurs able and willing to take the risk of transformation of innovation in business. This talent is associated with the existence of entrepreneurial culture, but also with the opening of the institutions of society towards entrepreneurship. Thus, the "technology innovation, according to Schumpeter's version entrepreneurship"²⁰⁷ and "innovation and entrepreneurship are at the heart of national competitiveness."²⁰⁸

Therefore, the significant turnover could happen quickly, if at hand was "huge" investment in research and development of information technology (IT), which should create an architecture that meets the needs of all types of users: first, those dealing with information; second, those

²⁰⁷ Manuel Castells, *Ibidem*, p. 56.

²⁰⁸ Porter, M.: *The Competitive Advantage of Nations*, Hardcover, 1998, p. 134



involved in developing programs, and third, IT departments that maintain systems and support, linking relevant programs (regardless of the fact in which programming language they were written). In the field of development (software, for example) those who have the most powerful tool for development and the ability to adapt the standard information that people already use and to which they are accustomed will be affirmed. In the interrelation, technology, society, economy, culture, in fact all areas of innovation that is affected change, i.e. in which it is entered or is about to enter. This indicates the broad integration of knowledge on new foundations, because it creates innovative, networked environments whose dynamics and goals become or already are independent largely. Innovation is the only opportunity to be involved in the universal (digital) language and pure logic of system networking to create the technological conditions for the horizontal, global communications.

Innovations are most frequent in the three main technological fields that are technology-based electronics

- Microelectronics - transistors 1947, creating of electrical pulses in rapid sequence of binary code; chips - microprocessor 1971, now existing in the millions of transistors;
- Computers - the first was made in London in 1943, and was used to decrypt messages, and one used at the University of Pennsylvania, Philadelphia, who had a 30-ton, was 2m high and occupied the area of a gym (the author of this paper saw it), which encouraged, and then the Apple Macintosh 1984, (was the first one directed to the user);
- Telecommunications, which in the '70s enabled networking and revolutionary "switch" technology and a new connection of transfer, increased the effects of a related information technology.

In addition, mobile telephony relies on computing power of transmission of messages and, simultaneously, provides the basis (every day) for computers and an electronic interactive real unfettered communication. Telecommunication is still a form of information processing, technology transfer and the connections are more different, but are also linked to the same network controlled by computer.

Innovation occurs mostly in innovative areas. "Under the innovation environment I understand a particular set of relations of production and management that is based on the social organization that has a common working culture and instrumental goals aimed at creating new



knowledge, new processes, and new products. A key element is decisive importance of the complex production of innovation for the entire system."²⁰⁹

The new industrial system is not worldwide or local, but a new expression of global and local dynamics and "globalization in this context does not mean all-pervading influence of the universal process, but on the contrary, the estimated synthesis of cultural diversity in the form of a differential logic and possibilities of regional innovations."²¹⁰ All the key technological development, which is the leading Internet technology development, is designed as a free communication technology. Internet is a special case in the history of technological innovation. Continuous access to technology has enabled the availability of technology to anyone who has technical knowledge and computer equipment. Network architecture is an open technology, which stems from the ongoing process of innovation and free access to the network. Thus, the OECD defines the technical - technological innovations as "*First, the use of knowledge and technology to new uses with commercial effect, leading to the realization of a new product, second, lowering production costs for the products.*"²¹¹

SUSTAINABLE ECONOMIC GROWTH

Characteristic of modern times is the concern for sustainable economic growth, employment, the raise of the standards of living and constant struggle to know the laws of nature and fortune to meet a man his work easier, which leads to more discoveries.²¹² Those findings are intended to technological development and productivity increase made their way slowly into the practice of having to do with the "necessary precondition for achieving sustainable economic growth and increasing employment consisted in large capital investment and creating new economic structures."²¹³ Recent developments in the technique of the 20th century came the following order: cars, the space flights, electricity, mechanization in agriculture, aircrafts, integrated circuits for computers, air conditioning, and refrigeration, the use of computers in technology,

²⁰⁹ The most important innovation seat is the Silicon Valley (North Carolina, Seattle, and Austin triangle – started by the Stanford University). It showed that its development stemmed from the events of special forms of the common factors of production: capital, labor, raw materials, linked by some kind of institutional entrepreneurs and that makes a particular form of social organization. Innovation environments are fundamental sources of *innovations* and creating additional value. Manuel Castells, *Informacijsko doba*, op. cit., str. 416.

²¹⁰ Manuel Castells, *Informacijsko doba*, op. cit., str. 419.

²¹¹ Borut Likar, *Ustvarjalno razmišljanje*, Inovativnost za mlade, 2002, (www.inovativnost.net).

²¹² Valsiner, Jan : *Čovekov razvoj i kultura*, Zavod za udžbenike i nastavna sredstva, Beograd, 1997, str. 337.

²¹³ Ministarstvo rada, zapošljavanja i socijalne politike Vlade RS, *Nacionalna strategija zapošljavanja za period 2005-2010. godine*, Beograd, april 2005. godine, str. VIII, u okviru časopisa POSLOVI br. 99, od 19. aprila 2005.



bioengineering, codes, and standards.²¹⁴ Technological development, which is achieved by applying innovation, becomes a factor that strongly affects the country's industrial strength, but it should be sought in the spirit of sustainable development. It is reflected in changes in the education system, organized labor, influence the duration of work, change of professions, unemployment, and more. Developing of innovations and technological innovations is the surest way to increase productivity and problem-solving development. Thus, encouraging technological innovation contributes development of entrepreneurship awareness of the importance of innovation for the overall progress of the economy and society. Technological innovations in the audiovisual system dominate, for example, in commercial publishing; the new digital technology with a new transmission capabilities and production will completely change the television industry, its programming, and audience behavior.²¹⁵ In the field of telecommunications, the telecommunications industry is emerging as one of the driving forces of the new economy, characterized by the diffusion of information technologies and their applications. Therefore, the analysis of the productivity evolution of telecommunications industry (sectors) in different countries is the first step towards understanding the productivity of their respective national economies. So-called operating and total factors of productivity of the telecommunications sector analyze and correlates with the rate of economic growth. Telecommunications industry has become dominant in the world in the last ten years. Together with scientific-research institutions, it is the basic intellectual, personnel, and research-technology and manufacturing resource. These resources should be further developed to provide the necessary knowledge and technology transfer. Processes running at such speed, which has not been recorded in the history. A "knowledge of a problem is key to its solution." Mobilization according to principle *to get* means to go into action only when you see your *advantage*.²¹⁶ From the operational aspect, it involves "the use of technology, processes, and management procedures to increase organizational competitiveness through the strategic use of electronic information."²¹⁷ The emphasis is on the acceptance of innovations, which largely determines the degree and manner in which some technological achievement will be accepted. Therefore, there are a number of definitions defining differently, for example, electronic commerce (as a new institution). From the point of service, electronic commerce is defined as instrument that meets the needs of businesses, consumers, and management by reducing costs, improving quality and speeding up of services. Great number of *innovations* brings down in traditional business process, and the number of intermediaries significantly reducing.

²¹⁴ Todorović, B: "Klimatizacija - jedno od najznačajnijih tehničkih dostignuća XX veka", *Crnogorska Akademija nauka i umjetnosti*, naučni skupovi, Knjiga 65, str. 60.

²¹⁵ *Public Service Broadcasting in Transition*, (A Documentary Reader), Edited by Monroe E. Price and Marc Raboy, Samoizdat B92, 2002, p. 58.

²¹⁶ Sun Tzu, *The Art of War*, Mono & Manjana, Babun, Beograd, 2004, str. 10 - 11.

²¹⁷ Bjelić, P. i autori, : "Svetska privreda u informatičkoj eri", *Institut za međunarodnu politiku i privredu*, Beograd, 2002, str. 111.



RESUME

Market knowledge, development needs, and potentials in general, regionally and in individual sectors, and established investment policy and strategies for industrial development, are essential to identify desirable investors who want a clear insight into the situation and potential of each sector to invest in what interests them. "The wealth of information results in a poverty of attention and the need for effective distribution of attention to the huge number of information sources", by virtue of being in the information era information and knowledge are not rare, but abundant. Therefore, they need educated people, because it is different with uneducated mind lacking the ability to interpretive and critical defense. "However, then the ignorant consciousness affects the authority."²¹⁸ Technological development, which is achieved by applying innovation, becomes a factor that strongly affects the country's industrial strength, but it should be sought in the spirit of sustainable development. It is reflected in changes in the education system, organized labor, influences the duration of work, change professions, unemployment, and more. Development of innovations and technological innovation is the surest way to increase productivity and problem-solving development.

Only those who know pitiless rule that only the *most organized*, most capable, and best advance, i.e. only the high quality reflects in the first place. They "have turned on lights, not to see where they go, but that others see them." It is the encounter with the new phenomenon of the revolution in information technology, that must met, because "technological capabilities are a big unfamiliar spaces", so "competition of new goods, new technologies, new sources of needs, a new type of organization is very important."²¹⁹ Crossing information technology, economics, and social dynamics new realities are created. Thus, "*economic growth does not cause any increase in quality of life, but increase of the quality of life led economic growth.*"²²⁰

²¹⁸ Schumpeter, J.: *Povijest ekonomske analize*, Informator, Zagreb, 1975, str. 370, fus. 21.

²¹⁹ Schumpeter, J. : *Kapitalizam, socijalizam i demokracija*, Globus, Zagreb, 1981, str. 152, 107-109, 113.

²²⁰ Mizanur Rahman Shelley, : *Centar for the Study of the Global South 1994*, p. 62



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REALIZATION OF AN OPTIMIZATION ALGORITHM FOR VEHICLE ROUTING PROBLEM

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Abstract:

One of the most interesting problems in logistic is the distribution optimization. A huge effort has been invested in cutting the transport costs via computer optimization of vehicle routing. Abstractly, the task is known as the vehicle routing problem and there exist many different algorithms for approximate solutions. The main goal of the problem is to carry out deliveries from the central storage facility to all customers incurring minimal costs and subject to certain additional constraints. Generally, putting VRP in practice presents a number of additional difficulties, from obtaining road network information, gathering data about shipments and packaging to efficient coding of algorithms. The purpose of this paper is to present the development and implementation of a transport routing application for a special distribution centre and customer network.

Keywords:

transport, vehicle routing problem, optimizations

INTRODUCTION

In professional circles plenty of models and tools, used for various physical distribution optimizations, are known. These tools are tailored to customer specific needs and as such cannot be easily implemented in specific cases. Therefore the basic properties and principles of these models are presented first and in the continuation a structure of the model, used for the physical distribution optimization in the largest Slovenian company for energy products distribution, is shown. Distribution optimization involves several interesting problems, ranging from the simplest ones like the calculation of the shortest and fastest paths between two different locations to more complex problems including several variations of the Vehicle Routing Problem (VRP). While the research can be carried out on a completely abstract basis (development of special algorithms, mathematical and statistical methods,...) for the purpose of the logistics research in the particular geographical area and particular type of transportation, the real life transportation data is required.



Such a research is highly interdisciplinary and involves experts from economics, logistics, computer science and mathematics. The first step in such cooperation is establishing a functional research tool which will enable us to work on the specific transportation network equipped with all the data required. It remains a constant challenge in the logistics to reduce the transportation costs. It is well known that certain transportation problems are computationally hard (NP hard), but with increasing computation power available, many instances of problems of practical size can already be calculated in a reasonable (acceptable) time, even on personal computers. Possibilities to access real transportation data and sufficient availability of computation power are sufficient conditions for a successful development of a computational research prototype system on which logistic analyses and research can be carried out.

COLLECTION, EDITING AND PREPARATION OF DATA

At the beginning the presentation of the data that are included in the optimization model is discussed, as their suitability is a key factor for the correct optimization and interpretation of the obtained results and solutions. The optimization includes the following databases: the geographical information systems (GIS) of the road network: geometrical data summed up in charts that present road sections and coordinates of places, warehouses and locations of recipients, lists of goods to be delivered and parameters of vehicle fleets (capacity, price per kilometer, regions of activity). In recent years Surveying and Mapping Authority of the Republic of Slovenia established Cadastral register of the economic public infrastructure of the Republic of Slovenia (Zbirni kataster gospodarske javne infrastrukture) in which the data from geographic information systems covering Slovenian road infrastructure is stored. It is easily accessible to research community in Slovenia. The geospatial data includes complete Slovenian road network in the form of categorized road segments. The categorization can be used to determine approximate expected velocity of vehicles on the road segments. We believe that with further data collecting about the road segments on the national level will improve the informatization of our road network enabling us to carry out certain optimization with data of high quality. The information on goods that have to be distributed is usually easily obtained from the information systems of storage facilities. Managing of such facilities without adequate information system is nowadays unimaginable. In our case, such system contains all the data about daily orders, destinations and other characteristics of goods like weight, size, packaging, etc. The orders typically contain the address of the customer. Through address the GIS coordinates of the location can be calculated enabling us to position the customer into the digital road network. In the process of the delivery we assume that the goods orders are distributed to transportation units each with a single destination. Transportation units are packaged in the form of a few standard packagings (pallets, boxes, containers...). In our case we divide transportation units into two groups, namely the ones with a significant weight and volume (like pallets, containers...) and the others in smaller packagings (smaller boxes, envelopes...). The latter group includes the transportation units that do not occupy significant weight and volume capacities of transportation vehicles. We assume that the number of smaller



units is so small that only the “heavy” transportation units are to be considered to occupy transportation vehicle capacities. For instance, if one truck can take 15 pallets, usually several smaller boxes more can be loaded on to or beside the pallets. Our classification reduces to goods on pallets (or in containers) and the goods without significant weight and volume. Nevertheless, each transportation unit loaded on a transportation vehicle implies that the vehicle’s visit of the unit’s destination is mandatory. Without proper consideration of processes involved in delivery the data model could not be realistic. Studying the process of delivery reveals certain conditions that have to be met if the optimization results are to be acceptable. A driver can deliver a limited number of goods depending not only on the capacity of his transportation vehicle but also on his limitations on working time and the length of the route. Certain customers may require deliveries in certain time windows. Relevant data is also certain knowledge ‘embedded’ in drivers. For instance, while our system may propose a certain route, an experienced driver may know that at this time of the day a particular road segment is terribly congested. All customers are not easy to reach at all the times as well. The knowledge about the drivers work processes is also necessary to take into account all time consuming little tasks that have to be done when delivering transportation units. From this point of view we still have a long way until incorporating all that knowledge. On the other hand, optimization algorithms may not look just for an optimal solution but also for less optimal solutions which are more robust in terms of changes required in cases of sudden change of plan.

THE MODEL FOR THE DELIVERY OPTIMIZATION

The optimization problem to be solved is a variant of a well known Vehicle Routing Problem (VRP) with certain additional constraints [8]. The usual presentation of VRP consists of a set of items that have to be delivered to a matching set of customers with a fleet of transportation vehicles in such a way that the overall transport cost is minimized. Each item has a corresponding item weight and each vehicle has a capacity, the maximum total weight it can carry. The road network is represented as a graph with weighted edges, where edge weights represent the cost of travel along that road (usually, the cost is proportional to the length of the road). For each customer and the initial distribution center there is a corresponding node in the graph. For the standard VRP, vehicle capacities are the only constraints considered. Moreover, all vehicles are assumed to have the same capacity and the size of the vehicle fleet is not limited. In practice, more limitations have to be taken into account. The vehicle fleet is limited and inhomogeneous, with price per kilometer depending on the vehicle size. The driver has a limitation on the number of working hours per day and in most cases the route has to be finished within that time. A particularly nasty additional constraint is the requirement by certain customers to have deliveries at certain times. The later problem is known as VRP with time windows (VRPTW). VRP belongs to the class of NP-hard problems [1], which means that exact solutions take time exponential in the number of customers. For this reason, exact solutions of VRP exist only for very small examples (~10 customers) or for certain artificially constructed graphs. In our application, the number of customers often exceeds few hundred and the road



graph is quite arbitrary. However, there exist good approximate solutions that can be found in reasonable time. There exist a number of methods for finding approximate solutions of both VRP and VRPTW. Most are based on the idea of local optimization: start with an arbitrary configuration (assignment of customers to vehicles) and proceed by making small changes like reassigning a customer from one vehicle to another or exchanging the order of delivery for two customers on a single route. The simplest local optimization algorithm starts with a randomly generated configuration and at each step chooses the small change that most decreases the total cost. To prevent the violation of constraints, local optimization algorithms use the idea of penalties: every broken constraint carries an additional cost. By properly assigning penalties we can be quite certain that the algorithm will converge to a solution that respects the constraints.

The simple local optimization algorithm has the shortcoming that it always finds the nearest local optimum. An easy remedy is to repeat the algorithm many times with different random starting points or configurations. But there exist better strategies of avoiding local optimum, so called metaheuristics [2]. The technique we implemented is known as tabu search [6]; it allows considering configurations with worse cost than the current but prevents the same configuration to be checked again. Tabu search does not end after finding the first local optimum – it continues searching, always choosing the best configuration that has not been considered before. In this way it can take much longer than local search, but often finds much better solutions. It is well known that the local optimization with tabu search for several hundred customers can be a time consuming task. A number of computer program optimizations are required to make the program run in acceptable time (a few minutes for a typical instance). First useful observation is that even though the road graph can be huge, only the shortest roads between customers and the depot can be used in an optimal solution. Therefore a much smaller graph can be precomputed that contains as nodes only customers and the depot and as edges only the shortest routes between each pair of such nodes. The shortest path calculation uses a combination of Dijkstra's algorithm and A* algorithm for fastest running time. Another observation that can save a lot of time is that the cost can be recalculated incrementally after every change in configuration. To make further use of this, it is useful to maintain a list of best candidates for next configuration change, and at every step update only the part of list that has changed. Unfortunately, there is a tradeoff in the last technique: it can make the program significantly more complicated and difficult to adapt to changes in specification, especially changes in constraints. In order to take advantage of current multicore hardware we need to make the implementation parallelizable. This can be done either by processing several configurations in parallel or by running several instances of the program in parallel and choosing the best of the achieved solutions.

SIMULATIONS AND TESTS

To test the usability of the optimization model, we have built an computer application in C# that obtains the data about actual orders from observed company's information system and proposes optimal routes for delivery vehicles.



The geospatial data has been converted to PostGIS [5] format and stored in a PostgreSQL [6] database with the PostGIS extensions. For more efficient execution, some data about road distances has been preprocessed and is stored separately. To visually present the customers' locations and the solution we have created a GUI using SharpMap [7], the C# binding to PostGIS. Figure below shows the result of the optimization for the deliveries in one special case.

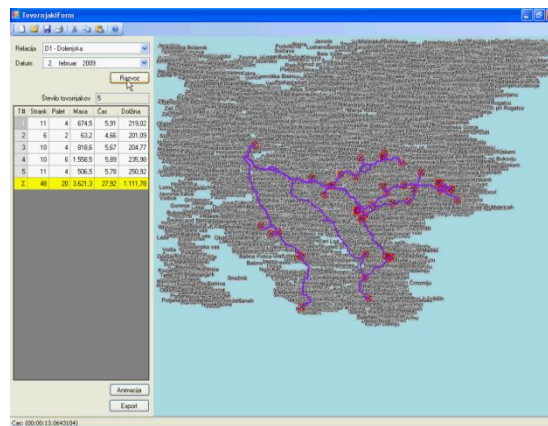
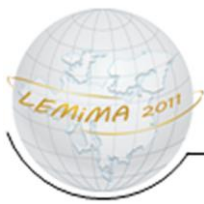


Figure : A screen shot from prototype tool implementation showing the choice of the vehicle and the routes to be taken.

For operational data, we currently use a snapshot of the observed company depot's database which contains all the data about the delivery items. The information about vehicle sizes has been obtained from the contracts with transporters. Unfortunately, the information system does not contain the data about actual transports that have been used, which complicates our evaluation of quality of the prototype application. Since the only information about the actual transport cost are monthly reports by the transporters, we cannot compare it with the calculated cost on daily basis; we can only compare the monthly cumulative.

CONCLUSION

At first glance, the distribution optimization appears to be an easy problem and the majority first thinks about reductions in the transport costs or physical distribution. As can be read in the paper it can be a really complex system, where transport is only one of many functions. Unfortunately, the presented model cannot be evaluated, because some data from contracts with



external transportation companies and data with respect to cost prices of routes are in the studied company considered as business secrets. It is worth to mention that the proposed solution represent savings up to 30%.

The current result is an implementation of the optimization algorithm along with connections to snapshots of real data. To make the application more practical, we need to improve it in following directions: by comparison of obtained results with some known almost-optimal solutions we can improve the algorithm to find better solutions. Second and more important in practice, we need to obtain and use the information about further important constraints for which we have no data, such as road restrictions for different vehicle types, traffic congestions, actual average times needed to travel a certain road, times needed to unload items from vehicle and other special restrictions.

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INVESTMENT – PROFITS CAUSALITY: EMPIRICAL EVIDENCE FROM EU COUNTRIES

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Abstract:

The problem that we examined is the theoretical and empirical analysis of the causal effect relationship between investment and profits of companies. Based on the findings of previous research that are not unanimous we want to explore the causal link between profits and investment on the macro level of the entire economy. Our hypothesis is that investment cause profits on the national level. We used the Granger [1] definition of causality and the Toda–Yamamoto [2] procedure.

Investment is important for the economic activity and could certainly impact economic growth. Chirinko [3] argued that lower long term economic growth and consequently a persistent high unemployment rate in the industrialized European countries were attributed to anemic investment activity.

Keywords:

investment, profits, causality, companies, national economy

INTRODUCTION AND THEORETHICAL BACKGROUND

Classical economists as Smith [4] and Ricardo [5] emphasize the importance of investment on economic growth. Keynes [6] built a new paradigm on investment connected with other economic categories. For Keynes investment is a prevailing factor and an important determinant of national product. For the Keynesian economists investment depends on profit expectations which beside demand and institutional factors are based upon “animal spirits” [7]. Asimakopulos [8] explained the Keynes investment model. He makes his view which shows a two way direction of causality between investment and profits. Profit expectations play a crucial role in investment decisions and these expectations are strongly dependent on actual investment level because the level of investment is an important determinant of current profits. Jorgenson with his collaborators [9] contributed to neoclassical theory with the development of the neoclassical investment model. The neoclassical investment model starts from the solution of the dynamic problem which determines the companies’ capital needs trough time. Neoclassical theory somehow shows the causal link from profits to investment because of the absence of



independent investment function [10].

For Post-Keynesians investment is a very important determinant of the economic system. The argument is that the exploitation of new technologies is possible only through investment. What Kalecki wanted to point out [11][12] was that the most important prerequisite to become an entrepreneur is the capital. With this statement Kalecki suggests that investment determine profits. The focus is on physical capital investment of companies. The importance that Post-Keynesians attached to investment raises a key question being what determines the level of investment. Joan Robinson [13] has developed a model starting from Kaldor's [14] model with an investment within the model. Companies are choosing investments based on expected profit margins. The expected profit margins explain to a large extent the actual profit margins. Robinson, with his formula set a two-way relationship between investment and profits. Her theory is that investments depend on profits and profits on investments. Post-Keynesian research in the field of investment has continued on the importance of internal financing in opposition to Modigliani and Miller [15] theorem which under certain conditions emphasizes the irrelevance of financing policy and financial structure for the investment of companies and made a theoretical framework for the research of the importance of financial factors for the investment of companies.

EMPIRICAL EVIDENCE

Notwithstanding the key role of companies' investment for the expected cash flows and value of companies, sectors and the whole economy just a few important researches examine the causal link between investment and profits and showed that the investment is vital for the expected profits. The results of empirical studies are unclear, from the research results it is difficult to unequivocally conclude the direction of a causal link between profits and investment or cash flows. Researches carried out by Baumol et al. [16], Little [17], Lintner and Glauber [18], Friend and Husić [19] do not support the hypothesis that the profit results from past investment. Bar-Yosef et al. [20] in their study found that investment does not create profits, but profits raise investment, defined in terms of Granger causal effect relationship. They also found that the profits are a determinant of business investment of companies. Shapiro, Sims and Hughes [21], McFetridge [22] surveys support the hypothesis that cash flows result from past investment. Mahdavi et al. [23] in their analysis of the causal effect relationship, employing the ECM (Error correction model), which takes into account the cointegration between real cash flows and real investment of companies found that there is evidence of the one-way causal effect relationship of real companies investment to real cash flows. This is in contrast to some of the previous studies, which demonstrated that the profit or cash flows at the level of companies or industries determine investment. Lee and Nohel [24] have come to the conclusion that there is a two-way link between investment and profits. Gupta [10] who based on two different methodologies comes to different conclusions about the direction of causality. Akyuz and Gore [25], and Inci, Lee and Suh [26] have concluded that there is a link in the direction



earnings to investment. As seen the empirical studies don't give a single answer to the problem about the direction of the causal link between investment and profits. The reasons for the different findings may lie in a variety of used methodological approaches, information restrictions and limitations of the studies.

HYPOTHESIS FOR EMPIRICAL TESTING

If we realize a synthesis of theoretical concepts framed in micro-and macroeconomic theory, the theory of finance and entrepreneurship, we may justify a correlation link between investment and profits. This theoretical framework also allows us to define the resulting causal link between the exposed variables, which runs from the profits to investment.

The basic thesis is that the investment determines profits in a national economy. The thesis of the causal link running from profits to investment has a limited explanatory power because it is only valid in the special case when the primary objective of companies in the economy is to maximize profits. This means that companies should invest only in the current and expected most profitable activities. However, if the maximization assumption is not true, then investment is induced also by other motives, which are independent of the profit motive. The doubt of the validity of assumptions about the profit motive is offered paradoxically in the economic theory. In particular, the part of economic theory, which refers to the business sciences, clearly explains that the company follows also other goals, such as revenue maximization, maximization of the market share and customer satisfaction. Through these objectives managers and equity holders can achieve the purpose of the company, which is to increase the value of a company's equity and thus shareholder value. Crotty [27][28] wrote that companies develop and adopt rules to help them to cope with uncertainty. Gordon [29] argued that the primary objective of companies is a long-term survival. Many authors from the last Post-Keynesian period argue that the goal of modern corporations is not profit maximization but a long-term survival and growth [7].

This means that investment is primarily not dependent on profits. On contrary, investment determines profits. These arguments allow us to identify the hypothesis, which claims that profits depend on investment and not vice versa. The defined hypothesis rejects any theory supporting the interpretation of unilateral causality from profits to investment and a mutual relationship between profits, investment and profit. With the confirmation of the basic thesis that profits result from investment on the level of the entire economy may imply that profitability doesn't determine and allocate investment but the allocation of investment determines profitability.

Imperfections of financial markets which increase the difference between internal and external financial resources act in contrary to the theory-based interpretation, which defines the direction of causality from profits to investment. This means that the failure of financial markets affect



the allocation of capital. On the one hand, the limited financial resources and the disparity between the external and internal sources of capital affect the level of investment and work in favor of the profit motive of investment. Companies must achieve higher profitability, investing in more risky and profitable activities. On the other hand, the failure of markets also affects the allocation of capital and thus the allocation of investment. Transaction costs, the information asymmetry problem and the risk restrict the migration of capital and go contrary to the gainful motive. With the created in-house resources companies invest in them well known available less risky investments at the cost of lower profitability. In this way companies pursue a goal long-term survival. Given these implications and the results of research it is difficult to define the impact that the incompleteness of financial markets have on the direction of causality between investment and profits.

In order to confirm the basic thesis we set the following hypothesis that the investment at the level of the national economy determines profits in the national economy.

DATA AND METHODOLOGY

We gathered the data for investment and profits from the European Commission, Eurostat statistic database. For the representation of investment we use the Gross fixed capital formation - GFCF (ESA95, 3.102) which by Eurostat definition consists of resident producers' acquisitions, less disposals, of fixed assets during a given period plus certain additions to the value of non-produced assets realized by the productive activity of producer or institutional units. For the representation of profits we use net operating surplus and net mixed income. Net operating surplus is interpreted as the return to capital or the effect of time passing on the net present value. For unincorporated enterprises owned by households, this component is called "mixed income". We get the aggregated data for Austria, Italy, Denmark, Finland and Netherlands. For these countries we can get a long time series of data from the year 1977 to the year 2007 to perform the tests of causality. To have data in real terms we deflated the variable net operating surplus and net mixed income. All the data are in value levels in Millions of euro, chain-linked volumes, reference year 2000 (at 2000 exchange rates). We can define the causal relationship between two variables, investment and profits in our case with the Granger definition of causality. It should be noted that the assertion that X causes Y in Granger sense does not imply that the variable Y is the result of the variable X. Granger causality means anteriority of data and does not imply causality in the general sense of the word causality and in terms of content.

The implementation of Granger causality tests is connected with the problems of stationarity and cointegration properties of the considered time series of data. Granger causality tests are sensitive to non stationarity of time series. The first step in the analysis of causality is the check for stationarity and the integration degree of variables. The second step is identifying the possible cointegration of variables.



Only in the third step we apply the analysis of causality. Standard Granger tests of causal effect relationship are valid only if the original time series are not cointegrated and must be applied on stationary variables. When this is not the case we must differentiate the variables to reach stationarity and in case of cointegration we must perform the test with error correction models. We can apply the test developed by Toda and Yamamoto [2] and avoid the procedure of testing for cointegration. Testing for cointegration and a possible need for differentiation to reach stationarity could be problematic, as we lose some information with the differentiation. The inference of cointegration could be unreliable. Both problems may affect the conclusions of the causality tests. The Toda and Yamamoto procedure consists in testing the following vector autoregression – VAR system:

$$NOSMI_t = \sum_{i=1}^m a_i \cdot NOSMI_{t-i} + \sum_{j=m+1}^{m+el} b_j \cdot NOSMI_{t-j} + \sum_{i=1}^m c_i \cdot GFCF_{t-i} + \sum_{j=m+1}^{m+el} d_j \cdot GFCF_{t-j} + \varepsilon_t$$

$$GFCF_t = \sum_{i=1}^m e_i \cdot GFCF_{t-i} + \sum_{j=m+1}^{m+el} f_j \cdot GFCF_{t-j} + \sum_{i=1}^m g_i \cdot NOSMI_{t-i} + \sum_{j=m+1}^{m+el} h_j \cdot NOSMI_{t-j} + \eta_t$$

Where $GFCF_t$ is gross fixed capital formation for period t , $NOSMI_t$ is net operating surplus and net mixed income for period t , letters from a to h are independent variables coefficients, m is period lags, ε_t and η_t are regression errors, el are extra period lags. To apply the test we must define the number of lags end the number of extra lags. GFCF Granger cause NOSMI if any of the c_i coefficient is statistically different from 0. NOSMI Granger cause GFCF if any of the g_i coefficient is statistically different from 0. For the test of the null hypothesis that every $c_i = 0$ or every $g_i = 0$ we perform a Wald statistic test. To avoid the problem of arbitrary decided lags we define the optimal number of lags with the following tests for VAR: sequential modified LR test statistic, Final prediction error, Akaike information criterion, Schwarz information criterion, Hannan-Quinn information criterion. The problem of such tests is that we must decide the number of maximum lags for testing which influence the results. We select the optimum lags in base of the most frequent optimal lag, resulting from all the tests performed from 1 up to 6 lags. We use the Augmented Dickey-Fuller unit root test equation to define the order of integration of the variables. The extra lags equal to the order of integration.

RESULTS AND CONCLUSION

We present the results for the order of integration table 1. In base of the results we define the extra lags we use in the VAR system. The orders of integration for different countries and variables are not the same as we can see from the table 1.

Table 1: Order of integration of variables

Country	GFCF	NOSMI
Austria	1	2
Italy	1	1
Denmark	0	1
Finland	1	1
Netherlands	1	2

The optimal lags and the inference of causality tests are presented table 2. All results of causality are in base of the 5% level of significance.

Table 2: Optimal lags and the inference of causality tests

Country	Optimal lags	GFCF cause	NOSMI cause
Austria	1	NO	NO
Italy	5	YES	YES
Denmark	2	YES	NO
Finland	5	YES	YES
Netherlands	3	YES	NO

As we can see from the results of causality in table 2 we can accept our hypothesis that gross fixed capital formation at the level of the national economy determines net operating surplus and net mixed income in the national economy for Denmark and Netherlands. For Italy and Finland we have a two way causality relationship. In the case of Austria there is no causality relationship. All the interpretations of causality are in Granger sense. The results give more support to the confirmation of the basic thesis that profits result from investments on the level of the entire economy may imply that profitability doesn't determine-allocate investment but the allocation of investment determines profitability as we demonstrated this way causal relationship in four out of five countries.

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TRANSITIONAL CORPORATE BUSINESS AND ETHICAL (NON) OPPORTUNITIES IN BOSNIA AND HERZEGOVINA

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Abstract:

The whole variety of complex processes called transition in BIH are going very spontaneous and very devastating for most of the population - instead of creating social justice, it created a ruthless social injustice. While the transition profiteers, 5-7% of the population, control most of the entire wealth, unfortunately, huge crowds are on the edge of bare existence, or even hungry. Party oligarchy of all colors and ideological signs through the night easily unite in brotherhood by „money and power“ and they trade with armchairs, businesses, people's destinies and lives without any remorse. Threatening abyss can be eliminated only with the work of those who become anxious - just such a transition of life, man and humanity in Bosnia and Herzegovina can get a chance.

Keywords:

transition, privatization, unemployment, rising poverty, conscience, morals, ethics

INTRODUCTION

In the modern world ecological and social factors as well as the effects of the global financial crisis significantly affect the business and is slowly becoming a very important element for further development so the corporate social responsibility and business ethics in the world for a reason the most current and high-priority issues. It is good that a new ethical vision of life (broadly speaking) shares a large and growing number of thoughtful people in many nations and cultures of the world, but they need to connect a lot more. The complex transitional conditions of BIH burdened with serious problems for the maintenance of bare life ethical issues certainly work very unreal and even illusory. However, it is certain that without them de facto, everything loses its meaning, and they, despite all the absurdities in the current environment, it is very important to give them full attention. The alternative simply does not exist. In the paper „Transitional corporate business ethics (im)possibilities in Bosnia and Herzegovina“ some aspects of the understanding of factors impacting corporate ethical business in a country in transition (Bosnia) were given, where there are many specific aggravating circumstances that require a permanent and long-term work to create even the most basic prerequisites in order to



be able one to equally look at people, planet, and profit. **The current explosion of knowledge and the capacity of its almost instantaneous global distribution allow previously unimagined possibilities of compression the space and time in many ways, but that is not the case with is inevitable change of people (human) and it will certainly be a limiting factor for progress in all of this.** Human beings (what is left of them) fell into a trap of egocentric technological civilization and the overall commercialization of life and become completely dependent on them. Change of „sailing“ course on a global level cannot be achieved without a number of self-denials in many aspects of life and humanity still is not ready in many ways (the population of countries in transition in particular). However, change of people is certainly necessary, and in Bosnia and Herzegovina and very urgent. This problem is actually the focus of this paper.

