

ISSN: 2303-4564

PROCEEDINGS BOOK

Vol. 4

September, 2017

September, 2017

Sarajevo, Bosnia and Herzegovina

icesos.ibu.edu.ba

PROCEEDINGS BOOK

International Conference on Economic and Social Studies (ICESoS'17)

“The Rural Business Development in the Balkan Region”

Sarajevo, Bosnia and Herzegovina

PUBLISHER: International Burch University

EDITOR:

Merdžana OBRALIĆ

Nataša TANDIR

CONFERENCE PARTNERS:

International Burch University, Sarajevo, Bosnia and Herzegovina

University of Tuzla, Faculty of Economics, Bosnia and Herzegovina

Epoka University, Albania

Ekonomski Fakultet Podgorica, Montenegro

Faculty of Economics and Tourism “Dr. Mijo Mirković”, Croatia

Universitatea „1 Decembrie 1918” din Alba Iulia, Romania

University of Tourism and Management, Macedonia

Panevropski univerzitet Apeiron – Banja Luka, Bosnia and Herzegovina

University of Wroclaw, Poland

DTP&DESIGN:

IBU

PRINTED BY:

International Burch University

CIRCULATION: 400 copies

PLACE OF PUBLICATION: Sarajevo

Copyright © **International Burch University, 2017**

INTERNATIONAL BURCH UNIVERSITY PUBLICATION NO:

ISSN: 2303-4564

Reproduction of this Publication for Educational or other non-commercial purposes is authorized without prior permission from the copyright holder. Reproduction for resale or other commercial purposes prohibited without prior written permission of the copyright holder. Disclaimer: While every effort has been made to ensure the accuracy of the information, contained in this publication, Burch University will not assume liability for writing and any use made of the proceedings, and the presentation of the participating organizations concerning the legal status of any country, territory, or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

PROCEEDINGS BOOK

Vol. 4

September, 2017

September, 2017

Sarajevo, Bosnia and Herzegovina

icesos.ibu.edu.ba

Table of Content

International Relations and Policy Development of the Republic of Macedonia	7
<i>Aneta Stojanovska-Stefanova</i>	
The Impact of Ewom in Social Media on Consumer Purchase Decisions	21
<i>Merve Turkyilmaz & Mersid Poturak</i>	
An Empirical Study of the Relationship between Financial Literacy and Tolerance towards Financial Risk among Entrepreneurs in Bosnia and Herzegovina	29
<i>Jasmina Okičić & Damir Selimović</i>	
Measuring Financial Inclusion in Western Balkan Countries – A Comparative Survey	43
<i>Meldina Kokorović Jukan, Amra Babajić & Amra Softić</i>	
Tourist Potential as a Factor of Rural Territories Development: Experience of the Russian Federation Regions	56
<i>Polina Ananchenkova</i>	
Effective Team Communication Role in Project Implementation Success	63
<i>Ionela Gavrilă-Paven & Mălina Cordoș</i>	
Rural Business Development in the Balkan Region: Hospitality and Tourism Management.....	70
<i>Gejsi Bendo</i>	
Human Intervention in the Case of Syria.....	74
<i>Rea Gegaj, Sara Dedej & Speranca Reka</i>	
How Marketing Made One of the Unhealthiest Beverages a Top Demanded One the Power of Great Marketing.....	79
<i>Rea Gegaj, Sara Dedej & Speranca Reka</i>	
Quality of Education and Intellectual Capital: Analysis of the Competitive Position of Universities....	84
<i>Dino Arnaut</i>	
Analysis using brands in the small and medium enterprises in Romania	95
<i>Carne Adina Pastiu & Silvia Stefania Maican</i>	

SMEs, the Backbone of the Albanian Economy	102
<i>Suada Dajçi & Amela Dalipaj</i>	
Impact of Agricultural Policies on Rural Development and Increase of Competitiveness of Agriculture of Bosnia and Herzegovina with a Special Emphasis on Achievement of Reform Goals.....	111
<i>Sanja Kavaz Hukic</i>	
Sharing Economy in Western Balkans: Potential for Rural Development	126
<i>Admir Čavalić</i>	
Effects of Reward System on Motivation of Employees in Small and Medium Enterprises (sme) in Federation of Bosnia and Herzegovina.....	138
<i>Adna Idrizović</i>	
Attitudes and Behaviors of Young Adults toward Music in Retail Environments in Bosnia and Herzegovina.....	148
<i>Azra Pohara & Teoman Duman</i>	
The significance of non-monetary incentives and its relationship with employee motivation: A case of civil service employees in Bosnia and Herzegovina	158
<i>Emir Srna & M. Sait Dinc</i>	
Measuring Quality of Services at HEI: Case of Private University in BiH.....	173
<i>Amina Kahrman, Ajdin Mekić, Kemal Đug & Ensar Mekić</i>	
Ethical Climate, Job Satisfaction, and Affective Commitment relationship in the Shoes Manufacturing Sector	192
<i>Mehmet Gencoglu & M. Sait Dinc</i>	
Significance of Expatriates for the Competitiveness in the International Construction Market with an Example of Strabag Concern.....	201
<i>Fata Miljković</i>	
The Youth's Perception of Migration in Bosnia and Herzegovina	216
<i>M. Sait Dinc, Kanita Jahic & Sejla Kocan</i>	
An Analysis of the Factors Determining the Working Capital Requirement for Non-Financial Companies	225
<i>Seyda Kadayifci & Ali Coskun</i>	

Models of linking recreational tourism and agribusiness thought use of ICT.....	239
<i>Šemsudin Plojović, Suad Bećirović, Senadin Plojović & Enis Ujkanovic</i>	
Detection of Financial Statement Fraud Using Beneish Model.....	252
<i>Elvisa Buljubasic & Sanel Halilbegovic</i>	
Implementation of TQM in Local Government Using Quality Management System in Accordance with ISO 9001 and CAF Self-Assessment Model	263
<i>Mirza Čelik & Dževad Šašić</i>	
The Role of Public Relations in the Humanitarian Diplomacy amidst Natural Disasters in Developing Countries: The Case Study of Red Cross of Federation of Bosnia and Herzegovina and 2014 Southeast Europe Floods	274
<i>Haris Magrdžija & Nedim Čelebić</i>	

International Relations and Policy Development of the Republic of Macedonia

Aneta Stojanovska-Stefanova

*University Goce Delcev-Stip, Republic of Macedonia
aneta.stojanovska@ugd.edu.mk*

Abstract: *In order to recapture the essence and justification of this paper, the source of this theoretical review we found it in the definition of statehood. After the end of the thirty years of civil war in Europe and the signing of the peace treaty of Westphalia in 1648, the creation and development of the country began to the form that we know today.*

In terms of increasing interdependence between the countries, the question of their mutual cooperation is essential. For the states equally important segment with internally arranged relations is the manner on which they concern and regulate the international relations.

State boundaries are endpoints to where sovereignty lies within a country. The authorities within it regulate the relations inside and the nature of its international positions. The highest authority, which does not recognize any other form of higher power, is sovereignty. Considering that the law, especially the international, is an active matter open to interpretation, although the basic features of a country are clear, yet there are two types of states divided to a de jure- existing under law and de facto-existing in reality, based on the matter whether and which of the characteristics of statehood they own.

Republic of Macedonia, has raised the issue of the international relations high. Confirmation of the said is the chapter VI of the Constitution, which is dedicated to this issue. Except the Constitution, the area of the international relations is stipulated by the Law on Foreign Affairs and the Law of signing, ratification and execution of the international contracts. The Law on Foreign Affairs of the Republic of Macedonia, precisely defines the concepts of "foreign affairs" and "foreign policy".

Keywords: *state, recognition, politics, government, rule, sovereignty, international relations, international development*

Introduction

In any democratic country it is equally important to regulate and develop the internal and international relations. Macedonia is a parliamentary democracy which has a clear model of the triple division of power. The Foreign policy is a domain, constitutionally reserved for the head of the state, the Assembly and the Government. In practice, Mirchev D. (2006) stated that the head of the state performs a little more powers than it is usual in the parliamentary systems, while the government performs the essential functions in the foreign policy, while the Government performs the basic functions of the foreign policy, leaving the Assembly in a rather weaker position.

It is suggested that the political, legal, economic and cultural traffic between the subjects of the international law is going through their authorized representatives and through their bodies (Frchkoski Lj. et al., (1995).

The Republic of Macedonia has dedicated the Chapter VI of the Constitution to the regulation of this matter. The international relations are subject to the regulation of the constitutional regulation because the internal law depends on the international law.

The best proof of this are those constitutions that contain provisions for the transfer of part of the national sovereignty over the international institutions or stipulating consent for accordance of the internal legal order with the generally accepted rules of the international law. The dependence of the internal law of the international law is in function of the actions of the independent states in the field of protection and promotion of the world peace (Shkarikj S., Siljanovska-Davkova G., (2007). The main sources of the international relations are the mandatory norms of the international law (*ius cogens*) and the legal principles recognized by civilized nations.

With the mandatory norms of the international public law and legal principles recognized by the civilized nations, the international relations of the states become legal relations or values that are developed with the help of the law. In such a context, (Shkarikj S., Siljanovska-Davkova G., (2007) the right appears as a factor of civilized development of the international relations.

Tukidit, (1981), stated that the rules of the international public law are often violated, especially this phenomenon is noticeable in time of war when "the strong do what they have power to do, and the weak do what they must accept.

The constitution of the Republic of Macedonia from 1991 regulates the international relations with the two types of provisions. First, the international relations are evaluated from the perspective of the generally accepted norms of the international law as a fundamental value of the constitutional order of the Republic of Macedonia and second, with several provisions, contained in a separate section of the normative text of the Constitution.

By accepting the generally accepted norms of the international law as a fundamental value, the Republic of Macedonia is committed to respect the sources of the international law: the international customary law; practice of international courts; doctrine or opinion of respectable experts in the field of the international law and ratified international agreements. In the section dedicated to the international relations are regulated several groups of issues: the relation of the ratified agreements against the internal legal order of the Republic of Macedonia; entities responsible for the concluding of the international agreements; association and dissociation of the Republic of Macedonia from alliances or communities with other countries and deciding on association and dissociation of the Republic of Macedonia from membership in international organizations.

The international agreements ratified in accordance with the Constitution are part of the internal legal order in the Republic of Macedonia and they cannot be changed by law. With this solution, Shkarikj S., Siljanovska-Davkova G., (2007), argued that the ratified international agreements; association and dissociation of the Republic of Macedonia from alliances or communities with other states and decides on association and dissociation of the Republic of Macedonia from membership in the international organizations.

About the terms “policy” and “foreign policy”

In the political theory, there is no unanimity about the definition of the term policy.

The policy can be generally defined as achievement of certain ideas essential to a community. Above all they are ideas essential to a community. Above all they are the ideas essential for the common good, justice and the general usefulness. As on an individual plan the man tends to improve more its moral qualities, in that way on the plan of the life in a community, it tends to justice and the common good, i.e. to improvement of its community, argued in Encyclopedia of the political culture (1993).

By definition, the foreign policy should be part of a significant portion of the policies that any country or sovereign political entity implements. We name that policy as a foreign policy, but other people call it - international politics, world politics, global politics, international relations, and comparative politics, argued Mirchev (2006). Among several approaches, even more-concepts in the study of the foreign policy, the geopolitics as already mentioned is certainly one of those inevitable. It has a long history and has produced a wealth of academic resources and conceptual criticism. Some authors associate the origin with the analysis of Aristotle for spatial factors that affect the political forms of the ancient Greek cities. Indeed, numerous social thinkers since ancient times until today, which think about politics, had and still have on their tables geographical maps despite their notebooks and pencils.

Berridge Geoff R., (2004), stated that until the 17th century the responsibility of the diplomacy in the European countries routinely had been granted on various bureaucracies ("on state authorities") on a geographical basis. Some of those functions have been responsible for some homework (Hamilton and Langhorne, 1995: 72-73). Machiavelli writes almost exclusively about the mechanics of the government, for funds to help of some countries that can become strong, for policies with which countries can become strong, for policies with which they can expand their power, and for mistakes that lead to their rotten and coup. The political and military measures are practically the only object of his interest, and almost completely separate them from religious, moral or social considerations, except as means to achieve political goals. Maleski D., (2000), stated that the aim of politics is to preserve and increase the political power, and the measure with which it appreciates it is the success in achieving this goal.

I have already said that any governor should have a good foundation, because if not, he will certainly fail, argued Machiavelli Niccolo, (2009). The international relations are organized around the legal fiction that the states have exclusive jurisdiction over its territory, its people and resources and events that occur on it. The practice, as might be expected, is well behind the idea, as is usually the case with the political principles. However, the basic norms, rules and practices of the contemporary international relations are based on the sovereignty of the state and the formal equality of (sovereign) states. It is suggested that he non-intervention is a duty that correlates with the right of sovereignty. Other states are obliged not to interfere in the international actions of a sovereign state Donnelly J., (2004).

Hans Morgenthau a representative of the Rationalists in the international policy writes that the international policy and politics in general is a power struggle. Of course if you start from the idea that physical survival is of primary importance for every individual, you will come to the conclusion that the power is of primary importance for the states as subjects of the international law, because the national security is of primary importance. Through the prism of the power of the state to promote its national interest which latter it trays to accomplish within the world politics.

In the book "God's country", St. Augustin asserts that "the human history is a sinusoidal wave of good and bad events, i.e. from devastating wars, trying to provide a short-term peace, whose utterly meaning is not understandable to the humans, but it is certain by God, (Miler D. 2002).

On the other hand, the representatives of the internationalist theory in the international policy advocate for relations between states governed by the norms and behaviours with which had previously willingly agreed, and which would be applicable in war and in peace.

The message of Emmanuel Kant that "the state of peace must be established", and that it can be realized through a "free federation" of states is close to the idea of collective security and international organization, characteristic for the institutionalists of our time, Maleski D., (2000). The principle of settlement of the international disputes by peaceful means obliges the states and those who are members of the United Nations and those who are not, all international disputes to be resolved through peaceful means and thus not to be jeopardize the international peace and security Simikj M. (1988).

During the debate on the Declaration of non-use of force in 1987, only the United States of America and Australia explicitly intercede for anticipating self-defence; the other countries were in position to keep their positions by simply omitting any provision for self-defence, except the general formula that "The States have the natural right of individual or collective self-defence in case of an armed attack, as it is provided in the UN Charter", argued Grej 2009.

The Swiss lawyer Emmerich de Vattel one of the first intellectual forerunners of the modern internationalism in the book "The Law of the Nations" says "justice is the foundation of every society and it is very important to find a suitable application in the relations between the nations than in the relations between individuals, showed by Williams, Goldstein and Schfritz, (1994).

According to the theoretician Schmit Carl, (1979), the essence of the political action is in the distinguishing of friend-enemy. That kind of differentiation according to Schmidt gives political sense of the human activities and motives. The totality of the policy contained in that each area of the human activities (religion, economy, moral, etc.) is subject to such a distinction, i.e. the separation of friends and enemies. Each religious, moral, economic, ethnic or some other contradiction turns into political opposite, when it becomes strong enough to group people of friends and enemies.

Mircev (2006) stated that the world politics as a starting point to has the reality of the international community with the established relationships, institutions and the active role of many partners in the determination of the guidelines of this policy, through the instruments of the foreign policy, negotiations, joint ventures and influence.

The analysis of the activities of the holders of the foreign policy of the Republic of Macedonia suggests to the conclusion that in the process of the realization of its own foreign political priorities, our country in the past years from acquiring independence until today is governed by the fundamental tenets of the constitution and the laws and principles of the action of the states in the United Nations.

The objectives of the foreign policy of the Republic of Macedonia in recent years have been carried out by the holders of the functions that were elected in free, fair and democratic elections, but they have in a significant extent remained unchanged. However, regarding the characteristics of individuals who perform these functions through the years, the differences are perceptible.

This certainly is affected by the development of the parliamentary democracy in the independent states that had been created after the fall of communism in the Eastern Europe, the approach to the execution of the function from the stand of ideological and political profile and of course, the global changes that take place in the international community.

The Republic of Macedonia in the implementation of foreign policy is guided by the respect of the Charter of the United Nations, resolving of the conflicts, disputes and outstanding issues between the countries peacefully, adherence to the international and legal principle for permanence of the borders, respect of the policy for improvement of the corpus of Human rights and freedoms, support of the disarmament efforts and ban for all weapons for mass destruction, support to the promotion of the international economic relations in terms of economic globalization.

The institute of the international recognition is one of the instruments to develop cooperation with other countries on the basis of common interests. This institute "Recognition of States" is known in the League of Nations and the United Nations. The legal effects of the recognition of the states is limited if they are only reduced to declaratory act, but they can be both constitutive and more serious, if followed by the establishment of other legal and economic pressures, such as insulation or boycott.

It is important to emphasize that the recognition of the states has no direct connection with the establishment of the diplomatic relations, namely it can happen a state to be recognized, but with it cannot be established diplomatic relations, while the reverse is not possible, because the establishment of the diplomatic relations implies recognition of that state.

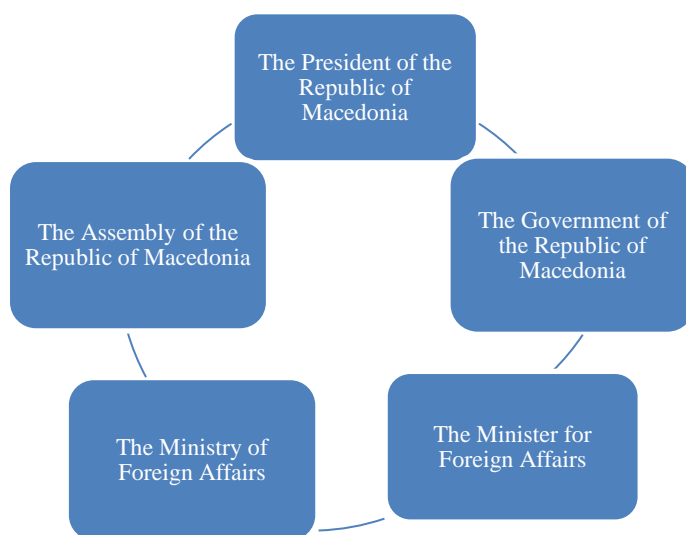
Frchkoski et al., (1995) showed that legally seen the act of "recognition" of the state is legal and formal act and has no direct impact on the essential independence and the existence of the state, namely, on the effectiveness of its existence, but often the omission of the recognition of one or more countries could create serious difficulties for the new state and its normal involvement in the international relations.

Competences in the field of the foreign policy in accordance with the Constitution of the Republic of Macedonia from 1991

According to the Constitution of the Republic of Macedonia and according to the character whether the conduct of the foreign policy is one of the major responsibilities, authorities for performing foreign affairs can be divided into two groups: primary and secondary.

Primary are those authorities that are focused on the major responsibilities in the execution of the foreign policy.

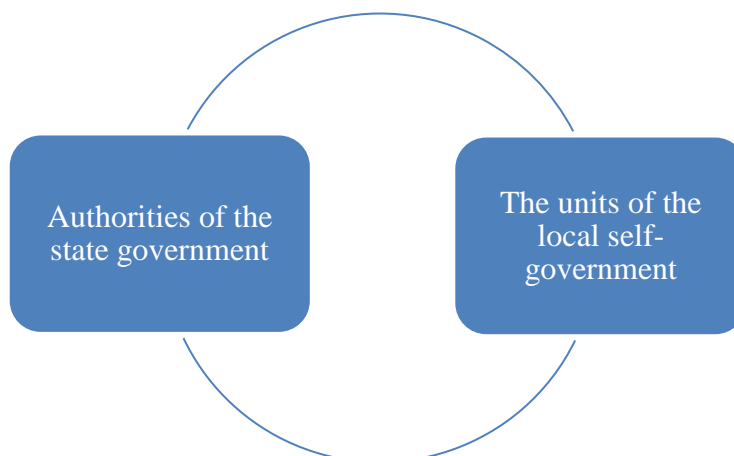
Figure 1: Primary Authorities for performing foreign affairs



Source: Authors' own work

Secondary however are, those authorities and institutions which in certain cases and circumstances may participate in the conduct of the foreign policy.

Figure 2: Secondary authorities for performing foreign affairs



Source: Authors' own work

Stojanovska A. (2013) stated that in the area of the foreign policy, the President of the Republic of Macedonia has the following responsibilities:

- Appoints and dismisses by decree the ambassadors and MP's of the Republic of Macedonia abroad
- Accepts the credentials and revocable letters of the foreign diplomatic representatives.

The Assembly of the Republic of Macedonia has the following responsibilities:

- Ratifies international agreements
- Makes decisions on association and dissociation from a union or community with other states.

While the Government of the Republic of Macedonia has the following responsibilities:

- Decides on recognition of states and governments
- Establishes diplomatic and consular relations with other countries
- Adopts decisions on opening of diplomatic and consular offices abroad
- Proposes appointment of ambassadors and MP's of the Republic of Macedonia abroad and appoints heads of consular offices.

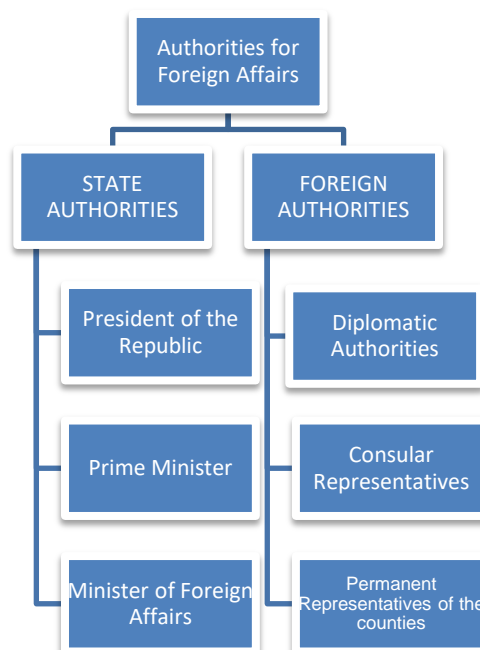
Conventionally, the authorities responsible for foreign affairs can be divided into two groups:

- 1) State authorities whose headquarters is in the state (or internal authorities), and
- 2) Authorities whose headquarters is in the territory of other countries (foreign authorities).

The first group includes the: Head of State (monarch or president of Republic), the President of the Government (Prime Minister), and the Minister for Foreign Affairs.

The second group includes the diplomatic and consular representatives and the permanent representatives of the countries in the international organizations.

Figure 3: Authorities responsible for foreign affairs



Source: Authors' own work

Law on Foreign Affairs from 2006

The Official Gazette of the Republic of Macedonia (2006), in the Law on Foreign Affairs reported precisely and defined the responsibilities of authorities for performing of the foreign work. With the same prescriptive in details normatively is determined the whole process of creation, establishment and implementation of the foreign policy, as well as the relations between the authorities conducting foreign affairs and the state government authorities, in the exercising of the foreign affairs, which reduces the possibility of overlapping or dysfunction. Characteristic of the Law on Foreign Affairs of the Republic of Macedonia is that besides the traditional approach towards creating such a norm, it emphasizes the role of the Assembly of the Republic of Macedonia.

Also, by the law it is determined the jurisdiction, structure and operation of the Ministry of Foreign Affairs, which before the adoption of the law was governed by one member of its competence and the Law on the organization and operation of the state administration authorities, i.e. some members in the same law for competences of the management authorities. The great part of the matter for the essential elements of the organization and work of the Ministry before the adoption of the law were moved by-laws.

Furthermore, the law defines the diplomatic and consular representations that Republic of Macedonia can open abroad, and the procedure and conditions of appointment of the head of the diplomatic - consular office. More precisely is determined the procedure for revocation of the heads of the missions, and their duties, responsibilities and relations with the authorities for performing of the foreign works. Determined are specific duties and diplomatic - consular officers working in diplomatic - consular offices.

The Law on Foreign Affairs in Article 2, precisely determines and delimits the terms *foreign affairs* and *foreign policy*.

The term "*foreign affairs*" refers to actions performed by the competent authorities of the state government and the state government management in the exercise and protection of the rights and interests of the Republic of Macedonia in the international relations with the countries, international authorities, organizations and communities.

While the term "*foreign policy*" refers to political objectives and activities of the Republic of Macedonian relations with countries and with international authorities, organizations and communities that protects the interests of the Republic of Macedonia in the international relations and protect the interests of its citizens and the legal entities registered in it.

The President of the Republic of Macedonia and foreign policy

In determining the term head of state or President meet in more terms.

Frchkovski et al. (1995), stated that the head of the state is the authority that represents the state in the country and abroad, namely, it represents the state unity and independence, whereupon it is not

important whether it is a monarch or head of state in the country in the republican establishment, as regardless of whether it is for independent or collective body.

It is suggested the term head of state means the authority that has significant powers, but is not a holder of the supreme, legally unlimited power, which belongs to the principle of the Constituent and/or legislative body (Bajaldziev 1999).

Another group of theorists define the head of state, as an individual or corporate body who embodies the political community and the long duration of the state and performs ceremonial functions related with the representing of the country at home and abroad, argued Maklin (2002).

Gligorov K. (2001), stated that procedure for the election of the President of the Republic of Macedonia is regulated in the Article 80 and 81 of the Constitution of the Republic of Macedonia, and the Electoral Code.

The President of the Republic of Macedonia is elected by direct and immediate elections, by secret ballot, for a period of five years. For President of the Republic a same person can be elected mostly twice. The secondary election is not necessarily to proceed to the previous term, as is the case (e.g., NB) with the Constitution of Slovenia from 1991, argued Shkaric (2004).

The powers of the President of the Republic of Macedonia in the execution of the foreign affairs are defined in Article 5 of the Law on Foreign Affairs, according to which the President of the Republic of Macedonia: represents the country in the international relations, in accordance with the international law and its responsibilities; participates in the creation of the foreign policy in cooperation with the Government, through the establishment of general guidelines on the foreign policy, including issues of the international relations with implications on security and defence of the country; monitors the implementation of the foreign policy and the results and any disagreements with other bodies for foreign affairs performing, can inform the Assembly; gives suggestions and participates in the pose of views on some foreign-policy matters within its competence, including the security and defence aspects arising from the international relations; appoints and dismisses by decree ambassadors and representatives of the Republic of Macedonia abroad, in procedure determined by this Law; gives consent to the issuance of agreement of the head of foreign diplomatic office and accepts the credentials and revoked letters of the foreign diplomatic representatives, in the procedure established by this law.

International Recognition of States

The Institute “recognizing the states” is common and very important legal institution within the International Law initially because of the political circumstances which are determining it. Thomas D. Grant (1999) stated that up until now there is not precise rule according to which one state becomes internationally recognized and has the right of statehood and right to participate as single with the other states from different international organizations. There are some attempts made in order to establish certain universal criteria for acquiring the aforementioned statuses and possibilities but none of them has succeeded to be affirmed as a relevant and respected by all the

states in the world. There are two theories that study this matter. The first one is the *Declarative Theory* of statehood, originating from the conference held in Montevideo, which is best put in the sentence “the political existence in one state is independent from its recognition by other states”.

According to this theory for acquiring statehood, and thus the involvement of the state in international law as its subject, the following four element must be included: territory, population, sovereign power and ability to manage the previous three. Going back to the beginning of this text it can be seen that the largest part of the definition is taken from the Treaty of Westphalia, which means that it is not a novelty in international law, but an existing criteria which although recognized it is not fully accepted and implemented free from discrimination.

International law includes *Constitutive Theory* of statehood. It examines the state recognition by other states as instrumental in acquiring statehood and status of a subject of international law to a new country. The aspects that are covering this theory, which although not formally accepted worldwide but can be considered as realistic are beautifully depicted in the thought of Oppenheim (L.Oppenheim) that says "International law says that a state does not exist until it is recognized by other, but at the same time it does not exist until it acquires recognition."

It can be concluded that the acquisition of independence and international legal subjectivity of a state is formally dependent on its international recognition, which is based on the will of other countries.

Sublimating the declarative positions of states as for this subject and reality of the foregoing, it can be concluded that the recognition of a state as a sovereign entity and relevant international law is open to interpretation, there are no rules in this field and any existing state recognized a new state on its own discretion and in accordance with its national interests, while not obligatory adhering to certain customary norms in international behavior.

The precedent during the international recognition of states: The Case of Republic of Macedonia

The case of the procedure for admission of the Republic of Macedonia in the United Nations is a unique precedent in the history of that organization. This precedent is important not only because of the particular circumstances associated with the Republic of Macedonia, but also as a possible negative example in the procedure, namely depending on the legal assessments of political co-bodies and organs of the United Nations. The legal and political arguments did not dominate during the procedure for admission through the bodies of the UN Security Council, UN General Assembly, in the case of Macedonia, but emerged as a theme and an obstacle to the political contestation of one Member State (Greece), which is calling upon the provisions of the Charter for maintaining peace and avoid creating crisis zones around the world. Greece has represented its political attitudes towards Macedonia as a potential threat to peace (the very existence of Macedonia on its northern borders) which actually represented the elevation of a bilateral dispute level "procedural obstacle" to the United Nations.

Returning the problem of recognition of Republic of Macedonia in collective manner with admission and with the membership in the United Nations, it was supplemented by another

precedent, namely with a solution that Macedonia is admitted for membership in the United Nations under temporary "label" as "ex Yugoslav Republic of Macedonia ", and temporarily not demonstrating its official flag in front of the building and in the bodies of the United Nations. This decision should be in force until a final solution to the "dispute" through the procedure for its solution set by the Secretary General of the United Nations.

Stojanovska A. (2013) stated that the precedent is certainly unpleasant for the organization of the United Nations as it refers to the inadmissible and unfounded raise of a bilateral problem to legal and procedural circumstance – that is an obstacle to the realization of fundamental rights of a country to become an international entity with full capacity.

The case of Republic of Macedonia for the acceptance in UN there were two additional terms out of the legal sphere and referring to the direct violation of the Charter such as: to accept a descriptive name FYROM and to negotiate with Greece for its constitutional name.

The International Court of Justice as one of the principal organs of the United Nations in its history of existence has once discussed the issue of setting additional conditions for membership in the United Nations. In its advisory opinion of 28th May 1948 on the conditions for admission of a State in the membership of the United Nations, the court has taken a legal standpoint (contained in the ICJ Reports, 1948) that the requirements specified in Article 4, paragraph 1 of the Charter for membership " represent an exhausting enumeration , and are not given as simply management principles as an or example. " This refers to the fact that if an applicant fulfils four conditions of article 4, paragraph 1 of the Charter, such State should be admitted to membership in the United Nations. According to the aforementioned judicial opinion from 1948 one state cannot be conditioned prior to admission with previous recognition of legal elements, which is that such conditionality is setting additional conditions which are contrary to Article 4 paragraph 1 of the UN Charter and the setting up of such conditions the court explicitly declares that the UN Charter is violated.

Conclusions

The characteristics of a modern state, the way it is recognized nowadays are shaped by Peace Treaty of Westphalia, according to which the state is constituted by three main features, territory, population and sovereignty, i.e. absolute power for governing over them. In order to have a better understanding of the process of recognition and various specifics that have occurred throughout history the attention must be paid to the terms *sovereignty* and *statehood* first, and thereto sovereignty refers to how a state acquires it as well, and later on the manners through which countries recognize the existence of another state.

There are two types of states divided into: de jure- existing according the law and de facto- existing in reality, based on the fact which of the statehood features they own¹.

¹ Ibid,page.268.

De jure states are those that are fulfilling some of the conditions of statehood but not all three. As an example can be considered a country that has a territory and a population but not full sovereignty over them. Also a good example could be a government in exile as well, or government under which the international community has the right to exercise sovereignty over a territory and a population but because of the occupation can not exercise that right, as is the case with the governments of the Baltic states in the period during World War II while their territories were under Nazi occupation, they are recognized by the countries of the alliance as their legitimate rulers, role which *de facto* was taken over after the release. Another specific example of recognized sovereignty in the absence of territory in some way but not completely *de jure* state but rather as *de jure* government is the sovereignty dealing with "the organization" known as the Sovereign Military Order of Malta.

This "organization" had an authority in Malta in the past, but after the expulsion of its members from the island they continue to exist in Rome. Interestingly, the Order is recognized as sovereign by many countries, a situation that reflects the fact that it has established diplomatic relations with 103 states and 6 entities that are subject to international law, including the European Union whereby they have responded with reciprocity that have established diplomatic relations with the Order. Apart from diplomatic relations the Sovereign Military Order of Malta has few buildings in the city of Rome that the Italian Government has granted their extraterritorial status which means that within the territory / facilities the law is implemented by the Order, and not by Italy, and this is a status reserved exclusively for the embassies of countries. In addition the United Nations does not register the Order of Malta as "a non-member" but as an entity that has received a valid invitation to participate as an observer in the organization. Apart from these typical state features "the organization" has its own army, which is part of the Italian Army, however flying the flag and under the command of the Order; it also has coins that have rather collectors than a symbolic role and uses postal stamps, although not everywhere yet accepted by a number of European and world countries.

De facto state is considered the one that is an entity owning a territory and a population and sovereignty, but which lacks a legitimate recognition by a number of other states. This usually happens if a *de facto* state has been part of another country previously that opposes and denies its sovereignty. Here lies the tangent point between the characteristics of statehood and the need for their recognition as legitimate by other, already existing countries. There are many examples of *de facto* countries in the world including Taiwan, which the People's Republic of China considers it as part of its territory even though there is no real sovereignty over it, as is the case of Somaliland and Somalia, to some extent Kosovo and Serbia etc.

The case of the procedure for admission of the Republic of Macedonia in the United Nations is a unique precedent in the history of that organization. This precedent is important not only because of the particular circumstances associated with the Republic of Macedonia, but also as a possible negative example in the procedure, namely depending on the legal assessments of political bodies and organs of the United Nations. The legal and political arguments did not dominate during the procedure for admission through the bodies of the UN Security Council, UN General Assembly, in the case of Macedonia, but emerged as a theme and an obstacle to the political contestation of

one Member State (Greece), which is calling upon the provisions of the Charter for maintaining peace and avoid creating crisis zones around the world. Greece has represented its political attitudes towards Macedonia as a potential threat to peace (the very existence of Macedonia on its northern borders) which actually represented the elevation of a bilateral dispute level "procedural obstacle" to the United Nations.

Returning the problem of recognition of Republic of Macedonia in collective manner with admission and with the membership in the United Nations, it was supplemented by another precedent, namely with a solution that Macedonia is admitted for membership in the United Nations under temporary "label" as "ex Yugoslav Republic of Macedonia ", and temporarily not demonstrating its official flag in front of the building and in the bodies of the United Nations. This decision should be in force until a final solution to the "dispute" through the procedure for its solution set by the Secretary General of the United Nations.

References

- Bajaldziev Dimitar, (1999), *Introduction in law*-first book, Evropa 92, p.255
- Berridge Geoff R., (2004), *Diplomacy Theory and practice*, Faculty of political sciences, Sveuchilishta in Zgreb, p.5
- Constitution of the Republic of Macedonia*, Official Gazette of the Republic of Macedonia 52/91
- Donnelly J., (2004), *International human rights*, Publishing house Mi-An Skopje, p.34
- Electoral codex*, Official Gazette of the Republic of Macedonia 40/06
- Encyclopedia of the political culture*, (1993), Modern administration, Belgrade, p.873
- Frchkoski Ljubomir, et al., (1995), *International public law*, Tabernakul, Skopje, p.58 and 185-186
- Gligorov Kiro, (2001), *Macedonia is everything that we have*, Publishing house TRI, Skopje, p.160
- Grej Kristina, (2009), *International law and use of force*, Fondations of international public law, Prosvetno delo AD-Skopje, p.10
- Law on Foreign Affairs*, Official Gazette of the Republic of Macedonia 46/06
- Machiavelli Niccolo, (2009), *Il Principe*, Gjurgja Skopje, p.60
- Maklin Ian, (2002), *Concise Oxford's dictionary for Politics*, Publishing house MIAN, Skopje, p.385
- Maleski D., (2000), *International politics*, University "Ss. Cyril and Methodius"-Skopje, p.37 and 332-333
- Miler D., (2002), *Blackwell encyclopedia of political thought*, Publishing house MI-AN, p.9
- Mirchev Dimitar, (2006), *The Macedonian Foreign Policy 1991-2006*, Skopje, Az-buki, p.9, 11, 13, 20
- North Atlantic Treaty Organization*, (www.nato.int), accessed April 2017
- Official website of the European Union*, (www.europa.eu), accessed May 2017
- Organization for Security and Co-operation in Europe*, (www.osce.int), April 2017
- Peace of Westphalia*, Encyclopedia Britannica (www.britannica.com), accessed July 2013
- Reports of judgements, advisory opinions and orders of international Court of Justice*, <http://www.icj-cij.org/docket/files/3/1821.pdf>, accessed October 2015.
- Schmit Carl, (1979), *Der Begriff des Politischen*, Duncker und Humbolt, Berlin, p.37

- Shkarikj S., Siljanovska-Davkova G., (2007), *Constitutional law*, Faculty of Law “Iustinianus Primus”-Skopje, p.601-602, 607, 609
- Shkarikj Svetomir, (2004), *Comparative and Macedonian constitutional law*, Matica Makedonska Skopje, p.619
- Simikj Miroslav, (1988), *Modern International relations and war*, Vojnoizdavachki i novinski centar, p.80
- Stojanovska A., Master Thesis, “*Constitutional-legal and Political Aspects of the Foreign Policy, with Special Retrospection to Republic of Macedonia*”, pg. 58.
- The Assembly of the Republic of Macedonia*, (www.sobranie.mk), accessed May 2017
- The Crisis of the Sovereign State and the "Privatization" of Defense and Foreign Affairs*, Heritage Foundation, (www.heritage.org), accessed April 2012.
- The Government of the Republic of Macedonia*, (www.vlada.mk), accessed May 2017
- The Ministry of Foreign Affairs of The Republic of Macedonia*, (www.mfa.gov.mk), accessed May 2017
- The President of the Republic of Macedonia*, (www.pretsedatel.mk), accessed January 2017
- The United Nations*, (www.un.org), accessed February 2017
- Tukidit, (1981), *History*, Adomir, Moscow, p.344-350
- Williams, Goldstein and Schfritz, (1994), *Classic Readings of International Relations*, Wadsworth Publishing Company, Belmont California, p.7

The Impact of Ewom in Social Media on Consumer Purchase Decisions

Merve Turkyilmaz

*International Burch University
Bosnia and Herzegovina
turkylmz@outlook.com*

Mersid Poturak

*International Burch University
Bosnia and Herzegovina
mersid.poturak@ibu.edu.ba*

Abstract: *Marketers define their social media platform as an essential piece to reach their consumers. The flock of web users turning to social media to receive and convey their thoughts, opinions, and suggestions has made social media an integral part of digital marketing. Using traditional media to advertise had restrictions in placement and outcome while, nowadays, social media has liberated this obstacle. It has created a platform which allows information to spread freely and at a fast pace. Using electronic word-of-mouth in social media permits a constant connection to a vast audience. The purpose of this study is to explore the effect of electronic word-of-mouth within the context of social media on consumer purchase decisions. More precisely, how the familiarity of the eWOM source, the way of communication, writer's expertise and the popularity of a product affects the consumer's purchase decision. The data has been gathered using quantitative research method. The sample consists of students studying in Timisoara, Romania. The surveys were e-mailed to students' e-mail addresses. Due to the lack of response from e-mails, the responses were gathered using a mixture of door-to-door and online surveys methods. The questions were answered by 200 students within a month. The results will provide the extent of impact eWOM in social media has on the purchase decisions.*

Key Words: *Electronic word-of-mouth, Social media, Digital marketing, Purchase decision*

Introduction

The constant escalation of the internet usage drove companies to mend their marketing strategies to include the digital interactivity of their customer base. Digital marketing is defined as; "a subcategory of marketing which uses digital technology to place and sell products." It is the marketers' use of technologies such as; emails, social media, and word-of-mouth to engage with their target group and generate sales. What sets digital marketing apart from traditional marketing is the ability to comprehend the efficiency of the marketing campaigns while they are still being served to the online viewers.

The choice procedure and psychosocial movement are involved in the phases of assessing, buying, devouring or requesting any good or service. As the Internet advanced, along with globalization, the buyers started to confront the issue of "perplexity by over-decision". The various brands accessible for a similar item perplexes the customer to make up his/her mind on which brand to choose. Thus,

there is a solid requirement for a medium to slice through the advertising "mess" and help shoppers pick an item that will fit their needs. Electronic word-of-mouth plays the role of this medium. Customers that decide to utilize this method for correspondence may have their buy goal adjusted, particularly by individuals who has had a shopping background with that good or service (Nawaz et al., 2014).

The way individuals see data sources influence their process of acknowledging the information being provided (Hu, 2015). By the enhancements in web based shopping the significance of electronic word-of-mouth has extremely increased. When shoppers get recommendations from their closest or colleagues on social media they are able to instantly go to the websites which provide the product or service. If the person thinks about the suggestions given by someone he or she knows, the visit to the website can finish with purchase. This is one of the crucial elements which make eWOM better than traditional WOM (Evans & Erkan, 2014). In other words, ads posted by firms on social network sites is probable to be overlooked by the individuals because these advertisements are created by the firm, and in this way seen as deceitful (Diffley *et al.*, 2011).

Consumers are now in the position where they can immediately express their thoughts, give input, acknowledge or question the activity of a brand (Chiosa, 2014). These actions are possible because of the digital world we live in. By participating in web-based social networking, brands can create showcasing techniques that improve customer dedication and carry on the positive picture of the brand.

Literature Review

Numerous definitions of electronic word-of-mouth (eWOM) have been made throughout literature. Hennig-Thurau *et al.* (2004) have defined this marketing strategy as "Any positive or negative statement made by potential, actual, or former customers about a product or company which is made available to a multitude of people and institutions via the Internet". The sole difference between Electronic word-of-mouth (eWOM) and traditional word-of-mouth (WOM) is identified as the platform of communication being the Internet (Sørensen, 2010).

It is vital to comprehend the thought processes directing the online influencers to use electronic word-of-mouth. Understanding the motives is fundamental for those seeking to urge the influential individuals to spread messages. Knowing the thought processes in conveying online word-of-mouth can help organizations to create messages that will improve the viral movement and focus on the targeted customers.

The work of Hennig-Thurau *et al.* (2004) demonstrates the factors affecting the number of visits and the frequency of these visits on online platforms. Their findings indicate that the dominant reason for site visits is the social benefit. Furthermore, the number of comments is positively correlated with the social benefit motive. The probability to advise a product based on an online review depends on where the reader has found the comment (Lee & Youn, 2009). Readers are more inclined to suggest the product when they have read it on an independent review website or the brand's own website. From another perspective, a negative correlation exists between the consumer

expertise and consumer involvement. The consumer expertise has a negative impact, while the consumer involvement has a positive impact on the potential buyers of the product in question (Cheung *et al.*, 2012). Figure 2 shows the motives of word-of-mouth communication identified in the literature.

Figure 1 Motives of word-of-mouth communication identified in literature

<i>Dichter (1966)</i>	<i>Engel et al. (1993)</i>	<i>Sundaram et al. (1998)</i>	<i>Hennig-Thurau et al. (2004)</i>	<i>Description</i>
Product involvement	Involvement	Product involvement; vengeance; anxiety reduction	Venting negative feelings	Consumer feels so strongly (positively or negatively) about product that a pressure builds up wanting to talk about it
Self involvement	Self enhancement	Self enhancement	Positive self-enhancement	WOM allows person to gain attention, show connoisseurship
Other involvement	Concern for others	Altruism; helping the company	Concern for other consumers; helping the company	Consumer feels a genuine need to help others make a better decision (or warn them against making a bad decision) or to reward a company for a good product
Message involvement	Message intrigue			Discussion stimulated by advertisements or other marketing messages
			Social benefits	Enjoyment from engaging in the social experience of online WOM
			Economic incentives	Response to direct economic incentives offered by website for posting online reviews (e.g. "WebMiles")

Source: Dellarocas, C., & Narayan, R. (2006, December). What motivates consumers to review a product online? A study of the product-specific antecedents of online movie reviews. In *WISE*.

Park *et al.* (2007) emphasizes how electronic word-of-mouth has two different roles of either becoming the channel for obtaining information or a sign of product popularity. However, the extent to which the consumer is affected by one of these roles is based on the consumer's intention. Consumers tend to care more about reading the comments which give more clues about the product when their intentions to buy are high. On the other hand, when their buying intentions are low, the quality of the comments is not a priority. In this case, consumers are merely interested in the popularity of the product in question. The confidence of the consumer increases depending on the expertise of the writer and the purpose of the research (Chang *et al.*, 2010).

Based on the findings of Hoffman & Daugherty (2013), the communication ties between firm and consumers are not merely up to the content, the delivery effectiveness is just as important. Apparently, customers give their time into creating eWOM via social media since they wish to have any kind of effect by impacting product awareness and choices made by different purchasers. The recommendations among female consumers are more effective when compared to male consumers (Nadeem, Andreini, Salo, & Laukkanen, 2015). Even though users of a certain product or service are unwilling to post their experience, they are likely to be affected by the comments they read on social media sites because these sites are seen as platforms which are effective and valid (Yogesh & Yesha, 2014).

Research Methodology

According to the study of Perrin (2015), 90% of the teenagers from the ages 18 to 29 have a social media presence. In this manner, the utilization of university students was considered suitable as the sample group for the study. The aim of this research was to use descriptive statistics and gain an insight on the importance of certain eWOM variables in social media on purchase decision.

Sampling Procedure

The research was conducted in Timisoara, Romania. A total of 200 students filled out the questionnaire. While 172 of the replies came from Romanian students, 28 of them were attained from international students studying in Timisoara. Female students comprised more than half of the total responses.

Questionnaire Design and Data Collection

The questionnaire was formed using Google forms. It began with an introductory paragraph explaining the reason for conducting the research and what their contributions meant for the data gathering. Twenty straight forward questions were design and all besides the demographic questions were 5-point Likert scale based. Each question was mandatory to reply while confidentiality was promised. The survey had 6 short sections. The first three questions were asked to understand the demographic background of the respondents; such as their age. The second section was used to measure the impact of commenter familiarity and whether readers see known source as more valuable. The third section focused on comprehending the importance on bidirectional communication. The fourth section comprised of the expertise factor. Knowing that only some of the comments are written by experts this section aimed to analyze the significance of the writer's background. The fifth section asked the frequency to purchase a product because of its popularity. The final section consisted of questions directed to understand your purchase behavior based on the comments on social media. A title and description for each section were added in order to ease the understanding of the sections. This also helped the respondent clear any questions regarding the aim of the research.

The students were reached by using their student email addresses and Facebook groups created by different departments. Additionally, door-to-door survey approach was in order to reach the planned number of responses. The survey was conducted from February 10, 2017 till April 13, 2017.

Results

Even though a total of 200 responses were achieved in this research, 172 of them were considered to be the targeted sample. The 28 responses obtained from international students were excluded. The three demographic questions asked to gain an understanding about the respondent's background profile were gender, age and their completed education level. The data was analyzed using SPSS 18.0. The four variables analyzed were the importance of commenter familiarity, bi-

directional communication, expertise and popularity of the product/service. Since descriptive statistics was the only method for analyzes, the questions related to each variable were compounded in SPSS. This enabled us to present a single descriptive table for each of the four sections.

The majority of the survey has been filled out by females with a 60.0% of response rate, leaving the males 40.0% out of the total. 4 respondents are below the age of 18, 161 of them are between the ages of 18-24 and 7 of them are 25 or above. These results lead to the conclusion that most of the respondents were between the ages 18-24, making up 94% of the surveyors. Out of the total 172 respondents, more than half of them have finished high school and are studying undergraduate. 46 respondents have finished undergraduate, 22 of them have finished their master’s degree and only 1 has finished their PhD. The percentages based on the education levels of the respondents are 60, 27, 13 and 0.5, respectively.

Descriptive Statistics on the importance of the Familiarity of the Commenter on Social Media

The following questions were compounded in SPSS to obtain table 1.

- How likely are you to be affected by product recommendations posted on social media?
- Do you think that you are more likely to purchase a product because it was recommended by someone you personally know? Such as a friend or family member.
- Do you consider the frequency of the communication between you and the recommender of the product as important?
- Are you more likely to remember a product recommendation from someone you know?

As stated before, the total numbers of surveyors were 172. The mean is found to be 3.747 and the median is 3.75. Out of a 5 point range these results show that the respondents are likely to be affected the familiarity of the commenter on social media. The std. deviation and variance are .5779 and .334, respectively.

Table 1 Descriptive results on the familiarity variable

	N	Mean	Median	Mode	Std. Deviation	Variance	Range
Familiarity	172	3.747	3.750	3.75	.5779	.334	2.50

Descriptive Statistics on the importance of the Bi-directional on Social Media

The questions compounded in order to analyze the second variable were as follows:

- Does the online communication with the recommender motivate you to make the purchase?
- Do you feel the need to contact the person who posted a comment about the product you were planning on buying?

- Do you find all the answers to your questions about a product when going through the comments?

Table 2 shows that the mean for the questions related to bi-directional communication is 3.093 and the median is 3.00. Out of a 5 point range these results show that the respondents are quite neutral when it comes to the importance of communication on social media. Meaning that, having the opportunity to communicate with the commenter does now fall under any of the two extremes. The std. deviation and variance are .7319 and .536, respectively.

Table 2 Descriptive results on the bi-directional communication variable

	N	Mean	Median	Mode	Std. Deviation	Variance	Range
Bi-directional Communication	172	3.093	3.000	3.00	.7319	.536	3.67

Descriptive Statistics on the importance of the Commenter Expertise on Social Media

The following three questions were used to have a single descriptive table for the expertise variable.

- Does the level of knowledge the commenter has on a product affect your purchase decision?
- Do you feel the need to search if the commenter is an expert?
- Does the level of recognition that the commenter has affect your purchase decision?

The mean for the expertise factor (shown in table 3) is seen to be 3.455 and the median is 3.33. Out of a 5 point range these results show that the respondents are more likely to be affected the commenter's expertise when compared to the communication opportunity. The std. deviation and variance are .6479 and .420, respectively.

Table 3 Descriptive results on the expertise variable

	N	Mean	Median	Mode	Std. Deviation	Variance	Range
Expertise	172	3.455	3.333	3.33	.6479	.420	3.67

Descriptive Statistics on the importance of the Product/Service Popularity on Social Media

The questions listed below were used for the last variable which was the importance of product/service popularity.

- How often do you purchase a product because of its popularity among social media users? The popularity could be the number of likes, comments, shares or retweets.
- How often do you prefer the popular product because of its social media presence?

- Do you find the popularity of a product to ease your decision making progress?

The mean of the popularity variable is found as 3.484 and the median is 3.66. Out of a 5 point range these results show that the respondents are likely to be affected the popularity of the product/service on social media. The std. deviation and variance are .7734 and .598, respectively.

Table 4 Descriptive results on the popularity variable

	N	Mean	Median	Mode	Std. Deviation	Variance	Range
Popularity	172	3.484	3.666	3.67	.7734	.598	3.67

Conclusion

The descriptive analysis made in the previous section shows that the four variables do not possess the same level of importance. The results indicate that the familiarity variable plays the most important role out of the four. Social media users are prone to rely on comments they read from friends and other acquaintances. Becoming informed by someone who you know by first hand eliminates the doubt of reliability. On the hand, the opportunity to communicate with the writer of the comment is found to be the least important variable. This provides an understanding that Romanian students are rarely the initiatives of communication to gain more information on a certain product/service on social media. When compared with the familiarity variable we understand that our sample takes cognizance of immediately concluding whether or not the comment is reliable and provides most of the information needed without the extra effort of contacting. The other two variables analyzed were expertise and the popularity of a product/service on social media. The results of both variables have shown that even though they are not considered to be as important as the familiarity variable their roles aren't as small as being able to communicate with the commenter. That is to say, they fall in between the two.

The limitation of the study is that it was conducted in a single city and could be broadened to gain a better understanding of the topic. A comparative analysis will be possible when more than one country is involved. This will allow the researcher to comprehend the differences and similarities of variables found to crucial in social media. The sample size can be bigger and number of variables can be extent. Furthermore, certain SPSS analysis can be used to find if there is a statistically significant value for each variable.

Companies need to focus on their own needs in order to use their social media platforms to the fullest. The sample of this paper was found to be more concerned about the familiarity of the writer on social media. However, a broader research with an expansion in sample size, variable and geographic location will certainly provide a clearer answer for any future researcher. Conducting an analysis by adding various countries will allow us to see this topic from a wider perspective.

References

- Chang, L., Lee, Y., & Huang, C. L. (2010). The influence of E-Word-Of-Mouth on the Consumer's Purchase Decision: a Case of Body Care Products. *Journal of Global Business Management*, 6(2), 1-7.
- Cheung, C. M., & Lee, M. K. (2012). What drives consumers to spread electronic word of mouth in online consumer-opinion platforms. *Decision support systems*, 53(1), 218-225.
- Chiosa, A. R. (2014). WORD OF MOUTH ON SOCIAL MEDIA. *SEA: Practical Application of Science*, 2(4).
- Diffley, S., Kearns, J., Bennett, W., & Kawalek, P. (2011). Consumer behaviour in social networking sites: Implications for marketers. *Irish Journal of Management*, 30(2), 47.
- Digital Marketing Definition | Investopedia. (2015, April 6). Retrieved December 18, 2016, from <http://www.investopedia.com/terms/d/digital-marketing.asp>
- Evans, C., & Erkan, I. (2014). The impacts of electronic word of mouth in social media on consumers purchase intentions.
- Hennig-Thurau, T., Gwinner, K. P., Walsh, G., & Gremler, D. D. (2004). Electronic word-of-mouth via consumer-opinion platforms: What motivates consumers to articulate themselves on the Internet?. *Journal of interactive marketing*, 18(1), 38-52.
- Hu, X. (2015). *Assessing Source Credibility On Social Media—An Electronic Word-Of-Mouth Communication Perspective* (Doctoral dissertation, Bowling Green State University).
- Lee, M., & Youn, S. (2009). Electronic word of mouth (eWOM) How eWOM platforms influence consumer product judgement. *International Journal of Advertising*, 28(3), 473-499.
- Nadeem, W., Andreini, D., Salo, J., & Laukkanen, T. (2015). Engaging consumers online through websites and social media: A gender study of Italian Generation Y clothing consumers. *International Journal of Information Management*, 35(4), 432-442.
- Nawaz, A., Vveinhardt, J., & Ahmed, R. R. (2014). Impact of Word of Mouth on Consumer Buying Decision. *European Journal of Business and Management*, 6(31).
- Park, D. H., Lee, J., & Han, I. (2007). The effect of on-line consumer reviews on consumer purchasing intention: The moderating role of involvement. *International Journal of Electronic Commerce*, 11(4), 125-148.
- Perrin, A. (2015). Social media usage. *Pew Research Center*.(n.d.). Retrieved January 21, 2017, from http://www.tezu.ernet.in/~utpal/course_mat/research_design.pdf
- Sørensen, A. C. (2010). *A Process Model of Online Word of Mouth* (Unpublished master's thesis). Copenhagen Business School. Retrieved from
- Yogesh, F., & Yesha, M. (2014). Effect of Social Media on Purchase Decision. *Pacific Business Review International*, 45-50.

An Empirical Study of the Relationship between Financial Literacy and Tolerance towards Financial Risk among Entrepreneurs in Bosnia and Herzegovina

Jasmina Okičić

*Faculty of Economics, University of Tuzla
Bosnia and Herzegovina
E-mail address: jasmina.okicic@untz.ba*

Damir Selimović

*PhD Candidate at Faculty of Economics, University of Tuzla
Bosnia and Herzegovina
E-mail address: selimovic.damir2@gmail.com*

Abstract: *The purpose of this study is to explain difference in tolerance towards financial risk among entrepreneurs with different levels of financial literacy. Financial risk tolerance is the maximum amount of uncertainty an entrepreneur is willing to accept when making a financial decision. On the other hand, and according to the Organisation for Economic Co-operation and Development (OECD), financial literacy can be defined as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Therefore, the aim of the study is to explain relationship between measured level of entrepreneurs' financial literacy and their assessed tolerance towards financial risk. This is a quantitative study, where we use a questionnaire to assess tolerance towards financial risk and to measure the level of financial literacy. Also, we use non-probability sampling methods where participants are recruited by e-mail. To gain better understanding of relationship between entrepreneurs' financial literacy and their assessed tolerance towards financial risk we use descriptive statistics, chi-square, correlation analysis and multiple regression analysis. The results of this study are expected to shed more light on understanding of relationship between entrepreneurs' overall financial literacy and their tolerance towards financial risk. Implications of this study suggest that entrepreneurs' tolerance towards financial risk may be driven more by their financial attitude and behaviour rather than their financial knowledge.*

Key words: *measurement of financial literacy, measuring tolerance towards financial risk, entrepreneurs*

JEL: *D81, C83, C1*

Introduction

The fact that financial illiteracy can have negative impact on the financial well-being of an individual and entire society was proven by the recent global financial crisis that exposed the low level of consumers' financial literacy necessary to make sound financial decision. According to Atkinson and Messy (2011) lack of financial literacy has been widely acknowledged as an

aggravating factor of the crisis. Some authors, such as Klapper, Lusardi and Panos (2013), even suggested that financial literacy may better equip individuals to deal with macroeconomic shocks.

Financial decisions are, in general, under influence of many factors, such as, education, income, gender, experience, tolerance towards financial risk etc. Grable (2016) stated that risk tolerance is an underlying factor within financial planning models, investment suitability analyses, and consumer decision frameworks. Therefore, understanding tolerance towards financial risk, particularly in the context of *transition economies, like Bosnia and Herzegovina (BiH), can be crucial for certain policy making.*

In this paper we will focus on fragile relationship between financial literacy and tolerance towards financial risk among business decision makers, i. e. entrepreneurs. The research should result in responses to the following question: Is there a relationship between an entrepreneurs' financial literacy and their assessed tolerance towards financial risk? The main goal of this paper is to explain relationship between entrepreneurs' financial literacy and their assessed tolerance towards financial risk. Having in mind the above said, the central research hypothesis shall be as follows: *Entrepreneurs' tolerance towards financial risk is driven more by their financial attitude and behaviour rather than their financial knowledge.* Possible limitation of examining relationship between financial literacy and tolerance towards financial risk is the probable presence of endogeneity. The results of this study *could be a good starting point* for creating and implementing financial literacy programs for entrepreneurs. The paper is organized as follows. After the introduction, part one gives a short overview of theoretical framework of some recent literature that is relevant to the main objective of the paper. Part two outlines the data and research methodology. Part three is the center of the paper and contains analysis and discussion of the original empirical results. The last part contains some final remarks and conclusions.

Theoretical framework and literature review

The central issue addressed in this paper is the relationship between entrepreneurs' financial literacy and their assessed tolerance towards financial risk. So far, a significant number of scientific research has been conducted on the relationship between those two variables, so, the theoretical point of reference of this research will have its central foundation in preceding studies on measuring tolerance towards financial risk and assessing the level of financial literacy.

According to Huston (2010) it seems that large body of financial literacy literature has been lacking in defining the concept of financial literacy². It was even mentioned by Aren and Dinç Aydemir (2014) that researchers approach this phenomenon from different points of view, where academicians, by examining financial literacy, want to explain economic wellbeing, financial decision making and behaviour, but they rarely deal with governance and social well-being. Similar, and according to the World Bank (2013), the terms financial literacy and financial capability are often used interchangeably. Here, the term financial literacy is often associated with financial knowledge and financial capability, as a broader term, encompasses behaviour and the interaction

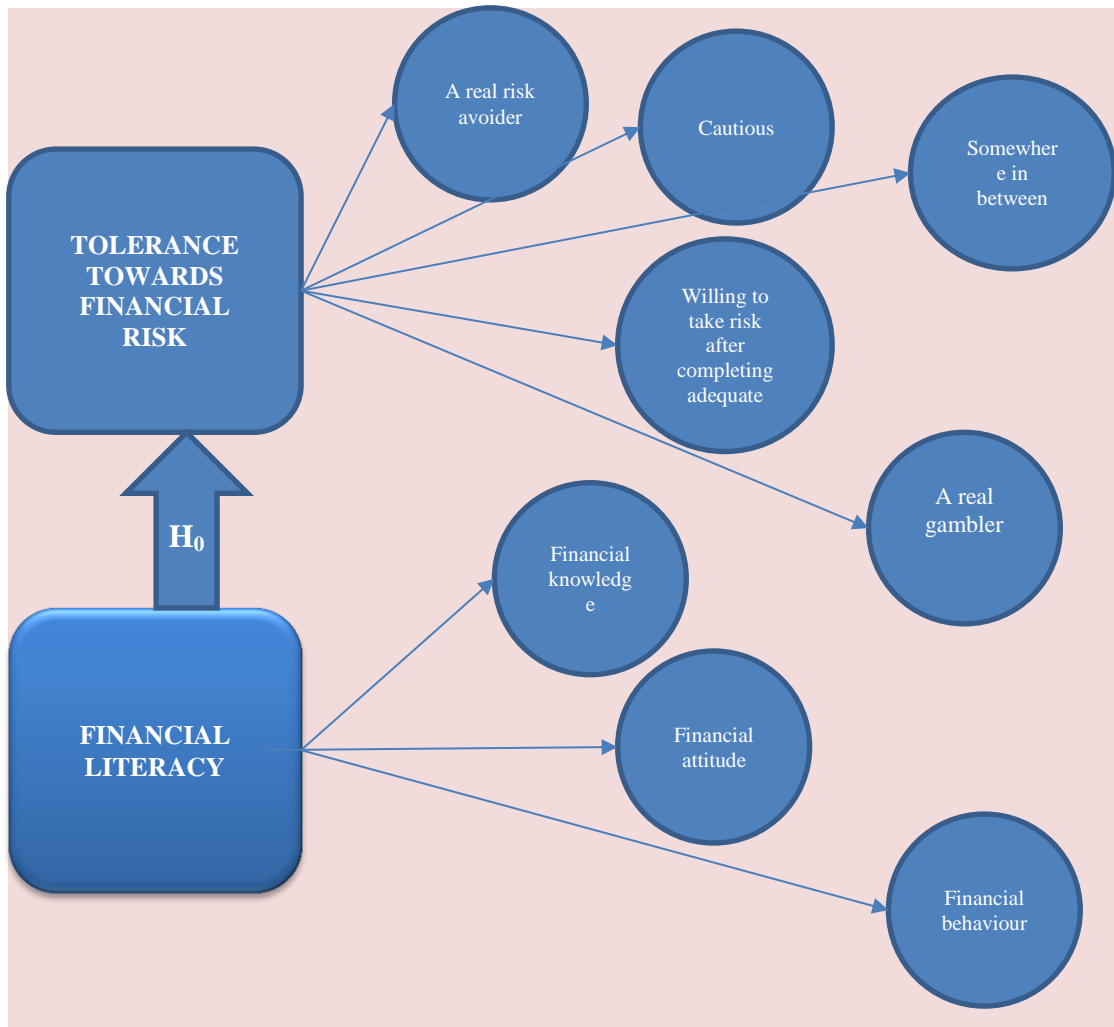
² Wagner (2015) and Aren and Dinç Aydemir (2014) give a comprehensive overview of the most used definitions of financial literacy in the recent literature.

of knowledge, skills and attitudes which is basically how OECD INFE (2011) sees financial literacy. According to the World Bank (2013), studies related to financial literacy in general measure three specific concepts: knowledge of fundamental financial concepts, awareness of products and services, offered by different financial service providers and an understanding of the risks associated with using these products and services, and understanding how to manage personal finances or use financial services. In this research we will use definition of financial literacy given by the OECD INFE (2011) and Atkinson and Messy (2012), where this concept is defined as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

In decision making process, according to Weber, Blais, and Betz (2002), risk tolerance is a person's standing on the continuum from risk aversion to risk seeking. When it comes to financial decision making process, Kahneman and Tversky (1979) define financial risk tolerance as a psychological element of decision making under financial ambiguity a situation in which a person estimate the probability of possible outcomes and their chances of occurrence. Furthermore, and again connected to financial decision making, tolerance toward financial risk, as defined by Grable (2000) and Grable and Joo (2004), is the maximum amount of uncertainty that someone is willing to accept when making a financial decision that reaches into almost every part of social and economic life. According to Irwin (1993), this phenomena can also be perceived as the willingness to engage in a financial behavior in which the outcomes are uncertain with the possibility of an identifiable loss. Grable (2016) noticed that financial risk tolerance affects the way people invest their resources and that it is to expect that people with varying levels of risk tolerance should act differently when making investment decisions. Tolerance towards financial risk may be influenced by many factors. Corter and Chen (2006), for example, documented increased risk tolerance with increasing investment experience. Summa summarum, tolerance towards financial risk determines financial decision making in general and even can even have impact on securities portfolio performance. For example, in the recent study authors, Zahirović and Okičić (2016) have revealed that, *ceteris paribus*, an increase in risk aversion leads to a decrease in expected return and the creation of more superior securities portfolio.