MAN, RESPONSIBILITY, AND MORAL - THE FOUNDATIONS OF ETHICS

For the understanding of man in the current theme it is important that a person is extremely complex (though it has certain properties that are common with other living beings possess special peculiar characteristics). Sociology assumes that man is a natural being and that its special characteristics, which separate it from other living things, allow it to create a society as a specific community of human beings. In this sense, the man most often mentioned characteristics are awareness, creativity, sociability, morality, and freedom. The man was conscious creative being, creativity is important and its particular characteristics, which allows creating something new, something that did not previously exist.

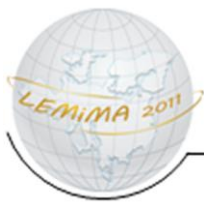
This certainly applies to relationships within the community. However, the relations of individuals and society (community) should be continuously improved, because society can function well only if the individual feels responsible for the permanent entity and it also recognizes each individual and ensure its freedom and independence. A person's personality and the natural attachment to the community really makes a metaphysical essence of human society, personality and sociality of man together make up human nature and these two variables are associated with a man, i.e. it is not possible achieving of human if it does not develop at least as both elements. The man is a social being and its independence can be developed only in support of and connection with others. From the relationship between communities and individuals, numerous mutual obligations arise, and the most thorough of them is surely that person, as a social being, feels responsible for the community and the community its activity directs towards the person and its good. Rulers and teachers need constantly to take care. It now does not work in BIH. Nevertheless, the fetishization of individualism and the total preference for individual rights and freedoms of the individual in relation to the common good is understood wrongly man as a person and even his freedom (in practical life it is quite often the case). Community members need to develop awareness of the unquestionable value of the basic rules, but also



guarantee them their application in everyday life. **The most important common good of each community should primarily be to develop basic human values**, and they can be realized only by the active efforts of spiritual people. Otherwise, the individual is inevitably moving away from the boards while turning to himself. This process in BIH, unfortunately, has long been present. Many managers and government structure in Bosnia and Herzegovina that are not even aware of it and that is why this is happening to us. We arrived to the struggle for survival, and in such conditions it is difficult to remain human so it is necessary to change the existing situation, which is already lasting too long, to urgently change for the better, otherwise many elements of life can lose its meaning but something like should not happen ever. Life everywhere simply must have the opportunity - the relationship of man against man must be human to be unity, in the broadest sense, so that all make sense and might work. However, many people in Bosnia, unfortunately, are no longer that. Regardless of country, race, culture, and also regardless of hierarchical status in the community, we are above all people and any further role that we do in life comes from what we are deep in our souls - human beings who want to be happy and certainly do not want to suffer. Moral responsibility are completely unnecessary for suffering and only increase it so that is why we appeal to you for giving the value of human life in the present reality of Bosnia and Herzegovina's transition as it is otherwise really quite illusory to talk about responsibility, morality and ethics. However, since without them, everything will lose all meaning (man without them simply cease to be human) voice of conscience merely sounds an alarm, warns and requires full attention. It is good and also very important that, despite everything, still has a certain number of those which are reached and that at least occasionally listen the voice of conscience and know the line between morally good and evil (bad) decisions and act. In our BIH „pot“ many things were brought to the absurd and the conscientiousness has a strange state so those who are good feels pangs of conscience, and those who are bad have more peaceful „conscience“- the evil has grown, and in many ways looks and gained the right to citizenship, and deafness to the voice of conscience.

Man's moral behavior is conditioned by his awareness, but it is the most dependent and associated with his conscience. Sociology of morality (the most general sense) is understood as a set of moral rules and norms (customs, traditions) that determine human behavior in society as a whole, to other members of society and to himself. The origin of morality is related to the emergence of human society because people living in the community just had to create various kinds of norms regulating the relations in this coexistence. The man, as a free, (only) a conscious, creative and responsible being, creates a moral construct that serves as the preservation of his human identity. **Morality is an integral part of man and without it simply ceases to be.**

As part of the overall (complex) communication that takes place in society, in accordance with existing defined moral standards, people form their characters and qualities, personality, motivation and direct their actions, assess, evaluate and „judge“ himself and others. No conscience, no morals are innate or can simply „set“ and they or any decree cannot be changed „overnight“. History is full of examples even complete disappearance of societies in which moral rules have been seriously undermined and with their current situation in BIH is not only



the present but also the future is very uncertain and complex. Moral decisions and moral judgments are an integral part of our everyday life (it certainly applies to all operations and relations in business), their behavior and decisions in fact, more or less consciously and conscientiously, always triage good and bad, and reality shows us how we do that well. „Morality is a view of action which we consider as much as all other aspects, although it is questionable whether morality is relevant when it comes to survival (life) of an individual or group.“ [3] In contrast to already established discussions in connection with that we opposing the need of bringing to consciousness and conscience that is not important what one should do or should not do - that is important what a man at a time specifically do. Therefore, tests of conscience are very important criteria checks moral correctness of procedures regardless of whatever the sphere of life was and they must be practiced. „**In short, ethics is a reflection on the morality of the procedure.**“ [3] It should actually be a constant intellectual effort with which man himself is trying to respond, as we ought to think and act, and to be as correct to himself and to others. Some call it simply the human quest for the difference between good and bad. Bearing in mind the current reality in BIH, it clearly indicates the gap between the needs, possibilities, and aspirations for this search. We prefer need and activities to create better opportunities, and that means giving meaning and opportunity of possible fullness of life as opposed to apathy and hopelessness. Will requires a motive, and the fullness of human life is certainly the most of all.

BUSINESS ETHICS OF MODERN BUSINESS SYSTEMS

We have already noted some aspects of the association of personal and social needs, rights, and responsibilities. Many issues in terms of business ethics have their source in the general ethical issues that arise in a complex network of human relationships. The business is also one of such networks of interpersonal relations, and there are almost daily encounters and more or less complex moral situations. Many of the attributes of individual human beings we could project at the level of business system, although business system is not a person in the literal sense of the word - but is made up of people. **Business ethics is a kind of applied ethics, i.e. the application of general ethical principles to the particular area of life - on the business.** [3] Business ethics, as well as learning about what is good and right for business, study also the specific issue of corporate social responsibility, and the appropriate role or obligations of corporations in society. Of modern business systems increasingly required not only to refrain from being harmful to society, but also to actively and directly contribute to the public good i.e. it is expected not only to be subject to a multitude of regulations, but to go beyond legal requirements and start to morally judge in making decisions. As a minimum, moral righteousness in business ethics question is the legal limit, but more often one hears that ethics actually comes after that in an area that the law does not yet cover. With the term „business ethics“ often goes the term „social responsibility“. Social responsibility refers to the broader context within which it is a morally correct or not assessed the totality of our operations on the totality of society. Social responsibility is becoming an obligation of all modern operating

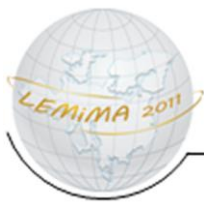


system - along with making a profit at the same time realize the positive impact of their business on society, minimizing the negative impacts. Many companies in the world and a growing number of examples show that profitable business can be socially responsible business too. Modern business systems are in relation to that faced with two major challenges, namely: to maintain and improve its competitiveness and at the same time respond to the ethical, environmental, and social needs of society. However, most business systems are traditionally seen on these two challenges as to two opposing processes and are confident that their resources should first focus on gaining competitive advantage in the market, and only afterward to address broader social needs. However, a series of cases from business practice indicate a new business reality - that without long-term, conscientious, and conscious holistic strategic planning economic prosperity can hardly be expected.

In many world major business corporations, social morality and ethics has transformed into basic values, determine the orientation of business, and define them with entrepreneurial vision and business mission as a corporate identity. This has a lot of transparency, have gained greater confidence of the public and feature a reliable partner, which made them more competitive in the long run. This orientation brings consumer confidence and clearly shows a positive correlation between their social responsibilities and achieving their strategic objectives. By building its business strategy and practice at the explicit responsibility for economic, social, ethical, and environmental dimensions of their business such a business policy, increase their market share so they can better stimulate innovation, attract the best human resources, better control risks and reduce costs and improve other key parameters of business success. It is certain that the business ethics is not just particular business system and its own morality or immorality, but are very concerned and inevitably repercussive to wider environment that is social, legal, political, and cultural and natural so it is necessary to bear in mind that. If we want to see how the business ethics of a company is focused, it is best to appreciate how much time, effort and money allocate for the realization of these values, but it is just a solid start of measure or test of moral responsibility of the company (corporation).

(IM)POSSIBILITY OF ETHICS BUSINESS OF CORPORATION IN TRANSITIONAL TERMS OF BIH

We live in an age that is rightly called an era of science in the broadest sense as the 21st century is the historical period in which science, engineering and technology (especially information technology) as never before, affecting the overall social trends. Its most important feature is the essence that with its primary resource, its increasingly becoming knowledge, that the rate of diffusion of scientific and technological knowledge far greater than it ever was, and it is certainly a very rapid basis, and also a major economic, political, psychological and many other changes in contemporary science and technology in the world. An explosion of science and technology causes very rapid spread of the impact on the life and work of the people in all



geographic areas and for the first time in history leads to the creation of a unified world civilization - the technological civilization. Revolutionary significance of current scientific and technological revolution is certainly the radical changes in content and in terms of human labor, organization, and management of production and social relations. This requires completely new relations of production and operations, organizational, structural, and cultural well-shaped expertly trained business systems for frequent and rapid changes in line with the perceived changes in the environment. Emphasis of modern economic development has shifted towards sectors that are based on knowledge, information and high technologies and services, and traditional activities become additional ones, without a significant contribution to global prosperity. This inevitably requires numerous and rapid restructuring of business processes. Man has become the main limiting factor of development in general, and continuous education of modern manufacturers is the only way and the most important factor of progress. The modern successful business systems in the world are learning organizations and the successful are those who learn faster than others do.

All the above are very sore point in the economic entities of countries in transition, and in Bosnia even more because of the large load gap that are present, and of all **the conditions of human factors (current relationship with humans as the most important and decisive factor in all work processes and environments) certainly the most painful point that will limit progress for the long time.** In terms of massive unemployment (at all levels of expertise), with earnings largely on the level of maintenance of bare life and the ubiquitous politicization of social trends and the business itself inevitably changes (worsening) state of mind and conscience of employees including those who work, and most of them thus manages to satisfy only the most essential needs for survival losing the sense of purpose. It's simple and easy to conclude how many employees are motivated to invest more effort, and certainly all of its abilities for the good of the organization as in its goals, almost without exception, their needs and goals are far from woven into.

It is true that economic entities in BIH operate in an entrepreneurial very hostile environment in which other rule: the legacy of egalitarian and collectivist ideology (whose values do not encourage individual achievement and self-affirmation as a base of entrepreneurial challenges), high power distance suitable for authoritarianism (adverse to the creativity of individual initiative and respect for each individual), a high degree of interpersonal distrust (especially important for development of professional management and use of various forms of organizational connectivity), polychronic relationships to time and nature. However, in such an unfavorable cultural and economic transition system still occur and businesses that form and develop (although, unfortunately, usually only imitate) the characteristics of the culture of successful business systems in the world. Although they still determine which way to go many others, but this requires a different social climate, so it would have to be set up urgently.

It is a good thing, although sporadically, that now, in a small number of firms, created a new, unusual for our environment, corporate culture that is based primarily on market

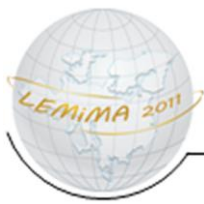


principles to the orientation: the users of products and services, the quality as a core value in entrepreneurial activities, the efficiency and effectiveness and rationality, primarily in relation to the total cost, the innovation and flexibility, and ethical and responsible behavior towards the environment. To start new routes is not easy, especially in the current in many ways very complex economic conditions in which there are many barriers, and without any mitigating circumstances. **It takes actually global positive achievements and experience in the business professionally installed in, and the world little known, the transition conditions.** It is extremely difficult and complex task, to say the least, not given sufficient attention, although the consequences of that easy to find at every step.

Transition imminent privatization process in BIH is carried out, unfortunately in a very wrong way. Do not steal it (it would be pilfering), but very unscrupulously claimed both material goods and the right to vote and dispose of all manner of things, and therefore people's lives. All members of society should preferably have the property necessary for the fulfillment of basic individual and social life needs, and the size of the property should fluctuate depending on the knowledge of individuals and willingness to work by individual. Owners of a large estates and non-owners in any case should not be created the social system, in BIH that is exactly the case. But still the current „usurper“ privatization process which is „transparency“ can be counted on almost daily protests of laid off workers, and thus any thought lose its sense (conscience, morality and ethics have no reasonable place there).

People have always worked for themselves and their families, in addition to existence and provide for the future, dignity and freedom as well as more or less creative life development. Transition and the war in BIH and what they made is totally disrupted the normal living conditions, the normal sequence of events in the lives of individuals and society, cut off many avenues of cooperation and life of many has been brought into a state of hopelessness. The decline of many companies and numerous layoffs and the dissolution of the staff took away all the dignity and freedom, and rose on a pedestal of employment in the civil service and politics as the most lucrative professions. A number of not insignificant debts of individuals to purchase the workplace have become a „normal“, and bribery and corruption for themselves speaking in what state the society is. While the collection of various fees by society is very seriously conceived, programmed, in coordination, and supported by contemporary information technology, the economic activities are left to neglect, is totally unbound, fragmented by a variety of ways - have been left without any social concerns and generally incapable for any serious market competition. Preparation of personnel, training, selection of professions and occupations is left to each canton, and Chamber of Commerce fail to even to reorganize them for those who are employed in them. These are the results of the current transition in BIH.

In such circumstances, existing business systems are left to their own and pushing too burdened with numerous responsibilities and the existing conditions and results of operations making ends with conscientiousness, responsibility, morality, ethical business conduct does not come to deal with it. A number of business systems is more recent and without tradition, without a recognizable image of the business, and formed no conscious organizational culture, with no



previously acquired business references and even without sufficient homogenization of employees with a business system, and without these parameters is expected only lottery success.

In order employees to give their maximum potential for the benefit of the business system, it is necessary that their needs and interests be interwoven in it. Top priority is to create the organizational climate in business systems to employees feel comfortable as a people and as employees - to find personal meaning to mutual work. It is the foundation of many positive reversals could arise. The most important of them is the activation and entry into the scene of essential human attributes (which are rightly the subject of this paper).

RESUME

It is indisputable that globalization is indeed a pie and everyone can take for themselves aliquant part, but exactly commensurate with our own participation in its creation. Everyone has a chance to offer the world their special and specific products and/or services from the sector of largest relative productivity of its economy and thus its own separate "national" economy integrated into the current global economic trends. It is the only way (open economy) leading to a world market and success. It is easy to imagine how much of the globalization pie can expect those who are just leaf through dictionaries and encyclopedias (if they does so) asking the people of meaning: a holistic approach, benchmarking, reengineering, competitive advantage, corporate business ethics, and the like. While many other stroll down ahead and create the future, in BIH so far our "tribal leaders" under the veil of spiritual guidance for "their people" and their fate, rather than to drift the mainstream and at least begin to create conditions for a better future, and continue to stir in the shallow water, while successful fish in troubled waters. Current socio-economic conditions in BIH in many ways are specific and very heavy, burdened by extremely high unemployment, a very unfavorable economic structure, negligible low level of social growth, the severe implications of policy and state regulation on the economy and, above all, many more complex economic and psychosocial consequences of war and it is no wonder that issues of corporate business ethics is not treated. Ruthless struggle for profit eliminated other business objectives i.e. existentially; everything else is pushed into the background. In terms of contemporary living and working numerous heritage of the past and in BIH the huge burden of a specific transition gap present before the people and business many professional, motivational, moral, and ethical or dilemmas of another nature. While the contemporary world stage businesses and powerful international companies came into the position in the process of defining its vision and mission to ask questions of the "essence" of the purpose and objective of business, so long existing business systems in BIH are still in a position to seriously consider the most important questions of the "essence", but also the man or the individual as the most important prerequisite of business success possible.



The work creates a man so it is necessary to provide people in Bosnia - to ensure the existence and find themselves (to activate and present their values - to regain confidence and self-esteem) by working. This is the only correct way, and everything else is just wrong road. Necessary mentioned positive reversals are possible only if conditions are created for true activation and entry into a scene (in everyday life and business relationships) of fundamental human traits and values. Only thus, a "new" people whose personal will not be hard to match organizational values will be generated, and it certainly can result in personal and organizational success. These processes BIH need to start (but certainly as soon as possible). Pathfinders already do that although it is very hard. "Will the company like a conductor, and use the baton in the managing people or it will be like the wizard using the magic wand to turn in a magnificent spell everything it touches, it depends on the management, and who they are and what they are" [4]. Finally, it is necessary to return to the beginning and say that existing "interesting" time in BIH is mostly work of all of us. It is just the result of what has happened or is still happening within us and among us, and change our own (especially the return of conscience to those who have lost or surrendered under the authority of other people's opinions and people's will) first, and quite certainly the most important step in healing. There will be no need to search for ethics because it lives with conscience in the same (now vicious) castle.

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SELECTING AND EVALUATING OF MEASUREMENT SCALES IN MARKETING METRICS

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Abstract:

The choice of adequate measurement scale is based on looking at criteria that should be met if valid and reliable results are wanted. Those criteria are: validity, reliability, accuracy, precision and generalizability. Each of characteristics can be measured by using different methods. A good rating scale should have minimal response bias, respondent interpretation and understanding, discriminating power, ease of administration, ease of use by respondents and credibility and usefulness of results. Although it is impossible to have perfect scale, researchers can choose a scale that will be able to produce reliable and valid findings that can help in decision making process.

Keywords:

validity, reliability, bias, scale ,response

INTRODUCTION

If something isn't measured, we cannot control it [1, pp.14]. Marketing metrics, as a part of marketing in general, tends to perform measuring which enables quantifying of marketing performances in order to maximize accuracy and optimality of decisions. That is why there is a permanent need for qualitative measurement tools that will improve decision making process as well as any marketing research. The choice of scale not only affects the reliability and validity of the findings, but also influences how results are used and how easy the survey is to answer and administer. Very often researchers, statisticians and managers use measurement scale (or even make them up) without considering its effectiveness which results in biased or misleading results. Establishing statistical reliability and validity through multistep testing and retesting process is the advanced goal of selecting a scale.



DEFINING AND MEASURING PROPERTIES OF MEASUREMENT SCALES

The perfect measurement scale doesn't exist but some produce more reliable results than others [2, pp.12-17]. On the one hand, one should target a measurement scale which is easily understood by the respondent, but this needs to be balanced with the desired level of precision and the statistical methodologies that the researcher plans to use to achieve the research objective [3, pp.9-33]. The basic properties that should be considered in relation to any measurement are accuracy, precision, reliability, validity and generalizability.

Accuracy refers to the degree to which the measurement reflects the true value. Precision refers to the degree of detail in measurement and is usually related to the variability around the average measurement when carrying out repeated measurements.

Reliability is the characteristics that refers to the consistency of the measurement across several questionnaire items measuring the same latent construct over time. If a battery of possible questions is used, responses to those more reliable will show a higher degree of consistency among themselves and across respondents. A typical measure of reliability is Cronbach's Alpha coefficient which is a widely used measure of internal reliability for measurement scales. The basis of this coefficient is in the fact that if the set of items is supposed to measure a single latent dimension, the total variability of these items should approximate the variability of the true score for the latent variable. Since we don't know the true score we make a measurement error. The lower is this error, the higher is the reliability. Cronbach devised a procedure for estimating reliability by looking at the sum of the variabilities within each item and the variability of the summated score. This basically corresponds to looking at the bivariate correlations between items across the sample. In high reliability situations it is possible to sum the scores obtained in the single items to estimate the score of the latent variable. The computation of the Cronbach's Alpha is based on the average of all bivariate correlations between items of the same construct set, with the adjustment for the number of items. The Alpha reliability coefficient has the maximum value of 1, while it can be negative in presence of negative correlations for some of the items. A value below 0.7 indicates low reliability although the coefficient is sensitive to the number of items and can be artificially increased. Reliability is also measured through Internal consistency test which measures the consistency across various items of the scale which are supposed to be part of the same construct and through Test-retest method that looks at the stability of results when the survey is repeated in different circumstances. Validity is the extent to which measurement reflects the true phenomenon under study. For example, if the product's quality is measured by combining characteristics like price, packaging, technical characteristics and others, if this measure has a high correlation with the quality actually perceived by consumers, then it shows a high validity. Also, it can be used to predict product quality if there is no information of the perceived quality. Validity is checked by looking at the observed differences in scale scores and purging them from the influence of random errors or systematic biases.



There are many studies and researches that explore empirical performance of alternative non-comparative scales. Evaluations are based on the reliability of scales, their validity and also, most recent studies emphasize generalizability as a important characteristic of scales. Generalizability refers to the possibility of generalizing the results to a broader situation which goes beyond the sampling process and includes different administration methods, different timings, etc [4, pp.19-28]. Churchill and Peter analyzed performance of different scales by performing meta-analysis²²¹ on 89 marketing research studies [6, pp. 360-375]. They concluded that the choice of the measurement scale doesn't influence the result of the studies, apart from the number of items in the final scale and the number of scale points. If a construct is measured through a large number of items, the reliability measure tends to be higher and the questionnaire tends to be longer. High number of points in the scales also increases reliability, while other choices, including the type of scale may affect the result but not in a single direction. Advantages and disadvantages of each measurement scale should be accurately analyzed according to the research goal and the environment of the study, especially the method of collecting data and the socio-cultural characteristics of the surveyed population.

ANALYSIS OF THE CHARACTERISTICS OF ADEQUATE RATING SCALES

A good rating scale should have the following characteristics [2, pp.12-17]:

- Minimal response bias
- Respondent interpretation and understanding
- Discriminating power

²²¹ meta-analysis is a useful tool for statistical analysis of several researches that share the same purpose or some of the measured variables. The aim of meta-analysis is to generalize specific researches to gain broader knowledge of a phenomenon by finding consistencies across studies and isolating inconsistencies [5, pp.620-622] . A simple meta-analysis consists of averaging estimates for a given variable obtained in different studies. More complex meta-analysis relate the target effect (dependent variable) on the characteristic of the research environment of the selected studies (explanatory variables). A regression analysis of the target variable on a set of variables derived from the individual studies can provide useful information on the direction of the relationship and identify potential biases in research designs. The contribution of the meta-analysis depends on the number of studies that it is based on. It requires rigorous and systematic selection and classification of meta-data that is "data about data ". The disadvantage of meta-analysis is that sources of bias are difficult to be controlled. If it is possible to include some indicator of the methodological quality of the study, then the effect of improper methods can be evaluated. Otherwise, improper studies may reflect on the final estimates of meta- analysis. The method is very popular in medicine and education research but is increasingly used in marketing and consumer research. .



- Ease of administration
- Ease of use by the respondents
- Credibility and usefulness of results

Minimal response bias:

The way respondents use scales can negatively affect our ability to interpret results. Two well-known effects are positive-response bias and end point avoidance. Most people want to be "nice", tending to select less critical judgmental position. Adding a neutral category or a midpoint to the scale may change this at least a little bit. However, some researchers argue against including neutral point or midpoint, forcing a respondent to take sides. Some respondents avoid endpoints in a scale. This problem causes positive response bias and discourages the use of a 2-point scale although it is sometimes effective when simplicity is required.

Respondent interpretation and understanding :

The respondent's interpretation of the scale categories should not be assumed. The use of very complicated words as well as colloquial words must be carefully considered. That is why some researches prefer numerical scale to verbal one. Unfortunately they face similar problems in interpretation. For example, some people are not numerically oriented. Similar arguments can be made against purely verbal scales for those who are more numerically oriented.

Discriminating power :

The ability to discriminate between degrees of customer opinion can help distinguish which service levels are poor, or adequate, or exceptional. More scale categories are not necessarily better, but at least 3-points should be used. It is shown that the use of a 2-point scale (i.e., yes-no or satisfied-dissatisfied) can lead to 20%-66% loss in prediction (for example in coefficient of determination) and statistical power [7, pp. 249-253]. At the same time, other researchers have suggested that there is no use of more than 5 points in the scale. For example, a summary of responses to question with a 10-point response scale may show all categories used, but this doesn't mean a précised gradient in performance has been assessed. If each respondent uses no more than 5 scale categories this suggests that respondents are defining a subset of the scale. Another source of the response error is introduced when using verbal scales on the telephone. People can't remember the choices if there are too many of them. It can also be found in the



literature that the optimum number of points on a scale ranges from 5 to 11. Theoretically, the greater the number of points, the more powerful the scale is in discriminating, but respondents soon become unable to make fine distinctions and round off [8, pp.37-39]. Thus, on 100-point scales, most answers are at 25, 50 and 75 or end in zero (for example 30, 40, 60). Some researchers use scales with an even number of points to force an answer, but some other researchers suggest that the distribution of positive-negative answers is similar in odd and even scales and say that the middle category does provide information on those who are really undecided. The ability to measure is affected not only by the number of categories but also by the nature of the scale. The goal is to have well spaced points representing the possible range of opinions. Tables 1 and 2 summarize the results from parallel trials of telecommunication provisioning survey using different scales. These results indicate that the 4-requirements scale is more discriminating than the 5-excellence scale:

Table 1: How respondents use different scales- 4 requirement scale

Exceeded	36
Met	48
Nearly met	10
Missed	6

Source: Devlin et al.,2002,

Table 2 : How respondents use different scales-5 excellence scale

Excellent	54
above average	24
average	16
Below average	2
Very poor	4

Source: Devlin et al.,2002,

Even when the percentage of positive response for a satisfaction or an excellence scale matches that for a requirements or expectation scale, the percentage of response for the top category "



very satisfied " is greater, that means it is less discriminating. Statistical estimates of the validity and reliability of questions tend to be strong, dimensions of quality can be identified easily and correlations between questions (multicollinearity) are controllable with the 5-expectations and 4-requirements scales. The reliabilities (alpha coefficient) of questionnaires are 0.8-0.9 range and the validities (multiple R) are in the 0.6-0.8 range, both of which are above standards.

Ease of administration:

The same scale may not work equally well on paper and in telephone interview. For example, the mid-point of the 5-point satisfaction scale (" neither satisfied nor dissatisfied ") is effective on paper but respondents avoid it in a telephone interview. The order in which a scale is presented can help in dealing with positive response bias. As respondents tend to check off the first category that seems relevant on a paper survey, placing negative categories first helps preventing tendency to respond positively. Since respondents on the telephone often prefer categories that they heard at the end, similar reasoning suggests reading a scale from positive to negative. This means that scale's order, position and presentation can affect final results of measurement.

Credibility and usefulness of results:

The primary goal of measurement is to gather useful information. This doesn't mean that users should dictate scale categories or that their interpretation should come before researcher's choice and definition of scale, but researchers need to reject or replace a scale if obstacles are too great.

TESTS OF SCALES

All scales should be tested or retested to ensure that they are reliable and valid. There are several analytical techniques that are used in evaluating and testing of the scales:

1. **Semantic difference test.** This test evaluates how people interpret and order words and phrases. Subjects are asked to place a response category or phrase on a numeric scale (0-10). The dispersion of responses and the proximity of different words help define a scale. A semantic difference test helps ensure a wide range of opinions are covered and are well spaced.



2. **Bar plots of response patterns for each question and of respondent's usage.** These tests are used for checking if all categories are used, if unexpected patterns occur, or if there are too many non-responses. Tabulating and plotting the number of categories that respondents use can show such problems as bias toward or away from one category of response. Some respondents use only one category of answer for all questions. Unusually high percentage of patterned responses shows potential problems with the scale or with questionnaire.
3. **Monitor telephone delivery.** Monitoring interviews can uncover problems such as respondent's tone of voice, inquiries about the scale, hesitation or quick, thoughtless responses.
4. **Advanced statistical techniques.** The use of different statistical methods such as multivariate analysis, logistic regression, factor analysis and others helps assess which scale produces the highest reliability and validity measures, reduces multicollinearity and which scale has the greatest prediction power.

CONCLUSION

It is definitely clear that there are no perfect measuring scales but researchers can do a lot to improve the quality of selected scale in order to get more reliable and more valid results that can influence decisions based on these results. The choice of the best structure and measurement scale depends on various aspects, especially how consistent is the measure, if it is valid and whether it can be generalized. There are many tests that can be used for checking the desired characteristics of scales. Selecting an appropriate rating scale leads to the higher level of measuring quality of products and services which is definitely very important part of marketing and consumer research as well as of managerial decision making process.



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THE IMPORTANCE AND APPLICATION OF META-ANALYSIS IN MARKETING AND CONSUMER RESEARCH

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Abstract:

Meta-analysis a quantitative technique for the integration and summarizing of findings from individual studies with the same issue of research. After accumulating several studies on an issue, the researcher attempts to extract the findings from each study and to draw conclusion based on quantitative methods. There are a few stages in conducting meta-analysis, from problem selection to data analysis which is the essence of meta-analysis. There are many examples of application of meta-analysis in marketing and consumer research due to the large number of studies and researches in these fields. Although it faces some problems and limitations in performing and implementation, meta-analysis is very useful tool for integrating findings of studies.

Keywords:

meta-analysis, summarizing, findings, integrating, variables

INTRODUCTION

Meta-analysis is a quantitative approach to the integration of findings from several individual studies that share the research purpose or some of the measured variables [1, pp.32]. It is very much used in marketing research as well as in some other fields such as medicine and education research. Meta-analysis is statistical technique whose objective is to generalize specific researches to gain broader knowledge of a phenomenon by finding consistencies across studies and isolating inconsistencies [2, pp.497-502]. Meta-analysis is based on statistical summarizing of research findings and on explaining the observed variation in those findings across studies. It treats the findings of individual studies as a dependent variable and examines these findings as a function of one or more independent variables. This means that meta-analysis is the application of the principles of primary research methodology to the integration of the findings of a set of studies. This paper will show how meta-analysis can be applied in studies with marketing or consumer research issues.



PERFORMING OF META-ANALYSIS

Meta-analysis consists of several stages [3, pp.365-375]:

- Selection of a problem
- Identification of variables
- Operational definition of variables
- Sampling
- Data analysis
- Interpretation

The basic criterion for the selection of the problem in meta-analysis is the importance of the issue. It is necessary to find a meaningful issue in need of a synthesis of previous research findings. The problem that is selected should be significant considering previous empirical attention. In consumer research it is common for a particular construct to become dependent variable that is used in many different studies. However, the commonality of independent variables is usually minimal. The ideal meta-analysis is one that quantitatively synthesizes the findings of several studies examining the same functional relationship. There can be few or many variables in meta-analysis. The central variable is the findings of each study. Each study's result is an individual data point. When the findings of the studies are consistent meaning that all or most of the studies reveal the positive effect, the focus is to describe the magnitude of this effect by summary statistics such as average effect size. When there is inconsistency in findings of studies, those findings become a dependent variable that is a function of a set of independent variables designed to solve the disparity in findings. Characteristics of the studies are included as independent variables to determine if there are common features to studies that share the same findings. There are two general categories of study characteristics i.e. of independent variables. Substantive characteristics refer to those features of the study that are specific to the problem being studied. Considering consumer research a good example is effectiveness of different sales strategies. An important substantive variable across studies might be the nature of the behavior. In consumer studies the behavior will be of a buying nature. In other studies it will be of nonbuying nature. On the other hand, methodological characteristics refer to the research design features of the studies being integrated. The inclusion of such variables allows the assessment of the effect of research design variations on the findings of studies. The



example for methodological characteristic from consumer research is sample size, probability vs. nonprobability sample designs, reliability estimates of measures, etc. The variables in meta-analysis must be operationalized. There are several procedures for this. If we are interested in summarizing the findings regardless of how they vary across different types of studies, procedures that are used for operationalization of variables are based on counting the number of studies showing statistically significant positive, statistically significant negative or statistically insignificant relationships, adding p-values, adding t-values, adding z-values etc. It is important to obtain information about the strength and direction of findings. This information is possible to get by measuring the effect size which is measured as follows:

$$\hat{\Delta} = (\bar{x}_e - \bar{x}_c) / s_c$$

where $\hat{\Delta}$ is effect size, \bar{x}_e is the mean of the experimental group, \bar{x}_c is the mean of control group and s_c is standard deviation of control group. The average effect size of all studies can be used to measure the strength and direction of findings. If we are interested in examining study findings as a function of the substantive and methodological characteristics of the studies, the effect size from each individual study can be used as dependent variable.. Rules of sampling that are applied in survey research are relevant in meta-analysis. Representative sample of studies is desired. There are some problems considering the sampling frame. By some opinion all studies should be included in sampling frame ; by others only studies that meet certain criteria (e.g., only those conducted in the last 20 years, only those meeting a minimum quality standard such as appearing in refereed journal) should be in sampling frame[3, pp.365-375]. The essence of meta-analysis is data analysis. The main goal is to statistically summarize all findings and to extract meaning from it. Depending on the research question, univariate, bivariate, or multivariate techniques can be used in meta-analysis. The researcher can apply descriptive, exploratory or inferential statistical methods. Data reduction should also be performed in meta-analysis. The primary objective is to synthesize the literature on a topic and to offer generalizations concerning the current status and future needs for research in the area. The intended outcome of a meta-analysis is objective and unbiased basis for interpreting the findings of many studies.

EXAMPLES OF APPLICATION OF META ANALYSIS FROM MARKETING AND CONSUMER RESEARCH

As it was said previously meta-analysis is commonly used in marketing and consumer research. There are many examples that can be found in modern literature; only few of them will be presented in this paper.



Sudman and Bredburn [4, pp.124-133] performed a meta-analysis on several hundred studies of response effects in surveys. A total of 46 independent variables were coded and divided into 3 groups: task variables, interviewer role and respondent role. These variables were investigated to determine their ability to explain response effects in a variety of marketing and other social science studies. It was determined that in general, the variables derived from the nature and structure of the task are more important than respondent or interviewer characteristics. The authors also pointed out that unlike qualitative approaches, meta-analysis as a quantitative approach produces less biased indication of the importance of variables and allows ranking of the importance of the independent variables. A marketing meta-analysis focused on effect size was Clarke's review of research assessing the duration of advertising effects on sales [5, pp.345-357]. 69 studies were analyzed which included some for which the effects of advertising were not statistically significant. Although Clarke did not calculate coefficient of determination as a measure of effect size, he presented both the regression coefficient of the dependent variable and an estimate of the implied duration of 90 % of advertising's effect. After the elimination of 11 studies that produced duration estimates longer than 10 years, the quantitative meta-analysis yielded several important results that are not available from a more traditional qualitative literature review. First the results indicated that the estimate of the duration of advertising effect depended on data interval. Shorter interval (weekly, monthly) indicated shorter estimates of the duration of advertising effects than longer data intervals (quarterly, annually). Clarke showed that annual data intervals were more likely to produce estimates that were biased upwards. It was also concluded that advertising effects were likely to last for no more than 3 to 9 months and not years. It was also emphasized that in isolation none of the studies gives a satisfactory answer to the question of how long advertising affects sales. But, by putting them together it is possible to achieve greater confidence in the result. Yu and Cooper [6, pp.360-378] conducted a meta-analysis of techniques used to increase response rates to questionnaires. Conclusions were drawn by combining 497 response rates found in 93 journal articles. It was found that response rates were increased by personal and telephone (versus mail) surveys, the use of prepaid or promised stimulations, nonmonetary premiums and increasing amount of monetary rewards. The authors indicated that the vast literature on the topic on response rates makes qualitative reviews extremely difficult to perform and their results are not precise. Unlike that, quantitative study such meta-analysis helps increase the objectivity and reliability of conclusions. Churchill and Peter [7, pp.360-375] performed meta-analysis in order to investigate research design effects on reliability of rating scales. They used reported estimate of reliability for a dependent variable and sample characteristics, measure characteristics and other research design elements for major independent variables. The analysis was based on the sample of articles that deal with measuring construct and rating scale measures. Articles were included in the analysis only if they reported information on at least 2 of the indicators commonly used to assess measure quality. The measures included represented a combined total sample of more than 27000 respondents. Of the 101 studies containing reliability information, 48 reported reliability information for one measure and 53 reported it for 2 or more measures. That means the total sample included reliability information on 154 measures. The dependent variable for all investigations was the reliability coefficient. In most cases, this was coefficient



alpha or the reliability of the linear combination. The first independent variable that was studied was sampling characteristics. Some important results are in the table 1. General conclusion is that sampling characteristics have little effect on reliability estimates.

Table 1: Effect of sampling characteristics on reliability estimates

Sample characteristics and hypothesis	Analysis approach	conclusion
Number of samples H:a positive relationship exists between number of samples and reliability of the measure	Regression analysis	Hypothesis is not supported
Sample size No a priori hypothesis	Regression analysis	Found a negative relationship between sample size and reliability
Response rate H:a positive relationship exists between the response rate and the reliability of the measure	Regression analysis	Hypothesis is not supported
Nature of sample No a priori hypothesis	Analysis of variance	No relationship found
Type of subjects H:Student samples produce more reliable measures than samples of other subjects	Analysis of variance	Hypothesis is not supported
Method of data	Analysis of variance	No relationship found



collection		
No a priori hypothesis		
Type of research H:correlational research produce more reliable measures than experimental research	Analysis of variance	Hypothesis is not supported

Source: Churchill and Peter, 2002.

The second independent variable that was considered to have significant effect on reliability was measure characteristics. Some of the key results referring to hypothesis and relevant conclusion are presented in Table 2.

Overall, the results of this part of analysis suggest that only 2 measure characteristics have a strong influence on reliability estimates-the number of items and the number of scale points.

Table 2: Effect of measure characteristics on reliability estimates

measure characteristics and hypothesis	Analysis approach	conclusion
Number of items in final scale H:a positive relationship exists between the number of items and reliability of the measure	Regression analysis	Hypothesis is supported
Number of dimensions H:a positive relationship exists between the number of dimensions and reliability of the measure	Regression analysis	Hypothesis is not supported



Difficulty of items H:a negative relationship exists between the difficulty of items and the reliability of the measure	Regression analysis	Hypothesis is not supported
Reverse scoring H:Scales with reverse scored items will have lower reliability than scales without	Analysis of variance	Hypothesis is not supported
Type of scale No a priori hypothesis	Analysis of variance	No relationship found
Number of scale points H:A positive relationship exists between the number of scale points and the reliability of the measure	Regression analysis	Hypothesis is supported
Type of labels No a priori hypothesis	Analysis of variance	No relationship found
Extent of scale point description H:Scales for which all points are labeled will have higher reliability than scales for which only polar points are labeled	Analysis of variance	Hypothesis is not supported
Respondent uncertainty or ignorance	Analysis of variance	Hypothesis is not supported



H:Scales with neutral points will have higher reliability than forced-choice scales		
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Source: Churchill and Peter, 2002.

There were some other variables whose impact on reliability was analyzed (e.g. measure development procedures) but results that are shown are illustrative enough for presentation of the potential and importance of meta-analysis.

DRAWBACK AND LIMITATIONS OF META-ANALYSIS

There are a number of problems in performing meta-analysis. Among these are the quantification, interpretation and generalization of various types of effect size measures. In quantifying the percentage of explained variance, researchers should recognize that total variance is increased by measurement and treatment unreliability, heterogeneous subjects and weakly controlled research procedures [8, pp.956-969]. Independent variables which are qualitative present particular interpretation problems. Some authors point out that in meta-analysis sources of bias are difficult to be controlled [1,pp.32]. Also a problem is the search for a census of studies including the unpublished ones that likely have smaller effect sizes. For studies that are available there is often insufficient information for calculating effect sizes and study authors must be contacted. It is also often difficult to obtain sufficiently detailed descriptions of study methods and to code these study characteristics so their effects can be assessed in the meta-analysis. Small samples of studies can also cause problem for the analysis. If all surveyed studies use the same procedure the effect of that method cannot be assessed [9, pp.205]. It is obvious that a meta-analysis, although quantitative, depends on many subjective researcher decisions and there is much opportunity for disagreement [10, pp.620-622].



CONCLUSION

Meta-analysis, although with several limitations and problems, allows researchers and analysts to use summarized findings and conclusions instead of dealing with many individual studies and researches. This definitely simplifies further analysis that are based on meta-analysis and makes them more comprehensive and easier for interpretation. Meta-analysis allows all findings to be summarized and integrated for the further users usually with accompanying interpretation of the entire body of findings. By generalizing specific researches it becomes possible to gain broader knowledge of a phenomenon of interest. There is an increasing need for meta-analysis in marketing and consumer research since there is a vast amount of researches and studies conducted in these disciplines.

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PUBLIC PROCUREMENT OF ARMED FORCES IN SOME COUNTRIES OF THE EUROPEAN UNION AND USA

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Abstract:

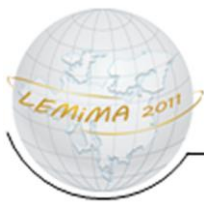
Defense system as a specific organization, its procurement activity carries out on different types of market. To make the task of procurement carried out in an efficient and economical way, purchasing authority must be fully aware of the laws of the market, as well as the goals and strategies adopted by (potential) suppliers-bidders, in order to successfully oppose the strategy of answering bidder's performance - potential suppliers and develop its own strategy on the market (procurement marketing). How the public procurement system would evolve in the right direction, it is necessary to coordinate with the experience of different systems, which implies the application of the positive experiences of developed market economy countries.

Keywords:

procurement, market, defense system, public sector

INTRODUCTION

Public procurements is the area with growing importance in the economies not only in developed countries, which account for 10-15% of the gross domestic product (GDP), but even more in developing countries where the share of public procurement to GDP ranges up to 25-30%. Public procurements are carry out in a socially sensitive areas such as infrastructure (roads, airports), health (hospitals, medicines), education (schools), the military, police and so on. Effective and regular public procurements result not only in money, but better roads, more functional and better-equipped health and educational facilities, and therefore are all the more significant in countries in transition and developed countries and in countries of the European Union. The share of public procurements in the gross domestic product of the European Union has increased in recent years and reached 16%. At the same time, as a result of improving regulation and its efficient application, are generated savings of about 30%. When it comes to the experiences of countries in transition that joined the European Union at May 2004, it was



shown that the effective implementation of regulations in public procurement is far more difficult and important task than the formal adoption of the European Union directives. [1]

INSTITUTIONAL EXISTENCE OF PUBLIC PROCUREMENTS IN THE EU COUNTRIES

Obtaining funds represent increase of all means on the use by budget organizations and institutions. The highest institutions for public procurement in the EU countries are the ministries responsible for public procurement (depending on country to country, it may be the Ministry of Finance, Ministry of Economy, Ministry of Justice, etc.) and specific, specialized agencies, such as government or public procurement agencies, which are formed at the highest (central) level. The tasks of the highest institutions for public procurement in the 27 European Union member states can be divided into two groups: 1) the basic functions and 2) additional functions. [2]

National laws arising from the obligations imposed by EU membership define basic functions. All other functions, though important for the functioning of public procurement are put in additional functions, since they are not defined as a legal obligation in the Member States.

The basic functions are:

- Defining the public procurement policy and drafting the Law on Public Procurement,
- Preparation of secondary regulations and implementing documents,
- International coordinative function (harmonization and improvement of national system according to European regulations)
- The function of monitoring and control

Additional features include:

- The function of advising and supporting clients and suppliers,
- The function of publishing and informing,



- The function of professionalization and capacity building. The role of the top institutions for public procurement is primarily to initialize and coordinate national training programs in the public sector. In addition to training and research, the function of professionalization and capacity building includes activities directed to public procurement to find their place in the “political map” as a key strategic factor for ensuring the quality of public services at the best conditions, engagement of the positioning of procurement as a key element in managing budget, and public expenditure. Developing and coordinating functions (support and coordination in the implementation of framework agreements, the development of systems and methodology for electronic procurement, introduction of performance measurement of public procurement).

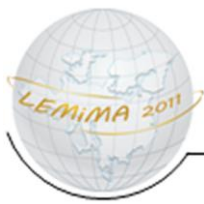
EU member states can be conditionally divided into three groups, based on the structure of the public procurement system: the first group consists of 13 countries with a centralized structure that is characterized by a high degree of concentration of functions in a small number of the highest bodies, the second group includes 11 countries with semi-centralized structure in which the functions are divided into a number of institutions and the third group of three countries with a decentralized structure in which the functions are arranged on a number of institutions. In countries such as Cyprus, Estonia, Latvia, and Malta there is a so-called, “ex ante” control by the public procurement body, which means to give a preliminary ruling in less competitive procedures, while in two-thirds of EU countries, this practice does not exist. The practice is that in a small number of EU countries there are, so-called "black lists" of bidders that are determined to have violated regulations in public procurement, failed to meet contractual obligations or gave incorrect information.

MAIN CHARACTERISTICS OF PROCUREMENT SYSTEM IN SOME EU MEMBER STATES

Of all 27 EU member states we will retain on the principles of public procurement in the Republic of Germany as a country that is a member, and also the founder of the Union and Hungary as one of the countries which joined the EU in the last few years, namely 2004.

The basic characteristics of the procurement system in the Republic of Germany

In the Republic of Germany, the Procurement law governs the public procurement system for the needs of budget users. Contracts that provide the necessary equipment for the defense system allocate to industrial, commercial, and industrial authorized civilian sources in accordance with the directives and regulations of the federal government.



Since the Bundeswehr requires efficient and modern equipment, the time of purchase must be **short** to meet the operational requirements of the defense system. The public procurement system is implementing through several stages that must be present starting from the receipt of papers.

Analysis phase is the phase in which integrated working groups discuss and analyze the available and necessary capabilities for the entire Bundeswehr. Based on this analysis, the gaps identify and solve problems and in five planning categories: personnel, operations, infrastructure, organization, and weaponry.

Introduction phase, which analyzes the state of products available on the market in accordance with applicable regulations and products that are available on the market, at this stage they can be obtained without special procedures, as identified for the requests.

Risk reduction phase in which the acquisition is realized only after a comprehensive review of risks and alternatives, where priority is given to developing new products, reducing risk and providing demonstrations of product features (simulations, demonstrations, prototypes, etc.).

Contracts may be awarded in any of the stages of the procedure. Bundeswehr differs more than 1.8 million items for purchase. **Depending on the subject of procurement, there are:**

- centralized supply, which means that all requirements are unified and commonly prepared, to reduce the individual purchase price in the market, and
- Decentralized supply, which means that several suppliers agency can cover the requirements of the regional sector of Bundeswehr for the goods and other types of supplies or services

Types of contract allocation are open, restricted, and negotiated procedures. In awarding the contract, the Bundeswehr as a public purchaser must comply with the regulations for awarding the contract and depending on the type and volume of required performance, **implements national and international regulatory procedures.** In the international procedures of allocating contracts to international bidders and suppliers must be present enforceable requirements for the implementation of regulations for the award, equal treatment, and transparency in allocation.

WEAG International procedure (Western European Armaments Group - Group for Western Europe armament) is an association (group) of 19 European countries under the European auspices applied in the field of "heavy weaponry".

NATO's International Infrastructure procedure offers companies the opportunity to express their interest in granting the contract, which includes the list of bidders, and thus receive a formal request for participation.



The use of digital business communication in public contracting is also present and it does not mean a deviation from regulations for allocating contracts. Allocating contracts by electronic means includes a notice of intent to contract, the invitation for providers - contractors, submission of tender documents, bidding and bid evaluation, allocating, and contract processing. The supplies for the needs of the Bundeswehr are mostly centralized, made by the applicable national and international regulations, implemented by special federal body of federal defense system administration, are strictly programmed to maximize the short deadlines for implementation of procedures, which are usually carried out after the risk reduction phase conducted, where in some way to filter needs, focusing requirements and priorities, identify risks and alternatives, the conditions of supply (costs) and access to realization of procurement.

THE BASIC CHARACTERISTICS OF THE PROCUREMENT SYSTEM IN THE REPUBLIC OF HUNGARY

All procurement for the needs of defense system performs agencies for supply and safety of investments, which numbers 130 persons, and is subordinated to the administrative state secretary. Otherwise, the entire economic policy in the defense system is the responsibility of the administrative state secretary. Administrative deputy of Secretary of State for Defense Economics is in charge for professional activities (has a secretariat of 10 persons, main department of Economics of Defense (30 persons) and the main Department for the development of military equipment is subordinate to him. Immediately planning starts the Deputy Administrative Secretary, it provides a framework in a vertical line to the level of battalion command. Land Command and Air Force have a division, brigade sections and battalions documentations for acquisition, who are professionally related to the administrative state secretary. Upon completion of planning, the final word gives the administrative state secretary and then agency for the supply and investment security plan and executes the procurement. All procurements are carried out strictly according to the law on public procurements. Proposals for contracting give commands independent battalions and brigades. Procurements under the law on public procurement are not made for five of the intelligence services (these are special funds) and the Law on Services regulates those supplies. Starting from 2004, since Hungary became a member of the European Union, all purchases are made through public contracting, and contracts are concluded at the end of previous year. Delivery is done on the dynamics required by the recipient.

MAIN CHARACTERISTICS OF PROCUREMENT SYSTEM OF U.S.

When we talk about supply in the logistics of the U.S. armed forces, then it refers to funds and military equipment from the moment of manufacturing to the final retirement from the military inventory. The first part of this cycle, from development of specifications, design, and production is a function of manufacturing logistics. Acceptance of equipment and its



introduction into service, distribution, and storage of the same, repairs, maintenance, and withdrawal from operational use are consumer logistical tasks. The supplies required for defense purposes in the United States relating to all funds and military equipment and other devices used to equip, support, and maintenance of military forces of the United States. Two basic methods of carrying out procurement for the armed forces of the United States are by public auction and through direct negotiations, which is regulated by the suppliers of public supplies, which was adopted in the 1975, and which became the basis for performing and ensuring all procurements required for defense. For the execution of procurement by public bidding, the intention is to reduce the effect of subjective factors in making decisions and choosing suppliers and thus avoid the suspicion of budget spending is obvious. This is also often quoted statement by Congressman Herbert C. Bonerra, back in the 1964, before the Procurement Subcommittee, where he says: "Government contracts must not only be good, but they must also leave a good impression, and it is almost impossible that some agreement concluded through direct negotiations will leave a good impression." For Congress and supplier authorities carried out efforts to improve usage of the bidding method. However, as weapons become more complex and an increasing share of budget allocated for defense is allocated for research and development, it is difficult to carry out this method of procurement.

In practice, there are **three basic modes of procurements such as bidding, direct contracting with the competition, and direct contracting without competition.**

Eligibility requirements for public bidding are very specific and any deviation almost automatically requires that one of two methods of direct negotiations replace it, and preconditions are as follows:

- The existence of complete and explicit specifications of procurement items;
- Specifications must be available to all prospective bidders, in which should not be limitations on confidentiality;
- There must be more than one supplier who is able to successfully participate in the competition;
- It is necessary to provide sufficient time to make time for bidding, delivery specifications, and proposals, and
- Selection of the best suppliers can be made only based on price, if the bidder is qualified as qualified and solid.

In order to facilitate rigid procedural principles in the procurement with competition in the field of technical supply, the Ministry of Defense has approved a combined procedure called "two-stage tendering", which is implemented in two phases: **the first** is based on the offers that are related to the required specification of properties funds, which want to obtain, selects those bids



which meet the technical performance, without considering the price offered (something that is called a restrictive procedure, the first phase). **The second phase** is implemented as the process of bidding for those bidders who passed the first stage, where bidders shall provide the required specification in detail, with delivery time and price (second phase of the restrictive procedure). In this way minimum of the required standard assets that are acquired is provided and simultaneously competition among suppliers is provided. A characteristic example is the purchase of meals, where, in addition to the U.S. Department of Defense, *The Wornick Company* has developed a business with diets containing different customers, including foreign governments, governmental agencies and various other institutions. The Wornick Company is world renowned as a leader in the manufacture of ready-made meals for the Ministry of Defense. Since the establishment in 1979, more than 300 million meals were produced (Meal, Ready-to-Eat). [3] Unlike the competition, carrying out **procurements through direct negotiations** includes informal discussions and negotiations with the aim to reach agreement on price and other terms of procurement. The goal of direct negotiations is as for competition, to ensure the most efficient way to achieve more efficient and cost-effective procurement, not to prevent competition. Great importance has the a material status of the procurement staff who is motivated through salary incentives to protect the interests of the Ministry of Defense, which led to a number of contracting professionals, engineers, financial experts, and experts in quality control remain loyal to the Ministry of protecting its interests in spite of pressures and recruitment by suppliers and industry. [4] The use of direct negotiations is not considered easier through the provision, as it requires and imposes a much greater responsibility and a lot more technical and business expertise from the whole supplier's staff. [2] The Law on conducting procurement for the armed forces as well as under section 10 of the Code 2304a of the United States gave 17 exceptions where procurement and contracts can be transferred through direct negotiations. Cases of exceptions when you can go to the direct negotiations are in a time of national readiness, the public needs (natural disasters), in the case of small purchases that do not exceeds \$2,500, in the case of using the services of educational institutions, supplying food, in the event of experimental, developmental or research tasks, and so on. In making decision regarding the type of contract, acquisitions staff must consider following factors: *the type and complexity of the procurement subject, emergency of procurement, the degree of competition presence, information about costs and strong market prices, past experience with the supplier, technical and financial solvency of the contractors, the adequacy of the system calculations and administrative costs for both sides*. By type of contracts that are concluded for the procurement may include *contracts with mandatory fixed price, fixed price contracts and currency of the sliding prices, contracts with mandatory fixed price with a clause on the reconsideration of rates, contracts with the stimulation, the contracts based on spent time and materials and contracts based on working hours*. Different types of contracts must be modified to purchase items, but it must provide the best price and cost-effective execution of the contract. The supply of the defense system the United States, a commitment to strategic suppliers is present, which greatly facilitate and simplify procurement processes.



RESUME

With analysis of the defense system procurement procedures of presented countries it is obvious to emphasize the presence of centralization, i.e. procurement system will be implemented through specialized institutions, which over agency or committee for procurement in the defense system, deal with procurement, with the possibility of delegating some duties to lower organizational levels. In addition, the fact is that procurement procedures, except for the part of arms and military equipment, apply the provisions of the procurement law of the country, somewhere international conventions too (e.g. Germany). If the procurements are performing centrally, the above-mentioned segment of the budget funds, which is the subject of civilian control, can be controlled easily, which in addition to easier and more efficient control, provides achieving of significant savings, compared to the decentralized procurement system. In the world, there is increasingly applied principle of the focused logistics "on time and according to needs." For strategic acquisition of which everyday life and work of units and institutions of the defense system (food, fuel, energy, etc.) depends on, different ways to purchase, maybe something similar to the ways in the United States, must be find through the determination of strategic partners - suppliers. That possible choice of "strategic" suppliers should have full support in the economic-state frameworks, which would define all other elements (selection of suppliers, financing, etc.).

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GLOBALIZATION AND INTERNATIONAL BANKING

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Abstract:

Globality, in contrast to globalization or globalism, means an individual attitude towards society, which is used to recognize the fact that "for a long time we live in a global society, on one planet, in a civilization, so that, in this sense, the notion of limited and closed space becomes fictitious. In this and such space, no country or community can be isolated and insulated to prevent positive collision of economic, political, and cultural values." In this way, a space for political activity opens on cracking down or complete elimination of the so-called "non-political causes of globalism".

The process of globalization, which began in the late '60s, was intensified by digital technology in early '90s, when reached its peak in the application of multimedia communication that allowed commercial activities between networked and interest-related entities in the entire territory of the globe without any spatial and time constraints. That means making all the necessary prerequisites to a job or fulfilling some needs, can be done from the position of different jobs, including street, car, house, at any time of day or night, on each connected part of the globe and most importantly, transparent, undoubtedly, cheap, standardized, codified, and without intermediaries.

Keywords:

globalization, international banking, financial markets, multinational bank, international financial markets

Any banker or a financial trader, unlike every other profession, for example, as opposed to a trader, its business decision is made on the basis of actions and reactions of only one of its senses and the senses of sight in digital commerce, and the sense of hearing in speak trade, through which has transformed the resultant of all the other senses. This and such decision that is solely based on trust; it requires the use of and reliance on business ethics and its principles as well as a number of additional regulators in the banking and financial trading.

A multinational bank has no accounting, general affairs, reporting and analytical service, organization, personnel, of record or other of the hundreds of possible departments that should have any other bank; it does not have a courier or archive or ADP, or thousands of others unnecessary things for Bank's creativity. It simply has a sophisticated digital communications and automated work process for which equipment costs less than expensive marble, lanterns, suspended ceilings, and antique or modern, or other furniture and decor. Finally, it has no



organs of management, unions, consultants, banking experts, directors and bank officers, but simply requires the optimal number of professional designers and manufacturers of financial products and strategies as well as the optimal number of financial traders, portfolio managers, secretary, or the optimal number of highly professional broker-dealers and dispatchers. Each of them doing their job but at the same time each individual can work and the work of another.

INTRODUCTION

Globalization means consciously directed and organized process by which the national economies of sovereign states are directly linked through international or institutional intermediaries. It is a process that German philosopher Beck²²² called "cosmopolite republicanism" and in whose headquarters human rights and freedoms of individuals dominated. It is a process of deterritorialization and the interaction of international trade, global information, and communication networking of market participants and the expansion of power of transnational companies.²²³ Segmatic hegemony, publicly encouraged ideology of globalization and constant reinforcement of power and interest of power holders of the globalization process are the main sources from which participants in the process draws its strategic potential.²²⁴ In contrast, globalization means understanding that the legality of the global market of labor, goods, services, money, foreign exchange, and capital suppress all defects and national heterogeneous and interest confronted state government and legislative regulation. In achieving domination of such conception, globalism acts monocausally and purely economic, thus giving a one-dimensional and linear character to the globalization process. In this way, the other values of globalization: political, environmental and cultural, subordinates domination and ideology of neoliberalism, i.e., the domination of world markets over the ideology of state power. It means, as Beck says in his book "Free Children" ("Kinder der Freiheit"), that "globalism means that one so large and complex human creations that are, for example, called the Federal Republic of Germany, which means a country, society, government, politics and more, must be lead as a firm or company, which is nothing but imperialism of the economy". Globality, in contrast to globalization or globalism, means an individual attitude towards society, which is used to recognize the fact that "for a long time we live in a global society, on one planet, in a civilization, so that, in this sense, the notion of limited and closed space becomes fictitious. In this and such space, no country or community can be isolated and insulated to prevent positive collision of economic, political, and cultural values." In this way, a space for political activity opens on cracking down or complete elimination of the so-called "non-political causes of globalism".

²²² Urlick Beck, *Was ist Globalisierung?*, Suhr Kamp Verlag, Frankfurt/Main 1998.

²²³ Don Tapscott, *The digital economy*, McGraw – Hill, New York 1995.

²²⁴ Max Weber, *Globalisierungs Proces*, Knapp Verlag, Gen, 1998. Tübin.



The process of globalization, which began in the late '60s, was intensified by digital technology in early '90s, when reached its peak in the application of multimedia communication that allowed commercial activities between networked and interest-related entities in the entire territory of the globe without any spatial and time constraints. That means making all the necessary prerequisites to a job or fulfilling some needs, can be done from the position of different jobs, including street, car, house, at any time of day or night, on each connected part of the globe and most importantly, transparent, undoubtedly, cheap, standardized, codified, and without intermediaries. In this way, globalization is transforming from a business process into business ideology that is primarily characterized by:

1. Transition from physical to intellectual work that became the basis for the creation of surplus value, revenue, and profit. This means that the main resources for the creation of surplus value no longer are provided raw materials, high technology manufacturing, professional workforce, high productivity, large series, the successful production, but above all, intellectual work. This knowledge and skills become crucial in the process of economic wealth creation worldwide, no matter the economic actors; authors are located at specific national, regional, or local basis. It all leads to market promotion and intensive dissemination of knowledge management and information management;
2. Changing forms of communication that from analog (meetings, correspondence, reports, projects, analysis) is transformed into digital, because the analog technology (TV, video, cameras, etc.) transformed into digital. In this way, digital multimedia communication allowing all participants to each of its need for goods and services, its business and financial transaction carried out in a transparent, standardized, codified, inexpensive, and very reliable and safe manner. For all it takes is just knowledge and market education in the use of digital communication. There is the so-called digital economy in which knowledge and education, as intellectual capital have become increasingly important resources and growing innovative minds that are directly realize surplus value;
3. application of disintermediation, i.e. the elimination of a large number of intermediaries, agents, brokers, wholesalers, broadcasters, record companies, and other unnecessary intermediaries that stand between producers and consumers. In this way, the gap between producers and consumers is reduced to a rational level. Consumers, for example, include the production process and their knowledge, information, and their ideas become part of the world's depot multimedia data. Customers are becoming developers of manufacturing and software applications, all of which enables the successful replacement of traditional teams of experts and specialists, with a new transparent, affordable, and effective digital business tools created from a single depot information and data. Creation of new tools is performing rapidly, at the speed of light, not speed of "turtle" or a postal clerk.



In this way, we have situation and claim that free individual for a successful life in new conditions needs, as Prof. Dr. Wolfram Engels says, a good *urn* (knowledge), digital phone, modem, PC, and networking.²²⁵

4. Changes in the way of education and learning methods, because in the new conditions often is impossible to separate the work of teaching and learning and education from the production of goods and services. Therefore, the traditional educational institutions and their professors, as well as education individuals, have reformed in the form of permanent and innovative education and in the process of learning and acquiring knowledge outside of the formal educational institutions.

In accordance with the above, the globalization of world economy and finance as an ideology of free and international labor market, goods, services, money, foreign exchange, and capital, according to opinion of the majority of economic thinkers and professional artists, has no alternative. It is now a successful and tested solution that provides the best possible a better and fairer perspective of living. Globalization is no longer fiction nor a process. It is now the ideology of liberalism of postmodern liberalism that on its platform and in its midst gathers and mutually associate up to once unassociated and antagonistic political structure and, according to Michael Zürk, uniting black, red, and green protectionism (Schwarz-Rotte-Grüne-Globalisierung Ziel). These are sufficient arguments that each national economy and every individual in it, actively involved in this process, the sooner the better, because later it could be worse and more difficult. One month later means for developed countries a year, and for developing countries and transition three-year delay.

THE GLOBALIZATION OF BANKING AND FINANCIAL MARKETS

A number of characteristics that makes it special characterize the globalization of financial markets as an integral part of the overall process of globalization. These characteristics result from the specific financial trade in relation to any other kind of activity and creativity. It is, above all, in relation to the organization and technology work, the trading conditions, control and governance risks to which the banking and financial are the richest activities and on the way of making business decisions. Any banker or a financial trader, unlike every other profession, for example, as opposed to a trader, its business decision made on the basis of actions and reactions of only one of its senses and the senses of sight in digital commerce, and the sense of hearing in speak trade, through which has transformed the resultant of all the other senses. This and such decision that is solely based on trust; it requires the use of and reliance on business ethics and its principles as well as a number of additional regulators in the banking and

²²⁵ Prof. Dr Wolfram Engels, *Des Kapitalismus und seine Krisen*, Verlagsgruppe Handelsblatt, Duesseldorf, 1996.



financial trading. Because of these characteristics, banking and financial markets were before the process of globalization national, nationally the most regulated, strictly market and state controlled. Therefore, their globalization was difficult and painful. This could be seen on the example of the project of globalization of banking and financial markets of the European Union. Replacement of national financial regulations, national regulations, habits and customs of the financial trade, methods of coverage, and risk management, replacing national financial standards, codes, accounting, treasury, auditing and financial accounting, international regulations by international rules, standards and codes as well as supranational fiscal, monetary and foreign exchange policy, was the most complex and the hardest work in the globalization of banking and financial markets. All these difficulties are in the last ten years successfully overcome primarily due repeating unit of globalization that has been articulated by the fact that the globalized banking and financial market conditions minimize the occurrence of financial crises and breakdowns, which in recent years simply destroyed the national economy in developed countries, developing countries, and transition countries.

Globalized banking and financial markets, compared to the national, differs in many features of which the most important might be the following:

- It is entirely extraterritorial and supranational;
- It knows no national bosses and executives, political leaders and adversaries, the national financial products and instruments that are the subject of trade, national dealers and brokers, or national stock exchange but only standardized multinational financial products and strategies, as well as multi-dealer brokers, and dispatchers;
- Trade on it is digital, networked, and territorial and timely of unlimited duration;
- Financial market traders are internationally and financially educated, and in its work use supranational code and trade rules;
- Ethics, ethical values, and ethical principles dominate, not the national legal norms and coercion;
- It is organized and operates under the rules and principles of the globalized market

Effects of globalization of banking and financial markets are perhaps the most visible part of the Annual Report for 1998, submitted by the Dr. Walter Wriston, president of City Bank, which reads: "In late '60s business communication in carrying out financial transactions of our staff in New York with their counterparts in Brazil was an adventure. Today we are witnessing the globalization of financial transactions. Every day over 300 digital channels, City Bank, around the world, carry 100 million financial transactions, and with great certainty we expect in 2001, this number will be doubled. The whole globe is now connected to digital network, in which the financial data and business information moving at enormous speed. There is no even



a theoretical possibility of hiding somewhere or hiding something from someone. What was secretly now has become public and transparent ownership of all networked.

MULTINATIONAL BANK AND INTERNATIONAL FINANCIAL MARKETS

In industrialized market orientation countries in the early '60s of the last century, until then conservative banking, has been replaced by modern banking market. Modern bank in market developed countries have realized that due to intense competition and falling profit rates with the steady increase in business costs, innovations in banking services are not sufficient to guarantee its survival in an ever more severe financial market that is globalizing, internationalize, and integrate on the supranational level. For these reasons, modern banks, the strategy and philosophy of their business policy, leaves the policy of individual banking services placement (e.g. credit cards, checks, bank-machine, etc.), intended for the rich or the regular clientele, the clientele at the village or in the city based its development strategy on the creation, production and sale of market-segmented banking products that will be successfully absorbed to:²²⁶

Money market and, within it, on the market of deposit money, on the credit- deposit, discount, Lombard as in the market of short-term securities, or

- Foreign exchange market and, within it, to: currency, foreign exchange, and securities market, or
- Capital markets and, within it, the investment- loanable and deposit, mortgage market, market shares and bonds, or
- Term market, and within it, futures market, options, and swaps

In this way, the modern bank creates produces and markets segmented banking product, not for a known customer, but for the market segment and an unknown buyer on it. This of course has the effect of restructuring balance positions of the new bank, and in this respect and increase of participation of certain individual sub-balance of bank, with a simultaneous decrease in other sub-balances in the balance of each bank. This decrease or increase positions of sub-balances modern banks, resulting solely from market requirements and is the main indicator for assessing the success or failure of adjustment to market conditions, the bank and its competitive position in the market. For example, perceived by many authors, the modern bank that is the beginning

²²⁶ Đorđe Đukić, Vojin Bjelica, Života Ristić: *Bankarstvo*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, Beograd, 2004, str. 296.



of second decade of the twenty-first century, had on its balance item in the credit and deposit market of more than 10% of the total value of its assets, will not be able not only to enter a new phase its development, but will have to be taken over by another bank, or will have to go bankrupt.

The mission of modern bank in the creation, production, and marketing of the segmented banking products absorbed by the segmented financial markets, but in 1994 showed some weak or insufficiently strong competitive advantages and specific business diseases. This is primarily related to:²²⁷

- Business inertia of bank's management, "in the past year we have done well, so should continue" and,
- Business conformity in the establishment and maintenance of acquired positions in the market, "what others do not do like us, it does not affect our position."

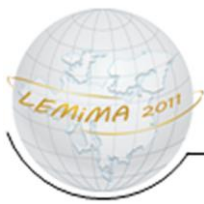
The dangers of these kinds of diseases, makes each national commercial bank to seek healing in competition with successful foreign bank in the international financial market. The process of supranational market integration, in this regard, includes multinational integration of market interest and competition on the one hand, and the elimination of common diseases of business inertia and conformism on the other side, "the planet is becoming one big banking market village". That such a multinational banking is characterized by electron-automated process of work and sophisticated, in the beginning of market-segmented banking process, and later a complete sophisticated banking activity at national and globalized financial market. Electronic-automated and digitally sophisticated process of banking activities was recognized by: Automated bank teller, ATMs, Phonebanking phone bank, and personal computers, PC banking, and more recently, in the last few years over "in-house bank", or "remote control" bank, or multi-national and globalized banks with which XXI century started in the most developed countries of the world.

The main target of a multinational bank, translated into a professional business language comprises:²²⁸

- Creation and mass production of market eligible and competitive banking products and strategies;

²²⁷ Đorđe Đukić, Vojin Bjelica, Života Ristić: *Bankarstvo*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, Beograd, 2004, str. 297.