In this paper we want to examine relationship between financial literacy and tolerance towards financial risk. Given their multidimensional nature, it is difficult to measure financial literacy and tolerance towards financial risk with a single indicator. Therefore, we will measure financial literacy by using the following broad concepts (OECD INFE, 2011; Atkinson and Messy, 2011, 2012): financial attitude, financial knowledge and financial behaviour. Tolerance towards financial risk will be operationalized through different dimensions of risk. Figure 1 presents our theoretical concept.

Figure 1: Theoretical concept

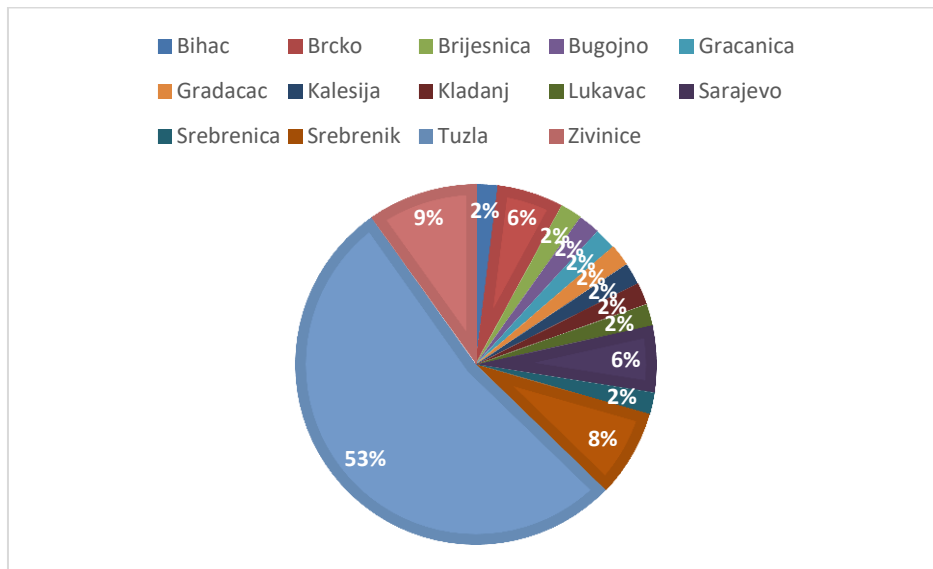


Source: Authors' own work

Data and methodology

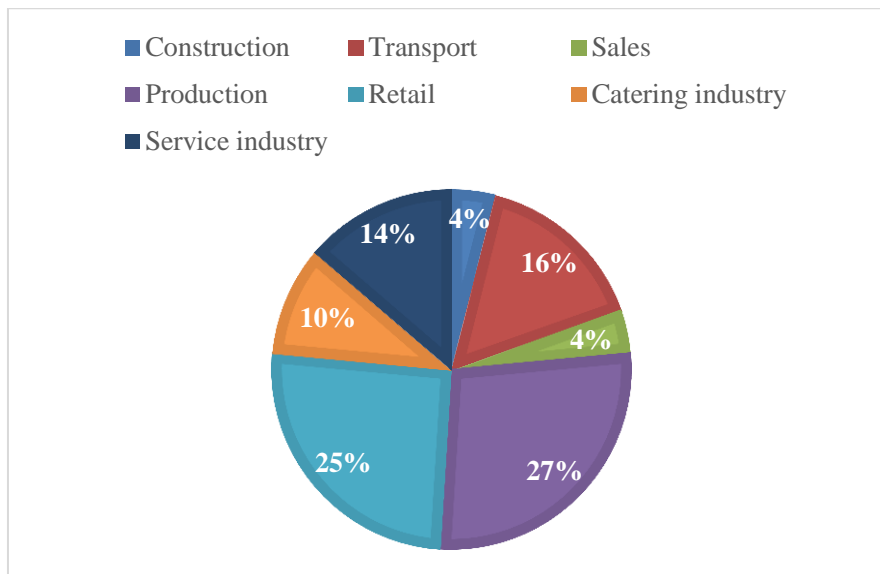
This research builds on existing knowledge in the fields of measuring tolerance towards financial risk and assessing the level of financial literacy. This is a quantitative study, where, similar to Gustafson and Omark (2015), we use a questionnaire based on the questions developed by Grable and Lytton (1999) to assess tolerance towards financial risk. Instrument used for measuring financial literacy (financial knowledge, financial attitude and financial behaviour) was mainly based on the OECD INFE Core Questionnaire (2011) and some previous work of Atkinson and Messy (2011, 2012) as well as Lusardi and Mitchell (2011). We used snowball sampling technique where participants are recruited by e-mail. The main criterion for the participant selection was entrepreneurial experience. Contacts who decided to take part in the survey were asked to forward the request to their colleagues. The participation in the study was voluntary and anonymous. 51% of the distributed questionnaires (out of 100) were returned. Research was conducted during the first quarter of 2017. Figure 2 and 3 give overview of some basic characteristics of the sample.

Figure 2: Geographical distribution of the sample



Source: Authors' own work

Figure 3: Sections and divisions



Source: Authors' own work

Tolerance towards financial risk of entrepreneurs was measured by total financial risk score (TFRS). This score is obtained by using scale developed by Grable and Lytton (1999) which basically divides respondents into five different categories. Categorisation scale and risk category is given in Table 1.

Table 1: Categorisation scale

Score interval	Label	Tolerance towards financial risk category
10-17	FRC ₁	A real risk avoider
18-25	FRC ₂	Cautious
26-33	FRC ₃	Somewhere in between
34-41	FRC ₄	Willing to take risk after completing adequate research
42-50	FRC ₅	A real gambler

Source: Gustafson and Omark (2015)

Financial literacy components are given in Table 2.

Table 2: Financial literacy components

Financial literacy component	Label	Item
FKS*	FK ₁	1.000,00 BAM available today is worth more than the same amount in the future.
	FK ₂	It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares
	FK ₃	Suppose you put 100,00 BAM into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?
	FK ₄	... and how much would be in the account at the end of five years?
	FK ₅	Imagine that the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, would the money in the account buy more than it does today, exactly the same or less than today?
	FK ₆	An investment with a high return is likely to be high risk
	FK ₇	High inflation means that the cost of living is increasing rapidly
	FK ₈	The higher the bond's yield, the shorter the duration will be and vice versa.
FA**	FA ₁	I consider myself a thrifty person.
	FA ₂	I think I need to give the best of me so my family could have a better life someday
	FA ₃	I find it more satisfying to spend money than to save it for the long term
	FA ₄	Money is there to be spent.
	FA ₅	I am willing to risk my money.
FB**	FB ₁	I tend to live for today and let tomorrow take care of itself
	FB ₂	Before I buy something I carefully consider whether I can afford it
	FB ₃	I pay my bills on time
	FB ₄	I keep a close personal watch on my financial affairs
	FB ₅	I set long term financial goals and strive to achieve them

Note: * FKS is created by summarizing number of correct answers on the financial literacy test ($FK_i, i = \overline{1,7}$)

** Participants responded to the items using a 5-point Likert scale ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree")

When it comes to financial knowledge it is probably true to say that the most popular and most applied test of financial knowledge is possibly the one developed by Lusardi and Mitchell (2011). This test, initially consisted of three questions. The first two questions “Compound Interest” and “Inflation”, indicated whether respondents understand the key economic concepts fundamental to saving. The third question, “Stock Risk,” evaluates knowledge of risk diversification, crucial to informed investment decisions.

To gain better understanding of relationship between entrepreneurs’ financial literacy (FL) and their assessed tolerance towards financial risk (TFR) we use descriptive statistics, *chi-square, correlation analysis and regression analysis*. Possible limitation of examining relationship between FL and TFR is the presence of possible endogeneity. FL, as an endogenous variable, has already been recognized in the research of Van Rooij, Lusardi and Alessi, 2011, Van Rooij, Kool and Prast, 2007 and many others.

Results and discussion

According to the empirically assessed, previously mentioned, FKS, we have identified three categories of entrepreneurs, i.e. category of entrepreneurs with solid (maximum 3 correct answers), average (maximum 6 correct answers) and excellent (maximum 8 correct answers) financial knowledge. On the other hand, and according to the empirically assessed TFRS, we have identified five categories of entrepreneurs, i.e. a real risk avoider, cautious, somewhere in between, willing to take risk after completing adequate research and a real gambler. Descriptive statistics for TFRS and FKS is presented in Table 3.

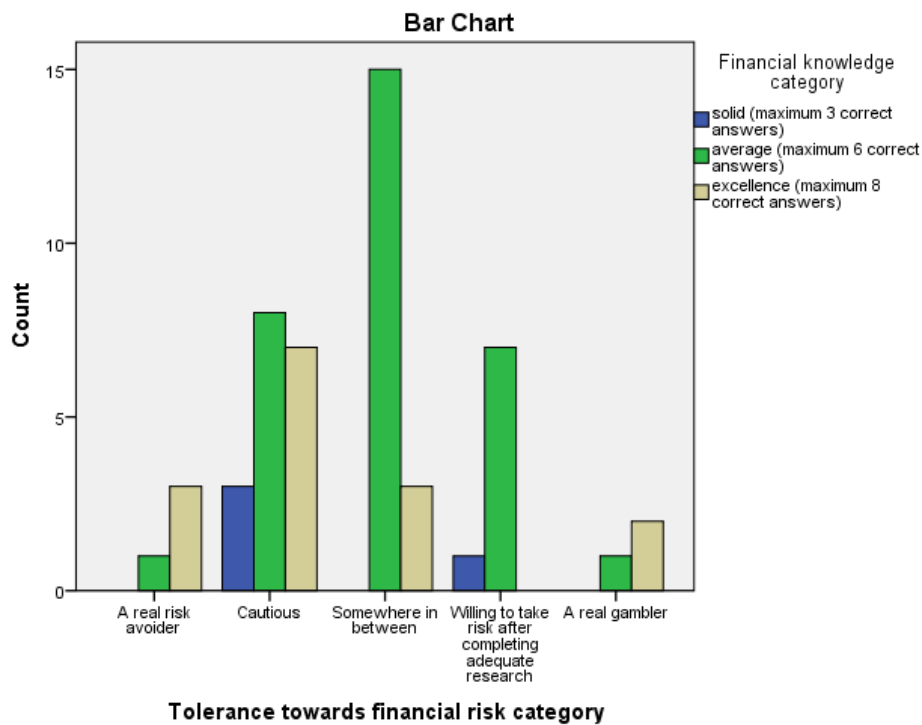
Table 3: Descriptive statistics for TFRS and FKS

Label	Variable	Minimum score	Maximum score	Mean score	Standard deviation
TFRS	Total tolerance towards financial risk score	14	44	27.84	7.134
FKS	Financial knowledge score	2	8	5.71	1.346

Source: Authors’ own work

On average, entrepreneurs have average financial knowledge and they belong to third financial risk category (see Table 1). Figure 4 shows grouped bar chart for each categorical group.

Figure 4: Financial knowledge category vs. tolerance towards financial risk category



Source: Authors' own work

When it comes to level of financial literacy, it is probably good to mention that, according to Ćumurović and Hyll (2017) there are evidence in the literature (Bucher-Koenen and Lusardi, 2011, Klapper, Lusardi, Panos, 2013, Deuflhard, Georgarakos, Inderst, 2015 etc.) that entrepreneurs, or self-employed individuals, are more financially literate than regularly employed. This could be a good recommendation for another research.

A chi-square test of independence was performed to examine the relation between categories of entrepreneurs' financial knowledge and categories of entrepreneurs' tolerance towards financial risk. The relation between these variables was significant, $\chi^2 (8, N = 51) = 16,388, p = .037$. We used an alpha level of .05 for all statistical tests. According to Cramer's V coefficient this relationship is moderate, $\varphi_c (N = 51) = .401, p = .037$.

Other two components of financial literacy are financial attitudes and financial behaviour of entrepreneurs. Their descriptive statistics is given in Table 4.

Table 4: Descriptive statistics for financial attitudes and behaviour of entrepreneurs

Component	Label	Variable	Mean	Standard deviation
FA	FA ₂	I think I need to give the best of me so my family could have a better life someday	4.00	.917
	FA ₄	Money is there to be spent.	3.35	.955
	FA ₃	I find it more satisfying to spend money than to save it for the long term.	3.29	.855
	FA ₁	I consider myself a thrifty person.	3.25	1.214
	FA ₅	I am willing to risk my money.	3.24	1.050
FB	FB ₃	I pay my bills on time.	4.12	.864
	FB ₄	I keep a close personal watch on my financial affairs.	4.10	.953
	FB ₅	I set long term financial goals and strive to achieve them.	3.82	1.212
	FB ₂	Before I buy something I carefully consider whether I can afford it.	3.76	1.050
	FB ₁	I tend to live for today and let tomorrow take care of itself.	2.04	1.038

Source: Authors' own work

Results of correlation analysis between variables of financial attitude (FA), financial behaviour (FB), total tolerance towards financial risk score (TFRS) and financial knowledge score (FKS) are presented in the following table.

Table 5: Correlation matrix

		FA ₁	FA ₂	FA ₃	FA ₄	FB ₁	FA ₅	FB ₂	FB ₃	FB ₄	FB ₅	TFRS	FKS
FA ₁	Pearson Correlation	1	.108	-.285*	-.045	-.214	-.173	.503**	.352*	.554**	.398**	-.233	-.125
	Sig. (2-tailed)		.451	.042	.756	.131	.224	.000	.011	.000	.004	.100	.384
	N		51	51	51	51	51	51	51	51	51	51	51
FA ₂	Pearson Correlation		1	-.102	.023	-.042	.104	.042	.126	-.046	-.090	.000	-.065
	Sig. (2-tailed)			.476	.874	.770	.468	.772	.377	.750	.530	1.000	.651
	N			51	51	51	51	51	51	51	51	51	51
FA ₃	Pearson Correlation			1	.531**	.099	.122	-.166	-.210	-.161	-.045	.303*	-.028
	Sig. (2-tailed)				.000	.488	.395	.244	.139	.263	.752	.031	.848
	N				51	51	51	51	51	50	51	51	51
FA ₄	Pearson Correlation				1	.066	-.084	-.175	-.003	-.066	.072	.196	-.135
	Sig. (2-tailed)					.643	.556	.220	.984	.650	.615	.168	.344
	N					51	51	51	51	51	51	51	51
FB ₁	Pearson Correlation					1	.340*	-.450**	-.273	-.336*	-.153	.276*	-.135
	Sig. (2-tailed)						.015	.001	.053	.017	.283	.050	.346
	N						51	51	51	50	51	51	51
FA ₅	Pearson Correlation						1	-.366**	-.031	-.170	.002	.445**	.092
	Sig. (2-tailed)							.008	.828	.238	.990	.001	.519
	N							51	51	51	51	51	51
FB ₂	Pearson Correlation							1	.560**	.650**	.595**	-.205	-.078
	Sig. (2-tailed)								.000	.000	.000	.149	.585
	N								51	50	51	51	51
FB ₃	Pearson Correlation								1	.682**	.402**	.094	-.056
	Sig. (2-tailed)									.000	.003	.512	.698
	N									51	51	51	51
FB ₄	Pearson Correlation									1	.661**	-.045	-.235
	Sig. (2-tailed)										.000	.758	.100
	N										50	50	50
FB ₅	Pearson Correlation										1	-.059	-.094
	Sig. (2-tailed)											.682	.513
	N											51	51
TFRS	Pearson Correlation											1	-.215
	Sig. (2-tailed)												.129
	N												51
FKS	Pearson Correlation												1
	Sig. (2-tailed)												
	N												

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

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

Source: Authors' own work

Correlation between TFRS and FKS was insignificant, $r (N = 51) = -.215, p=.129$. This is very interesting result because it makes sense in terms of practical significance meaning that as financial knowledge of entrepreneurs increases their tolerance towards financial risk decreases.

Furthermore, it is interesting to point out that FKS does not correlate, in terms of statistical significance, with other variables. On the other hand, TFRS has statistically significant correlation to

FB₁ (“I tend to live for today and let tomorrow take care of itself”), FA₅ (“I am willing to risk my money”) and FA₃ (“I find it more satisfying to spend money than to save it for the long term”).

A Kruskal-Wallis H test showed that there was a statistically significant difference in FA₅ (“I am willing to risk my money”) between the different categories of tolerance towards financial risk $\chi^2 (4, N = 51) = 12.260, p = .016$, with a mean rank for Tolerance towards financial risk category of 23.94 for FRC₁ (“a real risk avoider”), 35.88 for FRC₂ (“cautious”), 45.33 for FRC₃ (“somewhere in between”), 32.38 for FRC₄ (“willing to take risk after completing adequate research”) and 29.03 for FRC₅ (“a real gambler”).

The same test showed that there was a statistically significant difference in FB₁ (“I tend to live for today and let tomorrow take care of itself”) between the different categories of tolerance towards financial risk $\chi^2 (4, N = 51) = 12.520, p = .014$, with a mean rank for Tolerance towards financial risk category of 23.63 for FRC₁, 26.53 for FRC₂, 18.86 for FRC₃, 37.19 for FRC₄ and 39.00 for FRC₅.

In order to go one step further in examining relationship between financial literacy of entrepreneurs and their tolerance towards financial risk, we decided to estimate multiple regression models.

Results of estimation are given in Table 6.

Table 6: Regression analysis

Model	Dependent variable	α	Independent variables and unstandardized coefficients											R ²	F
			FKS	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
1	TFR	11.132 (.327)	-1.064 (.155)	-.960 (.324)	-.490 (.637)	1.444 (.308)	1.013 (.443)	2.871 (0.013)	0.918 (.376)	.037 (.982)	2.459 (.154)	-.145 (.937)	-.336 (.793)	.423	2.528 (.017)
			TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
2	FKS	9.262 (.000)	-0.049 (.155)	-.019 (.930)	-.185 (.408)	.130 (.672)	-.215 (.450)	.241 (.349)	-.314 (.157)	-.001 (.997)	.302 (.420)	-.573 (.142)	-.023 (.934)	.225	1.001 (.464)
			TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
3	FA ₁	.484 (.800)	-0.011 (.930)	-.027 (.324)	.114 (.510)	-.401 (.086)	.303 (.166)	.157 (.433)	.073 (.675)	.444 (.101)	-.296 (.307)	.669 (.024)	-.109 (.609)	.445	2.772 (.010)
			FKS	TFR	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
4	FA ₂	4.010 (.021)	-0.098 (.408)	-.012 (.637)	.101 (.510)	-.141 (.527)	.160 (.440)	.247 (.185)	-.063 (.699)	.209 (.418)	.201 (.461)	-.271 (.345)	-.181 (.364)	.142	.570 (.840)
			FKS	TFR	FA ₁	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
5	FA ₃	1.264 (.331)	.037 (.672)	.019 (.308)	-.189 (.086)	-.075 (.527)	.542 (.000)	.184 (.175)	-.009 (.940)	.330 (.075)	-.407 (.037)	.197 (.347)	-.145 (.318)	.474	3.108 (.005)
			FKS	TFR	FA ₁	FA ₂	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
6	FA ₄	2.124 (.126)	-0.070 (.450)	.015 (.443)	.165 (.166)	.099 (.440)	.627 (.000)	-.367 (.009)	-.055 (.670)	-.522 (.007)	.354 (.094)	-.261 (.245)	.286 (.063)	.492	3.351 (.003)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
7	FA ₅	1.109 (.474)	.096 (.349)	.053 (.013)	.104 (.433)	.186 (.185)	.260 (.175)	-.448 (.009)	.089 (.531)	-.625 (.003)	.277 (.239)	-.176 (.479)	.372 (.027)	.494	3.378 (.002)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FB ₁	FB ₂	FB ₃	FB ₄	FB ₅		
8	FB ₁	4.538 (.008)	-.166 (.157)	.023 (.376)	.064 (.675)	-.063 (.699)	-.017 (.940)	-.089 (.670)	.117 (.531)	-.326 (.203)	-.062 (.820)	-.257 (.369)	.104 (.602)	.320	1.623 (.131)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₂	FB ₃	FB ₄	FB ₅		
9	FB ₂	1.452 (.193)	.000 (.997)	.000 (.982)	.155 (.101)	.083 (.418)	.245 (.075)	-.336 (.007)	-.330 (.003)	-.130 (.203)	.450 (.006)	-.100 (.582)	.431 (.000)	.741	9.875 (.000)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₃	FB ₄	FB ₅		
10	FB ₃	.020 (.985)	.057 (.420)	.021 (.154)	-.093 (.307)	.071 (.461)	-.270 (.037)	.203 (.094)	.131 (.239)	-.022 (.820)	.402 (.006)	.599 (.000)	-.239 (.039)	.645	6.288 (.000)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₄	FB ₅		
11	FB ₄	1.711 (.086)	-.098 (.142)	-.001 (.937)	.190 (.024)	-.087 (.345)	.118 (.347)	-.136 (.245)	-.075 (.479)	-.083 (.369)	-.081 (.582)	.543 (.000)	.322 (.003)	.740	9.830 (.000)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₅		
12	FB ₅	-.490 (.737)	-.008 (.934)	-.005 (.793)	-.064 (.609)	-.120 (.364)	-.181 (.318)	.308 (.063)	.329 (.027)	.069 (.602)	.724 (.000)	-.449 (.039)	.668 (.003)	.633	5.954 (.000)
			FKS	TFR	FA ₁	FA ₂	FA ₃	FA ₄	FA ₅	FB ₁	FB ₂	FB ₃	FB ₄		

Source: Authors' own work

Only one variable, FA₅ (“I am willing to risk my money”), significantly predicted TFR, $\beta_5 = 2.871$, $p = .013$ and explained a significant proportion of variance, 42.3%, in TFR. Also, although not statistically significant, there is inverse relationship between TFR and FKS, $\beta = -1.064$, $p = .155$. This, negative relationship between financial knowledge and tolerance towards financial risk among entrepreneurs in BiH, isn’t surprising because previous correlation analysis showed similar results.

Conclusion

To sum up, the analysis results have revealed that an entrepreneurs’ tolerance towards financial risk is driven more by their financial attitude and behaviour rather than their financial knowledge. On a policy level, the real implications of the research can be seen in the tailoring of particular financial literacy programs for entrepreneurs in BiH. Empirical research was conducted on a relatively small sample size and the limited territory of BiH. Hence it, in order to obtain reliable and more relevant data regarding the relationship between entrepreneurs’ tolerance towards financial risk and their assessed level of financial literacy in BiH, research should include a larger number of respondents. Also, further research suggests a need for more in depth analysis of relationship between tolerance towards financial risk and financial literacy with focus on dealing with potential endogeneity issue. It would be particularly interesting to examine the effect of *socio-economic* and *demographic* variables on the tolerance towards financial risk and on financial literacy in general. Furthermore, in the recent literature, it is argued that entrepreneurs are more financially literate than those individuals that are regularly employed. Therefore, this could also be a good starting point for further research in case of self-employed and regularly employed individuals in BiH.

References

- Aren, S., & Dinç Aydemir, S. (2014). A Literature Review on Financial Literacy. *Finansal Araştırmalar ve Çalışmalar Dergisi*, 6(11), 33-49.
- Atkinson, A., & Messy, F. (2011). *Assessing financial literacy in 12 countries an OECD Pilot Exercise*. Paris: OECD Financial Affairs Division. Paris. Retrieved from: <http://arno.uvt.nl/show.cgi?fid=114072>
- Atkinson, A., & Messy, F. (2012). *Measuring Financial Literacy: Results of the OECD/International Network on Financial Education (INFE) Pilot Study*. OECD Working Papers on Finance, Insurance and Private Pensions, No. 15. Paris: OECD Publishing. Retrieved from <http://dx.doi.org/10.1787/5k9csfs90fr4-en>
- Awais, M., Laber, F., Rasheed, N., & Khursheed, A. (2016). Impact of Financial Literacy and Investment Experience on Risk Tolerance and Investment Decisions: Empirical Evidence from Pakistan. *International Journal of Economics and Financial Issues*, 6(1), 73-79.
- Bucher-Koenen, T., & Lusardi, A. (2011). Financial literacy and retirement planning in Germany. *Journal of Pension Economics and Finance*, 10 (4), 565-584.

- Corter, J. E., & Chen, Y. (2006). Do investment risk tolerance attitudes predict portfolio risk? *Journal of Business and Psychology*, 20(3), 369-381.
- Ćumurović, A., & Hyll, W. (2017). *Financial Literacy and Self-Employment*. Retrieved from: <http://gflec.org/wp-content/uploads/2017/04/CUMUROVIC-Paper-Cherry-Blossom-2017.pdf?x28148>
- Deuhard, F., Georgarakos, D. & Inderst, R. (2015). *Financial Literacy and Savings Account*
- Grable, J. E. (2000). Financial risk tolerance and additional factors that affect risk taking in every day money matters. *Journal of Business and Psychology*, 14(4), 625–630.
- Grable, J. E. (2016). Financial Risk Tolerance. In J. J. Xiao (Ed.), *Handbook of Consumer Finance Research*. Cham: Springer International Publishing AG.
- Grable, J. E., & Joo, S. H. (2004). Environmental and bio psychosocial factors associated with financial risk tolerance. *Journal of Financial Counselling and Planning*, 15 (1), 73–82.
- Grable, J. E., & Lytton R.H. (1999). Financial risk tolerance revisited: the development of a risk assessment instrument. *Financial Services Review*, 8,163–181.
- Gustafson, C., & Omark, L. (2015). *Financial literacy's effect on financial risk tolerance - A quantitative study on whether financial literacy has an increasing or decreasing impact on financial risk tolerance*. Umeå: Umeå School of Business and Economics.
- Huston, S. J. (2010). Measuring Financial Literacy. *Journal of Consumer Affairs*, 44(2), 296-316.
- Irwin, C. E. (1993). Adolescence and risk taking: How are they related? In N. J. Bell & R. W. Bell (Eds.), *Adolescent risk taking*. Newbury Park, CA: Sage.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47 (2), 263–291.
- Klapper, L., Lusardi, A., & Panos, G. A. (2013). Financial literacy and its consequences: Evidence from Russia during the financial crisis. *Journal of Banking & Finance*, 37(10), 3904-3923.
- Lusardi, A., & Mitchell, O. S. (2011). *Financial Literacy and Planning: applications for Retirement Wellbeing*. NBER Working Papers 17078, National Bureau of Economic Research, Inc. Retrieved from <https://ideas.repec.org/p/nbr/nberwo/17078.html>
- OECD INFE (2011). *Measuring Financial Literacy: Core Questionnaire in Measuring Financial Literacy: Questionnaire and Guidance Notes for conducting an Internationally Comparable Survey of Financial literacy*. Paris: OECD. Retrieved from <https://www.oecd.org/finance/financial-education/49319977.pdf>
- Returns. ECB Working Paper 1852. Retrieved from: <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1852.en.pdf>
- The World Bank (2013). *Financial Capability Surveys around the World — August 2013*. Retrieved from http://responsiblefinance.worldbank.org/~/_media/GIAWB/FL/Documents/Publications/Why-financial-capability-is-important.pdf
- Van Rooij, M., Lusardi, A., Alessi, R. (2011). Financial literacy and stock market participation. *Journal of Financial Economics*, 101(2), 449-472.

- Van Rooij, M., Kool, C. J. M., & Prast, H. M. (2007). Risk-return preferences in the pension domain: Are people able to choose?. *Journal of Public Economics*, 91(3-4), 701-722.
- Wagner, J. (2015). *An Analysis of the Effects of Financial Education on Financial Literacy and Financial Behaviors*. Dissertations and Theses from the College of Business Administration. Paper 50. Retrieved from <http://digitalcommons.unl.edu/businessdiss/50>
- Weber, E. U., Blais, A. R., & Betz, N. E. (2002). A Domain-Specific Risk-Attitude Scale: Measuring Risk Perceptions and Risk Behaviors. *Journal of Behavioral Decision Making*, 15 (4), 263–290.
- Zahirović, S., & Okičić, J. (2016). Effects of Risk Aversion on Securities Portfolio Performance in Underdeveloped Capital Markets: Case of Capital Market of Bosnia and Herzegovina. *Economic Research*. 29(1), 343-359.

Measuring Financial Inclusion in Western Balkan Countries – A Comparative Survey

Meldina Kokorović Jukan

*Faculty of Economics, University of Tuzla
Univerzitetska 8, 75000 Tuzla, BiH
Phone: +387 35 320 820
Fax: +387 35 320 821
E-mail: meldina.kokorovic@untz.ba*

Amra Babajić

*Faculty of Economics, University of Tuzla
Univerzitetska 8, 75000 Tuzla, BiH
Phone: +387 35 320 820
Fax: +387 35 320 821
E-mail: amra.babajic@untz.ba*

Amra Softić

*Faculty of Economics, University of Tuzla/
Indirect Taxation Authority of BiH, BiH
E-mail: amrasoftic@outlook.com*

Abstract: *According to the World Bank, more than one quarter of worlds' population is without a bank account and is excluded from financial system. Improving financial inclusion and building inclusive financial systems is in agenda of all policy makers in both developed and developing countries aiming to include the poorest part of the population in to the financial system. Financial inclusion is becoming more important topic in academic world, but also among regulators and policy makers. In order to emphasize the importance of financial inclusion, this paper investigates the extent of financial inclusion among Western Balkan countries and in comparison to other developing regions around the world. Using data from the World Banks' Global Findex data base, this paper provides comparison of the level of financial inclusion in Western Balkans counties, focusing on the importance of government role in increasing financial inclusion. Research shows similar level of financial inclusion within Western Balkan countries measured by the following indicators of financial inclusion: percentage of population having formal account at a financial institution, percentage of population saving at financial institution and percentage of population borrowing at financial institution. Furthermore, the research shows that the level of financial inclusion in Western Balkan countries is slightly above the levels in other developing regions around the world, but still Western Balkan countries lack national financial inclusion strategies which will help increase their levels of financial inclusion to the level of more developed countries.*

Keywords: *financial inclusion, Western Balkan countries, developing regions, national financial inclusion strategies, policy makers*

Introductory Considerations

The Center for Financial Inclusion (CFI) defines full financial inclusion as a state in which everyone who can use financial services/products has access to a wide range of quality financial services at affordable prices, with convenience, dignity, and consumer protections, delivered by a range of providers in a stable, competitive market to financially capable clients.

Furthermore, according to the World Bank, financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.³

The term financial inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of financial inclusion differs among countries. For example, in a developed country non-payment of utility bills through banks may be considered as a case of financial exclusion. However, the same may not (and need not) be considered as financial exclusion in an underdeveloped nation as the financial system is not yet developed to provide sophisticated services. Hence, while making any cross country comparisons due care needs to be taken (Mehrotra et. al., 2009:14).

Improving access and building inclusive financial systems is a goal that is relevant to economies at all levels of development (World Bank, 2008:21) aiming to include the poorest part of the population in the financial streams. It is empirically proven that financial inclusion correlates with high levels of economic development in that country and vice-versa (Swamy, 2014).

Furthermore, financial inclusion is becoming the main priority in developing countries since the research shows that increase in financial inclusion of individuals plays an important role in reduction of poverty and achieving inclusive economic growth. Greater access to financial services for both individuals and firms may help reduce income inequality and accelerate economic growth.

Contrary to inclusion there is financial exclusion, which is often defined in the context of a larger issue – social exclusion. Financial exclusion is indeed a reflection of social exclusion, as countries having low GDP per capita, relatively higher levels of income inequality, low rates of literacy, low urbanisation and poor connectivity seem to be less financially inclusive (Sarma, Pais, 2008:23). This relationship can also be viewed from the other side: The reduction of financial exclusion is a priority for the government because it can lead to social exclusion (Mitton, 2008).

As Western Balkan countries are developing part of the world, financial inclusion can be perceived as on the important aspects and contributors to economic development. Therefore, this

³<http://www.worldbank.org/en/topic/financialinclusion/overview>

paper complements to existing literature on financial inclusion measurement, by providing a comparative analysis of financial inclusion in the countries of this region, focusing on the level of financial inclusion and on the government role in increasing financial inclusion.

The second part of the paper summarizes previous researches on financial inclusion globally. In the third part of the paper the methodology of the research was introduced, while in the fourth part of the paper the comparative analysis of financial inclusion in Western Balkan countries is presented.

Previous Research

Financial literacy is a rather new topic among academics. Its' importance increased in the last decade as a result of the global financial crisis. Academic research is mainly focused on measurements of financial inclusion, in other words, on creating integrative measures of financial literacy that can be both internationally comparable and that can capture the specifics of particular national economy that is the subject of the research.

There are two approaches to investigate financial inclusion based on the data collection method. Different databases offer either supply side or demand side data. Supply-side studies and databases (such as CGAP Financial Access, IMF Financial Access Survey or Microfinance Information eXchange) compile data from various types of (formal and non-formal) financial institutions aiming to calculate and understand their overall outreach and performance in providing financial services to individuals in one country, region and globally.

Until recently, the measurement of financial inclusion around the world has focused on usage and access to the formal financial services by using supply-side aggregate data, meaning that data were collected directly from financial institutions. These are the so-called density indicators, such as the number of bank branches or automatic teller machines (ATMs) per capita. Data of this type have been compiled by surveying financial service providers (e.g. Beck, Demirgüç-Kunt, and Martínez Pería 2007; Honohan 2008; Kendall, Mylenko, and Ponce 2010; Chakravarty and Pal 2010; Sarma and Mandira (2012); Amidžić et. al. 2014, etc.). Demand-side (provider side) information on financial inclusion is now collected as part of the IMF's Financial Access Survey, which has annual data for 187 jurisdictions from 2001 up to date.⁴

While these indicators have made it possible to obtain basic provider-side information on the use of financial services, relatively little has been known until recently about the global reach of the financial sector, that is, the extent of financial inclusion and the degree to which the poor, women, and other population segments are excluded from formal financial systems (World Bank 2014:39).

⁴ More on IMF's Financial Access Survey data can be obtained from the following website: <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>

World Banks' Global Findex database, released in 2011, helps to overcome the problem of better understanding the underlying reasons of financial exclusion among different population groups. According to Demircuc-Kunt and Klapper (2012), "The Global Findex fills a major gap in the financial inclusion data landscape and is the first public database on demand-side indicators that consistently measures individuals' usage of financial products across countries and over time. Covering a range of topics, the Global Findex can be used to track global financial inclusion policies and facilitate a deeper and more nuanced understanding of how adults around the world save, borrow, and make payments."

Most of recent research on financial inclusion levels around the world relies on the data from Global Findex database. Most of the research provides analysis of several usage and barriers related indicators on countries and regional levels (Demircuc-Kunt and Klapper, 2013, Demircuc-Kunt et al., 2015). Some of the research addresses gender, age, and income inequalities in financial inclusion (e.g. Aterido, Beck, and Iacovone 2011; Demircuc-Kunt, Klapper and Singer 2013), but on the regional level. Still there is no more detailed research on individual level.

Research Methodology

In this research, the status of financial inclusion among Western Balkan countries was assessed using secondary data from World Bank Global Findex Database (2014) through descriptive statistics.

The Global Findex indicators measure two dimension of financial inclusion: access to financial services and the use of financial services.

As the Global Findex indicators cover very broad area of topics of individuals' financial behaviour, we focus on the following indicators that we believe are particularly important to provide better insight into overall financial inclusion of individuals among Western Balkan countries:

- formal account – holding an account (savings or checking) at a financial institution
- formal savings – savings at financial institution
- formal borrowing – loan at financial institution
-

Additionally, a chi-square test of independence was performed to examine whether there are statistically significant differences in financial inclusion levels among individuals in respect to gender, education level and income level.

Furthermore, we examine barriers to financial inclusion through understanding the reasons why individuals do not have an account at financial institutions.

The indicators in the Global Financial Inclusion (Global Findex) database are drawn from survey data covering almost 150,000 people in more than 140 economies—representing more

than 97% of the world's population. The survey was carried out over the 2014 calendar year by Gallup, Inc. as part of its Gallup World Poll, which since 2005 has continually conducted surveys of approximately 1,000 people in each of more than 160 economies and in over 140 languages, using randomly selected, nationally representative samples. The target population is the entire civilian, non-institutionalized population aged 15 and above.⁵

Empirical Evidences on Financial Inclusion in Western Balkans

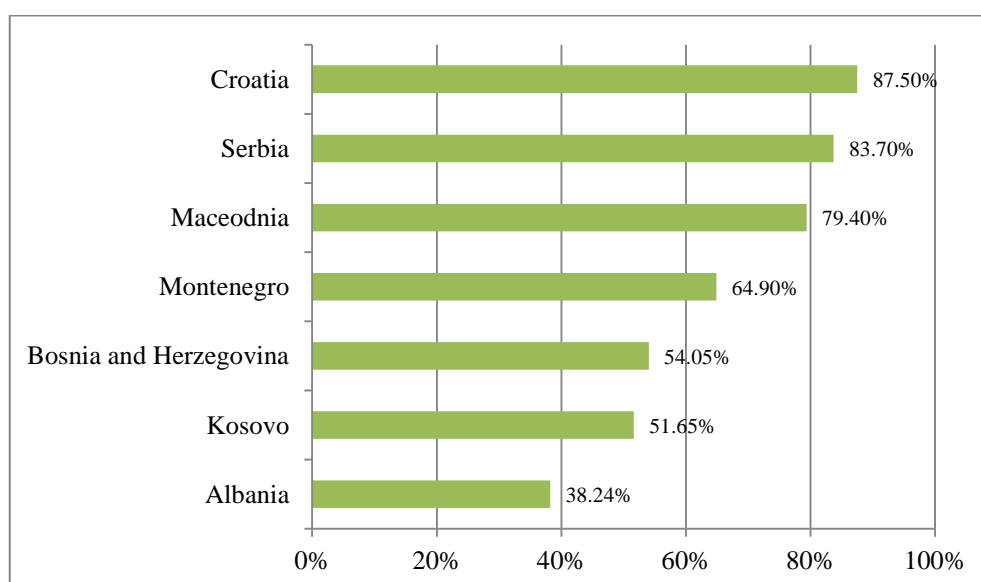
Formal account penetration

The most common indicator of financial inclusion is formal account penetration which measures the percentage of population having (owning) a formal account at financial institution.⁶

Having an account at formal financial sector serves as an entry point into the formal financial sector and opening/having a bank account is considered as the starting point to have relationship with a bank (Bapat, 2010; Demirguc-Kunt and Klapper, 2013).

According to the Global Findex database 2014, it can be clearly observed that there is a wide difference in account penetration among Western Balkan countries (see Figure 1). The highest levels of formal account penetration can be observed in Croatia (87,50%) and Serbia (83,70%), while the lowest level of account penetration is in Albania (38,24%).

Figure 1 Formal Account Penetration across Western Balkan countries



⁵ More on Global Findex methodology and questionnaire can be obtained from the following web-site: <http://www.worldbank.org/en/programs/globalfindex/methodology>

⁶ Global Findex data set captures formal account penetration through a mobile money providers as well, but as such service is not provided in Western Balkan countries, this data were omitted from analysis.

Additionally, a chi-square test of independence shows that there are significant differences in formal account penetration in respect to gender, education and household income. Results of a chi-square test are reported in the following table.

Table 1: Results of chi-square test of independence for formal account penetration

Country	Gender	Education level	Income level
Albania	$\chi^2(1, N=999) = 10,829$ p=0,001	$\chi^2(2, N=999)=144,040$ p=0,001	$\chi^2(4, N=999)=82,533$ p=0,001
Bosnia and Herzegovina	$\chi^2(1, N=1001) = 16,055$ p=0,000	$\chi^2(3, N=1001)=71,618$ p=0,000 (*)	$\chi^2(4, N=1001)=36,098$ p=0,000
Croatia	$\chi^2(1, N=1000) = 1,317$ p=0,251	$\chi^2(4, N=1000)=107,295$ p=0,001 (*)	$\chi^2(4, N=1000)=23,549$ p=0,000
Kosovo	$\chi^2(1, N=1001) = 46,718$ p=0,000	$\chi^2(4, N=1001) = 89,823$ p=0,000 (*)	$\chi^2(4, N=1001)= 34,801$ p=0,000
Montenegro	$\chi^2(1, N=1000) = 1,735$ p=0,188	$\chi^2(3, N=1000) = 90,466$ p=0,000 (*)	$\chi^2(4, N=1000)= 31,629$ p=0,000
Macedonia	$\chi^2(1, N=1000) = 19,803$ p=0,000	$\chi^2(4, N=1000)= 62,186$ p=0,000 (*)	$\chi^2(4, N=1000)= 43,030$ p=0,000
Serbia	$\chi^2(1, N=1000) = 0,134$ p=0,714	$\chi^2(3, N=1000)=18,385$ p=0,000 (*)	$\chi^2(4, N=1000)=11,239$ p=0,024

At significance level 0,05

*at least 2 cells have expected count less than 5

Based on chi-square test of independence, it can be concluded that there is a significant association between having account at formal institution and gender in Albania, Bosnia and Herzegovina, Kosovo and Macedonia, where it is more likely that males will have an account than females (see table 1).

Also, a significant association exists between having a bank account and income level (except in Serbia).

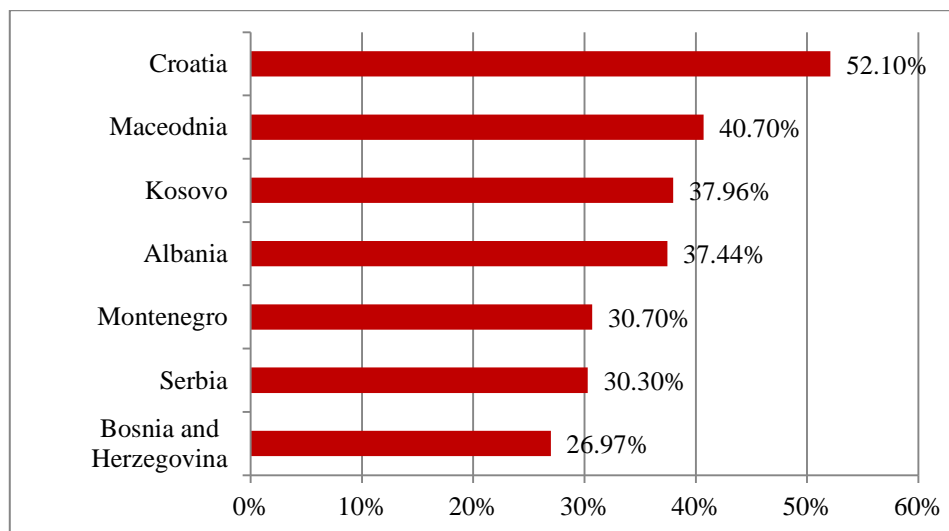
Savings

The second indicator of financial inclusion we focus on is saving. Savings are an essential ingredient for the financial inclusion of low-income populations, allowing households to manage short-term liquidity safely and conveniently, as well as to accumulate assets for future needs.⁷ Savings help in consumption smoothening during the economic shocks, especially for individuals with low-level income.

⁷ https://www.fomin.org/Portals/0/remesas/BROCHURE_Remasas_y_Ahorros_ingl%20C3%A9s.pdf

Survey data shows variation in savings among Western Balkan countries. The highest level of savings can be observed in Croatia where more than 50% of population have savings, while the lowest level of savings is observed in Bosnia and Herzegovina (26,97%).

Figure 2: Participation in Formal Saving across Western Balkan countries



A chi-square test of independence shows that there are significant differences in savings in respect to household income (see Table 2).

Table 2: Results of chi-square test of independence for savings

Country	Gender	Education level	Income level
Albania	$\chi^2(1, N=999) = 3,910$ p=0,048	$\chi^2(2, N=999) = 50,801$ p=0,000	$\chi^2(4, N=999) = 56,285$ p=0,000
Bosnia and Herzegovina	$\chi^2(1, N=1001) = 1,096$ p=0,295	$\chi^2(3, N=1001) = 9,073$ p=0,028 (*)	$\chi^2(4, N=1001) = 25,925$ p=0,000
Croatia	$\chi^2(1, N=1000) = 6,043$ p=0,014	$\chi^2(4, N=1000) = 44,852$ p=0,000 (*)	$\chi^2(4, N=1000) = 6,577$ p=0,0160
Kosovo	$\chi^2(1, N=1001) = 16,845$ p=0,000	$\chi^2(4, N=1001) = 67,588$ p=0,000 (*)	$\chi^2(4, N=1001) = 17,095$ p=0,002
Montenegro	$\chi^2(1, N=1000) = 0,193$ p=0,660	$\chi^2(3, N=1000) = 17,525$ p=0,001 (*)	$\chi^2(4, N=1000) = 63,245$ p=0,000
Macedonia	$\chi^2(1, N=1000) = 5,740$ p=0,170	$\chi^2(4, N=1000) = 39,385$ p=0,000 (*)	$\chi^2(4, N=1000) = 18,650$ p=0,001
Serbia	$\chi^2(1, N=1000) = 1,099$ p=0,295	$\chi^2(3, N=1000) = 18,385$ p=0,000 (*)	$\chi^2(4, N=1000) = 44,791$ p=0,000

At significance level 0,05

*at least 2 cells have expected count less than 5

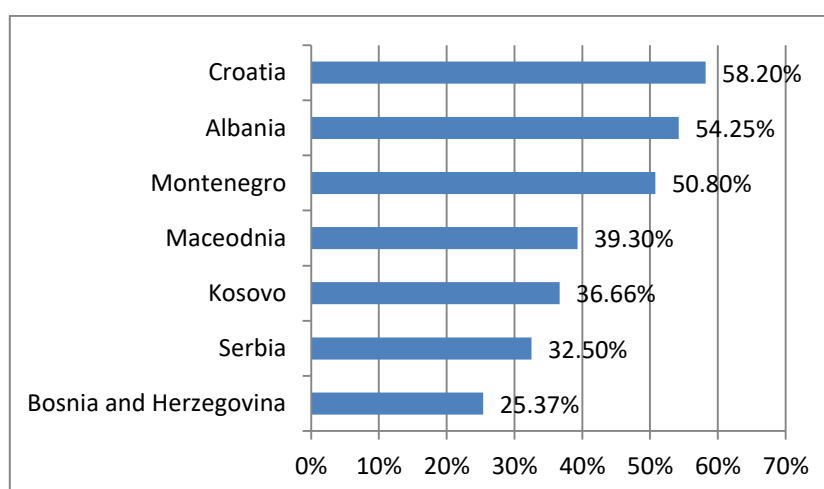
Based on chi-square test of independence, it can be concluded that there is a significant association between participation in formal savings and income level (except in Croatia), where

individuals with higher income level participate in formal savings more than individuals with lower income level. Also, there is no significant association between participation in formal savings and gender (except in Kosovo) and education level.

Borrowing

Analysis of participation in borrowing in Western Balkan countries showed that the highest level of borrowings is in Croatia, where more than 58% of population have loan at financial institution, while the lowest level of borrowing (25,37%) is observed in Bosnia and Herzegovina (see Figure 3).

Figure3: Participation in Borrowing across Western Balkan countries



A chi-square test of independence shows that there are no significant differences in borrowings in respect to gender, education level and household income (see Table 3). The only exception is Albania, where there is a significant association between participation in borrowing and income level.

Table 3: Results of chi-square test of independence for borrowing

Country	Gender	Education level	Income level
Albania	$\chi^2(1, N=999)=1,874$ p=0,171	$\chi^2(2, N=999)=4,433$ p=0,106	$\chi^2(4, N=999)=57,535$ p=0,000
Bosnia and Herzegovina	$\chi^2(1, N=1001)=1,157$ p=0,282	$\chi^2(3, N=1001)=25,428$ p=0,000 (*)	$\chi^2(4, N=1001)=0,413$ p=0,981
Croatia	$\chi^2(1, N=1000)=1,538$ p=0,215	$\chi^2(4, N=1000)=53,966$ p=0,001 (*)	$\chi^2(4, N=1000)=0,593$ p=0,964
Kosovo	$\chi^2(1, N=1001)=5,695$ p=0,017	$\chi^2(4, N=1001)=15,786$ p=0,003 (*)	$\chi^2(4, N=1001)=12,651$ p=0,013
Montenegro	$\chi^2(1, N=1000)=1,512$ p=0,219	$\chi^2(3, N=1000)=13,610$ p=0,000 (*)	$\chi^2(4, N=1000)=31,629$ p=0,000
Macedonia	$\chi^2(1, N=1000)=19,803$ p=0,192	$\chi^2(4, N=1000)=62,186$ p=0,003 (*)	$\chi^2(4, N=1000)=4,891$ p=0,299
Serbia	$\chi^2(1, N=1000)=0,270$ p=0,604	$\chi^2(3, N=1000)=3,735$ p=0,292 (*)	$\chi^2(4, N=1000)=1,942$ p=0,746

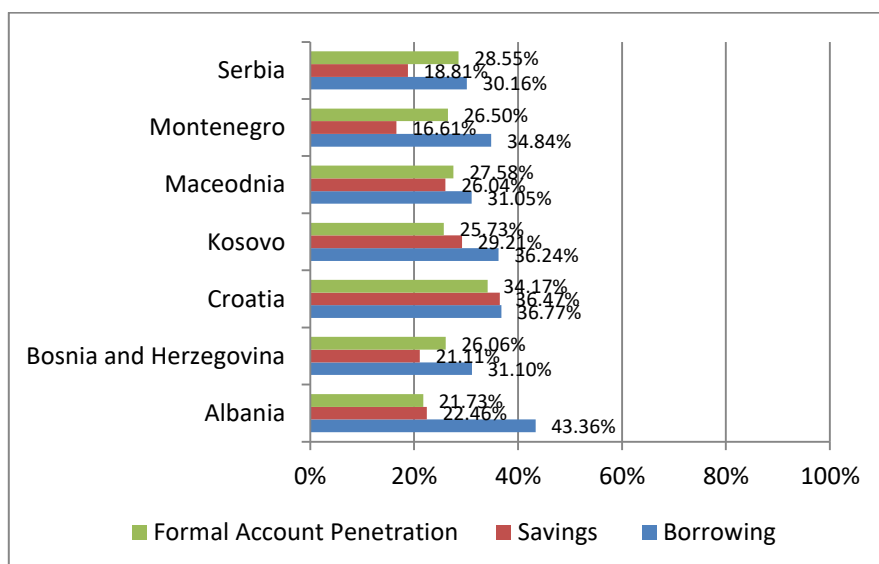
At significance level 0,05

*at least 2 cells have expected count less than 5

Differences in financial inclusion levels among income quintiles

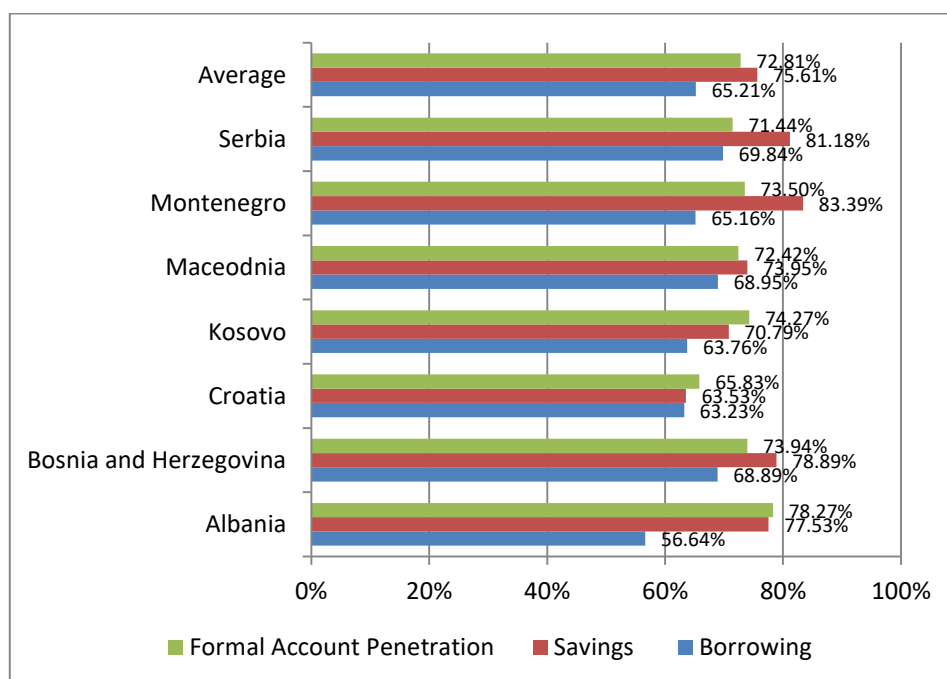
We also analysed basic indicators of financial inclusion among poorest 40 percent and richest 60 percent within WB economies (see Figures 4 and 5).

Figure 4 Basic indicators on financial inclusion among poorest 40 percent within economies



The poorest 40 percent have overall lower levels of financial inclusion in comparison to 60 richest. Among three indicators we analysed, the poorest mainly use borrowing, while savings is the less used indicator (except in Kosovo, Croatia and Albania).

Figure 5 Basic indicators on financial inclusion among richest 60 percent within economies



The richest 60 percent mostly use savings and current account and they are less oriented to lending at financial institution.

Overview of financial inclusion indicators in WB region in comparison to other developing regions and developed countries is given in Table 4.

Table 4 Financial inclusion indicators by region

Region	Eastern Asia	South Asia	Central Asia	Latin America	Sub-Saharan Africa	The Western Balkans*	High income countries
Formal account	69.00%	46.40%	51.40%	51.40%	34.20%	65.80%	94.00%
Formal savings	36.50%	12.80%	8.40%	13.50%	15.90%	11.31%	51.60%
Formal borrowing	11.00%	6.40%	12.40%	11.30%	6.30%	14.04%	18.40%
Debit cards	42.90%	18.00%	36.90%	40.40%	17.90%	45.06%	79.70%
Mobile account usage	0.40%	2.60%	0.30%	1.70%	11.50%	N/A	N/A
* Data for the Western Balkans calculated as an average of particular indicator for the Western Balkan countries (Bosnia and Herzegovina, Serbia, Croatia, Montenegro, FYR Macedonia, Albania, Kosovo, and Greece)							

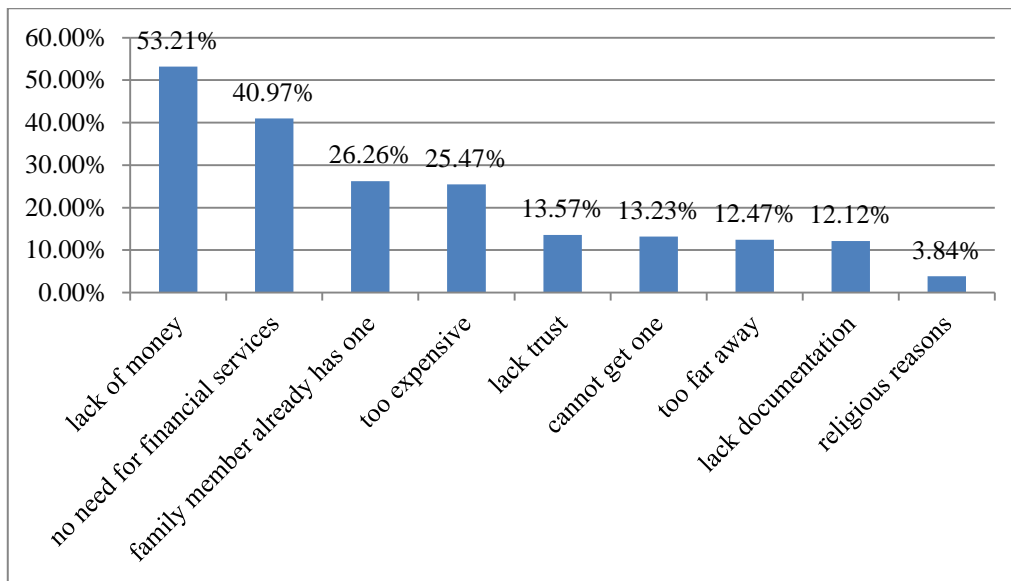
Source: Global Findex database and authors' calculations

We can see that the Western Balkans, in average, are far behind developed countries when it comes to financial inclusion measured by the possession of formal account, formal savings, formal borrowing and holding a debit card. On the other side, the level of financial inclusion in Western Balkan countries is mainly slightly above the levels in other developing regions around the world.

Barriers to financial inclusion

We also conducted analysis of barriers to financial inclusion in Western Balkan countries (see Figure 6).

Figure 6 Reasons of poor financial inclusion in WB countries



Among the reasons why individuals do not have an account at financial institutions the most important are the lack of money and no need for financial services.

Conclusions and Recommendations

For many governments the importance of financial inclusion is well known. Financial inclusion is on the agenda of both developed and developing countries. Around 60 countries in the world own and implement financial inclusion strategies. Great Britain is among the first countries to make progress in this field by publishing a financial inclusion strategy, within the Report for the Promotion of Financial Inclusion in 2004. When it comes to Western Balkan countries, none of them has strategy for financial inclusion, nor is financial inclusion included as goal in any other strategy. Bosnia and Herzegovina, for example, partly addresses this topic in the framework of the 2010 social inclusion strategy proposal. Montenegro has strategies to improve the situation of Roma and Egyptians in Montenegro 2012-2016, inclusive education strategy and national employment strategy; Croatia has a strategy to combat poverty and social exclusion, education strategy, employment strategy, etc. In Serbia a lot of research and studies on financial inclusion is being conducted. However, no country has a national strategy for financial inclusion.

Improvement of financial inclusion requires national and regional strategies, whose success requires government support as well as involvement of the private and financial sector that will be interested only if the strategy corresponds to the market.

Government should create and put into effect active measures in the context of the development of electronic and mobile banking. With that aim, close cooperation between the government and commercial banks must exist, in terms of limiting overpricing of banking products and services.

That way the number of ATMs and applicants for mobile and electronic banking could be increased.

Beside with commercial banks, government must collaborate with private associations to exchange expertise, knowledge and information. Also, there are a lot of possibilities for creating new and improvement of the existing regulation which treat this issue. Financial literacy and financial information must be actively promoted among individuals through formal and informal financial education programs.

References

- Alliance for Financial Inclusion. (2010). *Financial Inclusion Measurement for Regulators: Survey Design and Implementation*. Policy paper, Data Working Group, AFI, Bangkok. [Online]. Available from: http://www.afi-global.org/sites/default/files/afi_policypaper_datameasurement_en.pdf , [Accessed: 20 December 2016]
- Alliance for Financial Inclusion. (2011). *Measuring Financial Inclusion: Core Set of Financial Inclusion Indicators*. Data Working Group, AFI, Bangkok. [Online]. Available from: <http://www.afi-global.org/sites/default/files/publications/fidwg-core-set-measuring-fi.pdf>, [Accessed: 20 December 2016]
- Amidzic, G., Massara, A. & Mialou, A. (2014). *Assessing Countries' Financial Inclusion - A New Composite Index*. IMF Working Paper, WP=14=36., [Online]. Available from: <https://www.imf.org/external/pubs/ft/wp/2014/wp1436.pdf> [Accessed: 12 Januar 2017]
- Beck, T., Demirguc-Kunt, A. & Peria, M.S.M. (2007). Reaching Out: Access to and Use of Banking Services across Countries. *Journal of Financial Economics* 85 (1), pp. 234–66.
- Chakravarty, S. & Pal, P. (2010). *Measuring Financial Inclusion: An Axiomatic Approach*. Indira Gandhi Institute of Development Research, Working Paper no. WP 2010=003. [Online]. Available from: <http://www.igidr.ac.in/pdf/publication/WP-2010-003.pdf>, [Accessed: 12 January 2017]
- Demirguc-Kunt, A., & Klapper, L. (2012). *Measuring Financial Inclusion: The Global Findex*. Policy Research Working Paper 6025, World Bank, Washington, D.C.
- Demirguc-Kunt, A. & Klapper, L. (2013). *Measuring Financial inclusion: Explaining Variation in Use of Financial Services across Countries and within Countries*. Brookings papers on Economic Activity, Spring
- Demirguc-Kunt, A., Klapper, L. & Singer, D. (2013). *Financial inclusion and legal discrimination against women: evidence from developing countries*. Policy Research working paper ; no. WPS 6416. Washington, DC: World Bank. Available from: <http://dx.doi.org/10.1596/1813-9450-6416>, [Accessed: 12 January 2017]
- Demirguc-Kunt, A., Klapper, L., Singer, D. & Van Oudheusden, P. (2015). *The Global Findex Database 2014: Measuring Financial Inclusion around the World*. Policy Research Working Paper 7255, World Bank, Washington, DC.