²²⁸ Đorđe Đukić, Vojin Bjelica, Života Ristić: *Bankarstvo*, Centar za izdavačku delatnost Ekonomskog fakulteta u Beogradu, Beograd, 2004, str. 298.



- Competitive mastery and autonomous management of segmented commercial banking processes and strategies;
- Reliable and competitive advantage in terms of supply and prices in segmented and globalized financial markets;
- Good market position and achieved basic conditions necessary for autonomous control of all banking risks and dominant role in the development and future business within the international economy and markets, and
- Management of entire banking activities by the client and not by going to the bank, but only in communication with the bank without the time and spatial limitations (from home, car, work, on a holiday, the country or abroad, 00-24)

Thus, the transformation of modern banks on its initiative and, most importantly, using its capital a multinational bank as a bank of banks created, whose business is located outside of the adjacent bank into its own client's bank where it successfully achieves all the functions of its own banker on the entire world.

In this way:²²⁹

- From banking using a pencil, through the electronic banking we came to remote control banking;
- From a window, corporative, retail or universal banking, over digital to international and multinational banking;
- From "adjacent" banking and to its own and the "home" banking, and
- From belonging to someone and someone's banking, to belonging to himself and its own banking.

Based on this, we can unambiguously conclude that the contemporary market bank in the industrialized countries was forced that with its own initiative and its own capital, for sake of its further functioning and survival on globalized financial market, make its transformation into a multinational bank as "a bank of banks".

²²⁹ Ibid.



This and similar international bank whose overall banking business is done in a sophisticated and digital communications and automated work process is in fact a highly organized and technologically equipped:

- Banking industry of financial products and strategies on the one hand, and
- Financial trade with these products and strategies, on the other hand

Such conceived multinational bank operating in new conditions of financial markets is indispensable factor in the creation of the banking creativity and dominant carrier of that creativity both at international and national-financial markets. Its accuracy is not measured by day, but minutes, its effectiveness in the work does not show up in weeks, but seconds, its business premises are not marble halls with windows and expensive rooms, but simple, but a technology highly equipped industrial-production and commercial banking laboratories. A multi-national bank does not work as commercial or as an investment or universal, and accordingly, it doesn't belong to the Anglo-Saxon or European model of the bank, it is simply a bank that incorporates in itself everything that is positive in both models. Its labor cost is the same or slightly lower than the cost of conventional banks, its employee receives the same or slightly higher salary than conventional bank workers, but earn for themselves and for at least eight more bank employees, and most importantly, the total investment per job for its establishment and operation is for 1/3 less than investments of traditional banks in an appropriate and proportionate number of teller jobs. A multinational bank has no accounting, general affairs, reporting and analytical service, organization, personnel, of record or other of the hundreds of possible departments that should have any other bank; it does not have a courier or archive or ADP, or thousands of others unnecessary things for Bank's creativity. It simply has a sophisticated digital communications and automated work process for which equipment costs less than expensive marble, lanterns, suspended ceilings, and antique or modern, or other furniture and decor. Finally, it has no organs of management, unions, consultants, banking experts, directors and bank officers, but simply requires the optimal number of professional designers and manufacturers of financial products and strategies as well as the optimal number of financial traders, portfolio managers, secretary, or the optimal number of highly professional broker-dealers and dispatchers. Each of them doing their job but at the same time each individual can work and the work of another.



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CAUSES OF DEBT CRISIS AND INTERNATIONAL INDEBTEDNESS

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Abstract:

Creating a problem of indebtedness is a good indication that international funding mechanism and adaptation are not functioning well. International capital trade is a form of temporal trade, because countries that give priority to future demand in relation to today's (developed countries that do not have enough space and resources); sell their accumulation to the countries which give priority to today's demands in relation to the future (developing countries with significant potential for development). This form of trade leads to greater global prosperity because it is of mutual interest.

Keywords:

debt crisis, international indebtedness, developing countries, international currency and financial crisis, new economic crisis

Strength of the new debit crisis stems from the fact that theories of unlimited competition and every other liberalism are in force for a long time and apply. The crisis will last as long, but this practice does not leave for the benefit of the necessary social regulation and coordination. It is searching for, more or less, redesigning of the existing system of anarchic (unregulated) market economy. In other words, it is required and suggests abandoning the system of absolute market liberalism.

INTRODUCTION

World debit crisis is a situation where countries are unable to meet contractual obligations on loans received from foreign commercial banks. In mid-seventies, after the outbreak of the oil crisis, on the international capital markets a large amount of available funds appeared which are mostly derived from the surpluses, so-called petrodollar of the petroleum exporting countries. Due to a sudden increase in supply of capital and the fact that the developed Western countries have entered into a recession, cost of capital has become extremely low.



Many developing countries with a chronic lack of capital have seen in it the possibility of its rapid governing development. In this situation, there has been a rapid growth of indebtedness of a large number of developing countries. In early 1980s the situation in the global capital market is consolidated, interest rates began to rise, and many developing countries whose ambitious investments still have not given the results entered into a debt crisis. Crisis was especially emphasized in developing countries, which have their development based on the growth of domestic consumption and therefore had chronic deficits in balance of payments. Countries that were export-oriented balance of payments did not have such problems. Many indebted countries entered the crisis of external liquidity and a sharp slowdown in the activities of the ruling, falling living standards and general recession existed. Reprogramming of debts was the only solution that the debtor countries could do to reduce the burden of servicing debt and to halt the decline of the ruling activities. Reprogramming was conditional on economic policy measures to ensure the harmonization of domestic consumption to changes in gross domestic product, balance of payments deficit, and regular servicing (reprogramming) of debt. Major role in the process of debt reprogramming and defining of economic policies measures of the debtor had the International Monetary Fund (IMF). In other terms, debit crisis influenced on the occurrence of net capital inflows in developed countries (creditors), to an overall decline of indirect roles in the world economy and growing importance of direct investments. Debit crises and international crises can be seen as an irregularity or deviation from the rules in the functioning of international capital markets. If capital is invested where it will bring the highest return, then that yield will repay debt. However, the irregularities and deviations from the rule still occurs, because between the development, growth in national income, investment, trade and real interest rates on foreign capital, there are certain relationships whose disruption leads to difficulties in repayment of accumulated debt.²³⁰ Because of these disorder relations, debit crisis in the first half of this century fell the richest and developed countries such as Germany and the countries of Latin America. Problem of debt accumulation is most prominent sign that international funding mechanism and adaptation are not functioning well. International flow of capital, trading capital is actually a form of temporal trade, since countries, which give priority to future demand compared to today, selling their accumulation to the countries, which give priority to today's demands in relation to the future. The debt as a problem and debt crises can be viewed as anomalies in the functioning of international capital markets. The debt formation of most numerous countries have led to many circumstances in developing countries that caused a debt crisis. Until the eighties, the largest capital inflow to developing countries was realized in the form of public capital, then short-term export credits, and private investments. Over time, the governments of some countries have begun to guarantee export credits, which used their companies for import of equipment.

It is not a solution of debt crisis of developing countries that they are excluded from such inter-temporal trade and international capital movements. From the concept of inter-temporal trade,

²³⁰ Pušara Kostadin, prof.dr. „*Međunarodne finansije*“, Beograd, 2001, str. 60.



follows that it would cause damage to developed countries. Due to the specific circumstances and their own mistakes, private capital is withdrawn from the developing world, which means that the international financial system, together with the institutions, must find a way not only to perform the transformation of maturity necessary for their development financing, but that capital raised from private sources mediated through public and international institutions also. It was tried so far also, but in limited scale.

PROBLEMS OF INDEBTEDNESS OF DEVELOPING COUNTRIES

From the standpoint of a country, the inflow and outflow of loan capital are flows, and foreign debt on the balance of the outstanding debts.²³¹ Taking new loans in addition to existing ones increase debt and any repayment of principal debt decreases. Debt reduction is therefore a result of these trends. The share of highly indebted developing countries with medium income in the total debt of all developing countries fell between 27% and 23%. This is the result of several factors. The number of developing countries with middle incomes changed (some have fallen to a lower category). Some of them really came out of the debt crisis, while others were forced to effective adaptation, which is, of course, slowed down their development. They now instead of development and debt have stagnation. Many circumstances led to the culmination of the debt of developing countries and to debt crisis. By the early seventies, the bulk of capital inflows to developing countries achieved in the form of public capital, short-term export credits, and private investments. Over time, the governments began to guarantee export credits, which used equipment companies in their country for import. Quadrupled oil prices of OPEC countries in period 1973-1974 were the start of the expansion of lending to developing countries by commercial banks. They organized "recycling" of petro-dollar that the fund balances of payments of current account deficit worldwide paying. Bids of capital were enormous, interest rates have fallen, during one period there were negative in real terms.²³² Even the most developed countries substantially delayed the adjustment of its economy, opting for the financing of imbalances under favorable conditions. Developing countries were doing so also. The debt of developing countries was contracted in dollars; a sudden jump of USD exchange rate has caused a large increase in the volume of real value of debt. At a time when the world economy fell into a deep depression during 1981, developing countries have already accumulated a huge debt burden. The crisis erupted in Mexico. In august 1982, Mexico informed the foreign financial authorities that his central bank spent almost all foreign reserves and no longer is able to pay off debts. With over 80 billion dollars, Mexico, after Brazil, was the biggest debtor among developing countries. When Mexico had long and complex negotiations

²³¹ Kovač Oskar, dr. „Međunarodne finansije“, Beograd, 2002, str. 421.

²³² Kovač Oskar, dr. „Međunarodno finansiranje“, Beograd, 2002, str. 425.



on the reprogramming and reduction of its debt, Argentina and Brazil, having difficulties to service their debts and it was more and more difficult to them to come to new loans of which they would pay off the old ones. Over 40 countries of Latin America and Asia at the end of the 1986 had great difficulty in terms of repayment of their debts. Of course, under the threat of mass cancellation of debt payments, the banking consortium, but the club of creditor countries (Paris Club), started a case-by case, to negotiate on a reorganization of debts largest debtors, Mexico, Brazil, and Argentina. Commercial banks, meanwhile, almost completely ceased to invest in developing countries, thereby pushing them into even deeper crisis.

THE EMERGENCE OF THE INTERNATIONAL DEBT CRISIS

Debit crisis has a long history, as well as international debt movements. The position of Bordeaux, Eichengreen, and Kim²³³ is that financial integration followed U model: it was at very high level until the early 20th century, fell between the wars, and then returned to the period of before 1914. The breakdown of external financial liabilities, and the collapse of the banking system during '30s, has produced many studies, especially the remarkable study by Charles Kindleberger. Normal movement of capital is a problem for the borrowing nations, "the balance of the balance sheet position of the country can be debilitating if short-term capacities are needed in exchange for profit which is not available."²³⁴ The start of debt crisis is connected with middle seventies, when many oil-exporting countries, OPEC members (Organization of Petroleum Exporting Countries) have acquired great wealth. Banks were willing to give billions of dollars to OPEC countries and other developing countries. These countries have borrowed large amounts of money at low, but unstable exchange rates. Because of the irresponsibility of the both, government of creditors and debtors (corruption, private projects of the wealthy people, etc.), countries did not use the money to pay out investment, and the money has been spent on current consumption. As a result, these governments have created the debt and refused to pay off their loan. Aristocracy controlled the government, while the poor have no vote on the issue of the loan, nor they were using the loan. Interest rates have risen sharply in the early eighties, when the U.S. tried to reduce inflation. By the end of the sixties, the financial crisis has become a regular feature of business dynamics. These events have led to led Minsky to settle its hypothesis on financial instability (1975), challenging that the agents conducted a combination of insecure and competitive forces, overestimated the property and taking unnecessary debt, which makes them financially unstable.²³⁵

Creating the problem of indebtedness is a good indication that international funding mechanism and adaptation are not functioning well. International trade is a form of capital, temporal trade, because countries that give priority to future demand in relation to today's (developed countries

²³³ Bordo Michael, Barry Eichengreen, and Jongwoo Kim, „Was there Really an Eirlier Period of International Financial Integration Comparable to Today“, Cambridge, 1998, str. 198.

²³⁴ Kindleberger, Charles P, „*Paralels an Differences*“, Singapore, 1989, str. 252.

²³⁵ Minsky, Hyman P, „*John Maynard Keynes*“, New York, Columbia University Press, 1975, str. 120.



that do not have enough space and resources), sell their accumulation to the countries which give priority to today's demands in relation to the future (developing countries with significant potential for development). This form of trade leads to greater global prosperity because it is of mutual interest.²³⁶ Solution to the debt crisis of developing countries is not that they are excluded from flows of international capital movements and human capital, as this would cause damage to developed countries too. Private capital, for their own mistakes withdrew from developing countries. This means that international financial institutions must find a way to perform the transformation of maturity necessary for their financing and equity raised from private sources, passes through international institutions. It was tried so far, but in limited terms, as the international financial institutions too much stipulated use of these funds with inappropriate development programs, and because of that, a part of the funds remained unplaced.²³⁷

THE INTERNATIONAL MOBILITY OF CAPITAL, CURRENCY, AND FINANCIAL CRISIS

1. The greatest potential costs of capital mobility are considered a loss of political autonomy and financial vulnerability and opportunity for the crisis. If investors lose confidence in the economy and its currency, they can start to sell their investments denominated in that currency. If that are more investors in a short period, it is a speculative attack on the currency and its exchange rate against other currencies. Currency crisis is a disorder in the currency market, where speculative attack on the currency devaluation leads and/or situation that monetary authorities defend the exchange rate by selling its foreign reserves and/or raise the interest rate. Currency crisis causes the pressure on the existing exchange rate to depreciate. Investors then collectively begin to sell their investments denominated in that currency. Currency crisis is much more than a successful attack and the depreciation of the exchange rate. Exchange rate risk arises when the value of transactions the company may change if the exchange rate changes. There are different types of foreign exchange risk: transaction risk, and the translation. Transaction type of risk arises when a company agrees to present to a transaction that will be made in foreign currencies in the future at the exchange rate current at the time. Translational type of risk arises when a company has a portion of its assets and liabilities denominated in foreign currency. Preparing annual reports, the company has to convert all assets and liabilities denominated in foreign currency into local currency. The value of these assets and liabilities may change if the exchange rate changes.

2. Models of currency crises can be classified according to two basic dimensions: the role of international investors in the onset of the crisis and cause of the crisis. There are three generation of models that explain currency crises. In the earliest models, investors play a

²³⁶ Krueman, P.R. i Obstfeld, M. 1991, str. 191.

²³⁷ Pušara Kostadin, prof. dr. „*Međunarodne finansije*“, Beograd, 2001, str. 60.



passive role and currency crises are entirely due to the incompatibility of local conditions with the fixed exchange regime. The second generation of models of investor expectations determines whether there will be a currency crisis or not. Unlike the second generation of models, the third was more prominent role expectations. Connection between exchange rate and domestic financial sector is explicitly analyzed only in the third generation model, which makes the vicious cycle especially suitable for the analysis of twin crises.

3. Balance of payments crisis is a sudden change in official foreign exchange reserves caused by the expectation of future exchange rate changes. Expectations of future devaluation caused a crisis of balance of payments reflected the decline of foreign reserves and increasing domestic interest rates above the world interest rate because the central bank uses foreign exchange reserves to finance private capital flows and defend a fixed exchange rate.

4. Debit crisis of public and private sector: according to Lawson's doctrine, the government needs to look across and beyond its core indicators, where the private sector internalizes the costs of risky borrowing and lending. Under rational expectations, the current account balance is always the result of making the private sector, with or without public sector deficit. Proponents of the Lawson doctrine believe in optimal decisions of the private sector, but not in rational expectation. A government budget deficit immediately stimulates private savings so the future tax could be charged. Current liabilities of the private sector often depend on public sector liabilities. Foreign creditors may force the government to transform private debt into public debt. Losses of private sector are trying to absorb the public sector or as the tax liabilities forgiveness or the resolution of banking crises, especially when financial institutions are too big to fail. Areas of financial sector weakness are weak system of regulation, weak financial supervision, implicit and explicit guarantees motivate the inflow of capital associated with the state and directed lending leads to wrong investment in unproductive projects, underdeveloped capital markets is addictive of the corporate sector on bank short-term loans. Potential causes of the economic crisis are government policy towards the financial system to foreign capital, government macroeconomic policy, wrongly allocated capital, foreign capital inflow, economic imbalances, financial and economic vulnerability, and the maturity structure of debt.

5. The causes of financial crises: in the literature as the leading causes of financial crises are cited the growth of borrowing and debt, international exogenous negative shocks, exposure to exchange rate risk, the volatility of international short-term lending and the global spread of the crisis as a disease. A sudden slowdown in the inflow of capital also affects the financial crisis

6. A sudden slowdown in capital inflow and the beginning of the financial crisis: A risk associated with international transactions is primarily due to incomplete and asymmetric information among market participants. Asymmetric information may arise as banks are less informed of company on its investment plans, the asymmetry can lead to financial crisis.

7. Financial crisis and asymmetric information: the growth rate may indicate an additional burden to borrowers, so that total return on savings decline if companies are unable to repay



their loans after a rise in interest rates. Based on these options, the interest rate can reduce the overall savings in the economy, which means that the curve of savings has a negative slope. This effect of interest rates on savings accounts likely will arise when interest rates are already relatively high.

8. Economic and political response on the financial crisis: the government has two options to defend fixed exchange rate because of the crisis - to use the foreign exchange reserves, or to increase interest rates in order to attract foreign capital. In deciding whether to defend the exchange rate, policy-makers need to assess the size of developments in international finance and the response of capital flows to interest rate changes. Recovery from the crisis may help better external factors: economic growth in the world, prices, return of capital. Domestic factors of recovery from the crisis are external adjustment, real exchange rates, and low inflation. You should count on the residual effects of the crisis: the size of public debt, low capacity utilization, discredited reform, high unemployment, and social costs. Policies that are recommended for recovery and growth are fiscal discipline, increase exports, institutional support for reform and social policy.

9. The Great Depression - the onset and recovery from the Great Depression: in 1929 began recession that is an introduction to the Great Depression. The main cause of the Great Depression is considered inappropriate monetary FED policy. The effect of the gold standard was extended to the whole world depression. Causes of the Great Depression and the mechanism of expansion - liquidity trap and deflation: Keynes introduced the term "liquidity trap". In the monetary economics, the liquidity trap means the state of the economy when the interest rate is close to or equal to zero. Zero limits exist for the nominal interest rate because it cannot fall below zero. Liquidity trap (zero nominal interest rate) combined with the expected deflation is a major problem.

Fisher based a debit-deflation theory on the interaction of two factors: the initial situation of over-indebtedness and the dynamic process of reduction of price. Explosive dynamic process typical of the Great Depression has its roots in the initial indebtedness exacerbated the deflation. The model was considering a system burdened with debt, but otherwise in equilibrium (unstable). In this situation, the small shock is sufficient to undermine confidence of both debtors and creditors and to lead toward the first wave of debts liquidation. Rush to liquidate debts leads to sale at any cost and consequently a strong fall of stock prices and the contraction of bank deposits. This triggers the deflation that increases the real burden of debt. Attempt of individuals and banks to reduce their debt has caused a dynamic process that has worsened the situation in real terms, leading financial collapse. There was a series of bankruptcies, which even more reduced rates. General prices reductions were distorting for entrepreneurs who were not responsible because their selling prices falling faster than costs, reducing the profits. Decrease in output, employment and profits caused a decline of trust and pessimism, which led to the general rush of money, which further reduces the circulation of money and reduces the price level and reduce consumption even more. Fisher held that



depression could have been avoided or its consequences could be reduced with expansive monetary policy i.e. reflation and stabilization.

10. External debt, indebtedness, and development: foreign debt is defined as a condition of ongoing and unconditional obligation requiring the payment of principal and interest, which the borrower owes to a resident in certain period. The effects of endogenous (internal) or exogenous (external) causes may cause changes in levels of indebtedness. Endogenous causes of debt are related to the internal state of the economy and macroeconomic policy. Exogenous causes of debt are related to the conditions of borrowing in world financial markets.

THE CAUSES OF A NEW ECONOMIC CRISIS – 2007

A new financial crisis shakes economies around the world. Of the five big American investment banks, only two remain *Goldman Sachs* and *Morgan Stanley*. However, these banks will no longer be as they were until now - independent investment banks. Beginning of the end started with disappearance of *Bear Stearns*, it was continued with the liquidation of *Lehman Brothers*, a drowning of *Merrill Lynch* to *Bank of America*, and completed the change of the status of investment banks *Morgan Stanley* and *Goldman Sachs*. The crisis that has lasted for more than a year (all started in July 2007, when *Bear Stearns* notified customers that found themselves in difficulties in managing hedge funds). The result was the loss of one third of the value of all world markets. Generators of this crisis should be sought in the primary and secondary mortgage market i.e. the operations of approval, sale, and securitization of mortgage loans. On the causes of the crisis, there are diametrically opposing views. According to some, U.S. mortgage loans that were given without any previous serious testing credit solvency of the debtor caused the crisis. This group of like-minded states to clarify the crisis should be left to the free market, with an appropriately changing practices and regulations on financial supervision - monitoring (requires the development of regulations, rather than their extension). By others, the U.S. mortgage crisis was only the immediate trigger, and the current economic crisis is a classic capitalistic crisis, designated as a "crisis of overproduction" by Marxist theory. The crisis is tough because they have long been in force and shall apply the theory of unlimited competition and every other liberalism. According to these views, the crisis will take as long until this practice is not leaved for the benefits of the necessary social regulation and coordination.

It does not appear that some radical leftist ideas are necessary and impose because, objectively, in our time, such ideas are almost non-existent.²³⁸ Especially there are no forces and movements that have fought and who would be able to be practically realized, i.e., to ensure their

²³⁸ Unfortunately, it is true that in our time "capitalism has no alternative". Social differences in today's China are higher than anywhere in the world. Safety and environmental protection and natural environment are below those in capitalist countries.



foreseeable operational use. In any case, requires, more or less, redesigning the existing system of anarchic (unregulated) market economy. In other words, it is required and suggests abandoning of absolute market liberalism system. There is no doubt that the opinions and views of other groups are more realistic and closer to reality. Business cycles are inherent system of unregulated market economy. The fear of managerial structures in all countries of the world before the current crisis is great. Almost unlimited pumping in of cheap money shows it (key policy rates of central banks in developed countries tend to zero) in the banks and economy. With this they primarily wanted to stop the upcoming recession (in some countries estimated immediate drop in economic activity is up to 3 percent), but also to help fund social programs (increase fees and extend the rights of the unemployed). From experience, eventually it should lead to a shift to cut the crisis and to start new economic boom and the rise. There is no doubt on that, when it comes to countries that offer to set such programs and implement them materially. Circumstances of undeveloped countries with started and inefficiently run transition are quite different. These countries are deficient in trade with the world and they lack financial capacity for new borrowing, or at home or abroad in the present state of their economies. These countries are not in crisis due to lack of demand and caused recession and deflation, as it is in developed countries, but because of excessive spending and threatening high inflation. Therefore, they needed different programs to stop and exit the crisis. They need development strategies of real and infrastructure sector and financial resources for their implementation. It is hard to say whether the bigger problem is the absence of strategies or the lack of funds. We tend to claim that the lack of strategies, for most small, underdeveloped countries in transition, is more difficult problem. The Republic of Serbia is the best example.

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CONTACT CENTER AND CRM IN THE FUNCTION OF MARKETING AND USERS/CUSTOMERS MANAGEMENT

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Abstract:

This paper describes the functioning of a modern Call center, its upgrade with CRM, i.e. transfer to Contact Centre, as well as the opportunities that emerging technologies offer in marketing and management of users/customers. The main feature of CRM is that user must be the starting point of any action is taken. CRM system is used for planning and management processes of marketing and sales, and recording of all company's interactions with its customers and suppliers. CRM open paths of company's communication to the outside world, and runs processes of meeting market demands towards the company's interior. This is the type of management, a business concept that puts users at the center.

Keywords:

Call Center, Contact Center, CRM, customer

INTRODUCTION

Call Center is a combination of telephony, technology, personnel, and organizational procedures to users through direct communication with them, and allows the use of certain services [1]. It can be said that call center of a modern enterprise takes over the function of communication loop, or a central place for meeting and interaction for all types of business communications with the beneficiaries of that company, so it becomes the main access point.²³⁹ Traditional Call centers were used as a medium for voice telephony, but the development of call centers in recent years has resulted in the emergence of complex systems with multimedia access and a high degree of automation. There are several causes of these changes. One of them is that the Internet is increasingly accepted as a means of communication and Call Center develop and adapt traffic from this source. The next stage of integration with information

²³⁹ The conclusion of practice



resources is a CTI (Computer Telephony Integration), which allows the use of computers for handling and operation of the operator, administration, and development of call center statistics, links to information systems databases, necessary to deliver services. New technologies of speech processing (speech recognition and speaker, generating speech from text, etc.) contribute to further automation of call centers. The functions of the modern call center are assigned to several data network connected servers.²⁴⁰ A typical configuration is showed in the following figure [1].

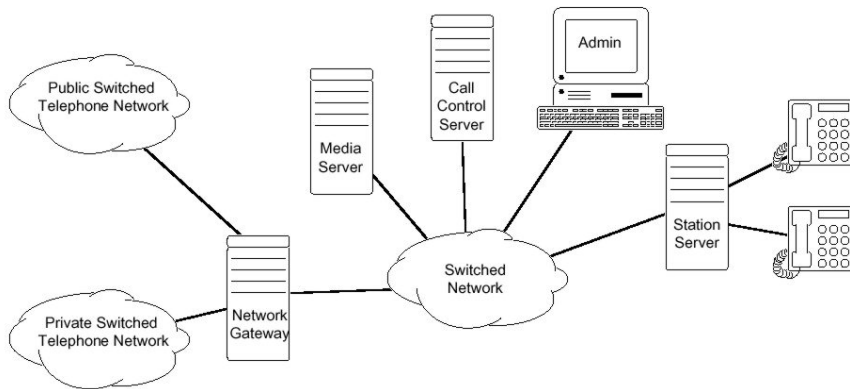


Figure 1 - A typical configuration of the Call Center

In relation to the distribution and distance between individual elements of the Call Centre, voice devices, the database server, and workstation operators, Call centers can be configured in several ways:

- Centralized - all elements of the system are located on the same physical location. Operators are connected to servers over local 10/100 Mbps network (LAN - Local Area Network) and local telephone wires;
- Decentralized - the system consists of several individual units on physically remote locations, which together form a single Call center. Physically distant locations can be connected via VoIP;
- Remote Operators - server systems are on one physical location, operator workstations (all or part of them) are on one or more remote locations. Lone operators are connected to data servers (intranet) and over voice (telephone wires, or VoIP) [1].

²⁴⁰ Normal setting of modern call centers



When quality data transfer connections and high-quality telephone connection between the individual elements of the system are provided, each element of the system can be in any location.

Call center can:

- To serve any incoming or outgoing traffic or a combination of both, depending on the business needs;
- To be used to select "internal" and "external" users;²⁴¹
- To work in "normal working hours", or constant;²⁴²
- To be made simple, but composed of various integration elements.

Call and Contact Centers are often the only place of meeting user and owner of the Call Centre, and therefore are all the more significant.²⁴³

CONTACT CENTER AND CRM IN THE FUNCTION OF MARKETING AND USERS/CUSTOMERS MANAGEMENT

General criterion for the use of call center

Call center is a realistic option in the following situations:

- Where there is a large user base, which wants to use the phone as a primary point of communication with the organization;
- Where products and services are such that they can be resolved by phone, and perhaps with intensifying of the one of the usual channels;
- Where the products or services can be supported by telephone contact

²⁴¹ "Internal" customers - internal lines, "external" users - links to public telecommunications network.

²⁴² "Normal working hours" - 08-16/09-17, or continuously - 24/7

²⁴³ The conclusion is drawn from practical applications.



The basic elements and concept of the call center

Call center consists of several key technological elements, such as:

- Computer systems, hardware (HW), and associated infrastructure;
- Operator (agent) terminals
- Software (SW) – operative system, database, and applications;
- Equipment for call management - receiving calls, distribution, and hardware management system; PABXs (Private Branch Exchanges), Automatic Call Distributions, IVRs (Interactive Voice Response Units) and related software;
- CTI (Computer Telephony Integration) function;
- Telephone services

The basic concept of the Call Centre as a system to distribute calls is based on the optimal treatment of the calling user, i.e. its referral to obtain maximum speed and high quality responses.

The principle of operation can be seen by comparing the work of bank registers. For all clients a common queue to wait free register is formed. It is managed by the main dispatcher, which sends users to queue of the appropriate services. Clerk at the register (the operator), which is free, receives the first client from the queue and provide service. In some cases, the officer may call upon the help of the supervisor (controller), i.e. responsible person for the entire service. In addition, there is the possibility of sending a client to another cash register. Each operator has its own queue in which customers send from other counters are moved to [1].

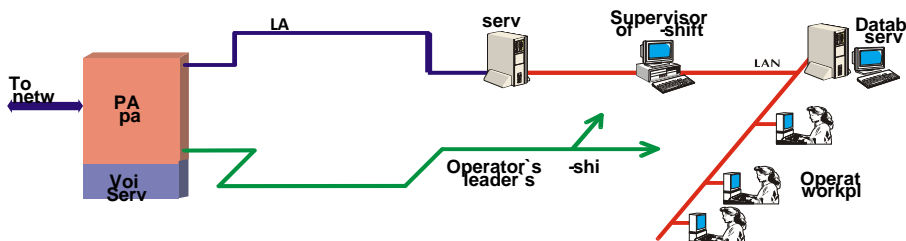


Figure 2 - The basic elements of the call distribution system



Figure 2 shows the elements of the call distribution system [6]. Towards public telecommunications network a switching stage that contains all the essential elements of a private telephone exchange PBX is connected. The switching system also includes a separate server, which provides Computer Telephony Integration, to which computers are connected via local PC network. Besides computers, each operator (and supervisor) has a phone connected to a telephone switchboard. DBS (Data Base Server), VS (Voice Server) and an administrator's workstation are connected to PC network.

CRM

The basic definition of CRM (Customer Relationship Management) – "CRM or Customer Relationship Management is a business strategy that helps create and maintain long-term and profitable relations with customers"²⁴⁴. In general, the CRM system is used for planning and management processes of marketing and sales, and recording of all companies interactions with its customers and suppliers. CRM open paths of company's communication to the outside world, and runs processes of meeting market demands towards the company's interior. This is the type of management, a business concept that puts users at the center of business. CRM task is to deliver content, information, and messages to the customer and collect data and transactions from the customer [2]. "CRM is an old business concept that is becoming topical again, thanks to technology that allows and support it"²⁴⁵[7]. In the past, business people (merchants, bankers, etc.) knew how to organize their work in order to satisfy as many wants and needs of their customers and clients. They knew to distinguish their major clients with whom they are often operated in relation to those less profitable, having different business relation with them [2].

The basic purpose of CRM

The basic idea of CRM is no longer the orientation of enterprises by creating personalized product but creating lasting relation with customers. Products and services must be adapted to the requirements and specifications of individual customers (the modular product concept provides necessary flexibility). This becomes possible again by developing databases that allow storage of data on individual users, and software that enable analysis and optimal use of these

²⁴⁴ Definition taken from www.crmguru.com

²⁴⁵ Dr. J. Anton, *Customer Obsession*.



data. However, "CRM is not technology but the business concept, i.e. business philosophy"²⁴⁶ [3]. CRM is the logical change of dealing because of technical capabilities, which users and customers have recognized. They are becoming more demanding and companies that your business that does not re-orient its business from the product to the purchaser, will lose competitiveness.

Primary purposes of CRM are:

- Identifying and defining its users,
- Their mutual distinction,
- Establishment of personalized bilateral relation by mutual communication,
- Customizing company's behavior to users

CRM is not a single venture, but a constantly repeating and improving process through a cycle consisting of three steps:

- Gaining knowledge about customers,
- Creating and taking actions based on this knowledge,
- Collection of results of implemented actions and their combination with existing knowledge to create new knowledge

The combination of a modern Contact Center and CRM

CRM (Customer Relationship Management) and a system for managing relationships with clients/customers, enabling consistent capture, analyze, and use data collected in the contacts with clients, at the corporate level, for successful business development, monitoring, and adjustment to market, increase quality of service and greater satisfaction of their users, primarily their clients. The basic idea and the primary goal of CRM systems is the retention and attraction of new clients, in evident competition as it is present today in the modern world. In fulfillment of this goal a maximum and optimum use all resources is required, both human and material, which are available to company²⁴⁷ [3]. In this process, we should pay special attention

²⁴⁶ Foss B., CRM in Financial Services.

²⁴⁷ Stone M., CRM in Financial Services.



to the satisfaction of the users of the system, so their involvement in the work process could be adequately expressed. The ultimate goal is pleased and fully accommodated client filled with expectations. CRM solution collects data on all interactions/contacts with clients, and analyze them in order to reduce communication costs, more accurately determine the business and marketing strategy, and increase organizational effectiveness, improve quality, and achieve business goals [4]. Communication with existing and potential customers/clients, by telephone (incoming and outgoing telephone traffic) PSTN and/or VoIP, SMS, fax, electronic mail (e-mail), interactive Web pages or interactive messaging (chat), is impossible without quality and updated database with all available information and prior to contact. At today's market where many products and services become commodities, all are more similar to each other, and where the profit rate under constant pressure, the loyalty of customers/users becoming more and more important²⁴⁸ [5]. The basic rule is: it is easier to keep customers than to win them, so they should be satisfied²⁴⁹ [5]. In the fierce competition for high quality requirements and methods of sale, contact with customers is constantly growing, and so the service and attitude toward them (Customer Care) becomes a key factor for success. According to existing information (address, profession, occupation, age, education, gender, etc.) the target groups of marketing campaign are defined in advance, which significantly increases and facilitate sales [4].

RESUME

It is necessary to work in order to impress customers. Even more so, because today's business environment is highly competitive that greatly complicates the differentiation of products and/or services. The problem is even greater as the Internet has contributed to raising awareness and information related to each competitor. With economic instability, which is a necessary companion to the modern world, it brings us to the conclusion that the only reason, in the way of winning a new customer i.e. successful retention of the existing ones, is in the efficiency of response to customer requirements before, during, and after the sale is closed. From initial contact through to closed sales, user will analyzed the flow of interaction with him/her and remember the support, warmth, and flexibility of service agents. End-users are only interested in quality of service and experience that will live with the services/products of the company. Therefore, parties should have the opportunity of faster contact with the best available resource of the company that meets their requirements and in real time, 24 hours a day, 7 days a week, as well as from geographically more or less remote locations even if it was a user who is located in another town, country, or continent. Customers should be able to access the company through all of dominant communication channels today: phone call or voice (PSTN and/or VoIP), sending faxes, sending SMS messages from your mobile/landline phone, and access via WWW site of the company (an interactive Web or chat services) or by sending e-mail messages. Any

²⁴⁸ Dr. Anton J., *CRM – A Visionary Insight into Unique Customer Contact*.