- Honohan, P.(2008). Cross-Country Variation in Household Access to Financial Services, *Journal of Banking & Finance*, Elsevier, vol. 32(11), pp. 2493-2500
- Kendall, J., Mylenko, N. & Ponce., A. (2010). *Measuring Financial Access around the World*. Policy Research Working Paper 5253, World Bank, Washington, DC.
- Ledgerwood, J. (2013). Measuring Financial Inclusion and Assessing Impact, in Ledgerwood, J., Earne, J., & Nelson, C. (eds) (2013) *The New Microfinance Handbook: A Financial Market System Perspective*, Washington D.C.: World Bank, pp. 113-146.
- Mandira S., Pais J. (2008). *Financial Inclusion and Development: A Cross Country Analysis*, [Online]. Available from: <http://icrier.org/pdf/Mandira%20Sarma-Paper.pdf> [Accessed: 12 April 2017]
- Mehrotra N., Puhazhendhi V., Nair G. & Sahoo, B.B. (2009). *Financial Inclusion - An Overview*. Department of Economic Analysis and Research, National Bank for Agriculture and Rural Development (NABARD), Occasional Paper 48, Mumbai, [Online]. Available from: https://www.nabard.org/pdf/OccasionalPapersonFinancialInclusion_080509.pdf , [Accessed: 12 January 2017]
- Mitton L. (2008). *Financial inclusion in the UK: Review of policy and practice*, Joseph Rowntree Foundation [Online]. Available from: <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/2234.pdf>, [Accessed: 15 April 2017]
- Sarma, Mandira, (2012). *Index of Financial Inclusion A measure of financial sector inclusiveness*, Berlin Working Papers on Money, Finance, Trade and Development, Working Paper no. 07=2012.
- Swamy, V. (2014). Financial inclusion, gender dimension and economic impact on poor households. *World Development*, 56, 1-15
- World Bank. (2008). *Finance for All? Policies and Pitfalls in Expanding Access*. Washington D.C.: World Bank
- World Bank. (2014). *Global Financial Development Report 2014: Financial Inclusion*. Washington, DC: World Bank. doi:10.1596/978-0-8213-9985-9. License: Creative Commons Attribution CC BY 3.0
- Other Internet sources:
- <http://www.worldbank.org/en/topic/financialinclusion/overview>
 - <http://www.worldbank.org/en/programs/globalfindex/methodology>
 - <http://www.centerforfinancialinclusion.org/about/who-we-are/our-definition-of-financial-inclusion>
 - <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>

Tourist Potential as a Factor of Rural Territories Development: Experience of the Russian Federation Regions

Polina Ananchenkova

Academy of labour and social relations

Russia

ananchenkova@yandex.ru

Abstract: *World experience shows that in Russia and other countries, the development of rural tourism can be a very effective activity aimed at environmental, economic, and social development.*

Today, about 20000 villages in Russia are on the verge of extinction. Consequently, rural tourism can and should become the very “locomotive” that will really pull out and revive the rural areas of Russia. The development of rural tourism is named among the priority area provided for in the “Concept of Sustainable Development of Rural Territories of the Russian Federation for the period up to 2020”, approved by Order of the Government of Russia in 2010.

Expert assessments based on studies conducted in the regions of the Russian Federation show that the approximate level of income from rural tourism activity per administrative region of the constituent entity of Russia may be about 30 million rubles (500 thousand US dollars) per year. In the case of the implementation of an integrated approach involving the joint development of agricultural activities and rural tourism, the effect can double – up to 50-60 billion rubles per year.

Rural tourism in Russia is a new socio-economic phenomenon oriented to the use of natural, cultural, historical resources of rural areas to create and supply a tourist product to a wide range of people. In this regard, it should be thought that the strategic priorities of the national policy aimed at stimulating tourism in rural areas should be the concentration of tourist resources and creation of destinations that include backbone tourist centers with high potential for the formation of rural tours, and territories adjacent to the borders. At the same time, the activation of rural tourism will allow developing territories that do not have promising industrial and agricultural organizations, and thereby improve the socio-economic situation of the country as a whole.

Keywords: *rural territories, development, tourism, Russian Federation*

JEL Classification: *Z320, R190, Q010*

Introduction

World experience shows that in Russia and other countries, the development of rural tourism can be a very effective activity aimed at environmental, economic, and social development. At the end of XX and beginning of XXI century in the world a great interest to rural tourism has arisen, and different countries have excellent examples of organization and promotion of this type of tourism. At this, each country thanks to natural landscapes, traditions of agriculture and cattle breeding, specifics of cuisine, rural culture, architectural appearance and vernacular legacy of villages create own national model of rural tourism development. Rural tourism is slowly

becoming popular, fashionable and recreation in countryside already takes second place after seaside vacation. Russia does not remain aside from modern trends in this area. Today, about 20,000 villages in Russia are on the verge of extinction. Consequently, rural tourism can and should become the very “locomotive” that will really pull out and revive the rural areas of Russia.

Subjects of rural tourism services provision

According to data of monitoring of rural tourism development in regions of the Russian Federation, subjects of rural tourism services provision, in general, are:

- small businesses providing accommodation, catering, and excursion services;
- Peasant Farm Enterprises, Household Farms, farmers;
- food processing enterprises;
- administration of Specially Protected Natural Reservations (SPNR);
- institutions of culture and sports in rural areas, in some cases, schools;
- religious sites;
- rural residents and summer visitors.

Subjects of services provision have one thing in common, i.e. all of them are located at rural area, but due to organizational-legal stats and different departmental affiliation there is a certain discrepancy in interests.

List of services provided to tourists nowadays in almost each region is rather diverse, and depends on demand as well as on initiative and wishes of subjects providing services. Approximate range of services is as follows:

- services of temporary accommodation in guest rooms, rural guest houses, houses, inns, etc.;
- catering and tasting services;
- agro-tourist services (participation in agricultural operations: haymaking, shearing, milking, etc.);
- agro-tourist services (gathering of mushrooms, berries, vegetables, wild plants, etc.);
- sale of agricultural products, meat, dairy products, wild plants, crafts, etc.;
- riding horses, deer, camels, dogs, agricultural machinery;
- services of fishing, hunting;
- rental services, baths, bakeries, smokehouses, parking lots, etc.
- cultural and educational facilities (rural Museum, Club, library);
- training and teaching handicrafts and trades;
- participation in event activities and religious holidays;
- other.

Despite wide range of services to be provided within rural tourism subjects' activities are focused on three directions:

At first, services of temporary accommodation in guest rooms, rural guest houses, houses, inns, etc. One of the first regions of Russia to have achieved positive results in reception of tourists in private (rural) houses with “bed & breakfast” services as well as in teaching local residents the basics of tourism organization is the Republic of Karelia (<http://www.ticrk.ru>). Rural estates’ owners in Karelia were supported within frames of implementation of international project, Tacis, “Development of rural tourism on basis of rational use of natural and cultural resources” main result of which according to experts was establishment of Association of Rural Estates’ Owners “Estate” for coordination and support of activities of rural houses’ owners.

Second, tourist and tour services on basis of agricultural enterprises, farms, fishing facilities, facilities of food processing industry, and etc. It should be noted that National Standard of the Russian Federation GOST R 50681-2010 “Tourist Services. Design of Tourist Services” determines co-providers of tourist services:

Organizations and enterprises of tourist industry as well as private entrepreneurs rendering certain services (accommodation, catering, transport entities, exhibition complexes, museums, and etc.) under contracts concluded with tour operators at formation of tourist product. Obviously, objects of agricultural sector providing tourist and tour services refer to this list to the similar ones.

In many Russian regions tours to special agricultural farms/agricultural production facilities become rather popular, during which the visitor can get acquainted not only with production process but also can try and purchase ready products, can learn some recipes, etc. (cheese makers, wine makers, smokehouses, dairies, mushroom farms, etc.). Level of agriculture development in regions attracts attention of both farmers and manufacturers of agricultural products, and people interested in agriculture of the region.

Third, tourist and tour services rendered by rural cultural institutions (libraries, museums, cultural and recreational institutions), whereby we are talking not only about tours, acquaintance with life and traditions, visiting religious sites, eves, but also about teaching handicrafts and trades, singing and dancing skills, and etc.

In 2014, for the first, in federal budget there was allocated over three billion Rubles for renovation of material base of culture in villages and small towns. Mobile multi-functional cultural centers have been provided for rural area. Since 2016 till 2020 Federal Target Program “Sustainable Development of Rural Territories” where Ministry of Culture of the Russian Federation is a state customer, for reconstruction of operating rural institutions of culture provides for 2.8 billion Rubles from Federal Budget. Today, outside culture it is impossible to ensure better quality and variety of services of cultural, -educational, ethnographic, rural, event, and social tourism. These are exactly the types of tourism that significantly contribute to education and moral improvement of society, civil patriotism and harmonization of inter-ethnic relations, development of tolerance and respect for cultures of different peoples.

State support of rural tourism in the Russian Federation

Nowadays, a great attention in the Russian Federation is drawn to state support of tourism development in general and rural tourism in particular.

Strategy of Tourism Development in the Russian Federation until 2020 under Federal Target Program “Development of Domestic and Inbound Tourism in the Russian Federation (2011-2018)” defines rural and ecological tourism as most promising for majority of regions of Russia. This involves a range of issues, i.e. creation of tourist product, rational use of natural and cultural heritage of the region, interests of local economy on basis of interaction and mutual benefits, full support of driving force of rural tourism, entrepreneurship, involvement of community in tourism development, linking interests of businesses and residents on basis of mutually beneficial cooperation. Today, in many Russian regions priority of rural tourism development has been confirmed by real actions and quite tangible results. And, and in light of modern realities in terms of imposition of sanctions, stimulation of interest in products and services of domestic tourism will increase business and investment activity in field of rural tourism.

In 2014, the Ministry of Culture of the Russian Federation and the Federal Agency for Tourism hosted a number of major events in field of rural tourism. These are international forum “Agrotourism in Russia” held at the Republic of Buryatia, Russian Conference on Conservation of Village Culture and Rural Tourism Development in Lipetsk, tourist forum “Rural Tourism in Russia” in the Orenburg region. Within each event there were discussed current trends and experiences of development of rural tourism in regions of the Russian Federation, especially organization of tourist activity in rural areas and problems of legislative, infrastructure, financial, personnel, informational support of development of rural tourism. Special attention was given to measures of state support for rural tourism development at federal, regional and municipal levels. Of vast interest there was experience of self-organization and coordination of agro-tourist activities within such projects as the “Association of Most Beautiful Villages of Russia”, and “Peasant Hospitality”. At presentation venues of Forums considerable part of space has been showcasing best regional projects in chosen areas of rural tourism development included in collection of materials reflecting best practices of subjects of the Russian Federation on development of rural tourism.

Concept of sustainable development of rural areas of the Russian Federation for a period until 2020, and Federal Target Program “Sustainable Development of Rural Territories of the Russian Federation for a Period till 2020” define objectives of stimulating increase in jobs in non-agricultural fields of activity in all possible organizational forms, especially, in field of recreational and environment protection activities, agro- and environmental tourism, rural hotel business. To improve cultural services for rural population, preservation and development of cultural heritage, and enhance creative capacity of rural inhabitants there was determined an objective of rebuilding, having cultural and historical significance farmsteads and other

architectural and natural monuments, creation of museums, manor-ethnographic complexes and other infrastructure of rural tourism as well as other activities.

By Decree of the Government of the Russian Federation as of February 2, 2015 No. 151-r there was adopted a strategy for sustainable development of rural territories for a period till 2030 aimed at creation of conditions for sustained improvements in quality and standard of living of rural population through benefits of rural lifestyle. Strategy states that rural tourism is one of major directions of non-agricultural types of activity as well as has important socio-economical functions of creation of attractive jobs including for rural youth and women; on development of rural territories; on complex use of natural and cultural potentials of rural areas. Most important for subjects of agricultural activities providing tourist services, for tourist companies organizing tours to rural areas, for regional and local governments is a need to implement measures aimed at formation of agro-tourist clusters; at holding educational events (advanced qualification courses, educational workshops, master-classes, and trainings) for owner of rural guest houses, representative of farms, private entrepreneurs, rural residents engaged in organization and provision of tourist services in rural areas; media coverage of best practice and most successful projects on development of rural tourism.

Analysis of measures of state support for rural tourism in regions has shown that more used measures are provision of subsidies and grants (for repair and reconstruction of rural guest houses, landscaping; participation in exhibitions; promotion; contests; training). Recipients of subsidies and grants are small enterprises (owners of guest houses, manors, ethnicity complexes, and farms in rare cases). In majority of regions state support of rural tourism is provided within frames of state programs on development of culture and tourism, development of agriculture, support for small businesses. Exception is Belgorod Region, where program of “Development of rural tourism in the Belgorod Region for 2011-2015” is being implemented.

The main problems of rural tourism development in the Russian Federation

Analysis of materials of conferences, forums, round tables on rural tourism determined key problems of rural tourism development in regions of the Russian Federation which hinder effective and dynamic development of this direction of rural population occupancy.

- 1) Existing federal regulatory-legal acts governing activities in field of tourism lack the concept of rural tourism. Regional practice for identification of discussed type of tourist activity widely apply following concepts: “agro-tourism”, “green tourism”, “farm tourism”, “village tourism”, and etc. However, nowadays, all those regulating this field of activity and those engaged in this type of activity, as well as supervisory authorities and consumers have to use single legal definition.
- 2) Currently in regions main means for accommodation in rural areas are "guest houses" whereas paragraph 3.3 of the national standard of the Russian Federation GOST R 51185-2008 “Tourist services. Accommodation. General requirements” approved by the

Decree of Rostechregulirovanie as of 18.12.2008 No. 518-st specifies only “guest rooms, chalets, bungalows, caravans”.

3) Significant problem for development of rural tourism is underdeveloped and in some municipalities missing transport and engineering infrastructure (roads, electricity, water networks, sewage treatment plants, bank protections, etc.), which is an obstacle to private investments in tourism industry. Lack of telephone communication, Internet is often an insurmountable obstacle for both, tourists and service providers. But above all, absence of roads to rural tourism sites which include guest houses, and farms.

4) In most regions, one of the most important motivations for recreation at countryside is visiting sites of cultural and historical heritage, religious sites, ethnographic and museum complexes, old houses, castles, estates, etc.

Tourism allows for drawing attention to unique historical and cultural values, discoveries of earlier unknown or unfairly forgotten historical settlements, sites and names.

Experts note inadequate involvement of values of the territory in tour programs.

5) In many Russian regions growing demand for rural tourism services enhanced investment activities in reconstruction and construction of guest houses, small hotels, manors, ethnicity complexes, catering, rural markets, trading pavilions, etc. Today it is quite difficult to obtain available loans for implementation of these projects in rural areas. According to experts, it is necessary to provide for small businesses in field of rural tourism concessional borrowings, as well as development of methodical recommendations and providing special advice for preparation and implementation of business project.

6) Significant problem is misunderstanding and sometimes ignorance by rural entrepreneurs of need to use market-based instruments for promotion of rural tourism services. In many regions there are formed information databases of rural tourism sites, and first of all, of accommodation facilities.

According to experts, there is a need in consolidated actions of rural tourism businesses and greater cooperation on part of authorities on organization of study tours, participation in exhibitions, advertising, website creation, etc. Experts recommend to regularly fill the portal www.naselo.ru, the first Russian social network designed to increase tourist flow to the countryside.

7) Serious and long-term challenge is staffing of rural tourism which shall be addressed comprehensively. To avoid mistakes and disappointments, it is necessary to know organization of tourist services, hotel and restaurant business, marketing rules, calculation of costs, cost recovery and funding strategy. In some regions of the Russian Federation (Altai Region, the Republic of Buryatia, the Republic of Karelia, Pskov, Ryazan, Sverdlovsk regions, etc.) there is ongoing large and coherent work on organization of training courses, development of methodological recommendations for development of rural tourism. With purpose of informational, legal and financial support it is proposed to establish informational-methodological centers for owners of rural houses and providers of accompanying services for rural tourism.

- 8) Insufficient level of coordination of activities in field of rural tourism, despite increased attention to creation of associations of rural tourism. At the federal level, there are such associations as the “Association for promotion of rural tourism”, “National association of rural tourism entities” which pay especial attention to issues of development of regulatory base for rural tourism; classification of objects of rural (agro) tourism, first of all, rural guest houses; development of mechanisms for address support of rural tourism subjects; informational and consultancy support of business entities; increase of role of local governments in development of rural tourism.

Experts of Associations are confident that success of rural tourism development largely depends on local governments, their ability to coordinate planning and management of tourism development, encourage participation of local people in arrangement of tourist services, advise and help those people who want to establish business, to support development of rural culture.

Conclusion

At the end of XX and beginning of XXI century in the world a great interest to rural tourism has arisen, and different countries have excellent examples of organization and promotion of this type of tourism. At this, each country thanks to natural landscapes, traditions of agriculture and cattle breeding, specifics of cuisine, rural culture, architectural appearance and vernacular legacy of villages create own national model of rural tourism development. Russia does not remain aside from modern trends in this area. Rural tourism is slowly becoming popular, fashionable and recreation in countryside already takes second place after seaside vacation.

References

- Kamilov M., Kamilova P., Kamilova, Z. (2016). Rural tourism as a factor of sustainable development of territories. *Russian Agriculture Economy*, 12, 39-54.
- Novichkov N., Novikov V., Novichkova N. (2014). Development of tourism at rural territories of Russia in context of number of social-economic trends. *Russian Agriculture Economy*, 3, 7-14.
- Shimova O.S. (2012). *Basics of sustainable tourism*. - Moscow: INFRA-M.
- Russia in figures. 2012: Brief statistical collection/Rosstat. - M., 2012
- Russia in figures. Annual Report for 2015 (2016). Moscow: Federal state statistics service.
- Main indicators of agriculture in Russia. *Annual Report for 2015 (2016)*. Moscow: Federal state statistics service.
- Leontiev J., Timoshenkova O. (2013). *Regional tourist destination and its social-economic development*. Retrieved from: http://business-inform.net/pdf/2013/6_0/165_170.pdf

Effective Team Communication Role in Project Implementation Success

Ionela Gavrilă-Paven

*"1 Decembrie 1918" University of Alba Iulia,
Faculty of Economic Sciences
Romania
ionelapaven@yahoo.com*

Mălina Cordoș

*"1 Decembrie 1918" University of Alba Iulia,
Faculty of Economic Sciences
Romania
malina_cordos@yahoo.com*

Abstract: *In project implementation communication efficiency is very important and also difficult to measure. The research team tried to analyze the communication process at the level of project teams, underlining issues related to the communication between team members and communication team and the other departments/organization/representatives.*

Communication efficiency in project implementation depends strongly on the communication between team members and on the method used, but also it has to be considered the importance of communication at group level.

Key words: *team communication, project implementation*

Introduction

Communication represents the starting point in any activity, so efforts should be made for the communication to take place under optimum conditions, to avoid interference that may arise, and the teams working communication is to be effective and to facilitate achievement goals.

The team is a small group which is the basic unit of any organization in which activities and interpersonal relationships generated by the organization are initiated and conducted or a subjective fact which can be studied from the outside. According to M. Serif (1969) team is defined as "*a social unit consisting of a number of individuals who find each other in the role and status relationships established over a period of time and has a set of values or rules governing mutual behavior, at least in matters concerning the team*". A very important aspect that should be noted is that inside the small groups such as teams, relations are "face to face". The binder of the group is the interrelations - specifically their density - and common goal,

resulting in collective cohesion. In short, the group is not a phenomenon purely additive, an aggregate of persons only in physical proximity relationships. This could be the beginning of formation of a group that already means a minimal organization, differentiation of roles in relation to the activity (A. Neculau, 1974). Within the common goals appear helpful goals, segmentation, resulting in an overall alignment and harmonization. Amid functional relations - arising from common activities - develop relations of influence and mutual attraction, which is not a simple continuation of the first, but neither are formed independently of them. Psychosocial group reality manifests its pressure and influence on members, reward and penalty system works perimeter formal or informal group that selects or repress individual behaviors. As a result the element of the consensus appears. Mutual relationships are established, based on both emotional as well as functional. The Group offers the satisfaction of achieving goals and validation by consensus of attitudes and values.

A 2012 report by PwC shows that organizations with effective and efficient communication methods are more likely to stay within scope, meet quality standards and deliver intended business benefits⁸.

True communication is rare—much of which comes down to a fundamental difficulty in communicating with the appropriate clarity and detail.

Research methodology

This study was conducted by a team of researchers from the Department of Economics and Business Administration from the Faculty of Economic Sciences, from "1 Decembrie 1918" University of Alba Iulia supported by the Agency for Regional Development. Aim of the study was to identify communication problems faced teams from the organizations implementing EU-funded projects. In this sense was developed a questionnaire aimed at communication issues within the team, relationships with colleagues and line manager, means of communication within the team, as well as issues related to the atmosphere created within the team.

For the questionnaire the research team requested the assistance of the Agency for Regional Development. We asked for the support of this institution because it was used a database made up of representatives of various organizations that have implemented or implemented in the moment when the survey was done, some EU-funded projects. Moreover, with the assistance of the Agency for Regional Development, the questionnaire was uploaded on the institution's website and when someone access the site will be able to participate in this study. The study was carried out between 2012-2016, during which the questionnaire was posted on the homepage of the Agency for Regional Development so that all those who access the site were

⁸ Insights and Trends: Current Portfolio, Programme, and Project Management Practices, PwC, 2012

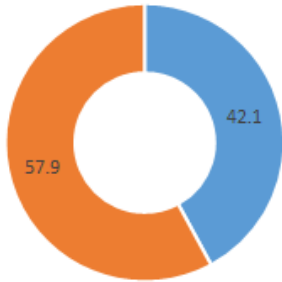
able to complete the questionnaire. During this period, namely the early and mid-term, they were sent emails which was presented the study and link to it can be completed.

The questionnaire was accessed by 269 people, of which actually responded to questions 76 and 10 incomplete questionnaires remained. The response rate was 31.97%. Within these teams mainly male members were identified, in proportion of 57.9%, the average age was 37 years (the youngest team member is 22 years old and the oldest 58 years old). The questionnaire was completed by persons who are experienced in management, 39.4% has between 1 and 5 years experience and 36.4% between 5 to 10 years experience. To the study chose to participate in general people who have experience in management (86.4% of all respondents) and that shows that aspects of communication within the team is very important and is one of the most important you taken into consideration when setting up teams. This is doubled by the fact that 95.6% of respondents have higher education (30.9% are college graduates, 50.0% have master's degree and 14.7% have doctorate degrees).

Preliminary conclusions of the study

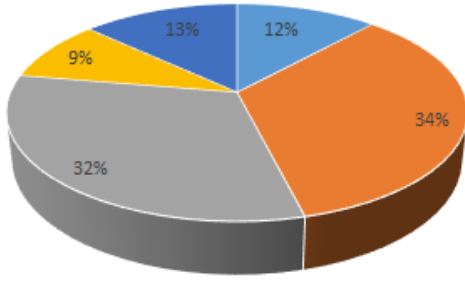
The economic reality of our country, which is reflected in the Central Region where THE the questionnaire of the study was conducted, points out that SMEs prevail, situation which shows that at the organizational level prevails communication within a small group. Thus, 55.3% of respondents are working in groups up to 10 persons, 15.8% operate in groups consisting of 10 to 20 people and 22.4% working in groups with over 20 people.

Smample Characteristics - Sex



■ Female ■ Male

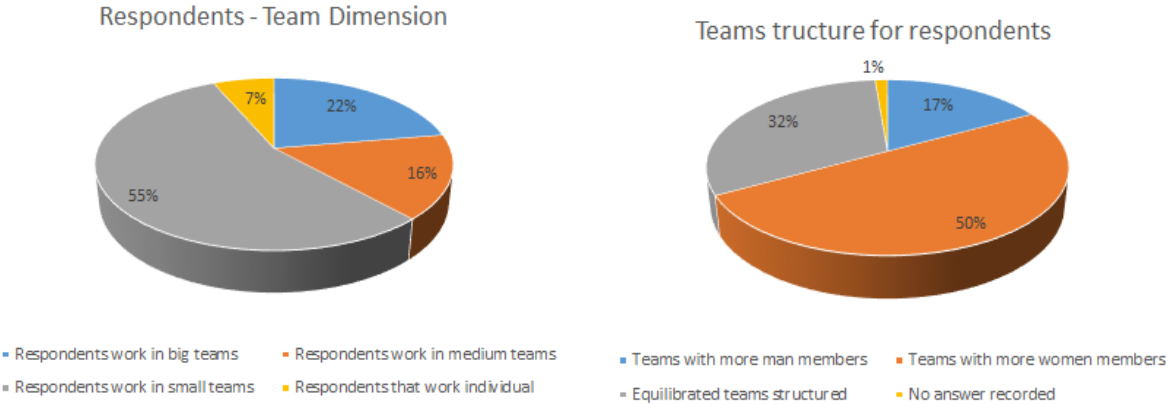
Managerial experience of respondents



■ less than 1 year ■ 1 to 5 years ■ 5 to 10 years ■ over 10 years ■ no answer

Regarding the composition of the teams, 50.0% of respondents said that in the strctureof the teams they operate in, females prevail, in 32.0% allocation of members is fair, and 17.3% operate in teams in the frame of which prevails male members. During these team members is diverse in age ratio of 76.0%, while only 24.0% of respondents operate in teams where members have the same age. In the team, 56.2% of the respondents estimated,in 42.5%, the regularly use of verbal and written communication. In over 47% of cases, the atmosphere within the team is good ; in 25% of cases, the atmospere is very good, and in 24.3% of cases, quite pleasant. Only

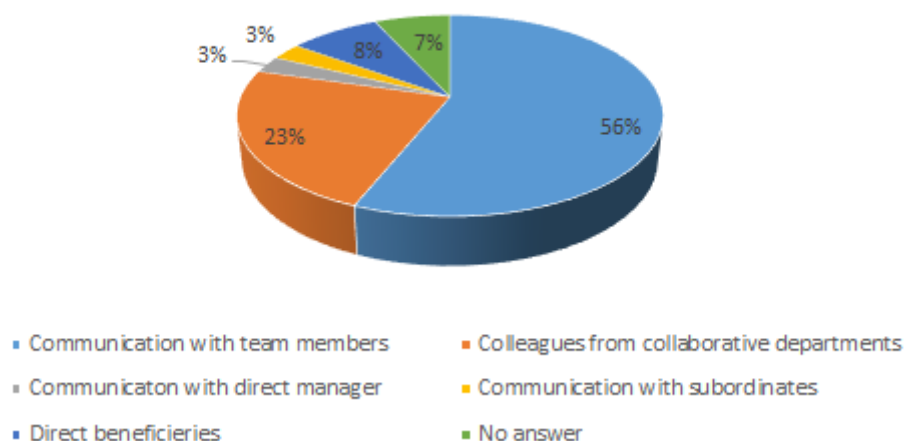
1.3% of respondents felt that the atmosphere within the teams that are deployed or operate in is unpleasant, highlighting the close relationship that forms between team members and that the affinity of the people who are chosen to work the same team is very important for the manager who form the team. This is the foundation of relations taking place within these teams, which are cooperative relations, in proportion of 87.5%. Such relationships which create a friendly atmosphere within the team and its manager are indicated by 70.4% of respondents.



The team is characterized by the degree of cohesion, which is the overall result of internal relations and of the common success, the effect of mutual understanding, the good understanding of the goals, of the group rules by members, namely the viability of the group, performance on tasks and satisfaction of members. In this regard, 56.3% of respondents believe that their work is positively influenced by peers and 35.2% believe that they are not influenced in any activity. The average length of discussion during a day's work for respondents in a proportion of 45.2% is between 30 and 60 minutes, and in the case of 23.3% of the respondents, between 10 and 30 minutes. This time is used in a proportion of 57.7% to chat with other team members and in proportion of 23.9% to communicate with members from collaborating departments.

Analyzing interaction with senior line managers, we observed based on the responses, that 83.1% of direct interactions occur spontaneously, due to concrete situations that arise in everyday work of the team or organization, and 16.9% had a planned character. In the reports of communication with superiors, 81.1% of respondents felt that their contribution in the communication processes is over 50%. In assessing the effectiveness of the processes of communication with superiors, 73.6% of the respondents believe that the effectiveness is high. In strengthening relations with team members, 68.9% of respondents spend their spare time with colleagues, and 65.8% of them consider it very important to communicate with colleagues regarding the individual and team objectives.

Usual communication for respondents



A particularly important role in ensuring the efficiency of communication within the team have the means and methods of communication used. Among these, over 74% of respondents felt they management systems projects are very important, over 59% of respondents consider as important agendas and working documents prepared by the teams and over 75% attaches great importance to the GANTT chart or planning activities and integrating them in the initial planning and resources needed to implement project activities and over 83% of respondents considered vitally important the board of priorities, in order to ensure an efficient management of projects.

Regarding use of modern methods of communication within the team over 95% of respondents attaches great importance to group electronic communication and transmission of working documents, over 80% give significant importance specialized sites that can be updated by the team members, but also offers the possibility of obtaining updated information on project activities, over 55% of respondents attaches great importance and possibility of carrying out online conferences as needed (particularly useful for projects to be implemented several locations scattered throughout the country).

Technical means most often used for the communication within the team are the mobile phones (38.4%) and electronic mail (57.5%). Among the comments made on this question: „*within the team are used all type of means of communication, depending on the situation and the time required for obtaining the answers, some media are effective only if people have virtual communication skills, the most effective and expeditious means of communication are mail and mobile phones*”. As part of the communication barriers that meet the current work teams, there are language, environmental, concept barriers or barriers arising from positions of the interlocutors. Within these, over 44% of respondents felt that the most common barriers to effective communication are the concept, namely those relating to suspicions, assumptions or conclusions of the interlocutor, over 31% of respondents felt that barriers to interlocutors positions are important because they relate to erroneous perceptions on the subject of the

communication to the communication situation, and over 22% believe that there are language barriers on misconceptions, difficulties of speech or confused ideas.

In terms of satisfaction of respondents on the efficiency of communication within the organization operating it appreciates at a rate of over 81% that they were satisfied about the awareness of the results achieved within the team, over 87 % are satisfied with the opportunity to express their ideas within the team which includes over 76% are satisfied with the opportunity to express ideas to management senior, over 81% of respondents said they were satisfied with the possibility of transmitting ideas to the departments collaborating and over 62% of respondents said they were satisfied with the awareness of the organization's management.

The team usually is a group of small, less numerous by its composition. Employees in permanent communication, its members are in direct line of communication, face to face, which facilitates mutual knowledge, appearance affective relationships, rules and group processes. All these issues directly influence the efficiency and the productivity of the team.

Final conclusions

Communication is an important issue in the context of a team. Even though the "word" is essential, there are some barriers, such as competition between the members of the team or some conflictual situations

Communication involvement seems to be the key to ensure the efficiency of the working team, this meaning that giving a certain time every day to team communication with the direct manager ensures a better implication towards team objectives. Using some specialized communication instruments we can ensure a better planning and a very good support for organizing activities

References

Neculau, A., Introducere în dinamica grupurilor, Iași, 1974

Chelcea, S., Psihologie socială, Iași, 2001

Opran (coord.), C., Stan, S., Năstasă, S., Abaza, B., Managementul proiectelor, Editura Comunicare.ro, București, 2002

Look, D., Project Management (sixt edition), A Gover, University Press, Cambridge, Great Britain, 1996

Balogh, M., Negrea, N., Managementul proiectelor europene, Ed. Accent, Cluj – Napoca, 2005

Weiss, J., Wysocki, R., 5 Phase project management, Addison Wesley – Publishing Company, 1994

***Insights and Trends: Current Portfolio, Programme, and Project Management Practices, PwC, 2012

***Ghid de bune practici în management de proiecte, 2015, Material elaborat in cadrul proiectului: „Dezvoltarea capacității de planificare strategică la nivelul autorităților administrației publice locale ale orașelor din România”, cofinanțat prin Fondul Social European, Programul Operațional Dezvoltarea Capacității Administrative 2007-2013

Project Management Institute, A GUIDE TO THE PROJECT. MANAGEMENT BODY OF KNOWLEDGE (*PMBOK*® Guide), *Fourth Edition*, USA; 2008

Rural Business Development in the Balkan Region: Hospitality and Tourism Management

Gejsi Bendo

Epoka University – Faculty of Economics and Administrative Sciences

Banking and Finance

Albania

gejsibendo98@gmail.com

Abstract: *Balkan is part of Europe, but in the past years it has not been known like that and negative effect of it continue also now days with not being part of European Union and not having profit from that. Balkan states have been under stratocracy and this has caused to them to not have the knowledge about management and last methods how to make profit from rural regions and from this we have the effect of immigration. The economy of Balkan has been underestimated from the other parts. Balkan region, especially rural areas do not have the infrastructure to make them frequented from the tourists. Infrastructure is one of the main problems which is related with the electricity, 24h water, Wi-Fi areas etc and this causes problems to the natives, services and goods that they offer and with the domestic production.*

Tourism should give one of the main revenues in the economies of these states like Albania, European part of Turkey, Serbia, Macedonia etc, together with the agriculture too. Population of the Balkan is known for its hospitality and people speak different languages like English, Italian, Spanish and now days they can speak Turkish too. This characteristic give to them an opportunity that other problems of technology and infrastructure cause to them disadvantages and from this the tourism is not developed as much as it had to be. There are a lot of places which are virgin and not explored from foreigners (for example in Albania or Kosovo and Macedonia too, as well as in other countries which are part of Balkan). The governments of these countries and their policies do not offer opportunities enough to be promoted. Since they have been isolated from other parts of the World, most of the people do not know how to manage with the three levels of the managing (in rural areas) and the only type that exists is just the sole-managing. There are not enough advertisements or not good marketing in the Balkan region to make them known. Still there are countries which do not know where the Balkan is.

In continue of this research will be attached what can governments do to solve this problem and how this problem can be solved about the rural areas which are more than underestimated even if they keep precious values.

Keywords: underestimated, values, profit, infrastructure, three-level management, domestic production.

Intorduction

Balkan is located in the southeastern of Europe and it is made up from Bosnia and Herzegovina, Serbia, Albania, Europe part of Turkey, Kosovo, Greece, Montenegro, Croatia, Bulgaria, Romania and Macedonia. All of the 11 countries are in developing stage so their economy is based mostly in the agriculture rather than in services.

The problem of these countries is that their capital cities are the most visited ones, while the rural zones are completely on backstage. This problem is not part of the countries like Switzerland, which has a lot of touristic places to be visited for or Germany or other countries which are developed. There are different factors why this part of Europe is in developing stage starting from history which is related with political factors and wars and so on. All of these factors has brought these problems to the Balkan, which still is in that position taking loans from BE and here is the example of Greece which every year takes loans from BE.

There are different types of tourism and here we can include: Culinary tourism, sport tourism, educational tourism, history tourism, and nature tourism, discover tourism. All of these types have their differences and each of these is part of every country. Balkan countries especially rural zones of Balkan do not have developed any of these types, because they are not still discovered from the tourists who visit Balkan. Last 5 years the North part of Albania is being heard from Albanians and i take Theth or Valbona as an example.

Except the types of tourism which are listed before we have two other definitions which are: Rural tourism and Tourism Management.

Rural tourism

It focuses on actively participating in a rural lifestyle. It can be a variant of ecotourism. Many rural villages can facilitate tourism because many villagers are hospitable and eager to welcome (and sometime even host) visitors. Agriculture is becoming highly mechanized and therefore, requires less manual labor.

Tourism Management

It is the leading international journal for all those concerned with **the planning and management of travel and tourism.**

As it is said up to the definition of the rural tourism, Balkans are known for their hospitality. Hospitality is one characteristic of Balkan that everyone appreciates for. It is main characteristic that tourist are attracted for, despite the nature. Balkans are polyglots so they are able to speak different languages like English, Italian, Turkish, some Spanish and German and this is an advantage for the natives who offer different services for example in restaurants, hotels, hostels and so on.

According to the World Economic Forum, The Travel and Tourism Competitiveness Report 2017, Balkan countries had an average of 3.8/7 (without Kosovo which do not have any statistic in the WEF)¹. Countries are ranked according to the Business Environment: Safety and Security, Health and Hygiene, Human Resources and Labor Market, Prioritization of Travel & Tourism, Ground and Port Infrastructure, Price Competitiveness, Tourist Service

Infrastructure, Air Transport Infrastructure, Natural Resources ,Cultural Resources and Business Travel.

The disadvantages of rural zones are:

Infrastructure:

Rural zones of Balkan have a lot of problems related with infrastructure. Roads have a bad quality and can not be safe to drive through, there is a missing of electricity most of the time and water too. Another problem related with the infrastructure is Wifi zones or at least to have some internet or just to be able to call or text.

Government's policy and expenditures:

Government's policy and expenditures are related with what governments are doing to rise up profits from the tourism. This is not related just with increasing taxation, but with what they offer to the natives for the development of the tourism in these zones.

Investments:

Since there is no government's policy or expenditure, foreign investors or even natives one are going away from these rural zones. Even if last years it has changed still investments are not in that level where they had to be. In these rural zones for example in Albania there exist just few guest houses which offer the role of the hotels.

Management:

In rural zones the only type of management is the sole management because each of them wants to be independent from the others, even if they offer same service and no one of them changes something to be different and attract more. They think just to increase their incomes and not to work together to do something different.

Advertisement:

Advertisements are related with management, since each of them is in a sole managing, so the advertisements which are one of the main keys to the business are not well developed. Economy of Balkan still is in developing phase and it needs time to become in the same level as the other countries. But tourism is one part to be more developed in Balkan zones, but not just main/capital cities, but also rural zones which can increase profits and GDP more than the other parts which now have been visited from the tourists and natives too.

According to some researches that what can be done which do not have too much cost for the rural zones are listed above:

- Improve AIRLINE /RAILWAY /HIGHWAY- which are main factors of these zones to be more developed.
- Water and electricity 24h- related with the infrastructure.

- Different courses for managing, since the only way is the sole proprietorship and this means sole managing.
- Employee managers to each of the hotels or restaurants paid from government to help increasing management knowledge.
- Courses for learning English or other languages in rural zones.
- Credits without interest % to help them improve their managing and services
- Gather them together to share ideas and take decisions and plan which are their strategic points and what can they offer so they can be unique on their type
- Free advertising-

Advertising is needed to make them known; these places should be in Google Map and applications like this so everyone can be able to check them out.

- A 12 month touring for each: Different cities or countries have different seasons which have more tourists, but this should be changed from the governments are natives. Each city should be visited not only in summer because of the nature, but also in winter because of the culinary tourism etc.
- Help to innovate their houses from investors:
Policies from governments should attract the investors in these zones, but also from advertisements they should be affected.
- Building and biding trust with them (B&B)

As the Bed and Breakfast webpage to book a room or a bed in a place to stay, where bed and breakfast are related so strong together with each other, we should build and bind trust with each other and we should believe that Rural zones of Balkan will be developed.

Balkan doesn't mean to come and visit once, it means to come and visit and explore in every detail. Capital cities are not the treasure; rural zones are the real treasure which keeps high values from cultural, historical etc.

Let's make the Balkan Rural Zones be the most frequented and complete their needs, so GDP will increase and countries will pass in another stage, the stage of developed countries!

References:

<http://reports.weforum.org/travel-and-tourism-competitiveness-report-2017/>

Human Intervention in the Case of Syria

Modern World War

Rea Gegaj

*Epoka University
Tirana, Albania*

Sara Dedej

*Epoka University
Tirana, Albania*

Speranca Reka

*Epoka University
Tirana, Albania*

Abstract: *The world is having a crisis on international relations because of the Civil War in Syria, which soon enough turned into a Modern World War (MWW). This conflict complexes the whole world and questions the life of limitless innocent people. Drawing the conflict visually, this paper attempts to explain the use of humanitarian intervention in the case of Syria and surveys the main influential countries included in the war and their reasons for doing so. This review explains the exact event - of 15 students killed by the government - that led to the Civil War and precisely how its size became getting bigger day by day. Besides doing research and explaining the reasons of the conflict, it also focuses on possible and realistic solutions to end the war and support the Syrian refugees, on which the whole burden of the war falls. The review incorporates various methods including data collection and their analysis.*

Keywords: *Civil War in Syria, Modern World War, conflict, international relations, explaining, support, solution.*

Introduction

I have chosen humanitarian intervention as a controversial topic in the light of globalization, growing international cooperation and interdependence amongst states. I argue that, if justified, humanitarian intervention is a moral obligation that falls upon all able international actors, including individual states as well as intergovernmental or supranational organizations. Initially, I will introduce the topic of humanitarian intervention by giving a broad definition and further analyzing it according to the philosopher Michael Walzer. I will, then, compare the analysis and the intervention guidelines with the real life situation in Syria from 2011 to today, arguing that intervention is not only justifiable, but also necessary. I want to underscore that I believe humanitarian intervention is justified or required only in specific cases and based on certain norms and I will further elaborate them accordingly.

Definition of Humanitarian Intervention According to Two Different Philosophers

Adam Roberts defines humanitarian intervention as follows: “Coercive action by one or more states involving the use of armed force in another state without the consent of its authorities, and with the purpose of preventing of widespread suffering or death among the inhabitants”. On the other hand, Michael Walzer discusses humanitarian intervention in four regards. Firstly, he does so by examining the nature of its occasions. Secondly, he discusses the preferred agents of interference, further explaining the ways in which intervention should be applied. Lastly how and when a humanitarian intervention should end.

(1)Walzer clearly defines the cases in which humanitarian intervention is permissible and required. He says that the occasions in which humanitarian intervention is required should be extreme and at a large scale. Only cases such as genocide, extreme brutality and oppression targeted towards a large population can justify an international response. It has to be clear that it does not seem possible or practical to wait for a local response (Rashid, 2012).

(2) When dealing with the question: “Who should be the actor interfering?” Walzer states that interference should come from any actor that has the appropriate means to carry out the humanitarian aid. Simply put: “Who can, should!”Considering the immediacy of the situation, Walzer firmly believes that unilateral action, most commonly coming from neighboring countries, but not only, is the most effective(Walzer, 2002).

(3)Proceeding to the means of pursuing a humanitarian intervention, Walzer says that the use of force is necessary. Controversially to the popular opinion that the use of force should come only after exhausting all other possible ways, and as a last resort, he argues that in such occasions of slaughters the end never comes.

(4)Answering the question of when should the intervention end is trickier than one would expect. Extending stay too much may start looking like an occupation. The intervening state can prove their pure humanitarian motives by moving in and out as quickly as possible. Therefore, the intervening forces, to avoid the risk of resembling an occupation, should retreat as soon as the danger has ceased to exist.

Comparison and Analysis of the Intervention Guidelines with the Real Life Situation in Syria

Syria War Frameworks

In less than four years the war in Syria escalated to the dire situation we have today. I argue that intervention is not only required, but also that it should have already happened. The war in Syria started in March 2011 in a city in southern Syria, where children were arrested and tortured for anti-government propaganda. This act sparked anti-government demonstrations that later developed into an army against Assad called the “Free Syrian Army”. The rebels planned to

overthrow the oppressive government but were ineffective; however, their numbers and supporters grew as the country moved towards civil war. Arguably, civil war would not be a fair justification for intervention as it remains an internal issue, but as President al-Assad's regime grew more oppressive, other external forces came into play later during the same year. There are many factors that attributed to the start of this civil war, including economic hardship that came from the drought of 2007-2010, to the ongoing religious conflicts between Sunni Muslims and Alawites. However, it was the harsh response of president al-Assad to the initially peaceful protests that actually escalated the situation and divided the country. Adding to the conflict and taking advantage of the chaotic situation, the self-proclaimed Islamic State or the group better known as ISIS, started invading Syria around 2012. Claiming to follow the religion of Islam, they respond with brutal violence against anyone who doesn't obey. But many Muslims claim that their religion has nothing to do with hatred and violence. Since early 2014, IS has grown quickly attracting recruiter from all over the world using the Internet and social media. They have managed to conquer the majority of Syria and neighboring Iraq, thus leading the region as their own state and punishing anyone who doesn't obey to them.

Crisscrossing of Foreign Actors

Another significant factor to consider is the crisscrossing of foreign intervention and support. The national split has also affected the international split amongst different actors, such as the majority of Shia Iran and Iraq, Lebanon-based Hezbollah, and Sunni-majority states including Qatar, Saudi Arabia, Turkey and others. An international actor is the US, which since 2014 has been bomb-attacking the Islamic State of Iraq and Levant, ISIL, also known as ISIS. About a year later, on September 2015, Russia targeted a bombing campaign towards rebel groups in Syria supported by western states and groups referred to as terrorists, such as ISIL.

Russia has also allocated military advisors to support Assad's defenses. Numerous Arab States, and Turkey, have supplied rebel groups in Syria with weapons. But the cause of the critical situations there is caused by the armed forces coming from outside Syria or that has nothing to do with the initiation of the conflict. For example, ISIL –having only territorial aims- is responsible for approximately 27,000 to 30,000 recruiters from around the world that have joined the fight (Group, reserved, Site, & Media, 2013). Lebanese members of Hezbollah are supporting Assad, as are Iranian and Afghan fighters. Whereas the US, even if it has claimed to oppose Assad's regime, has hesitated to become an active participant of the conflict. Even when Assad's government allegedly threw chemical weapons targeting Syria in 2013, former president of the US, Barack Obama, stated that in case of bombing, the US would rapidly intervene. However, in October 2015, the US dropped out of the most debatable Syrian training program stating that the training of only 60 fighters cost them \$500m.

As President Assad is receiving support from Russia, and the rebel groups are receiving support from Saudi Arabia and the US, each for different agendas, the war has inadvertently grown to a larger scale (Zorthian, 2015). In 2013, there was usage of chemical weapons possibly by the

government during the attack of a rebel base in Damascus. This specific attack ended up killing about 300 Syrians, the majority of which were confirmed to be simply civilians. I would like to argue that at this point in history humanitarian intervention was necessary and undoubtedly justified. The usage of chemical weapons has been considered inhumane even towards militia, let alone towards standing civilians. It is clear that the situation has escalated beyond what would be considered an internal issue, and it is in fact affecting the entire international community. I believe that at this point it would have been the most effective time to intervene by any UN state that could. The lack of intervention from the UN was justified by the international arena by bringing up Russia's unwillingness to act due to Putin's ties with President Assad. However, the US together with Saudi Arabia, tried a mild intervention in 2013. The peacekeeping attempts failed as neither terrorist groups nor the government stopped the violence, as it was expected. The attacks went on for the two years to come and the situation is still unresolved.

Possible Solutions

The population has been and still is an imminent danger from its own government and from outside attacks, such as the Islamic State. The response should have come in 2013 from willing states in this way:

Firstly, a diplomatic effort is needed to secure the removal of President Assad and help the reestablishment of a newly elected government that better represents the diversity of Syria. This would have only been possible with troops on Syrian ground that directly attacked the oppressive government and not only served as peacekeepers.

Secondly, there would be need of a coordinated humanitarian response from the international community in providing aid for the civilians to rebuild their lives and safely return to their home country.

Thirdly, even though ISIS would still be a considerable danger, with a stronger new government and military aid from neighboring countries, it would be possible to minimize said danger or even abolish it completely (depending on the level of cooperation amongst states).

As the danger would have been minimized, the UN would restart their program of non-military aid in order to restore the infrastructure of the country and help with the aftermath of war.

Conclusion

I believe that I have fully explained how humanitarian intervention is justified in the case of Syria, and furthermore, is of immediate necessity. So far, the consequences of this war have been terrible, and it still remains in our hands to help ending it. The Syrian government and ISIS are definitely the oppressors and there is more than one state which is able to help. I believe

against holding sovereignty as the main priority, and instead support maintaining international peace and security when deciding that intervention is of absolute international importance.

References

- Group, T. S., reserved, A. rights, Site, & Media, G. (2013). Foreign fighters in Syria, Iraq have doubled since Anti-ISIL intervention. Retrieved January 18, 2017, from <http://soufangroup.com/tsg-report-quoted-on-al-jazeera-america-foreign-fighters-in-syria-iraq-have-doubled-since-anti-isil-intervention/>
- Jazeera, A. (2016). Syria's civil war explained. Retrieved January 18, 2017, from <http://www.aljazeera.com/news/2016/05/syria-civil-war-explained-160505084119966.htm>
- Rashid, A. K. (2012, March 13). Is humanitarian intervention ever morally justified? Retrieved January 18, 2017, from <http://www.e-ir.info/2012/03/13/is-humanitarian-intervention-ever-morally-justified/>
- Simma, B. (1999). NATO, the UN and the use of force: Legal Aspects. *European Journal of International Law*, 10(1), 1-22.
- Taylor, P., Curtis, D. (2008). *The United Nations*. In Baylis, J, Smith, S. & Owens, P. (Eds), *Globalization of World Politics*. Oxford University Press.
- Vincent, R. J. (1974). *Non-intervention and International Order*. Princeton, NJ: Princeton University Press.
7. Walzer, M. (2002). The Argument about Humanitarian Intervention. *Dissent*, Winter, 29-37.
- Zorthian, J. (2015, October 7). Who's fighting who in Syria. Retrieved January 18, 2017, from <http://time.com/4059856/syria-civil-war-explainer/>

How Marketing Made One of the Unhealthiest Beverages a Top Demanded One the Power of Great Marketing

Rea Gegaj

*Epoka University
Tirana, Albania*

Sara Dedej

*Epoka University
Tirana, Albania*

Speranca Reka

*Epoka University
Tirana, Albania*

Abstract: Marketing has taken a leading role regarding the success of any business because nowadays with the opportunity to improve product/service quality - through technology development and information availability- any organization can achieve desired results in terms of what they have to offer.

This leaves more room for functions like marketing to be fully applied in accordance to organizational goals. Therefore this paper aims to explain how powerful marketing can be through the example of the giant Coca-Cola Company, which has been producing and selling unhealthy products since 1886 and yet leads the beverage industry to this day. The paper also analyses some facts and data that help better understand how because of strong marketing strategies and worldwide brand recognition people will even buy and massively consume these kinds of harmful products.

Key words: *marketing, organization, Coca-Cola, unhealthy, buy, consume.*

Why is Coca-Cola considered an unhealthy product?

In a can of cola there are 10 teaspoons of added sugar, while World Health Organization recommends using no more than 6 teaspoons of added sugar on a daily basis. This means drinking only a can per day takes you above these guidelines.

This kind of amount of sugar is surely associated with other health conditions such as obesity and especially diabetes if you consume 1-2 cans per day. On 2015 Medical News Today reported that 184,000 global deaths each year are caused by large amounts of sugary drink consumption.

Coca-Cola has a very high sugar content that should immediately make us vomit when it enters our body but the phosphoric acid this beverage contains dulls the sweetness, allowing us to keep the drink down.

According to British pharmacist NirajNaik a 330 ml can of cola can cause these damages to our body in only one hour:

- Increased blood sugar level (first 20 minutes)
- Burst of insulin
- The liver turns the big amount of sugar into body fat
- Increased blood pressure and dilation of pupils because of the caffeine cola contains (40 minutes)
- Adenosine receptors get blocked from caffeine shot, preventing fatigue
- The production of dopamine (a neurotransmitter that helps control the pleasure and reward centers of the brain) increases
- The increased level of dopamine stimulates these centers making us crave for more (just like heroin does).

This means it has addictive ingredients which can make the consumer addicted just like other illegal drugs and this is a very serious problem regarding this products quality. Coca cola has even been scrutinized by the environment and human rights department for inducing bad and unhealthy food products.

What makes Coca-Cola a top demanded product?

As mentioned in the abstract marketing plays a very big influential role regarding the customer's positive stand towards a product or the whole company itself. Coca-Cola owners and managers seem to have understood the importance of good marketing since 3.1% of all beverages consumed around the world are their products. The company has a responsible marketing policy which is based on principles like Choice (a large range of beverages to support consumer's diets and lifestyles) ; Honesty (ensure transparency in all marketing activities) and so on. Brand recognition is a powerful aspect that cola completely owns. According to Business Insider 94% of the world's population recognizes the red and white logo. Apple and Microsoft combined spend less money on advertising than Coca-Cola.

They serve on a daily average to 1.9 billion people all around the world.

To achieve the results mentioned above as a company Coca-Cola has brilliantly used strong marketing strategies (some of which will be explained in the next paragraphs) through which it has become as successful as it is today.

First thing that makes cola so irresistible is the unique, market-tested formula. John Pemberton the creator of Coca-Cola first wanted to develop a version of the cocoa wines but the prohibition laws that forced producers to produce non-alcoholic beverages at that time obliged him to

remove the alcohol from the formula. He then sent his test sodas to a pharmacy for people to try and from the feedback he received created a recipe that was unique and tailored to customer's tastes. There have been minor adjustments through time but the recipe has largely remained unchanged. Because of this the company didn't spend time trying to tailor the taste to regional markets throughout the world and since its creation cola has been one of the most preferred beverages by many people.

Second thing that makes coke so familiar and preferred is its logo. *The Coca-Cola Company* has used the same logo for 100 years and it has become a part of anyone's life without doubt.

Another "trick" the company used was keeping the consumer price fixed for 70 years (1886-1959). With this kind of approach cola scaled across the US and throughout the world.

From 1887-1920 Cola gave away 10% of all products in order to build brand awareness. It also provided posters, calendars, decorations etc. for costumers. Coke was as much a drink as it was a consumable brand, an idea consumers could feel good about identifying with.

Promotion and ways to reach the customers

Still a part of marketing campaigns and brand awareness are top line promotions and below the line promotions. Top line promotions include: promotional activities intended towards mass consumers using mass media; TV ads; design of banners; sponsorship initiatives like the world cup etc. On the other hand below the line promotion include: promotion schemes and publicity materials; sales promotion etc. Other methods used: creating Santa Claus; association with McDonalds; endorsing through top celebrities; building high brand visibility; packaging in an attractive and economical way. The advertisements are national.

A big success was the vending machine 'Happiness machine around the world'. Once associated with a positive atmosphere every intended idea can easily get to people's emotions and that's what Coca-Cola does. New advertisements or even new marketing campaigns begin at specific periods like summer time or Christmas.

These large networks of interaction with customers is very beneficial to the company because any feedback is immediately received and through all these costing marketing means cola makes sure most of the feedback remains positive. They reach the people in a unique way that even if you are not a consumer you might become one.

I believe this achieved good relationship with the costumers is based on the company's mission and vision.

Mission – "Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.

- To refresh the world.
- To inspire moments of optimism and happiness.
- To create value and make a difference.”

Vision– “Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.

Conclusion

Based on everything that has been discussed above it is apparent that marketing’s power is without doubt a key factor of success in business no matter how healthy or unhealthy what you are promoting might be. According to Peter Drucker the purpose of a business is to create a customer and the two main functions of a business are innovation and marketing. Therefore seen from a business perspective Coca-Cola is on the right track and will probably control most of the market shares of beverage industry for the upcoming years. However, we must not neglect the importance of the health issues mentioned above because at some point they might become a key factor in the bankruptcy and fall of this giant.

References

- Contributor, &Swaim, R. W. (2016). BPM, Lean Six Sigma & continuous process improvement. Retrieved February 9, 2017, from <http://www.processexcellencenetwork.com/innovation/columns/peter-drucker-on-sales-and-marketing>
- N. (2014, February 25). Healthy drinks. Retrieved February 9, 2017, from <http://www.healthy-drinks.net/6-harmful-effects-of-drinking-coca-cola-coke-or-pepsi/>
- Company, T. C.-C. (2013, January 31). Who we are. Retrieved February 9, 2017, from <http://www.coca-colacompany.com/careers/who-we-are-infographic>
- Whiteman, H. (2015, August 15). How coca-cola affects your body when you drink it. . Retrieved from <http://www.medicalnewstoday.com/articles/297600.php>
- Bhasin, K. (2011, June 9). 15 facts about coca-cola that will blow your mind. Retrieved February 9, 2017, from Business Insider, <http://www.businessinsider.com/facts-about-coca-cola-2011-6#coca-cola-spends-more-money-on-advertising-than-microsoft-and-apple-combined-11>
- Moye, J., & Staff, J. (2013, October 29). Label-less coca-cola cans tackle prejudice during Ramadan. Retrieved February 9, 2017, from <https://www.coca-colacompany.com/stories/marketing-to-millennials-5-ways-coca-cola-is-embracing-creativity-and-innovation>

Bhasin, H., Isaac, hassan, bisma, &genny, ibrahim. (2016, December 2). Marketing strategy of brands. Retrieved February 9, 2017, from STRATEGIC MARKETING, <http://www.marketing91.com/marketing-strategy-of-coca-cola/>

Staff, J. (2015, May 1). Related stories. Retrieved February 9, 2017, from <http://www.coca-cola.co.uk/about-us/responsible-marketing>

Company, T. C.-C. (2016). Coca-cola global: Soft drinks& beverage products.

Quality of Education and Intellectual Capital: Analysis of the Competitive Position of Universities

Dino Arnaut

*Faculty of Economics, University of Zenica
Bosnia and Herzegovina
arnaut.dino@gmail.com*

Abstract: *Intellectual capital opened the way for research into this area, which forms the basis of the new knowledge economy. The development of intellectual capital has a growing impact on the economic and social processes. Intellectual capital is now even more important than tangible assets. If a country wants to develop and become economically strong and enlightened it needs to build a modern and flexible and well suited and efficient education system that is ready and able to responses to all the global technological and social changes, as well as the local current social needs. To achieve this there is a need to establish institutional cooperation between universities, governments, research institutions. Education has a double meaning that is economic and social. It represents a means to improve economic standards as well to spread spiritual perspective and improvement of own intellectual and emotional life. Sociologically it is established that education is beneficial both for the individual and for society. Therefore, it not only contributes to higher profits for the individual, but also its better social status and reputation of the company, financial and social security, development of identity and self-confidence, self-esteem development and personal satisfaction, better understanding of the political situation and greater social engagement and cohesion, respect for social norms, reducing stereotypes and prejudice, improving gender relations and better education of children, development of tolerance and ethical behaviour, aspirations towards healthy living, and better physical and mental health. Investments in education are an important factor for competitiveness, growth and development of a country. Education has a key role in improving the human capital and the development of a knowledge based society. It contributes to the unification of life chances, personality development in the spirit of liberty, intellectual development and spiritual and cultural richness. The aim of this paper is to investigate connection between service quality and competitive position of Universities in Bosnia and Herzegovina to help developing new and improved academic programs that will contribute development of future strategies based on intellectual capital.*

Keywords: *Intellectual Capital, Quality of Education, Education System, Service Quality, Bosnia and Herzegovina*

JEL Classification: *O34, I2, M3*

Introduction

Over the last few decades, the quality of service has been gained and takes tremendous attention from both managers and academics due to their significant impact on business results, cost reduction, customer satisfaction and loyalty, as well as profitability. Therefore, quality is increasingly seen as an investment for a company or institution, where efforts to improve and improve it result in an increase in the number of customers (consumers), as well as increase the volume of purchases from existing customers, which also leads to growth of company profit.

To gain competitive advantage among other higher education institutions, universities require greater focus on service quality. Therefore, universities want and try to examine their current strategic positions by evaluating existing services and adapting to consumer perceptions to improve or gain their leadership position.

Intellectual capital (IC) opened the way for research into this area, which forms the basis of the new knowledge economy. The development of intellectual capital has a growing impact on the economic and social processes and now it is even more important than tangible assets. If a country wants to develop and become economically strong and enlightened it needs to build a modern and flexible and well suited and efficient education system that is ready and able to responses to all the global technological and social changes, as well as the local current social needs.

To achieve this there is a need to establish institutional cooperation between universities, governments, research institutions. Therefore, just defining and measuring service quality at universities can serve as an initial step towards more orientated and friendly education services for students, as well as improving the overall provision of services in educational institutions. This provides room for the establishment of clear consumer-oriented standards and the establishment of benchmarks for quality service comparison both in public and private universities. Education has a double meaning that is economic and social. It represents a means to improve economic standards as well to spread spiritual perspective and improvement of own intellectual and emotional life.

Literature review

European higher education and research organizations have undergone a deep transformation process over the past decades. This process can be analysed by considering two parallel processes.

The first process is the theoretical insight that provides two perspectives of evolutionary significance. These are the so-called two knowledge production methods (Gibbons et al., 1994) and the triple Helix model (Etzkowitz and Leydesdorff, 1996). Both perspectives emphasize the emergence of a new paradigm of knowledge production that is defined by transdisciplinary and research-oriented solutions. In this scenario, the relationship between university, industry and government becomes more dynamic and mutually dependable and conditioned, thus contributing to the creation of hybrid organizations, the creation of alliances between universities and firms, and the creation of a trilateral network and other forms of cooperation that enhance the quality of education. Therefore, universities themselves are interacting with various alternative knowledge producers (Gibbons, 1998, p.1). This framework is most commonly accepted in professional literature and has become crucial for understanding the role of universities and their connection with other actors in the current economy (Mowery and Sampat, 2004).

The second process is an ever-growing interest in higher education institutions and intensive discussions about the role they play in the paradigm shift. This process is primarily represented by the European Commission's (2006) policy actions and the resulting collective process in some institutions such as the European Association of Universities (EUAs), the European Association of Managers and Research Administrators (EARMA), as well as individual groups of experts, such as the group responsible for reporting on intellectual capital to increase research, development and innovation in small and medium-sized enterprises (RICARDIS report).

Adaptation of management and reporting of IC in companies to other types of organizations developed in two different ways. First, it primarily deals with the assessment of intangible assets aggregated into the mezo (communities, industry, etc.) and at the macro level (cities, regions and nations). Thus, the World Bank has organized various conferences on this issue in the period 2005-2007. (Chatzkel, 2006). Since 1999, efforts have been made to measure the state-level IC, starting with Sweden (Rembe, 1999), Israel (Pasher, 1999) and the Arab region (Bontis, 2004), and so on.

Another way suggests the use of IC framework at the micro level for public institutions. Some papers involved in this group are based on the principles of new public management. These principles have been used by governments since the 1980s to improve the efficiency of the public sector and the quality of their services, through the decentralization process and the application of competition, by treating consumers of public services as consumers. In this way, governments give a certain institution more autonomy to fulfil its goals and reward the effect (Borins, 1995), which requires measurement and reporting mechanisms, in accordance with appropriate revision rules. This phenomenon was initially seen as a problem for developed countries, particularly Anglo-Saxon, with best case studies in Great Britain, Australia and New Zealand (Barzelay 2001, Guthrie et al., 2004). USA, Canada and, to a lesser extent, some European countries have caught their attention (Borins 2002, Guthrie et al., 2004), and the principles are provisionally applied in some African developing countries (Larbi, 1999).

This paper shares the same opinion and agrees with the views of Mouritsen et al. (2005) and Leitner et al. (2005) in the sense that the IC framework is a valid attempt to meet the new demands of public institutions and that the IC report is useful tool for internal and external purposes. The IC report can help identify structural and personal strengths and weaknesses. It discovers the current state of the various university missions and can be used as a control and monitoring instrument (Altenburger and Schaffhauser-Linzatti, 2006).

The purpose of the ICU report, which is also an integral part of the OEU project, is to make recommendations for publishing university research information. In accordance with the recommendations of the European Commission (2006), the report presents a logical shift from management and internal strategy, based on the design of the vision and objectives of the institution, to the publication of indicators considering the previous guidelines valid for companies (Meritum Protect, 2002), and for the universities (Leitner and Warden, 2004).

The indicators have classified the next well-known taxonomy into three categories of capital, namely human, organizational and relational capital. Within each of these categories, each title monitors the strategic issues defined in the OEU guide. The guide itself suggests that indicators are expressed both in absolute and relative terms to make easy comparisons easier.

University rankings

Over the last ten years there has been an increasing interest in ranking the university. The annual ranking of world universities is published by many, starting with QS for the Times Higher Education Supplement, the Shanghai Jiao Tong University, the Higher Education and Accreditation Council of Taiwan, and Cybermetrics Lab in CSIC.

The Academic Ranking of World Universities (ARWU) is being published each year by the Shanghai Jiao Tong University of Higher Education Institute. This is the first level of ranking with the intent of worldwide coverage based on the academic or research effectiveness of the university. Its indicators include alumni and staff that received Nobel or similar prestigious awards, highly quoted researchers in popular research fields, articles published in selected top magazines, indexed index articles by Thomson-ISI, and performance by academics.

The Web Ranking of World Universities or Webometrics List is being conducted since 2004 (Aguillo et al, 2008) by Cybermetrics Lab, a research group of the Spanish National Research Council (CSIC). They use web data downloaded from commercial search engines, including web pages, rich format documents (pdf, doc, ppt and ps), works indexed by Google Scholar (this indicator was added in 2006) and many external links as a measure Link visibility or impact.

Table 1: Different emphasis of different university rankings

Orientation to students			Orientation to Research		
US News & WR McLeans	THE-QS	Webometrics WR	Shanghai ARWU	Taiwan HEEACT	Leiden CWTS
Costs	Scientific contribution	Web visibility	Impact		
Opinions			Awards	Impact	
Services	Prestige	Web presence	Excellence		

Source: Authors' own work

The specifics of university rankings are shown in Table 1. As can be seen, certain rankings are strictly based on research data. Webometrics, on the other hand, has one weakness, and many universities do not have a strict web policy. This is not such a big deal with the universities in this research, so this weakness may be neglected.

Compared to the indicators of intellectual capital of higher education institutions and ranking of universities, we conclude that there are common indicators. Therefore, as part of this research, the Webometrics list will be used as the rank of success of the tested universities and their competitiveness on the market of Bosnia and Herzegovina. Their position will be tested and compared with their perceived quality of service.

Service Quality

There is a lot about service quality in the literature itself. We have many quality definitions as well as its concept and its different dimensions. Thus, according to Juran (1988), quality is a convenience for use, that is, to what extent the product successfully serves the purpose of the user when used. Crosby (1982) argues that quality is in line with requirements. Gronroos (1984) is one of the first academics to focus on quality of service. According to him, the quality of service consists of two dimensions, technical quality and functional quality. Technical quality refers to the outcome, that is to what the customer has received from the service itself and can be measured in a similar way as the quality assessment of the product. On the other hand, functional quality refers to the process of evaluating the way of providing services. Image is an important factor affecting the service quality, and serves as a filter in perceiving quality of service as favourable, neutral or unfavourable (Gronroos 1984, 2000).

In a sophisticated 1988 study, Parasuraman et al. have reduced the original number of service quality dimensions from ten to five, claiming that these five dimensions fully cover the domain of service quality. Thus, the five final of quality of service, according to Parasuraman et al. (1985) are:

- Tangibles - the physical dimension of a service, such as state of the building, equipment, staff appearance, and the like.
- Reliability - the ability to deliver the promised service, reliably, accurately and on time.
- Responsiveness - willingness and willingness to help customers and provide fast service.
- Assurance - knowledge and kindness of employees and their ability to inspire and stimulate trust and confidence.
- Empathy - attitude, individualized relationship, and attention paid by the company towards its customers (customers).

Parasuraman et al. (1988) have also developed a service quality assessment tool called SERVQUAL, which is a multifaceted scale with good reliability and validity. The scale consists of two parts evaluating the quality of the service. The first part is a section of expectation that contains 22 statements to measure the expectation of quality of service by the consumer (customer). The second section is a perception section that contains the appropriate set of 22 statements to measure how users perceive (experience) the quality of the service. In these sections, for expectations and perceptions, use the same phrases with the difference that one asks about what the respondent expects from an excellent service provider, and the other asks about the actual, perceived, service provided. Consumers give their grades on the expectations and

perceptions of the quality of services on a seven-point Likert scale, which range from completely disagree (1) to completely agree (7).

The quality of services is calculated by the difference between estimated expectations and perceptions, that is, the gap between them. Parasuraman et al. (1994) found that the SERVQUAL scale is a very useful starting point for measuring the quality of services.

Three contrastive approaches to quality measurement can be classified within the education. The first approach adjusts the SERVQUAL instrument (Rigotti and Pitt, 1992, Cuthbert, 1996a, 1996b, Owlia and Aspinall, 1996, Oldfield and Baron, 2000, O'Neill and Palmer, 2001). The other uses methods for evaluating the quality of teaching and learning (Entwistle and Tait, 1990; Ramsden, 1991; Marsh and Roche, 1993), while the third uses methods for assessing the quality of overall student experience (Harvey et al., 1992, Roberts and Higgins, 1992; Hill, 1995; Aldridge and Rowley, 1998; Gaell, 2000; Watson et al., 2002; Wiers-Jenssen et al., 2002).

In the studies in which SERVQUAL is applied, it is necessary to modify the questionnaire, and there is no consensus on the dimensions of service quality and the importance of each dimension in the context of higher education. However, studies support the importance and reliability of this methodology within the measurement of the quality of higher education. Tan (1986) conducted a review of the methods used to assess the quality of teaching in higher education in the USA area back in 1986, in which three types of studies are differentiated, namely reputations involving the evaluation of subjects by experts, objective indicators and quantitative studies.

Methodology

Four universities have been chosen for this study to conduct a study on the quality of services in higher education. Of these four universities, two are public and two are private. They all offer programs at bachelor and master level, and three of them also offer doctoral studies (PhD). The survey sample consists of 388 undergraduate and master students. Data collection was carried out during 2013.

Since it was difficult to include students from all universities in the territory of Bosnia and Herzegovina, we selected to include four university students, two public and two private, based on their ranking according to Webometrics. Universities were selected according to the criteria of the two best public and private universities in the territory of Bosnia and Herzegovina according to Webometrics ranking. These were the following universities:

- University of Sarajevo (UNSA).
- University of Zenica (UNZE).
- International Burc University (IBU).
- International University of Sarajevo (IUS).

Using the Sample Size Calculator⁹, we calculated the desired sample size. This calculator is presented as a public service survey software by Creative Systems Research. Our target population is 128.119 students in the territory of Bosnia and Herzegovina. Therefore, with confidence level of 95% and confidence interval of 5 our calculated needed sample size was 383 students.

Also, the number of distributed polls was equally represented by universities. The research tool was a structured survey consisting of 54 questions. This instrument is chosen because it gives researchers the ability to collect data on a variety of factors and thus achieve a larger sample. We collected 388 fully completed surveys via electronic and printed channels, which allowed us to reach the planned sample size based on the level of reliability and confidence intervals.

Results

As we have already said, in comparison with the indicators of the intellectual capital of higher education institutions and ranking of universities we can see that there are common indicators. Therefore, as part of our research, the Webometrics list will be used as the rank-list of successful universities tested and their competitiveness on the market of Bosnia and Herzegovina.

The university's position is compared to their overall perceived quality of service in all dimensions (Table 2).

As can be seen in Table 3, ranking according to the Webometrics ranking of the University at the level of Bosnia and Herzegovina corresponds to the rankings obtained according to the overall perceived quality of service of the mentioned universities.

Table 2: Total mean value of perceived service

	Mean				
	UNSA	UNZE	IBU	IUS	Total
Tangibles	4.05	3.86	3.83	3.83	3.89
Reliability	3.62	3.51	3.48	3.47	3.52
Responsiveness	4.43	4.25	4.25	4.19	4.28
Assurance	4.02	3.90	3.82	3.74	3.87
Empathy	3.84	3.72	3.60	3.56	3.68
Service quality	4.21	3.85	3.85	3.81	3.93
Total mean	4.03	3.85	3.81	3.77	

Source: Authors' own work

⁹ The Sample Size calculator can be used and found at <http://www.surveysystem.com/sscalc.htm#one>

We can conclude that the competitive position (ranking of the university) is directly dependent on the overall quality provided by the given institution. Therefore, we confirm our claim that the quality of education services directly affects the competitive position of the educational institution.

Univerzitet	World ranking	Ranking in Bosnia and Herzegovina	Mean of total perceived quality of universities
University of Sarajevo (UNSA)	1859	1	4.03
University of Zenica (UNZE)	3531	2	3.85
International Burch University (IBU)	7400	8	3.81
International University of Sarajevo (IUS)	7912	9	3.77

It is also noteworthy that the greatest difference in the mean values of total perceived quality is precisely between the University of Sarajevo, while remaining at approximately the same average values. It also contributes to the high position of the University of Sarajevo at the Webometrics rankings.

Conclusions

The research results obtained support the previous quality service studies conducted by various researchers, and concluded that these five dimensions represent high quality services. This research serves as an addition to other published research to demonstrate that this model is applicable to a wide range of services, including the higher education sector.

Ranking according to the Webometrics ranking of the Universities at the level of Bosnia and Herzegovina corresponds to the rankings obtained according to the overall perceived quality of service of the mentioned universities. And we see that the competitive position (ranking of the university) is directly dependent on the overall quality provided by the given institution.

This study also has several limitations. First, not all universities are involved in this study so that for future studies it would be good to include all private and public universities in the territory of Bosnia and Herzegovina and to include research institutes. In this way, the sample would be even more representative and would increase the validity and validity of the research results.

Secondly, this research is necessary to be replicated by other researchers to further determine and confirm that the modified SERVQUAL scale used in higher education services has its relevance and validity.

The basic feature of today's market is the vast number of competitors that are constantly struggling for a limited number of users. Therefore, service companies are increasingly adopting customer relationship management concepts, especially due to constant user-specific, individual-user-specific access. Higher education institutions, as well as service providers, have the potential to create an advantage and maintain and develop a long-term relationship between them, as providers of services, their service users, students, solving their problems and making them loyal to institution. In this way, in the long run, the clients themselves promote the institution and in some ways become the walking image of the higher education institution. There is a need to establish institutional cooperation between universities, governments and research institutions to achieve those goals. Education represents a means to improve economic standards as well as a means to spread spiritual perspective and improvement of own intellectual and emotional life. Sociologically it is established that education is beneficial both for the individual and for society as a whole.

References

- Aguillo, I. F., Ortega, J. L., & Ferná ndez, M. (2008). Webometric ranking of world universities: Introduction, methodology, and future developments. *Higher Education in Europe*, 33(2/3), 234–244.
- Aldridge, S. i Rowley, J., 1998, 'Measuring customer satisfaction in higher education', *Quality Assurance in Education*, 6(4), pp. 197–204.
- Altenburger, O.A. and Schaffhauser-Linzatti, M.M. (2006), "The order on the intellectual capital Statements of Austrian universities", paper presented at the IFSAM – International Federation of Scholarly Associations of Management 8th World Congress, Berlin, 28-30 September.
- Barzelay, M. (2001), *The New Public Management. Improving Research and Policy Dialogue*, University of California Press, Berkeley, CA.
- Bontis, N. (2004), "National intellectual capital index. A United Nations initiative for the Arab region", *Journal of Intellectual Capital*, Vol. 5 No. 1, pp. 13-39.
- Borins, S. (1995), "Summary: government in transition – a new paradim in public administration", in Commonwealth Secretariat (Ed.), *Proceedings of Government in Transition: The Inaugural Conference of the Commonwealth Association for Public Administration and Management*, Toronto, pp. 3-23.
- Borins, S. (2002), "New public management, north-American style", in Mclaughlin, K., Osborne, S. and Ferlie, E. (Eds), *The New Public Management: Current Trends and Future Prospects*, Chapter 13, Routledge, London.
- Chatzkel, J. (2006), "The 1st world conference on intellectual capital for communities in the knowledge economy", *Journal of Intellectual Capital*, Vol. 7 No. 2, pp. 272-782.
- Crosby P. B., 1982. *The management of quality*, *Research Technology Management*, Vol. 15, No. 4, pp. 10-12.
- Cuthbert, P., 1996a, 'Managing service quality in HE: is SERVQUAL the answer?' Part 1, *Managing Service Quality*, 6(2), pp. 11–16.

- Cuthbert, P., 1996b, 'Managing service quality in HE: is SERVQUAL the answer?' Part 2, *Managing Service Quality*, 6(3), pp. 31–35.
- Entwistle, N. & Tait, H., 1990, 'Approaches to learning evaluation of teaching and preferences for contrasting academic environments', *Higher Education*, 9, pp. 169–194.
- Etzkowitz, H. and Leydesdorff, L. (1996), "Emergence of a triple helix of university industry government relations", *Science and Public Policy*, Vol. 23, pp. 279-86.
- European Commission (2006) "Reporting Intellectual Capital to Augment Research, Development and Innovation in SMEs (RICARDIS)", available at: www.ec.europa.eu/invest-in-research/pdf/download_en/2006-2977_web1.pdf.
- Gaell, V., 2000, 'The expectations and experience of first-year students at City University of Hong Kong', *Quality in Higher Education*, 6, pp. 77–89.
- Gibbons, M. (1998), *Higher Education Relevance in the 21st Century*, The World Bank, Washington, DC.
- Gronroos C., 2000. *Service Management and Marketing – A customer relationship management approach*, Wiley.
- Gronroos, C., 1984, 'A service quality model and its marketing implications', *European Journal of Marketing*, 18(4), pp. 36–44.
- Guthrie, J., Carlin, T. and Yongvanich, K. (2004), "Public sector performance reporting: the intellectual capital question?", *MGSM Working Papers in Management*, Macquarie Graduate School of Management, Sydney.
- Harvey, L., Burrows, A. & Green, D., 1992, *Total Student Experience: a first report of the QHE National Survey of Staff and Students' Views of the Important Criteria for Assessing the Quality of Higher Education (Birmingham, QHE)*.
- Hill, F., 1995, 'Managing service quality in higher education: the role of the student as primary consumer', *Quality Assurance in Education*, 3(3), pp. 10–21.
- Juran J. M., 1988. *Juran's quality control handbook*, 4th ed., New York- McGraw-Hill.
- Larbi, G.A. (1999), *The New Public Management Approach and Crisis States*, DP 112, United Nations Research Institute for Social Development, Geneva.
- Leitner, K.-H. and Warden, C. (2004), "Managing and reporting knowledge-based resources and processes in research organizations: specifics, lessons learned and perspectives", *Management Accounting Research*, Vol. 15 No. 1, pp. 33-51.
- Leitner, K.-H., Schaffhauser-Linzatti, M., Stowasser, R. and Wagner, K. (2005), "Data envelopment analysis as method for evaluating intellectual capital", *Journal of Intellectual Capital*, Vol. 6 No. 4, pp. 528-43.
- Marsh, H. & Roche, L, 1993, 'The use of students' evaluations and an individually structured intervention to enhance university teaching effectiveness', *American Educational Research Journal*, 30, pp. 217–251.
- Meritum Protect (2002), *Guidelines for Managing and Reporting on Intangibles, Intellectual Capital Report*, Vodafone Foundation, Madrid.
- Mouritsen, J., Thorbjornsen, S., Bukh, P.N. and Johansen, M.R. (2005), "Intellectual capital and the discourses of love and entrepreneurship in new public management", *Financial Accountability & Management*, Vol. 21 No. 3, pp. 279-90.

- Mowery, D.C. and Sampat, B.N. (2004), "The Bayh-Dole Act and university-industry technology transfer: a model for OECD governments?", *Journal of Technology Transfer*, Vol. 30 No. 1, pp. 115-27.
- O'Neill, M. & Palmer, A., 2001, 'Survey timing and consumer perceptions of service quality: an overview of empirical evidence', *Managing Service Quality*, 11(3), pp. 182-190.
- Oldfield B., Baron S., 2000. Student perceptions of service quality in a UK university business and management faculty, *Quality Assurance in Education*, Vol. 8, No. 2, pp. 85-95.
- Owlia, M. & Aspinall, E., 1996, 'A framework for the dimensions of quality in higher education', *Quality Assurance in Education*, 4(2), pp. 12-20.
- Parasuraman A., Zeithaml V.A., Berry L.L., 1985. A conceptual model of service quality and its implications for future research, *Journal of Marketing*, Vol. 49, No. 3, pp. 41-50
- Parasuraman, A., Zeithaml, V. & Berry, L., 1988, 'SERVQUAL: a multi-item scale for measuring consumer perceptions of service quality', *Journal of Retailing*, 64(1), pp. 12-40.
- Parasuraman, A., Zeithaml, V. & Berry, L., 1994, 'Reassessment of expectations as a comparison standard in measuring service quality: implications for further research', *Journal of Marketing*, 58, pp. 111-124.
- Pasher, E. (1999), *The Intellectual Capital of the State of Israel*, Kal Press, Herzlia Pituach.
- Ramsden, P., 1991, 'Performance indicator of teaching quality in higher education: the course experience questionnaire', *Studies in Higher Education*, 16(2), pp. 129-150.
- Rembe, A. (1999), *Invest in Sweden: Report 1999*, Halls Offset AB, Stockholm.
- Rigotti S., Pitt L., 1992. SERVQUAL as a measuring instrument for service provider gaps in business school, *Management Research News*, Vol. 15, No. 3, pp. 9-18.
- Roberts, D. & Higgins, T., 1992, *Higher Education: the student experience. The Findings of a Research Programme into Student Decision-Making and Consumer Satisfaction* (Leeds, Heist).
- Tan, D., 1986, 'The assessment of quality in higher education: a critical review of the literature and research', *Research in Higher Education*, 24(3), pp. 223-265.
- Watson, S., Saldanaa. & Harvey, L., 2002, *The 2002 Report on the Student Experience at UCE* (Birmingham, Centre for Research into Quality, UCE).
- Wiers-Jenssen, J., Stensaker, B. & Groggaard, J. (2002), 'Student satisfaction: towards an empirical deconstruction of the concept', *Quality in Higher Education*, 8(2), pp. 183-195.

Analysis using brands in the small and medium enterprises in Romania

Carme Adina Pastiu

*“1 Decembrie 1918 “University of Alba Iulia
Romania
carmenpastiu@yahoo.com*

Silvia Stefania Maican

*“1 Decembrie 1918 “University of Alba Iulia
Romania
sylvia_mihalache@yahoo.com*

Abstract: *Creating a brand is very important for a company, the more that should be considered strategic dimensions. It involves a huge investment and long term, given the efforts that must be made in advertising and promotion. In a global market increasingly competitive, branding is a strategic advantage. In a young economy, the free market is emerging just 25 years ago an analysis of the use of own brands can open up new avenues of research and strategic development.*

The main objective of the paper was to the research on existing brand in Romanian (SIBIU, ALBA, CLUJ county) small and medium enterprises and Identifying existing policies in small and medium enterprises in connection with own brand. A quantitative research method was used to achieve the defined objectives. This selective survey offers the opportunity to study and identify solutions for development of small and medium companies in the Alba, Sibiu and Cluj County and the opportunities available.

Key words: *brand, small and medium enterprises*

Introduction

Developing or creating a brand is of particular importance to an enterprise. Regardless of the form of ownership, size, or activity of the enterprise, brand investment has proven to be an important strategic option. It involves a very large and long-term investment, considering the steps to be taken in advertising, promoting and making a special package.

In an increasingly competitive global market, branding is a strategic asset. That explains, at the moment, the financial efforts made by Japanese or American firms to create and consolidate product brands.

A corporate brand is a brand that represents a corporation - organization - and reflects its patrimony, values, people, strategy (Aaker A David, 2006).

However, portfolio brands also include non-company brands whose link to domestic brands is actively managed; A good example is sponsorships, symbols, celebrities promoting brands, but also countries or regions. (Brexendorf T. O., Barry Bayus, Kevin Lane Keller 2015) Brand and innovation management need and benefit from each other, suggesting a need for a deeper integration between the two.

A main brand is the central indicator of the offer, the point of reference. It obviously occupies the main place (Aaker A David, 2006).

A supportive brand serves to provide the credibility and consistency of an offer, its role being to represent an organization (Aaker A David, 2006).

Brand and innovation management have become increasingly important priorities for firms over the last few decades. Firms rely on strong brands and product innovations to gain competitive advantage and fuel growth (Berthon, P., Ewing, M. T. and Napoli, J. 2008).

In a market approach, the considerable difference between sellable products and services and the rest of the objects is related to the company's conscious decision to change and / or improve the image of their products through symbols, logos and communication strategies.

Changing the image of the product in the mind of the consumer is achieved through visible forms of communication: trademark and registered name (symbol) and logo (visual-auditory message). Wally Olins wondered why brands are a clear and unique manifestation of our times? Because, he says, "brands mean clarity, safety, consistency, and status, that is, everything that human beings need to define themselves. Brands mean identity.

Branding in the Romanian small and medium companies

Creating a brand is very important for a company, the more that should be considered strategic dimensions. It involves a huge investment and long term, given the efforts that must be made in advertising and promotion. In a global market increasingly competitive, branding is a strategic advantage. In a young economy, the free market is emerging just 25 years ago an analysis of the use of own brands can open up new avenues of research and strategic development.

Example for Romanian market:

In light industry manufacturing activity is lohn. Products are sold under famous brands from other countries. The IT industry is very developed in Cluj County but produce for companies around the world.

Research methodology

A quantitative research method was used to achieve the defined objectives.

This selective survey offers the opportunity to study and identify solutions for development of small and medium companies in the Alba, Sibiu and Cluj County and the opportunities available.

The aims:

- Research on existing brand in Romanian (SIBIU, ALBA, CLUJ County) small and medium enterprises.
- Identifying existing policies in small and medium enterprises in connection with own brand

General objective of the research was established as follows

- O1. Analysis of brand in small and medium enterprises

The defined specific objectives of the research are:

- S1. Identifying the brand managers' attitude
- S2. Measuring branding activities

The research was conducted based on a questionnaire administered with Google Docs.

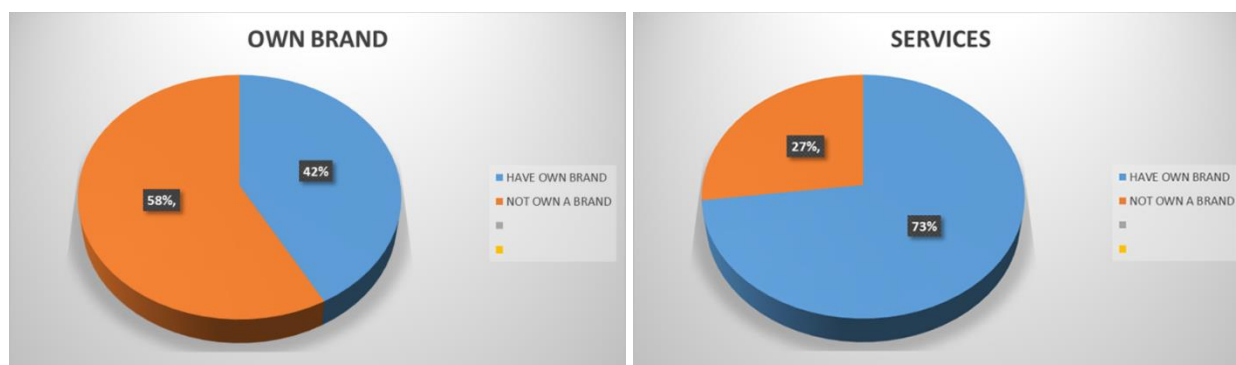
- The observation unit was represented by the enterprises from Transilvania included in the survey sample.
- Unit survey was represented by those who answered the questionnaire administered :
 - ✓ Persons who manage the companies
 - ✓ Owners

The survey type used is probabilistic. It was used a random sampling method, unrestricted.

Sample is formed by 175 units. 94% probability. Error +/- 6% (this is a limit to the study).

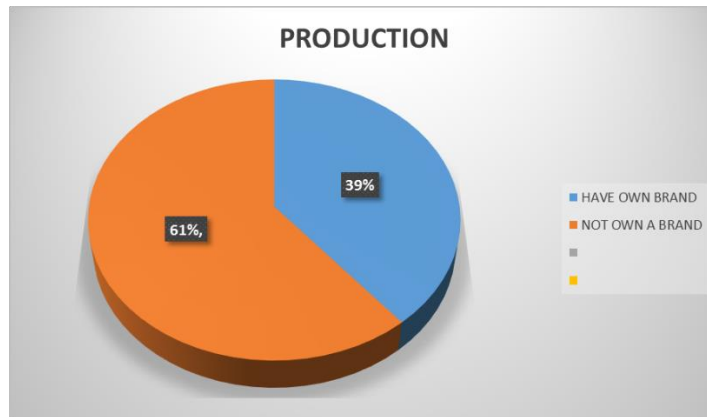
This research was conducted on the following types of companies: services, manufacture, and trade.

- O1. Analysis of brand in small and medium enterprises

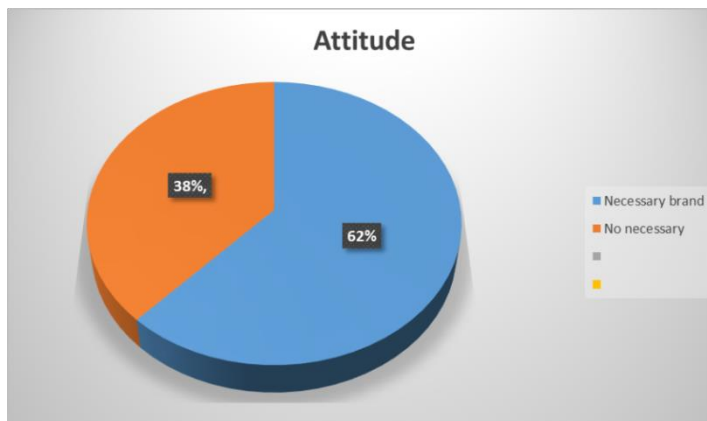
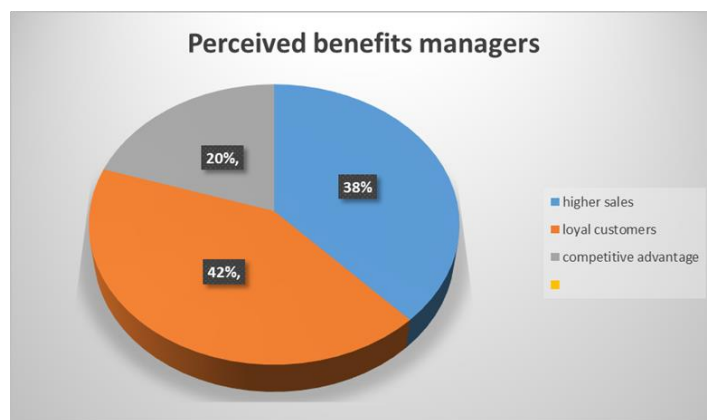


Of the total surveyed enterprises, only 42% have their own brand and from these 73% they are in the services field. In the counties analyzed, the service area is characterized by the higher

adoption of one's own brand. IT companies (Cluj), light industry Alba or automotive industrial production (Sibiu) work for EU firms under their own brand.



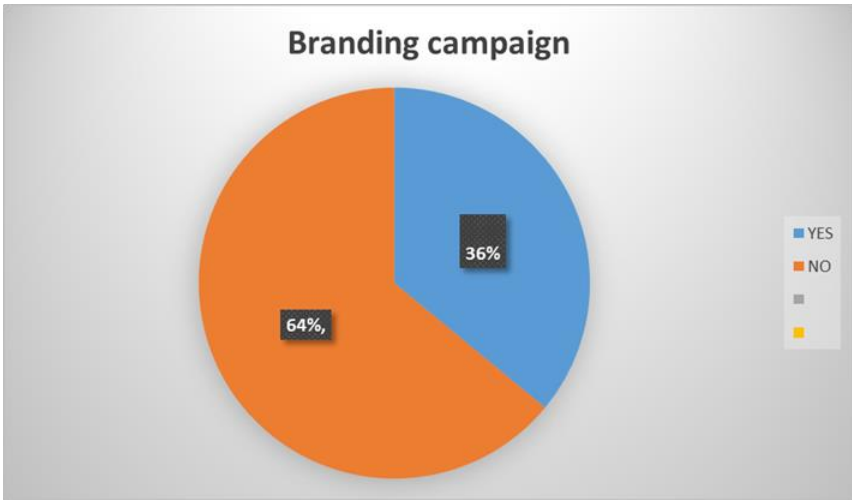
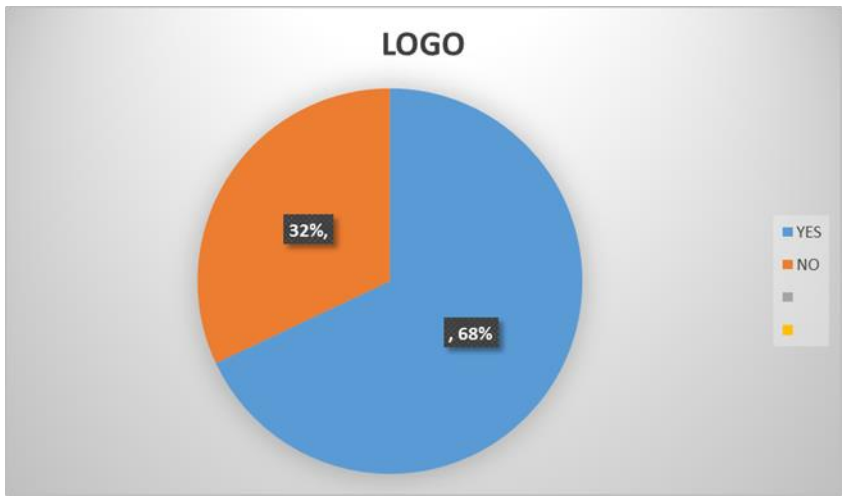
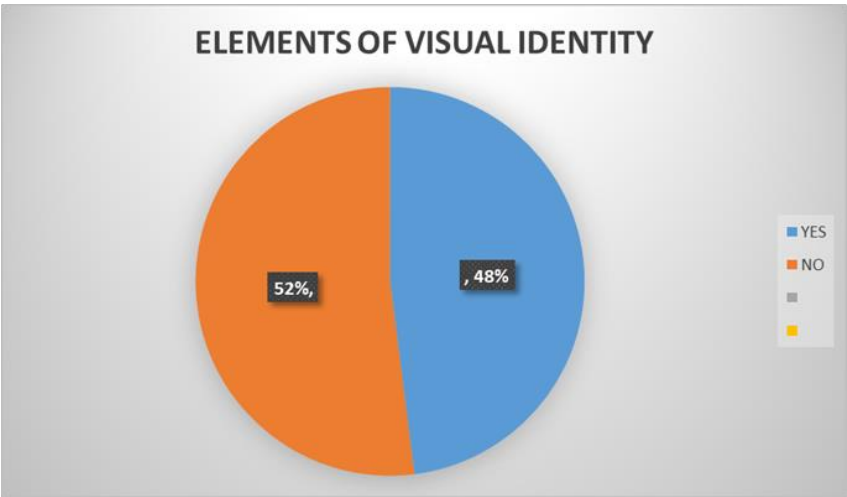
- S1. Identifying the brand managers' attitude



The result is related to the type of business. Managers understand the importance of using their own brand, but they are not widely used. In the service sector, management involvement is much bigger.

S2 Measuring branding activities. Visual identity manual

Even though they have visual identity elements in small and medium businesses, there is no branding manual developed by professionals.



Many businesses have brand, logo elements, slogans, but do not have a unitary concept. Just 35% have invested in a branding campaign.

Conclusions

Brands are a reflection of the corporate goal, they become important not only for customers but also for people who work from the inside or outside as partners, employees or financiers. In a constantly changing world where all the other things are troubled, the status of the brand as a symbol of the company and what it does becomes the central pillar. Globalization and outsourcing of companies, alliance formation and co-operation, flattening management structures, limited employment, why should people, wherever they come from, and whatever their relationship with the company?

Only reputation, only reliable because there is nothing else. And how can you represent and design confidence more and more a spiritual and cultural binder, a binder representing their reputation in the surrounding world. Brands are probably more important than ever for companies in their own domestic and day-to-day business.

The role of brands in society will be the one people will give, and the importance and sphere of influence is increasing from one year to the next.

By brand, any business can find a way out of the market and the chaos of the market and reach the target audience. The modern consumer's perception of products and services is at the center of the buying decision, and brands can direct this perception%.

If branding has given the trade a tremendous power and influence, it can do so in other fields such as arts, sports, health, education and other social areas.

By analyzing the relationship between variables is seen as:

- companies that have developed branding campaigns have over 15 employees
- companies that have developed branding campaigns over a turnover of over 10,000EUR
- brand managers believe that contribute to increased sales and higher turnover
- companies where managers believe that the brand is not necessary have less than 10 employees companies in the services organized several branding campaigns

Analyzing the data from the study it can be concluded that managers know their competition but fail to differentiate its offer towards them.

Analyzing data, we can say that managers of small and medium companies analyzed did not give due importance the brand.

Firms in the services given more importance to the brand.

The managers identify the benefits of brand but do not develop our own brand

References

- Aaker, David A. Robert Jacobson (2001) The Value Relevance of Brand Attitude in High-Technology Markets. *Journal of Marketing Research*: November 2001, Vol. 38, No. 4, pp. 485-493.
- Aaker, D. A. (1996). Measuring brand equity across products and markets. *California Management Review*, 38(3), 102–120.
- Aaker, D. A. (1997). Innovation: brand it or lose it. *California Management Review*, 50(1),
- Aaker David A. (2006) Strategia portofoliului de brand, București, Ed. Brandbuilders
- Berthon, P., Ewing, M. T. and Napoli, J. (2008), Brand Management in Small to Medium-Sized Enterprises, *Journal of Small Business Management*, 46: 27–45. doi:10.1111/j.1540-627X.2007.00229.x
- Brexendorf Tim Oliver, Barry Bayus, Kevin Lane Keller(2015) Understanding the interplay between brand and innovation management: findings and future research directions , *Journal of the Academy of Marketing Science*, 2015, Volume 43, Number 5, Page 548
- Datar, S., Jordan, C. C., Kekre, S., Rajiv, S., & Srinivasan, K. (1997). Advantages of time-based new product development in a fast-cycle industry. *Journal of Marketing Research*, 34(1), 36–49.
- Gatignon, H., & Xuereb, J.-M. (1997). Strategic orientation of the firm and new product performance. *Journal of Marketing Research*, 34(1), 77–90.
- Gielens, K., & Steenkamp, J.-B. E. M. (2007). Drivers of consumer acceptance of new packaged goods: an investigation across products and countries. *International Journal of Research in Marketing*, 24(2), 97–111.

SMEs, the Backbone of the Albanian Economy

Suada Dajçi

*Epoka University
Albania*

Amela Dalipaj

*Epoka University
Albania*

Abstract: Small and medium-sized enterprises (SMEs) play a fundamental role in the economic growth of a country. This report's purpose is to determine and prove the great significance they have in Albanian economy, and what measures are needed to be taken in order to stimulate the establishment of new SMEs and assuring a long term sustainability of the existed ones in the market. In this paper is being analyzed the impact that SMEs have in GDP, employment, innovation, and investment.

The data used in this report is gathered from INSTAT; Albanian Ministry of Economic Development, Trade and Entrepreneurship; Eurostat; and European Commission.

According to this data, even though Albania has made improvements in the business sector, there is still much to be done related to SME development such as: the improvement of business climate, further simplification of legislation, implementation of favorable financial assistance schemes, and easily providing low interest loans.

Keywords: *economic growth, GDP, employment, innovation, investment, turnover*

Introduction

Small and medium-sized enterprises (SMEs) have a different definition in various countries around the world because of the number that states decide as a ceiling in staff headcount and either turnover or balance sheet total. The definition made by European Commission defines SMEs as enterprises with less than 250 employees, a turnover less or equal to 50 million euros, and either a balance sheet that does not exceeds 43 million euros³. In order to bring the SME definition closer to EU standards, Albania amended the law no. 8957 in October 17th of 2002. In the article 4 of this law is stated that: Micro, small and medium enterprises (SMEs) include those entities which employ fewer than 80 people and have an annual turnover that does not exceed 80 million ALL¹. Later on 29-10-2008 it further changed with the new law no. 10183. Now the definition states that: "Micro, small and medium enterprises (SMEs) includes those entities which employ fewer than 250 people and have an annual turnover that does not exceed 250 million Albanian Lek. Small enterprises are those entities which employ less than 50 persons and have an annual turnover that does not exceed 50 million Albanian Lek. Micro enterprises are entities which employ less than 10 persons and have an annual turnover that does not exceed 10

million Albanian Lek.” (Kruja, 2013) To avoid confusion we need to clarify that this definition is only for individual firms, and these ceilings do not apply to firms that are part of a large group. SMEs have a very important role in the economic growth of their country. The significance they have varies in different economies. This report’s purpose is to determine and prove the great significance they have in Albanian economy, and what measures are needed to be taken in order to stimulate the establishment of new SMEs and assuring a long term sustainability of the existed ones in the market.

“The only way to reduce poverty in a sustainable way is to promote economic growth, through wealth and employment creation. In developing countries, SMEs are the major source of income, a breeding ground for entrepreneurs and a provider of employment⁷” (UNIDO Report, 2003). We can measure the real importance of the SMEs in Albanian economy by analyzing the impact that SMEs have in GDP, employment, innovation, and state budget. Most of the data used in this report are gathered from the Albanian Institute of Statistics (INSTAT), Albanian Ministry of Economic Development, Trade and Entrepreneurship, Eurostat, EBRD BEEPS survey, European Commission, European Investment Bank, and SBA Fact Sheet.

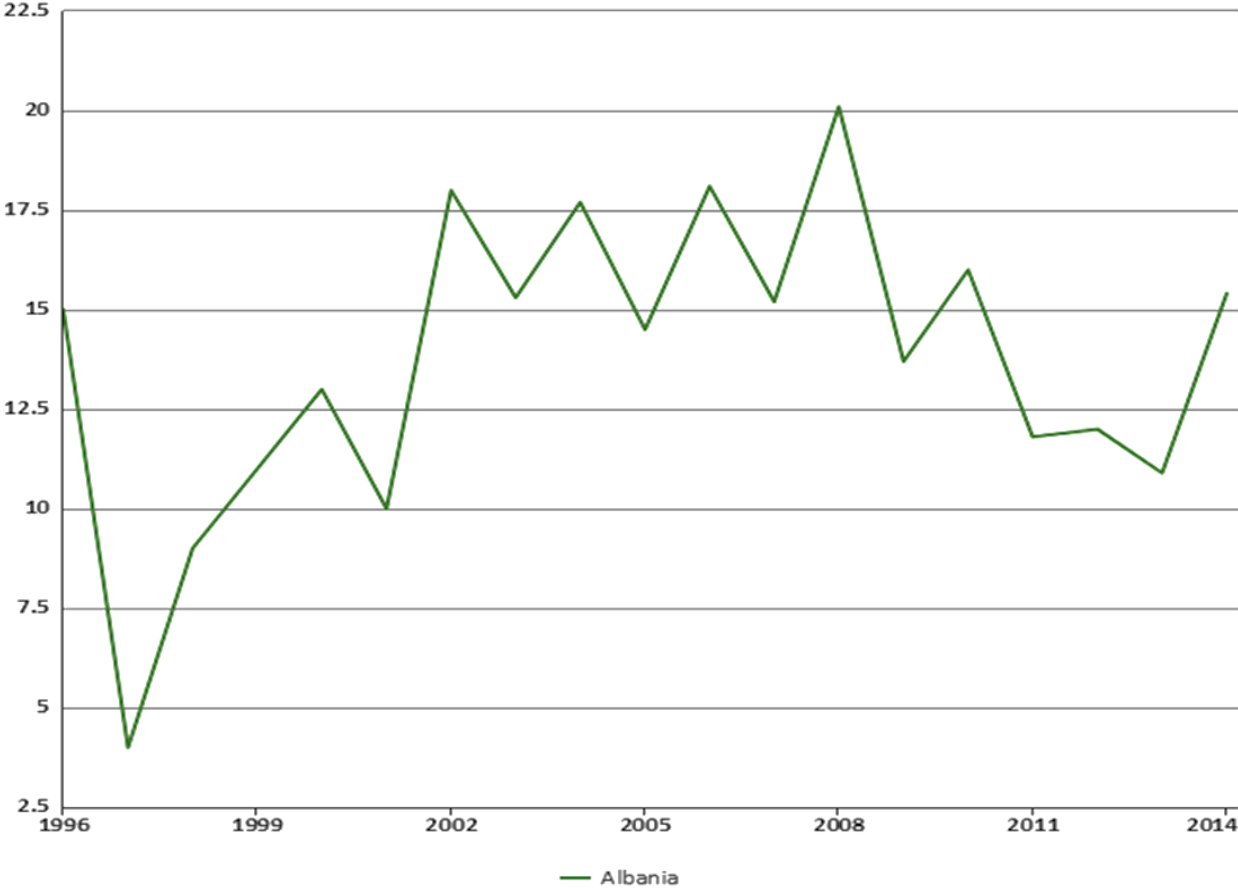
The significance that SMEs have in Albania in reducing poverty through employment, the role they have in state budget, the impact in GDP, and the percentage of investments made on SMEs are shown in Table 1, Table 2, and Table 3.

The importance of SMEs in reducing poverty

As it is shown in Table 1, SMEs are the main engine that can reduce poverty in Albania, because they provide 79.9% of the total employment, while the European Union average is around 67 %. This means that SMEs are the main job providers in Albania, considering the great number of people that get self employed by creating their own businesses, and at the same time creating job vacancies. While the number of unemployed people is reduced, meanwhile the number of people living in poverty line will be reduced. “[We] find that small firms have the largest shares of job creation but large firms have the largest share of job losses⁴” (M. Ayyagari, A. Demirguc-Kunt, V. Maksimovic, 2011, p. 12). The reason why small and medium sized firms have the greatest share of job creation is because the velocity of the creation of new firms is greater than their speed towards failure, that’s why the number of net job creation by SMEs is high as shown in Figure 1. But the number of net job creation by SMEs can be greater if less of these enterprises failed. Failure mostly comes from the lack of finance, because obtaining external financing requires a long bureaucratic administrative aspect of the lending procedures, and in the case of bank loans it is requested a collateral in a form of property or bank deposit with high interest rates, so for SMEs external financing might be unaffordable, time wasting, and no profit is generated from it. A solution to this problem might be implementation of favorable financial assistance schemes as loan guarantee funds and micro credits.

Table 1 shows that the number of persons employed in SMEs in Albania has been increasing since 2008, while in European Union has been having sustainability with the tendency to decline that can better be noticed in 2012.

Figure 2 Business Demography; Birth rates of enterprises %, Source: Knomea (2016)



The role of SMEs in state budget

SMEs in Albania constitute 99.8% of all enterprises, they provide almost 68 % of the total value added, which has dropped by 3% from 2012, due to the poor performance of small firms which experienced a 13 % drop in value added. SME employment grew by 15 % during 2012-14. Moreover SMEs generate more than 3/4 of the State’s turnover. This is why government must support SMEs with different policies as being the main contributors in the state budget. The fluctuations of the value added of SMEs curves in Albania and in EU are shown in Figure 2.

Table 5 SMEs basic Figures, Source: 2016 SBA Fact Sheet

Class size	Number of enterprises			Number of persons employed			Value added		
	Albania		EU28	Albania		EU28	Albania		EU28
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	73 023	94.1 %	92.8 %	134 609	39.3 %	29.5 %	683.6	23.9 %	21.2 %
Small	3 754	4.8 %	6.0 %	72 098	21.1 %	20.2 %	689.7	24.1 %	18.0 %
Medium-sized	686	0.9 %	1.0 %	67 033	19.6 %	17.0 %	569.6	19.9 %	18.2 %
SMEs	77 463	99.8 %	99.8 %	273 740	79.9 %	66.8 %	1943.0	67.8 %	57.4 %
Large	119	0.2 %	0.2 %	68 734	20.1 %	33.2 %	922.2	32.2 %	42.6 %
Total	77 582	100.0 %	100.0 %	342 474	100.0 %	100.0 %	2865.2	100.0 %	100.0 %

Figure 2: Number of persons employed in SMES (index: 2012=100) Source: European Commission

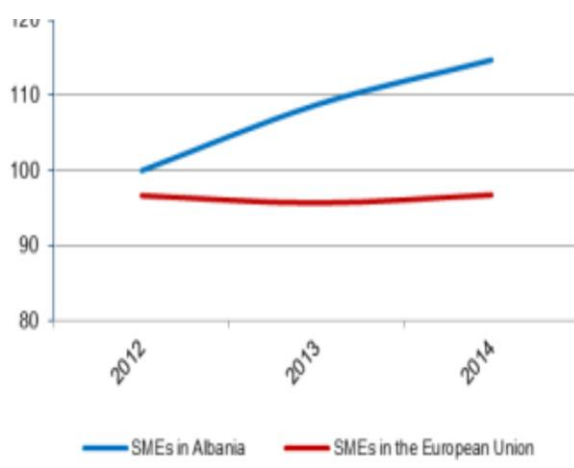
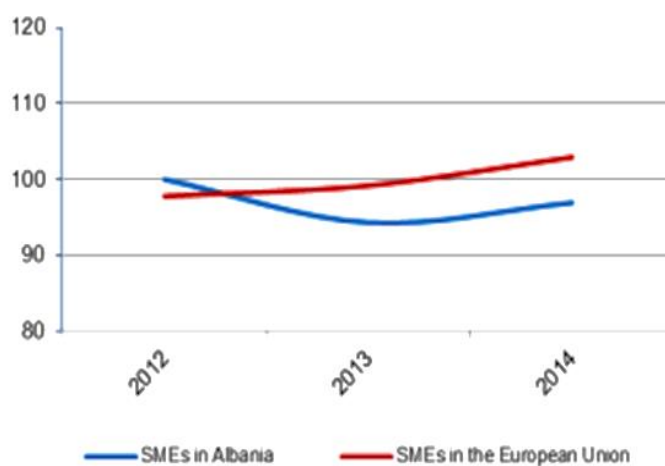


Figure 3: Value added of SMEs (index: 2012=100) Source: European Commission



SMEs impact on GDP

Table 2, 3 and 4 on the other hand shows the right number of: enterprises, people employed, turnover, and investments in all industries, in good producers and in service producers respectively. We drag the following statistics from Table 2: Nine from ten enterprises engaged less than 5 employed. Enterprises with 250+ employed, even though constitute only 0.1 % of enterprises, engaged 18.7 % of employed, realized 33.5 % of investment, 22.4 % of turnover and 33.7 % of value added.

Most of enterprises in Albania are services producers as it is shown in Figure 3. Further on in Figure 4 and Figure 5 are shown the percentages of enterprises according to the number of employees. According to Albanian Ministry of Economy the contribution of SMEs on GDP since 2008 is 73%. As a result, it can be said that the SMEs play an important role in the economy of the country. GDP is the main indicator to evaluate the economic growth of a country, which means that in order to have economic growth a government needs to stimulate with different policies, reforms, and measures the increase of SMEs production. The best way is by favorizing SMEs exports. If we take a look to Table 2 and Table 3 on investment column we will notice that although SMEs cover most of employment, GDP, value added, still investments are not shared equally.

Table 6: Basic indicators and their structure by size class of enterprises

Size of enterprises	Employed		Turnover		Investments		Value added	
	No.	%	min ALL	%	min ALL	%	min ALL	%
Total	435,437	100.0	1,802,364	100.0	208,240	100.0	460,332	100.0
SMEs (1-249 employed)	353,928	81.3	1,398,669	77.6	138,504	66.5	305,113	66.3
Microenterprise (1-9 employed)	181,048	41.6	435,293	24.2	21,879	10.5	101,578	22.1
Small enterprise(10-49 employed)	84,845	19.5	555,735	30.8	54,757	26.3	107,560	23.4
Medium enterprise(50-249 employed)	88,035	20.2	407,640	22.6	61,869	29.7	95,976	20.8
Big enterprise (250+ employed)	81,509	18.7	403,695	22.4	69,735	33.5	155,219	33.7

Source: INSTAT (2015)

Table 7: Enterprises, employed, turnover, investments of goods producers by size class of enterprise

Goods producers	Enterprises		Employed		Turnover		Investments	
	no.	%	no.	%	mIn ALL	%	mIn ALL	%
Total	11,653	100	137,288	100	579,192	100	129,295	100
1-4 employed	8,231	71	15,192	11	44,793	8	13,391	10
5-9 employed	1,197	10	7,663	6	40,407	7	10,502	8
10-49 employed	1,737	15	34,527	25	141,202	24	15,714	12
50+ employed	487	4	79,906	58	352,790	61	89,687	70

Source: INSTAT (2014)

Table 8: Enterprises, employed, turnover, investments of service producers by size class of enterprise

Service producers	Enterprises		Employed		Turnover		Investments	
	no.	%	no.	%	mIn ALL	%	mIn ALL	%
Total	73,554	100	233,677	100	1,158,786	100	53,416	100
1-4 employed	67,411	91	102,440	44	194,819	17	10,209	19
5-9 employed	3,506	5	21,334	9	162,225	14	3,937	7
10-49 employed	2,260	3	42,494	18	380,996	33	12,275	23
50+ employed	377	1	67,409	29	420,746	36	26,995	51

Source: INSTAT 2014

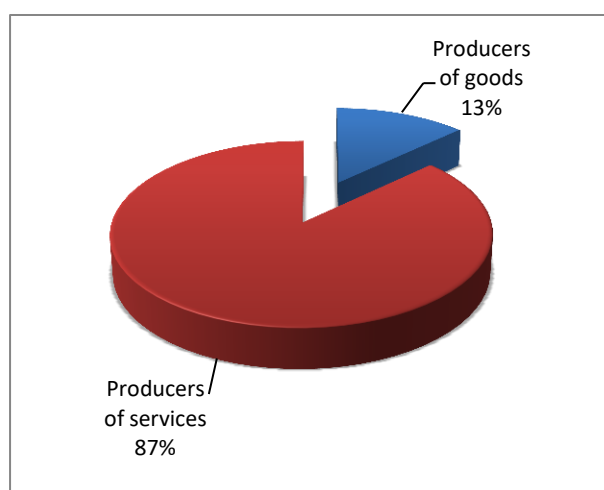


Figure 4: Companies in Albania according to their activities, Source: INSTAT 2014

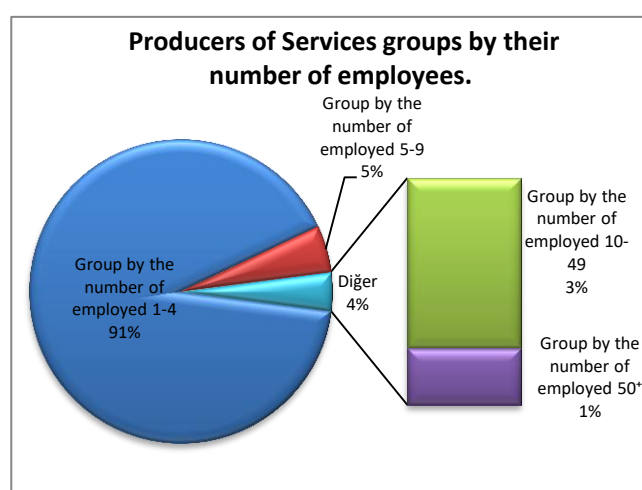
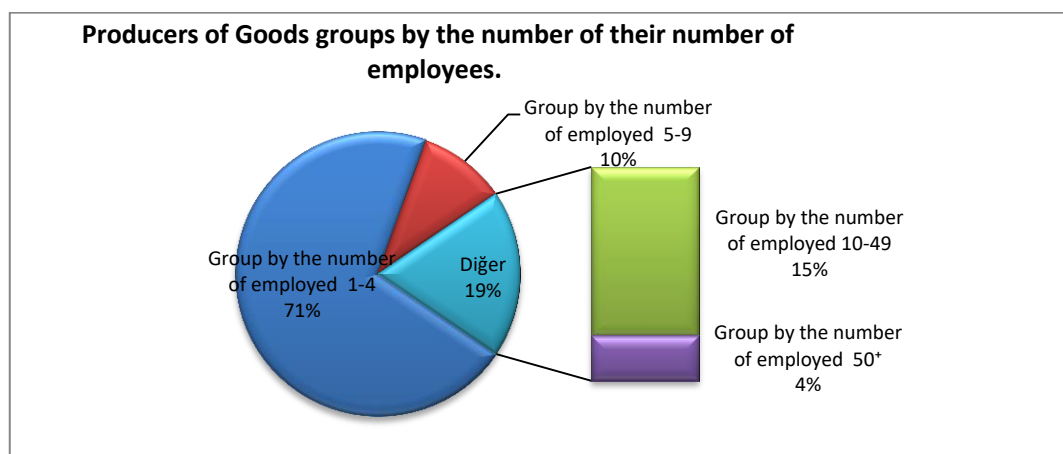


Figure 5: Producers of Services groups by their number of employees. Source: INSTAT 2014

Figure 6: Producers of Goods groups by their number of employees



Source: INSTAT 2014

Innovation and SMEs

“Technological progress is not translated into economic benefits and jobs by governments, countries, or sectors, but by innovative firms. Innovative firms are not superior algorithms to maximize production functions, but efficient learning organizations that seize technological and market opportunities creatively in order to expand production frontiers⁵” (OECD , 1996).

In Albania, in the previous years, used to be organized a business plan competition for innovative start-ups, with the main purpose of attracting young people with entrepreneurial skills. In 2014, the Albanian Investment Development Agency (AIDA) has provided public grants to SMEs through the 'Competitiveness Fund 2013-2015' and the newly established 'Innovation Fund 2015-2017", aiming to improve the quality of exported products as well as to diversify and increase the exports by subsidizing the SMEs². In 2015, AIDA implemented the 'Enhancement of institutional capacities for research and innovation' to further support the development of research and higher education systems. The Albanian government has focused on improving the quality of the Vocational Education and Training (VET), aiming to establish linkages of the VET with the labor market, increasing employment for women, youth and vulnerable groups. Moreover it has adopted and implemented the 'Effective implementation of Digital Agenda Strategy', which introduced a range of instruments to support SMEs using ICT and innovative technologies. Within the last years more organizations are coming up which actively support innovative startups and existing SMEs such as ProTIK ICT Resource Center. It was established in 2012 to catalyze the development of the ICT sector in Albania and has developed an accelerator program for startups. ProTIK aims to become the Albanian ICT hub. Albania needs to work more on setting stronger links between technology, science, higher education and businesses because it is essential in improving human capital. Promotion of entrepreneurship at all levels of education, support of start-up businesses, improvement of

investment climate conditions are also some of the measures that need to be taken. SMEs are flexible in market changing conditions, they are very widespread in all economic activities as they represent 99.8% of all enterprises, and furthermore they run in perfect competition. These make SMEs the perfect tool to spread innovation, try new technologies approaches while they compete one another, all characteristics which result in economic growth. Innovation is very important even for firms, because innovation means differentiation that is accompanied with more incomes, employing more workers, demanding for high level skills, paying higher wages, and offering more stable prospects for the workforce and as the economy functions as a chain one thing will follow another and this will bring economic growth to the firm.

Conclusion

SMEs play a vital role in our economy; they are the generators of employment, main indicators in GDP, and economic growth promoters. SMEs employ 81% of the employed persons, and meanwhile they make up 99.9% of all registered business entities. SMEs in Albania are mostly spread in the service producers' economic activity this because service producers sector has 87% of enterprises in the market. The contribution of SMEs on GDP since 2008 is 73%. They are very widespread in all economic activities, they have the ability to respond quickly to market changes, and furthermore they run in perfect competition, all these make SMEs the perfect tool to promote economic growth through innovation. But even though Albania has made improvements in the business sector, there is still much to be done related to SME development. The new fiscal package that was pass by the Government cause of growing public debt increased the corporate income tax for large and medium companies but reduced the tax burden for small enterprises, which is positive. Some measures that the Government of Albania should undertake in order to promote SMEs in Albania are as follow: the improvement of business climate, further simplification of legislation to open a SME, implementation of favorable financial assistance schemes as loan guarantee funds and micro credits, easily providing low interest loans, or improving access to finance through developing the venture capital market and alternative sources of finance, and setting stronger links between technology, science, higher education and businesses because is essential in improving human capital. They could also consider the promotion of entrepreneurship at all levels of education; they can put more emphasis on the introduction of incubators, clusters and technological parks, enhanced public support to increase their exports, and creating fast-track and specific bankruptcy procedures for SMEs, especially in view of the issue of the non-performing loans.. If we take care for the development of the SMEs Albania will experience economic prosperity.

Bibliography

AIDA. (2015, December 02). *Aida Funds*. Retrieved from Albanian Investment Development Agency: <http://aida.gov.al/pages/aidas-funds>

Business and Financing Consulting. (August 2016). *Assessment of financing needs of SMEs in the Western Balkans countries*. European Investment Bank.

- On Small and Medium Enterprises, Law no.8957, article 4 (Constitution of the Republic of Albania, Commercial Law October 17, 2002).
- Commission, E. (n.d.). *Entrepreneurship and SMEs*. Retrieved from European Commission.
- European Commission. (2016). *2016 SBA Fact Sheet Albania*. European Commission.
- European Commission. (2015, December 02). *Entrepreneurship and SMEs*. Retrieved January 03, 2016, from European Commission: http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm
- Instat. (2015). *Statistics on small and medium enterprises, 2015*. Tirana: Instat.
- INSTAT. (2017). *RESULTS OF STRUCTURAL SURVEY OF ECONOMIC ENTERPRISES*. Tirana: INSTAT.
- Knomea. (2016, October 11). *Candidate countries and potential candidates: business demography*. Retrieved October 20, 2016, from Knomea: https://knoema.com/cpc_insbs/candidate-countries-and-potential-candidates-business-demography?regionId=AL
- Kruja, A. D. (2013). *The Contribution of SMEs to the Economic Growth (Case of Albania)*. Editura Universitara Danubius .
- M. Ayyagari, A. Demirci-Kunt, V. Maksimovic. (2011). *Small vs. Young Firms across the World Contribution to Employment, Job Creation, and Growth*. World Bank.
- OECD . (1996). *Technology, Productivity and Job Creation*. Paris.: The Washington Workshop.
- PBM. (2011). The Importance of SMEs in Albanian Economy and the Role of Government and Financial Institutions in their Development. In *Enhancing SMEs Development in Albania: A Study on Macro-Financial Soundness Indicators* (pp. 65-67.). Tirana: Klean Publisher.
- UNIDO. (2003). *WSIS Report*.

Impact of Agricultural Policies on Rural Development and Increase of Competitiveness of Agriculture of Bosnia and Herzegovina with a Special Emphasis on Achievement of Reform Goals

Sanja Kavaz Hukic

Bosnia and Herzegovina

sanja_kavaz@bih.net.ba

***Abstract:** For the Balkan countries, the agricultural sector and rural development are of great importance, primarily because they are ensuring food security of the population, and then, also, because they have effects on employment, the creation of total gross value as well as on the foreign trade. Having in mind open processes of joining the European Union in these countries, with a special focus on Bosnia and Herzegovina, the implementation of the EU policies and practices will represent both a challenge and an opportunity for the development of the state and the improvement of its position in the single European market. Bosnia and Herzegovina is a country with a distinct rural character, with over 50% of the rural population, where every third household acquires some kind of income from agriculture, and which is currently facing a number of problems when rural development is concerned (from insufficient investments, uncompetitive production, inefficient administration, abandonment of rural areas, failure to use EU funds, etc.). Nevertheless, with adequate policies and dynamic approach to the agricultural sector, and strategy for increasing competitiveness and attracting investment, the potential of Bosnia and Herzegovina's agriculture could be used and exploited, and the country could go towards progress and success. Therefore, this paper explores and analyzes the European Union's common policies, as well as the ways and means of their implementation in the Balkan region countries, especially in Bosnia and Herzegovina. Then, the paper points the importance and necessity of investing in rural development (infrastructure, mechanization, marketing, agro-environmental measures, etc.), and provides guidelines on how to modernize and reconstruct the agricultural sector, in order to increase the country's competitiveness and reduce the long-standing trade deficit in this area, and, at last, how to effectively approach to the European Union with harmonization of legislation and the use of development plan. The agricultural sector and the overall modernization of rural communities, with a clear vision, and with increasing employment, economic growth and competitiveness, can become the cornerstone of the development of Bosnia and Herzegovina and a key factor of its inclusion in the European and the world trends.*

Keywords: EU common agricultural policy, agriculture, rural development, competitiveness.

JEL Classification: Q17, Q18, O13, 018

Introduction

The Common Agricultural Policy (further: CAP) is one of the oldest policies of the European Union (further: EU) and represents set of measures and programs for subsidizing agriculture in the European Union. It was created in 1962, so the application of common agricultural policy

began in early 1960s. Until then, countries have greatly intervened in their agricultures, particularly in the choice of what to produce, under which conditions, and what will be the price of agricultural products. Such individual interventions jeopardized the free exchange of goods within the Community. Since some countries, France in particular, advocated the continuation of strong intervention, the only solution was to transfer intervention measures at the level of the Community and to harmonize them. The Rome Treaty stipulated the general framework of the CAP¹⁰, the principles of CAP were defined at a Conference in Stresi (Italy) in 1958, and CAP came into force in 1962s, after it was accepted by all six of the founders of the Community. In late 1950s societies and states in Europe were damaged by Second World War, and in that conditions agriculture had been crippled, there were no rural development and food supplies could not be guaranteed. Since then, common agricultural policy had been changed adapting the policy to a changing world. Major reforms shaped the CAP in 1992, 2003 and 2013, the main goals evolved from securing enough food and agricultural products, securing free movement of agricultural product and removal of the trade barriers in 60s, 70s, etc., to today's main objectives which are providing a stable, sustainably produced supply of safe food at affordable prices for all Europeans, while also ensuring a decent standard of living for farmers and agricultural workers. Other objectives are sustainable management of natural resources, the preservation of rural economies, the redistribution of aid between countries and between farmers, and the climate change. As an oldest EU policy, in general, it is a partnership between Europe and its farmers, agriculture and society.

The CAP is based on three fundamental principles: single market, advantage of the Union and financial solidarity. The single market has two meanings, first the application (on agricultural products) of the rules on free movement of goods between Member States, and determining common prices and assistance, regardless of headquarter of an economic entity. Correct application of this principle requires common price regulation, aid payments and competition rules, harmonization of health insurance regulations and administrative procedures as well as common foreign trade policy. The advantage of the Union provides two levels of activity, giving preference to agricultural products from the Union before importing products and internal market protection against disturbances caused by the uncontrolled import of low-priced agricultural products as well as from disturbances in the world market. In the end financial solidarity means that costs resulting from the application of the CAP must be shared among all Member States (further: MS), regardless of their national interest.¹¹

Agriculture is a key sector for sustainable economic development, so from the early beginning until today the common agricultural policy is managed and funded from the resources of the EU

10 The objectives of the CAP were defined under Article 39, and those were:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; (c) to stabilise markets; (d) to assure the availability of supplies; (e) to ensure that supplies reach consumers at reasonable prices. Treaty of Rome, 25 March 1957, Agriculture, p. 16

¹¹ Kesner-Škreb, M., Common Agricultural Policy of the European Union, Financial theory and practice, 2008., 32 (4), p. 543-545

annual budget, and it consumes almost half of the budget of the Union. Common Agriculture is a sector that is supported almost exclusively at the European level, unlike most other sectors of the economies which are the responsibility of their national governments. It is important to have a public policy for a sector responsible for ensuring food security and sector which plays a key role in the use of natural resources and the economic development of rural areas. The recent enlargements of the EU have almost doubled the labor force and the cultivable area, and the internal market added more than 100 million consumers. The new Member States can immediately start using the mechanism of subsidizing the prices of agricultural products, while the direct subsidies to farmers are arranged for a period of ten years. However, the member states must fulfill many conditions regarding restructuring and modernization of the agricultural sector. All Member States agreed that by 2013 there will be no real growth of the agricultural budget, the subsidies to the "old" Member States will be reduced in order to finance aid to new members.