²⁴⁹ Philonenko, L., *CRM – A Visionary Insight into Unique Customer Contact*.



way you choose, the party should have access to optimal resources. Therefore, it is necessary to provide access when and where users need it and the limitation of the traditional working hours has become unacceptable. Unavoidable, an essential CRM approach tool, by global experience, is the call center. The combination of CRM and Call Center (Contact Center) we have the ability to connect the parties and organizations through all available channels of communication, in which the access customer access through those communications channels that are most appropriate and most often used, wherever located. Customer chooses one and/or more communication channels depending on the requested service and the availability of the service, while operators are divided not only the expertise but also the ability to use certain communication channels. Logistics is represented by the expert support to customers and/or users by experts in the respective departments. The customer is in the centerpiece, and is necessary to provide expert support based on a professional or formal described knowledge stored in the integrated knowledge base. Proactive communication between experts and the operator is adjusted for each operator separately, according to all available data on clients in all available databases. Interaction of expert structure with the operator, in real time, is performed by simultaneous use of all available communication channels initiated by the operator and/or virtual expert (multiple operators with different types of knowledge related to a cluster). In addition, it is possible to manage multi-channel communication and monitoring activities of the customers and operators through all available communication channels.

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WASTE MANAGEMENT IN HEALTH INSTITUTIONS

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Abstract:

Modern management system is based on permanent business process of permanent improving implementation of quality system management and environment management system in accordance with sustainable development. In this document, the main issues of development and implementation of environmental marketing are reviewed, reflecting the increased importance of marketing functions in the development of eco-orientation in health care and to help medical personnel to meet customer principles that allow the use of eco-systems as a new development opportunity. Pollution that comes from health care institutions is specific and can be very dangerous to the health of people working in health care facilities, and to environmental health, i.e. population and the ecosystem in which such waste is stored. In Serbia, for now there is no system of managing hazardous waste and tracking of generated medical waste. The main goal of medical waste management is the introduction of healthy and environmentally sound treatment of medical waste, appropriate to our environmental situation and level of development of healthcare services. The goal of application management in the management of medical waste is actually a good way of managing the introduction of innovative management and a way of providing a healthy environment and therefore a healthy lifestyle.

Keywords:

innovative management, medical waste, medical center, ecology, technology

INTRODUCTION

Scientific discoveries and technical and technological developments shape the future and will shape the overall development in terms of globalization. Development and application of modern technology changed the economic and social structure, production and technological system and the consumer style. In addition, rapid technological changes carry profound economic, political, and economic implications, with uncertain elements of human and sustainable development. The increasing urbanization of settlements, followed by raising the standard of living has resulted in an increased production of nominal, industrial, medical and other wastes, which is a particular problem in terms of protection and improvement of the environment.



In our country, based on a relatively young current legislation, mainly correct rehabilitation and reclamation of existing landfills are performing. Waste disposal technology is based on a simple "burying" of waste mixed with controlled filling with inert materials. Thus formed a conglomerate of different types of waste contains part of the material that cannot be used, while most of the ingredients are usable. The first step in monitoring global trends in the waste management problems - the Ministry of Environment made an intensive program of waste management. The next step is the adoption and implementation of the law on handling hazardous materials.

THE STATE OF MEDICAL WASTE IN SERBIA AND WORLDWIDE

In healthcare institutions, the waste is produced unevenly. The amount and type of the waste depend on the size and type of institution, or whether the institution is primary, secondary or at tertiary level. Highly developed countries produce up to 6 kg of medical waste per person per year. In most undeveloped countries and countries in transition, there is no separation of a waste into infectious medical waste and non-infectious. The amount of hazardous waste ranges from 0.5 - 3 kg per person per year in those countries. Hospitals in Serbia have 50,988 beds in total with 14929.623 realized hospital days and average bed occupancy of 72%. It should be added 291 beds in health centers, with 61,827 hospital days. It is assumed that military, police, and private health institutions have about 2,700 beds. Based on these data, it can be inferred that currently Serbia produces 1.8 kg/bed medical waste per day, which is about 35,500 tons per year, of which about 5,300 tons is hazardous medical waste.²⁵⁰ Based on estimates of medicine waste creation in all health facilities and medical clinics, homes for the elderly, centers for socially vulnerable persons, rehabilitation centers etc., as well as waste from private dental and medical offices, clinics and laboratories in Serbia, the estimated amount of generated waste is 9,600 tons per annum. WHO notes that in 2000, because of unsafe disposal of needles and syringes were 21 million cases of hepatitis B infection (32% of newly detected), 2 million cases of hepatitis C and 250,000 cases of HIV infections worldwide. GZZZ's (Institute of Public Health) data show that Belgrade health workers and associates suffering 5 times more from hepatitis B than general population.

²⁵⁰ Bera M., Mihajlov A., Hodolić J., Agarski B., *Analiza stanja opasnog otpada iz medicinskih ustanova u Srbiji i svetu*, Festival kvaliteta 2008.



ORGANIZATION OF MANAGEMENT AND RESPONSABILITIES OF THE WORKERS IN HEALTHCARE CENTERS

All health institutions in Serbia are obliged to develop a management plan for medical waste according to the law on solid waste management if produces more than 500 kg of hazardous medical waste. The plan is based on primary legislations relating to waste, on secondary ones, sub-legislative objectives and principles set out in the National guide of good practice for the safe management of medical waste.²⁵¹ Medical waste management plan should define the objectives and activities necessary to improve all aspects of waste management, providing care for patients who use health services, working in a medical institution in accordance with the principles of environmental protection and working environment. The plan must to contain the internal organizational scheme, and clearly defined number and structure of employees as to state their role in accordance with a specific level of health care facilities. The first step in distribution of duties and responsibilities would be formation of the team and development of medical waste management plan. In the hierarchy of tasks and responsibilities at the top is the director of health institution, which properly prepares a team of waste management coordinators, head nurses, the persons responsible for separating, marking, recording, and disposal of waste and technical service personnel. In the hierarchy of medical waste management, there are priorities in the following order: prevention of waste generation, reducing the amount of generated waste, recycling, energy recovery, and disposal.²⁵²

ORGANIZATION OF MEDICAL WASTE MANAGEMENT IN "TOPLICA" HEALTH CENTER

We reviewed innovative management through the system of medical waste management, based on the example of a pilot program "Toplica" health center. "Toplica" health center in Prokuplje is a general hospital. This facility has 353 available beds, and total number of employees is 956. With its capacity and expertise, in cooperation with other health care facilities in Blace, Kuršumlija, and Žitorađa, covers whole Toplica region. Waste that is subject to a special treatment in "Toplica" health center is waste that has emerged in health care facilities in the process of providing health care, performing of health care services, scientific researches and experiments in the field of medicine that contain virulent, pathogenic micro-organisms, which due to its type and concentration can cause human and animal diseases.

²⁵¹ Tošović S: *Plan upravljanja medicinskim otpadom*, Minist. zdr. R.S. (2006)

²⁵² Tošović S: *Plan upravljanja medicinskim otpadom*, Minist. zdr. R.S. (2006)



Waste management is organized and performed in a manner that ensures the minimum risk to human health and the environment. Collection of solid municipal and medical waste is done in designed 95 l capacity container labeled by the corresponding labels. In the operating rooms, special purpose containers for medical waste have 60L capacity. All vessels are lined with PVC bags. Syringes, needles, saws, infusion systems, scalpels are disposing into yellow cardboard containers, with plastic interior. Those cardboards are placed in aid stations, intervention rooms, and sanitary technician regularly brings new cardboard to all departments according to pre-set plan. Waste from microbiology, liquid waste, blood, and blood products are also packed in designated containers prescribed by the regulations on disposal of medical waste, and then sterilized in an autoclave. In "Toplica" health center as in other medical centers in Toplica region, waste is collecting 2 times per day during five days working week, at the beginning of the first shift and the start of the second shift. Classification, i.e. sorting of waste by its origin and composition is derived by separation from communal waste for easier identification, use of proper treatment and disposal of waste. After separation, the waste is designated, by filling out a separate document i.e. declaration. Waste is collecting two times per day using inert transport for transporting waste to unloading place plant for unloading and preparing for treatment, using special, dedicated sealed vehicle of "Toplica" health center. Waste treatment is carried out at the plant for processing, which is located in the preparation part of the health center in Prokuplje. The plant consists of space with the autoclave and shredder and warehouses with a balance and appropriate containers. Based on data "Toplice" health center, during November 2010, total amount of treated medical waste at the Toplice region was 3,364 kg (Table 1).

Table 1 - Quantity of medical waste treated in the period November 1 – November 30, 2010 in "Toplice" health center

Origin of waste	Waste quantity (kg)
"Toplica" Health center, Prokuplje	2508
Health center in Prokuplje	366
Health center in Žitorada	152
Health center in Blace	60
Health center in Kuršumlja	278
Total	3364



Medical waste treatment began in 200. In the first year in all health facilities in Toplica region 15,610 kg of waste was treated. In the first year of implementation of healthcare waste management, a smaller amount of medical waste is treated in health care facilities in Blace, Kursumlija, and Zitoradja in relation to "Toplica" health center in Prokuplje. Based on the data of "Toplica" health center, in the first year (2009) of the medical waste management, 2237 kg of chemical waste has been disposed, of which 1327 kg was waste fixer solution. In "Toplica" health center there are no conditions for the recycling of pathoanatomic waste, so this issue is resolved by removing and burying in a particular place, at the city cemetery. Given the fact that pathological process of collecting waste is recently implemented, it is not yet fully developed system of marking and adequate measurement of the amount of the waste treated in this way.

RESUME

Municipal solid waste, its quantity and managing the level of Serbia is a major problem. The level of urbanization, technological development, and indifference in this area of environment led to alarming situation. Therefore, it is necessary to perceive this segment of urban society in an appropriate way, and to establish a management system by introducing innovative management to improve the management system in the area of health care. In addition, it is necessary to protect health facilities personnel and users of health services, thus protect the population from the unforeseen consequences, and provide good and healthy life for future generations. It should be noted that generally there is no separation of waste at its source and that the medical waste is depositing along with other household waste in the landfill. There are no special precautions or procedures for handling, transport, or disposal of waste from medical and related facilities. The amount of waste handled and disposed in this way is typically estimated based on the number of containers that are removed from the buildings and not based on types, sources, and the mass of waste located in containers. Medical waste is a very sensitive and inappropriate waste and it is inappropriate that all generators of this category of waste managed it as the state institutions and those in the private healthcare sector. Representatives of the statutory health sector are obliged to ensure that the waste is managed in a way that the negative and detrimental impacts on the environment are minimal. It is part of professional responsibility in their daily work. Bearing in mind the fact that an appropriate legislation exists in Serbia it is necessary to establish a system of health care by introducing a new concept in health care of public and private sectors. It is necessary to support health care institutions in implementing innovative management systems. It is necessary to improve knowledge and skills of employees and associates for the job of medical waste disposal that is generated every day in health institutions through training and ensuring the sustainability of its program. To implement medical waste management system properly it is necessary to increase the level of information on medical waste and the amount of adequate handling and disposal. In the medical waste management system there is a need to increase safety of personnel working in health care facilities, as well as the entire population by introducing a unique method and management system.



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RATIO ANALYSIS OF SERBIAN TRADE COMPANIES' BUSINESS

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Abstract:

In the process of Serbia's accession to the European Union one of the most sensitive and most complex economic tasks is related to building a modern market structures and trade. It is certain that the attitude towards the market and trade should have a decisive role in future economic development and the inclusion of country trends in the single market of European Union. In this paper an analysis of achievements in the development of trade, business performance trade of Serbia, the analysis of market conditions and current trends in trade of the Republic of Serbia is provided.

Keywords:

trade in Serbia, business indexes

INTRODUCTION

Business performance of Trade of the Republic of Serbia is still limited, although recently improved slightly compared to the beginning of the 2000 year. Despite some improvements of business performance, trade of the Republic of Serbia is still largely lagging behind in respect to trade in the European Union.

METHODOLOGY

Objectives of this study can be reduced to a few main objectives of which would then aggregate the research sub-goals:

- Assessment of structural and business performance of trade of the Republic of Serbia



- Identifying the advantages and disadvantages of trade of the Republic of Serbia

The main sources of data are:

- Secondary external: statistical publications, professional journals, electronic databases

In this paper, a method of research analysis was used. With this analyses so-called secondary data i.e. relevant data that already exist as such or to which you can get by additional data processing or a suitable crossing of the existing data could be gathered. In this way, would be collected and analyzed the following data:

- Characteristics of the retail trade and wholesale trade in the Republic of Serbia
- The main indicators (ratio analysis) of business of trade companies

Business performance trade of the Republic of Serbia

Productivity in the trade of the Republic of Serbia measured according to all relevant indicators, significantly lower than the productivity in the trade of the European Union. Labor productivity in wholesale trade is twice, and in retail trade by as much as three times lower in the Republic of Serbia in relation to trade in the European Union. Gross value added per employee in the enterprise sector fell by about 37% of the businesses in the area of trade. The overall financial position (liquidity, financial indebtedness, asset turnover, cost, and profitability) of trade of the Republic of Serbia is significantly inferior to the financial position of the European Union trade. This is particularly true regarding to retail; the sign in this respect, almost all indicators are "negative", which means that it operates at a loss. Margins rate (the difference in price) in trade of the Republic of Serbia amounted to 24.34% of total trade, wholesale trade and 26.24%, and retail trade 20.13% and 18.67% of trade vehicles. It should be noted that the margin rates in the wholesale trade are higher than in retail trade and even much higher than the rate of margin in the wholesale trade of the European Union. This points out to "breakdown of trends" in trade of the Republic of Serbia. At the same time the rate of margin in retail Republic of Serbia is almost at the same level or even slightly lower than the rate of margin in retail sales in countries with developed market economies. Therefore, for instance, the margins in specialty food stores in the European Union is 23.1% and in the Republic of



17.76%.²⁵³ The causes of these high operating costs are caused by a number of brokers in the wholesale, increasing competition in the retail and "fragmentation" of retail network. Add to this the fact that the trade of the Republic of Serbia, in the context of financial reporting, categorization of the sector performs according to "principle of prevalence". The fact is that in the wholesale trade, retail done partly too. Similarly, in retail trade is done mostly in the wholesale. The car trade is done often in wholesale and retail. The production is also partly carried out the wholesale and retail. This certainly reflects the "realistic" presentation rate margin from the sales price and the total trade by some of its sectors. This means that the rate of margin selling prices in wholesale trade, and contains part of the margin rate of sale price. The rate of margin from the sales price, the retail trade includes the work rate and margin of the selling prices in wholesale. The consequences are that the real rate of margin from the sales price at the wholesale is somewhat lower, and in retail trade over those stated here. This fact should certainly be considered in the final grade high rate of margin selling price trade of Serbia in relation to the rate of margin trade of the European Union and other countries with developed market economy. Comparative analysis thus shows that the rate of gross margin in the wholesale trade is higher, and in retail trade lower here in comparison to the situation in the European Union. Excessively high rate margins in wholesale trade are affected that the cumulative margin of total trade of Serbia is slightly higher than the rate of margin in total trade of EU countries. Investments in fixed assets per employee in the trade of the Republic of Serbia are several times less than in the European Union. Investments per employee in the trade of the Republic of Serbia in relation to investment per employee in the trade of the European Union are on average three times less. Therefore, for example, investment per employee in retail trade of the Republic of Serbia amounted to about 1,800EUR, and in retail trade of the European Union 3,200EUR. The inflow of foreign direct investment in the trade of the Republic of Serbia is very low (range is 7 - 9% of total foreign direct investments). This is far less than the share they had in the first transition phase of almost all the countries of Southeast Europe. The increase in foreign direct investment can be achieved by intensive arrival of foreign retail chains into the market of the Republic of Serbia. A prerequisite for this is the liberalization of markets through the accelerated procedures for issuing building permits and other processes through the "opening" of the local market. Trade of the Republic of Serbia regarding the use of favorable loans to finance the basic (and current) assets in a very unfavorable position in relation to trade in countries with developed market economies. The fact is that bank interest rates are higher here than in other EU countries. Turnover ratio of trade receivables is higher than the ratio of trades in accounts payable. Hence the average time to collect receivables from customers is shorter than the average time of payment in accounts payable (expressed in days), both in total trade, and by individual sectors. The amount of debt to suppliers is greater than the amount of stock in the market, especially in retail trade. Bearing in mind all this, the trade of the Republic of Serbia is characterized by suppliers finance stocks, and even to some extent, its current

²⁵³ <http://webzrs.stat.gov.rs/axd/index.php>



operations. This means that our retailers do business with someone else's goods and, in its essence is of the commission type, in terms of financing inventories. If the shop used a very expensive bank loans to finance inventories and overall business, instead of "free" credit from suppliers, it would certainly affect the rates that retail margins were much higher than actual, as compared to the rate of margin retail in countries with developed market economies (European Union). Liquidity of trade of Serbia is not satisfactory. Current ratio shows a company's ability to meet its obligations. It is calculated as follows:

$$\text{General liquidity ratio} = \frac{\text{Current assets}}{\text{Short-terms liabilities}}$$

Current liquidity ratio shows with how much dinars of current assets are covered each dinar of short-term obligations of companies. Standard for most companies is that general liquidity ratio is greater than 1. In essence, trade of the Republic of Serbia has practically lost its net working capital. Net working capital is calculated as follows:

$$\text{Net working capital} = (\text{Inventory} + \text{Accounts receivable, investments, placement, and cash}) - \text{Short-term liabilities}$$

Net working capital is a part of own and borrowed long-term capital used to finance current assets.

Net working capital in all branches of trade of Serbia is very low, and in retail trade negative. That means that the working capital as a whole is financed from short-term sources of funds. For these reasons, as already noted, many commercial entities in their buildings keep goods virtually financed by suppliers. Therefore, the „own“ balance inventories is extremely low. In practice this means that the current assets of retail trade in general financed from short-term sources of funds, and not in accordance with the fundamental financial regulation: the permanent working capital (stocks) should be financed from long-term sources of funds for permanently held for continued sales. According to this indicator, retail trade is illiquid. In terms of liquidity, it is disadvantage compared to other sectors of the trade of Serbia. The outstanding problems of lack of working capital are partially resolved and collection of receivables classical barter (goods for goods), or delay settlement of obligations to suppliers of goods and services. Financial indebtedness is high due to adverse economic circumstances of trade of the Republic of Serbia in relation to acceptable „industry standards“. Own participation in the total capital in 2006 was 45.1% of total trade, 46.6% of wholesale trade, 41.4% of retail trade and 36.5% of vehicles. It is, therefore, the highest for wholesale and very lowest in the shops by car. Level of total debt is an indicator of capital structure. It is calculated as follows:



$$\text{Level of total indebtedness} = \frac{(\text{Long term liabilities} + \text{Short term liabilities})}{(\text{Capital} + \text{Long term reservation})}$$

This indicator gives us information on the relationship of debt and equity. As is the indicator is bigger, bigger is the share of debt, which is a higher risk for lenders.

Table 1.: Indicators of the assets and capital structure

Indexes	2008	2009
1. General liquidity ratio		
Retail trade, without cars	0.9	0.8
Whole trade and mediating	1.1	1
2. Own capital ratio		
Retail trade, without cars	0.3	0.3
Whole trade and mediating	0.3	0.3
3. Borrowed capital ratio		
Retail trade, without cars	0.7	0.6
Whole trade and mediating	0.7	0.7
4. The level of total indebtedness		
Retail trade, without cars	2.3	2
Whole trade and mediating	2.6	2.5

Source: Ministry of Trade and Services

In terms of business, trade of the Republic of Serbia realize very low rate of gross profit (gross profit margin rate) from the sale. Gross profit margin shows how much total revenue the company retains the form of profit before tax, ie. gross profit.



Realized margin in these percentages shows that the company, after covering production costs, remain above percentages of income to cover the overhead costs of administration and sales and financing costs, and ultimately to achieve profits. This indicator is crucial because it helps with the implementation of measures to rationalize the cost as an indicator for comparison with other companies that perform the same activity. Observed indicator of the profitability of trade is following by sectors: wholesale trade of the European Union was 5.4% in Serbia and 4.1% in retail trade in the European Union was 7.4% in the Republic of Serbia -1.9% and trade vehicles in the European Union was 5.8% and 1.5% of the Republic of Serbia. As a result of the rate exhibited indicators of net income from total capital in the trade of the Republic of Serbia is very low. It shows that the trade of the Republic of Serbia is non-profit - with very low earning capacity, especially compared with the trade of countries with developed market economy. This conclusion is indicated by the low share of net income to income from the sale of goods (by 3.0% of total trade, wholesale trade 4.1%, retail trade -1.9% and 1.5% of vehicles). Rate of return on equity as a true measure of profitability in the trade of the Republic of Serbia is 7.66%, in wholesale trade 9.65%, to trade vehicles and 6.53% in retail trade -5.31%. The above rates are significantly lower in the trade of the Republic of Serbia in relation to trade in the European Union, where on average is between 15% and 20%. This is particularly true of retail in Serbia that even realize a negative rate of return, which is not the case in any country of the European Union. Certainly, then, that in terms of profitability is in the worst position. The ratio of the operating expenses and operating income was in 2006 for: total trade 0.97, 0.96 wholesale trade, 0.99 of retail, and 0.99 of trade vehicles. Coefficient greater than 1 indicates a loss in less than 1 a business profit. Accordingly, the economy trade of Serbia is very low. It is only negative in the retail trade and vehicle trade. Coefficients of inventory turnover and total assets turnover are relatively satisfactory. It should be noted that the stock in trade of the Republic of Serbia are „undervalued“, the same applies to the total assets of trade. For a number of years under-investment in the trade of the Republic of Serbia is occurring, so the level of written-off fixed assets is high. Hence, inventory turnover and total assets are shown as „unreasonably accelerated.“

Table 2. Indicators of efficiency and profitability of turnover

Indicators	2008	2009
1. Return on equity		
Retail trade, without cars	- 7.80%	- 0.20%
Whole trade and mediating	9.10%	3.70%
2. Economy		
Retail trade, without cars	1	1



Whole trade and mediating	1	1
3. Total asset turnover ratio		
Retail trade, without cars	1.2	1.3
Whole trade and mediating	1.4	1.1
4. Turnover ratio of receivables		
Retail trade, without cars	9.5	10.2
Whole trade and mediating	4.9	4.2
5. The average time to collect receivables from customers		
Retail trade, without cars	38.4	35.8
Whole trade and mediating	74.5	86.9
6. Turnover ratio in accounts payable		
Retail trade, without cars	3.4	3.3
Whole trade and mediating	3.1	2.7
7. The average time of payment obligations to suppliers		
Retail trade, without cars	107.4	110.6
Whole trade and mediating	117.7	135.2
8. Inventory turnover ratio		
Retail trade, without cars	6.2	6.5
Whole trade and mediating	6.1	5.5
9. Working capital turnover ratio		
Retail trade, without cars	2.6	2.8
Whole trade and mediating	2.1	1.8

Source: <https://www.informacionisistemtrgovine.gov.rs>



The limiting factor of large investments in the trade of the Republic of Serbia in the previous period is severe lack of own resources and expensive foreign sources of funds. This is also the fact that in the structure of financing investment in fixed assets in the trade of the Republic of Serbia in 2005, financial loans participated in: the total trade with just 3.63%, in wholesale with 2.36% and in the retail trade with 20.44%. Trade of the Republic of Serbia, as already mentioned, regarding the possibility of using soft loans to finance the basic (and current) assets in a very unfavorable position in relation to trade in countries with developed market economies. For these reasons, material - technical equipment of the trade of the Republic of Serbia is very low.

RESUME

The global conclusion is that business performance of trade of the Republic of Serbia is unsatisfactory. It is therefore necessary that through more efficient management revenues, costs, profits and capital employed, significantly improve the overall performance of trade of the Republic of Serbia in the future. It is certain that the services trade of the Republic of Serbia at a lower level than in developed market economies. Hence, in relative terms, are much more „expensive“ than the trade services of other countries, primarily due to lower productivity, inappropriate („chain“) structure of channel marketing (turnover) and a low degree of competition in the market.

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VERBAL AND NON-VERBAL COMMUNICATION IN BUSINESS AMBIENCE

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Abstract:

Communication is an information exchange process which can take place between individuals, individuals and different groups, as well as among different groups. It can be verbal (oral and written) and non-verbal. Verbal communication is symbolic and the symbols are words. The use of words gives the best results except when certain body language elements can communicate better than the words. If the words are used inappropriately, verbal communication can be unsuccessful, even destructive. Moreover, non-verbal communication reflects an individual's opinions and emotions through body language, gestures, tone of voice and facial expression. Non-verbal signals usually more accurately show our true feelings than words do. Gestures are usually used to emphasize the meaning of the words. Body language (stance or posture, facial expression and mime, gestures and voice) usually reflects the speaker's attitudes and emotions, but it is not universal for all peoples. For example, while talking, the Americans and the British stand at an arm's distance, Asians stand at an even greater distance, while people from the Middle East stand closer and often touch the other person. In addition, in order to make a positive impression in communication, you should maintain eye contact, smile, nod and, from time to time, use words to substantiate the nod. Finally, sometimes only one word or one look can be sufficient to convey a particular message. The elements of non-verbal communication can say more than the words themselves.

Key words:

verbal, non-verbal, communication

INTRODUCTION

Generally, communication involves data or information transmission through particular symbols. Also, communication is an information exchange process during which a sender



delivers a receiver a message which is mutually understood.²⁵⁴ There is communication when there is understanding, and communication continues when there is feedback.

Communication is an information exchange process which can take place between individuals, individuals and different groups (categories, communities, organizations, institutions) as well as among different groups. It can be verbal (oral and written) and non-verbal.

Communication skills are commonly believed to be speech and writing. However, there are a few ways of communication:

- Written communication – letters, reports, e-mails, fax;
- Oral communication – meetings, telephone calls, speeches, teleconferences;
- Non-verbal communication – eye contact, facial expression, appearance;
- Active listening – highly concentrated listening, listening for information.

In any type of communication it is necessary that we state the purpose of communication, the audience that the message is aimed at and the message content.

Both in life and business listening represents one of the main means of interaction with other people. The lack of communication in business results in unnecessary problems within a company (lack of information, corporate losses, low moral level of the employees, mistakes, conflicts, stress) whereas effective listening contributes better working environment, more efficient problem solving and decision making, it improves human relations and reduces number of mistakes and conflicts. Usually it is the speaker who is blamed if the message is not conveyed well. In practice the problem may lie in the person who receives the message (receiver). The receiver may have heard the speaker but he/she was not listening to him/her. The key to effective listening is becoming an active listener – focus both on the speaker and his message.²⁵⁵

VERBAL COMMUNICATION

Human communication is based on symbols and the most important symbols are words. Symbolic communication is called verbal communication. Since it is realized through words, all

²⁵⁴ Prof.dr Ranko Lončarević, Komunikacija, presentation.

²⁵⁵ Marilyn L. Satterwhite, Judith Olson-Sutton, Business Communication at Work, McGraw-Hill International edition, 2007, p. 6.



kinds of messages can be conveyed. The use of words gives the best results except when certain body language elements can communicate better than the words. Verbal communication is successful when the right words are used right and in the right time. Otherwise, verbal communication can be unsuccessful, even an instrument of destruction. In addition, words can be conveyed through oral and/or written form.²⁵⁶ Oral communication can be a very powerful tool. Words can amuse, inform and persuade both in public (lectures, speeches) or less formal situations (business meetings). Historians remind us of the famous statements which characterized an era or a nation:

Anger and intolerance are the twin enemies of correct understanding.

Mahatma Gandhi

I have a dream that my four children will one day live in a nation where they will not be judged by the color of their skin but by the content of their mind.

Martin Luther King, Jr

The mass media recognize the power of words. A good citation can make a good story. Journalists know that readers love the citations which give authenticity to an uninteresting or complex issue.²⁵⁷ On the other hand, written communication is more explicit. It can be re-read several times so that the message could be understood properly. Even though a written message is less emotional, the sender's sincerity and intention are revealed by the vocabulary, sentence structure, punctuation marks and grammar.²⁵⁸

NON-VERBAL COMMUNICATION

It is estimated that 80-90% of communication belong to non-verbal communication. It reflects an individual's opinions and emotions and it is demonstrated through body language, gestures, tone of voice and facial expression.²⁵⁹

Non-verbal messages

²⁵⁶ Prof.dr Ranko Lončarević, Komunikacija, presentation.

²⁵⁷ Bonnye E. Stuart, Marilyn S. Sarow, Laurence Stuart, Integrated Business Communication in a Global Marketplace, John Wiley & Sons, Ltd, England, 2007, p. 118/119.

²⁵⁸ Ibid, p.108.

²⁵⁹ Prof. dr Rada Plavšić, Neverbalna komunikacija i bonton, presentation.



Communication problems occur when the spoken words do not match the speaker's tone of voice or body language. Non-verbal signals usually more accurately reflect our true feelings than words do. When words and non-verbal signals do not match, people tend to doubt the word and believe the body language. We often use gestures to emphasize what we are talking about. Table 1 shows some of the most common ways in which we communicate non-verbally, as well as the meaning or interpretation that may be associated with those actions or behaviors:

Table 1: Interpretation of non-verbal messages

Nonverbal communication	Interpretation
Energetic, upright gait	Stability; ambition
Relaxed hands	Openness
Hands crossed on the chest	Defensiveness
Talking with gesticulation	Dedication, openness
Hands behind the head	Superiority, control, power
Negative facial expression / frown	Rejection
Tense body	Concern; fear
Body inclined forward	Interest; attention
Leaning on the elbows	Boredom
Shifting in the chair	Insincerity; boredom
Good eye contact	Interest
Eyes turned downward	Insincerity
Failure to maintain eye contact	Nervousness, the person is not trustworthy
Smile	Openness, acceptance



Head tilted to the side	Interest; openness
Nod in approval	Interest; agreement, understanding
Shrugging	Indifference
Yawning	Boredom
Tapping one's fingers on the desk	Impatience
Nail-biting	Uncertainty, anxiety
Pointing the finger	Aggressiveness; anger; guilt

The table was taken from Marilyn L. Satterwhite, Judith Olson-Sutton, Business Communication at Work, McGraw-Hill International edition, 2007, p.77

Body language

Body language (stance or posture, facial expression and mime, gestures and voice) usually reflects the speaker's attitudes and emotions. When we face someone's negative body language, we should bear in mind that it may have nothing to do with the message, but with the fact that the person is simply tired or preoccupied with other things. Furthermore, it is important to know that most gestures and non-verbal elements of communication are not universal to all nations. Table 1 applies to people from the United States. For example, the sign for 'Okay' (when we form a circle with the thumb and the index finger) in the United States means acceptance, in other countries it may mean the opposite or even something slightly obscene. Also, body language is different in different cultures. While talking, the Americans and the British stand at an arm's distance, Asians stand at an even greater distance, while people from the Middle East stand closer and often touch the other person. Moreover, to make a positive impression in communication, you should maintain eye contact, smile, nod and, from time to time, use words to substantiate the nod. You should eliminate the behavior that has a negative connotation. It is important that non-verbal actions be appropriate and sincere. Even positive gestures can become negative if they are exaggerated or insincere.²⁶⁰ Very often one can talk for hours or send hundreds of text messages but the audience still do not understand what it is all about,

²⁶⁰ Marilyn L. Satterwhite, Judith Olson-Sutton, Business Communication at Work, McGraw-Hill International edition, 2007, p.78.



whereas sometimes only one word or one look can be sufficient to convey a particular message. The elements of non-verbal communication can say more than the words themselves.²⁶¹

Five suggestions for giving presentations around the world

During a presentation given to the international audience, fluency of speech can vary greatly.

1. Speak slowly and clearly. The international audience are often complaining that the English speak too quickly. So, one should articulate each word carefully, emphasize consonants for clarity and often make a pause.
2. Repeat the main words and phrases. When the audience are not very familiar with the language of the speaker, they need to hear the important information several times. Also, they may not be familiar with many synonyms, so the key information should be repeated in the same way.
3. Clarity. The speaker should keep his message simple and eliminate complex sentence structures, abbreviations and acronyms (for example, phrasal verbs replace with regular verbs: review rather than look over). Also, idioms should be avoided (eg, 'very rarely' instead of 'once in a blue moon') because the international audience are usually unfamiliar with them.
4. Communicate with body language. Verbal information should be emphasized and clarified by gestures and facial expression (eg. smile so that positive aspects of the uttered words would be emphasized and use gesticulation to stress the meaning of the words such as: up, down or under.
5. Support the oral message with visual means. For most of the audience visual messages support and clarify spoken words. In order to eliminate problems with rapid speech, unclear pronunciation or accent, the speaker should prepare titles and subtitles both in English and in the native language of the audience.²⁶²

Here are some rules for conducting business negotiations

- Preparation for business communication

Nothing is achieved at once. Success takes time, work, self-denial, motivation. The idea is the initial step in any business. This is followed by the problem dissection, solutions and result simulation. The problem that has been worked on for months can be presented in a few seconds.

- Personality of the negotiator

²⁶¹ Courtland L. Bovee, John V. Thill, Business Communication Today, Pearson Prentice Hall, 2008, p. 10.

²⁶² Thill John V, Courtland L. Bovee, Excellence in Business Communication, Pearson Prentice Hall, p.463.



Business discussions can only be led by the person who possesses the necessary knowledge, physical balance and who is mentally free from any problems.

In addition, a business person leaves nothing to chance – he/she always plans.

- Availability of information

Collecting and sharing the information are the concerns of every business person. He/she does this before, during and after a business discussion. A wise business person is the one who listens rather than speaks. He/she is able to get an appropriate image of the business partner and decide on the subject of the negotiations simply by the walk, appearance, posture, clothes, gestures and other signals from his/her counterpart.

- Scenario - a draft of the business talks

For every business conversation a manager prepares a draft.

- Culture of speech and communication style

Speaking style, timbre, tone, diction or the use of the electric devices (projectors, screens, etc) significantly influence the credibility of what is displayed, as well as its readability.

- Respect

A business person shows respect to any business partner regardless of age, gender, education etc.

- Quality of being interesting and the flow of communication

In business communication, to be interesting does not mean to be funny. Instead, an interesting business person proposes serious pieces of information explaining them on concrete and colorful examples.

- Promise

An important rule, both in life and in business, is: do not make promises that you cannot fulfil. Light promises have an adverse impact on the counterpart.