Today, farmers provide a stable food supply, produced in a sustainable way at affordable prices for more than 500 million Europeans. The European Union's farm policy ensures a decent standard of living for farmers, at the same time as setting requirements for animal health and welfare, environmental protection and food safety. Sustainable rural development completes the picture of the EU's common agricultural policy. There is one big European market for agricultural products, in which a common approach towards supporting agriculture ensures fair conditions for farmers competing in the internal European market and globally.¹²

For Western Balkan countries¹³ accession to the European Union is undoubtedly a political goal, process of great importance both for countries and their population, in which the adaptation and the modernization of agriculture play important role. They are directed by national decision-makers, who use pre-accession instruments, changes in legislation, institution-building and agricultural policy reform to promote the development of the agricultural sector and of rural areas. So, if policy is to serve as a means to achieve certain goals, reforms must be planned, steered and executed according to the principles of evidence-based policymaking. This means that a modern government must produce policies that are based on hard facts, not on ideology, that are proactive rather than reactive, and address causes rather than symptoms. All Western Balkan countries have made significant progress in the last few years in aligning their long-term programming documents and administrative infrastructures with EU requirements. Between 2013 and 2015, new strategic documents for agriculture and rural development were adopted, which mainly cover the period to 2020, up to 2019 for the Federation of Bosnia and Herzegovina and up to 2024 for Serbia. The medium- and long-term agricultural policy

¹² 22 million farmers and agricultural workers are at heart of one of the biggest economic sectors in the European Union, the agri-food sector. Around 44 million jobs in food processing, food retail and food services depend on agriculture. The EU is also a net exporter of food and drink, exporting goods for more than €130 billion per year. More data on EU agri-food in "Monitoring EU Agri-Food Trade" which provides monthly data on EU agri-food exports and imports, available on https://ec.europa.eu/agriculture/trade-analysis/monitoring-agri-food-trade_en

¹³ In this sense the term „Western Balkan countries“ encompasses countries of the region such as Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro and Serbia.

objectives and priorities set out in these documents vary slightly by country, but all address to enhancing farm viability and the competitiveness of the agro-food sector; to sustainable management of natural resources and mitigation of the effects of climate change; and improving the quality of life and balanced territorial and economic development of rural areas. In most countries, the main strategic document has been supplemented by a multi-annual implementation programs. In parallel, the Instrument for Pre-Accession Assistance for Rural Development (further: IPARD) programs were also prepared to provide key documents regarding EU pre-accession support in the field of agriculture, mostly aimed at institution-building and improvement of the agricultural sector.¹⁴

In Bosnia and Herzegovina (further: BH), having in mind that country has a rural character, with over 50% of the rural population, agriculture is both an economically and politically important sector. This sector is characterized by underused natural resources and production potentials, low productivity, poor technical and technological capacities of farms, underdeveloped agricultural and food chain value, low competitiveness and considerable dependence on foreign trade. Added to that, the growing socio-economic marginalization of rural areas, which is accompanied by depopulation, makes it is apparent that the agricultural policy of Bosnia and Herzegovina faces numerous challenges that must be tackled to address these problems in the agricultural sector and rural areas.

With the entry into force of the Stabilization and Association Agreement between Bosnia and Herzegovina and the European Union¹⁵, with 135 clearly defined articles of the agreement, in particular chapter II, which regulates relations in agriculture and fisheries, an opportunity is created for an adequately economically and legally regulated country to enter the market competition in European union and to achieve significant results. But, at the moment, since Bosnia and Herzegovina does not have organized and planned agricultural and food production, a functional production and system based on quantity - continuity - quality, established international systems and standards for food safety, cooperative system of redemption stations, common agricultural policy, laws and Ministry on a state level, agriculture and rural

¹⁴ In some countries, key priorities also include farmer income stabilisation (Bosnia and Herzegovina, Kosovo and Serbia), food chain organisation (FYR Macedonia and Kosovo), promotion of food quality and safety standards (FYR Macedonia) and investment in human capital, transfer of knowledge and innovation (Albania, FYR Macedonia and Kosovo). The basic goals of agricultural policy thus match those of the EU CAP for the same period. Monitoring of agricultural policy developments in the Western Balkans countries, European Commission, Luxembourg: Publications Office of the European Union, European Union, 2017. p. 14.

¹⁵ The agreement expressly refers to the possibility of BH to become a candidate country for membership of the EU. The agreement is to open political dialogue with BH and for enhanced regional cooperation, including provisions on free trade areas between the countries of the region, the free trade area for within 5 years of entry into force of the agreement. BH is committed to approximate its legislation to that of the EC, notably in the key areas of the internal market. The agreement is an important step in the establishment of a stable order based on cooperation within the framework of the EU's stabilization and association process with the countries of south-eastern Europe, as well as within that of the stability pact for south-eastern Europe. The Stabilization and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, on the other part.

development can easily become a stumbling rock of the development of whole country, of course if country does not, in near future, implement necessary reforms and improvements.

The Common Agricultural Policy – modernization and reform in European Union

Introduced in 1962, Common Agricultural Policy, had undergone several waves of reforms, with the latest reform decided in 2013. and implemented in 2015. Since then, the context in which that reform was forged has shifted significantly.

Agricultural prices have fallen substantially and market uncertainty has increased, due amongst others to macroeconomic factors, geopolitical tensions, inhibiting a clear long-term planning of the sector. Also, the emphasis of trade negotiations has moved more visibly from multilateral to bilateral deals, requiring a careful balancing of offensive and defensive interests, with due attention paid to certain sensitive sectors. The EU has signed up to new international commitments, especially those concerning climate change and broad aspects of sustainable development (through the UN's Sustainable Development Goals – SDGs), and is also exposed to other geopolitical developments such as new large-scale migration.¹⁶

So in these circumstances CAP continues to be adapted to respond the challenges of its time. The main aims of the policy nowadays are to improve agricultural productivity so that consumers have a stable supply of affordable food, and to ensure that EU farmers can make a reasonable living. Now, more than fifty years after the introduction of the CAP, with more than 500 million consumers needing a reliable source of affordable, healthy and nutritious food, the EU has had to address a number of current and future challenges, which include global competition, economic and financial crises, climate change and sustainable management of the natural resources, food security, rising costs such as fuel and fertilizer.

Significant reforms have been made in recent years, to modernize the sector and make it more market oriented. Most notably, in 2013, after three years of intensive discussion and negotiations, the policy was reshaped to meet the challenges of the future, 2014-2020.¹⁷ The new

¹⁶ The above prompted a vigorous public debate about whether the 2013 reform went far enough to meet broader challenges related to the balance of support, the economic prospects for agriculture and rural areas, care for the environment (e.g. greening), action over climate change, sustainable and safe food production. Emerging opportunities in the areas of health, trade, the bioeconomy, the circular economy and the digital economy also need to be further considered. Against this background, as part of its working programme for 2017, the Commission will take forward work and consult widely on simplification and modernisation of the CAP to maximise its contribution to the Commission's ten priorities and to the Sustainable Development Goals (SDGs). This will focus on specific policy priorities for the future, taking into account the opinion of the REFIT Platform and without prejudice to the next Multiannual Financial Framework. The starting point must be will be a well-founded assessment of the performance of the current policy. More about Consultation on modernising and simplifying the common agricultural policy, European Commission, Directorate-General for Agriculture and Rural Development on https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en, 10.06.2017.

¹⁷ After an elaborate process, a decision on the CAP for the 2014-2020 period was reached in 2013. The process involved the main European institutions: the European Commission (Commission), the Council of the European Union (Council), the European Council and the European Parliament (EP). It involved consultations with European citizens and „stakeholders“ and intense lobbying activities on the part of various interest groups. The process started

CAP is designed to ensure direct support will become fairer and greener, strengthen the position of the farmers in the food chain and the policy as a whole will become more efficient and more transparent.

For majority of Europeans, agriculture and rural areas are important for the future. They consider the main responsibilities of farmers to be supplying the population with a diversity of quality products and ensuring the welfare of farmed animals. For them agriculture and rural development policy should be ensuring agricultural products are of good quality, healthy and safe, and ensuring reasonable food prices for consumers.¹⁸ In Western Balkan countries, particularly in Bosnia and Herzegovina, both the population and the government still do not understand the significance of agricultural policy and the importance of improvement of rural areas. The CAP is a complex policy involving many different components and issues.

The new CAP design and the next steps

All past reforms have led to step changes in the CAP and this, the latest one, is no exception. It represents another milestone in the CAP's history placing the joint provision of public and private goods at the core of policy. Farmers should be rewarded for the services they deliver to the wider public, such as landscapes, farmland biodiversity, climate stability even though they have no market value. Therefore, a new policy instrument of the first pillar (greening) is directed to the provision of environmental public goods, which constitutes a major change in the policy framework. The new CAP design is also more efficient, targeted and coherent. It is based on a more holistic approach to policy support through the maintenance of the existing two pillar structure but in a more targeted, integrated and complementary way. Both pillars of the CAP are aimed at meeting all three CAP objectives more effectively, with better targeted instruments of the first pillar complemented by regionally tailor-made and voluntary measures of the second pillar. There is new flexibility for Member States in the budgeting and implementation of first Pillar instruments, acknowledging the wide diversity of agriculture, agronomic production potential and climatic, environmental as well as socio-economic conditions and needs across the EU. This flexibility will however be framed by well-defined regulatory and budgetary limits in order to ensure a level-playing field at European level and that common objectives are met. In

informally as early as 2008 and more formally in April 2010, when the Commission launched a public debate on the CAP's future. In June 2013, a political agreement was reached between the Commission, the EP and the Council under the Irish Presidency. In the last months of 2013, the regulations were formally adopted by the Council and the EP. Delegated Acts to clarify technical implementation details were approved in April 2014. Afterwards member states went to work on how they would implement various policy areas where they had flexibility in implementing the regulations. The length and complexity of the process are not indicative of the reform outcome. More about CAP in book Swinnen, J., *The Political Economy of the 2014-2020 Common Agricultural Policy An Imperfect Storm*, Centre for European Policy Studies, Brussels, 2015., p. 1-3.

¹⁸ The majority of Europeans consider all of the listed priorities of the CAP to be important, with two priorities mentioned more often as being "very important": investing in rural areas to stimulate economic growth and job creation (47%), and strengthening the farmer's role in the food chain (45%). More statistical data about the CAP and Europeans in *Europeans, Agriculture and the CAP, Report*, European Commission, EU, 2016., p. 5-6

this area Member States share the responsibility to strike the right balance between possible benefits and the burdens of red tape for producers as well as for administration and controls.¹⁹

There is one more important thing when it comes to the reforms of the CAP, and also reason why the those reforms of the CAP were so needed, and that is increasement of competitiveness of the EU agriculture. Europe needed to retain and enhance competitiveness in the world characterized by increasing globalization and rising price volatility. The growing world population and expansion of the global markets means this is a time of opportunity of EU farmers, but also a challenges, not least the need to be competitive on a global level while managing the increasing costs of inputs, such as oil, fertilizers and water. Not only in the EU, but also in other countries, especially those with rural character such as countries of Western Balkans, it is necessary to build up and to have more innovative, self-reliant, profitable agriculture and farming industry with the ability to mitigate or withstand shocks and to recover quickly from them. So for Bosnia and Herzegovina finding ways to increase competitiveness and viability of agriculture will be the obligation of great priority and importance for the government, in order to provide better future for whole country, successful coping with competitive pressure in the EU market and to provide prosperity for all the inhabitants.

The objective of past reforms to enhance the market orientation of EU agriculture is continued by adapting the policy instruments to further encourage farmers to base their production decisions on market signals. Competitiveness is addressed directly by changes to market mechanisms, particularly the removal of production constraints. All of the existing restrictions on production volumes for sugar, dairy and the wine sector will end, allowing farmers to respond to growing world demand.²⁰ Some outdated commodity aid schemes will also be abolished, and other schemes modernized. Measures to facilitate producer cooperation under both pillars of the CAP should also boost the competitiveness of farming by reducing costs, improving access to credit and adding value to the primary sector. The reinforced legal framework for Producer Organizations is backed by financial incentives under the second pillar.²¹

Together all these instruments are expected to encourage producer cooperation and to improve the functioning of the food chain. Product differentiation, quality programs, promotion and on-farm processing should also add value. Other instruments under the second pillar which enhance competitiveness at farm level include restructuring and modernization measures as well as start-up aid for young farmers. Furthermore, there is a focus on bridging the gap between science and practice via the Farm Advisory System, as well as training and innovation program. These instruments are aimed at helping the farm sector to adapt to new trends and technologies, thus

¹⁹ More about CAP reforms in Overview of CAP Reform 2014-2020, European Commission, 2013., p. 5.

²⁰It was already decided in the Health Check that dairy quotas will expire in 2015 and the 2007 reform of the wine sector laid down the end to the planting rights system for 2018 at the latest. Sugar quotas will be abolished in 2017.

²¹ The Common Agricultural Policy after 2013, House of Commons, Environment, Food and Rural Affairs Committee, Fifth Report of the Sesion 2010-11, Volume 1, 2011., p. 61.

becoming more resource efficient, cost effective and capable of adapting to emerging challenges. At the same time the new CAP also offers more responsive safety net measures and strengthens the EU's capacity for crisis management. This will be achieved by more efficient market measures to deal with potential threats of market disturbances and more flexible exceptional measures. A new crisis reserve (of EUR 400 million per year in 2011 prices) is established to secure the financial resources needed in case of crisis, through deductions from direct payments, with unused amounts reimbursed to farmers in the consecutive budget years. In addition, the second pillar offers a new risk-management toolkit including insurance schemes for crops, animals and plants, as well as mutual funds and an income stabilization tool.²²

Implementation in Western Balkan Countries

The political economy of agricultural and food policies remains a fascinating and important topic. This holds in general with many poor countries in the world taxing their farmers while many rich countries subsidize agriculture. It also holds for the European Union. Since the start of the CAP, the EU has spent a large share of its budget on supporting European agriculture. In 2013, it was decided to spend more than €400 billion over the remainder of the decade on the CAP. The 2013 decision ended years of discussion and negotiations on the future of the EU's agricultural policies. It not only had major implications for the EU's budget and farmers' incomes, but also for Europe's environment, its contribution to global climate change and to food security in the EU and elsewhere in the world.

The theoretical principles of modern agricultural policy state that evidence-based policy is founded on rigorously established objective evidence, good data, the use and development of empirical tools, policy analysis, benchmarking and impact assessments. Thus, the Western Balkans (further: WB) countries' governments are not only working towards harmonizing their agriculture in view of their potential EU membership, but are also cooperating to build the foundations of a modern, efficient agricultural policy. The WB countries are at different stages of forming this kind of policymaking. While the development and quality of policy monitoring is only at an initial stage in some countries, others already make regular annual reports regarding the status of the agricultural sector. However, the reporting of budgetary transfers to agriculture is mostly less transparent, while policy impact assessments and evaluations are practically non-existent, resulting in low-quality policy planning and decision-making that is not evidence based. The previous research shown that the new regional agriculture-related strategic documents adopted by WB countries are relatively modern and are oriented towards EU integration. The question remains whether or not these documents have brought about real changes in the WB countries' policies in the first years of their implementation. Also, the central analytical issue is the assessment of direct production support, which is the main agricultural policy instrument in most WB countries (as well as the CAP). For the first time, the types of support, their associated eligibility criteria and the amounts involved are presented in a transparent fashion. All the countries have adopted key medium-term agricultural policy

²² Overview of CAP Reform 2014-2020, op.cit. p. 5-6.

programming documents and these documents are solidly written and have a strong strategic logic. They describe positive changes in the policy framework and a more extensive orientation towards the EU, which are reflected in the definitions of goals and specific policy measures, especially regarding rural development. However, most countries lack a clear intent to reform their direct support policy in accordance with the EU CAP and this also applies to agro-environmental measures and support. There is also a lack of resolution to establish evidence-based policy in the sense of introducing mandatory monitoring and other elements to achieve efficient policy reform. The more modern and well-conceived programming documents that have been drawn up are not yet leading to any marked changes in the scope and structure of policy instruments and measures, especially in their adaptation to CAP-like support systems. The size of the agricultural policy budgets fluctuate significantly from year to year and has increased since 2010 only in Kosovo and Albania, the two countries that started with the lowest relative amounts of the agricultural support. Kosovo also benefits from significant donor funds, helping it to achieve the largest relative budget size in 2015. Certain countries, in contrast, have reduced their agricultural budgets as a result of the economic crisis (e.g. Bosnia and Herzegovina since 2010 and Serbia in 2015). The structure of the total support for agriculture varies significantly. The proportions of funding for various groups of measures in the total agricultural budget cannot be compared without taking account of the size of the total budget itself. The proportion of direct producer support is high in Bosnia and Herzegovina, FYR Macedonia and Serbia (over 70 % on average). The funds for structural and rural development measures are mainly intended to improve competitiveness and have the highest proportions in Albania, Kosovo and Montenegro. However, these funds are limited and their real impact on the development of agriculture is therefore not to be overestimated. Support for agricultural public goods (agro-environmental measures and support) and quality of life in rural areas is almost negligible in all WB countries. Rural development policy is not really taking root in the region, despite the occasional adoption of beneficial projects or programs. This is a problem not only of modest levels of funding, but also of the programming of measures: they have a narrow orientation towards farm investment. The low absorption of IPARD pre-accession support funds is a significant problem. The causes vary, ranging from human capacity deficiencies in administration and political priorities at the country level to the lack of adaptation of support to real conditions. Similarly, levels of funding for general services are low in absolute terms and fall short of satisfying the countries' developmental needs, especially in the sense of achieving efficient creation and transfer of knowledge.²³

When evaluating the outcome of cross-comparative analysis of WB countries, it must be taken into account the fact that a clearer picture of agriculture and agricultural policy in this region require a lot of data and information, which are not yet available, or they are not 100% reliable. In all these countries, except Croatia, which is already a member of the EU, the process of improvement and harmonization of agricultural statistics with EU requirements is still ongoing. In this context, in all WB countries, one of the basic questions and priorities on which states

²³ Monitoring of agricultural policy developments in the Western Balkan countries, Group of authors, Publications Office of the European Union, Luxembourg, 2017., p.14-33.

need to focus is attention to improve agricultural statistics and database on policy implementation. Reliable and harmonized data are a prerequisite for a strong agriculture, and analysis and monitoring of agricultural policy, as well as for the successful programming and implementation of the agricultural policy.

The biggest challenges of agricultural development in Western Balkan countries

Agriculture is still among the most important sectors of the national economy in the WB countries, and provides a significant contribution to economic and social stability. However, its role is not so large in economic development, as it represents a social amortization during the economic crisis which exists in the region. Factor productivity in the region is considerably lower than the EU average, mainly due to slow process of consolidating agriculture and inefficient use agricultural resources. Depopulation in certain regions and acceptance of surplus labor from the agricultural sector in other sectors is the biggest problem in the development of agriculture and rural areas in most WB countries. Agricultural-food chain faces problems in creation of market institutions, establishment of marketing and distribution chains, and fulfillment of EU Standards in quality, veterinary, health and hygiene, and also phytosanitary standards.

In general, it can be said that in the last few years in the WB counties, some progress has been made in the development of agriculture. However, much more still needs to be done to prepare the agricultural sector for the pressures of the competition of the modern global economy and also, to prepare these countries to join the EU. Main challenges for development of agriculture are, first of all, the resources, especially natural limitations and unused land potential, restrictions on human and capital factors, fragmentation of land and bimodal structure of agricultural holdings. Then, those are also production and productivity, particularly low productivity and technological gaps, low concentration and specialization of production and relatively weak production effect. The third are related to agricultural-food supply chain, specifically poor agro-business and low horizontal and vertical integration. At the end we have prices and trade, especially low prices and quality competitiveness and extreme trade dependency, as well as the last one related to the rural and regional characteristics which is depopulation, poor social situation and the presence of rural poverty.

All this indicates that the agricultural sector and rural areas of the WB countries have significant developmental needs. Modernization and development of agriculture, and related with that the development of economic activities in rural areas, have the potential to significantly improve the prospects of these areas, and they must become the core of all strategic plans for the development of agriculture and rural areas in the region. Therefore, the key goals of the future policy of agriculture and rural development in all Western Balkan countries should be the improvement of the general legal and institutional framework, reform of land management, enhancement and stabilization of incomes, innovation and efficient transfer of knowledge, modernization of agriculture and agri-food sectors, better horizontal and vertical integration of

manufacturers and processors, more efficient use and protection of natural resources, Elimination of rural poverty and the problems of small farmers, and territorial balanced approach.²⁴

Agricultural policy in Bosnia and Herzegovina

Agriculture in Bosnia and Herzegovina is an economically and politically important sector. The significance of the agricultural sector in B&H is reflected in the share of total gross domestic product (GDP), employment of the population and food security, as well as in a foreign trade. Although Bosnia and Herzegovina is aiming for European integration and harmonization of its agricultural policy with the EU CAP, the slow progress of the EU integration process is caused by numerous factors, especially the on-going economic crisis and the lack of political will to implement the necessary reforms. This is reinforced by the fact that Bosnia and Herzegovina has not made progress in establishing the necessary institutional structures, so the state ministry for agriculture, at the state level, does not exist (by the Constitution of Bosnia and Herzegovina, all levels of government have certain powers to govern agricultural policy), and also at the state level there is only the Law on Agriculture, Nutrition and Rural Development which has been in force since 2008., with the aim of structuring sectoral policies and helping in harmonization with the EU agricultural policies. Because the lack of adequate institutional and legal framework, BH is losing considerable financial resources that could contribute to institutional building and agricultural sector improvement in Bosnia and Herzegovina.

Agricultural policy in Bosnia and Herzegovina shows large inconsistencies with its outlined objectives and it has changed frequently over time without being guided by clearly defined development objectives and the elements of modern public policymaking, and also as a result of the lack of a clear established funding mechanism for agricultural policy, annual budgetary transfers depend largely on the governing political structures and lobbying of various interest groups. New frameworks for medium-term policy action in the agricultural sector and rural areas have been established in two Bosnia and Herzegovina administrative units. Both strategic documents emphasize their determination for European integration and the concepts of modern public policymaking. However, the preliminary evidence regarding their implementation in these two administrative units reveals no significant changes in the process of policymaking and shows limited application of a modern approach to addressing the development needs of the agricultural sector and rural areas. BD did not adopt a similar framework to those of the other two administrative units and relies on short-term (annual) planning of agricultural policy (i.e. annual rulebooks). Regarding rural development, it is important to note that the FBH still does not have a valid legally adopted programming document that would allow a detailed implementation of the rural development measures. The proposal for the rural development program for 2015-2020 (FBH 2014b) has still not been approved by parliament. The proposal

²⁴ More about this topic in Volk, T., Erjavec, E., Mortesen, K., Agricultural policy and European integration in Southeastern Europe, Food and Agriculture Organization of the United Nations, Budapest, 2015., p. 46-52.

considers six areas of support: competitiveness of agricultural production; agro-environment; climate change mitigation and organic production; diversification of farm activities and entrepreneurship development; LEADER method of local development strategies and technical assistance and measures in the field of forestry (FBH 2014b). The Republic of Srpska (RS) adopted a new strategic plan for the development of agriculture and rural areas in 2015 for 2016-2020 (RS 2015a) before the expiry of the previous two strategic documents (i.e. the strategic document for 2010-2015 and the strategic document for 2010-2015). Unlike the previous two strategies, the new strategic document simultaneously covers both the agricultural sector and rural development. Overall, the new strategy contains six strategic goals and 16 specific goals that are proposed to be implemented using 52 different measures. As for BD, the current agricultural policy is implemented on the basis of a general strategic document that addresses the overall economy of this administrative unit. However, the development strategy for the agricultural sector that was in place until 2013 was without a legal basis. It is important to note that regular monitoring and evaluation of agricultural policy as part of a modern public policy cycle is not carried out in Bosnia and Herzegovina.²⁵

Mid-term Strategy of Agricultural Sector Development in the Federation of Bosnia and Herzegovina for the period 2015 – 2019

Although there are many stories about the importance of the agricultural sector, its true significance for the quality of economic development, political stability and the development of the whole society, poverty reduction and improvement of quality of life, security a wide range of "public services" (preserving the uniqueness of the landscape, biodiversity, quality and accessibility water and soil, etc.), and for the preservation of cultural and gastronomic identity of the country (entities) is not sufficiently recognized.

Having in mind vitality of this sector, the two worrying fact are the slight downturn of available ornamental surface area (3%, period 2003-2011), and also the fact that only about 50% of the surface area is used. The agricultural sector has not yet capitalized its potential and all significant opportunities for its further development. However, in the other hand, development of this sector is limited by the natural characteristics of land in the FBH (40% of the land is shallower than 30 cm, 84% of the territory is with a gradient higher than 13%, and there are dominant precipitation area, around 61.2%) which means that the sector has relatively small

²⁵ For example, the parliament of the FBH receives an annual green report with a detailed description of the agro-food sector and the implemented agricultural policy. An important deficiency of these reports is their insufficient level of objectivity, as it does not provide a serious evaluation and analysis of the agricultural sector or of the effectiveness of the agricultural policies. The reports are prepared by the administration of the responsible ministry for agriculture without the involvement of the academic community or relevant research institutions. In the case of the RSR, there is neither an available annual report on the situation in agriculture nor an evaluation of the effectiveness of the implemented policy measures. Instead, the responsible ministry produces some information for the government and parliament. The academic community also makes some occasional analyses of the effects of agricultural and rural policy in Bosnia and Herzegovina, but this is mostly for academic purposes. More in Bajramović, S., Vaško, Ž., Ognjenović, D., Butković, J, Bosnia and Herzegovina: agricultural policy development and assessment, Monitoring of agricultural policy developments in the Western Balkan countries, Publications Office of the European Union, Luxembourg, 2017., p. 47.-50.

available areas of high quality land. Also, the processes of integration and memberships of BH in different kind of organizations, such as the WTO, the EU and CEFTA allow BH access to international and new and very attractive markets as Russia, Turkey, Arab countries etc. At the same time, these processes lead to stronger competition which makes business more difficult, and also what is important is the negative economic trend in other countries which have significant influence on the export performance of the sector. Long-term drought, increased demand for products of animal origin (China and India), food price instability, increase of land price (due to breeding crops for energy production), energy and other inputs, and food-related scandals again raised all these issues and questions high on a scale of global political agenda.

In Bosnia and Herzegovina, in period of 2015-2019., the solid foundation will be built for a faster and more efficient development, especially in the sense of establishing a modern, productive, technologically advanced and environmentally and socially sensitive economic sector, ready to respond to global socio-economic and climate changes and challenges, and capable of being “ready” for an adequate and prosperous position, above all in the region, and then on an international scene.

This implies a strong strengthening of the capabilities of all business and administrative subjects to improve product recognition, by exploiting opportunities offered by a rich cultural heritage as well as the diversity of agro ecological conditions. Therefore, the focus of development will be on strengthening communication, co-operation, horizontal and vertical connection of all sector entities, as well as building efficient business alliances that will enable effective and efficient exchange of information, innovative ideas, but above all strengthen all forms of technology transfer and good business practices. Also, research and scientific institutions must become recognized by the all actors. On this way, the competitive, market-adjusted sector, will be built, and it will be the foundation for improving the quality of life of all citizens, especially residents in rural areas.

This vision will be realized through the realization of the following strategic goals: development of agriculture and related sectors by raising technical-technological level, more efficiently use of available resources, and appreciation of requires of modern markets. Also, by providing the conditions for a more stable income within the agricultural sector and improving the quality of life in rural environments. Sustainable management of natural resources and adaptation of agriculture to climate change is one more strategic goal, and adjustment of the institutional and legislative framework and FBH agricultural policy, with the EU CAP, acknowledging the level of development of the FBH agricultural sector.²⁶

²⁶ More about agricultural sector in FBH and its development strategy in Mid-term Strategy of Agricultural Sector Development in the Federation of Bosnia and Herzegovina for the period 2015 – 2019, Federation of Bosnia and Herzegovina, Federal Ministry of Agriculture, Water supply and Forestry, Sarajevo, 2015.

Therefore, in Federation of Bosnia and Herzegovina, this new strategic document emphasizes the need to adopt new technologies and innovation in the agricultural sector, more effective utilization of available resources and the improvement of quality of life in rural areas. Regarding European integration, this document clearly states the need to harmonize the institutional and legal framework of the FBH with the EU legislation and the CAP *acquis*. In the context of institution-building, this means putting in place a modern system of information, administrative management and monitoring of agricultural policies. The new strategic document outlines the need for a gradual alignment of the policy instruments of the FBH agricultural policy with those implemented within the EU CAP. Furthermore, the new strategic document envisages, for the first time, the application of the principles and elements of modern public policymaking in designing, adopting and implementing the agricultural policy, including detailed baseline analysis, definition of objectives, establishment of policy programming, definition of a clear financial framework (i.e. budgetary transfers based on the principles of consistency, transparency and traceability) and a system of monitoring and evaluation.

The new strategy envisages the implementation of 37 measures distributed within the three pillars of the agricultural policy: 10 measures in the first pillar related to market intervention and direct producer support, 17 measures in the second pillar related to sector restructuring and rural development and 10 measures in the third pillar related to general services support. The most important changes introduced by the new strategy cover direct producer support (i.e. direct payments). The reduction of several pre-existing direct payments coupled to production (e.g. output subsidies) is proposed, while it is proposed that area and animal payments are increased. The equalization of area payments for most crops is envisaged as the first step towards the decoupling of direct payments, in line with the EU CAP.

Conclusion

This paper analyses the development of Common agricultural policy in European Union and also agricultural policy in Bosnia and Herzegovina in 2010-2015. The EU recognizes the importance of rural areas and places great emphasis on rural development, and in this direction BH should also go and exploit potential in its full capacity. For now, the results presented in this paper reveal that agricultural policy in Bosnia and Herzegovina shows a high level of instability and is inconsistent with the medium-term policy objectives outlined. This unstable policy development generates an uncertain policy environment for the agents operating in the agricultural sector, which may have adverse implications for its future growth and development. Bosnia and Herzegovina implements a very heterogeneous agricultural policy across its three administrative units (FBH, RS and BD) because they have the authority to design, adopt and implement their own policy measures. The agricultural policies differ between the units in terms of type of measures implemented and sectors supported. The priority on a state level is organisation of a Ministry for agriculture on a state level, and then to improve other aspects of institutional and legal frame work of agriculture and rural development in Bosnia and Herzegovina. Both the FBH and the RS have adopted new strategic frameworks for future

actions in the agricultural sector and rural areas, but the first years of the implementation of the adopted strategic documents have shown that the governing political structures in the FBH and the RS have not shown sufficient determination and readiness for major reforms to put into practice the priorities outlined in the strategic documents. So, when it comes to implementation, the agricultural policy reforms have failed to put into practice the proposals that were adopted in the strategic documents, at least for now. Bosnia and Herzegovina needs a dynamic reconstruction and modernization in agricultural sector and rural development, with an effective approach to EU integration and the CAP by harmonizing legislation. With adequate policies and the dynamic access to the agricultural sector, the agriculture can become the cornerstone for the development of all other activities such as rural development, rural tourism, ecotourism, connecting producers and processors, etc., and the entire economy also, and not to be a stumbling rock on its own development path.

Literature:

- Agriculture and the CAP, Report, European Commission, EU, 2016.,
- Bajramović, S., Vaško, Ž., Ognjenović, D., Butković, J, Bosnia and Herzegovina: agricultural policy development and assessment, Monitoring of agricultural policy developments in the Western Balkan countries, Publications Office of the European Union, Luxembourg, 2017.,
- Consultation on modernising and simplifying the common agricultural policy, European Commission, Directorate-General for Agriculture and Rural Development, https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en, 10.06.2017.
- Kesner-Škreb, M., Common Agricultural Policy of the European Union, Financial theory and practice, 2008., 32 (4),
- Mid-term Strategy of Agricultural Sector Development in the Federation of Bosnia and Herzegovina for the period 2015 – 2019, Federation of Bosnia and Herzegovina, Federal Ministry of Agriculture, Water supply and Forestry, Sarajevo, 2015.,
- Monitoring of agricultural policy developments in the Western Balkans countries, Group of authors, Luxembourg: Publications Office of the European Union, Luxembourg, 2017.,
- Overview of CAP Reform 2014-2020, European Commission, 2013.,
- Swinnen, J., The Political Economy of the 2014-2020 Common Agricultural Policy An Imperfect Storm, Centre for European Policy Studies, Brussels, 2015.,
- The Common Agricultural Policy after 2013, House of Commons, Environment, Food and Rural Affairs Committee, Fifth Report of the Sesion 2010-11, Volume 1, 2011.,
- The Stabilization and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, on the other part, Treaty of Rome, 25 March 1957, Agriculture,
- Volk, T., Erjavec, E, Mortesen, K., Agricultural policy and European integration in Southeastern Europe, Food and Agriculture Organization of the United Nations, Budapest, 2015.

Sharing Economy in Western Balkans: Potential for Rural Development

Admir Čavalić

*Faculty of Economics, University of Tuzla
Bosnia and Herzegovina
admir.cavalic@yahoo.com*

Abstract: *With the development of technology, especially information and communication systems, new ways of providing services emerged, based on the model of "collective consumption" or "sharing economy". This represents a trending economic phenomenon when it comes to consumption. Within sharing economy, consumers are organized by using specific technological platforms that enable them to innovatively consume or produce a particular product/service. These models provide maximum use of scarce resources on the basis of technological support and social capital of the community. Consequently, efficiency and confidence are essential for the functioning of sharing economy, whose size is estimated at 225 billion dollars by 2025. However, these trends are not evenly distributed and the development of the sharing economy depends on a series of conditions, which will be discussed in the paper. Thus, sharing economy makes tremendous challenges for all relevant stakeholders, especially the governments, in the context of adjusting the regulatory framework to meet its demands. Compared to developed countries, Western Balkan countries are significantly lagging when it comes to sharing economy. This is reflected in the lack of foreign and domestic investment in this area. The aim of this paper is to present the conceptual framework for this new economic trend, with the emphasis on the current state of sharing economy in Western Balkans. Paper will focus on the discussion of development potentials of sharing economy in the function of rural business development. Based on this, a set of recommendations will be made for improving the state of sharing economy in the Western Balkans.*

Keywords: *sharing economy, Internet, rural development, Western Balkans*

JEL Classification: *O18, O33, M13*

Introduction

The sharing economy has become a new economic paradigm of modern business, especially in Western countries. Although unevenly distributed, these trends are further spreading to other countries of the world. Across the world, domestic sharing companies are being established, but more often global sharing apps are spreading their influence. Unfortunately, these trends have not yet fully gained momentum in the countries of the Western Balkans. There are some sharing initiatives in certain cities in this region, but this is still inadequate for taking advantage of all the potential of sharing economy. In order to understand these new trends, the first part of the paper will present the concept of sharing economy, with its definitions and models. The second part of the paper presents the state of the sharing economy in the Western Balkan, and in the third part of the paper, we discuss the potential of sharing economy in function of improving rural development in this region

Theoretical framework of sharing economy

Sharing is a phenomenon as old as humankind, while the sharing economy is phenomena born of the Internet age (Belk, 2014). The term collaborative consumption first time occurred in 1978. in paper by Felson and Spaeth (1978), where they defined it as those events in which one or more persons consume economic goods or services in the process of engaging in joint activities with one or more others. This was later popularized by Algar (2007), who argued that technology is democratizing the purchasing process and that gives consumers control when it comes to price optimisation. Sharing economy is part of a global trend characterized by the democratization of technology (home computers for all), the democratization of finance (credit cards for all) and the democratization of information (the Internet for all) (Friedman, 2000). Buczynski (2013) states that this model is making the step forward from consumer based society to economic democracy. This in fact, strongly supports the old thesis that capitalism is an economic democracy in the strictest sense of the word (Mises, 2006). According to the theory of Thomas Kuhn, it is clear that the research area of sharing economy is still in “before paradigm” stage, characterized by a series of incomplete, competing theories in the scientific community, that compete for primacy to be a new paradigm (Letica, 2010). Therefore, there are many definitions of sharing economy, which will be presented in the following lines.

Juho et. al. (2016) define the sharing economy as an umbrella concept that includes several ICT developments and technologies, among others collaborative consumption, which endorses sharing the consumption of goods and services through online platforms. Defined as an “umbrella concept”, sharing economy may relate to the fulfillment of number of consumer needs: from cooking over transportation up to alternative currencies. Previously, these products/services were provided by major companies, not individual entrepreneurs (Zervas et. al., 2016). Sharing economy can be defined as a form of consumption in which the social aspects become more relevant and important (De la Calle Vaquero, De La Calle Calle, 2013). This new business model interferes with the older ways of doing business and changes not only what is consumed, but also how it is consumed (Stanić, 2015). In order to sum up these definition, some mayor principles of sharing economy business model can be introduced (Umihanić, Omerović, 2016): relying on the Internet technologies, especially smartphone apps; maximizing the utilization of existing resources; trusting to strangers and creating impersonal relationships, and designing the win-win-win deal for all parties included. Sharing economy only works via Internet technologies, and the main goal is to maximize resources using trust (social capital) as a basis of economic relations. When it comes to the causes that lead to rise of sharing economy, Sundararajan (2013) writes that “reengineering” of consumption is a natural consequence of the ongoing consumerization of digital technologies. Because of fast development of sharing economy and the fact that Internet is a media of unprecedented opportunities (Husejnfendić, 2011), that leads to the compression of space and time (Harvey, 2012), there are many extraordinary challenges for regulators when it comes to this area. That is why some individual regulators who failed to reach concrete solutions, decide to completely ban certain sharing models in their countries.

Sharing economy covers a variety of sectors (Frodesiak et al., 2011): transportation (cars, bikes), apparel (clothing, accessories), food, living spaces, household appliances, money (social lending, virtual currencies, time banks) workspaces, travel, accommodation, space (storage, parking, spare rooms). Intensity of sharing in each sector is determined by nature and attractiveness of the sector, but also the influence and organization of consumers. The consumer is indeed the one who determines what company

is (Drucker, 2008). Thus, sharing companies are mainly in the sectors of transport, accommodation, money and the like. Within the sharing economy there are different business models that enable the realization of transactions and profit earning (Zott et al., 2011). Rachel Botsman (2013), coauthor of a book "What's Mine Is Yours: The Rise of Collaborative Consumption", identified seven basic sharing models: service fee, white label, freemium, on sale, flat membership, tiered subscription plans, membership plus usage. Each of these models is based on a different financial scheme, depending on the area in which it operates.

Sharing economy in Western Balkans

Taking into account the current situation on the labor market, respectively the level of youth unemployment in the Western Balkans, and bearing in mind that the most frequent participants in the sharing economy are young people (Kumar, 2015), it could be expected that sharing economy would have an exceptionally fertile ground in this region. One of the main conditions for the development of sharing economy is, as noted earlier, Internet technology and the ability to access and share information. Goudin (2016) states that it is necessary to look at the Internet penetration statistics and number of social networks and mobile phone users in order to have a complete picture of the countries' predispositions for the development of a sharing economy. When it comes to Western Balkans, these, predispositions are there. Thus, in Albania there is an Internet penetration of 63%, while 52% are users of social networks and up to 165% are mobile users. Internet penetration in Bosnia and Herzegovina is 69%, and in Serbia 65% with a growth of over 22% in the period from January 2016 to January 2017. Croatia has Internet penetration of 75%, Macedonia 70% and Montenegro 65%. When it comes to the number of active users on social networks, in Bosnia and Herzegovina there are 45% of them, in Croatia 47%, Macedonia 53%, Serbia 39% and Montenegro 56% users. In Bosnia and Herzegovina, 90% of the population has a mobile subscription, 113% in Croatia, 113% in Macedonia, 108% in Serbia and 161% in Montenegro (WeAreSocial, 2017). This data shows that there is a huge technological potential for sharing economy development. Another important factor is opportunity to start new business. Regarding this, the region moves in a positive direction, and on Doing Business World Bank index (2017), when it comes to starting a new business, Albania is currently at 46th place, Macedonia at 4th place, Croatia 43rd, Serbia 47th, Bosnia and Herzegovina on 79th, and Montenegro on 51th place. In addition to the regulator's actions, one factor negatively effects the development of the sharing economy in the Western Balkans. It relates to social capital. Namely, war events and national conflicts caused the loss of trust and community feeling, which permanently damaged the social capital of the region. The benefits of the sharing economy can only be realized if marketplaces are safe and stable (Saidi, 2013). Still, it can be concluded that there are basic assumptions for the development of a sharing economy in Western Balkans. These are related to the developed technology, the ability to open new businesses, and a large number of young unemployed people who can work within the sharing economy. But still, factors like the lack of social capital and rule of law, as well as positive action by the regulator, determine that sharing economy is still in a poor condition.

When it comes to examples of sharing economies in the Western Balkans countries, primarily in the field of transport services, the biggest interest is taken by Uber. This company attempted to start working in Serbia where company's regional leadership met with representatives of the Ministry of Civil Engineering, Transport and Infrastructure of the Republic of Serbia. Later the same Ministry (2015) issued a statement stating that there are no legal requirements for Uber's operation on the territory of the Republic of Serbia "due to the disagreement with the legal regulations". Although Uber representative for the Balkan region, Alexandra Corolea confirmed Uber's interest in entering the market of Bosnia and Herzegovina, Minister of Transport of Canton Sarajevo said that something like this is not possible because it is not in accordance with the legislation (SarajevoTimes, 2016). Unlike Serbia and Bosnia and Herzegovina, Croatia has decided to allow Uber to operate on the territory of the City of Zagreb. But still despite a large number of interested users and more than 50,000 downloads of applications in the first six months of operation (Telegram.Hr, 2016), there was a significant resistance of existing taxi service who couple of time organized violent protests (Milekić, 2015; Pavlić, 2016). It is interesting that in Belgrade there is a domestic CarGo sharing application that operates on a model similar to that used by Uber. This app adapted to the regulatory legislation on the territory of Belgrade. When it comes to other countries of the region, there were no indications of Uber's interest to enter their market. Experiences in which sharing platforms such as Uber and AirBnB faced both protests and violence, similar to those in Zagreb, as well as regulatory responses that sought to reduce the share of market sharing economy (Gata, 2015) were present both in the metropolises of the United States, and in the countries of Western Europe. But unlike Western Balkans, these problems were solved and now sharing economy flourishes in Western countries. The most striking successes in the region have sharing application that relate to accommodation, above all AirBnB. This application exists in every country in the Western Balkans. The reason for this is that there are still unresolved private property issues so the government does not control this market too much. This was capitalized by AirBnB. This sharing application has actively involved thousands of people across these countries, who can now easily lease their own (unused) space. What is important to note is that the system protection is extremely rigorous, so when registering, besides their financial information, users also need to show the proof of identity such as a valid passport. AirBnB success is quite interesting, because some authors argue that for a accommodation sharing, there needs to be fulfillment of three factors: trust, efficiency, and economic benefits (Tussyadiah, 2015). Another successful sharing application developed in all countries of the region is Couchsurfing. Similar to AirBnB, this application capitalizes on the lack of order when it comes to renting market.

Analyzed by individual countries, apart from AirBnB and Couchsurfing, there are a number of transport sharing companies in Serbia, such as CarGo, Car4Use and BlaBlaCar (Blic92, 2015). In Montenegro, there are so-called condo hotels (Radio Televizija Crne Gore, 2015), which also belong to the sharing movement. Also, in 2015, an academic panel discussion on the potential of the sharing economy for Montenegro was organized. Croatia has the biggest number of sharing applications, such as BlaBlaCar, which allows transport sharing, Porthop, which solves the problem of reserving boats, Click & Boat for chartering, Appetite, a mobile application that

allows finding local meals made by professional and amateur chefs, “Milo za drago” direct exchange system and Home Exchange that allows users to exchange their houses (Laslavić, 2015; Kolić, 2016; Poslovni.hr, 2017). There is also domestic time sharing bank called “Ura po Ura”, as well as the BitCoin ATM. As far as Albania is concerned, it is interesting that this country hosted the global HitchGathering event, which also promotes the concept of sharing (Dodig, 2014). Looking at the cases of sharing economy in the Western Balkans, it is noticeable that Croatia has made the most progress.

Sharing potential for rural development

Agriculture has been a backbone of the Western Balkans for centuries and has always played an important role in these societies (Znaor, 2013). However, compared to EU, there are many problems in the context of rural development. First of all, there is no proper statistical record of land used in relation to total agricultural land. This is primarily due to the lack of well-defined property rights, as well as other post-conflict problems, such as the usurpation of refugee land. Agriculture in most Western Balkan countries primarily meets the social, and then economic, function. The small-scale and fragmented nature of private farming remains a general characteristic of agriculture in all Western Balkans, representing a long-term structural handicap (Volk, 2010). One important trend is the migration from rural areas to large cities, but also general emigration of the population to the EU. Further problems concern the lack of proper infrastructure, capital, as well as major networking (such as agricultural unions, consortium, etc.). What is also problematic for domestic rural development is the lack of domestic and foreign investment due to long-term uncertainty (Hall, 1996). Namely, the political, economic and legal instability of the Western Balkans often affects the potential of any major investment in the rural development of these countries. In addition, a significant part of the Western Balkans is mountainous and hilly, or has a karst feature and is thus less favorable for agriculture. Regions with such features are subject to substantial aging and depopulation processes, which can hold back the development of agriculture in these areas (Volk, 2010). A large part of the agricultural area is not used for production or is extensively used. All of this, it carries a number of negative consequences. First, it creates many reasons for leaving rural settlements. In addition to the great poverty, there are serious problems in terms of infrastructure, public institutions (health and education), as well as inability to recruit. Migration, especially when it comes to young people, can lead to irreversible decline and depopulation not only in rural and peripheral zones, but also in small towns that often play an important role in providing basic services (Vittuari, 2011).

Although sharing economy primarily develops in cities (Helms, Palacios, 2017¹), yet there is evidence that this trend is also taking momentum in rural areas (Philips, 2013). If rural development is defined as process of improving the quality of life in rural communities (UNDP, 2013), then we can trace the potential for rural development in key features of sharing economy. The main benefit of sharing economy is that it uses unused resources. As Lombardo notes, it is a form of recycle, reuse and repurpose (Lombardo, 2015). Sharing economy is maximizing the use of resources like empty apartments, unused cars, unemployed workers and the like. Sharing

services allow for items to be used productively that would otherwise be gathering dust (Baker, 2014). This is the effect of product service systems, which allow members to share multiple products that are owned by companies or by private persons (Matzler et al., 2015). For rural development, this feature is particularly important and that is because of the seasonal utilization of rural resources. In particular, this could create opportunity for Western Balkans farmers to share their resources which would otherwise be unused (for certain times of the year, according to the nature of agricultural crops). By maximizing the use of resources, sharing economy affects the price reduction of goods and services, which is important in the context of price competitiveness of Western Balkan agricultural products. Agricultural producer prices are rather high, mostly above the EU average, indicating weak price competitiveness for most Western Balkans products compared to EU countries (Volk et al., 2012). Market price pressure is particularly intensified in recent years, with the opening of local markets for EU products. This forces domestic farmers to use low-cost strategies in order to achieve their own competitive advantage.

Sharing economy also lowers the operating costs for small businesses, which helps new entrepreneurs to have significant savings in the first years of operation. Small agricultural businesses usually have insufficient cash flow that can not cover higher capital expenditure and costs, which means that they can rely on a cheaper sharing alternatives. Sharing rather than purchasing can help small businesses survive (Hakobyan, 2017). For rural development, small businesses are important because they can lead to creation of family enterprises, that on the long-run reduce unemployment and help keep rural population stable. Sharing models are also developing new services. For certain services, traditional industries simply did not have the capital or market initiatives. Innovative sharing models enable cheap sets of new services for consumers. Thus, tourists using sharing apps like AirBnB can visit the outermost regions of a particular Western Balkan country. These places would otherwise be bypassed by tourists because of the lack of large-scale capital investment for the development of tourist infrastructure, but also because local communities do not have needed resources for marketing promotion. One of most important features of sharing economy is that creates new jobs and thus directly affects the employees. Unemployment is reduced as new employees join the labor market and circle of those who participate in the process of sharing, expands. In addition, sharing economy increases the productivity of individuals involved in these activities, while allowing greater flexibility of the workplace. Workers in these new industries tend to avoid traditional business hours. This keeps up with current labor trend of increasing the number of freelancers. In U.S. alone in 2014. there was about 54 million workers (34% of the population) that considered themselves freelancers (Horowitz, 2014). It is also true for work in rural areas, where entrepreneurs themselves determine how much and when to work. What is most interesting is the social impact of the sharing economy. Many authors write about the developing of new sense of community and strengthening of local communities. For instance, according to TechRepublic, Airbnb has coordinated free accommodations for people affected by natural disasters, and TaskRabbit has experimented with organizing volunteers and crisis situations. These and other trust-building efforts help sharing economy participants see one another as

equals, building constructive relationships where none existed previously (Martucci, 2015). This is especially important for local rural communities, which already own social capital for the development of commonality and trust needed for sharing economy. In addition to the above-mentioned features of sharing economy, we can outline four basic ways to capitalise these new trends in function of Western Balkans rural development:

- Sharing infrastructure and land.
- Creating and funding agricultural innovations (crowdfunding).
- Barter and swap economy, alternative currencies.
- Improving rural tourism by using sharing economy models.

By sharing infrastructure and land, farmers can use their own, expensive, infrastructure throughout the year. For instance, FarmBackup and MachineryLink allow farmers to share their assets – machines and manpower, with similar companies at greater distances. This makes machinery exchange a flexible solution that won't affect the regular production (Grigoras, 2016). This answers the problems that farmers have because different agricultural products use different resources throughout the year. Sharing economy enables farmers to share their equipment with others and thus increase the level of its utilization. Another important way to use the sharing economy for rural development is to use sharing systems that finance agricultural innovations. Agriculture is precisely one of the most innovating industries today, mostly for the purpose of reducing the share of human labor in this area, and consequently increase of productivity and ultimately profitability. By using platforms such as crowdfunding, local farmers can get the necessary capital for their innovations. Sharing economy can be used for creation of a parallel monetary system within the country's legal economic flows. Lack of financial resources is one of the main problems of rural areas (Berjan et al., 2015). Barter or swap arrangement can be created to increase domestic liquidity, which is a usual problem of Western Balkans rural stakeholders. As an example, across Brazil's farm belt, barter trade is making a comeback as tightening credit, falling crop prices and a volatile currency open a multi-billion dollar business to merchants and tractor makers (Ewing, 2015). Also, it is possible to use alternative currencies like Bitcoin, to allow easier value preservation. Finally, perhaps the most important way of using sharing economy is to improve rural tourism. This happen in Ireland with AirBnBThe (AirBnBCitizen, 2016). Sharing economy opens up opportunities for bringing more tourists to distance, rural areas. Sharing applications attract tourists and do a free promotion of rural tourism, which in the long run creates the potential for rural development. Sharing economy can also develop creative tourism. This can be done by so called rural hubs, that offer space for creative work (Paoletti, 2014). These hubs attract urban people that work in areas of creative industries. Finally, it should be added that the sharing economy has a positive impact on ecology that represents the basis of rural development. Increased resource utilization contributes positively to the reduction of pollution and the general ecology (Gururaj, 2015).

Sharing economy also reduces waste. Thus, for example, UberPool lets people share their Uber ride, which results in a lower fare for everyone and reduced pollution / traffic (Minton, 2015)

Conclusion

Within the paper, the sharing economy is presented as a new economic trend that determines current standards of consumption. Unlike the traditional economy, sharing economy integrates unused resources, which, in turn, increases productivity, but also employment, especially of the marginalized labor market groups. The sharing economy creates a number of challenges for regulators, which unfortunately has prevented its development in the Western Balkan countries. Thus, the paper showed that UBER is only partially active in this region and that apart from the success of AirBnB, there are only a few good examples of foreign and domestic sharing applications. According to that, there are very limited sharing resources that can support the rural development in these countries. However, this does not harm the long-term sharing potential that can be utilized in the future. Specifically, the sharing economy can support the maximization of resources in agriculture, lead to greater innovation, develop alternative monetary models, and significantly influence the development of rural tourism. For the purpose of using these new technologies, in function of regional rural development, we can set out following recommendations:

- Regulators in the countries of the Western Balkans must provide legal frameworks in order to support the development of the sharing economy. This means greater openness of the legal system for new business models that are based on new technologies and sharing. By developing a sharing economy, the possibility of opening up new jobs increases, but also there is an increase in competitiveness of the entire economy.
- Rural development of the Western Balkans should be based on new technologies and increased competitiveness and innovation of the rural sector. Sharing economy models should become an integral part of rural development strategies in a way that they support the existing, traditional ways of doing business.
- In order to develop the sharing economy in the Western Balkans, it is necessary to work on the long-term improvement of all of the assumptions for its development. These assumptions relate to the development of technology, but also to the advancement of social capital, which represents main problem in this region.

In the end, it can be concluded that the sharing economy represents an exceptional chance for rural development of Western Balkan region. This paper offers only a basic insight into the given area, and its weakness is that it lack empirical research of this area. Because of that, future research should focus on empirical exploring of the state, characteristics and needs of sharing economy in the Western Balkans.

References

- AirBnBCitizens. (2016, November 04). New Study: Airbnb's Social and Economic Impact on Regional and Rural Ireland. *AirBnB*. Retrieved from: <https://ireland.airbnbcitizen.com/new-study-airbnbs-social-economic-impact-regional-rural-ireland/>
- Algar, R. (2007, April): Collaborative Consumption by Ray Algar. *Oxygen-consulting*. Retrieved from: <http://www.oxygen-consulting.co.uk/insights/collaborative-consumption/>
- Amit, R., Zott, C. (2010). *Business model innovation: Creating value in times of change*. Barcelona: IESE Business School - University of Navarra
- B92. (2015, May 08). Startovao prvi "car sharing" servis u Beogradu. *B92*. Retrieved from: http://www.b92.net/automobili/aktuelno.php?yyyy=2015&mm=05&nav_id=989540
- Belk, R. (2014). You are what you can access: Sharing and collaborative consumption online, *Journal of Business Research Volume*, 67 (8), 1595–1600
- Berjan, S. et al. (2015). Problems in Rural Areas of Bosnia, Montenegro and Serbia: A Comparative Analysis. *International Journal of Environmental and Rural Development*. 6 (2), 35-41
- Boesler, M. (2013, August 12). The Rise Of The Renting And Sharing Economy Could Have Catastrophic Ripple Effects. *Business Insider*. Retrieved from: www.businessinsider.com/rise-of-the-renting-and-sharing-economy-2013-8
- Botsman, R. (2013, November 20). Collaborative consumption: The 7 key business models. *SlideShare*. Retrieved from: www.slideshare.net/CollabLab/collaborative-consumption-the-7-key-business-models
- Buczynski, B. (2013). *Sharing is Good: How to save money, time and resources through collaborative consumption*. Gabriola Island: New society publishers
- De La Calle Vaquero, A., De La Calle Calle, P. (2013). The collaborative consumption: A form of consumption adapted to modern times, *Revista de Estudios Económicos y Empresariales*, 25, 15-30
- Dodig, N., (2014, July 24). Mikael Korpela, urednik HitchWikija: Vratimo povjerenje među ljude. *KlubPutnika*. Retrieved from: <http://www.klubputnika.org/zbirka/putoskop/3760-mikael-korpela-urednik-hitchwikija-vratimo-povjerenje-medu-ljude>
- Drucker, F.P. (2008). *The Essential Drucker*. New York: Harper
- Eckhardt, G.M., Bardhi, F. (2015, January 28). The Sharing Economy Isn't About Sharing at All. *Harvard Business Review*. Retrieved from: <https://hbr.org/2015/01/the-sharing-economy-isnt-about-sharing-at-all>
- Evropski ekonomski i socijalni komitet (2014, January 23). Kolaborativna potrošnja: nove mogućnosti za potrošače i preduzeća na tržištu EU. *Europa.rs*. Retrieved from: europa.rs/kolaborativna-potrosnja-nove-mogucnosti-za-potrosace-i-preduzeca-na-trzistu-eu/
- Felson, M., Spaeth, J.L. (1978). Community Structure and Collaborative Consumption: A Routine Activity Approach. *American behavioral scientist*. 21 (4), 614 – 624
- Friedman, T. (2000). *The Lexus and the Olive tree*. New York: Anchor Books

- Frodesiak, A. et al. (2011). Collaborative consumption. *WeShareProject*. Retrieved from: www.weshareproject.eu/attachments/article/7/Collaborative%20Consumption%20from%20Wikipedia.pdf
- Goudin, P. (2016, January). The Cost of NonEurope in the Sharing Economy. *EuroParl*. Retrieved from: [www.europarl.europa.eu/RegData/etudes/STUD/2016/558777/EPRS_STU\(2016\)558777_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2016/558777/EPRS_STU(2016)558777_EN.pdf)
- Grigoras, A., (2016, November 17), Farming and the Sharing Economy: A Match Made in Heaven. *Deemly*. Retrieved from: <http://deemly.co/farming-and-the-sharing-economy/>
- Hakobyan, M. (2017, February 22). How to use the sharing economy to benefit your business. *Business.com*. Retrieved from: <https://www.business.com/articles/how-to-use-the-sharing-economy-to-benefit-your-business/>
- Hall, D.R. (1996). Albania: Rural development, migration and uncertainty. *GeoJournal*, 38 (2), 185- 189
- Harvi, D. (2012). *Kratka istorija neoliberalizma*. Novi Sad: Medi Terran Publishing
- Helms, B., Palacios, A. (2016, June 01). The Sharing Economy Can Transform Economic Development. *HuffPost*. Retrieved from: http://www.huffingtonpost.com/fomin/the-sharing-economy-can-t_b_10242948.html
- Horowitz, S. (2014, September 04). 53 million Americans are freelancing, new survey finds. *FreelancersUnion*. Retrieved from: <https://blog.freelancersunion.org/2014/09/04/53million/>
- Husejnefendić, Š. (2011). Suton tradicionalnih medija. *MediAnali: međunarodni znanstveni časopis za pitanja medija, novinarstva, masovnog komuniciranja i odnosa s javnostima*, 5 (10), 49-64
- Juho, H., Mimmi, S., Antti, U. (2016). The Sharing Economy: Why People Participate in Collaborative Consumption, *Journal of the Association for Information Science and Technology*. 67 (9), 2047–2059
- Klix.ba. (2017, April 08). Uber zabranjen u cijeloj Italiji zbog nelojalne konkurencije. *Klix*. Retrieved from: <https://www.klix.ba/vijesti/svijet/uber-zabranjen-u-cijeloj-italiji-zbog-nelojalne-konkurencije/170408013>
- Kolić, J. (2016, June 16). Ekonomija dijeljenja ušla nam je u aute, brodove, kuhinje... I neće tako lako otići!. *Netokracija*. Retrieved from: <http://www.netokracija.com/omgcommerce-2016-ekonomija-dijeljenja-119337>
- Kumar, S. (2015, July 20). 3 reasons to cheer Uber and the sharing economy. *Fortune*. Retrieved from: fortune.com/2015/07/20/uber-and-the-sharing-economy/ (accessed 04 April 2017)
- Laslavić, Ž. (2015, November 25). Modeli ekonomije dijeljenja prisutni u Hrvatskoj. *Lider*. Retrieved from: <https://lider.media/aktualno/tvrtke-i-trzista/poslovna-scena/modeli-ekonomije-dijeljenja-prisutni-u-hrvatskoj/>
- Letica, B. (2010). *Doba odgovornosti, Korporacijska društvena odgovornost u vrijeme svjetske finansijske krize*. Zagreb: Mate
- Lombardo, C. (2015, October 29). Pros and Cons of Sharing Economy, *Vision Launch*. Retrieved from: visionlaunch.com/pros-and-cons-of-sharing-economy/

- Martucci, B. (2015). What Is the Sharing Economy – Example Companies, Definition, Pros & Cons. *MoneyCrashers*. Retrieved from: www.moneycrashers.com/sharing-economy/
- Matzler, K., Veider, V., Kathan, W. (2014, December 16). Adapting to the Sharing Economy. *MIT Sloan Management Review*. Retrieved from: <http://sloanreview.mit.edu/article/adapting-to-the-sharing-economy/>
- Milekić, S. (2015, April 21). Uber's Advent Angers Croatian Taxi Drivers. *BalkanInsight*. Retrieved from: www.balkaninsight.com/en/article/uber-app-outrages-zagreb-taxi-drivers
- Minton, M. (2015, March 27). Human Achievement of the Day: The Sharing Economy. Retrieved from: *Competitive Enterprise Institute*. <https://cei.org/blog/human-achievement-day-sharing-economy>
- Mises, L. (2006). *The Causes of the Economic Crisis: and other Essays Before and After the Great Depression*. Auburn: Ludwig von Mises Institute
- Paoletti, A. (2014, February 17). How to Build a Collaborative Hub in a Rural Setting. *Shareable*. Retrieved from: <http://www.shareable.net/blog/how-to-build-a-collaborative-hub-in-a-rural-setting>
- Pavlić, V. (2016, September 27). Uber Car Burned in Attack in Zagreb. *Total-Croatia-News*. Retrieved from: <https://www.total-croatia-news.com/item/14228-uber-car-burned-in-attack-in-zagreb>
- Philips, D. (2013, October 10). The rise of the Sharing Economy in my community. *Reconomy Project*. Retrieved from: <http://reconomy.org/the-rise-of-the-sharing-economy-in-my-community/>
- Poslovni dnevnik. (2017, January 15). Ekonomija dijeljenja u najmu plovila samo preko profesionalnog čartera. *Poslovni dnevnik*. Retrieved from: <http://www.poslovni.hr/hrvatska/ekonomija-dijeljenja-u-najmu-plovila-samo-preko-professionalnog-cartera-322930>
- Radio Televizija Crne Gore. (2015, February 25). Ekonomija dijeljenja – nova filozofija. *CrnaGora.me*. Retrieved from: <https://crna.gora.me/vijesti/ekonomija/ekonomija-dijeljenja-nova-filozofija/>
- Saidi, S. (2013). The concept of sharing economy: Western Balkan case!. *Academia.edu*. Retrieved from: https://www.academia.edu/7515738/The_concept_of_sharing_economy_Western_Balkan_Case_
- Sajter, D. (2014, October 23). Ekonomija dijeljenja. *Domagoj-Sajter*. Retrieved from: domagoj-sajter.from.hr/?p=605#.WI-wL_nhDIU
- SarajevoTimes. (2016, October 24). Uber interested to expand its Business in Sarajevo?. *SarajevoTimes*. Retrieved from: www.sarajevotimes.com/?p=109233
- Stanić, S. (2015). Temeljne značajke teorije potrošnje u djelima Jeana Baudrillarda, Pierrea Bourdieua i Georgea Ritzera. *Revija za sociologiju*, 46 (1), 33–60
- Sundararajan, A. (2013, January 03). From Zipcarto the Sharing Economy. *Harvard Business Review*. Retrieved from: oz.stern.nyu.edu/SharingEconomy2013HBR.pdf

- Tuttle, B. (2014, June 30). Can We Stop Pretending the Sharing Economy Is All About Sharing?. *Time*. Retrieved from: time.com/money/2933937/sharing-economy-airbnb-uber-monkeyparking/
- Umihanić, U., Omerović, M. (2016). „Ekonomija dijeljenja“ – kritički osvrt na inovativne poslovne modele potpomognute informacionim tehnologijama. *Zbornik radova sa 5. Međunarodni znanstveni simpozij Gospodarstvo Istočne Hrvatske – Vizija i Razvoj*, 1, 833-840
- UNDP. (2013). *Ruralni razvoj u Bosni i Hercegovini: Mit i realnost*. Sarajevo: Razvojni program Ujedinjenih nacija (UNDP)
- Vittuari, M.. (2011, August 16). Poljoprivreda i ruralna područja zapadnog Balkana: zemlje poljoprivrede i ruralnog razvoja. *Osservatorio balcani e caucaso*. Retrieved from: [transeuropahttps://www.balcanicaucaso.org/bhs/zone/Bosna-i-Hercegovina/Poljoprivreda-i-ruralna-podrucja-zapadnog-Balkana-zemlje-poljoprivrede-i-ruralnog-razvoja-95798](https://www.balcanicaucaso.org/bhs/zone/Bosna-i-Hercegovina/Poljoprivreda-i-ruralna-podrucja-zapadnog-Balkana-zemlje-poljoprivrede-i-ruralnog-razvoja-95798)
- Volk T., Rednak M., Erjavec E., (2012), Articles Western Balkans agriculture and European integration: unused potential and policy failures?, *Post-Communist Economies*, 24 (1), 111-123
- Volk, T. (2010). Agriculture in the Western Balkan Countries, *Studies on the Agricultural and Food Sector in Central and Eastern Europe*. 57, 2
- Zervas, G., Proserpio, D., Byers J.W. (2016, November 18). The rise of the sharing economy: Estimating the impact of Airbnb on the Hotel industry. *Cs-people*. Retrieved from: <https://cs-people.bu.edu/dproserp/papers/airbnb.pdf>
- Znaor, D. (2013, April 16), Sustainable agriculture as a path to prosperity for the Western Balkans. *Green European Journal*. Retrieved from: <https://www.greeneuropeanjournal.eu/sustainable-agriculture-as-a-path-to-prosperity-for-the-western-balkans/>
- Zott, C., Amit, R., Massa, L. (2011). The Business Model: Recent Developments and Future Research. *Journal of Management*. 37 (4), 1019-1042

Effects of Reward System on Motivation of Employees in Small and Medium Enterprises (sme) in Federation of Bosnia and Herzegovina

Adna Idrizović

*International Burch University Faculty of
Bosnia and Herzegovina
adnaid@gmail.com*

Abstract: *In this project, we will research impact of rewards on motivation of employees. Outcome of the organization is profoundly dependable on the achievement of their workers. Aim of this paper is to show how rewards impact motivation keeping in mind the goal to improve the general performance of the organization. It is crucial for the organization to comprehend what drive the employees and how to expand their employment fulfillment. It may however be hard for an organization to discover what motivates employees, particularly on the grounds that distinctive individuals are motivated by various things. Well composed and useful reward system is an effective approach to build employee work motivation. This paper embarks to investigate obviously what factors exist in ascribing the right reward structure to an individual representative or group. Reward management is both perplexing and involved and exceptionally exposed to outside impacts, for example, financial situations, culture and individual worker inclinations and recognition.*

Keywords: *motivation, employee motivation, reward system, employee satisfaction.*

JEL Classification: *M5, J28.*

Introduction

In this project, we will research impact of rewards on motivation of employees. Outcome of the organization is profoundly dependable on the achievement of their workers. Aim of this paper is to show how rewards impact motivation keeping in mind the goal to improve the general performance of the organization.