- Objectives

A good manager knows that a successful business meeting cannot be run if one has not precisely defined the objective previously.²⁶³

²⁶³ Videnov A, Nikolić L, Poslovne komunikacije, Viša poslovna škola u Beogradu, 1995, p. 81.



CONCLUSION

Nowadays the speed of life is extremely high. In addition to that, there is a constant need for decision-making while you meet many strangers. Therefore, the knowledge of non-verbal communication can be very useful because you get the opportunity to assess people better and more easily. It is very important to pay attention to both your and the other party's non-verbal communication. Since non-verbal communication takes the lion's share of the transfer in the communication process it represents the key to successful understanding among people.

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PUBLIC MANAGEMENT AND QUALITY OF CORPORATE GOVERNANCE – INTERNATIONAL AND DOMESTIC EXPERIENCES

Nada Vignjević – Đorđević²⁶⁴, Borisav Radević²⁶⁵

Abstract:

The contemporary view of corporate governance cannot be done without consideration of important phenomena and relationships that crystallized the practice of developed countries. Those are the rule of law, institutional development, and contract defining the relationship of the corporation, the protection of property rights, discretion of managers, and the agency problem.

Keywords:

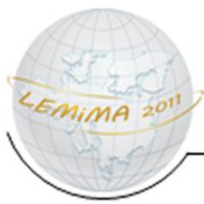
corporate governance, institutional infrastructure, protection of minority shareholders

CORPORATIVE MANAGEMENT AND EFFECTIVE INSTITUTIONS

Economic performance of companies depends on the mechanisms of corporate governance and legal protection of shareholders, ownership structure, the identity of large owners, decisions that can be made at the general meeting of shareholders, corporate organizational structure, composition, management and supervisory boards, management participation in the capital of the company's competitive position and financial policy firm. A necessary precondition for the proper functioning of corporate governance and capital market is stable legal system in the country and development institution. The transition conditions is necessary to ensure compliance model of privatization and regulation of capital markets, with an effective investor protection in practice, lead to the development of capital markets, cheaper access to capital and growth and development of privatized companies. The problem of corporate governance derived from the imperfections of information and the nature of a public character control managers: When a shareholder engages in oversight of management will have cost, but if the

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result of effective monitoring to improve performance of the firm, all shareholders will benefit. This problem is known as the natural position of so-called "free rider", and it is very serious, especially in large open corporations in emerging markets. There are also monitoring costs incurred by the principal, agent spending limit and residual losses. Cost of principal due to the monitoring does not include only the costs of monitoring and evaluation of agent behaviors, but the cost of the entire effort of principal the control agent in the availability of the resources corporations, compensation policies, policy enforcement, and other activities. The divergence of interest and principal-agent occurs when monitoring costs increase due to the need to limit unnecessary costs of agent. Namely, the agent will be paid to use the funds (to limit the charges) if guarantees that they will not take action that may be harmful to the principal. Residual losses are the lost potential benefits because it cannot provide the perfect incentive in circumstances where it is impossible to observe the activities of agents. The owners of corporations use different mechanisms of control or management in order to limit the discretion of managers. The economic literature identifies internal and external control mechanisms of corporate governance. (1) Internal mechanisms are networked in the organization and distribution of corporate power is related to the ownership and management-executive structure. (2) In addition to internal, there are stronger external influences that can lead managers to operate in the interests of shareholders. These are external mechanisms monitoring the capital markets and legal and institutional system of the country. Competitiveness in the market, for example, provides the exclusion from the market (bankruptcy) of firms whose managers do not operate in the interests of the corporation. These managers lose their jobs. Discretionary behavior of managers will be limited by the action of an active market for corporate control. If managers start to act discretionary, the company stock price will fall, and lead to a takeover of the company, and thus replacement of inefficient management. Thus, while managers can maintain considerable autonomy in day-to-day operations of the company, the stock market restricts their behavior. If the share capital of the firm **is concentrated** in the hands of a few **investors**, each investor will have plenty of private (personal) inducement to invest in information gathering and monitoring management. In addition, a large percentage of the share capital has the potential to increase control over management through two mechanisms: voting rights and certain rules and capable regulatory body to adequately interpret and enforce legal rules. **Regulation is efficient way to protect property rights.** While the costs of signing these contracts are equal to zero, individuals do not need the law because they will always have an interest to negotiate. However, the literature can be find a clear framework for thinking about making a contract, which raises many important issues such as international corporate governance and privatization. However, the real question is how to enable the private sector to enter into effective contracts in an easier manner. This can be achieved only by clear legal rules that will become a support to capital and other markets. **Strong legislation is an important prerequisite for quality corporate governance. Effective institutions reduce transaction costs.** Idea of firm as a legal creation in a form of connection between a set of contractual relations between individuals to minimize agency costs between shareholders and managers. Principals (**shareholders**) are taking the risk, transferring the right to decide on an agent. However, shareholders have complete freedom to sell their shares without any obligations to



other owners, resulting in more effective management control (no competition in the firm and out of it). This situation is actually a justification for hostile takeovers, or **"market for corporate control."** The importance of this approach is that before them a fundamental difference between corporate governance and management of common agreements did not create. Agency theory deals with such intent *ex-ante* agreed incentive mechanisms to reduce agency costs due to moral hazard agents, which represent the possibility of preventive action. **Quality of institutions is an important component of the markets functioning effectively.** Market activities include human interaction; they exist to reduce the risk of uncertainty that is caused by incomplete information about the behavior of other individuals. Institutions can operate through numerous channels: reducing information asymmetry channeling information on market conditions, products and participants, reduce the risk by defining and implementation of property rights and contracts, limiting the activities of politicians and various interest groups, making them responsible citizens. Therefore, institutions realize a significant influence on economic activity. In addition, strong financial institutions are the foundation of successful capital markets, and ultimately create wealth and a healthy economy. The absence of effective institutions has a disastrous financial impact on the economy and the social cost countries. The institutions of corporate governance can be defined as the rules governing control of corporate resources.²⁶⁶ They include traditional mechanisms of corporate governance, product market institutions (regulators responsible for competition), the institutions of labor, capital markets and financial intermediaries and the judiciary.

Thus observed set of institutions affects growth and development in one country, while creating conditions for attracting private investment, integration into international trade flows, increase equity, reduce political instability, ethnic conflict, management and implementation of other policies. System of corporate governance in a country include formal and informal rules of conduct, accepted practices and enforcement mechanisms, whether private or public, that with common interact successfully controls corporations ("corporate insiders"), on the one hand, and all others who may invest.

However, many authors conclude that empirical findings depend on selected research methodology. At the same time, emphasize that the theory of corporate governance is underdeveloped. The existing theory of corporate governance is a collection of partial hypotheses that individually express the variables. There is little debate about how to operate a wider set of interaction mechanisms, which are relevant variables for two-way causality, and how balance for an optimal set of corporate governance mechanisms could look. Table of corporate governance mechanisms (Table 1).

²⁶⁶ World Development Report 2002, Building Institutions for Markets, The World Bank, Washington, str. 55, 2002.



Table 1.: List of corporate governance mechanisms

CORPORATE GOVERNANCE MECHANISM	
INTERNAL MECHANISMS	EXTERNAL MECHANISMS
1. Shareholders The concentration of ownership; Insider ownership; Role of large block-holders; Issue of protection of minority shareholders; Struggle for representation, Type of the owner, Shareholder activism, Lawsuits and litigation;	1. Regulatory Framework Legal and institutional system of the country; Stock Exchange; Commission for the Securities; Legal framework; Judicial system, Public sector
2. The Board of Directors Board structure (board at one, or two levels); Activity Board, Board independence, board size;	2. Market Market supply of corporate output; The market for corporate control; Labor market; Competition on the markets, Hostile takeover, The threat of bankruptcy;
3. Management Building a manager's reputation, Fiduciary duty of manager, Manager market, Internal competition of managers, system of compensation;	
	3. Other external mechanisms Market intermediaries (brokers and investment advisers); Business associations; International institutions; Media and social control; Rating agencies

Sources: Berglof Erik, Stijin Claessens, **Corporate Governance and Enforcement**, World Bank Policy Research Working Paper 3409, September, str. 10, 2004; Øyvind Bohren Bemt Arne Odegaard, **Corporate Governance and Economic Performance in Norwegian listed firms**, Norwegian School of Management BI, str. 5-10, 2001; Salacuse W. Jeswald, **Corporate Governance in The UNECE Region**, UN/ECE, Geneva, December, str.35-51, 2002; Nandelstadh von Alexander, Matts Rosenberg, **Corporate Governance Mechanisms and Firm Performance: Evidence from Finland**, Working Paper 497, Swedish School of Economics and Business Administration, 2003.

CONTEMPORARY TRENDS OF CORPORATE GOVERNANCE IN THE WORLD



A large number of international organizations and institutions, in recent times, started to study corporate governance. Apart from these, many nongovernmental organizations, corporations, business associations, and investors also explored the relationship in corporations. International institutions dealing with the phenomenon of corporate governance are OECD, World Bank,²⁶⁷ MIGA, IFC²⁶⁸, International Chamber of Commerce, European Commission,²⁶⁹ UNIDO, and UNCTAD. According to the report, prepared by the Working Group of the Economic Commission for Europe, the United Nations²⁷⁰, the OECD is one of the most important international institution dealing with improvement in all segments of corporate governance (institutional, legal and regulatory structure), as well as creating a business environment of corporations. In cooperation with the World Bank, through the organization of the WB/OECD Global Forum on corporate governance,²⁷¹ these institutions are engaged in improving corporate governance around the world. The World Bank mostly deals with the issue of implementation of various strategies. IOSCO is an institution that the emphasis of its activities directs mainly to regulatory aspects of studying securities.²⁷² Important institution is the European Commission, which regulates the area of corporate governance across the European Union. Other international institutions, with varying results, mostly dealing with specialized areas of corporate governance, which are is different. The main objective of the Organization for Economic Cooperation and Development (OECD) is that, through the Global Forum on Corporate Governance, ensure improvement of standards of corporate governance and, in particular, to ensure their application in developing countries and countries in transition, then the development of entrepreneurial spirit, improved accounting, ensuring transparency, accountability and integrity in business. It realizes these goals through various forms of political dialogue convening conferences on corporate governance and organization of round tables on national and regional levels.²⁷³ They can be applied in countries with "civil law" and "common

²⁶⁷ OECD, Organization for Economic Cooperation and Development, Više informacija na adresi: www.oecd.org. WB, World Bank, Više informacija na adresi: <http://www.worldbank.org>. IFC, International Finance Corporation, Više informacija na adresi: <http://www.ifc.org/>. European Commission, Više informacija na adresi: http://europa.eu.int/comm/index_en.htm i http://europa.eu.int/comm/internal_market/company/index_en.htm.

²⁶⁸ WB/OECD Global Corporate Governance Forum. Forum je osnovan na osnovu potpisanog Memoranduma o razumevanju između OECD-a i Svetske banke (Memorandum of Understanding between World Bank and the OECD), Više informacija na adresi: www.cgcf.org. Posebno su značajni okrugli stolovi o unapređenju korporativnog upravljanja u Rusiji, Jugoistočnoj Evropi, Latinskoj Americi i Aziji.

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law" legal tradition, at different levels of ownership concentration. International organization whose focus is to help corporate management in industry and statistics as a part of policy segment, "A competitive economy - make industry more efficient." The main areas of research **IFC/MIGA** are the development of entrepreneurship and the efficiency of private investment, as developing of suitable business environment. The intention is to integrate environment, corporate and social governance and to provide that problems in corporate governance is not possible to inhibit investment. These goals are achieved through the transfer of knowledge and ensuring financing private sector projects with good corporate governance, research, and consulting. They do not have a primary activity, strong competitiveness in the projects and ensuring the elements of corporate governance. Therefore, the study of various aspects of corporate governance is in the initial stages of development, with no single international organization covering the area of corporate governance with a clear vision in its entirety and in all its segments.

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ЗНАЧЕНИЕ ДЕСТИНАЦИОННОЙ КОНЦЕПЦИИ СОЗДАНИЯ МАТЕРИАЛЬНОЙ БАЗЫ ТУРИЗМА ОТНОСИТЕЛЬНО СЕЛЬСКИХ МЕСТНОСТЕЙ²⁷⁴

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Резюме:

Современные экономические анализы и исследования используют теорию систем для объяснения и анализа сложных общественных явлений и процессов. Если общепринятое определение системы определяет систему как "совокупность взаимозависимых, взаимосвязанных частей или элементов, которые вместе составляют определенное функциональное целое", тогда туристская дестинация как подсистема в рамках туризма как системы имеет центральное значение. Элементы системы выполняют основные цели, если они функционируют по принципу синергии. В практике существуют различные системы: туристская, экономическая, хозяйственная, политическая и т. д. в зависимости от критериев классификации. Дестинационный подход к развитию туризма, если он сводится к административно определенным пространствам, по своей сути не отличается от национального подхода, регионального или континентального, в то время как пространственный критерий – уже. Сегодня все более говорится о дестинации как основной единице развития туризма, что навязывает необходимость введения дестинационного подхода в управление и планирование развития туризма. Когда речь идет о планировании развития туризма в новой туристской дестинации, то мы в первую очередь исходим из функций и функциональных ролей элементов, на этом запланированном пространстве, исторически или административно не определенном.

Ключевые слова:

дестинационная концепция, дестинация, развитие

²⁷⁴ (Работа является частью исследования в проекте: "Развитие и применение новых и традиционных технологий в производстве конкурентных пищевых продуктов с дополнительной ценностью для отечественного и мирового рынка – Давайте создадим богатство из богатства Сербии", МНТР РС, номер 046001.)



ДЕСТИНАЦИОННАЯ КОНЦЕПЦИЯ СОЗДАНИЯ МАТЕРИАЛЬНОЙ БАЗЫ ТУРИЗМА, ОТНОСИТЕЛЬНО РАЗВИТИЯ СЕЛЬСКИХ МЕСТНОСТЕЙ

Опыт в практике показывает, что дестинацию надо определить и сформировать с позиции рынка, а с позиции администрации гораздо реже. Предположение, что туристская дестинация – система, содержащая различные элементы, осложняет сам процесс создания материальной базы и развития туризма. Создание материальной базы и развитие туризма предполагает согласование многочисленных элементов, посредственно или непосредственно участвующих в образовании туристской системы дестинации. Дестинационная концепция создания материальной базы и развития туризма охватывает все элементы системного подхода, так как она осознает дестинацию в качестве системы с территориальной позиции, объединяющей различные ресурсы с субъектами в взаимных интерактивных отношениях. Существуют области с здоровой природной средой, интересными антропогенными ценностями, развитие туризма в которых имело бы более масштабные эффекты, но у них нет соответствующей материальной базы, а особенно нет ее коммуникационной части, являющейся препосылкой для организации туристического предложения. В качестве примера зависимости туристического предложения или развлечений, предлагающихся туристам в сельских местностях, от материальной основы, можно привести Новую Зеландию. *Туристическое предложение в сельских местностях Новой Зеландии охватывает ночлег с завтраком в подлинной обстановке, затем проживание в течение выходных, недели или нескольких недель, заполненное разными программами. Особенно интересным для туристов является участие во всех деятельности крестьян. Фермеры чрезвычайно настроены принимать туристов, ибо, как указывают исследования, они испытывают большую потребность в ознакомлении с новыми нациями и культурами (Pnadžić, 2000, 102-103).* Среди видов развлечений, больше всех присутствует спорт, в зависимости от удобства местности, водные виды спорта (гребля, рафтинг), велоспорт, охота, прогулки по идиллическим деревенским окрестностям, альпинизм, верховая езда и т. д. Выше упомянутые сельские фермы – основа сельского туризма в Новой Зеландии, Уэльсе, Ирландии, в то время как в Германии и Австрии сельский туризм упор делает на хижины, в Воеводине большую важность для развития сельского туризма имеют хутора, в Сербии есть интересные горные хижины и дома скотоводов (области Пешер и Рашка), а в Черногории (область северной Черногории) есть интересные горные хижины, древние деревенские дома с оснащением и орудиями, созданными до Первой мировой войны, подтверждением обычаев и образа жизни. Сербские примеры, подобные упомянутым – общины Драгачево, Валево, Книч, Косьерич и т. д. *Зачатки туризма, как коммерциализация традиционного гостеприимства на сербской деревне, отмечены в семидесятые годы двадцатого столетия в общинах Драгачево, Крагуевац, Лиг, Валево, Косьерич, Книч и других (около шестидесяти мест), с 4 000 койка-местами. В начале предложение сельского туризма было ориентировано на отечественных гостей, но все более новые виды сельского туризма параллельно начинают привлекать и иностранных туристов (смотр. Turizam u selima Srbije, Turistički savez Srbije, 1992).*



Материальной базой в упомянутых, и подобных примерах, ревалоризирующей в целях туризма, на самом деле являются инфраструктура и сверхструктурные объекты, созданные с другим назначением (их создавали сельскохозяйственные производители для другой своей деятельности). Значит, весь процесс создания (прогнозирование, планирование, организация, финансирование и принятие решений) осуществляли фермеры или самостоятельные предприниматели, без соответствующего менеджмента и без особой заинтересованности государства. Менеджмент должен эти материальные ценности реавалоризировать и сдать в эксплуатацию туризму. Дестинационный подход к развитию туристической экономики как системы подразумевает туристскую дестинацию как основную рыночно определенную подсистему. Дестинационная концепция развития туристической экономики включает в себя все элементы системного подхода к управлению, так как он стремится к осмыслению дестинации как сложной (под)системы, с определенным пространственным объемом, объединяющей разные ресурсы и субъекты в взаимных интерактивных отношениях. Следовательно, к управлению созданием материальной основы новой туристской дестинации можно относиться и как к составной части управления сложной экономической системой, в которой дестинации представляют собой подсистемы. "Хотя дестинационная система включает все элементы, как и глобальная система, ее ценность в том, что она позволяет более точное (на более низком уровне абстракции) осмысление характеристик явления и характера отношений, которые туризм вызывает в конкретной среде. Дестинация – пространство, на котором возможно развить систему, что отражает реальное состояние в практике, т. е. не обязательно нужна высокая степень обобщения (Dulčić, 2001). Дестинационная концепция развития туризма, в качестве концептуальных и функциональных рамок туризма, как системы, которая воспринимается на уровне дестинации, схематически представлена на диаграмме № 1. Концепция поставлена так, чтобы легко указывать на взаимозависимость динамических, статических и результирующих элементов туристической экономики, и их влияния, со всеми свойствами туристического спроса и туристического предложения. Динамические элементы – главным образом представители спроса, статические – больше на стороне предложения, а результирующие подразумевают эффекты развития туризма на уровне дестинации. Диаграмма показывает сложность туристской системы, происходящую из множества связей и переменных в взаимной интеракции. Взаимная интеракция многочисленных различных переменных является динамическим непрерывным процессом перемен, происходящих как на стороне спроса, так и на стороне предложения в дестинации. Все они указывают и на переменные на уровне более высоком, чем дестинация.

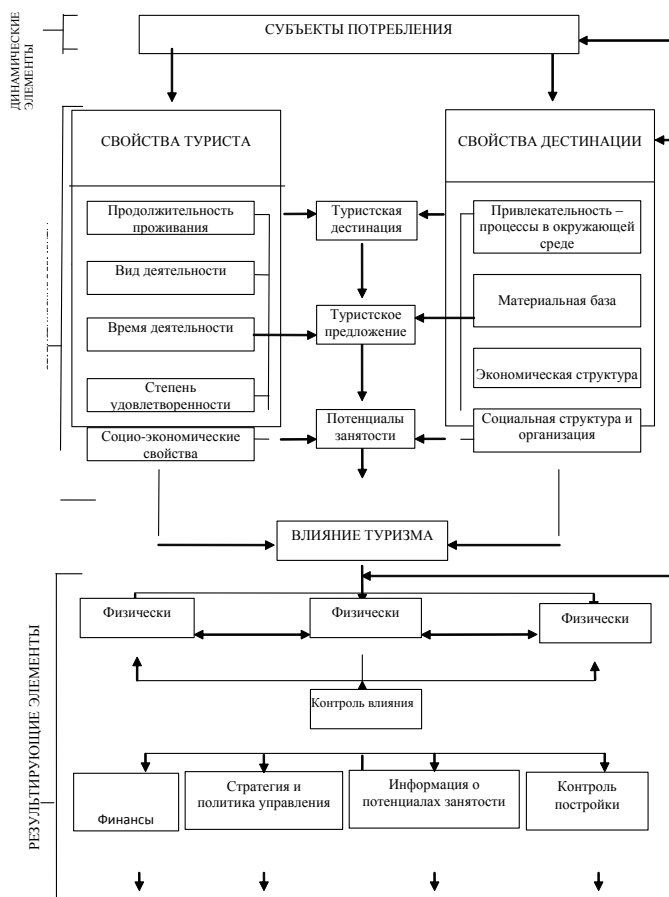
ЭЛЕМЕНТЫ ОРГАНИЗАЦИИ И РАЗВИТИЕ НОВЫХ ТУРИСТИЧЕСКИХ ДЕСТИНАЦИЙ

Преобладание мотивов и природные условия диктуют назначение и саму структуру материальной базы и обуславливают возможный вид туризма в новой дестинации. Факторы привлекательности можем группировать в природные и антропогенные. Там где природные условия – база, созданные, антропогенные условия являются краеугольным

камнем, основным столбом. Создание материальной базы туризма в новой дестинации (развитие дестинации) требует экспертного анализа и оценки нескольких факторов, а именно:

- элементов природной среды: их физиологическую, эстетическую и технологическую ревалоризацию. Задача физиологической оценки чаще всего заключается в утвреждении годности природных условий для проживания, отдыха и развлечения туристов (людей). Психологически-эстетическая ревалоризация имеет своей целью установить эмоциональное воздействие и ценность элементов географического пейзажа, в то время как технологический анализ старается установить возможные формы туристской эксплуатации природной среды и переменные их реализации, выбором оптимальных локаций,

Диаграмм №1. Дестинационная концепция туризма



Источник, Dulčić, A., (2001), *Upravljanje razvojem turizma*, Mate, Zagreb, ctp.121



▪ антропогенных элементов географической среды в целях утверждения степени их туристической привлекательности (городские поселения, археологические раскопки, затем элементы культуры – материальной и духовной). Полный анализ привлекательности этих факторов требует интердисциплинарного подхода, т. е. включение истории искусств, этнологии, этнографии, археологии, социологии и других дисциплин,

▪ географического расположения природных и антропогенных элементов (расположение по отношению к основным элементам географической среды), транспортно-географического расположения (расположение по отношению к главным направлениям туристических перемещений) и степени их концентрации или дисперсии в дестинации,

▪ локации каждого элемента или системы туристской инфраструктуры,

▪ направления, структуры, объема и динамики туристических перемещений, особенно обратить внимание на их типологическую классификацию с позиции динамики и величины пространств, в которых они проявляются,

▪ влияния постройки инфраструктуры и супраструктуры на преобразование формы пространства дестинации,

▪ деградационного воздействия туризма на отдельные элементы природной среды и природных комплексов дестинации и

▪ социально-экономических условий развития туризма в новой дестинации.

Развитие новой туристической дестинации в качестве своей главной цели, цели по себе, должно подразумевать определение стратегических направлений развития туризма в: организационном, материально-техническом, кадровом и делово-политическом (имеется в виду государственное законодательство) отношениях.

Проще говоря, надо профессионально и ответственно предусмотреть, планировать, построить и организовать совокупную материальную и нематериальную базу для развития туризма.

Общие начала интервенции в дестинационном пространстве путем постройки инфраструктуры и сверхструктуры, по нашим теоретическим и практическим сведениям, охватывают в первую очередь:

▪ установление функциональной структуры развлекательных мероприятий и количества объектов в соответствии с требованиями потенциальных клиентов и международными стандартами,



- обеспечение количества и размеров пешеходных зон, затем улиц, разных галерей с интересным ассортиментом в торговых кварталах,
- правила, чтобы все первые этажи будущих жилищно-деловых объектов в центральных частях дестинации были предназначены для коммерческой или некоммерческой деятельности, или обеспечения т. наз. связанного привлечения (взаимодополняющиеся деятельности).

Оформление привлекательных архитектурных комплексов в рамках программы оживления старых городских кварталов (если они существуют) должно проводиться по этапам, где в каждой фазе меры и средства были бы по очереди сосредоточены на одной местности. Восстановление и оживление старых городских кварталов, если они есть, не надо выполнять фронтально, а поэтапно, при чем уже до развернутых работ была бы обеспечена неприкосновенность этих кварталов, снос которых предусмотрен существующими урбанистическими планами. Все большее, непрерывное и разнообразное стремление к оформленным развлекательным просторам и соответствующему номерному фонду в привлекательной среде, на основании сопоставительных преимуществ, определяет и ранг любой туристской дестинации и их иерархической сети. Иерархическая сеть существующих туристских дестинаций (ИСТД), как подмножество общей сети развития туризма, не раз и навсегда дана на привлекательных местностях, которые, само собой разумеется, в значительно большей степени подверженный переменам. Притом, не все местности полностью и в одинаковой степени качественно привлекательны, а с течением времени изменяются и ударения в структуре спроса. Цели относительно больших валютных доходов, как и долгосрочные цели развития туризма в начале 21 столетия основывались на предпосылке гораздо более интенсивной эксплуатации новых дестинаций. Организация туристско-развлекательных комплексов, программ и ряда нематериальных услуг в рамках объединения предложения, включая и значительно более организованное предоставление дополнительных услуг, является важным условием для осуществления заданных целей. Однако, сосредоточивание на упомянутые приоритеты, в старании обеспечить путем их более интенсивного использования рост валютных доходов и совокупных туристических расходов, невозможно без соответствующей материальной базы. Увеличение численности туристов требует введения многочисленных специальных услуг и новшеств в части нематериальной базы, которую рационально организовать только тогда, когда достигнута определенная критическая масса и частотность этой категории посетителей в дестинации. Это относится как к информатике (туристические карты и путеводители, ТВ, газетная и радио информация на иностранных языках, обзор более важных туристических событий, организованная продажа справочного материала), так и к общению в форме организации особых тур по окрестностям, эффективному расставлению знаков, щитов и вех с многоязычными инструкциями и сообщениями, развлечению (обеспечить условия для эксклюзивных развлекательных потребностей) и все предварительно пречисленное опубликовать в сети Интернет. Уровень качества должен соответствовать международным стандартам в оснащенности инфраструктуры и супраструктуры, чтобы



ожидать заметных эффектов от туризма. В качестве существенных, основных элементов (или структуры базовых элементов) туристской дестинации Гунн (Gunn, 1979) выделяет:

- транспортную инфраструктуру,
- привлекательные элементы,
- туристские услуги,
- информационные потенциалы и
- туристов.

В самом начале, т. е. в фазе прогнозирования и планирования пространства, в котором/или на котором развитие новой дестинации было бы организовано, до начала создания материальной базы, следует учесть и следующие элементы:

- географическое положение пространства будущей дестинации по отношению к главным международным туристическо-транспортным направлениям,
- положение будущей дестинации по отношению к главным туристическим дестинациям мира,
- общую экономическую развитость ближнего и дальнего окружения и возможности инфраструктурного связывания с ними.

Однако, многочисленны примеры в мире, такие как концепции мекдональдизации и диснейлендизации, влияющие на изменение поведения (отдельных) туристов, для которых новые технологии (видео, интернет и т. д.) представляют не только подготовку к путешествию, а сам суррогат путешествия, новые формы организации отдыха и т. д. Отдельные теоретики (Ћомић, 2001) постмодернистского туризма указывают на огромную популярность искусственных туристских дестинаций, типа Диснейленда, Лас-Вегаса и т. д.

"Они имеют большое символическое значение, между тем, они являются и внимательно оформленными структурами, не только привлекающими людей приехать, но и вести себя таким образом, как это дизайнеры и инвесторы пожелали. В случае Диснейленда люди заставлены по крайней мере три раза пройти по "Main Street" (Главной улице, которая является и главным торговым центром), так же как и в ходе посещения многочисленных аттракционов практически пройти через все части парка. Гостиницы в Лас-Вегасе позволяют легкий вход гостям, но зато значительно сложнее выйти из них и посетить другие гостиницы. Эти гостиницы-казино такие большие, что нет много потребности выходить из них, ибо они в состоянии удовлетворить почти все желания посетителей. Они спроектированы так, чтобы склонять людей тратить



деньги, то есть, еще важнее, проигрывать деньги за игральным столом или слот-машиной (нельзя избежать прохода через казино, чаше если кто-нибудь этого захотел бы). Таким образом, мы находимся посреди развития новых, революционных средств затраты в туризме. В будущем, без сомнения, наступит ускоренное распространение и использование техник деятельности, предшественниками которых были Диснейленд и Лас-Вегас (Ћотић, 2001:38-46).

Кроме Диснейленда и Лас-Вегаса существуют и другие примеры искусственных дестинаций или дестинаций с хорошо организованной и выстроенной материальной базой туризма (хотя в конкретном примере Лас-Вегаса не все объекты материальной базы построены исключительно с туристским назначением). Искусственные туристские дестинации подтверждают тезис, что человеческий фактор играет решающую роль в создании материальной базы и развития совокупного туризма. И там где вообще нет природных достопримечательностей, возможно создать искусственные (в Лас-Вегасе, через гостиницу Венеция, спроектированной на тридцать тысяч людей, даже река протекает), но несмотря на достопримечательности, все-таки природа со своими элементами (воздух, солнечный свет, погода или непогода) имеет ключевую роль. Развитие материальной базы туризма в потенциальных туристских дестинациях не может осуществляться универсальным способом, по принципу как это делают другие или как это сделано в других дестинациях, просто потому что каждая дестинация специфична по своему. Характеристики материальной базы туризма обусловлены между прочим и характеристиками туристического спроса. Компания Шератон в штате Колорадо в одной дестинации вступила в владение уже существующей гостиницей, вложила средства в пристраивание, чтобы с удивлением установить чрезвычайно низкую занятость объекта в летний период, всего лишь 8% в июле. Между прочим, место было известно как лыжный центр, так что в зимнем сезоне получалась чрезвычайно высокая занятость номерного фонда. Управлению гостиницы пришлось решать проблему летнего сезона, и в таких целях оно провело разговор с местным населением о том, чем они занимаются в данный период. Прозвучал такой ответ: ездим верхом, занимаемся сплавом, катаемся на повозках в сумерки, плаваем и подобное, значит, живут традиционным образом жизни. Менеджмент сразу понял, что это возможно хорошо использоваться в качестве летнего продукта гостиницы, и с лозунгом Как было раньше пустила в ход предложение, основывающееся на 40-50 традиционных видах деятельности, которыми десятилетиями занималось местное население. Каждые выходные, с июня по середину сентября, гостиница организовала специальные программы для своих гостей, основанные на традиции и потенциалах места: рафтинг, индейские игры, проживание в палатках, как это когда-то делали ковбои, "бандитские расправы на улице", разные спектакли, верховую езду и многие другие. С включением авиаперевозчиков, и местных агентств и населения, гостиница сама развила дестинационный бизнес, не дожидаясь областной организации или других координаторов. А эффект для гостиницы заключался в росте июльской занятости с 8% до 58% в среднем в течение целого лета.



Развитие новых туристских дестинаций обусловлено многочисленными факторами, начиная с вида, количества и качества существующих ресурсов, туристско-географического положения, движения на глобальном туристском рынке, затем интенсивностью и степенью туристического спроса со всеми его особенностями и т. д. (Štetić, 1999).

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MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES

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Abstract:

Taking into account that management essentially entails a set of technologies, methods and techniques, knowledge and skills in business management from the standpoint of efficiency and effectiveness of different organizations-enterprises, companies, corporations, institutions, and so on, continuously working on improving the management, because of the development and application of modern principles of management depends on the success of the company. Therefore, the success and survival of entrepreneurs in the market largely depends of management. In fact, of success of performing all the functions of management depends how many business targets will be achieved. For survival and development of small and medium enterprises, science-based management and its achievements, is of crucial importance.

Keywords:

management, SME, entrepreneur

INTRODUCTION

Starting from the fact that management is striving to achieve the desired future, given past and present, regardless of which type of organization referring to, it is of crucial importance in the exercising of the defined goals. Management is the need that is important in all countries. It is particularly emphasized its importance in countries that are in the process of transition. In modern conditions, the competition is ever increasing, the role of managers receive not only established managers but other employees in the organization too. In this way, a multiplicity of actions in the field of human relations, and therefore the necessity of teamwork provide. Management is successful as managers are able to provide efficient and effective implementation of all functions at all levels, taking into account available resources and respecting the environment, including the process of globalization.

The primary skill of managers is to select specific areas to be included and which will contribute to achieve the greatest impact on business results. Modern management is now

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confronted with various challenges of globalization, ethics, workforce diversity, entrepreneurship, e-commerce, knowledge management, who teaches management and quality management. Management is probably the term most often used in theory and practice of organizing business processes and business activities. Individuals and institutions, and science and profession, and the theory and practice perform it. Management in SMEs, unlike large companies, has its peculiarities. In the first phase of work and business of small companies' attention was mainly focused on the product, i.e., service, and the problem of sale. At this stage, the owner and manager, and its success depend on his knowledge, skills, and experience. In addition, at that period, it takes over much of the key managerial functions, or one might say almost all managerial functions. This paper presents the characteristics of management in small and medium enterprises, the organizational structure in small and medium enterprises in terms of management and management development in small and medium enterprises (SMEs).