There are many ways in which job satisfaction is defined. This is complex topic, and many theorists and authors gave their contribution to further develop and broad this area. To research this topic, we need to adequately explore all influencing factors which are related to the job satisfaction. Those include environmental factors psychological factors and individual factors.

It is crucial for the organization to comprehend what drive the employees and how to expand their employment fulfillment. It may however be hard for an organization to discover what motivates employees, particularly on the grounds that distinctive individuals are motivated by various things.

Well composed and useful reward system is an effective approach to build employee work motivation. This paper embarks to investigate obviously what factors exist in ascribing the right

reward structure to an individual representative or group. Reward management is both perplexing and involved and exceptionally exposed to outside impacts, for example, financial situations, culture and individual worker inclinations and recognition.

Motivating the workforce of a company to work all the more viably towards the company's objectives is maybe the most crucial assignment of management. Companies persuade their workforce to perform adequately by offering those rewards for agreeable execution and maybe rebuffing them for unacceptable work. Over the past hundred years there has been a development in the perspective of what the expression "rewards" really implies in an authoritative setting.

Literature review

In this study, we will present different ideas about job satisfaction and motivation techniques. Job satisfaction is one of the most researched topic regarding job environment and among the most broadly investigated subjects in Industrial/Organizational Psychology (Judge & Church, 2000).

Intrinsic and extrinsic sorts of motivation have been generally contemplated, and the qualification between them has revealed vital insight into both formative and instructive practices. Extrinsic motivation is a build that relates at whatever point a movement is done keeping in mind the end goal to achieve some detachable result. Extrinsic motivation consequently diverges from intrinsic motivation, which alludes to doing an activity basically for the happiness regarding the action itself, instead of its instrumental esteem (Ryan & Deci, 2000).

Managers can motivate employees through strategies, for example, pay, advancement and acclaim. Employees can likewise rouse themselves by looking for work where singular objectives, needs furthermore will be achieved. Intrinsic motivation alludes to the motivation that originates from inside a person. The motivation is created trough fulfillment or satisfaction that one gets in finishing or notwithstanding at an errand. Extrinsic motivation is something that is done for individuals to persuade them. It emerges from elements outside an individual, for example, cash, evaluations, feedback or disciplines (Armstrong and Taylor, 2014).

Job satisfaction is a perspective achieved from employees' impression of their job or environment in which they work and alludes to the degree to which an employee likes the actual job (Arokiasamy & Abdullah, 2013).

Payment systems are effective but they cannot ultimately achieve satisfaction of employees. Managers needs to weigh up the most favorable circumstances and disservices of every reward

systems and choose which system to put the priority on and give it the most attention (Torrington, Hall, Taylor & Atkinson, 2009).

Armstrong and Taylor (2014) insists that there are also other types of incentives such as reward by the result. Incentive by Result is one of the most broadly utilized motivating force, which compensate representatives as per the quantity of things or units they deliver or the time they take to deliver them. This plan has been condemned because of its inclination to reward amount of yield as opposed to quality which can prompt diminished nature of the item or administration. There is an awesome need to alter and assess the adequacy of this plan in the event that it is to hold the effect of profitability (Daley, 2012).

The subjects presented to the associates who made positive remarks evaluated the employment errands as more charming than the subjects presented to the negative remarks by the associates. This further approves social data handling hypothesis (Aamodt, 2009).

Medina (2012) highlights that job fulfillment was firmly contrarily connected with turnover expectation and this relationship was intervened by fulfillment in work environment culture. The review gives prove that ought to be additionally investigated to help in the comprehension of worker turnover and occupation fulfillment; especially in how job fulfillment and representative turnover identify with work environment culture.

Decker (2010) insists that motivation is a persons' inward inclination to be worried with and approach constructive impetuses and keep away from adverse stimulation. To further this, a motivator is the expected reward or unpleasant occasion accessible in the environment.

Reward is the benefit achieved for performing expected assignment. It is a positive boost or motivating force that can be displayed during the time spent fortifying conduct. As per Decenzo and Robbins (2002), today's specialists expect something other than a time-based compensation or pay from their boss; they need extra contemplation that will advance their lives. This contemplation in a business setting is called employee benefits. Benefits are the program a business uses to supplement money compensation that employee gets (Pinder, 2014).

Methodology

In the theoretical part of this study, we will present different ideas from various researchers and present collected literature. In the beginning, we will introduce reward systems and motivation and describe it thoroughly. Different systems of the motivation will be explored and presented.

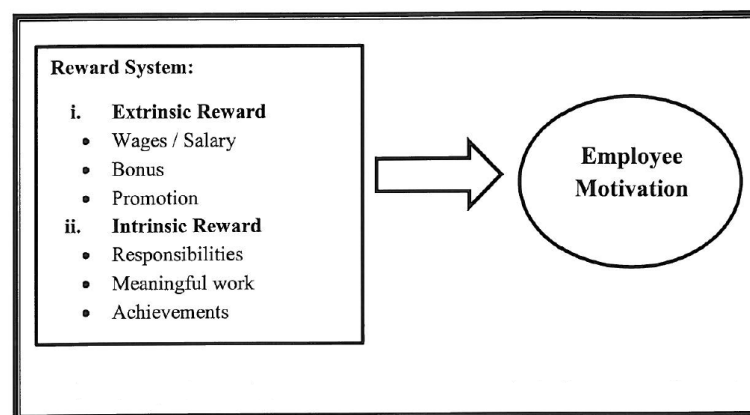
Speaking of instruments for data collection in this study, we will use quantitative research survey. We decided to use survey because of costs and structured technique with large number of samples. This survey will be constructed in order to get feedback from employees from

different Small and Medium Enterprises in Federation of Bosnia and Herzegovina. We will analyze different reward systems and methods used to motivate the employees. Statistical data will be analyzed using IBM SPSS software.

In the end of the questionnaire we would make one question open where respondents of this survey can express their own opinion and say in own words, what would they do to improve satisfaction of employees and how to motivate them properly.

For purpose of hypothesis testing, linear regression method will be used. Other important conclusions will be generated after descriptive statistics analysis.

Figure 1 Research model



Data & Results

For every organization, it is important to keep their employees satisfied, because the result is dependent on their performance. Therefore, we plan to find results what drives motivation of employees. What positively influence their performance and what negatively reduce their performance. Primary data would be collected from the survey distributed online via e-mail to the respondents.

A typical hypothesis inside the exploration has been that, to a degree, the emotional condition of an individual is influenced by associations with their workplace. Individuals distinguish themselves by their calling, for example, a specialist, legal counselor, or instructor. Consequently, an individual's close to home prosperity at work is a critical part of research (Judge & Klinger, 2007).

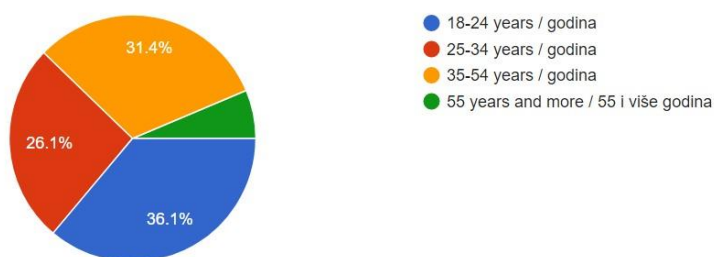
We want to find which areas of motivation of employees function well and which areas needs to be improved. With collected data and personal opinions of employees from different organizations and companies, we want to build a solid study. Feedback of employees will give

us necessary data which will be analyzed and commented in this study. Positive linear relationship is expected to be gathered for all hypotheses.

This thesis was directed in order to contribute to the examination of the attitudes of the employees towards the reward systems of the organization. Particularly, it will help the organizations to explore which of the reward systems is most favored and what different benefits motivate the employees.

Figure 2 Age of respondents

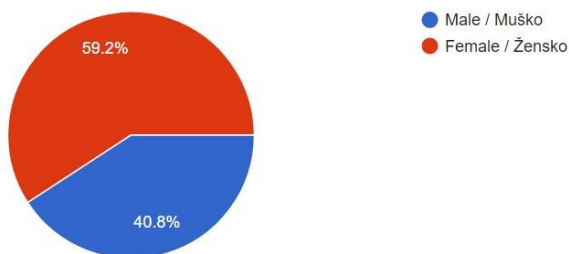
1. What is your age? / Koliko imate godina?



In this figure, we can see the age of respondents. The biggest number of respondents belongs to the first category variable. That means those employees have age range 18-24 years. The next biggest proportion is the range group with the employees having age 35-54 years. Then we have a group of employees having 25-34 years. In the end, we have employees with the 55 years and more. Those are seniors, managers and owners of the respected companies taken into consideration for this survey.

Figure 3 Gender

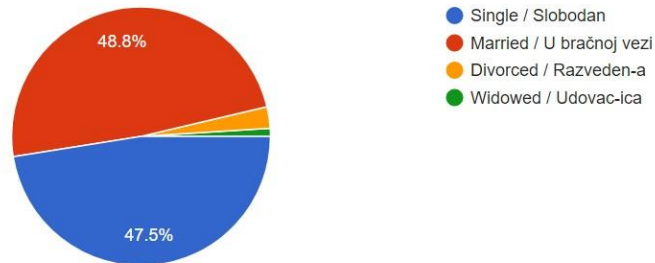
2. What is your gender? / Koji je Vaš spol?



In this figure, we have taken into account gender of the respondents. In this survey 59,2 % of women are respondents, and 40,8% of men are respondents. This is interesting for the country of Bosnia and Herzegovina, since the majority of the working forces are male.

Figure 4 Marital status

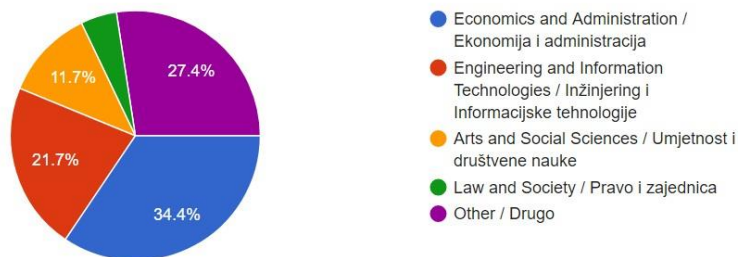
3. What is your marital status? Koje je Vaše bračno stanje?



In this figure, we can see marital status of the respondents. We asked this question since it is important for this research to evaluate what impact marriage have on the motivation of the respondents and what effects can it cause.

Figure 5 Area of profession

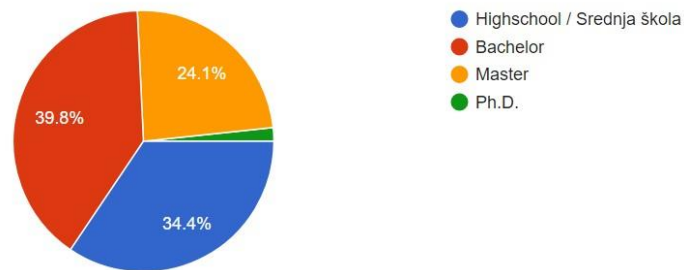
4. What is your area of profession? / Koje je Vaše profesionalno opredjeljenje?



In this question, we asked respondents what is there area of profession. We have found out that the most of respondents have Economical and Administrative background or 34,4% of them. Other areas of profession are covered respectively as shown on the figure.

Figure 6 Education level

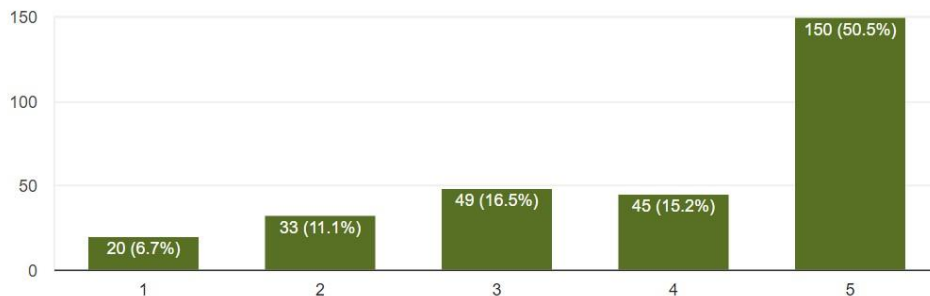
5. What is your education level? (completed) / Koji je Vaš stepen obrazovanja?



In this figure, we analyzed education level of the respondents since it is very important for the motivation of employees. We can see that the biggest number of respondents have a faculty degree or bachelor with the number of 39,8% of overall.

Figure 7 Reward system

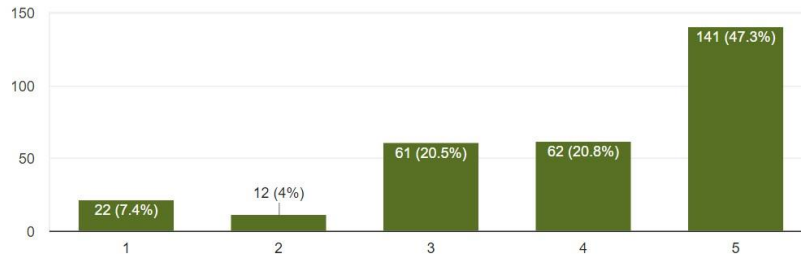
7. Does reward systems in your company motivate you? / Da li Vas sistem nagrađivanja u Vašoj firmi motiviše?



In this question number 7 in our questionnaire we wanted to analyze does current reward system in the respected companies motivates their employees. The given options were from 1 strongly disagree to 5 strongly agree. According to our respondents, we can see that more than half of them, precisely 50,5% thinks that reward system is motivating in their companies.

Figure 8 Wages

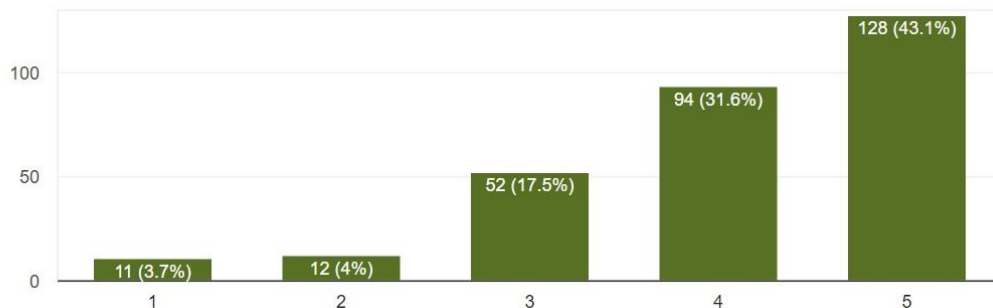
9. Wages are positively related to the motivation of employees / Plate su pozitivno povezane sa motivacijom radnika



In the figure 8. We have analyzed whether if wages are connected with the motivation of employees. The given options were from 1 strongly disagree to 5 strongly agree. The biggest number of respondents 47,3% of them thinks that wages are positively related with the motivation of employees.

Figure 9 Responsibilities

12. Responsibilities are positively related to the motivation of employees / Odgovornost je pozitivno povezana sa motivacijom radnika



In the figure 9 we can see how employees have answered on our question whether responsibilities are positively related with the motivation of employees. We can see that the 43,1% of the respondents thinks that responsibilities are positively related with the motivation of employees.

Conclusion

Employees want to be recognized for their work and they want to be appreciated. It usually doesn't take an extra effort to achieve satisfied employees. This study tried to emphasize the importance of the individual needs of the employees.

There are many ways in which job satisfaction is defined. This is complex topic, and many theorists and authors gave their contribution to further develop and broad this area. To research this topic, we need to adequately explore all influencing factors which are related to the job satisfaction. Those include environmental factors psychological factors and individual factors.

This paper was directed in order to contribute to the examination of the attitudes of the employees towards the reward systems of the organization. Particularly, it will help the organizations to explore which of the reward systems is most favored and what different benefits motivate the employees.

Well composed and useful reward system is an effective approach to build employee work motivation. This paper embarks to investigate obviously what factors exist in ascribing the right reward structure to an individual representative or group. Reward management is both perplexing and involved and exceptionally exposed to outside impacts, for example, financial situations, culture and individual worker inclinations and recognition.

Further researches would include developing new model which will include analyzing of motivation regarding the sociographical and demographical environments. Also, what should be considered in the future are cultural differences and its impact on the motivation of employees.

References

- Aamodt, M. (2009). *Industrial/Organizational Psychology*. Belmont, CA. Cengage Learning.
- Armstrong, M., & Taylor, S. (2014). *Armstrong's handbook of human resource management practice*. Kogan Page Publishers.
- Arokiasamy, A. R. A., Tat, H. H., & Abdullah, A. (2013). The Effects of Reward System and Motivation on Job Satisfaction: Evidence from the Education Industry in Malaysia. *World Applied Sciences Journal*, 24(12), 1597-1604.
- Ayyagari, M., Beck, T., & Demirgüç-Kunt, A. (2003). Small and Medium Enterprises Across the Globe: A New Database. World Bank Policy Research Working Paper 3127.
- Daley, D. M. (2012). Strategic human resource management. *Public Personnel Management*, 120-125.
- DeCenzo, D. A., & Robbins, S. P. (2002). *Human resource management* (John Wiley & Sons, Inc., New York).
- Deckers, L. (2010). *Motivation; Biological, Psychological and Environmental*. 3rd ed. MA: Pearson, Boston. 2-3.
- Dyson, K. (2005). *Small and medium sized enterprises*. Routledge.
- Fisher D. (2000). Mood and emotions while working: missing pieces of job satisfaction? *Journal of Organizational Behavior* 21, 185-202.
- Gupta, N., & Shaw, J. D. (2014). Employee compensation: The neglected area of HRM research. *Human Resource Management Review*, 24(1), 1-4.

- Judge, T. A., & Church, A. H. (2000). Job satisfaction: Research and practice. In C. L. Cooper & E. A. Locke (Eds.), *Industrial and organizational psychology: Linking theory with practice* (pp. 166-198). Oxford, UK: Blackwell.
- Judge, T. A., & Klinger, R. (2007) Job satisfaction: Subjective well-being at work. In M. Eid, & R. Larsen (Eds.), *The science of subjective well-being* (pp. 393-413). New York, NY: Guilford Publications.
- Lau, C. M., & Roopnarain, K. (2014). The effects of nonfinancial and financial measures on employee motivation to participate in target setting. *The British Accounting Review*, 46(3), 228- 247.
- Medina, E. (2012). Job satisfaction and employee turnover intention: what does organizational culture have to do with it?. *Columbia University*.
- Pinder, C. C. (2014). *Work motivation in organizational behavior*. Psychology Press.
- Presslee, A., Vance, T. W., & Webb, R. A. (2013). The effects of reward type on employee goal setting, goal commitment, and performance. *The Accounting Review*, 88(5), 1805-1831.
- Ryan, R. M., & Deci, E. L. (2000). Intrinsic and extrinsic motivations: Classic definitions and new directions. *Contemporary educational psychology*, 25(1), 54-67.
- Shields, J., Brown, M., Kaine, S., Dolle-Samuel, C., North-Samardzic, A., McLean, P., ... & Plimmer, G. (2015). *Managing Employee Performance & Reward: Concepts, Practices, Strategies*. Cambridge University Press.
- Torrington, D. Hall, Laura. Taylor, Stephen & Atkinson Carol (2009). *Fundamentals of Human Resource Management, 1*.
- Zhou, J., & George, J. (2001). When job dissatisfaction leads to creativity: Encouraging the expression of voice. *The Academy of Management Journal*, 44(4), 682.

Attitudes and Behaviors of Young Adults toward Music in Retail Environments in Bosnia and Herzegovina

Azra Pohara

*Faculty of Economics and Social Sciences
International Burch University
Bosna and Herzegovina
azra.pohara@gmail.com*

Teoman Duman

*Faculty of Economics and Social Sciences
International Burch University*

Abstract: *Attitudes and behaviours of young adults toward music in retail environments in Bosnia and Herzegovina are in focus of retailers. The retailers want to attract more customers by creating an atmosphere for a particular type of people, class, age, with desired products. Influence of music can be seen all around the globe. Industry professionals make millions of dollars by producing and creating new songs and rhythms in special events (Example: Shakira; World Cup 2010). Music in Bosnia and Herzegovina is well spread, and it can be one of the best places to see how music influences human lives and their habits. It is well-known fact that Bosnian's devote most of the time by listening to music and use it as a motivation or charm of happiness to forget everyday problems. For Bosnians, music is like a sweet drink, escapade from problems and life motivation. Music is their inborn gift, and for this study, Bosnia and Herzegovina is the right place to see how much music impacts young adults, and how retails stores can benefit from it.*

This study used previous research as a guideline to show the impact of certain music genre on consumer's behavior and attitude in Bosnia and Herzegovina. The focus of research was to test the impact of music on young adult's cognitive, emotional, and behavioral level, particularly with regard to attitudes and perceptions, and moods and feelings in the retail environment. Research data were collected from young adults in Sarajevo during the winter months of 2016. In total, 125 questionnaires were collected and used in data analysis. Research results showed that music is very important in making retail choices for young adults in Sarajevo. Also, the pace and type of music were found to be influential on retail choices of young adults who participated in the research study.

Keywords: *Music, retail choices, young adults, Sarajevo.*

Introduction

The term music is considered to be derived from the word "mousa" which means angel in Old Greek. Music has always played a vital role in people's lives. From early ages, people are trying to express themselves using music and its influence on people to send specific messages.

National anthems are often connected with the music, which sends the message and boosts morality to the people of that nation. Music in some cases presents a cure for some psychological diseases (depression, drug addiction or suicide thoughts). In many ways, music helps people to express their emotions, thoughts, and ideas. Music is a lucky charm that follow humankind through centuries.

In some cases music helps as a thought motivator or a way where people can remind themselves about previous thoughts, actions or some previous times that are gone, missing in distant past (Alpert and Alpert, 1990). Music is people's way of expressing themselves, giving others and themselves relief and letting go their suppressed feelings (Dillman-Carpentier and Potter, 2007). Since birth mother sings her child different songs using different rhymes to make the child comfortable and prepare him for sleep. Music in mother voice and words that are spoken bring peace in child's soul and sense of security. Music is one of the essential parts in people's lives. Even when a person is alone, he/she sings different songs as an answer to put loneliness and nostalgia beside. Using music in retail business is a custom among entrepreneurs. Music helps people to make easier choices and boost their moral and motivation.

Music in Bosnia and Herzegovina is well spread, and it can be one of the best places to see how music influences human lives and their habits. It is well known fact that Bosnian's devote most of time by listening to music, and use it as a motivation or charm of happiness to forget every days' problems. For Bosnians, music is like a sweet drink, escapade from problems and life motivation. Music is their inborn gift, and for this study, Bosnia and Herzegovina is the right place to see how much music impacts Bosnia and Herzegovina society, and how retails stores can benefit from it.

Research questions are:

1. Which type of music is most popular among young adults?
2. Can music help retail stores to hold customers longer than usual?
3. Does specific genre of music or music itself is connected to certain product?
4. Does music loudness affect retail stores income?
5. Does music have psychological impact on customers/young adults?
6. Will music change certain behavior among young adults or it just helps retail stores with attitude?

Research methodology

In this chapter we will present the method we used to develop the survey and questions to establish the sample size for delivering results. Also, in the chapter, we will talk about the hypotheses: *"Music has an influence on young adults' behaviours and attitudes while shopping,*

Slow music relaxes young adults while purchasing some products or service, Fast music makes young adults aggressive while purchasing some products or service” that represent the goal to be achieved in this project. There are many goals, but mainly would be effect of music on human behaviour, external and internal influence, arousal and valance influence and can music create a habit in human behaviour while doing shopping, drinking coffee in coffee shop, or eating cévapi at some restaurant.

Sampling is a process used in statistical analysis in which a predetermined number of observations are taken from a larger population. The sampling methodology used in this research is judgmental sampling. Judgmental sampling “is a form of convenience sampling in which the population elements are selected based on the researcher’s judgment” (Malhotra, 2009, p. 377). This type of sampling methodology is a form of convenience sampling in which the population elements are selected based on the researcher’s judgment (Malhotra, 2009, p. 377).

This sampling is used because of previous observed behaviour and attitude seen at young adults in Bosnia and Herzegovina. The primary data of this study was collected through a survey which was conducted among young adults in Bosnia and Herzegovina. The respondents were people of target ages and genders in Bosnia and Herzegovina society. The third part of a survey was about general impact of music on their likeness or unlikeness of loud-fast/slow-soft music on their desire to purchase particular product. Also, in some of these questions, it is asked about connection music has with some product or some Brand making, or they just love listen to music.

In this study, both three point and four point category scale were used to diagnose influence of music on young adult’s behavior while shopping. Respondents could respond with “Yes”, “No” and “Maybe” in three point category scale while in four point category scale “Sometimes” and “Maybe” were added. All responses were scaled so that a higher score on a specific subject so that is indicates a stronger agreement with the attitude/behavior whereas a lower score indicated a weaker agreement, or disagreement with that specific thesis.

Descriptive statistics, correlation and regression are used to analyse the data. The surveys were distributed by mail and social networks (Facebook, Viber, Skype, Piki, Instagram etc.). The sample size was the 125 responses. The results were analysed through SPSS software, 18th version.

The secondary data was collected through research on the internet in order to attain the relevant articles about influence of music on customer’s attitude and behavior. Also, we should mention that there is no relevant data in Balkan areas regarding this issue. So, this study can be a significant step towards new research in these parts of the world. Especially, because people from Balkan areas are specific, and they do not share similar interest as it is in Western countries. It shall be clearly shown during study observation and results. Zotero Standalone was used

during process of articles collection.

Data Analysis:

Table 1: Survey Demographic Questions (N: 125) and findings

		Frequency	Percent	Valid percent	Cumulative percent	
Ages	15-24	80	64,0	64,0	64,0	Demographic
	25-35	34	27,2	27,2	91,2	
	36-45	10	8,0	8,0	99,2	
	46 plus	1	.8	.8	100,0	
	Total	125	100,0	100,0		
Ethnicity	Bosniak	113	90,4	90,4	90,4	
	Serb	4	3,2	3,2	93,6	
	Croat	4	3,2	3,2	96,8	
	Other	4	3,2	3,2	100,0	
	Total	125	100,0	100,0		
Gender	Male	86	68,6	68,6	68,8	
	Female	39	31,2	31,2	100,0	
	Total	125	100,0	100,0		

Source: Author's own research

The first section of the questionnaire consisted of demographics.

As we can see in this table majority of participants are ages from 15-24 (64). Next are from 25 to 35 (27.2%), then 36-45 (8%) and only one candidate that is 46 or older (0.8%). In a further study, we shall eliminate two categories 36-45 and 46 or older, because of our thesis.

As we can see, major participation in this figure were people of age 15 to 24 with 64.9%, from age 25 to 35 was 27.2%, from 36 to 45 was 8%, and 46 and more only one participant, or 0,8% It is shown that Bosniaks have taken a lot more participation in this survey (around 90.4%), rather than other two ethnicities and others (3.2% each)

As we can see from this chart and figure, male's response to the survey was higher (68.8%) than female ones. (31.2%)

Table 2: Survey Questions (N: 125) and findings

		Male	Female	Total	
Type of music	Pop	22	19	41	Behavioural
	Folk	23	8	31	
	Classic	8	1	9	
	Country	1	1	2	
	Rock	16	3	19	
	Other	16	7	23	
Total		86	39	125	

Source: Author's own research

The second section was about general questions about music, their habits, will and customers purchasing in Bosnia and Herzegovina. In this part, five choices of the genre are given to the participants, and they are: pop, folk, classic, country (Bosnian country music) and Rock music, while other is put for those who cannot decide.

Results are that Pop music is slightly more popular than Folk music with 41 participants for the Pop genre (22 males and 19 females), and 31 for Folk music genre (23 males and 8 females). Next to them is Rock music with 19 supporters (16 males and 3 females), Classical music genre with 8 males and 1 female supporter, Country music with 1 male supporter and 23 participants who put other genres (16 males and 7 females). As a result in this section, we can see that type of genre does not differentiate between genders and if retailers want to improve business with music, Pop and Folk music are genres which people are listening to a lot.

Table 3: Q9

Music motivate me in shopping		Frequency	Percent	Attitude
	Yes	74	59,2	
	No	12	9,6	
	Sometimes	39	31,2	

Source: Survey

In this question, music as a motivator, 125 participants gave these results: 59.2% said that music motivated them, 9.6% said that music didn't motivate them, while 31.2% were neutral. Young adults and young people were ones who mostly said yes to this question.

Table 4: Q10

I feel comfortable when I visit a shop that plays music		Frequency	Percent	Valid percent	Cumulative Percent	Attitude
	0	3	2,4	2,4	2,4	
	Yes	110	88,0	88,0	90,4	
	No	12	9,6	9,6	100,0	
	Total	125	100,0	100,0		

Source: Survey

There were 125 participants, where 110 said yes for feeling comfortable when music was being played in the shop, only 12 said no. Three of them were neutral. They haven't given the answer to this question. The majority of young adults answered yes regarding arousal feeling, or comfortable/positive feeling while visiting a shop that plays music. Music creates a good atmosphere, attracts them and brings enjoyment in a retail store.

Table 5: Q11

Fast music makes me aggressive while shopping?		Frequency	Percent	Valid percent	Attitude
	0	2	1,6	1,6	
	Yes	14	11,2	11,2	
	No	77	11,2	11,2	
	Sometime	32	25,6	25,6	
	Total	125	100,0	100,0	

Source: Survey

According to the survey results majority of young adult and young people consider fast music does not make them aggressive (not comfortable, annoying) while shopping. So if retailers want to attract new customers, especially younger population, fast music is the ideal solution.

Table 6: Q12

Slow music makes me relaxed while shopping?		Frequency	Percent	Attitude
	Yes	41	32,8	
	No	41	32,8	
	Sometimes	43	34,4	
	Total	125	100,0	

Source: Survey

In this part, participants have shown that slow/soft music is not the thing that mostly relaxes them. Participants with the answer no are 41 or 32.8%. as it is the case with participants who said yes 41 or 32.8%. The answer “sometimes”, it gives neutral ground where people are sometimes satisfied with slow, soft music in the back. Again, we should mention age variation of the participants. The majority of them are young people, from the age 15 to 35. These respondents are likely to be potential customers to coffee shops, restaurants, discos and etc., where loud music is played and where music impacts “their minds”

Table 7: Q14

Specific genre of music associates me with some product I want to buy/purchase?		Frequency	Percent	Attitude
	Yes	14	11,2	
	No	93	74,4	
	Sometimes	18	14,4	
	Total	125	100,0	

Source: Survey

According to the survey mentioned above, young adults and young people cannot, or are not able to connect some music with a genre. Around 74.4% said “No”, 14.4% said “Sometimes”, while 11.2% said “Yes”. On the other hand, those who said yes gave several examples like: Coca Cola, Pepsi, Ornel, Violeta etc., where music in their commercials are used, and in some areas, phrases they are using in ads are recognisable, especially Coca Cola’s Christmas commercial, or Pepsi’s commercials related to soccer etc.

Table 8: Q15

Music helps me to decide which product I will purchase.	Frequency	Percent	Valid percent	Cumulative percent	Attitude
0	3	2,4	2,4	2,4	
Yes	16	12,8	12,8	15,2	
No	37	29,6	29,6	44,8	
Sometimes	69	55,2	55,2	100,0	
Total	125	100,0	100,0		

In this survey question, young adults and young people answered negative (55.2%) regarding music help in purchasing some particular product, “sometimes” is answered 29.6%, “yes” is answered 12.8% and three participants were without answers. Over 57, 6% (answers NO and no answer) music doesn’t help for deciding which product will purchase.

Hypothesis Testing

In this hypothesis testing, we are examining two opposing hypotheses: the null hypothesis and the alternative hypothesis. The null hypothesis is the statement being tested. Usually, the null hypothesis is a statement of "no effect" or "no difference". The alternative hypothesis is the statement you want to be able to conclude is true.

Based on this sample data, the test determines whether to reject the null hypothesis. We will use a p-value, to make the determination. If the p-value is less than or equal to the level of significance, which is our cut-off point, then we are rejecting the null hypothesis and accepting the one we have investigated.

Table 1: H1: Music has an influence on customer's behaviours and attitudes while shopping

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Q9 ¹	125	0.00	2.00	1.07	0.340
Q18 ¹	125	1.00	3.00	1.74	0,720
Q21 ¹	125	1.00	4.00	2.32	1.126
Valid N (listwise)	125				

Table 1 shows that the general average is 1.71. According to results of descriptive statistics we can confirm that H1 is true which means that music has an influence on customer's behaviours and attitudes while shopping.

Also, the majority of participants feel comfortable when they enter a shop where music is played, and also music loudness and choice of music has an effect on their staying in that store.

Table 2: H2: Slow music relaxes customers while purchasing some products or service.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Q11 ¹	125	1.00	3.00	2.02	,823
Q15 ¹	125	1.00	3.00	1.76	,807
Valid N (listwise)	125				

Table 2 shows that slow music doesn't relax customers while purchasing some products with average mean of 1.89

Also, it shows that people generally does not like slow music in Bosnia and Herzegovina. Also it shows that music must be there to entertain and attract customers. Also, we should age, which was mentioned earlier, where majority of participants are from age 15 to 25.

Table 3: H3: Fast music makes customers aggressive while purchasing some products or service.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Fast_music_makes_me_agressive	125	0	3	2,11	,650
I_feel_comfortable_while_listening_to_fast_music_while_shopping	125	1	3	2,10	,777
Valid N (listwise)	125				

Table 3 shows with mean of 2,105 that fast music does not make customers aggressive while purchasing some products or service. So this hypothesis is not true.

Also, we should mention that fast music is not an obstacle for some retailers to try to attract customers of the younger population with loud and fast music in Bosnia and Herzegovina. Atmosphere of the store depends only if it is for younger or older people, rich or middle class. Target audience is the most important thing.

Findings

Results in this study show that in Bosnia and Herzegovina young adults and young people mostly have low awareness of music influence on their lives, and their daily routines. Especially while shopping. Music is all around, no matter loud or slow. That significant level influences their choices while purchasing products. Fast music on the other hand, as results show is not big bug and undesirable for retailers, because younger population like such music, and they want to be in that store, coffee shop or a market where music is played loud and clear. In other words, retailers should choose carefully their target customers, and choose music accordingly to their age, status, and product they want to sell.

This study can contribute to the following studies in the same or similar fields, being a base to build larger and detailed research in this particular field in Bosnia and Herzegovina. Retailers while reading this text can make steps for creating adequate, suitable and comfortable atmosphere for target audience. Music has an impact on customer behaviour, still retailers need to make orders first and target their class. In West, classical music is for rich stature; here it is not the case. You can play it, but hardly anyone will come, if you have not developed your brand and name on the market.

At the end, this research confirms previous research regarding influence of music on human behaviour, especially arousal dimension (feelings, emotions), where music is mover and creator of good, healthy atmosphere, where retailers and customers can profit from each other.

Money is time, and time is money but the music is everywhere around us

Conclusion

This research is the master theses that was conducted among people of younger age, and older with not so qualified knowledge of English, was asked questions about music's influence on consumer's behavior. It is well known that music is all around, and its power of persuasion can be used in retail stores.

This study represents young people - high school students (125 respondents) are showing music influence on their daily life, their behavior and which type of music they prefer. They are also showing difference that loud and slow music is played, and that positive atmosphere, or music of their choice will make them comfortable and they will stay longer in the shop and according with that, they would spend more. *However, music taste is not guarantee for success. Every retail owner must decide his target audience, class of people and then decide which type, what kind of music will be played, and which customers will they attract.*

Some previous results done have shown that for retailers it is important to consider building adequate and proper atmospherics and music environment, especially because young adult's perception can be altered, and similarity between music and the brand/retail product can have a reflect on consumers' in-store reaction, staying time and brand perception.

References

- Alpert, J. I., & Alpert, M. I. (1990). Music Influences on Mood and Purchase Intentions. *Psychology and Marketing*, 7(2), 109-33.
- Malhotra, N. K. (2009). *Marketing Research: An Applied Orientation*. Prentice Hall.
- Dillman-Carpentier, F., & Potter, R. F. (2007). Effects of Music on Physiological Arousal: Explorations into Tempo and Genre. *Media Psychology*, 10(3), 339-363.

The significance of non-monetary incentives and its relationship with employee motivation: A case of civil service employees in Bosnia and Herzegovina

Emir Srna

*International Burch University
Bosnia and Herzegovina
emirsrna@yahoo.com*

M. Sait Dinc

*International Burch University
Bosnia and Herzegovina
m.sait.dinc@ibu.edu.ba*

Abstract: *The purpose of this paper is to examine the perceived importance of non-monetary incentives as well as the degree of their current utilization within the civil service sector in Bosnia and Herzegovina. One of the aims of the study is to explore if non-monetary incentives have prospective to increase employee's motivation in comparison to monetary rewards. Such finding could play a beneficial role in understanding the fact that an individual's behaviour and motivation can be greatly influenced by alternative and cost-friendly non-financial motivating factors. The study is conducted on a sample of 129 civil servants of all categories at the state level. The relationships between the variables were evaluated by descriptive statistics, correlations and non-parametric independent samples test. The study findings demonstrate that the non-monetary incentives are not sufficiently utilized in the civil service sector. Furthermore, according to the findings, non-monetary incentives represent a very strong motivating factor and could be widely and actively used in order to secure increased motivation of the civil servants in Bosnia and Herzegovina.*

Keywords: *Non-monetary incentives, Motivation, Civil service, monetary incentives.*

1 Introduction

The human capital is the brain of any process organized in the form of an institution, corporation or organization, private or public one. In this regard, the organization success depends on its workforce. Unfolding this process to the level of employees, it can be said that one of the greatest factors for the employee success is motivation. Therefore, due attention must be given to this factor. Organizations, in order to achieve success and reach their strategic goals, must have motivated employees, the ones who work with enthusiasm, energy and dedication. On the other

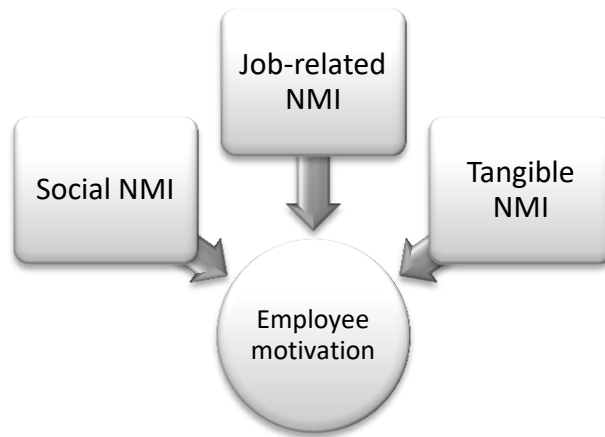
hand, the organizational management must do everything in order to establish and bring into force healthy and motivated employees.

The first assumption that comes to mind when word “incentive“ is mentioned is usually some form of monetary reward for employees. However, it can be noted that incentive in fact is the thing that encourages or motivates someone to perform a certain action. Besides well-known monetary incentives, there are other stimuli that boost our performance and in the end, support the accomplishments of the goals. Therefore, the importance of such stimuli or incentives should not be neglected or undermined by company managers or employees who should take proactive role in seeking the establishment of the incentive system. The reason behind the introduction and use of such incentives can be manifold: commitment enhancement, productivity increase, psychological satisfaction of employees leading to job satisfaction, higher work enthusiasm and many others.

Although companies in developed countries have been aware of the benefits of use of non-monetary incentives, it can be easily said that the culture of use of non-monetary incentives in developing countries is at a low level. Bosnia and Herzegovina (BiH) is one of those developing countries. After brutal war, BiH started recovering its economy and is now working to join the European Union. But managers in this country are still not fully aware of the potential that such incentives may have on employee’s job satisfaction and motivation to drive them to better performance. Since there is a very scarce literature as well as research conducted on this issue in Bosnia and Herzegovina (Dinc & Plakalovic, 2016), it is deemed appropriate to instigate a study in this regard and further research the current use as well as possible effects of the increased use of non-monetary incentives. It is also well known in our society that the possibility of use of monetary rewards in public institutions is stipulated by different laws in Bosnia and Herzegovina and the fact is that these rules and regulations greatly limit the use of monetary rewards, especially having in mind the financial crisis in the last decade.

This fact multiplies the importance of other, alternative means of employee motivation and that is actually why this study focuses primarily on the non-monetary incentives. In the wake of limitations on the use of monetary incentives in public service in Bosnia and Herzegovina, this study tries to identify the value of non-monetary incentives and their link with the motivation and performance of employees (See Figure 1). This is especially important having in mind that little or no evidence exists regarding the effects of non-monetary incentives on motivation in Bosnia and Herzegovina and its civil service.

Figure 1 Proposed Research model



2 Literature review

Motivation represents anything that ignites our physical and mental capacities to move towards a certain accomplishments or objectives. Max A. Eggert (1999), who has worked on the complex subject of motivation, stated “Motivation is like a jellyfish. Everyone knows what it is but it is difficult to describe or define”. In essence, various authors have different views on the concept of motivation. However, all these offered definitions share few common points: all are tackling the “factors or events that energize, channel, and sustain human behaviour over time “(Steers, Mowday, & Shapiro, 2004).

The starting point in the motivational process are the needs, followed by the process of sending signals, thus triggering our behaviour in the direction of reaching and meeting the objectives that we believe will satisfy our needs.

If motivation is induced internally, originated from an individual, such type of motivation is called intrinsic motivation. Many of the authors consider this type of motivation to be the most important. According to Deci and Ryan (2000), the intrinsic motivation develops out of the psychological needs, such as a need for competency, autonomy and self-determination.

On the opposite, the extrinsic motivation is when employees perform the activities to realize a certain outcome with showing no personal interest in the specified activity. The only interest of the employee in this context is related to tangible incentives he may earn by repeating some specific action or process. For example, the only motivation for employee to stay another three hours overtime is to get a full day off, or to receive some other kind of monetary or other reward. Job satisfaction is not equal to motivation but it is rather linked to it. One of the most commonly used definition of job satisfaction is given by Locke (1976) who defines it as “a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences “. Employee

satisfaction is very important in order for employees to remain happy and to perform to the maximum of their capabilities. There are several important factors that may impact satisfaction: work itself, benefits, promotions, peers and colleagues (Locke, 1976). According to Lut (2012), both motivation and satisfaction relate to job performance and they can influence it either positively or negatively.

The companies should approach each individual employee in order to establish the type of their dominant needs and act accordingly – giving the proper value to non-monetary incentives (Alderfer, 1972).

In support to non-monetary incentives importance and value, McClelland (1975) differentiated three types of needs in the organizations: need for power, need for affiliation and need for achievement.

2.1 Non-monetary incentives versus monetary incentives

While monetary incentive is a money based reward, non-monetary, as its name implies, is a reward that is not directly associated with the financial means. It is not to say that non-monetary incentives have no monetary value, on the contrary.

Many researches argue that the use of non-monetary incentives, especially in jobs with cognitive requirements, have a longer lasting effect on employee motivation. McKinsey global survey of 1047 executives, managers and employees from different sectors established that three non-financial incentives are even more effective motivators than the three top-rated monetary incentives (Dewhurst, Guthridge and Mohr, 2009). The top three non-monetary incentives identified by the report were: praise and commendation, attention by managers and new tasks opportunity.

A performance study found that even a task requiring very limited cognitive efforts, a larger monetary reward led to a poorer performance (Ariely, 2008). This study was replicated several times and the results were consistent throughout. The people offered medium monetary bonuses performed equal to those offered low bonuses and interestingly enough, the people offered the highest bonuses performed worse than other two groups.

In conclusion, it seems that the high monetary rewards may cause additional costs for institutions but may also have a demotivating or discouraging effect on employees.

2.1.1 Social non-monetary incentives

Social non-monetary incentives are related to relationship between the superior and the employee in the work environment. These incentives are important since they have crucial impact on satisfying the needs such as relatedness and growth which represents the top two types of needs (Alderfer, 1972). One of the most powerful incentives within this category is recognition or praise. Providing recognition to the employees for certain performance has very strong motivational effect. In addition to that, it results in no additional cost to the managers of the institution.

2.1.2 Job-related non-monetary incentives

Job-related NMI are closely connected, stem from the job itself and these intrinsically motivate employees. The employees exercise more effort in order to perform at their job because the achievement itself provides them with pleasure and motivates them further.

McClelland (1975) in his achievement and acquired need theory argues that the need for achievement represents the need for reaching challenging goals. The best rewards for such employees certainly are not connected with any kind of monetary rewards, since such employees are exclusively driven by the sense of pleasure after accomplishments. Some of the most important job-related non-monetary incentives are: promotion, goal setting, job empowerment, job enrichment, job enlargement, job rotation, participation in decision-making processes and opportunities for further growth.

2.1.3 Tangible non-monetary incentives

Tangible non-monetary incentives are goods and services given by managers in order to reward and motivate employees. These incentives are considered non-cash in nature, but should be regarded as extrinsic motivators since they are provided by a source other than individual in question (Jeffrey & Shaffer, 2007). Furthermore, there are four psychological phenomena associated with these type of incentives: justifiability, social reinforcement, separability and evaluability. The value of the incentive is directly proportionate to the difficulty the employee would face to justify the purchase of the specific goods with his own money. Social reinforcement is directly related to the visibility – the effects of such incentive do not come from the incentive itself but rather from other people's respect and their knowledge of employee's good performance. Evaluability is referred to the fact that employee who received the reward evaluates the award differently. The employees tend to value positive aspects of rewards rather than negative ones that are associated with any specific reward.

Meacham and Wiesen (1969) have offered classification on non-monetary incentives in two categories, social and pre mack. The first category included informal recognition, formal

acknowledgement and friendly greetings, while the other category included job rotation, extended breaks and job with more responsibility.

These categories were redesigned in order to establish final three categories of non-monetary incentives: social, tangible non-monetary incentives and job related non-monetary incentives (Yavuz, 2004).

3 Hypotheses

Recent studies have demonstrated that the non-financial recognition is the most effective of rewards (Silverman, 2004). The latest research and empirical evidence indicate that intrinsic motivation decreases while extrinsic work motivation seems to decrease with age (de Lange, Bal, Van der Heijden, de Jong, & Schaufeli, 2011). Several other researches confirmed these findings, including Jurkiewicz and Brown (1998) who conducted a study amongst public service employees in the U.S. According to the Warr proposal (1997) the older employees have reduced need for high job demands, job variety and feedback. Finally, it is argued that there is significant difference between the superiors and subordinates average ranking of incentives contributing to their willingness to produce more effort in their jobs (Yavuz, 2004).

The following hypotheses are posited in this study:

Hypothesis 1: Monetary and non-monetary incentives are equally important motivating factor both for senior civil servants and for civil servants.

Hypothesis 2: The effect of job-related, social and tangible incentives on motivation decreases with the years of age.

Hypothesis 3: There is no statistically significant difference in the effect of job factors on motivation based on gender.

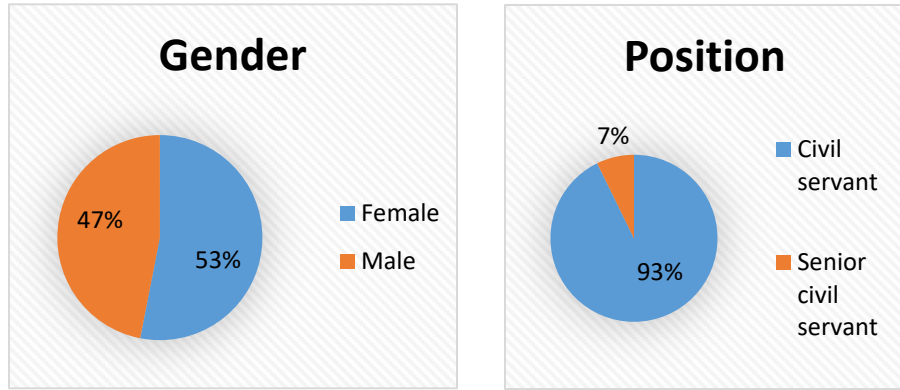
Hypothesis 4: There is no statistically significant difference in the effect of job-related, social and tangible incentives on motivation based on position or rank.

4 Research method

4.1 Sample and data collection

In accordance with the information provided by the Civil Service Agency of Bosnia and Herzegovina, the total number of state institutions employing civil servants amounts to 69. A total of 3700 civil servants are employed in these institutions. The following tables offer further disaggregation of the employed civil servants by gender and their rank:

Figure 2. Actual ratio of civil servants by gender and rank



A questionnaire using the web tool was distributed to civil service institutions while certain number of questionnaires were given in a hard copy. A total of 129 employees reverted with the fully completed questionnaire. A summary of sample characteristics is presented in Table 1. The majority of the respondents were female (57.4%) while 62.8% of the respondents were between 31 and 40 years old. The majority of respondents (87.6 %) were Civil servants while the rest belong to senior civil servant category.

Table 1. Sample Characteristics

Variable	Demographics	Number	Valid Percent (%)
Gender	Female	74	57.4
	Male	55	42.6
Age	21-30 years	3	2.3
	31-40 years	81	62.8
	41-50 years	31	24
	51-60 years	14	10.9
Tenure in the institution	under 12 months	2	1.6
	1-5 years	14	10.9
	6-10 years	70	54.3
	11-15 years	43	33.3
Total job tenure	under 5 years	6	4.7
	5-10 years	29	22.5
	11-15 years	43	33.3
	over 16 years	51	39.5
Rank	Senior civil servant	16	12.4
	Civil servant	113	87.6

4.2 Instruments and measures

A three-page questionnaire was used to collect the data. The first set of items is designed to assess the current level of utilization of non-monetary incentives within the respondent's institutions. The following set of items is related to the most important job factors that contribute to the motivation from the perspective of the respondents. Another set of items the employees were asked to indicate the degree of importance of specific incentives belonging to one of the three non-monetary incentive categories. Finally, the last part included demographic questions such as age, gender, rank, job tenure with the current institution and the total job tenure.

The survey was initially prepared in the English language, but before forwarding it to the study population, it was translated into Bosnian language. In order to assess the validity of the study, the pilot study of the survey was performed on 25 civil service employees at the High Judicial and Prosecutorial Council of BiH.

In order to measure the job-related, social and tangible incentives, the scale developed by Morgeson & Humphrey (2006) and Yavuz (2004) was used which was additionally modified. The questionnaire consisted of 39 items. Current utilization of the non-monetary incentives is evaluated using 20 items. The respondents were asked to rate the current status of utilization of job-related, social and tangible incentives, broken down into twenty specific incentives belonging to one of these three categories. These items were measured using a 5-point Likert scale (5=strongly agree; 1=strongly disagree).

Most important factors affecting motivation are measured using 13 items. These items were measured also using 5- point Likert scale.

In order to evaluate employee incentive preference, 1 item with 14 incentives was listed and evaluated using 5- point Likert scale (5=very important; 1=not important).

4.3 Data analysis

The data was analysed using the SPSS (version 23) software as well as STATA (release 14). Reliability of the scales was assessed by Cronbach's alpha. Sample characteristics of respondents were summed up running a descriptive statistic. Independent sample t-test was used to understand whether there is difference in motivation by monetary and non-monetary incentives between two groups of rank: senior civil servants and civil servants. Polychoric correlations were used to show the correlation between three non-monetary incentives and age. In order to determine difference in distribution/effect of job factors across two gender categories, nonparametric independent samples Mann-Whitney U test was used. Finally, nonparametric independent samples Mann-Whitney U test was used to show the difference in the effect of each

of the non-monetary incentive category - job-related, social and tangible on motivation based on position or rank of the civil servants.

5. Results

5.1 Initial results

As it was demonstrated in Table 2, the Cronbach's Alpha for the first part of questionnaire targeting the current overall use of non-monetary incentives was 0.895 while the Cronbach's Alpha for non-monetary incentives was 0.880.

Table 2. Reliability Coefficients

	Cronbach's Alpha
Current incentive utilization (20 items)	0.895
Non-monetary incentives (14 items)	0.880

5.2 The results of the employees' perception of the current use of non-monetary incentives in institutions

Descriptive statistics – frequencies were used to summarize and present the level of satisfaction of employees with the usage of non-monetary incentives in their respective institutions. The participant employees consider that the current use of these incentives is at unsatisfactory level. 47.3% employees strongly or moderately disagree with the statement that the use of non-monetary incentives is at satisfactory level. 36.4% of employees have a neutral opinion while only 16.3% are satisfied with the level of utilization of non-monetary incentives currently.

5.3. Hypotheses testing

In the testing of the first hypothesis, in line with the mean results, both groups, senior civil servants and civil servants ranked non-monetary incentives as the most important motivating factor. Independent samples t-test was used for each of the incentive and for grouping variable - senior civil servants and civil servants in order to test if there is statistically significant difference between mean scores between these two categories of staff. For the non-monetary incentives, the t-test had a p-value of 0.175 (equal variances assumed). For the monetary incentives, the t-test had a p-value of 0.242 (equal variance assumed). As a result, the hypotheses 1 is supported with the conclusion that there is no difference in the importance of monetary and non-monetary incentives based on rank of civil servants.

Table 3. Mean scores of the two incentives based on rank

		<i>Senior civil servants</i>	<i>Civil servants</i>	<i>p value</i>
Monetary incentives	Mean	2.93	3.28	0.242
Non-monetary incentives	Mean	3.87	3.48	0.175

The second hypothesis stated that the effect of job-related, social and tangible incentives on motivation decreases with the years of age. For this purpose, the polychoric correlation tests in STATA package were carried out with the aim to estimate the degree of correlation between categorical ordinal variables. They have been used in line with the justified assumption that in fact the ordinal variables are basically truncated versions of their underlying continuous variables. Table 5 shows that polychoric correlation between the tangible incentives and age is negative, and as indicated by goodness of fit tests statistically significant, which means that with the age progression the effects of tangible incentives on motivation decreases. Furthermore, polychoric correlation between social incentives and age is positive, and statistically significant as indicated by goodness of fit tests, which means that with the age increase, the effects of social incentives on motivation increase accordingly. Polychoric correlation between job-related incentives and age is not statistically significant.

Table 4. Correlation between incentives and age

	Rho.	Goodness of fits test	
		<i>Pearson G2</i>	<i>Likelihood ratio X2</i>
Tangible incentives	-.04558337	23.430325	16.76458
Social incentives	.2409996	44.361491	32.26361
Job-related incentives	.09423693	10.821232	7.8695617

The third hypothesis indicated that there is no significant difference in distribution/effect of job factors across two gender categories. Nonparametric Independent samples Mann-Whitney U test was carried out since this test analyses the equality of the distribution in both of subsamples. The results are listed in the Table 6. According to the results, there is no statistically significant difference in the ability of tangible, social, monetary factors and good interpersonal relationships to increase motivation across male and female employees. Furthermore, the results indicated there is significant difference in the influence of wage on motivation (Mann-Whitney U=1401; $p < 0.05$) between male and female employees. The effect of wages on motivation is higher with female population (mean rank=73.57) when compared to male population (mean rank=53.473). There is also a significant difference in the influence of job-related factor on motivation between male and female employees (Man-Whitney U=1798; $p < 0.05$). Likewise, the influence of this factor on motivation is higher with female population (mean rank=70.43) compared to male

population (mean rank=57.69). Finally, the results indicated that there is also significant difference in the influence of job security on motivation based on gender (Man-Whitney=1091.5; $p < 0.05$). The effect is higher with female population (mean rank=77.75) when compared to male population (mean rank=47.85).

Table 5. Difference in the effect of job factors on motivation across gender

		Mean rank	p value
Tangible incentives	N		0,219
Female	74	61.63	
Male	55	69.54	
Satisfactory wage			0.001
Female	74	73.57	
Male	55	53.47	
Social incentives			0,441
Female	74	67.09	
Male	55	62.19	
Job-related incentives			0,040
Female	74	70.43	
Male	55	57.69	
Monetary incentives			0,509
Female	74	63.27	
Male	55	67.33	
Job security			0.000
Female	74	77.75	
Male	55	47.85	
Good interpersonal relationship			0,196
Female	74	68.20	
Male	55	60.69	

The Hypothesis 4, stated that there is no statistically significant difference in the effects of each of the non-monetary incentive categories - job-related, social and tangible on motivation based on position or rank of the civil servants. Nonparametric Independent samples Mann-Whitney U test was carried out and the results are listed in the Table 7. According to the results, there is no statistically significant difference in the effect of social, tangible and job-related incentives on motivation between senior civil servants and civil servants. This finding supports the Hypothesis 4. The mean rank from the table below indicates which group of employees is more motivated by each of these three categories of non-monetary incentives.

Table 6. Impact of job-related, social and tangible incentives on motivation based on rank of the civil servants

		Mean rank	p value
Job-related incentives	N		0.453
Senior civil servant	16	58.88	
Civil servant	113	65.87	
Social incentives			0.445
Senior civil servant	16	58.63	
Civil servant	113	65.90	
Tangible incentives			0.799
Senior civil servant	16	67.16	
Civil servant	113	64.69	

6. Conclusions and Limitations

As mentioned earlier in the text, the human capital is the most important value of any institution or company. All institutions need motivated employees in order to successfully operate and perform their activities. In our case of civil service employees, it is evident that civil servants have fixed salaries and monetary compensations, with little or no room for any sort of monetary incentives to be granted to employees.

It transpires from the research and its results, that the respondents' first and primary focus is to satisfy their physiological requirements. Hence the satisfactory wage was rated as the most important of seven factors motivating good performance. The next most crucial factor is job security followed by the good interpersonal relationships with colleagues. Job-related aspects of work that are closely connected to and stem from the job itself and intrinsically motivate employees are also very important. In this case, the least important incentives that motivate the employees are tangible – materialistic incentives and monetary incentives.

After conducting extensive employee survey in Czech Republic, Vaskova (2006) concluded that financial compensation in the form of basic-pay is the most important factor, followed by positive relations and social incentives.

It is meaningful to conclude that civil servants in Bosnia and Herzegovina, almost completely adhere to the Maslow hierarchy of needs, ranking and giving priority to the most basic needs and then moving up the pyramid with other above identified needs consequently. This finding is completely in line with the Pink (2009) theory of what motivates employees. The theory states that in cognitive professions, upon receiving proper and satisfactory wages, employees are no longer motivated by money and monetary incentives.

Another set of questions in the questionnaire showed the wage as the factor of importance with the aim to show and present the distribution of the perceived importance only between the monetary and non-monetary incentives as well as to show whether these two categories are equally important when compared to each other. The majority of employees (72.1%) stated that non-monetary incentives can elevate the interest of employee in the job even in cases when monetary incentives cannot be utilized. Moreover, when compared separately with monetary incentives, non-monetary incentives are valued slightly more than monetary incentives which indeed confirms they represent a significant motivating factor, allowing for an argument that civil service employees are not completely satisfied with the wage levels, therefore the issue of money is still important for them.

Still, job security, good relationships and job recognition and appreciation continue to be the most important motivating factors. Furthermore, approximately half of the respondents are not satisfied with the current utilization of the non-monetary incentives in their institutions with only 16% of employees who are in fact satisfied with its use.

The results of the research imply that there is a strong and unequivocal relationship between non-monetary incentives and motivation and civil service sector management should work relentlessly in order to increase the use of non-monetary incentives especially having in mind the ease and economy of their use.

The research also found that the ability of tangible incentives to motivate us to perform better decreases with the age while the ability of social incentives to motivate increases with the age. According to the results, the following factors equally motivate male and female employees: tangible, social, monetary factors and good interpersonal relationships. The results furthermore show that female employees are more motivated by wages when compared to their male counterparts. Moreover, job-related sources of satisfaction represent a more important motivating factor for female employees. Finally, the results indicated that female employees value more job-security aspects when compared to their male colleagues. Therefore, it can be concluded that distribution of all kind of incentives should be tailored to match the needs or choices of different gender categories.