MANAGEMENT CHARACTERISTICS IN SMEs

In small and medium enterprises, especially in the beginning, the owners carry out the managing. Owners-managers of SMEs are characterized by a combination of specific personal characteristics and knowledge, which motivates them to deal with business activities that make a profit at the market. Concrete entrepreneurial business starts with identifying and operationalizing the business idea. A process of constant control and evaluation to achieve internal and external functions should characterize implementation of the established entrepreneurial business, but they are constantly striving to their improvement (marketing, application technology, organization, etc.) Entrepreneur creates the first business idea and prepares a plan for its implementation, and operational procedures begin with their implementation. In determining management in small and medium enterprises, we must assume that the free market, launching new businesses is one of important conditions. When starting a new business i.e. forming a new company, you can opt for the following benefits: independence, higher wages, employment opportunities, and challenges. In order to become „your own boss“, which means dealing with entrepreneurship, allows autonomous action. However, the degree of autonomy has a big responsibility for a successful business. Responsibility in small and medium enterprises is the founder as opposed to large companies where the level of responsibility depending on the hierarchical position within the overall hierarchical system in the company. Entrepreneurship and the creation of small and medium-sized enterprises provide the possibility of higher wages compared to wages in the employment relationship in a bigger company. Until a positive balance is guaranteed, a job is also guaranteed. The owner who is the manager decide how much and when to work. In addition, the owner is able to hire its family members thus creating the conditions for creating a family business. Entrepreneurs have a need for the self-proving, i.e. are aware of the possibility of achieving great success. Owner-managers must always keep in mind the shortcomings that are inherent in establishing small businesses, such as the uncertainty of sales, competition,



increased liability, losses, labor relations, legislation, and risks. At various times there are different demand for some products, the summer is a growing need for summer clothes, for Christmas festivities significantly increased sales, etc. Therefore, the manager of a small company has well-planned cash flow for a longer period of time, to ensure business continuity, as in cases where there is not enough working capital, that may lead to liquidation of company. Due to market changes, the owner-manager must constantly adapt its products/services, i.e. must to compete with competitors at the market. As the owner, especially in the initial stages, and financier, and bookkeeper, and salesman, and manager and so on, it must largely take responsibility for success. Although certain tasks redirects to another, the owner - manager must make many decisions that can sometimes be wrong and that can lead to financial loss. Of particular importance for success in small and medium enterprises are the good working relationship (compelling the workspace, open communication channels, etc.) For the success of managers, normative regulation is particularly important, as well as taking overall risk to the business.²⁷⁶

In order to manage small and medium enterprises successfully, it is possible to specify the following elements:

- Sale of products - services at specially determined market;
- Provision of human resources and management;
- Provision of information;
- The rational management of time;
- Market Analysis;
- Ensuring business expertise

Precise knowledge of the market is particularly important for products/services because it facilitates overall operations. Most managers - owners of small businesses are faced with a lack of capital needed for regular operations. Provision, motivating and managing human resources is of crucial importance for small and medium enterprises. To business performance, it is important to provide appropriate information to different areas. A characteristic of modern society, especially economic, is collecting a number of information that is the basic element for the initiation of practical knowledge. Environment, the normative regulation can facilitate or impede the operations of small and medium enterprises. Therefore, owners - managers must

²⁷⁶ Djuro Horvat, Marinko Kovacic, *Menadžment u malom preduzetništvu*, Cera prom d.o.o, M.E.P. Consult d.o.o., Zagreb, 2004, str. 25, 29



rely on these changes. Time is an increasingly important resource in today's knowledge economy. The delay reduces the competition for market share. The market is turbulent and it is subject to various changes. Therefore, it is always necessary to analyze the market. For success is necessary to provide the technical level of knowledge.²⁷⁷ In terms of global environment, especially the export-oriented companies, entrepreneurs-managers need to respect the conditions of globalization and standardization, and on this basis to build market position. In such conditions, companies must ensure to use its potential respecting certain principles in particular the establishment of modern management, marketing development, adaptation to technological and organizational requirements, creating quality labor force, and so on. Management in SMEs is related to complex business activities of entrepreneurs (owners of invested capital) and management of business activities (managers who implement proprietary intentions). In the context, entrepreneurial function has the characters of independent variable, given the fact that it is the expression of the will of the owner of the capital invested in the business. On the other hand, managerial function has the features of the dependent variable, because managers realize business intent of specific entrepreneur-owner. While the great number of business entrepreneurs (owners of invested capital) usually consists of several persons, who are organized in the form of stock company, management functions are entrusted to professional managers, who chose their collaborators and implement the orders of administrative boards, the small business the most common case is a situation in which the entrepreneur, as the owner invested capital due to rationality, individually performs the function of a manager. Therefore, it is a sole proprietor who incorporates proprietary and managerial functions.²⁷⁸ Starting from the fact, that management functions are focused on entrepreneur, development of management for the functioning, business growth and development of small and medium enterprises is of special importance. Bearing in mind the fact that the management not only requires management processes and activities, but the company management structure i.e. management team, the question is how managers-entrepreneurs operate, how they build a management structure in small organizational systems.

SPECIFICITY OF DEVELOPMENT IN SMEs

Management development in small and medium enterprises, in comparison with large enterprises, has its peculiarities. Usually an entrepreneur creates the idea. Finding ideas is certainly an important step in starting your own business. Entrepreneur and successful ideas may occur in several ways: by copying an existing business, buying an existing business,

²⁷⁷ Djuro Horvat, Marinko Kovacic, *Menadžment u malom preduzetništvu*, Cera prom d.o.o, M.E.P. Consult d.o.o., Zagreb, 2004, str. 30, 36

²⁷⁸ Tihomir Radovanovic, Nenad Markovic, *Menadžment malog biznisa*, Cekom – books d.o.o., Novi Sad, str. 37,38



secession, franchising, innovation, personal experience, and so on. After selecting the ideas, the entrepreneur develops this idea and plans to implement it. In the initial phase of operation and management of small enterprise owner-manager of attention largely focused on product, i.e. service and marketing. This phase is dominated by knowledge, skill, and experience of the entrepreneur - the business owner who takes on most of the key managerial functions: the organization and production planning, procurement, sales, provision of financial resources to the internal organization of enterprises, control, and the like. In this stage of growth the company, this is considered a natural and even desirable. Such behavior of the entrepreneur is usually a result of limited funds and resources. At the beginning of the business, entrepreneur does not have sufficient resources to provide professional managers, and sometimes there is not enough trust that someone else could better realize his idea, just in these circumstances entrepreneur is devoted to its company and focus on how to produce more, to sell as much as possible, to collect as much, etc. In the early stages of growth and development of company, the manager-owner is mainly based on knowledge and experience, which was acquired prior to entering the business. Instead of applying scientific methods and techniques of efficiency and effectiveness, no longer intuition is used, and is more preoccupied with deciding on the operational level. The rapid growth and development of the company does not follow the proper growth and development of managerial knowledge and skills. Such an approach to management development in practice it may take a long time, even longer than the initial phase. The entrepreneur, who is the manager, is concerned with operational matters, decides on all issues, has not enough time, and most importantly, it ignores the strategic issues of growth and development companies. As the company develops and how it grows, it is expanding its business, it is necessary to change management. However, the most common situation is that the company is growing and developing a model to manage the activities and functions remain the same. An entrepreneur is usually justified by the fact that the company is still small; there are no financial resources to hire professional managers, and to have the highest confidence in itself to take over business responsibility and entrepreneurial risk. Such a method of control can lead to stagnation of business. Small and medium enterprises operate with very limited business resources. So, as a fundamental trait that can make management of the SMEs is the lack of specific resources. Here primarily refers to financial resources, but also all other resources - knowledge, work force, machinery. Thus speaking, the management of small and medium enterprises takes the form of corporate governance in conditions of limited resources. An entrepreneur is not a multinational corporation, but an individual who is searching for profit. In order to survive, it must have a different view in its efforts to implement the principles different from those applied by the president of a large and even medium corporation. In this sense, the main barriers to developing small and medium enterprises in the domestic market to emerge are a lack of financial resources, lack of knowledge, lack of markets, and lack of adequate institutional infrastructure.

Taking into account the existence of specificity in the management of small and medium enterprises as above, and the existence of risks in business, you need to see some of the principles that are important to perform managerial functions.



- If a business is small, that does not mean that investments are small. In fact, it means proportionally less investment in relation to capacity and staffing levels.
- The entrepreneur-manager must be aware that the market is everything. Knowledge of the market i.e. its customers and consumers, and its competitors, creates the conditions for business results.
- Money does not come easily or quickly. For the success of the work, order, dedication, integrity, and competence of all employees to achieve productivity growth and knowledge is necessary.
- Small business requires the application of high-tech achievements, but primarily the application of knowledge and constant increasing of the productivity of knowledge.
- To small and medium enterprises, the main business objective is to increase productivity continuously.
- In a modern economy poor quality business isn't possible. Low-quality products and services are impossible in conditions of market globalization and the application of high technology.
- In a modern business, the profit is not the main goal. It is the result of well thought out business. Interest of customers and consumers, as well as the benefit of the community are always in the first place.
- The entrepreneur-manager must realize that marketing is not advertising but it is not sale either. Marketing is a management concept that should create conditions for doing business in continuity, ensuring the company development objectives.
- Small programs can be stimulated only if they are cost effective.
- Small enterprises are established in large numbers, but disappear in large numbers due to lack of competitiveness on the market. Not everyone can succeed. Only those companies that accept the fact that the knowledge is base of operations, increase productivity is necessity of business, and continuously improving quality in line with meeting the market demands the basic aim of business

MANAGEMENT IN SMALL AND MEDIUM ENTERPRISES AND THE ORGANIZATIONAL STRUCTURE

Managing companies in condition of insufficient resources affects the definition of the organizational structure of small and medium-sized enterprises - a small number of employees



(especially in micro-firms), employees are performing at several positions within the company (not uncommon for the owner to perform several functions), and some activities have been moved outside the company. In other words, small firms with little money or due to cost-efficiency lacking of the formation of a stronger organizational structure, guided by the logic of increasing profits, much of the activities related to the business firms locate outside the company. It should be noted that SMEs can relocated most of the features outside the enterprise. The only business function that should not be left to others, and which must remain within the company, is a research and development, because it is a function which together with the quality and marketing is the backbone of growth and development of the company. tarding from the fact that, in the initial stages, of all management functions are concentrated within entrepreneur, the question of when the company will move from entrepreneurial to managerial organization arise? Management concept of the organization, personal relationship with management through the application of methods and techniques of modern management, it is essential to the establishment and its early work. Nevertheless, it is certain that when the entrepreneur due mainly concern with operational activities cannot comprehend and predict the future, i.e. when you ignore the strategic orientation of companies, the last moment in which to move from entrepreneurial to the managerial structure of the organization, i.e. the managerial control. Past practice in management in small and medium enterprises has shown that the concept of modern management as an effective management system is difficult to apply. Application of models such as the concept of a learning method, scenarios, SWOT analysis, cost-benefit analysis, cash flow analysis, benchmarking, relationship marketing, break even analysis, and so on, which uses modern business world, are still relatively unknown to many companies in Montenegro, including small and medium enterprises. In the operations of SMEs are dilemmas on management. These dilemmas relate to management development when an enterprise operates well, and when it is in crisis. It is realistic to expect that the level of management always pay enough attention and actively approach. However, in practice it is often different. Entrepreneurs of the daily tasks do not have time to devote to development of management. Only when a company falls into difficulties, it seeks the help of professionals. However, when the company operates well and when it is in crisis, it is necessary to develop efficient and effective management, only the first is called the management development and the other - crisis management. However, in practice, experts and external consultants are often hired when there is a crisis and needs to introduce crisis management. For small and medium enterprises would be useful to engage consultants in the application of development management as well in the application of crisis management. In practice, it is possible that the development of management in the enterprise, professionalization of management functions, the expanding the managerial structure, lead to the bureaucratization of companies. To avoid this, small and medium-sized companies can develop find in outsourcing i.e. the occasional engagement of expert consultants. Given that the SMEs are flexible in relation to the impacts of the environment, the need for planning and continuous development of management is more pronounced. To apply modern methods and techniques of management as a means of efficient management of the company and its activities, the knowledge and skills that are obtained in specialized schools are necessary. Investment in knowledge is an investment that pays off in



many ways. In addition to institutional higher education, there are many other ways to company management and employee educate, in different functional education programs - seminars, courses and workshops. In terms of world environment, especially in export-oriented companies, entrepreneurs have a requirement to respect the conditions of globalization and standardization, and on this basis build their market position. In such conditions, companies must ensure to use its potential respecting certain principles, in particular establishing modern business, developing marketing, adapt to technological and organizational requirements, the organization of a quality labor force and so on.

RESUME

Every organization, to make its functioning effective, requires to be managed. Every organization must have individuals to make decisions, which are responsible for its mission, its practical functioning, and normal, for its results. In other words, every organization requires a certain number of individuals who will deal with the mission, goals, strategies, implementation of defined activities. Management of small and medium enterprises is no different from the process of managing large, in conceptual terms. Thing that SMEs, especially those companies that are defined as micro enterprises, makes special are the resources. Management in SMEs is limited by lack of resources, primarily financial, human, knowledge. Corporate management is a continuous process of initiating and directing business activities in furtherance of the purposes of business. The primary purpose of corporate governance is the adoption of a particular series of business decisions to ensure combining of resources in purpose of achieving business goals enterprises, and ensuring a stable market position, growth, and development. Nevertheless, all companies are different in something; so SMEs have their advantages and disadvantages. The advantages of SMEs are better control and monitoring of the process, because it manages direct involvement in the process, easier adaptation to changes, because the company does not have a rigid structure and highly specialized workers, shorter lines of communication and better information to all employees. The disadvantages of SMEs: one man is responsible for several activities, for many tasks engage specialized organizations (accounting operations, maintenance, etc.), higher staff turnover, limited financial resources, limited human resources; orders for work are rarely formed in writing. The main questions regarding to general tendency of individual - potential entrepreneurs - about starting their own business are the following is how to choose the idea about the specific job, how to find the necessary funding, how to implement the idea in the market and make money, etc. In the beginning of the entrepreneurs, their ideas are based on previously gained knowledge and very little and almost not at all pay attention to upgrading and improving their knowledge in management. For SMEs one of the most important function is innovation. It is therefore necessary to pay special attention. The largest number of SMEs cannot establish R & D organizational units. Notwithstanding the existence or non-existence of a specific organizational units dealing with issues of research and development, it is essential that research and development, as a function of strategic importance for every organization, be implemented in the organizational structure of the company. In other words, innovation must be the basis of the



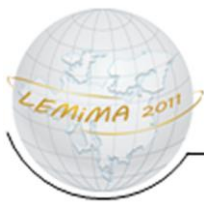
development of enterprise decision. According to Drucker, the rights of the entrepreneurial economy based on innovation, both those that fall into the category of "great ideas" and those that are the result of systematic work of entrepreneurs - meaningful innovation. Purposeful innovation is the result of the analysis, system, and hard work. Each successful innovation is the result of coordinated actions of technological innovation and marketing - successful innovation requires a technological and marketing innovation. In the longer term, it is not good that the research and development, business function, let another company. The function of research and development should be implemented in organization structure of small enterprises, while medium-sized enterprises should strive for the formation of small organizational units that could be involved partly or fully in this activity. In terms of globalization, management in general and especially in small and medium enterprises must pay attention to those processes. This means that the manager must be strategic, i.e. *globally oriented*. The world market provides new opportunities and new challenges to all active participants in it. Any manager who believes that the company has the opportunity to participate in global markets must define a strategy that will achieve that goal. Professionalism and quality of internationally oriented managers are becoming essential for finding these strategic orientations. Accordingly, in the organization of management it is necessary to develop management skills of strategic global governance. In making strategic decisions, it is necessary to take into account the global market, while tactics must be tailored to national and local environment in which economic activity is carried out. "*Think globally, act locally*".

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INTERNATIONAL BUSINESS PROSPECTS OF SMALL AND MEDIUM ENTERPRISES IN SERBIA

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Abstract:

The subject of this document is an analysis of factors affecting the export business of small and medium enterprises (SMEs) of the Republic of Serbia. Through reference indicators, the author tries to prove hypothesis that the extent and pace of internationalization of SMEs in Serbia is directly related to the generally poor state of economy in Serbia. The author also points out the similarities and differences in the process of internationalization of small and large enterprises in transition countries of Central and Eastern Europe (CEE) with special emphasis on the relationship between large and small companies in Serbia and the impact of that relationship to their external business.

Keywords:

SMEs, internationalization

SERBIA - ECONOMIC INDICATORS

Economic environment of the Republic of Serbia cannot be positively evaluated! According to the statistics of the World Economic Forum (1) Serbia is far behind the least developed countries of the European Union. In recent years, the position of Serbia on the list of Global Competitiveness Index gradually falls. In fact, according to 2010 data, the ranking order with 139 positions (states), Serbia is in the 96th place, three points ranked lower than in 2009, and even 11 points compared to 2008. Of the countries in the region, the worse position record Bosnia and Herzegovina, in 102nd place. In front are, Macedonia (79), Croatia (77), Albania (88), while the best placed is Montenegro (49). According to market efficiency, Serbia is the last among the 139 countries that are subject to assessment. The cause of this poor workflow is the number of dominant players in the market. By the strength of competition, Serbia is in the 131st place, while only two countries have more ineffective anti-trust policy than Serbia has. Serbia is characterized by low levels of innovation activities in comparison with the EU and new Member States. According to the report of the World Economic Forum in 2007, Serbia was on the 79th place among 104 countries. In the meantime, the situation is slightly improved.



According to the Labour Force Survey (LFS) (2) of the Statistical Office conducted in April 2010, sample of about 7,000 households, and in Belgrade, central Serbia and Vojvodina, the results are as follows: The unemployment rate in Serbia in April 2010 was 19.2 percent, and it has been expressed by gender: 18.6 percent for the male population and 20.1 percent for women. Observed by regions, the unemployment rate in central Serbia was 20.6 percent, 20.9 percent in Vojvodina, and in the city of Belgrade was 14 percent. In order to complete the generally bad image of the Serbian economy, it is important to note that Serbia's public debt (3) at the end of September 2010 rose to 38.5 percent of gross domestic product (GDP), amounting to 11.62 billion euros. At the end of last year, debt was 9.85 billion euros, which means that in the first nine months of this year debt increased by some 1.77 billion euros. These parameters were not encouraging, especially if one takes into account the high level of external deficit in the global economic crisis.

THE STATE OF SME SECTOR IN SERBIA

Survey conducted by the Regional Development Agency in 2009, on a sample of 3,000 SMEs, showed that the biggest problems for SMEs were: (4) lack of funding and legislation, then the lack of suitably qualified workers, non-compliance of operations with the requirements of quality and lack of information on markets and technologies. The greatest dissatisfaction was expressed regarding tax regulations, procedures, and lengthy and expensive procedures for issuing building permits. After that, following the work of inspection bodies, problems with registration of real estate, complicated procedures for registration and deregistration of workers, slow collection of receivables. In the strategy of competitive and innovative SMEs in the period 2008 - 2013, which is an official act of the Government of the Republic of Serbia enacted to promote the SME sector, is provided the fact that one of the biggest problem of Serbia is slow and expensive administration. For establishing a company in Serbia in 2008, 11 different procedures, 23 days and 8.9% of gross domestic product per capita (10.2% in 2006) were necessary. The procedure is more complicated to obtain various types of permits (for construction, electricity connection, telephone, inspections or approvals from other agencies, to start a business, etc.). According to Strategy data, in circulation were about 20 procedures that meet the required time of 204 days and the obligation to pay 27 times higher values than the gross domestic product per capita. The problems of abundance and conflicts of regulations and corresponding rules will be resolved during the implementation of the strategy of regulatory reform. First steps in that direction were made. While registration with the Agency for Business Registers (APR) people simultaneously obtain a VAT number so the time for starting the activity is shorter. From this year the annual accounts trainers are only in one place – at the APR, not in three places as before. Enforcement of the Law on Spatial Planning will put real estate in order.



The share of public sector in financing SMEs is significantly increased, especially in the field of microcredits for new businesses. More favorable credit terms than the market ones are provided, such as the cost of credit, terms of use, and the necessary guarantees. The tax system in Serbia is very complex. In terms of time, for calculation and payment of taxes and other mandatory benefits companies spend even 279 hours while the number of annual payments is 66! If we take into account that the Swedes are taxed only twice a year, you can see the gap between Serbia and the more developed part of Europe. Lowering of tax rates is encouraging, so that the annual rate of income tax and VAT rates among the lowest in the region. Rapid growth of the SME sector follows poor state of human resources, i.e. slow qualifying of entrepreneurs for new challenges. The positive aspect is the educational programs at the regional agencies, the Centers for SME development support, the National Employment Service, Chambers of commerce and specialized non-formal educational institutions. In many high schools, with the support of donors, the projects of Student Entrepreneurship are implementing. What stands out as a problem that needs to be eliminated is the inequality of implemented educational programs. Attention of analysts and the entire system to support the development of these enterprises primarily is focused on the creation of these companies and their operations within the borders of the state while the less attention is paid to firms with cross-border ambitions. However, the key point in the dynamics of economic development is the small and medium enterprises working on getting on the foreign markets and internationalization of their production.

INTERNATIONALISATION OF SMALL AND MEDIUM ENTERPRISES

A successful operation in modern conditions is unthinkable without the involvement of the international trade processes. End of the last and the beginning of this century was marked by a significant increase in participation of SMEs in the European market and then began talk about their Europeanization. It is about the rise of exports and the dynamics of strategic partnerships with these companies in other countries. The four forms of internationalization of SMEs through the development of its international activities should receive were identified: (Okulić, M: page 122) (5)

- 1) Export,
- 2) Cooperation with foreign partners,
- 3) Licensing by foreign partners,
- 4) Investing abroad and selling technology to the world.



1. Dogma that small and medium-sized enterprises that export risks to achieve lower profits than those that produce for the domestic market is abandoned. However, research (Major, I: pp.1371-1396) (6) have shown that the majority of SMEs in transition countries of Central and Eastern Europe are not sufficiently flexible to adapt volatile market conditions faced by the countries to which exported. The most common problems are bureaucracy, weak institutional systems, and particularly uncertain property rights.

2. The second form of internationalization involves entering into strategic partnerships. Small and medium enterprises realize the integration of the function of the internationalization of business based on different forms of alliances based on common interest, such as an agreement on joint investment, association for achieving innovation, joint appearance on the market, cross-licensing, merger based on franchising, etc. The creation of export groups of small and medium-sized companies can be the first step towards creating a kind of cluster companies in which there is a critical concentration of certain competencies to compete successfully in a certain business, not only at national but also at global level.

Clusters are an extremely important way of organized appearing of small enterprises in Serbia. Ministry of Economy and Regional Development of Serbia supported the development of these cooperatives through the "Cluster development program in Serbia. This refers to changing legal environment and the provision of non-financial and identified as a priority.

Currently twenty-five clusters grouped according to stages of development is from zero to three is active. Clusters of zero phase are those who have just emerged or are in the initial years of operation, while the clusters of the third phase are in the advanced stages of development. The most successful clusters in Serbia are software cluster with 15, Automotive with 27 members, and cluster of the manufacturers of small agricultural machinery, which comprises 15 companies and 5 additional institutions. It is interesting that the rise of cluster producers of flowers in Šumadija is rising. (7). However, according to the experts of the European Union and the Ministry of Economy, existing clusters are still poorly organized and management poorly trained. Their survival depends largely on public assistance. Compared with those in the European Union, our clusters are quite weak and would not be able to compete with European ones. According to the Ministry of Economy and Regional Development, the countries in the region have more clusters than Serbia. In Croatia, 44 is registered, 48 in Hungary, and in Bulgaria 50 clusters. Interestingly, however, in Slovenia there are only 10 regional clusters, while in Italy 213.



Despite the current unsatisfactory situation, attitude of the ruling elite is that the state should be able to create a favorable environment for the association of the companies and not to create clusters.

Franchising (Radosavljević, Ž: pp. 128-129) (8) is a special form of business cooperation between independent business subjects connected based on the agreement in which the franchisor gives users the right to use its trademark, image, and systems of work, and in turn charges a fee as a franchise. In Serbia, the most common form of product distribution is franchise. The highest percentage of small and medium enterprises is engaged in this field, where more than half of employees in Serbia work. On the other side, other transitional countries have had better luck in developing the concept of cooperation. Franchising is best developed in Hungary, which has 400 franchise chains, of which 50% were domestic. Followed by Poland and Slovenia with 120 franchises, of which 55.7% were domestic. In Croatia, operates 120 franchises donors, of which 30% were domestic. Czech has 55 franchises.

Experts point to the need for content-designed concept of franchising development in Serbia. As the main pre-conditions state: (Ćuzović, S: page 228) (9)

- Socio-economic assumptions (stability of the political and economic environment, corporate culture),
- Development of entrepreneurial spirit among Serbian businesspersons,
- The necessity of strengthening of fair competition, transparency, lawful business, and the release of political influences,
- Raising the quality of products offered by Serbian businessmen,
- Long-term creation of brand names and not creating brands from season to season (e.g. duvan čvarci (a type of pork crackling), slivovitz) etc.

It is particularly important to reduce risk in business because franchising has traditionally had a lower failure rate to just stated jobs. When purchasing any of the franchise business concepts, many difficulties have been overcome and resolved. This helps ensure stability and growth of small and medium enterprises, which are extremely important for economic development, fight against unemployment, and ensure country's exports. Serbian government has recognized the efforts of experts and through the Ministry of Economy and Regional Development is taking steps in the realization of this concept. For example, taking over Zastava Kragujevac by the "Fiat" may result in a greater number of business cooperation based on the model of franchising.



3. There is little data on the licensing of foreign partners or obtaining licenses from them. A survey taken a few years ago on the territory of the European Union showed that among 240 industrial SMEs only 6% provided licenses abroad!

4. Direct investments of small and medium-sized companies challenge the opinion that the direct investment abroad is the privilege only of large enterprises. Compared to the investments of big companies, direct investment of small and medium enterprises are much more harmonious with the development objectives of host countries. In addition, these enterprises in the form of foreign direct investments often cooperate with the local environment. Surveys conducted in the SME sector shows that foreign direct investments value the training of local staff as an important factor for its strategic success three times more. Then, it is more important to them to promote production and services and finally up to 50% is the training of local managers and increasing revenues in foreign markets important to them. (5)

Each national economy should create a strategy of inclusion in global trade flows. Toward defining the strategy, an important place should be allocated to the SME sector.

SME vs. MNCs - ADVANTAGES AND DIFFERENCES IN THE PROCESS OF INTERNATIONALISATION

SME sector has proven to be very "powerful industry" and its popularity continues to grow. SMEs contribute to employment growth much more than large firms and may in the long term to provide a very important share of all employees. In addition, SMEs can help in restructuring by absorbing redundant workers and increase competition on the market. However, the establishment of SMEs does not necessarily lead to the creation of profitable enterprise because the company primarily involves the willingness to take risks, and it is necessary to have both experience and keen sense for business. A study (Svetličić, M Jaklič, A Burger, A: pp. 36-65) (10), conducted in five Central European countries in the sample of 180 companies (26 in the Czech Republic, 69 in Estonia, 22 in Hungary, 24 in Poland and 39 in Slovenia) indicates that the internationalization of the SME sector and large companies have many more similarities than differences. The subject of the study was the motives for going to foreign markets, possible barriers, and competitive advantages of the compared categories. Given the fact we are talking about members of European Union, the assumption is that because of time distance in relation to the period of investigation (2007) and the general backlog of our country in transition for these countries, the results may be identified with the current internationalization phase of



Serbian small and large businesses! Both groups of firms identified the same obstacles, but it turned out that SMEs face greater financial problems and problems of production capacity. Their colleagues enjoy greater superiority in the field of marketing and production capacity but lack of agility for a fast and efficient entry into the market too. As SMEs are often the target of specialized niches, the main competitive advantages of SMEs are technological know-how, organizational flexibility, and closer relationships with their customers. Larger players are relying on marketing and the benefits arising from economies of scale. Large companies dominate the production; small and medium-sized enterprises dominate in services of various kinds, such as hospitality, real estate, renting, and business activities, trade and construction. These branches are limited locally and cannot easily cross the borders. A similar study (Major, I. 2008) (6) showed that the number of SMEs in CEE in retail trade, personal services, and craft activities was two or three times bigger than the number of small enterprises in agriculture and food industry, particularly in relation on production, heavy chemical industry or mining.

Analysts have identified three motives for investing abroad: (10)

- 1) Search for new markets,
- 2) Hiring cheaper labor and reduction of other costs,
- 3) Search for strategic resources.

Investment motives of large companies are more diverse than those available to small and medium enterprises! Finding new markets is the most important motive for internationalization. Market motives are the market size, expected growth, purchasing power, and other aspects that may bolster sales abroad. Advantages associated with these motives are less expensive inputs, lower transportation costs, customs duties, taxes, and other benefits of the importing country and directly decrease the costs of the firm. Both groups of companies estimate the market growth and purchasing power in deciding whether and where to invest. Lower labor costs and production costs are more important motive for investing abroad for larger companies. This is a significant difference between small and medium enterprises. Large firms are more sensitive to labor costs and have the ability to choose a location for foreign direct investments more carefully than the small and medium enterprises. Global companies often manipulate the total profit achieved by using transfer pricing. Along with this goes the importance of price competitiveness. SMEs have an opportunity to exercise a competitive market position through transfer pricing. SMEs rely more on specialization, adaptation, and close relationships. Because of its specialization, small and medium enterprises are targeted to meet the needs of their clients and not just to sell products. This is especially true for highly specialized service companies, such as consultancy or intermediary in the sale between companies. Because SMEs usually focuses on specific niches, it is directed at meeting the needs of known customers and is often



less flexible in terms of price. Strategic resources include intangible assets such as patents, trademarks, and copyrights and other intellectual property rights, technology, know-how, access to technology networks and alliances. Large companies are more careful than small and medium when deciding where to invest and trying to acquire strategic assets. Frequent changes and problems with the application of the law that is a characteristic of transition economies make business expensive. The main problems are *unstable and non-transparent legal environment* and turbulent administrative procedures in the countries of investments. However, SMEs are strongly encouraged to internationalize operations, when the legal systems in the target countries are not transparent and when the protection of property rights as is the case in many transition economies that are lagging behind in privatization and market reforms. (10) SMEs have fewer employees and involve fewer problems in management. Lack of small business is that its management is still closer to actual practice and may lose a broader perspective. Another problem is the large share of family businesses among them. Family businesses often do not have the ambition and determination to expand their business abroad. Smaller organizations are directed to the supply of larger organizations with services and products, using its size and power to stifle the cash flow of smaller organizations. Successful small organizations inevitably become a large organization.

RELATION OF SMALL AND LARGE COMPANIES IN SERBIA

The current ratio of large and small companies in Serbia is characterized by discriminatory behavior of large companies. Mentioned discrimination refers to failure to settle the obligations of large to small and unequal position of small tenders for public procurement. In addition, it should be noted underdevelopment of distributive chains in Serbia. Experts (11) points out that small and medium enterprise in Serbia are at the bottom of the priorities in the collection of their receivables from large ones. According to the applicable customs regulations, in that month in which the company meet its obligations to the Customs and VAT recovery can be performed i.e. offset VAT. Large companies should be allowed offset VAT only when settle their obligations to small and medium enterprises, and only to the extent to which they fulfill their obligation towards smaller firms. If in this regard the government has taken the same attitude as towards the settlement of customs duties, the budget would be smoother and more efficiently filled, and most small and medium enterprises would not have a liquidity problem. Large companies usually have a competitive advantage in terms of meeting the requirements and regulations of the *tender procurement system*, but many governments have taken measures to ensure equal status of the SME sector through better information and simpler tender procedures. Law on Public Procurement must stimulate the participation of SMEs in public procurement, and eliminate all restrictions that prevent small to get this jobs too referring to the amount of funds to participate in the tender, the size of the company, the amount of capital, and assets in the account, the number of employees and the like. The opinion was also that creation of a consortium of small and medium enterprises to participate in public procurement must be allowed. What kind of potential we are talking about is illustrated by the fact that Serbia spends



around three billion euros in public procurement each year! Developing of supply chains is an important prerequisite to acquire credibility, increase market competitiveness, and promoting technological development of small and medium enterprises in Serbia. In this way, Serbian companies have the ability to supply directly major regional and international companies. In this area, particular importance has introduction of customer relationship management (CRM system). In order SMEs to fight for the place in supplying a large company, quality certificate that shows that companies doing business in specific, recognizable standards are very important. The more important is to meet the standards, but the occasional checks performed by auditors. (12) Development of supply chains should be aligned with other economic measures, especially with good relations and cooperation between regional SME agencies and other organizations that provide support services to the SME sector, in order to integrate their activities at the local and regional level. Regional SMEs agencies should specialize in a new area of providing support to development of SMEs supply chains and to integrate it into their service of delivering support to SMEs operations. (Grozđanić, R, Savic, B: page 81) (13) The Serbian economy require institutions or agency that will connect domestic with foreign companies that will be able to provide information about where and what to buy and with whom they can work together to foreign companies, and that investors know where such information can be obtained. In addition, it is necessary to identify all companies that have the ability to collaborate with others. This is a very slow process because it takes time to make such database.

RESUME

An international business prospect of SMEs of Serbia is directly caused by the economic situation in our country. Serbian companies, often, face problems such as lack of funds to finance export activities, lack of trained and highly skilled labor, lack of knowledge of foreign markets, and the lack of information. Because of the backlog of privatization, the problem is lack of reliable local partners interested in external appearance.

In order to respond most effectively to these demands, companies need their strength to recognize the interconnection thus obtaining a strategic position in future operations as a group of companies. Connecting small and medium enterprises for export should be based on a thorough analysis of problems and opportunities that arise in the international market. Therefore, encouraging these companies to create a kind of export groups to address the aforementioned problems can be very important for success in implementing the strategy of entering foreign markets.

In terms of relationships with large companies, Serbia has no appropriate legislation that would force the big companies in a different relationship to small companies. In developed economies in Europe and elsewhere, there is a legal requirement of large companies that immediately after the payment of obligations to the government (paying taxes) settle their obligations to small and



medium enterprises. The task is relevant to the creation of an adequate legal environment protecting small and medium enterprises.

It is also necessary to create the incentive policy to promote the external appearance of small and medium enterprises. Incentives would include simplification of administrative procedures for the export business and increase awareness of business conditions abroad. Lack of access to SME finance can be compensated by strengthening the existing support programs for small and medium enterprises. In this regard, it should work on further simplification of the accounting system and creating of financial and fiscal framework that will alleviate the difficulties faced by SMEs. Finally, it should encourage further innovative activities and providing assistance, training and consultancy services for managers and owners of small businesses in order to improve the method of entering foreign markets.

All these measures for stimulation of the internationalization of Serbian SMEs will take effect only if the synergistic approach of the economy and state representatives is achieved!

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THE ART OF COMMUNICATION IN BUSINESS WORLD

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Summary:

One of the essential activities in business world is communication. In that sense, proper use of language and communication are very important. This work presents some of language definitions and communication skills that are significant in the world of business. Specific type of communication in business world is corporate business communication with its modes and characteristics. This work examines some features of corporate communication as well as some of the most important characteristics of personal business communication skills. They are extremely important for every individual involved in uncertain world of business. Therefore, this work could be very useful for managers and business people who would like to improve their business communication skills as well as to understand the importance of communication in business world.

Keywords:

Business communication, language, communication skills, corporate communication, personal communication skills.