Finally, even though this research has helped us better understand motivating factors of specific group of employees, it has few limitations. The results were obtained from a limited number of employees and a survey of a larger sample size could possibly give different findings. Another limitation could perhaps be the scarcity of literature. Additional research should aim to review the actual legal aspects and possibilities of use of monetary and non-monetary incentives in the civil service in BiH. Additionally, the future research should examine the direct relationship between the performance and extrinsic and intrinsic motivating factors and therefore give a proper tool to managers to use and apply different types of incentives.

References

- Alderfer, C. P. (1972). *Existence, relatedness, and growth*. New York: Free press.
- Ariely, D. (2008). What is the value of Big Bonus? *New York times*.
- de Lange, A. H., Bal, M. P., Van der Heijden, B. I., de Jong, N., & Schaufeli, W. B. (2011). When I'm 64: Psychological contract breach, work motivation and the moderating roles of future time perspective and regulatory focus. *Work & Stress*.
- Deci, E. L., & Ryan, R. (2000). Intrinsic and Extrinsic Motivations: Classic Definitions and New Direction. *Contemporary Educational Psychology* 25, 54-67.
- Dewhurst, M., Guthridge, M., & Mohr, E. (2009). *Motivating people: Getting beyond money*. New York: McKinsey and Company .
- Dinc, S. M., & Plakalovic, V. (2016). Impact of Caring Climate, Job satisfaction, and Affective Commitment on Employees' Performance in the Banking Sector Of Bosnia and Herzegovina. *Eurasian Journal of Business and Economics*, 1-16.
- Eggert, M. A. (1999). *The motivation pocketbook*. Hants: Management Pocketbooks Ltd.
- Jeffrey, S. A., & Shaffer, V. (2007). The Motivational Properties of Tangible Incentives. *Compensation and Benefits Review*, 44-50.
- Jurkiewicz, C. L., & Brown, R. G. (1998). GenXer's vs. boomers vs. matures: Generational comparisons of public employees' motivation. *Review of Public Personnel Administration*, 18-37.
- Kanfer, R., & Ackerman, P. L. (2004). Aging, adult development, and work motivation. *Academy of management review*, 440-458.
- Locke, E. A. (1976). The nature and causes of job satisfaction. *Handbook of Industrial and organizational psychology*, 1297-1349.
- Lut , D. M. (2012). Connection between Job Motivation, Job Satisfaction and. *Annals of "Dunarea de Jos"*, 45-50.
- McClelland, D. C. (1975). *Power: the inner experience*. New York: Irvington publishers.
- Meacham, M. L., & Wiesen, A. E. (1969). *Changing Classroom Behavior: A Manual for Precision Teaching*. Scranton: International Textbook Company.
- Morgeson, F. P., & Humphrey, S. E. (2006). The Work Design Questionnaire (WDQ): Developing and Validating a Comprehensive Measure for Assessing Job Design and the Nature of Work. *American Psychological Association*, 1321-1339.
- Pink, D. H. (2009). *Drive: The surprising truth about what motivates us*. New York: Riverhead books.

- Silverman, M. (2004). Non-Financial Recognition The Most Effective of Rewards? *Institute for employment studies*.
- Steers, R. M., Mowday, R. T., & Shapiro, D. L. (2004). The future of work motivation theory. *Academy of Management Review*, 379.
- Vaskova, R. (2006). *Gender differences in performance motivation*. Prague: Research Institute of Labour and Social Affairs.
- Warr, P. (1997). Age, work, and mental health. *The impact of work on older adults*: (pp. 252-296). New York: Springer.
- Weiss, D. J., Dawis, R. V., England, G. W., & Lofquist, L. H. (1967). *Manual for the Minnesota Satisfaction Questionnaire*. Minnesota: Industrial Relations Center .
- Yavuz, N. (2004, July 20). The Use of Non-Monetary Incentives as a Motivational Tool: A Survey Study in a Public Organization in Turkey. Ankara, Turkey.

Measuring Quality of Services at HEI: Case of Private University in BiH

Amina Kahriman

*International Burch University
Bosnia and Herzegovina
amina-kahriman96@hotmail.com*

Ajdin Mekić

*International Burch University
Bosnia and Herzegovina
ajdin_mekic@hotmail.com*

Kemal Đug

*International Burch University
Bosnia and Herzegovina
k.djug9@gmail.com*

Ensar Mekić

*International Burch University
Bosnia and Herzegovina
ensar.mekic@ibu.edu.ba*

Abstract: *The main purpose of this study is to investigate quality level of higher education institution's (HEI) services through students' perceptions, and to conduct cross years' comparative analysis. Main instrument for this study is a survey with several dimensions dealing with different aspects of higher education: quality in general, quality of academic staff, quality of administrative staff, quality of campus, quality of study programs, quality of services, personal development support, education facilities and cafeteria. Software used in the study is Microsoft Excel. In total, 440 responses were collected which represents almost 50% of population. Cross years comparative analysis indicated tremendous increase in all indicators after institution has implemented HEA standards and went through successful accreditation process. Recommendations for corrective/preventive measures will be given wherever necessary. Results of the analysis show that students's rating of university services on the level of university have mean of 5,1 which indicates that students are slightly satisfied with the services of university overall.*

Keywords: *HEI, university, quality, comparative analysis*

1 Introduction

Research on students' satisfaction with the service quality at higher education institutions in Bosnia and Herzegovina (BiH) was not famous topic among researchers. However, there are few studies dealing exactly with this issue. Mekić & Goksu (2014) investigated how ISO 9001:2008 and standards for accreditation contribute to overall quality of private higher education institutions in the country. Rastoder, Nurović, Smajić, & Mekić (2015) provided insights into perceptions of students towards quality of services at private higher education institution in BiH. Considering very few studies dealing with this issue in BiH, there is a need to provide more empirical evidence and more scientific research on quality management in higher education institutions of Bosnia and Herzegovina. Accordingly, this study is important since it serves this mission of filling gap in literature. On the other hand, considering great criticism in academic community on account of quality standards in higher education, this type of studies contributes to practitioners engaged in quality management processes in the country, because they represent strong support to quality standards as best way to satisfy customers' needs and demands.

Mainly, for purpose of statistical analysis, descriptive statistics will be used. Quality indicators will be compared on the timeline basis, and significant conclusions will be provided, as well as recommendations for improvement.

The contribution of this work is threefold. It provides theoretical contribution since it satisfies gap in the literature. This study will enable practitioners having more confidence in quality standards application in higher education, and it will provide practical recommendations for improvement to higher education institution which is in case. Finally, as higher education directly affects society, by improving theory and practice of higher education, social development will come along.

2 Literature Review

Variety of sources including books, journal articles, conference proceedings, reports, official web pages have been used while preparing this study.

Many different definitions of quality are best evidence that it really is a slippery concept as Naomi Pfeffer and Anna Coote (1991) characterized it. Infact, they even provided several reasons to prove this statement. First one is fact that quality serves different purposes and its meaning changes according to interests that are driving it. Second reason provided by Pfeffer and Coote (1991) is fact that people perceive and experience quality in different ways, and they have different needs and expectations towards it. Third reason is related to outcome of the process of quality assurance which can have infinite number of variables depending on the context.

Accordingly, when it comes to definition of quality, authors concluded that it refers to something we all unquestioningly favor (Pfeffer & Coote, 1991).

Sallis (2005) mentioned that word quality comes from the Latin quails meaning what kind of. While explaining quality, he stated that it is an ideal with which there can be no compromise. Quality things are perfect, valuable, with no expense spared and convey prestige to their owners. Author also stated that quality is synonymous with high quality or top quality (Sallis, 2005). Definitions of quality from various perspectives have been provided by Koslowski (2006). His definitions were reviewed and summarized into one comprehensive definition by Mekić & Goksu (2014) who concluded that quality in HEI is increase in learning as one of important objectives of HEI based on satisfying costumers' requirements, realized as consequence of academic and administrative staff's expertise which results in high ranking levels of HEI, gaining reputation and becoming perceived as valuable institution.

The University which is subject of case study in this article is located in Bosnia and Herzegovina. With aim to provide highest possible opportunities for its students, institution from the very beginning showed its loyalty to following world standards, and it implemented ISO 9001:2008 and started with implementation of standards for accreditation required by HEA. In year 2014, it went through accreditation process successfully. Students involvement in decision making processes and all other processes is high in this higher education institution. There are nine indicators in hands of students to follow:

1. Quality in general
2. Quality of Academic Staff
3. Quality of Administrative Staff
4. Quality of campus
5. Quality of Services
6. Study Programs
7. Personal Development
8. Education facilities
9. Cafeteria

This means that students are distributing a survey, collecting results, coding them, analyzing them, preparing report and presenting report to Senate with recommendations.

It is important to have in mind that this higher education institution carefully implements both ISO 9001 as well as European Standards and Guidelines (which are implemented through adjusted version "Criteria for Institutional Accreditation published by Agency for Development of Higher Education and Quality Assurance (HEA). It is important to have in mind that institution in case had been accredited in 2014, and that all indicators of students' satisfaction will be compared before and after this point. However, speaking of two mentioned standards, it is important to say that they are fully compatible standards. The best, and very fresh evidence of

this statement is available in comparative analysis conducted by team of authors in 2017. In fact, Bajramović, Mekić, & Muhamedbegović (2017) concluded that implementation of these two standards is realistic and recommended. In addition, they commented that appropriate implementation of both standards can be good way to achieve excellence in higher education.

3 Methodology

The survey was the main instrument of data collection and it has been divided into ten major sections. The first section contains questions about personal profiles of the respondents including gender, department of studying, fees, current level of study, country from where a student is coming. The second section contains questions about quality in general and the third section is based on questions about quality of academic staff. The fourth section contains questions about quality of administrative staff, while questions in fifth section are based on campus of university. In sixth section, questions are regarded to services at university and in seventh section they are about study programs that are offered at university. The eighth section contains question about personal development and the ninth section is based on questions about education facilities. The tenth section contains questions regarding to cafeteria at university.

Survey has been distributed to students of all three cycles of study and all departments of higher education institution. In total 440 responses were collected which is enough to generalize data in the level of higher education institution.

More accurately said, the instrument to collect data has been based on nine variables, and all of them are mentioned as important aspects of quality in higher education in ESG (2005) standards as well as HEA standards.

The measurement instrument used is a seven-point Likert scales representing a range of attitudes from 1 – strongly disagree to 7 – strongly agree used to measure service quality, representing a range of attitudes from strongly disagree (1) to strongly agree (7) to measure students' satisfaction. The meaning of following numbers is as follows:

- 1 – Strongly Disagree;
- 2 – Disagree;
- 3 – Slightly Disagree;
- 4 – Neither Agree nor Disagree;
- 5 – Slightly Agree;
- 6 – Agree;
- 7 – Strongly Agree

4. Results

4.1 Demographics

In this part of survey, respondents were asked about their faculty, department, current level of study, year of study, highest qualification planned for future, yearly fees for education in BAM, high school they graduated from, gender, age group, where they were from, circumstances in financing their education, and whether they have scholarship. The survey was administered to 227 males and 212 females. When it comes to Faculty, 157 surveys were collected from Faculty of Economics, 212 surveys from Faculty of Engineering, 71 surveys from Faculty of Education. Respondents included those with Bachelor degree, Master degree, PhD, out of which most had a Bachelor degree.

Table 1 – Number of respondents from Faculties

Faculty	# of respondents
Faculty of Economics	157
Faculty of Engineering	212
Faculty of Education	71
Total number	440

4.2 Quality of services on the level of University

In this section responses of students from all faculties and results were combined to evaluate the satisfaction with services on the level of University.

Table 2 – Quality in General

Variables and Questions	Mean	Std. Deviation
<i>Quality in General (QG)</i>	5,01	1,47
How do you rate the quality of the institution's services in general?	4,98	1,34
How do you describe your feelings towards the institution's services in general?	4,88	1,42
How likely are you to recommend the institution to others?	5,20	1,62

With this variable students' satisfaction with quality in general was evaluated. The mean value of this variable is 5,01 which means that students slightly agree with offered statements, and they are slightly satisfied with general quality of International Burh University. The lowest mean value is 4,88 and it is related to question “How do you describe your feelings towards the institution's services in general?” but still it is within boundaries of „slightly agree“. The highest

mean value is 5,20 which relates to the question “How likely are you to recommend the institution to others?“. This tells us that students agree the most with the statement that they would recommend International Burch University.

Table 3 – Quality of Academic Staff

Variables and Questions	Mean	Std. Deviation
<i>Quality of Academic Staff (QAS)</i>	5,22	1,46
Academic staff have the knowledge to answer my questions relating to the course?	5,25	1,47
Academic staff deal with me in a caring and courteous manner?	5,22	1,50
Academic staff are never too busy to respond to my request for assistance?	5,13	1,57
When I have a problem, academic staff show a sincere interest in solving it?	5,22	1,47
Academic staff show positive attitude towards students?	5,41	1,42
Academic staff communicate well in the classroom?	5,29	1,40
Academic staff allocate sufficient and convenient time for consultations?	5,23	1,31
Academic staff provide feedback about my progress?	4,89	1,53
Academic staff are highly educated and experienced in their respective field?	5,31	1,45

The purpose of this variable is to evaluate students' satisfaction with the academic staff at International Burch University. The mean value of this variable is 5,22 which indicates that students are slightly satisfied with the academic in this institution. The lowest mean value is 4,89 and it is related to the question “Academic staff provide feedback about my progress?“ but still it belongs to the region of slight satisfaction. The highest mean value, which is 5,41, is related to the question “Academic staff show positive attitude towards students?“ which tells us that students are satisfied the most with academic staff attitude towards them.

Table 4 – Quality of Administrative Staff

Variables and Questions	Mean	Std. Deviation
<i>Quality of Administrative Staff (QAS)</i>	5,16	1,69
When I have problem, administrative staff show a sincere interest in solving it?	5,00	1,58
Administrative staff provide caring and individual attention?	5,00	1,50
Administrative staff are never too busy to respond to a request for assistance?	4,94	1,51
Administrative offices keep accurate and retrievable records?	5,06	1,47

When the staff promise to do something by a certain time, they do so?	5,05	1,57
The opening hours of administrative offices are personally convenient for me?	5,21	2,87
Administrative staff show positive work attitude towards the students?	5,31	1,43
Administrative staff communicate well with students?	5,37	1,46
Administrative staff have good knowledge pf the system/procedures?	5,33	1,45
Students are treated equally and with respect by the staff?	5,18	1,61
The staff respect my confidentiality when I disclosed information to them?	5,25	1,55

This variable represents the students' satisfaction with the administrative staff at International Burch University. The mean value of this variable is 5,16 which indicates that students slightly agree with given statements and they are slightly satisfied with administrative staff in this institution. The lowest mean value relates to the question “Administrative staff are never too busy to respond to a request for assistance?” and it is 4,94, however it is in positive interval of the scale indicating that students are satisfied with this aspect. The highest mean value is 5,37 and it relates to the question “Administrative staff communicate well with students?” which means that students are most satisfied with how administrative staff communicate with them.

Table 5 – Quality of campus

Variables and Questions	Mean	Std. Deviation
<i>Campus (C)</i>	4,53	2,06
The institution has a professional appearance/image?	5,14	1,59
The institution has an ideal location with excellent campus layout and appearance?	4,34	1,73
The university has an easily accessible location?	4,41	1,86
The parking services at the university are adequate?	3,51	2,01
The university campus has a safe environment?	5,25	5,25

With this variable students' satisfaction with professional appearance/image, location and environment of university campus was evaluated. The mean value of this variable is 4,53 which means that students slightly agree with given statements and they are slightly satisfied. The lowest mean value is 3,51 and relates to the question “The parking services at the university are adequate?”, which tells that students are slightly dissatisfied with parking services which university offers. The highest mean value is 5,25 and relates to the question “The university campus has a safe environment?” which means that students are satisfied with the safety of the environment of university campus the most.

Table 6 – Quality of Services

Variables and Questions	Mean	Std. Deviation
<i>Services</i>	5,07	1,82
Inquires/complaints are dealt with efficiently and promptly?	4,80	1,53
I feel secure and confident in my dealings with this institution?	5,24	1,45
The institution provides services within reasonable/expected time frame?	5,19	1,40
Students are given fair amount of freedom?	5,40	3,25
The institution operates excellent counseling services?	5,14	1,40
Health services are adequate?	4,65	1,73
Information services via web-site is adequate?	5,18	1,54
The institution values feedback from students to improve service performance?	5,07	1,55
The university provides services for students with special needs?	4,94	1,67

The purpose of this variable is to evaluate students' satisfaction about services offered from university. The mean value for this variable is 5,07 which indicates that students slightly agree with given statements and they are slightly satisfied. The lowest average, which is 4,65 was at question “Health services are adequate?” but still it is within boundaries of slightly agree, which means students are slightly satisfied with this aspect. The highest mean value is 5,40 and relates to the question “Students are given fair amount of freedom?”. This means that students are most satisfied with amount of freedom they have.

Table 7 – Study Programs

Variables and Questions	Mean	Std. Deviation
<i>Study Programs</i>	4,95	1,54
The institution runs excellent quality programs?	5,03	1,52
The institution offers a wide range of programs with various specialization?	4,93	1,53
The institution offers programs with flexible syllabus and structure?	4,87	1,52
The institution offers highly reputable programs?	4,97	1,54
The institution graduates are easily employable?	4,93	1,59

This variable represents the students' satisfaction with quality of study programs that university offers to them. The mean value of this variable is 4,95 which belong to the region of slightly agree with given statements. The lowest mean value is 4,87 and relates to the programs syllabus and structure that university offers, this means that students are slightly satisfied with them. The

highest mean value is 5,03 and relates to the question “The institution runs excellent quality programs?” which tells us that students are most satisfied with programs that the university offer.

Table 8 – Personal Development

Variables and Questions	Mean	Std. Deviation
<i>Personal Development</i>	4,69	1,74
Recreation and sport facilities at the university are adequate?	4,12	1,85
Extracurricular activities (seminars, workshops etc.) at the university are adequate?	5,01	1,65
Services and facilities of art at the university are adequate (music, painting, photography etc.)	4,40	1,68
The university supports students' personal development projects?	5,02	1,63
International cooperation programs at the university (student exchange, study visits etc.) are adequate?	4,89	1,69

The purpose of this variable is to evaluate students' satisfaction with opportunities of personal development. With mean value of 4,69 it is possible to conclude that students are slightly satisfied about opportunities of personal development. The lowest mean value (4,12) goes to the first question and it is about recreation and sport facilities at the university. The highest mean value (5,02) goes to the question four and it is about supporting students' personal development projects by faculty.

Table 9 – Education facilities

Variables and Questions	Mean	Std. Deviation
<i>Education Facilities</i>	5,27	1,50
Academic facilities are adequate for quality education?	5,19	1,45
Class sizes are adequate for quality education?	5,38	1,43
The library services at the university are adequate?	4,96	1,60
The institution has up to date equipment?	5,28	1,47
The labs at the university are adequate for quality education?	5,43	1,48
The university provides up-to-date information technology for students?	5,39	1,51

With this variable students' satisfaction with education facilities at International Burch University was evaluated. The mean value of this variable is 5,27 which indicates that students are satisfied with education facilities. The lowest mean value is 4,96 and relates to the question “The library services at the university are adequate?“, which means that students are slightly satisfied with library services. The highest mean value is 5,43 and relates to the question “The

labs at the university are adequate for quality education?“ means that students are most satisfied with labs at the university.

Table 10 - Cafeteria

Variables and Questions	Mean	Std. Deviation
<i>Cafeteria</i>	4,30	1,93
The university cafeteria provides high quality food and beverages?	3,85	1,89
Prices at the university cafeteria are reasonable?	3,80	1,91
The food variety is adequate?	3,78	1,87
The university cafeteria is clean?	4,91	1,73
Cafeteria staff provide good quality service to students?	5,14	1,77

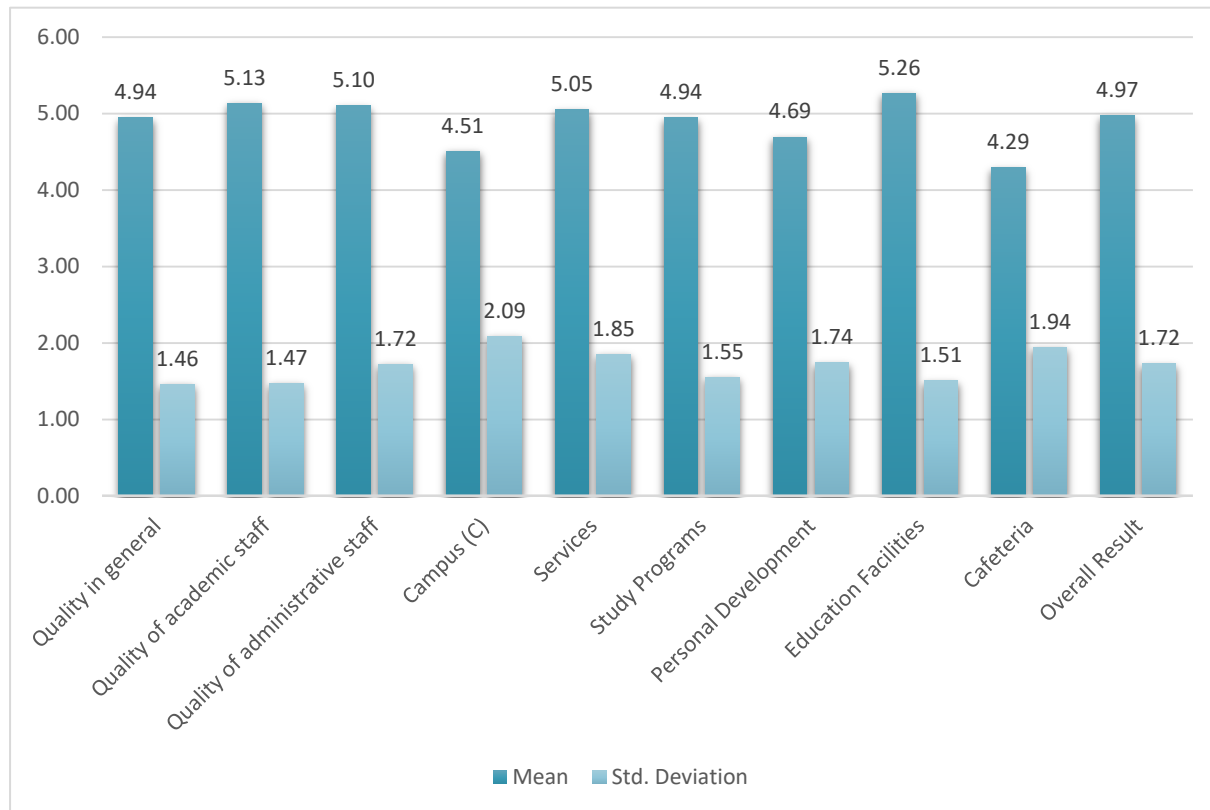
This variable represents students' satisfaction about cafeteria at International Burch university. With mean 4,30 it indicates that students are neutral regarding given statements. The lowest mean value (3,78) relates to adequate food variety while the highest mean value (5,14) relates to the quality of service that is provided by cafeteria staff to students which indicates that students are slightly satisfied with the service.

Table 11 shows overall results indicating that “Education Facilities“ is the highest rated variable with mean value of 5,26, and that variable “Cafeteria“ is the lowest rated variable with mean value of 4,29. The overall mean value of 4,97 indicates that students are slightly satisfied with university services.

Table 11 – Overall Results

Variables	Mean	Std. Deviation
Quality in general	4,94	1,46
Quality of academic staff	5,13	1,47
Quality of administrative staff	5,10	1,72
Campus (C)	4,51	2,09
Services	5,05	1,85
Study Programs	4,94	1,55
Personal Development	4,69	1,74
Education Facilities	5,26	1,51
Cafeteria	4,29	1,94
Overall Result	4,97	1,72

Figure 1 - Overall Results



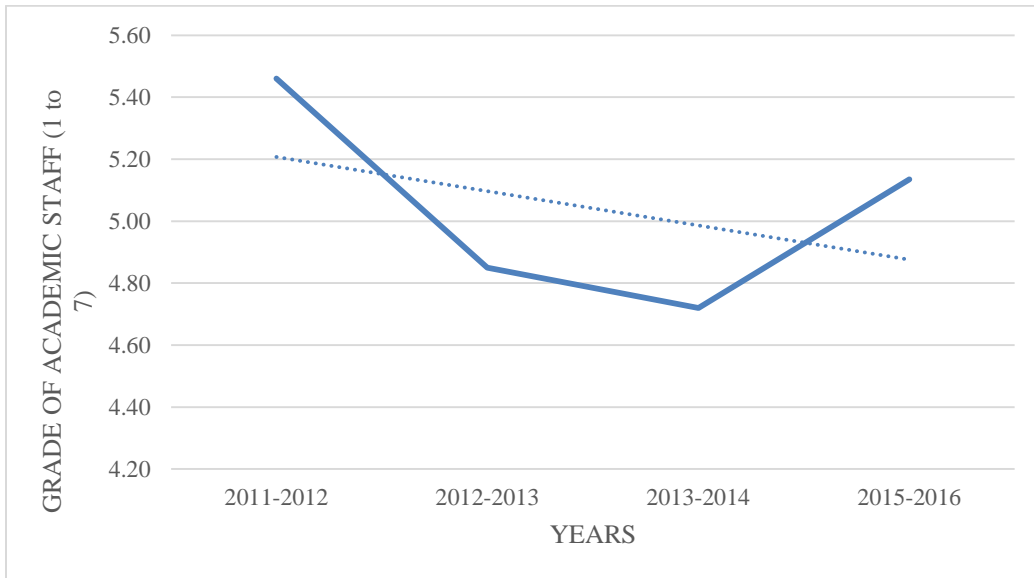
4.3 Quality of Institution over Years

Figure below indicated that quality of academic staff significantly decreased for the period of 2012 to 2014. If we look at mean grade in academic year 2011/2012 (5,46) we can notice that students negatively changed their opinion about academic staff in following two academic years for value of 0,74. However average grade was increased in academic year 2015/2016 and it is 5,13. Trend line visible in figure below indicates increase in students' satisfaction with academic staff after 2012/13.

Table 12 - Quality of academic staff

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Quality of academic staff	5,46	4,85	4,72	5,13	1 to 7

Figure 2 – Quality of Academic Staff



Following figure indicates slightly decrease in quality of administrative staff in the academic year 2012/2013 for value of 0,37 compared to the academic year 2011/2012. From the period of 2013 to 2016 average grade was increased and in 2016 it was 5,10 which indicates great improvement in this indicator of quality. Also, trend line presented in figure below shows increase in average grade for period of 2011 to 2016.

Table 13 - Quality of administrative staff

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Quality of administrative staff	5,00	4,63	4,75	5,10	1 to 7

Figure 3 – Quality of Administrative Staff

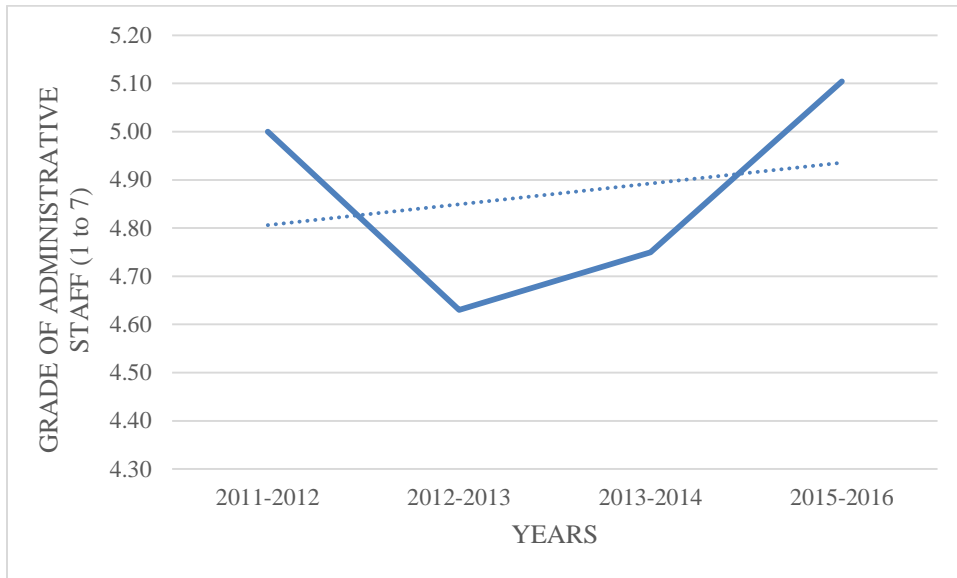
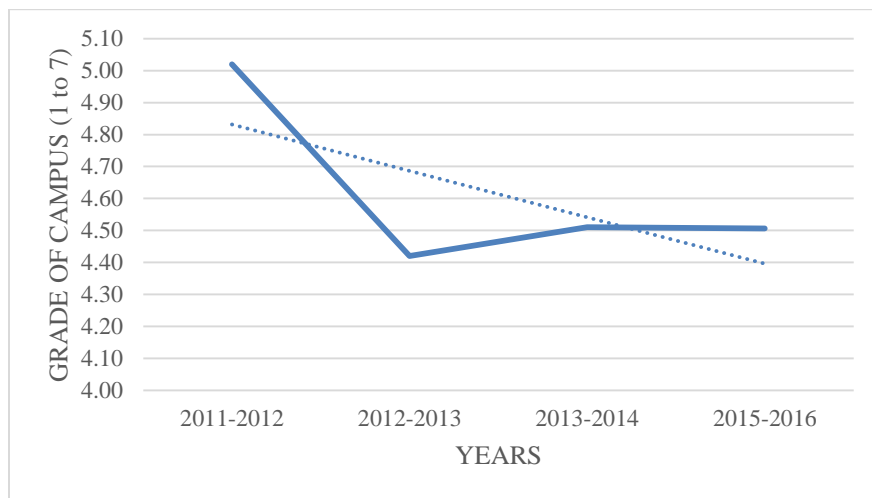


Table and figure below presents satisfaction of students with campus. Results that are founded shows us that average grade was decreased from 2011 and in last two academic years was 4,51. Trend line however indicated increase after 2012/13 on.

Table 14 - Quality of Campus

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Campus (C)	5,02	4,42	4,51	4,51	1 to 7

Figure 4 – Quality Campus



Once again trend line on graph # shows slightly increase in average grade of services for the academic years from 2011 to 2016. Average grade was increased for the values of 0,08 which indicates that University is improving services.

Table 15 - Quality of Services

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Services	4,97	4,39	4,59	5,05	1 to 7

Figure 5 – Quality of Services

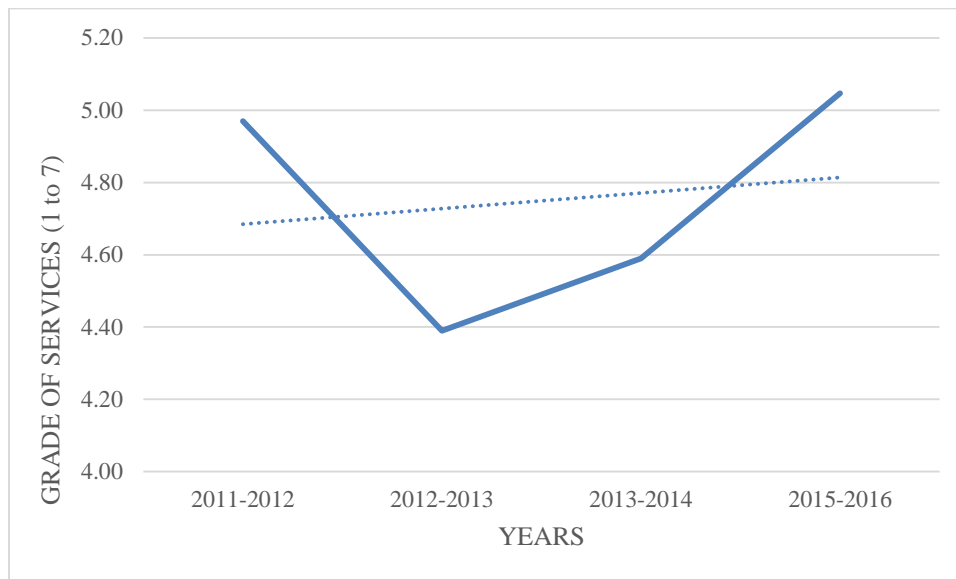
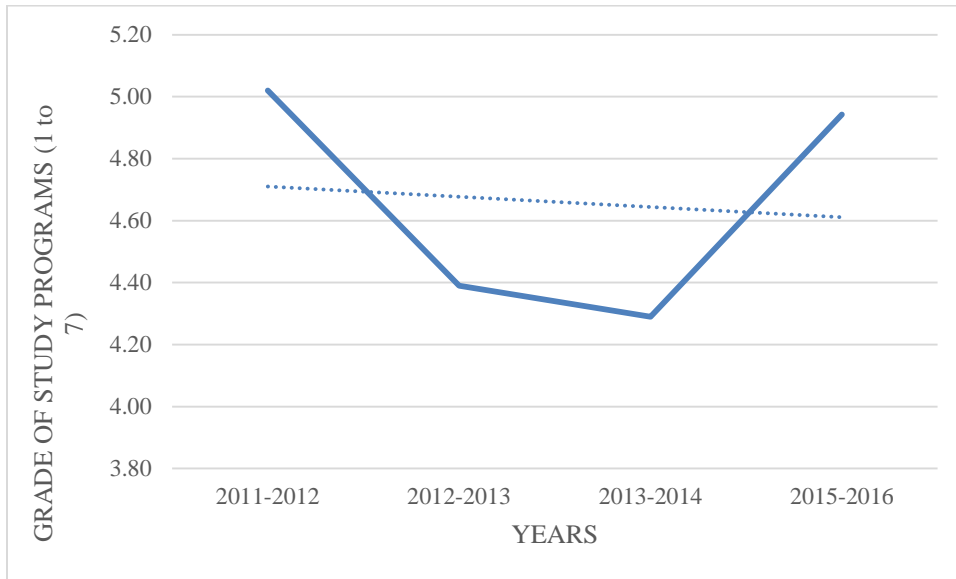


Figure and table below shows significant decrease in the way how student perceive study programs provided by University, which can be visible in decrease of average for period of 2011 to 2014 in value of 0,73. Also we can see that University took certain actions and improved study programs since results in academic year 2015/2016 indicated significant increase growth up to value of 4,94.

Table 16 - Quality of Study Programs

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Study Programs	5,02	4,39	4,29	4,94	1 to 7

Figure 6 – Quality of Study Programs



Following results represented in the table and figure below makes it clear that in four academic years that are investigated students were not satisfied with possibilities of personal development initially, but however, academic year 2015/2016 showed sustainable growth over the coming period. Trend line indicated growth in satisfaction of students with personal development possibilities.

Table 17 - Quality of Personal Development

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Personal Development	4,56	4,17	4,28	4,69	1 to 7

Figure 7 – Quality of Personal Development

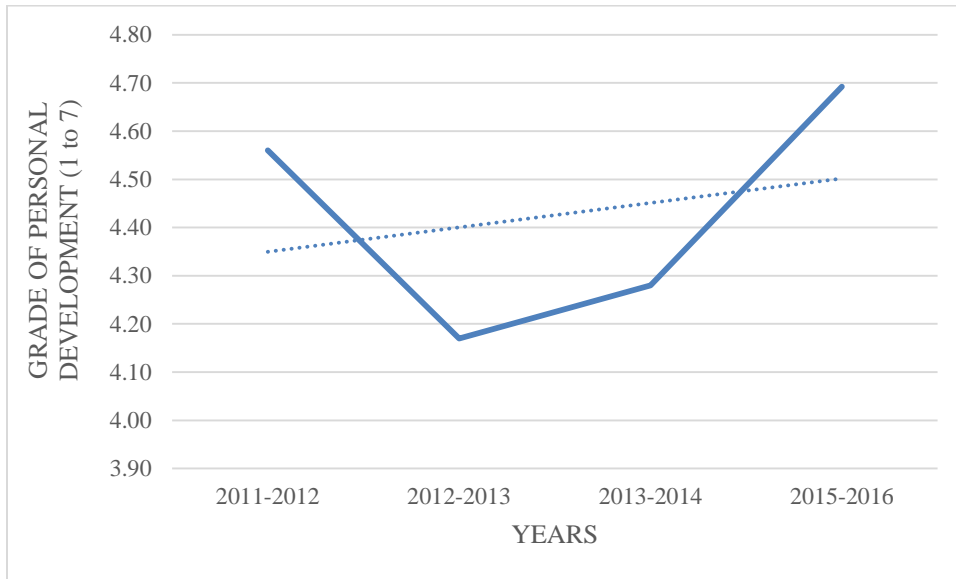
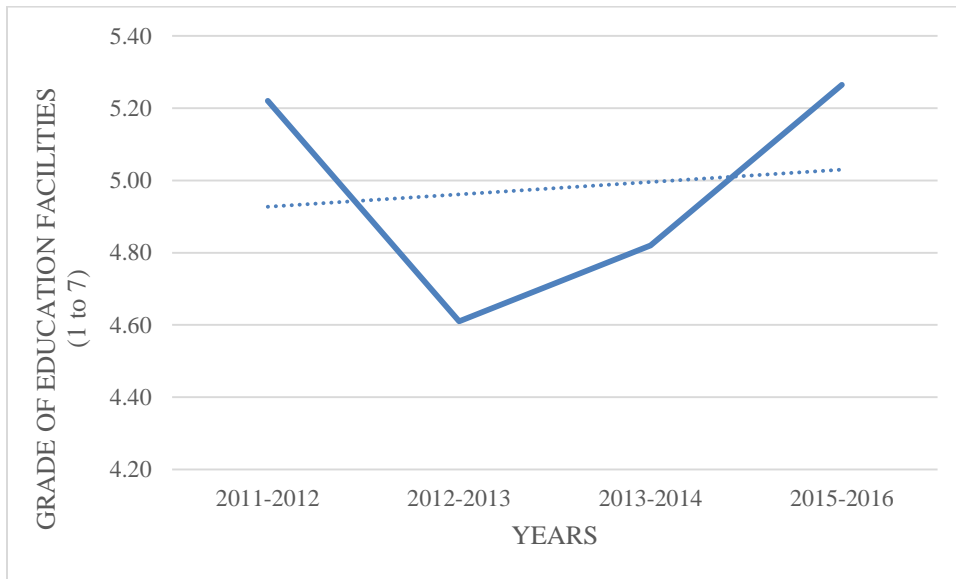


Figure below indicates student satisfaction with education facilities at University. Results shows small decrease in average grade in academic year 2012/2013. But, however after this point, sustainable increase in student satisfaction with education facilities has been indicated.

Table 18 - Quality of Education Facilities

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Education Facilities	5,22	4,61	4,82	5,26	1 to 7

Figure 8 – Quality of Education Facilities

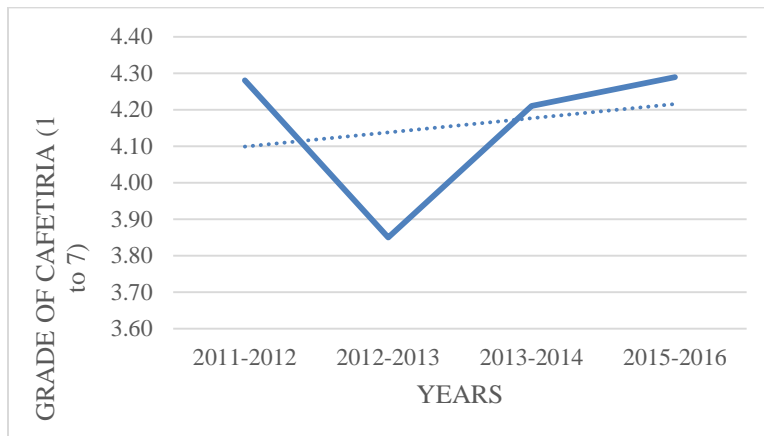


Cafeteria is last variable studied in our research and results from this part are presented in the figure and table below. According to research cafeteria is marked with lowest average grades in four academic years, and this aspect should be on agenda for improvement.

Table 19 - Quality of Education Facilities

Indicator of Quality	2011-2012	2012-2013	2013-2014	2015-2016	Scale
Cafeteria	4,28	3,85	4,21	4,29	1 to 7

Figure 9 – Quality of Cafeteria



5 Recommendations

Out of all categories, Cafeteria had a lowest satisfaction level with mean of 4,29 which means that students were neutral regarding the quality of cafeteria. Within the category, students were the least satisfied with prices of the food and the quality of food and beverages, so working on these issues would be a logical recommendation.

6 Conclusion

Results of the analysis show that students's rating of university services on the level of university have mean of 5,1 which indicates that students are slightly satisfied with the services of university overall.

When it comes to categories of services within the university, Cafeteria is the category with the lowest mean – 4,29. The questions with lowest means were also in that category, and those are questions pertaining to prices (3,80) and quality of food and beverages (3,85). If we consider fact that in all indicators except quality of cafeteria, trend line increased after the accreditation process which occurred in 2014, the one may conclude that successful implementation of HEA criteria as well as implementing recommendations of the Committee for Accreditation resulted in higher satisfaction of students with different aspects of University's quality. The case study sent strong message that dedication of higher education institution to quality standards (in this case ISO 9001 and ESG adopted through HEA standards) will be recognized by students, and make positive impact on their perceptions of institution's quality.

Accordingly, this exploratory study could be good basis for explanatory study that will investigate relationship between implementation of HEA criteria and students satisfaction, and this is recommendation for future research.

References

- Bajramović, E., Mekić, E., & Muhamedbegović, B. (2017). Comparative Analysis of Implementing ISO 9001:2015 Standard and ESG. *Proceedings of 10th scientific professional gathering with international participation*. Neum: University of Zenica.
- Koslowski, F. (2006). Quality and assessment in context: a brief review. *Quality Assurance in Education*, 14(3), 277-288.
- Mekić, E., & Goksu, A. (2014). Implementation of ISO 9001:2008 & Standards for Accreditation at Private University in Bosnia And Herzegovina. *European Researcher*, 75(5-2), 947-961. Retrieved from http://www.erjournal.ru/journals_n/1401603287.pdf
- Pfeffer, N., & Coote, A. (1991). *Is Quality Good for You?: A Critical Review of Quality Assurance in Welfare services*. London: Institute for Public Policy Research.

Rastoder, A., Nurović, E., Smajić, E., & Mekić, E. (2015). Perceptions of Students towards Quality of Services at Private Higher Education Institution in Bosnia and Herzegovina. *European Researcher*, 101(12), 783-790. Retrieved from https://www.researchgate.net/publication/299485292_Perceptions_of_Students_towards_Quality_of_Services_at_Private_Higher_Education_Institution_in_Bosnia_and_Herzegovina

Sallis, E. (2005). *Total Quality in Education*. London: Taylor & Francis e-Library.

Ethical Climate, Job Satisfaction, and Affective Commitment relationship in the Shoes Manufacturing Sector

Mehmet Gencoglu

*International Burch University
Department of Management
Bosnia and Herzegovina*

M. Sait Dinc

*International Burch University
Department of Management
Bosnia and Herzegovina*

Abstract: *Recent studies have demonstrated that retaining qualified employees is crucial for organizations. As labor-intensive sector, shoes manufacturing sector is highly dependent on qualified employees. Based on the literature in this field, affective commitment of employees to their organizations has a significant importance for retaining them. The main purpose of this study is to examine ethical climate, job satisfaction, and affective commitment relationship in the shoes manufacturing sector. A survey with four sections is conducted in 10 companies and 3 cities in Turkey with 161 respondents in overall. Descriptive and Pearson correlation analyses were made. The study results showed that statistically significant relationships exist among ethical climate, job satisfaction, and affective commitment. In specific, Law and Code type of ethical climate has a crucial statistically significant relationship with affective commitment.*

Keywords: Ethical Climate, Job Satisfaction, Affective Commitment, Shoes Manufacturing Sector, Turkey

Introduction

Business ethics has been a relatively new area of research in terms of investigation of its consequences on employee behavior and eventually on business itself. Specifically, ethical climate has been a concept which is directly related to employee attitudes and behaviors. Ethical climate is a shared perception among the employees with regard to the meaning of ethical behavior in the organization and it is important in shaping employee behaviors (Victor and Cullen, 1988). Employees who have learned how to behave in an ethical way in such an atmosphere are likely to be more satisfied with their jobs and more committed to their organization (Dinc and Aydemir, 2014). However, ethical climate and its consequences could significantly differ among different countries and different sectors.

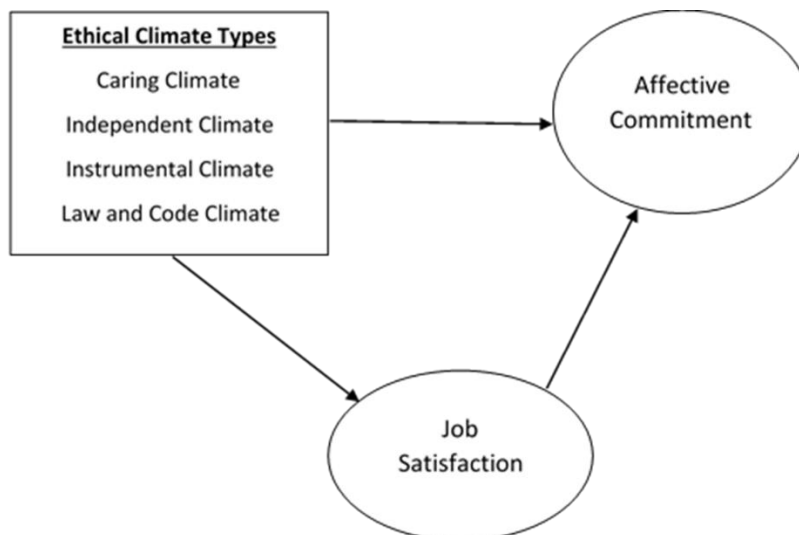
Shoes manufacturing is a highly labor-intensive sector due to its nature. Therefore, employees are crucial part of this business. Most of the processes need skillful workers who are very hard to replace. Thus, retaining employees is very important for the organizations in this sector. The purpose of this study is to examine ethical climate and job satisfaction as variables which affect commitment of employees in shoes manufacturing sector. Despite the fact that numerous studies have explored the relationship among these variables, it is apparent that those studies have been conducted mostly in developed countries, whereas research regarding developing countries is limited.

As one of the developing countries, Turkey has a very dynamic and growing economy. Along with the economy, number of studies have been increasing in number as well. However, in the business ethics field studies are still very limited. Specifically, in manufacturing industry, the literature is very scarce. Therefore, shoes manufacturing sector in Turkey as a research context is intentionally chosen in this study.

Although the official numbers show that there are around 65,000 employees working in 6,800 companies in shoes manufacturing sector in Turkey, the actual numbers are dramatically higher than the official ones, due to a very high level of the off-the-record production. It is estimated that there are approximately 300,000 employees currently working in the sector in unregistered companies. All these numbers show that the main issue of large shoes manufacturing companies is difficulty to retain talented employees.

The purpose of this study is to explore relationship between job satisfaction and affective commitment of employees and ethical climate of shoes manufacturing companies in Turkey. This relationship is illustrated in Figure 1 as a proposed model of the study.

Figure 1 Proposed Model



Literature Review

Ethical Climate

Ethical Climate is a type of work climate. It has been studied since 1950s. Ethical climate is “a perceptual lens through which workers diagnose and assess situations” (Cullen, Parboteeah, Victor, 2003). Essentially, it represents the perception of employees of what is right or wrong in responding to an ethical dilemma.

Several studies claim that ethical climate affects decisions and behaviors within the organization (Victor and Cullen, 1988, 1990). Moreover, it shapes ethical understanding and behavior of employees. According to Victor and Cullen (1988), there are 5 types of ethical climate, such as Instrumental, Caring, Independence, Rules, Law and Code. In an organization which has a caring climate, employees have a concern for others and care for each other’s well-being. In an independent climate, employees act according to their own personal moral beliefs. Law and Code climate refers to the climate in which employees adhere to the codes and regulations of their profession or another authority. In this type of climate, employees should make decisions based on some external system such as law or professional codes of conduct. If the employees’ behaviors comply with the accepted rules of conduct determined by the organization, then that organization has a Rules climate. The Instrumental climate is the least favorable type which suggests individuals’ self-interest within the organization (Victor and Cullen 1987, 1988).

Job Satisfaction

Job satisfaction is an employee’s self-assessment about his/her job or job situation. It is defined by Locke (1976) as “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experiences.”

On the other hand, it is also defined as the emotional status which originated from the self-assessment of the employee and that stimulates the job performance and achievements of the employee. Job satisfaction entails the general behavior of the employee against his/her current job, that is to say, an employee who has high satisfaction levels behaves positively while an employee who has low satisfaction levels has a negative behavior. There are three fundamental relationships which affect job satisfaction. Namely, employee-organization relationship, employee-manager relationship, and employee-colleague relationship. Organizational commitment is one of the most studied concepts with Job Satisfaction. Several studies exhibited that Job Satisfaction is significantly related to employees’ organizational commitment (Mathieu and Zajac, 1990; Testa, 2001; Tett and Meyer, 1993).

Affective Commitment

Affective commitment is a type of organizational commitment (Meyer and Allen, 1991) which represents the tendency of a worker to stay with a company. This tendency is based on an emotional attachment. The importance of organizational commitment is generated from its relationship with employee turnover, absenteeism, and tardiness (Çakır, 2001; Seymen, 2008). Many studies have showed that employees who are most committed to their organization are least likely to quit their job (Meyer and Allen, 1991).

According to previous studies there are three types of organizational commitment, such as affective commitment, continuous commitment, and normative commitment. Organizational commitment has several consequences, such as not quitting the job, productive behavior, and welfare of the employee in terms of physical health, psychological health, etc. Personal qualifications, job's characteristics, job experiences, and structural attributes can be a source of affective commitment. (Meyer and Allen, 1997).

According to the review of the literature presented in the previous part, following hypotheses can be posited:

Hypothesis 1: “Caring”, “independent,” and “law and code,” as EC types, have a significant positive relationship with overall JS.

Hypothesis 2: “Instrumental” as the EC type has a significant negative relationship with overall JS.

Hypothesis 3: “Caring,” “independent,” “law and code,” as EC types, have a significant positive relationship with AC.

Hypothesis 4: “Instrumental” as the EC type, has a significant negative relationship with AC.

Hypothesis 5: Overall JS has a significant positive relationship with AC.

Methodology

Sampling, Procedures, and Measurement

In order to have a better coverage, the questionnaires were delivered to several companies in Istanbul, Gaziantep, and Izmir. Questionnaires were send via email to the owners or general managers of the companies. Recipients were familiarized with the purpose of the study and the importance of the anonymity of the respondents. They were asked to conduct the survey on a

voluntary basis and under a confidentiality which would not leave employees with an impression that their jobs are at stake.

The questionnaire consisted of 3 pages and 4 sections. First section was about Ethical climate and it consisted of 14 questions. Second section referred to Affective commitment with 6 questions. Job satisfaction was the topic of third section and had 3 questions. Lastly, demographic questions were asked at the fourth section including gender, age, education level, tenure in the company and total tenure, managerial position, and the dimension of the company.

Ethical climate questions were 14 items developed by Huang et al., but originally adapted from Victor and Cullen. Meyer and Allen's (1997) Job satisfaction was measured by 3-item scale of Fu and Deshpande (2013), whereas 6-item scale was used for measuring Affective commitment.

After collecting surveys, data were analyzed through SPSS. Exploratory factor analyses were used to find the initial structure of the scales. The relationship between all types of ethical climate in the literature, affective commitment, and employee's job satisfaction were examined through Pearson Correlation analysis. Descriptive statistics were also conducted to show detailed information about the sample of this study.

Table 1 Sample Characteristics

Variable	Demographics	Number	Valid Percent
Gender	Male	136	91.3
	Female	13	8.7
Age	less than 20	14	9.3
	20-25	27	17.9
	26-30	13	8.6
	31-35	37	24.5
	36-40	32	21.2
	More than 40	28	18.5
Organization Dimension	10-50	113	70.6
	51-100	18	11.3
	More than 500	29	18.1
Job Experience (Company)	Under 5 years	91	59.9
	5-10 years	27	17.8
	10-15 years	15	9.9
	Over 15 years	19	12.5
Job Experience (Total)	Under 5 years	30	19.74

	5-10 years	42	27.63
	10-15 years	31	20.39
	Over 15 years	48	31.58
Education Level	Illiterate	11	7.3
	Primary-Secondary	88	58.7
	High school	38	25.3
	Community College	2	1.3
	Undergraduate	10	6.7
	Graduate or more	1	0.7

Results

Initial Results

After a two-step process of factor analysis, four items from ethical climate scale, and three items from affective commitment scale were extracted due to weak loadings and overloading. Descriptive statistics and Correlations for the variables are presented in the Table 2.

Table 2 Descriptive statistics and Correlations for the variables

Variables	Mean	SD	1	2	3	4	5	6
(1) Law and Code	3,98	1,079	1					
(2) Instrumental	2,68	1,115	-0,152	1				
(3) Independent	3,28	1,344	0,130	0,154	1			
(4) Caring	4,11	1,083	.431**	-0,062	0,142	1		
(5) Affective	3,83	1,058	.527**	0,020	.187*	.352**	1	
(6) Job Satisfaction	3,76	1,012	.421**	-0,006	.211**	.335**	.525**	1

*P < 0.05; **P < 0.01

Discussion and Conclusion

Law and Code type of climate has a significant positive relationship with affective commitment and job satisfaction. The reason for such finding may be because of the present conditions of the country and the sector. Due to the unofficial production in bad conditions, employees might feel more satisfied and feel more committed to the organization which obeys the laws and codes.

Independent type of climate has also a significant positive relationship with affective commitment and job satisfaction. This result is parallel with the findings presented in the literature (Tsai and Huang, 2008).

Caring type of climate has a significant positive relationship with affective commitment and job satisfaction. This result complies with the findings of the literature (Tsai and Huang, 2008; Dinc and Huric, 2016). Caring climate is expected to be higher than law and code climate. However, it seems that finding a better company, which obeys laws and codes and offers better physical conditions is more important for employees in shoes manufacturing sector. They may still find caring climates in unofficial companies, nevertheless, insurance, regular payment, and safety cannot be found in this kind of companies, which represents one of the greater problems in Turkey.

Job satisfaction has a significant positive relationship with affective commitment. This result is similar to the findings of the literature (Allen and Meyer, 1990). An employee who is satisfied with his/her job shows more affective commitment to his/her organization.

Unlike the literature, this study did not find any relationship between instrumental ethical type of climate and job satisfaction or affective commitment. The reason for such finding may be because of the absence of this kind of ethical type of climate in the shoes manufacturing sector in Turkey. The mean value of instrumental ethical climate questions is only 2.68 which implies that employees do not feel any instrumental climate in their organization. Therefore, any relationship could not be found. This might be the case due to several reasons:

- Shoes manufacturing requires team-work, therefore, after working for some time in this sector, employees might have developed unselfish behaviors.
- According to the culture of the country, people perceive selfish behaviors negatively.

In overall, this study suggests that shoes manufacturing sector can increase retaining employee rate and decrease turnover through supplying law and code, caring, and independent ethical types of climate within the organizations. Sector companies can enjoy affective commitment and satisfaction of the employees by supplying them with insurance, regular payment, and by ensuring their safety.

Limitations

This study may have some limitations. Number of respondents may have been increased and data may have been gathered from more companies from several other cities which might have more diverse cultural backgrounds.

Recommendations for Future Studies

Although the literature suggests that affective commitment is the most favorable type of Organizational Commitment, other types such as Continuous Commitment, Normative Commitment can be included in the future studies. Also, more variables can be included in the research, such as Leadership and Cultural dimensions. Furthermore, same study can be conducted in different countries that employ millions of shoes manufacturing personnel, such as China, India, etc.

References

- Allen, N. J. and Meyer, J. P. (1990). The measurement and antecedents of affective, continuance and normative commitment to the organization. *Journal of Occupational Psychology*, 63, 1–18.
- Çakır, Ö. (2001). İşe bağlılık olgusu ve etkileyen faktörler. Seçkin Yayıncılık.
- Cullen, J. B., Parboteeah, K. P., & Victor, B. (2003). The effects of ethical climates on organizational commitment: A two-study analysis. *Journal of Business Ethics*, 46(2), 127-141.
- Dinc, M. S., & Aydemir, M. (2014). Ethical leadership and employee behaviors: an empirical study of mediating factors. *International Journal of Business Governance and Ethics*, 9(3), 293-312.
- Dinc, M. S., & Huric, A. (2016). The impacts of ethical climate types on nurses' behaviors in Bosnia and Herzegovina. *Nursing ethics*, 0969733016638143.
- Locke, E. A., Sirota, D., & Wolfson, A. D. (1976). An experimental case study of the successes and failures of job enrichment in a government agency. *Journal of Applied Psychology*, 61(6), 701.
- Mathieu, J. E., & Zajac, D. M. (1990). A review and meta-analysis of the antecedents, correlates, and consequences of organizational commitment. *Psychological bulletin*, 108(2), 171.
- Meyer, J. P., & Allen, N. J. (1991). A three-component conceptualization of organizational commitment. *Human resource management review*, 1(1), 61-89.
- Meyer, J. P., Allen, N. J., & Allen, N. J. (1997). *Commitment in the workplace*. Sage Publications.
- Seymen, O. A. (2008). Örgütsel bağlılığı etkileyen örgüt kültürü tipleri üzerine bir araştırma. *Ankara: Detay Yayıncılık*, 135.
- Testa, M. R. (2001). Organizational commitment, job satisfaction, and effort in the service environment. *The Journal of Psychology*, 135(2), 226-236.
- Tett, R. P., & Meyer, J. P. (1993). Job satisfaction, organizational commitment, turnover intention, and turnover: path analyses based on meta-analytic findings. *Personnel psychology*, 46(2), 259-293.

- Tsai, M. and Huang, C. (2008). The relationships among ethical climate types, facets of job satisfaction, and the three components of organizational commitment: a study of nurses in Taiwan. *Journal of Business Ethics* 80, 565–581.
- Victor, B., & Cullen, J. B. (1988). The organizational bases of ethical work climates. *Administrative science quarterly*, 101-125.
- Victor, B., & Cullen, J. B. (1987). A theory and measure of ethical climate in organizations. *Research in corporate social performance and policy*, 9(1), 51-71.

Significance of Expatriates for the Competitiveness in the International Construction Market with an Example of Strabag Concern

Fata Miljković

Burch University

Bosnia and Herzegovina

fata.miljkovic@gmail.com

Abstract: *In today's business environment, where global competition grows every day, being successful only in domestic market is no longer enough. Globalization allowed free flow of capital, goods, information, people, and set new demands for companies which want to succeed in international market. This refers not only to the way of how companies operate their business but also on how companies manage their human capital. With changes in the international markets and company's human resources politics, expatriates become a key factor of competitive advantages in the international construction market.*

Key words: *international human resource management, expatriation, motivation factor*

Introduction

Globalization requires new measures for companies that want to succeed in the international market. These measures relate not only to the way businesses operate but also to the management of their human capital. Exactly as a result of changes in the management of international companies and their human potential, expatriates have emerged and become a key factor in the competition on the international scene (Juhl, 2009).

The number of multinational companies and the number of people working in them grows worldwide. Multinational companies enable the acquisition of new knowledge and skills, especially cross-border. They play a very important role in transferring knowledge, opening up excellent opportunities both for the parent company and for the foreign affiliate (Dobrai, 2012). A changeable business environment has led organizational knowhow to be among the key factors of a sustainable competitive advantage. Today, the transfer of knowledge and skills within the company plays a key role in the long-term survival of the company, in other words it has strategic importance.

Insufficient attention is paid on the motivators of employees to accept an international engagement and the awareness of the organization itself on the impact of these factors on the overall process of expatriation seems also insufficient. Through this research key factors that influence an individual's decision on acceptance of foreign engagement are identified and analyzed.

Primary goal of this paper is to contribute the understanding of motivators for going on an international engagement and improve the process of expatriation at multinational companies. The research results can be useful feedback to of human resources managers in planning and implementing expatriation process.

This paper examines the phenomenon of expatriation whose presence is increasing in companies operating in the international market. Construction companies train local employees through expatriates and achieve transfers knowledge throe Concern. However, insufficient attention is paid on the motivators of employees to accept an international engagement and the awareness of the organization itself on the impact of these factors on the overall process of expatriation seems also insufficient. This brings us to the purpose of this study carried out in the company Strabag Ltd. Sarajevo, a subsidiary of Strabag Concern. Through this research key factors that influence an individual's decision on acceptance of foreign engagement are identified and analyzed.

Literature review

Human resources include the competence and motivation of employees in order to fulfill their entrusted tasks (Rahimic, 2010). Because of the big changes in the business environment and the increasing globalization of the market, human resources have become the most important factor in the business, development and competitive advantages of the company. In the global competition, a person is strategically engaged as a resource and a key factor that affects the company's competitive advantage. In other words, knowledge and skills of employees represent the most important resource in an enterprise and seeks to ensure their long-term survival with these resources. Therefore, in the literature we can find many works dealing with human resources and their management by companies.

The founder of management as a science discipline is Frederick W. Taylor, who first used the word management (Mintzberg, 2004). The most commonly cited definition of management is the definition of the American management theorist from the early 1930s Follet P.M., which defines management as "... the art of doing human affairs". Management is nothing but a job that requires the engagement of a certain, larger or smaller, number of people, regardless of the type and nature of the job.

Today, business is exposed to the effects of different cultures, practices and styles of management in different countries, that is, internationalization has signified the process of expanding business to other countries. All of this can be seen as a consequence of globalization that has resulted in a large number of multinational companies spreading their power to almost all countries. These are growth-oriented companies that enter the markets of an increasing number of countries and become serious competitors. Investment decisions of these companies are made globally, by transferring capital and resources from one country to another, affecting

employment of millions of people and the degree of economic activity in individual countries (Rakita, 2006). Information transfer and exchange of experiences among foreign affiliates results in cumulative knowledge that ensures a competitive advantage (Rahimic, 2012).

As global competition grows, the importance of managing international operations of multinational companies has increased, and therefore the need to recognize competent foreign managers that can implement the strategy of a company in subsidiaries in other countries. Thus, the phenomenon of expatriates emerged as a result of the recognition that employees on foreign engagement can be an excellent mechanism for monitoring and evaluating activities and behaviors within the branch (Musasizi, 2008). It can also be said that this phenomenon is the result of globalization, the entry of companies into foreign markets, and the emergence of a large number of multinationals company.

Expatriation is a term that refers to foreign business engagement at a certain time, and the process of expatriation is most simply defined as the process of international transfers of managers. Expatriates are generally defined as employees who temporarily leave the parent company to conduct business in a foreign subsidiary for a period of several years, with the intention of returning to the country of the parent company when the task is done (Lassere, 1997).

This phenomenon of expatriation occurred as a result of the realization that employees at the foreign engagement can be an excellent mechanism for monitoring and evaluation activities and behaviors within the branch. Globalization is a consequence of the development of science, modern technology, market economy and democracy. It enabled the free movement of capital, goods, information and people through the world by elimination of borders.