INTRODUCTION

Good and successful communication is definitely a kind of art. In the core of that particular art lies language as the basic tool of every communication. The fact that the role of language and communication is crucial in world business demands the knowledge of some language definitions, basic communication skills and other essentials for successful business communication. Particular attention will be given to basic communication skills and their usage. Modern business communication is particularly dynamic in complex area of management and business. It comprises external and internal corporate communication relating to one business organization. Both types of communication have some specific elements that will be explained in the following work. It is especially important to mention advertising as one of the basic activities in business communication. Constant development of oral and written skills is essential for every communication in national and international business. It is not enough to be only "orally literate" without improvement of personal written skills which are equally important for professional management and business.



Eventually, general aim of this work is to emphasize the importance of language and adequate communication in business world. Various participants are involved in such business communication, all with different communication and cultural background, knowledge and personal skills, so it is the matter of utmost importance to be aware of some communication features, and, above all, to know how to improve corporate and personal communication skills.

LANGUAGE AND COMMUNICATION SKILLS

Language and communication are two basic elements of every public sphere.

The basic definition of language could be formulated in the following way: "Language, at its most basic, is a set of symbols and sounds governed by rules of grammar for conveying information."²⁷⁹ Still, the ambiguity and complexity of language is reflected on various opinions and definitions. For instance, Neil Thompson argues that "language is not simply the ability to use words"; it "refers to the complex array of interlocking relationships which form the basis of communication and social interaction."²⁸⁰ Also, Martin Montgomery points out that: "Language informs the way we think, the way we experience, and the way we interact with each other."²⁸¹ Thompson states that language is "a primary factor in terms of the make-up of society in relation to both cultural and structural factors." (Thompson 2003: 36) These opinions suggest the central position of language in terms of public sphere creation. There is a strong link between language and communication. Although, communication is possible without language (nonverbal communication, for instance), the quality and contents of communication is directly dependent upon the knowledge of language and possibility to use it. There are numerous definitions about the communication process and, still, few may thoroughly define such a complex activity. John Fiske explains that communication "is one of those human activities that everyone recognizes but few can define satisfactorily."²⁸² He describes communication simply: "social interaction through messages". (Fiske 1990: 2) Arthur Asa Berger defines communication as "a process that involved the transmission of messages from senders to

²⁷⁹ Ruth Wodak, Veronika Koller, eds., *Handbook of Communication in the Public Sphere*, Mouton de Gruyter, Berlin, Germany, 2008: page 22.

²⁸⁰ Neil Thompson, *Communication and Language: A Handbook of Theory and Practice*, Palgrave, Basingstoke, 2003: p. 37.

²⁸¹ Martin Montgomery, *An Introduction to Language and Society*, Routledge, New York, USA, 1995: p. 251.

²⁸² John Fiske, *Introduction to Communication Studies*, Routledge, London, UK, 1990: p. 1.



receivers.”²⁸³ John Corner and Jeremy Hawthorne state that “communication studies is about how human meanings are made through the production and reception of various types of sign. It is about visual and verbal sign systems and the technologies used to articulate, record and convey them.”²⁸⁴ These definitions try to formulate very complex process of communication. One may define communication as an interaction among people, but it is not complete because communication includes more profound features within itself. There are two different schools which define process of communication – the process school and the semiotic school. (Wodak, Koller 2008: 24-29) The Process School involves the transmission of messages from a sender to the receiver. Here, the sender initiates the communication by encoding some piece of information in the form of a message. Messages are transmitted through some method (such as face-to-face or by the media) to one or more persons. The message is then successfully decoded, dependent on distortions (noise) within the communicative process, by the receiver. According to this school, the proces of communication is relatively simple. The Semiotic School deals with the production or exchange of meanings. According to this school, we create meaning by sending signs. Signs include words, sounds, smells and images. The semiotic school places the emphasis on the receiver, and how they interpret signs. The message is typically made up of a combination of signs. The reader understands the letters and words – the signs – because they share the vocabulary. These words are given further meaning because they are organised by a code or signifying system – grammar. Communication is not just about spoken and written interaction, but also includes forms such as art, photography, dance and facial expressions. From the point of business, we do not just have verbal and visual corporate communication, but logistical communications and moving of goods and services that are necessary in making business work. Therefore, it is necessary in a business world to have at least some basic communication skills. There are three groups of such skills: regulating, listening and sender skills.²⁸⁵ Regulating skills refer to protection of the order and clarity in conversation. They are the following ones: opening the conversation and setting goals, goal evaluation and closing the conversation. Opening the conversation actually depends upon the situation: whether you start formally or informally, in both cases clarity of your intentions promotes the smooth progression of the conversation. Discussing generalities may often be a good start of conversation, but some people begin to feel at ease only when you get to the point. Generally speaking, a clear conversational structure, upon which the conversational partners have agreed at the beginning, promotes efficiency. Goal evaluation refers to their attainability as well as to the way and methods of realization. In many cases, it is useful to close the conversation with a summary, where the concrete arrangements can be lined up. Generally, it is

²⁸³ Arthur A. Berger, *Media and Communication Research Methods*, Sage, London, UK, 2000: p. 271.

²⁸⁴ John Corner, Jeremy Hawthorne, *Communication Studies: An Introductory Reader*, Edward Arnold, London, UK, 1993: p. 2.

²⁸⁵ See: Henk T. Van der Molen, Yvonne H. Gramsbergen-Hoogland, *Communications in Organizations*, Psychology Press, Hove, East Sussex, UK, 2005: p. 7-26.



useful to make known the time available at the beginning of the conversation in order to see whether the goals set can be reached within the limited time. Listening skills are very important in the process of communication. It is not enough only to have a good structure in conversation, but, also, to listen carefully to conversational partner.²⁸⁶ With listening skills, one can avoid the problems that occur when one does not listen well. There are two types of listening skills: non-selective listening skills (nonverbal behaviour and minimal encouragers) and selective listening skills (asking questions, paraphrasing, reflection of emotions, concreteness, summarizing). Non-selective skills are necessary to stimulate conversation partner into talking. They are hardly ever used alone. Selective skills refer to the listener in order to find out and select certain aspects of the conversation that he finds important. Sender skills refer to giving one's opinion in conversation excluding only passive listening. In many situations, one will not only want to listen, but to say what he thinks. Sender skills are divided into initiative, those when we take initiative in conversation, such as: giving information, making requests and giving instructions, giving criticism and situation clarification; and reactive, those with which we react to someone's demand or opinion, such as: refusing and reacting to criticism. In the world of business, these sender skills are very important in every aspect. For instance, it is necessary for employer to give clear information to his employees with the exact structure, simplicity of style, conciseness and attractiveness. Structure refers to clarity and orderliness in giving information. Short sentences, known words and a calm tempo enable the simplicity of style. Conciseness emphasizes thoroughness and conclusiveness in giving information. By attractiveness, we denote a number of methods that a speaker may use to hold the attention of the conversational partners and to stimulate them to think and to participate actively. Therefore, every businessman or manager should understand the importance of basic communication skills development. Knowledge of those skills may fundamentally change one's position and position of his company in national and international business. Regulating, listening and sender skills are the integral parts of basic communication skills.

CORPORATE BUSINESS COMMUNICATION

Business communication involves constant exchange of information. It is a continuous process. The more the business expands, the greater is the pressure on the business to find more effective means of communication - both with the employees and with the world outside. Therefore, it is

²⁸⁶ For more about listening skills see: R. Bostrom, *Listening Behavior: Measurement and Applications*, Gullford Press, New York, 1990. Also, see: L. Steil, *Listening in Everyday Life*, eds. D. Borisoff, M. Purdy, University of America Press, Maryland, USA, 1991.



important to mention corporate business communication as one of the essential aspects of business communication.²⁸⁷

Corporate communication refers to the communication processes that are meant for corporate or business purposes. It relates to the communication within corporate organization - internal communication, as well as the communication between different corporate entities - external communication.²⁸⁸

Internal corporate communication means the communication among people within a particular company. It includes the following modes:

Print: Memos, in-house newsletters, fliers, magazines or leaflets can be used according to the business needs.

Electronic: PowerPoint presentations, videoconferences, telephone, fax, emails or even Internet messengers can be used for in-house communication.

Personal communication: regular meetings, conferences, brainstorming sessions or even informal chats can be considered as effective communication tools at workplace.

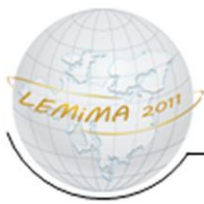
Internal communication within one company is extremely important because its results directly influence general working atmosphere among employees as well as the increase of productivity of the whole organization. Depending on the direction of communication, internal corporate communication can be further classified as horizontal or vertical communication - horizontal referring to communication within peers and vertical referring to passes from a lower hierarchy to higher hierarchy. For example, subordinates passing on information to their seniors will be considered as upward communication. On the other hand, communication that flows from the higher hierarchy to lower hierarchy is called downward communication.

External corporate communication process includes communication of the corporate organization with its current or potential investors, customers and other corporate entities. It includes the following modes:

Advertising: a very crucial mode of communication as far as the clients of the company are concerned. Advertisements in any form - prints, video or audio can be used effectively to communicate your message to the clients or customers. Advertising your products or services

²⁸⁷ See: Robert L. Heath, *Management of Corporate Communication*, Lawrence Erlbaum Associates, New Jersey Hove, UK, 1994. See also: Joep Cornelissen, *Corporate Communication: Theory and Practise*, Sage Publications Ltd, London, UK, 2004.

²⁸⁸ Mary Ellen Guffey, Patricia Rogin, Kathleen Rhodes, *Business Communication: Process and Product*, Cengage Learning, Canada, 2006: p. 14, 15, 16.



can help you to reassure your existing clients as well as give you a chance to attract new customers. One of the possible definitions of advertising may be the following:

"Advertising is the one facet of corporate communication that affects each and every member of the general public to a greater or lesser extent."²⁸⁹

Print media: newspapers, magazines, fliers, brochures, newsletters and catalogues.

Electronic media: the Internet, telephone, television, radio.

Non-conventional: if your business is looking for un-conventional communication ideas, then investing in trade shows, promotional events, or setting up kiosks and hoardings can be a good option.

External communication has two basic goals to achieve: first, to create a corporate image and, second, to retain old customers and attract new ones. External communication is responsible for the way the company portrays itself to the entire corporate world. Thus, external corporate communication is instrumental in creating the brand image or brand identity.

Finally, both internal and external corporate communication are equally important in national and international business. For every company which tends to become or remain successful, corporate communication is inevitable element in order to achieve that goal.

PERSONAL BUSINESS COMMUNICATION SKILLS

"The biggest enemy of success in business is the fear of communication; it is the one which blocks establishing contacts and information exchange."²⁹⁰ Therefore, improving our communication skills play an important role in personality development. One can effectively present his opinion and absorb the necessary qualities from others through proper communication. Effective communication is a process of speaking and listening properly, so that one does not miss out on important messages and cues being communicated.²⁹¹ Some of the essentials in business communication are:

²⁸⁹ Ruth Wodak, Veronika Koller, eds., *Handbook of Communication in the Public Sphere*, Mouton de Gruyter, Berlin, Germany, 2008: p. 157.

²⁹⁰ Dragana Banković, Vladana Lilić, "Role of Foreign Language in Modern Business", *Law, Economy and Management in Modern Ambience (LEMIMA 2009), Proceedings, Vol. 1*, ed. Života Radosavljević, Faculty for Education of the Executives, University of Business Academy, Novi Sad, 2009: p. 171.

²⁹¹ A. C. Krizan, Patricia Merrier, Joyce P. Logan, Karen Schneiter Williams, *Business Communication*, Cengage Learning, Canada, 2008: p. 82-112.



1. Every business communication , whether written or oral, should be logically structured , i.e. it should have a good beginning, a good body (contents), and an effective ending.
2. Correct means of communication should be used - means which take into reference time and cost constraints. Choice of appropriate communication channel also depends upon the amount of formality required and the speed of feedback required.
3. Business communication should be articulate and concise. Use of ambiguous words should be avoided. Choice of words should be such that it overcomes cultural differences.
4. Business communication should be influencing and persuasive.
5. Business communication should be courteous. Polite and considerate behaviour is the essence of business communication.
6. A positive body language should be used. For example, during meetings and interviews, maintain a frequent eye contact, give a pleasing smile, make all feel comfortable, etc.
7. Feedback is an integral component of business communication. Without feedback, it will be impossible to know whether the receiver has understood the message in same terms as intended.
8. Try using more of "You" rather than "I" in business communication. The audience or the receivers of the message should be given importance.

Most of personal oral communication skills are given among essentials of business communication above, but equally important are written communication skills which are usually underestimated without a clear reason. However, there are some basic elements in written business communication which should be remembered: *Audience*: keep your audience/reader in mind before you begin writing the piece.

Information: the basics of communication should be covered in your piece of written communication.

Tone: deciding the tone of your communication depends on the audience to a large extent.

Language: includes grammar, spellings, figures of speech, parts of speech, punctuation, etc. Following the basics of the language is more than enough to be a decent writer. Of course, this is just the case with formal writing.

Length: knowing when to stop applies to written communication skills as well.



Constant development of personal business communication skills is a must for every manager or businessman regardless his current status in a company. It includes numerous trainings in the field of business communication and huge effort in order to develop personal abilities.

CONCLUSION

Language and communication have definitely become integral parts of every business activity. It is even hard to think about modern executives and managers who have not developed enough their personal communication skills. It is essential precondition of every successful performance in the world of management and business. Language is the basic tool of communication and it is important to understand its connection with the process of communication. This work gave various definitions of language and communication including approaches of two different schools - the process and semiotic school. They defined the process of communication from various angles confirming its complex nature. Therefore, this work introduced some basic communication skills such as regulating, listening and sender skills. Knowing them, one could gain comparative advantage in everyday business activities. For business purposes, it is especially important to understand the process of corporate business communication. Two types of such communication were explained in this work - internal and external, presenting some means of communication within and outside of one company. Particularly significant form of external corporate communication is advertising as one of the central activities in business. Each individual should pay attention to development of his communication skills in order to improve his performance in every business setting. Thus, in the world of business, personal communication skills may be crucial for someone to enter top management or to get some executive position in a company. In order to achieve that goal, one must be aware of some essentials of business communication including oral, written and nonverbal communication. They are all equally important in business world. Finally, this work is, hopefully, small contribution to research in the huge field of business communication. It is impossible to explain specific art of communication in business world in few pages. Nevertheless, one of the goals of this work is to motivate people from business world to constantly develop their communication skills as well as to understand the great importance of these skills.

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ОРГАНИЗОВАННАЯ ПРЕСТУПНОСТЬ, "ПОДПОЛЬЕ" И СОВРЕМЕННЫЙ МИР

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Анотация:

Феномен "подполья" и внутри него, в частности, "организованная преступность", до недавнего времени рассматривался в основном с точки зрения правовых и социологических наук, и только недавно начало исследование по политологии. Причиной этого является расширение подключения, и не только мира организованного, но и одинокого сегмента экономического преступлении, как части "подполья", с миром политики, прежде всего с той частью мира политики, который представляет государство. Как субъекты "подполья", как правило, определяются люди, у которых привычки и предпочтения преступного поведения развились до такой степени, что их преступление является единственным, или главным образом, интересом. Если есть специализации, или постоянного или преимущественного обязательство иметь дело с определенным типом преступлений, то мы можем говорить о профессиональной преступности и профессиональных преступников. Объединение таких лиц на группы и даже организации для успешного выполнения преступных деяний и лучшей индивидуальной защиты является скорее правилом, чем редкостью. Очень редко встречаются "одинокие всадники" в мире "подполья". Их внеколлективное действие враждает или большой опыт, или, чаще, их неквалифицированность и ничтожество, из-за которых они не желательны в качестве членов группы. Индивидуальные преступления также могут быть выражением особенностей уголовной специализации, для которых убедительным примером являются наемные убийцы

Ключевые слова:

организованная преступность, "подполье" экономическая преступность, коррупция, современный мир.

Слово "подполье" является одним из тех слов, которые имеют многочисленные и разнообразные значения. Каждому значению слова соответствует термин, который охватывает все значения, и в научной дискуссии далее следующей, будет использоваться термин, определенного смысла, чтобы избежать распространенных ошибок при обсуждении (и неоднозначных слов общего пользования), с тем чтобы определить понятие, и остаться в дискуссии о смысле и, следовательно, на уровне языковой дискуссии. Что является постоянным элементом во всех значениях слова "подполье", является частью содержания понятия, который указывает на темноту, тайну, изоляцию и некомпетентность, коротко на условия, сумма которых кажется более или менее неприятными условиями для среднего культурного человека. Концепция подземного



мира, которая будет использоваться в этой дискуссии неизбежно включает в себя постоянный элемент, и его специфика содержится в смысле, или маркировки слова мир профессионального преступления, мнимой, более или менее организованного коллективного действия, которое представляет определенную социальную угрозу. По семантическим причинам думаем, что целесообразно использовать этот термин ниже в кавычках, поскольку речь идет не о употреблении этого термина в своем первичном значении. Присоединение может быть сделано *ad hoc* для исполнения преступных деяний, а иногда, для его повторения, и может иметь постоянный характер. Хотя первый случай очень показателен любой ассоциацией карманников или грабителей, друга форма объединения, которая имеет постоянный характер, предполагает существование, иерархии, почти уголовнопостоянной "занятости" в рамках группы, не только как выражение лояльности по отношению к коллективу, но и постоянной интеграции на него. Поскольку этот тип объединения характеризуется, в дополнение к строгой дисциплине, и множество других внутренних отношений характеристика хорошо структурированной деятельности, а также наличие постоянных целей, выполнение плана и реализация долгосрочной перспективы, с правом такое объединение называется, организованной преступностью. Хотя профессиональные преступники, которые не принадлежат к мировой экономике, или даже к организованной преступности, также приводят к значительным социальным вредам их незаконными действиями, они не относятся к теме, хотя мы не можем отрицать существование определенных отношений и этой части "подполья" с государством. Владение относительно небольших финансовых ресурсов, сил и потенциала интенсивного и непрекращающегося насилия приводит эти соединения к их реальным достижениям - отдельные случаи коррупции судебной власти и уголовное преследование и, в свою очередь, к тем, иррационального характера, когда мелкий преступник, скажем грабитель или карманник, политик или член государственных учреждений любого рода, получить освобождение, избавление от наказания, статус "невозможно ареста", по причинам, которые не являются финансово.коррупцированными, и что от сентиментальных (знакомство с юности, родственниковые или этнические формы идентификации, и т.д.), вплоть до причин личной незрелости тех, кто выполнит государственные функции или находится в гражданской службе, что является очень распространенным примером определенной гордыни совместно с преступниками особенно "крупнокалиберными", что по мнению политических образований и членов правительств, которые в этом содействуют, способствует повышению степени их важности, силы и часто представляют собой просто изображение. При всем этом, не следует забывать, классические отношения между полицией и преступным миром, которыми пользуются не только все полицейские, но вся ""подполья" в мире, и без которого не было бы их функциональности. Это полиции необходимо, чтобы получить как можно больше информации о "подполье" и в ответ члены "подполья", которые сотрудничают с полицией, пользуются степенью терпимости, которая, если не превышают меры больше вреда, чем пользы, без ущерба для общей эффективности компании в области борьбы с преступностью. К сожалению, у нас этого уже давно нет.



Другими мотивами этих преступников делать с полицией, или государством хорошие отношения являются наличие конкурентных отношений и необходимость устранения конкурентов, и столь необходимую в смысле предоставления некоторых услуг, социальное обеспечение и защиту, о которой они не хотят говорить, хотя ряд исследований современных социально-психологических школ доказывает это, с достаточно высокой степенью надежности.²⁹² Все представленные формы и причины связывают эту часть "подполья" с государственными учреждениями не политического характера и не могут изменить характер и функции государства. По этой теме важной частью "подполья" является та часть мировых экономических преступлений, которые так привязаны к миру организованной преступности, что стали его частью, и чьи амбиции всегда были влиять на власть, а в современном мире выросли до уровня амбиций прихода к власти, или, по крайней мере полного изменения роли рынка для того, чтобы осуществлять уголовные, социально вредимые, или даже крайне опасные цели. Когда дело доходит до организованной преступности, необходимо сделать одно замечание в связи с тем, что у нас текут дебаты относительно того, имеется ли она у нас или нет организованной преступности, где обе "воюющие" стороны, как правило, делают такой же тип ошибки, потому что организованную преступность трактуют то ли как внутреннее, местное или коренное явление. Организованная преступность, без сомнения, во всем мире явление, не потому, что она существует в любой стране мира, как коренная проблема, но вероятнее из-за того, что большинство преступных групп и организаций растянуло свои пальцы в любой части нашей планеты, конечно, если найден соответствующий интерес. Отсутствию признания организованной преступностью играет на руку и трактовка его исключительно как способа изъятия денег, в то время как, на самом деле, он в равной степени, если не больше, предполагает инвестирование или внесения денег на прибыльные рай, как правило, в недостаточно развитые, юридически не решенные, или кризисом, конфликтом и пострадавшие от войны районы. Что организованная преступность может успешно существовать как неместное явление в любой области показал пример Германии, которая, как и все другие государства, имеет свое собственное "подполье", где по различным причинам, кроме немцев свое место имеет и большое число иностранных граждан. Тем не менее, можно сказать, что в сфере организованной преступности, немцы имеют последнее слово, будучи их процент от общего уголовного населения гораздо больше. Основная проблема в сфере организованной преступности в Федеративной Республике Германии является с филиалом иностранной уголовной организации *Sacra Corona Unita*, которая фактически контролирует многочисленные, не только незаконные, но и легальные каналы денежных средств в Германии.

²⁹² Особенно интересны направления: дифференциальные ассоциации, дифференциальные идентификации и теории социальной дезорганизации.



Именно этот вид организованной преступности требует, чтобы в этом тексте, вкратце представились наиболее активные и влиятельные преступные организации в мире. Конечно, самой известной является мафия Сицилии, чье имя стало синонимом с организованной преступностью. Однако, по мнению экспертов, наиболее организованным и наиболее финансово успешным преступным сообществом в мире является якудзы - японской преступный синдикат, который имеет более 90.000 членов и 3600 банд. Преемник: американская Коза Ностра, который тесно связан с мафией, неаполитанская каморра, Ndrangheta Калабрии и Триада - китайская традиционная организация существующая более 300 лет и со штаб-квартирой в Гонконг и КНР. В последнее время на самом верху пирамиды мира "подполья" вошел Латинской Америки наркокартель во главе с Mendelin картелем и тзв. Красная мафия, дислоцированная на территории бывших социалистических стран Восточной Европы, прежде всего Советского Союза и сегодняшней России. Его специфика содержится не только в ее быстром успехе, но и в структуре, поскольку, в отличие от других групп организованной преступности, "оборудованные с высококвалифицированным персоналом" – а это бывшие члены спецслужб бывшего коммунистического режима и член левых террористических организаций, которые были оставлены без защиты тех же. Эти и другие преступные группы и организации добиваются потрясающих ежегодных доходов от торговли наркотиками и оружием, вымогательства, проституции, разрешенных и запрещенных азартных игр, торговли людьми и разнообразных контрабанд и, все чаще, от вмешательства в высокорентабельный мир культуры и спорта, и незаконного хранения опасных веществ (особенно ядерного и химического) отходов богатых стран в страны неразвитых регионов с вездомом их национальных лидеров, или, реже, без их вездом. Однако, во всем этом играют все более значительную роль и экономические преступления в форме взаимодействия. Поэтому отношения политики, особенно государства, и мира организованной преступности все более заметные. С одной стороны мир политики все чаще указывает на опасности организованной преступности, а с другой, они, не только через экономические преступления, быстро приближаются. Ибо нет единопричинного объяснения. Из ряда причин мы упомянем здесь лишь самые важные. Во-первых, государства становятся все больше бедными (это верно и для развитых стран), а мировая экономика и организованная преступность богаче, более мощными и с излишком денег. Во-вторых, увеличенное переплетение законных и незаконных предприятий из-за сложности и скорости бизнес и финансовых операций, также на основе интересов ассоциаций мировой политики и мировой экономической и организованной преступности Большой интерес организованной влияния преступности на государство и его функции, но вытекает из простого факта, что наиболее легко с помощью государство можно обеспечить высокие прибыли. Поскольку каждое действие государства вызывают последствия в обществе, интерес мировой экономической и организованной преступности оказывают влияние на осуществление конкретных государственных функций, таких как экономические (и все чаще для осуществления культурных, обороны и т.п.), что вполне понятно. Однако, по той же причине понятно, почему интерес всех экономических и организованных преступностей на политическую



должность государства, поскольку она включает в себя контроль над всеми специальными государственными учреждениями, и канал будет в состоянии влиять на каждого из них..²⁹³ Мировой опыт показывает противоречие в поведении современных государств и в большей мере в поведенческих нормах остального мира политики, когда дело доходит до борьбы с экономическими преступлениями, связанными с миром организованной преступности. Проблема в том, что мы терпим "высокое" экономическое преступление, не только по причине инвалидности, но и потому, что ему тайно восхищаемся, считая, что таким образом мы становимся частью "высшего общества", и что имеем важное значение, когда в контакте с ним.²⁹⁴ В этом случае, однако, никто и нигде не освободился от этого комплекса, и после неизбежных разочарований этого вида опьянения, от опасности преступления, что приводит общества во все виды неприятностей, а не только социальные, но и все чаще в политические неприятности. Таким образом, основной задачей современных сербских органов государственной власти является бескомпромиссная борьба не только против "великих политиков" и "мелких рыб преступного мира", но и против "хороших" экономических преступлений, в том числе очистке текущих, кризисом вызванных коррумпированных и военных связей государства с полулегальными предпринимателями. Только тогда мы можем ожидать эффективного осуществления реформы правовой и политической системы, которая, вероятно, не полностью устраним, но по крайней мере в значительной степени предотвратит дальнейший рост этого социального зла. В противном случае, трудно избежать судьбы сращения стороны государства с этой частью "подполья" до такой степени, что можно постоянно и серьезно повредить авторитету государства в той мере, люди теряют уверенность не только в его власти, но и в полезность. Когда "эта вера возникнет в массах, государственное принуждение не может ничего сделать и его применение становится очень неэффективным."

²⁹³ Милан Милошевић: Организовани криминал, „Службени гласник СЦГ“ стр. 203

²⁹⁴ Радомир Лукић: Политичка теорија државе. Београд, 1979. стр. 208, такође упоређи и :R.Polin: La politique et la force, Revue francaise de science politique, 3/1957.



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THEORETICAL DEFINITION OF CONTEMPORARY ISLAMISTIC TERRORISM

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Abstract:

Definition of terrorism as a political phenomenon in general, and especially some of its specific forms such as modern Islamist terrorism is one of the greatest challenges of modern, primarily political science and political theory in them as a discipline that deals with conceptual determination and definition of terms. The problem is that terrorism is very complex and developmentally dynamic social phenomenon that requires a comprehensive and accurate scientific analysis and more complete and qualified scientific explanations, not just a mere description, emotion or daily political connotation, which now has the most numerous and most unprofessional articles on terrorism. Therefore, in these texts we do not deal not only with insufficient knowledge of research methodology of social phenomena, which means violence with the very ignorance of terrorism as a phenomenon, but from the ignorance of the basic categorical notions, without which we should not indulge in writing about terrorism. Because of this, the aim of this paper is to make such determination of conceptual Islamist terrorism that will focus on establishing its core and the specific features.

Keywords:

conceptual definition, extremism, terrorism, fanaticism, separatism, Islamic terrorism

INTRODUCTION

Terrorism is a complex social phenomenon and as a form of political violence, frequently changes its shape. It is therefore necessary to clarify the theoretical level of the basic concepts of extremism and terrorism, without which it is impossible to clarify the concept and substance of Islamist terrorism. As the internal extremism and terrorism are common names for types of endangering the constitutional order and the overall security of the state within its borders, we must consider the extremism in terms of its most serious manifestations that threaten the constitutional order and security of the state or other appropriate entities. It is also evident that the presence of any form of international extremism acts encouraging to all domestic extremists, which requires presentation of basic forms of international extremism and its reflection on the internal security.



Under the political extremism we mean understanding and behaviors that significantly and substantially different from conventional, socially acceptable, political attitudes and behaviors. Extremism in the broader sense includes all political views and behavior (individuals, groups, organizations) that drastically differ from what is acceptable, legal, and legitimate in political relations and struggles within a democratic society. In the narrow sense, extremism includes a willingness to use violence and even the roughest of methods and means to achieve their own political goals. Extremist behavior raises serious political and security issues in any society, through negative impacts on state and social system as a whole. There are two aspects of the manifestation of political extremism: internal and external, i.e. international extremism. Forms of manifestation of political extremism, from the protection of the constitutional order point of view generally can be divided into:

- Clero – chauvinism and religious fanaticism (Extremism in the interethnic relations);
- Extreme national-chauvinism (Extremism in the international relationships);
- Regional particularism and separatism, and
- Totalitarianism (extremism from the ranks of totalitarian and anti-democratic political organizations and movements), including ideological and partisan chauvinism. Every political extremism is a negation of the democratic constitutional state, and no matter how it manifests in practice (racism, national chauvinism, xenophobia, etc.).

Dogmatism and fanaticism can be considered as forms of political extremism. The term dogmatism means uncritical acceptance of certain doctrines, ideas, and attitudes as the only truth. Dogmatism has its roots in religious life, where dogma implies religious truth, a doctrine that is not subject to criticism and critical spirit of reason. Dogmatism is always intolerant of different views.

Fanaticism is a phenomenon often manifested in the religious life.

As a concept, denotes passion, blindness, and blind devotion, and diligence, passionate attachment to a belief, idea, or thing. In his entire uncritical can lead to extreme hostility and hatred towards other and different beliefs, attitudes, opinions, beliefs, and lifestyle. Political extremists, generally, use many methods, tools, and processes to achieve their aims. They are often illegal means of service but not exclude the use of legal methods and means. In the activities of extremist politicians gradation is present (i.e. the transformation of mild forms to drastic ones), both in organizational terms (from an informal group to an illegal organization), and in terms of funds (from a call to overthrow the constitutional order to incitement of civil



war). From this degree, a political extremism as a political violence grew into terrorism. It is important to make distinction between extremism and terrorism, as any act of terrorism is extremism but not every extremism is terrorism. Often change of the meaning of the term terrorism throughout history and adjustment to historical period and politics of that period, making difficult to determine a generally accepted definition of terrorism, or permanent definition of terrorism. It is noticeable that in the political and legal theory there is no agreement on the definition of terrorism. Improper use of the term terrorism and conceptual blending of terrorism with similar forms of political violence lies in not distinguishing terrorism as a complex form of political violence of other complex and basic forms of political violence. We must pay attention to the fact that complex forms of violence are not the sum of the several basic ones, but their interaction union. In addition, some of the basic forms of political violence are considered some form of terrorism. In the broadest political sense, terrorism is seen as a method of political struggle characterized by systematic use of violence to intimidate and break opponent's resistance. In this sense, the very term terrorism is neologism, composed of the word "*terror*" (of the French word *terreur* which means sowing fear), and the suffix "ism". In fact, terrorism is always politically motivated violence i.e. only the terror that in its essence includes the social-psychological (political) component. In the defining of terrorism, there are some significant, intentional, or unintentional, mistakes. According to Professor dr Dragan Simeunovic, mistakes in the definition of terrorism can be divided into:

- Lack of distinction between the terror and terrorism (both are arms of minority),
- The victims are innocent persons,
- Seek to provoke fear (not by the victim but fear of a social group to which the victim belongs),
- Equating terrorism with the guerrillas (or liberation movement)

The same author believes that the multiplicity of definitions of terrorism and not having one, accepted definition of terrorism in the world, due to diversity and an opposition political interests where the terrorism is seen as an important instrument of political struggle, and because the definition of political phenomena, it is no wonder there is no generally accepted definitions. According to place of its manifestation, it is divided into urban and rural (in addition to rural, there is urban guerrilla, since take place outside the urban milieu, terrorism is not a rebellion). By the presence on the ground of their state is divided into internal and external. Terrorism in the 20th century has assumed the character of the international phenomenon, and therefore we can speak of international terrorism. According to the program-target orientation, terrorism is divided into ideologically motivated terrorism ("black or red" or "right-wing or left-wing") ethnic and religious terrorism. Because of the prefix "ism", many believe that terrorism is a specific ideology. However, we are talking about diverse ideologies, their interpretation, and the interpretation of large and small religions.



The essential characteristics of terrorism are the maximum secrecy, tragedy openness; minimally armed violence, causing terrifying fear, brutality, immorality, irrationality, unpredictability, illegality. The most common elements of definitions of terrorism are 1. Violence as a method; 2. Citizens and government as a target, and 3. Causing fear and extortion of political and social changes. Of foreign authors, an acceptable interpretation give Bruce Hoffman who makes a distinction between terrorists and other types of criminals as well as between terrorism and other forms of crime. He concludes that the goals and motives of terrorists are inevitably politically motivated, that terrorism is a violent or threat with violence, it is aimed at provoking wide-ranging consequences regardless of the immediate victims or targets, to be guided by the organizations with a distinctive line of command or conspiratorial cell structure and it is performed by sub national group or non-state cells. All mentioned scientific concepts of understanding of terrorism could be viewed as theoretical. Definitions generated by studying this phenomenon can be viewed as theoretical. As opposed to scientific or theoretical definition, there are definitions given by certain state or international institutions and which therefore are called administrative. Each of the administrative definition puts the interests of particular services or institutions that define it in the forefront. Taking into account the degree of vulnerability of the U.S. against international terrorism and the number and size of the state institutions that are against international terrorism, no wonder the number of administrative definitions that are used there. From the above definition of terrorism, although released its psychological component, the most complete definition is considered the one given by the Ministry of Defense, which provides an overview of terrorist threats, the terrorist act itself and then says "that terrorism is used to attack the whole society and the executive power" and finally points out that "in addition to political includes religious or ideological objectives." Based on these findings, we conclude that terrorism is not punctual and special phenomenon of particular region, but it is a general threat and few countries haven't problems with terrorism. The duality of morals and standards in international politics is reflected in a twofold relation to terrorism. If it comes to terrorism, which threatens their country, all countries eradicate it without compromise. When terrorism occurs on a foreign territory, then all act according to their political interests (to the open support of terrorism) in which so-called large countries lead. Such behavior could be viewed as an appropriation against to country to which terrorism is directed. No power is overthrown or taken over using terrorism but terrorism appeared as a significant factor of destabilization of some countries (Europe: Great Britain - the IRA, Spain - ETA, Yugoslavia - Kosovo Liberation Army, where we see attempts to achieve separatist goals of ethnicity using terrorism.) Currently, the most current forms are considered ethnically and religiously motivated forms of terrorism.

Religiously motivated terrorism is present in the form of Islamic fundamentalist extremism in the Middle East and Africa (Algeria) as well as the activities of sects in the Far East (Japan).



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