In a multinational company, we can identify two types of engagements: emitted from a parent company or from a third country to a branch - expatriate and emailed employees from a branch to a parent company - inpatriates (Harvey, 2000). Expatriates play an important role in disseminating the knowledge of the parent company to affiliates (Dobrai, 2012). Citizenship of employees is a major factor in determining "categories" of employees. In the international corporation models differ:

- Citizens of the country of the branch
- Nationals of the parent company
- Third-country nationals (Morgan, 1986).

Methodology

The primary goal of the research is to contribute to the understanding of employees' motives for going to international engagement and to improve the process of expatriation by respecting them. In addition to the stated goal:

- to highlight the importance of planning the process of expatriation for the survival of international companies;
- point out the motivators that have proved to be the most important for existing and potential expatriates;
- give HRM a better roadmap, how and in what way to plan the outbound process and what conditions to offer to employees selected for such an international task.

Because of the complexity of the topic that was chosen, in this paper will be used more scientific and research methods to achieve objectivity, reliability, accuracy and thoroughness. The method that will be primarily used is the descriptive analysis. Descriptive analysis has the following tasks: sorting and grouping of statistical data, displaying statistics and determine the basic indicators of statistical series. The results of the research will be done at the end of the work and will be presented in several ways, including: tabular, graphical and textual.

Taking into account the subjects of the paper, in the research process it will be used different methods and techniques in order to meet the basic methodological requirements - objectivity, reliability, generality and systematic. This requires the application of basic analytical and synthetic methods: analysis, synthesis, induction, deduction, abstraction, concretization and generalization. In the course of the research will be used method of cognitive processes while studying and consulting the latest scientific literature in the subject area.

The paper used analytical (historical type of research and survey) and a descriptive type of research. The most important facts about expatriates and international management in multinational companies have been collected by the historical type of research. The survey, which is carried out within the company Strabag Ltd Sarajevo, where employees who were previously internationally engaged were interviewed, as well as those who do not have an international experience, confirmed the hypotheses. A descriptive type of research was used to define concepts and facts related to research issues.

Hypothesis

The main research hypothesis is:

" A better understanding of the factors that influence the decision to accept international involvement leads to improvement of the process of expatriation. "

Support hypotheses:

H1: " The employee will sooner accept foreign engagement if it leads to promotion. "

H2: " The fee is a critical factor when considering a decision on acceptance the foreign involvement. "

H3: " The family is the most common reason for rejection of foreign involvement. "

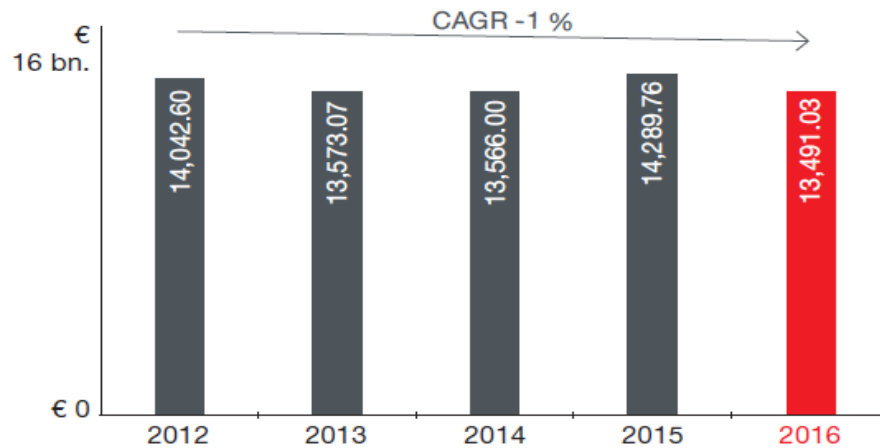
Research

In the research part of the paper, Strabag Concern is presented, its organizational structure and the position of human resources in the Group. The company Strabag Ltd. Sarajevo which is part of the Group is presented as well. The results of the research carried out within the company Strabag Ltd Sarajevo, where interviewed employees who were previously internationally engaged, as well as those who do not have an international experience.

Strabag is the central operating brand of Strabag SE and it operates in all areas of the construction industry. This Group is large and significant European construction company and it operates worldwide. As one of the leading providers of construction services in central and Eastern Europe, the Group employs more than 73,000 employees at more than 500 locations, and carries out operations worth almost € 13.6 billion. Entrepreneurial thought is oriented towards the needs of national and international markets. Strabag's business scope is as diverse as the demands it faces. The spectrum of activities extends from individual services and works by measure, from small businesses to spectacular large projects. High professional competence, knowledge and experience oriented to the future and excellent internal infrastructure enable Strabag to fulfill even the most demanding customer's wishes in a safe and economical way, in a short time and in a flexible way. Strabag's team concept offers companies a wide range of services based on different starting points and covers all relevant construction work - from design, through planning and implementation, to impeccable finished project.

The turnover achieved by the Group in 2016 amounted to 13,491.03 Md. Euro. In the chart below we can see the turnover of the Group in the last 5 years:

OUTPUT VOLUME



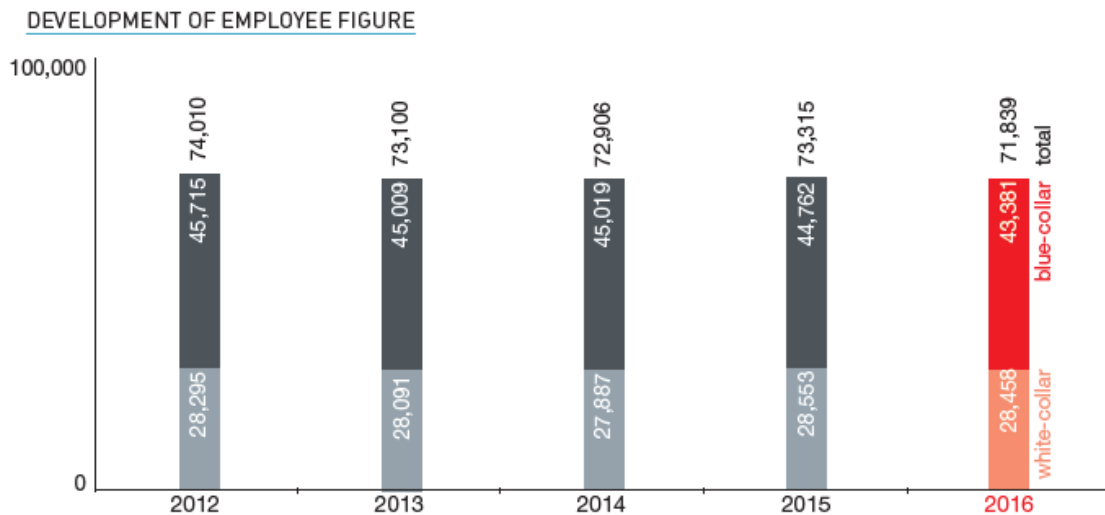
As part of the Group's profile, company Strabag Ltd Sarajevo is one of the numerous subsidiary companies in the Group. It currently has over 100 local employees and more than 20 expatriates. Out of that number, 38 are employees, as the Group calls them, while the rest are workers on construction positions. By the reputation of the company, the company is divided into directions, and each directorate is in charge of its leader. The division of officers is as follows: commercialists, technical functions and administrative functions such as accounting. Regarding the expatriate, the highest number of workers from Croatia, followed by Austria and Germany. Managers' functions are performed mainly by Austrian employees, while expatriates from Croatia are mainly operatives with significant experience for individual projects. Strabag started operating in Bosnia and Herzegovina in 2006, having since only few employees developed into a strong competitor in the Bosnian construction sector. In the past few years, Strabag has been working on significant projects, and in 2017, a considerable amount of work is planned. Some of the projects that Strabag in Bosnia does are Corridor 5c Svilaj-Odžak, Hydro power plant Vranduk, residential building DVOR Luxury Apartments, residential building Sarajevo Garden, Hotel Residence Inn Sarajevo by Marriott and other smaller projects.

Human Resources in the Group

The construction is labor intensive industry and its business results depend mostly on the commitment of the people working in it. Therefore, the Group constantly works to encourage and optimize the professional and personal qualifications of its employees. Due to the lack of skilled workforce employees are a critical factor in Strabag. The Group responds to this issue with consistent strategic planning of the workforce and continuous training of its employees. In order to ensure professional handling when selecting a candidate, modern information technology, software and processes are used. Thus, the Group uses an international IT platform for the publication of vacancies.

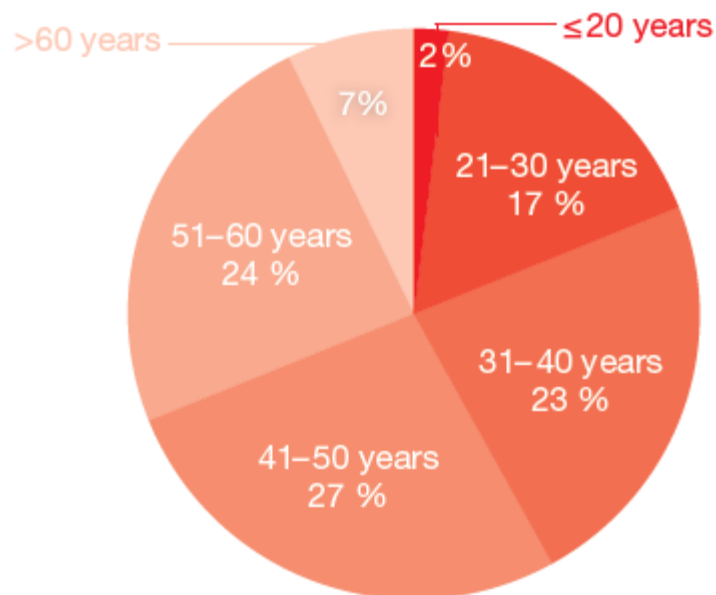
As a result of the typical winter break in construction, the STRABAG Group is subject to seasonal fluctuations in employee numbers. For this reason, the number of employees – as is usual in the industry – is only stated as an annual average. 71,839 employees (43,381 blue collar and 28,458 white-collar) worked for Strabag in 2016. The number of employees thus fell slightly by 2 %.

Traditionally, the construction industry employs primarily men. Women are therefore underrepresented at all hierarchy levels. In 2016, the number of women as a percentage of employees within the entire group amounted to 14.9 % after 13.9 % the year before.



Since Strabag is an international company, the employees of the Group are from 84 different countries, ie 84 different nationalities. As the Group employs people of different nationalities, it also employs people of different ages. As we can see on the chart, the concern employs people from 21 years of age to 60 years of age. There are fewer those with over 60 or fewer than 20 years of age. The explanation for this distribution can be reconsidered in the sector in which the Group operates. It is natural for workers at construction sites to be younger, but at the same time, managers with significant work experience are middle age. In the management, we can find employees in the 1920s and thirtieth years with rapid career advancement, but also employees in the fifties with enormous experience behind.

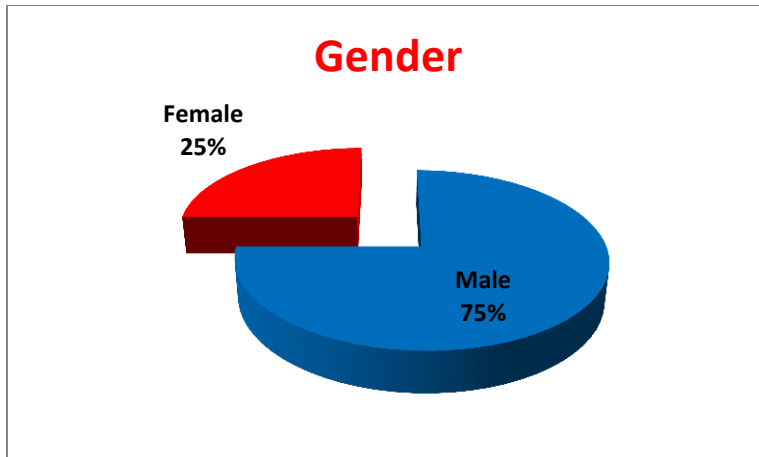
EMPLOYEE AGE STRUCTURE 2016



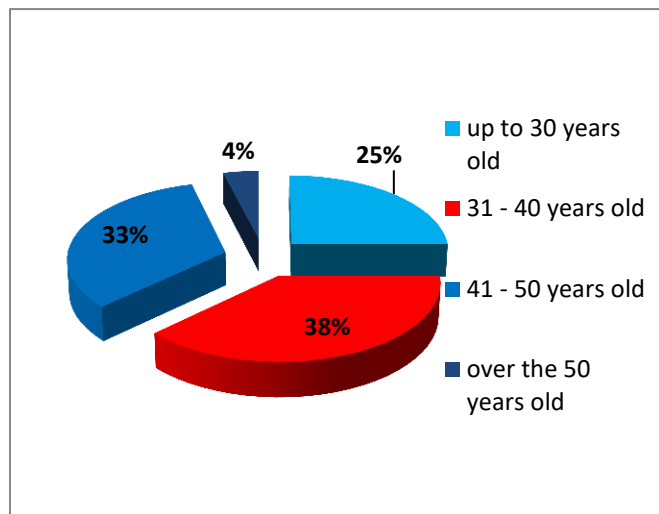
Research carried out in the company Starbag Ltd. Sarajevo

A survey that was conducted in Strabag Ltd aimed to identify and analyze factors that influence the decision of an individual to accept foreign engagement and thus demonstrate their importance both to planning and to the success of the overall engagement. A survey conducted for this purpose at the company Strabag Ltd Sarajevo, more precisely in the accounting, civil engineering, construction, environmental, quality assurance and special projects sections, covers all employees with the position of with color employees of this company. Through e-mail, employees received a link that was enabled by an anonymous response to an online inquiry. During the research conducted in the period from 03.04.-24.04.2017. For years, employees have accepted the evaluation process positively.

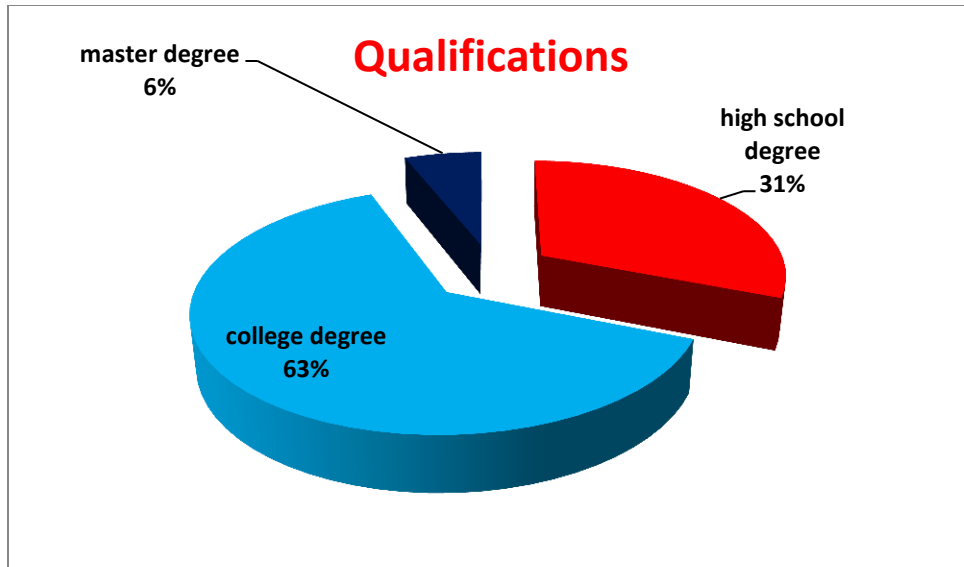
Of the 102 employees, 38 of them are employees, a sample of our research. 35 responded to the survey, and the criterion of at least 80% was met. Given the hypothesis of the work and the goal of the research, it is necessary to first analyze the data on employees such as: age, sex, level of education, years of work experience, marital status. Out of the total number of employed, 26 were male respondents (75%), and 9 of them female respondents (25%).



The number of respondents, nine of them (25%), is up to 30 years of age. The largest number of respondents is aged from 31 to 40, fourteen of them (38%) and 41 to 50 years old, eleven of them (33%). The smallest number, one of them (4%), is over 51 years of age.



When it comes to education level, 31.25% of employees have secondary education, 15.62% are higher education, while more than half of them are employed, 17 are high (53.12%), they are highly qualified. There is no one among the employed officials without the school. 16 foreign respondents speak one foreign language, while 15 foreign speakers speak two foreign languages. Only one participant in this research speaks three or more foreign languages.



The duration of the employment relationship in a company is classified into three categories for easier processing of data, so that the first category includes employees who are in the company for less than 2 years, ten of them (31.25%). The second category includes those employees who are in the company for more than two years and less than five years, 12 of them (37.5%). In the third category we can classify as many as 10 (31.25%) who have been employed for more than 5 years in Strabag. Out of the total number of respondents, five persons declared themselves as a manager, 10 as a commercial worker, 11 as a technical worker, while 6 persons belong to the accounting sector. A few important information from the first part of the survey: Only 18.75% of all respondents never cooperated with someone who had an outsourcing contract. While everyone else worked with one or more expatriates. Only 7 respondents had previously been engaged abroad, while the remainder of 78% had never had such an engagement. Of these 7, there's only one woman. Three respondents who had previously been engaged abroad have been employed by Strabag for more than 5 years, the other three are in the company employed between 2 and 5 years, and only one respondent has been employed for less than 2 years in this company. Most foreign engagements lasted from 1 to 2 years, while only one respondent was engaged for 3 to 5 years. The rate of unsuccessful foreign engagement of our respondents is 43%, and the reason for the 2/3 is family issues, while one respondent replied that he was temporarily back from engagement for security reasons (state uncertainty). The remaining 57% who had previously been on foreign engagement successfully completed the same, with all of them engaging not more than two years.

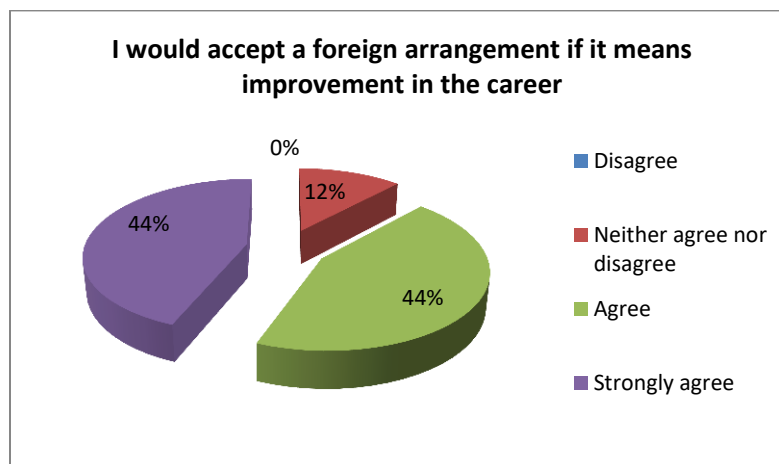
Results

Through this research, key factors that influence employees in deciding on the acceptance of international engagement have been identified and analyzed. Factors that are separated and which, to a large extent, in addition to their age and family status, affect the decision to accept

engagement are the following: location of engagements, monetary compensation offered to potential expatriates, the possibility of improvement, as well as previous experience in foreign engagements. In conclusion, the results of this research should contribute to a better understanding of the motivation of employees for going to international engagement.

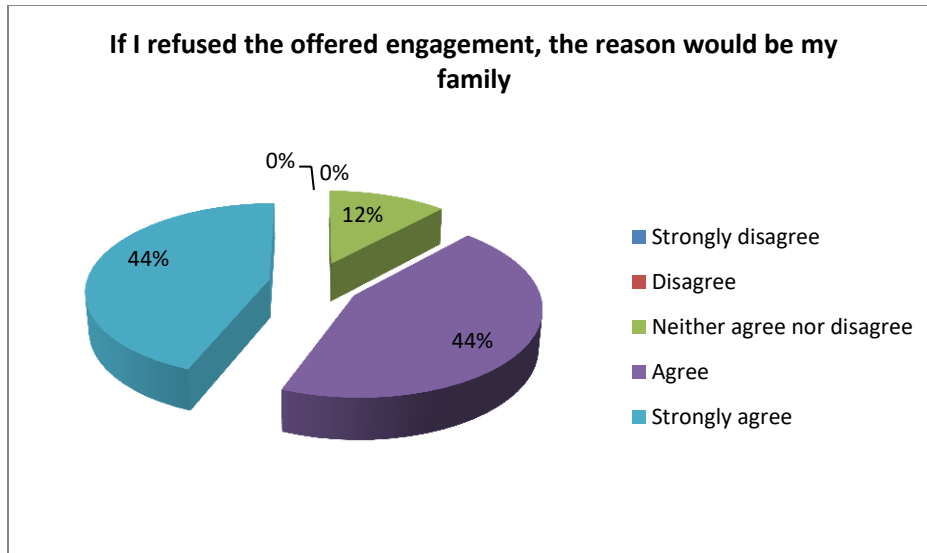
In the first part of the survey, general data on respondents, such as age and sex, were collected. The next part of the study included claims that directly relate to the decision to accept / reject foreign engagement. For each of the questions, employees could give a response in the range [1-5].

Analyzing the results was particularly interesting were the answers to the question how the possibility of improvement influences the respondents' decision to accept foreign engagement, which is graphically depicted below:



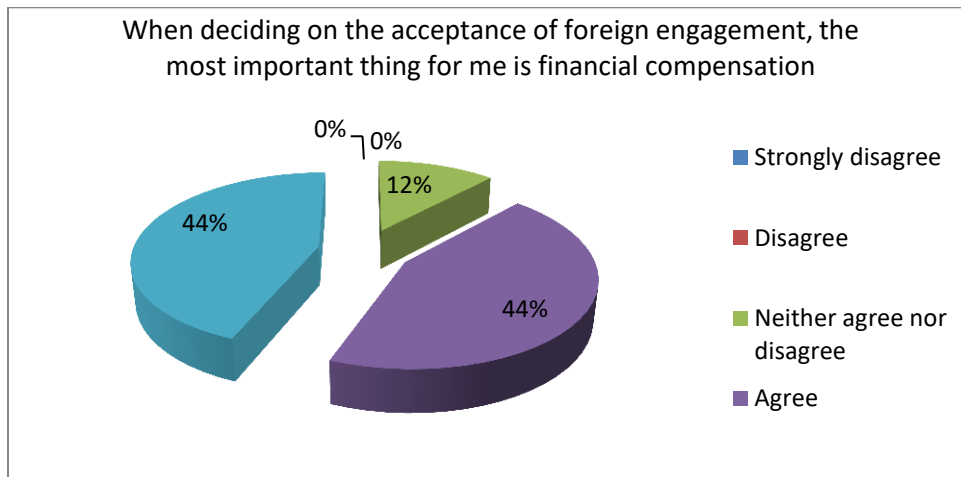
These results lead to the assumption that higher material benefits during the expiration time positively affect the will and motivation of the expatriate, what confirms the hypothesis 1. Also, from the above results we can conclude that the family is not only the most frequent reason for the refusal of international engagements but should also be taken as a very important factor for the success of the entire process of expatriation. It is assumed that employees, if they receive additional stimulus and bonuses for good performance of their tasks, better perform their tasks and more try to successfully complete the engagement.

In accordance with the hypotheses and the purpose of this survey, the respondents wondered about the extent to which family status influenced their decision to accept or reject the offer for foreign engagement. For this purpose, the respondents were asked to declare whether they agree or disagree with the following statement: "If I refused the offered engagement, the reason would be the family." The results of the response are shown on the graph below:



This confirms hypothesis 3 that claims that the family is the most frequent reason for refusing foreign engagement. Also, from the above results we can conclude that the family is not only the most frequent reason for the refusal of international engagements but should also be taken as a very important factor for the success of the entire process of expatriation.

As a key motivator, both the decision on accepting international engagement and the success of potential expatriates proved to be a monetary compensation. A very strong statement was given to the respondents: "When deciding on the acceptance of foreign engagement, the most important thing for me is financial compensation." What all the respondents agreed with us. Even 44% of them fully agree with what we can see on the graphics below:



From the answer to this question, we conclude that in spite of the attractiveness and security of the site and the possibilities for promotion, the monetary compensation has the greatest influence on the decision to accept the engagement. Interestingly, neither the age nor the full structure had

a significant impact on the results of the response to this claim. Of the 12% of those who only partially agree, three workers belong to the technical sector and have over 41 years, while one of them is a manager of the age of 31-40 years. These figures are probably the result of the ratio of those who have never been on an international task, 78% of them, with those who are. The assumption is that such employees were not faced with cultural shocks, separation from the family, repatriation problems and many other difficulties that the foreign engagement very often brings with them, and therefore see monetary compensation as the main driving force. However, those with an international experience see monetary compensation as a significant motivation factor in accepting engagement, and one of the respondents who were previously on a foreign mission fully agreed with this assertion. Interestingly, none of the respondents on the set of questions related to the influence of a financial nature factor on the decision to accept the engagement did not give a response that they have no influence on him. This is not at all surprising given the economic situation of the state in which Strabag Ltd operates, and where foreign respondents see foreign engagement as an opportunity for higher earnings and improvement of their financial situation. Furthermore, every employee sees foreign engagement as an opportunity for additional earnings, or additional financial gain, in addition to being able to progress and gain new experiences.

Conclusion

The purpose of this paper is to investigate some of the most important factors affecting employees' decision to accept foreign engagement and to point out the importance of these factors to the entire process of expatriation. The aim is to show how a better understanding of the factors that influence the decision to accept foreign engagement leads to an improvement in the process of expatriation. In short, the same expatriation plan cannot be applied to each employee, nor do equal employees have an equal impact on each employee. All this human resources management should be taken into consideration when planning the outcome, and ultimately it will receive a smaller number of prematurely discontinued engagements and a greater benefit from the expatriate upon return to the parent company.

In order to prove claims from the work, research was carried out in the branch of a large international company - Strabag Ltd Sarajevo, daughter of Strabag SE. Strabag SE operates in all areas of the construction industry around the world.

Today Strabag Ltd Sarajevo has more than 100 local employees and 20 expatriates. A representative sample was selected and a quantitative survey was conducted in the form of a survey. In summary, the results show support for the first hypothesis that an employee will soon accept foreign engagement if it leads to improvement, which gives us clear evidence that improvement, along with its potential benefits, is a major motivator when deciding to accept engagement. Investigating the impact of monetary compensation on respondents, it can be

concluded that the amount of material income is a key factor affecting the readiness of candidates for international engagement. According to respondents, financial factors have been shown to be very important for the success of expatriate and its motivation during the engagement period. At the beginning of the work, it is stated that the family is the most frequent reason for refusing foreign engagement. From the results of this research we can conclude that the family is not only the most frequent reason for the refusal of international engagements but should also be taken as a very important factor for the success of the entire process of expatriation. The most important thing for employees was the monetary compensation offered to them, then the possibility of improvement in the work place. It is especially emphasize the influence of the family as a very important factor for the employees of our area.

The results of the research carried out in this paper can be useful feedback to human resource managers in planning and implementing the process of expatriation and improvement of the same, and point out the motivation of employees who in most cases are neglected and put in another plan.

References:

- Juhl, B., Fuglsig, S.C.S. (2009). A study on motivational factors influencing the expatriate through the expatriation cycle.
- Dobrai, K., Farkas, F., Karoliny, Z., Poór, J. (2012). Knowledge Transfer in Multinational Companies – Evidence from Hungary. University of Pécs, Faculty of Business and Economics
- Rahimić, Z. (2010). Human resource Management. Sarajevo: Faculty of Economy in Sarajevo
- Mintzberg, H. (2004). Managers not MBA's: A hard look at the soft practice of managing and management development. San Francisco: Berrett Kohler.
- Lassere, P. (1997). Global Strategic Management. Second edition. New York: Palgrave Macmillan. p.338
- Harvey, M. G., Novicevic, M. M. i Speier, C. (2000). Strategic Global Human Resource Management: The Role of Inpatriate Managers. Human Resource Management Review. 10 (2). pp.153-175
- Morgan, P. V. (1986). International Human Resource Management: Fact or Fiction. Personnel Administrator.
- Dowling, P. J., Welch, D. E. i Schuler R. S. (1999). International Human Resource Management: Managing People in a Multinational Context. Cincinnati. OH: South-West.
- Goldsmith, M., Greenberg, C. L., Robertson, A. i Hu-Chan, M. (2003). Global Leadership-The Next Generation. Upper Saddle River, NJ: Financial Times Prentice Hall.
- Festing, M., Dowling, P. J., Weber, W. i Engle, A. D. (2011). Internationales Personalmanagement. Wiesbaden:Gabler Verlag
- Noe, R., Hollenbeck, R. J. i Wright, M. P. (2006). Menadžment ljudskih potencijala. Zagreb: Mate.

- Pollock, D. i Van Reken, R. E. (2009). *Third Culture Kids: Growing Up Among Worlds*. Boston/London: Nicholas Brealey Publishing.
- Gregersen, H., Morrison, A. J. i Black, J. S. (1998). *Developing Leaders for the Global Frontier*. Sloan Management Review
- Harvey, M. G., Novicevic, M. M. i Speier, C. (2000). *Strategic Global Human Resource Management: The Role of Inpatriate Managers*. Human Resource Management Review
- Raduan Che Rose et al. (2010). *Expatriate Performance in International Assignments: The Role of Cultural Intelligence as Dynamic Intercultural Competency*. International Journal of Business and Management
- Suutuari, V. (2003). *Global managers: Career orientation, career tracks, life-style complications and career commitment*. Journal of Managerial Psychology.

The Youth's Perception of Migration in Bosnia and Herzegovina

M. Sait Dinc

*Department of Management
International Burch University
Bosnia and Herzegovina
m.sait.dinc@ibu.edu.ba*

Kanita Jahic

*Department of Management
International Burch University
Bosnia and Herzegovina
kanita.jahic@stu.ibu.edu.ba*

Sejla Kocan

*Department of Management
International Burch University
Bosnia and Herzegovina
sejla.kocan@stu.ibu.edu.ba*

Abstract: *Migration, in a simple definition, is the movement of people from one country to another. One of the major problems in Bosnia and Herzegovina (BiH) is youth migration. Young people from BiH mostly migrate to European countries. Factors which have an influence on the youth migration and relationship between demographic differences, as well as the tendency of the youth to emigrate have attracted a great curiosity. The purpose of this study is to examine the perceptions of the youth about determinants of migration as well as the relationship between demographic variables and immigration tendency. Using the survey method, 207 responses were collected from the youth in BiH. Descriptive analysis, one-sample, and independent sample t-test were constructed to analyze data. The results have showed that the perceptions of the youth about job opportunities in BiH and approach of officials towards young people are negative. However, study results show that younger group of young people with less education have a greater tendency to emigrate.*

Keywords: *migration, Bosnia and Herzegovina, the youth*

Introduction

Migration can simply be defined as the movement of people from one country to another. Of the two types of migration, emigration represents the departure of people from one country in order to reside in the other. Brain drain is more specific term used in relation to emigration. It is

defined as “a significant emigration of educated or talented individuals.”²⁷ In other words, it is “the migration of highly educated labor force from developing to developed countries” (Stankovic, Angelova, Janeska, & Stankovic, 2013, p. 1). Brain drain usually relates to graduate students, who face problems when they search for employment after completing their studies (Cymanow, Florek-Paszowska, 2014).

In recent years, when transportation has become more available and advancements of certain countries are highly apparent as opposed to others, brain drain has become an agenda. People tend to leave their countries because of pull or push factors. Those factors can be of several sorts, such as social, political, economic, industrial, or cultural factors (Thet, 2014). However, emigration of youth may pose an even bigger problem. Young people are looking for opportunities, and in case that they cannot find them in their home countries, they are usually not willing to sacrifice their own well-being due to patriotism.

In Bosnia and Herzegovina (BiH), youth brain drain has become one of the major problems. In 2013, it was reported that around 150.000 young people have left the country since the end of the war in 1995, and about 10.000 decide to leave it every year²⁸. BiH is “the fifth worst country in the world in terms of brain drain,”²⁹ according to the World Economic Forum. Young people are usually unwilling to accept the fact that they have to deal with some basic issues of this country, such as corruption, unemployment, low wages, poor economy, etc., and instead choose to build their lives elsewhere. There are many factors which contribute to emigration of youth. Therefore, this study aims to investigate the perception of young people living in BiH about basic determinants of migration.

The purpose of this research is to examine the perceptions of youth about migration in BiH. It specifically focuses on the youth reasoning of the brain drain and its determinants. Moreover, it tries to determine whether there are any differences in youth’s perceptions according to demographic factors.

Literature Review

In recent years, with a huge increase in technological improvements and its reflection on transportation, migration and related terms have been an agenda of the world. Migration is the movement of people from one country to another. International migration is the movement of people across international boundaries, which has great economic, social, and cultural implications in both origin and destination countries (Docquier et al., 2006). Another term used

²⁷ Obtained from Investopedia: http://www.investopedia.com/terms/b/brain_drain.asp (Aug 13, 2016)

²⁸ Obtained from Balkan Insight: <http://www.balkaninsight.com/en/article/young-people-leave-serbia-bosnia-the-most> (Aug 7, 2016)

²⁹ Obtained from Balkan Insight: <http://www.balkaninsight.com/en/article/mass-depopulation-threatens-bosnia-s-future> (Aug 7, 2016)

to refer to the international transfer of resources in the form of human capital and which has the aforementioned implications particularly in origin countries is called brain drain (Stankovic et al., 2013).

Group of people which has been influenced by migration is undoubtedly young generation. Migration of youth has long even occurred as a part of a collective family strategy in search of educational and internship opportunities (UNFPA 2006). Although there are many studies conducted with regard to the migration, those which have focused on youth migration are still limited. Nevertheless, Juárez et al. (2013) analyzed youth migration and its consequences for the various other transitions to adulthood, including reproductive outcomes, educational, employment, and marital outcomes, as well as specific strategies underlying migration and its consequences. In another research, Cymanow and Florek-Paszowska (2014) analyze a potential scale of internal and external migrations, assess the importance of factors determining the selection of migration destination, and the importance of elements affecting the nature of the undertaken jobs, taking into account payroll expectations of potential migrants in Poland.

Research Questions

According to the literature above, following research questions can be posited:

Research question 1: In overall, do the youth perceive youth migration to be positive in BiH?

Research question 2: How do the youth evaluate the determinants of the youth migration?

Research question 3: Are there any differences in youth' perceptions according to age, gender, education, marriage, and their parents' company ownership and income?

Research Method

Survey Instrument

A two-page questionnaire with three parts was used to collect data. The first part of the questionnaire included several questions about general characteristics of the youth and their tendency to migrate. To put it succinctly, this part included demographic questions such as age, gender, education, company ownership of parents, and overall perceptions of young people about migration. In the second part, four questions were asked with regard to the perceptions of the youth participants about migration of young people from BiH. The third part included 16 questions that dealt with the youth's perceptions about the determinants of migration and its destination. The questions in the second and third parts were adapted from Cymanow and Florek-Paszowska (2014)'s study and were measured using 5-point Likert scale (5 = strongly agree; 1 = strongly disagree). The questionnaire was initially prepared in English and then translated into the Bosnian language. The translation of the questionnaire was done by experts who are fluent in both languages and their respective cultures. A pilot study of the questionnaire was done with 20 young participants studying at a private university. The purpose of pilot testing

was to evaluate the validity of the survey. The questions which were not understood clearly were reevaluated and finalized for data collection.

Data Collection

The study used online and printed questionnaire survey to collect data. In order to enable a better generalization of research results, the study targeted young people in two large cities in BiH: Sarajevo, the capital city and Tuzla. A total of 200 questionnaires were distributed to students from a public and private high school as well as a public and private university in Sarajevo and Tuzla. A formal research approval was obtained from the administration of each examined schools and universities. The purpose of the study was initially explained to potential participants in order to encourage students' voluntary participation, and to guarantee the anonymity of participants. The questionnaires were distributed to students who agreed to participate in the research. The overall number of the completed printed version of surveys which could be used was 108. With 99 online completed surveys, 207 questionnaires which could be used for this study were collected in total.

Data Analysis

Demographic information and overall perceptions of young people about migration were analyzed through frequency and descriptive statistics. Perceptions of the youth participants about migration of young people from BiH and questions about the youth's perceptions with regard to the determinants of migration and its destination were analyzed with one sample t-test. In one sample t-test, means were compared with the mid-point of the scale that is 3. Finally, differences in youth' perceptions according to sample demographic characteristics such as age, gender, education, marriage, and company ownership of their parents and income were analyzed with an independent sample t-tests.

Results

Sample Characteristics

A summary of the sample characteristics is presented in Table 1. The majority of the sample (60.4 %) were females in 18-21 age group with completed high school education. The majority's family (78.3 %) did not own a company. The predominant amount of the young respondents' family (62.3 %) were planning to leave the country in the future.

Research Question One

In research question one, the study purpose was to measure the youth's overall perception about migration of young people in BiH. The result of the sample t-test where the scale's mid-point (3) was taken as the test value, demonstrated that the youth do not agree with the statements that "this country provides enough opportunities for youth employment" ($M = 1.83$, $SD = .94$, $t = -17.8$, $p = .001$) and "opinions of young people are respected in this country" ($M = 1.88$, $SD = .79$, $t = -20.3$, $p = .001$). Nevertheless, they agree with the statement that "if I was more respected and given opportunities for job, I would stay in my country" ($M = 3.91$, $SD = 1.26$, $t = 10.3$, $p = .001$). Results are summarized in Table 2. As demonstrated in the table, respondents are not positive about approach of BiH towards the youth which shows a positive attitude towards their migration.

Table 1 Sample Characteristics

Variable	Demographics	Number	Valid Percent
Age	Under 18 years	36	17.4
	18-21 years	94	45.4
	21-23 years	50	24.2
	Over 23 years	27	13.0
Gender	Male	82	39.6
	Female	125	60.4
Marital status	Yes	12	5.8
	No	195	94.2
Education level	High school	119	57.5
	Bachelor degree	75	36.2
	Master	13	6.3
Company	Yes	45	21.7
	No	162	78.3
Planning to leave the country	Yes	129	62.3
	No	78	37.7
Average Income	0-540 USD	47	22.7
	540-810 USD	62	30.0
	810-1081 USD	34	16.4
	Over 1081 USD	64	30.9
Parents status	Married living together	177	85.5

Married living separately	6	2.9
Divorced	6	2.9
Single parent	16	7.7
Other	2	1.0

Research Question Two

In the second research question, the purpose was to measure evaluations of young people about the determinants of the youth migration. Consistency of the items was analyzed by using reliability analysis, and Cronbach’s alpha values are indicated in Table 2. All the reliability coefficients are above the accepted level (.70). The results are summarized in Table 3. As presented in the table, “difficulties with finding a job in the home country” (M = 4.23, p = .001) was determinant with the highest rate. Better employment terms in the emigrated country was also rated as the second most highly rated determinant (M = 4.20, p = .001). It was followed by the possibility of earning a higher remuneration in the emigrated country (M = 4.11, p = .001). Regarding determinants of the youth migration destination, respondents rated “earnings” in the emigrated country the highest (M = 4.20, p = .001). It was followed by “getting a job easily” in emigrated country (M = 4.18, p = .001).

Table 2 One sample t-test for perceptions of youth about migration of youth (Test value =3)

	N	Mean	SD	t-value	p-value
This country provides enough opportunities for youth employment.	207	1.83	0.94	-17.84	.000
Opinions of young people are respected in this country.	207	1.88	0.79	-20.30	.000
Youth employment is more important than elder people employment in this country.	207	2.89	1.31	-1.21	.224
If I was more respected and given opportunities for job, I would stay in my country.	207	3.91	1.26	10.33	.000

NOTE: Cronbach’s alpha value for the four items is .40

Research Question Three

In the third research question, the purpose was to compare the youth’s perceptions in terms of their age, gender, education, marriage, and company ownership of their parents and income. Demographic variables are recoded into two groups in order to simplify the analysis. The results

are summarized in Table 4. As demonstrated in the table, no significant differences occur between different demographic groups of participants.

Table 3 One sample t-test for determinants of migration (Test value =3)

<i>Determinant of migration</i>	N	Mean	SD	t-value	p-value
Possibility of earning a higher remuneration than in the home country	207	4.11	0.97	16.54	.000
Difficulties with finding a job in the home country	207	4.23	0.91	19.58	.000
Guaranteed employment abroad	207	3.98	0.97	14.54	.000
Employment terms better than in the home country	207	4.20	0.86	20.18	.000
Acquiring professional experience	207	4.00	1.02	14.08	.000
Improving qualifications	207	3.97	0.97	14.30	.000
Possibility of learning a foreign language	207	3.95	1.11	12.34	.000
Willingness to experience another country	207	3.29	1.31	3.19	.002
<i>Determinant of migration destination</i>					
Distance of the migration destination from the home country	207	2.63	1.24	-4.26	.000
Earnings	207	4.20	0.91	18.93	.000
Getting a job with ease	207	4.18	0.85	19.85	.000
Family presence	207	3.42	1.11	5.46	.000
Presence of friends	207	3.07	1.15	0.85	.399
Historic events	207	2.23	1.03	-10.75	.000
Attitude toward your citizenship	207	3.02	1.18	0.24	.814
Threat of terrorist attacks	207	2.95	1.32	-0.52	.600

NOTE: Cronbach's alpha values for the eight items about determinants of migration and the eight items about determinants of migration destination are .80 and .75 respectively.

Discussion

This study attempted to examine the perceptions of youth about migration in BiH. More specifically, it focused on the youth perception of the migration, its determinants, and differences in their perceptions according to demographic factors. The study results demonstrate that the perceptions of the youth about job opportunities and approach of officials toward young people in BiH are not positive. Moreover, the results show that difficulties in finding a job in BiH, better employment terms, and earning a higher remuneration possibility in emigrated countries are several important determinants that motivate the youth to go abroad.

Table 4 Independent samples t-test for sample demographics

Variable	Demographics	N	Mean	SD	t-value	p-value
<i>Age</i>	18-21 years	130	1.35	0.48	-0.88	0.38
	21 and older	77	1.42	0.50		
<i>Average income</i>	0-810 USD	109	1.37	0.49	-0.13	0.90
	810 USD or higher	98	1.38	0.49		
<i>Education level</i>	high school	119	1.35	0.48	-0.82	0.41
	higher education	88	1.41	0.49		
<i>Gender</i>	male	82	1.39	0.49	0.32	0.75
	female	125	1.37	0.48		
<i>Marital status</i>	yes	12	1.42	0.51	0.29	0.77
	no	195	1.37	0.49		
<i>Company</i>	yes	45	1.44	0.50	1.06	0.29
	no	162	1.36	0.48		

One of the findings which attracts attention in the study is negative perception of the youth about employment opportunities for the youth provided by BiH. The higher mean values on difficulties in finding a job in home country and better employment terms in emigrated countries also support that finding. This result is mostly related to the study context. After the ethnic and political tensions of the 1990s, the Dayton agreement which made BiH a federation including three ethnic communities namely Bosniaks, Croats, and Serbs was signed in 1996. Devastated factories and companies have been repaired, and new private and public institutions have been founded. The majority of large scale businesses in the country are mainly international (Dinc and Duman, 2012). Despite all these improvements, BiH's development is very slow and it is still in a transition period. General perception for the reason of this slow improvement is the central government with a rotating, tripartite presidency and its heavy bureaucracy (Dinc and Huric, 2016). Therefore, people, especially the youth in BiH, has a prejudice and do not see their future in this country. However, high unemployment rate which is 44.86% in BiH³⁰ is another factor that motivate the youth to immigrate to developed countries.

³⁰ Obtained from the website <http://www.tradingeconomics.com/bosnia-and-herzegovina/unemployment-rate>

Conclusion and Limitations

The purpose of this study was to analyze perceptions of youth about migration, in particular, determinants of migration and differences in their perceptions in terms of demographic factors. The results showed that since the youth do not trust in employment opportunities in BiH, they have tendency to pursue finding a job in developed countries. These findings of the study suggest that government of BiH should focus more on the employment facilities for the youth. It can also put some regulations to decrease a heavy bureaucracy for foreign and local investors in order for them to do more investments and offer more job opportunities to the youth.

There are several limitations in this study. Firstly, the results found in this research come from a limited sample. Surveys with higher sample size may give some different results. Therefore, future studies should be conducted in other cities of BiH. Secondly, self-reported issue may be another limitation of this study. Finally, the insufficient literature and methodology can be constraints of the study. Future studies should add some other variables and utilize some other statistical methods to find the relationship among variables.

References

- Cymanow, P., & Florek-Paszowska, A. (2014). Migration potential of college graduates from rural areas. *Ekonomia i Prawo. Economics and Law*, 13(1), 163-174.
- Dinc, M. S. and Duman, T. (2012). *Employees' Perception of Marketing Ethics in Bosnia and Herzegovina*. Research on Ethics and Social Responsibility, Business Research Unit, ISCTE-IUL, Lisbon, 33-47.
- Dinc, M. S., & Huric, A. (2016). The impacts of ethical climate types on nurses' behaviors in Bosnia and Herzegovina. *Nursing ethics*, 0969733016638143.
- Docquier, F., Ozden, C., Adams jr, R. H., Taylor, J. E., Mattoo, A., Martinez, C. A., ... & Mora, J. (2006). International migration, remittances, and the brain drain (No. 33988, p. 1). The World Bank.
- Juárez, F., LeGrand, T., Lloyd, C. B., Singh, S., & Hertrich, V. (2013). Youth migration and transitions to adulthood in developing countries.
- Stankovic, M., Angelova, B., Janeska, V., & Stankovic, B. (2013, February). Brain Drain as Brain Gain in Southeast Europe: Challenges Ahead. In *ICIE2013-International Conference on Innovation and Entrepreneurship: ICIE 2013* (p. 109). Academic Conferences Limited.
- Thet, K. K. (2014). Pull and Push Factors of Migration: A Case Study in the Urban Area of Monywa Township, Myanmar. *News from the World of Statistics*.
- UNFPA (United Nations Population Fund). 2006. Moving young. Youth supplement to the UNFPA state of world population 2006. New York, NY: UNFPA.

An Analysis of the Factors Determining the Working Capital Requirement for Non-Financial Companies

Seyda Kadayifci

*International Burch University
Bosnia and Herzegovina
seydakadayifci@gmail.com*

Ali Coskun

*International Burch University
Bosnia and Herzegovina
alicoskun@hotmail.com*

The main purpose of this study is to investigate the factors determining the working capital requirement of firms. Companies require working capital to improve the capacity, expand the business volume, reduce the risk of failing to meet their financial obligations, and become profitable and efficient. An inadequacy of the working capital causes interruptions in the business operations. This study investigates the determining factors of the working capital requirements of non-financial companies. The research analysis was done on publicly traded firms, and the data was collected from BIST-100 in Turkey for the years between 2011 and 2016. In this study, working capital requirement was used as the dependent variable. Factors such as profitability, leverage, growth, firm size, age and industry were tested as determining factors. PLS-SEM technique is employed in the research. Results reveal that two explanatory variables- company's leverage, and profitability- are significant factors that determine the companies' working capital requirements for the period under study.

Key words: *Working Capital Requirement, Profitability, Leverage, Growth, Size, Age, Industry*

Introduction

Managing the financial needs and operations of any business is very important to the management of the company, as it has an effect on both the company's profits and liquid assets. The literature on business finance focuses on three key areas. These are capital budgeting, capital structure, and working capital management. Capital budgeting and capital structure concerns long-term investment and financing decisions. Working capital management can be expressed as the short-term investments of firms and the selection and management of financial strategies in these investment decisions.

If there is not enough working capital to fulfill the obligations of a company, it may cause financial insolvency, legal problems, and liquidation of assets (Hawley, 2015). For this reason, it is very important for all enterprises to have sufficient management of their working capital.

The amount of financing an entity needs to carry out its day-to-day business activities is a working capital requirement, and it is the minimum amount of resources that a company needs to effectually meet the usual costs of business operations. There are several factors in determining working capital requirement and some studies such as Nazir and Afza (2009), Gill (2011), and Saarani and Shahadan (2012) have examined these factors. The purpose of these studies was to designate the determinants of the working capital requirement. On the other hand, many studies that have been conducted in the area of working capital (Deloof, 2003; Raheman & Nasr, 2007; Perkovic, 2012) have examined the relationship between firm profitability and working capital. Nazir and Afza (2009) and Gill (2011) have focused on determining the factors of working capital requirements.

Since the identification of working capital requirements is of great importance in businesses, the purpose of this study is to investigate the working capital requirements and determining factors in non-financial companies in BIST 100 by using the Partial Least Squares – Structural Equation Model (PLS-SEM) technique.

Literature Review

The working capital management as the management of current assets such as cash, marketable securities, trade receivables and inventories that a firm has and the financing (specially, current liabilities) necessity to support current assets (Van Horne and Wachowicz, 2005).

According to Palombini and Nakamura (2012), any researcher who conducts an overview of the corporate finance literature will find no robust, widely accepted theory about working capital management. Saarani and Shahadan (2012) put forward that for working capital management, the closest relevant theory is the Pecking Order Theory, popularized by Myers and Majluf (1984). According to the theory, companies should first use the funds necessary for financing their investments from internal sources. If internal resources are inadequate, firms tend to use debt to meet their funding needs. If the companies cannot meet their funding requirements with the use of debt, the issue of shares should cover the fund requirement in the company. In theory, internal resources are prioritized over external resources. So, this theory explains why the most profitable firms use less debt because these companies are highly profitable and do not need external sources. Enterprises with lower profitability rates export debt (Yakar, 2011).

Several aspects of such working capital practices around the world been discussed in the literature. Some of these studies attempted to determine the effect of the working capital on the factors, while some others examined many factors that determined the working capital and its requirements.

Nazir and Afza (2009) used panel data to study 132 firms from 2004 to 2007 in Pakistan, and used the OLS (ordinary least squares) regression model to find the determinants of working capital. Authors designated working capital as a dependent variable, operating cycle, level of economic activity, operating cash flow, sales growth, return on assets, Tobin's q, leverage, size and industry as a determinants of working capital. According to the results, operating cycle, leverage, ROA, and Tobin's q are internal factors that significantly affect working capital requirements.

BintiMohamad and MohdSaad (2010) investigated the impact of market valuation and profitability on working capital management during the period 2003–2007 with a sample of 172 firms in Malaysia. The authors applied the Tobin Q, return on asset, and return on invested capital as dependent variables, and used cash conversion cycle, current asset to current liability ratio, current asset to total asset ratio, current liability to total asset ratio, and total debt to total asset ratio as independent values. Correlation and multiple regression analysis results proved that working capital variables and the firm's performance have a negative relationship.

Another study that is effective in this regard was performed by Saarani and Sahadan (2012). The authors used a sample of 285 firms for the period 2006–2008 in Malaysia. To determine the factors of working capital requirements, the authors used working capital for a dependent value, assets tangibility, profitability, debt, growth, non-debt tax shield, size, industry type, and age as independent values. According to the results of the analysis of the structural equation model, working capital requirement factors were found to be debt, profitability, non-debt tax shield, and tangibility of assets.

Perković (2012) investigated the 131 manufacturing companies listed in Bosnia and Herzegovina in 2005–2009 by using Pearson's correlation test and regression analysis. According to his findings, while the cash conversion cycle and financial leverage have a significant negative impact on the profitability of the company, the impact of the size of the firm (sales) is significant and positive.

Since the implementation of this thesis will be on the publicly traded non-financial companies in Turkey, studies about working capital management conducted in Turkey were reviewed in detail. The studies conducted in Turkey are summarized below.

Uyar (2009) obtained data from the Istanbul Stock Exchange for the year 2007. The cash conversion cycle is employed as a measure of the working capital. Return on assets and return on equity are used for profitability. The results showed that the cash conversion cycle has a significant negative relation with the firm size and the profitability.

Akbulut (2011) explored the profitability relation between the working capital management from 2000 to 2008, in the ISE manufacturing sector. In the study, working capital management is measured by cash conversion cycle and profitability is measured by the return on assets. Regression analysis has shown that there is a negative relationship between working capital management and profitability.

The other study done in Turkey was done by Khajeh (2014), who examined the effect of 18 firms belonging to the textile and leather sector from 2007 to 2012, regarding firm profitability of working capital management, using panel data analysis. According to the results of the study, there is a significant relationship between stock turnover, debt turnover, and gross profit.

Methodology

Data source

Data for this study were sourced from the annual financial reports of the companies, BIST 100. In all, this study utilizes data from 70 non-financial firms for the 6- year period 2011-2016. So, the total of 426 observations are included in the analysis.

Variable description and expectations

Dependent Variable: The working capital requirement is the minimum amount of resources that a company needs to effectively cover the costs and expenses essential to operate the business (Gill, 2011). As seen in some of the studies examined earlier, CCC was used to gauge the efficiency of working capital, such as Sharma and Kumar (2011), Saarani and Shahadan (2012), Palombini and Nakamura (2012), and Goel and Sharma (2015). The working capital to total assets ratio gauge the ability of a company to cover its short-term financial obligations by comparing its total current assets to its total assets. Qurashi and Zahoor (2017) and Abbadi and Abbadi (2013) used this formula to try to find the determinants of working capital requirements. Other measures used to measure working capital requirement are working capital to expenses and working capital to revenue Saarani & Shahadan, 2012).

Independent variables: Profitability, leverage, growth, firm size, age and industry are employed as independent variables.

Wang, Feng, and Lawton (2015) indicated that a multi-dimensional perspective reflects firm performance more comprehensively than a single measure of profitability. There are many different ways and indicators to analyze profitability such as; return on equity, return on asset and gross operating profit. Nazir and Afza (2009), Sharma (2011), Gill (2011), Saarani and Shahadan (2012), Abbadi and Abbadi (2013), Agha (2014), Keskin and Gökalp (2016) used

ROA to measure profitability. The return on equity ratio is a profitability ratio that measures how much profit each equity shareholder's capital generates. To gauge the profitability Saarani and Shahadan (2012), Naser, Neseibeh and Al-Hedayya (2013) used return on equity. Lazaridis and Tryfonidis (2006), Perković (2012), Dong and Su (2010) employed gross operating profit to measure profitability.

Leverage is the financial debt ratio, which is used in order to bring into connection with the external financing of the company and total assets (Abbadi & Abbadi, 2013). Deloof (2003), Raheman and Nasr (2007), Nazir and Afza (2009), Gill (2011), Sharma and Kumar (2011) used the total debt divided by total assets to calculate the leverage.

Studies show that more growth opportunities will increase the cash hold and short-term investment of a firm (Abuzayed, 2012). Two different indicators (sales growth and growth rate of GDP) were used to measure growth in this study. Deloof (2003), Appuhami (2008), Nazir and Afza (2009), Sharma and Kumar (2010), Palombini and Nakamura (2011), Gill (2011), Naser, Nuseibeh and Al-Hadeya (2013), Goel and Sharma (2015) used sales growth to measure growth. Nazir and Afza (2009), Abbadi and Abbadi (2013) used growth rate of GDP to measure growth. Uyar (2009), Nazir and Afza (2009), Gill (2011), Sharma and Kumar (2011), Abbadi and Abbadi (2013), used natural log of total assets to measure of firm size.

Abor and Biekpe (2009) and to Goel and Sharma (2015) used firm age in their researches as an independent variable.

Firms in diversified sectors have different capital structures, different transactions, different products, different credit policies, different customers and different markets. The elements as a whole, affect working capital management. For this reason, it can be said that the type of industry influences the working capital management (Naser, Nuseibeh, & Al-Hadeya, 2013). Gill (2011) and Naser, Nuseibeh and Al-Hadeya (2013) used industry as an independent variable. The means by which the various variables adopted in this study are computed are as shown in Table 1.

Table 1: Measurement of the Variables

Variables	Abbreviation	Formulas
Working capital requirement	CCC	Number of days of accounts receivable + Number of days of inventory – Number of days of accounts payable
	WCR_T.A	(Current Asset- Current Liability) / Total Assets
	WCR_Exp	(Current Asset- Current Liability) / Expenses
	WCR_Rev	(Current Asset- Current Liability) / Revenue
Profitability	ROA	Net income of the firm / total assets
	ROE	Net income of the firm / shareholder's equity
	GrsOpPr	(Sales - COGS) / (Total Assets - Financial Assets)
Leverage	LEV	Total Debt / Total Assets
Growth	S.GR	(This year's sales – previous year's sales)/previous year's sales
	GDP	(This year's GDP - previous year's GDP)/ previous year's GDP sales
Firm Size	SIZE	The natural log of total assets of firm
Age	AGE	Year under study - Year of incorporation
Industry	INDS	manufacturing firms=1; non- manufacturing=0

Hypothesis

There are six hypotheses developed based on previous studies. The following hypotheses and supported studies are detailed.

Hypothesis	Reference Literature
H ₁ : There is a relationship between Profitability and Working Capital Requirement. (+/-)	Nazir and Afza (2009), Abbadi and Abbadi (2013), Palombini and Nakamura (2012)
H ₂ : There is a relationship between Growth and Working Capital Requirement. (+/-)	Gill (2011), Naser, Nuseibeh and Al-Hadeya (2013), Appuhami (2008), Nazir and Afza (2009), Saarani and Shahadan (2012)

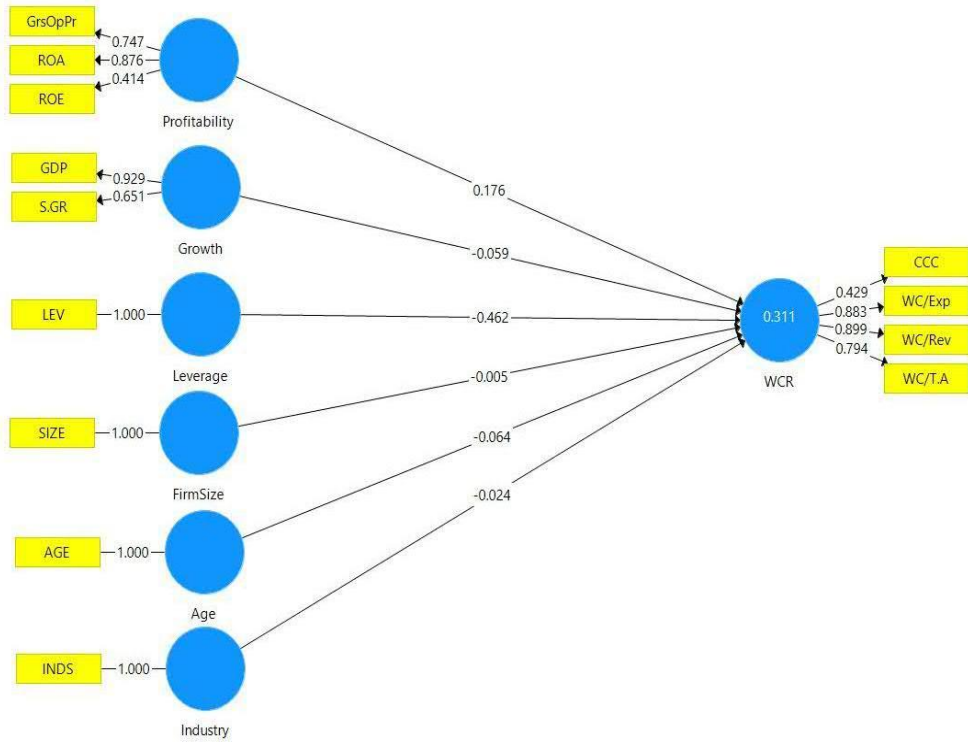
H ₃ : There is a relationship between Leverage and Working Capital Requirement. (+/-)	Nazir and Afza (2009), Abbadi and Abbadi (2013), Palombini and Nakamura (2012)
H ₄ : There is a relationship between Size and Working Capital Requirement. (+/-)	Uyar (2009), Gill (2011), Abbadi and Abbadi (2013)
H ₅ : There is a relationship between Age and Working Capital Requirement. (+/-)	Goel and Sharma (2015)
H ₆ : There is a relationship between INDS and Working Capital Requirement. (+/-)	Naser, Nuseibeh and Al-Hadeya (2013)

Model

GrOpPr, ROA, and ROE are the indicators used in the measurement model of profitability. GDP and S.GR are the indicators used in the outer model of Growth. CCC, WCR_T.A, WCR_Rev, and WCR_Exp are the indicators used in the measurement model of working capital requirement. Leverage, firm size, age, and industry have only one indicator in the measurement model.

To test the hypothesis we implemented the partial least squares-structural equation modeling technique (PLS-SEM). The data analyzed using SmartPLS® software version 3.2.6. Structural Equation Model is used to test the causal relationships between latent variables and observed variables through models. The aim of the SEM is to determine whether the theoretical model is supported by the data or whether the model conforms to the data. SEM studies are generally based on theory (Doğan, 2015). Because of the frequent use of SEM analysis, measurement errors must be taken into account, unlike regression analysis; it is thought to give more accurate results than the regression analysis (Alkış, 2016). Titman and Wessels (1988), Maddala and Nimalendran (1995) and Saarani and Shahadan (2012) were applied SEM in corporate finance.

Figure 1: PLS algorithm results (factors and items)



Result and Discussion

Analysis of measurement model reliability and validity

In order for a measurement model to have satisfactory internal consistency reliability, each construct must exceed the composite reliability (CR) threshold of 0.7. Outer loadings looked to check indicator reliability and 0.70 or higher is preferred if it is an exploratory research, 0.4 or higher is acceptable (Hulland, 1999). The convergent validity of measurement model is evaluated by investigate its average variance extracted (AVE) value. Convergent validity is sufficient when there are at least 0.5 or more average variance (AVE) values in the constructs.

Table 2: Results of Measurement Model- Convergent Validity

Constructs	Outer Loadings	Average Extracted Variance (AVE)	Composite reliability (CR)
WCR	0.429 (CCC)	0.61	0.79
	0.883 (WCR/EXP)		
	0.794 (WCR/T.A)		
	0.899 (WCR/REV)		
Profitability	0.876 (ROA)	0.50	0.73
	0.414 (ROE)		
	0.747 (GOP)		
Growth	0.651 (S.GR)	0.65	0.85
	0.929 (GDP)		
Leverage	1.00	1.00	1.00
Age	1.00	1.00	1.00
FirmSize	1.00	1.00	1.00
Industry	1.00	1.00	1.00

Analysis of the Structural Model

The coefficient of determination, R², is 0.431 for the WCR endogenous latent variable. R² means the amount of described endogenous latent variables variance in the structural model. The R² value is normed between 0 and +1 and reflects the amount of described variance in the construct (Hair, Hult, Ringle, & Sarstedt, 2017). The value 0.431 in the Profitability, Leverage, Growth, Firm Size, Age, Industry rows and the WCR column is the standardized path coefficient of the relationship from those six variables to WCR. This means that the six latent variables (Profitability, Leverage, Growth, Firm Size, Age and Industry) moderately (Kwong & Wong, 2013) explain 43.1% of the variance in WCR.

According to previous studies, the path coefficient must be at least 0.1 a certain effect accounts within the model (Hashim, 2012) (Hair, Hult, Ringle, & Sarstedt, 2017). In this case, by interpreting the graph, we can say that the leverage has a negative impact on WCR. Profitability also affects the WCR positively.

Table 3: Results of Hypothesis Testing

Hypotheses	Path Relationship	B- Coefficient	T-statistic	Supported
H ₁	Profitability and WCR	0.176	3.785	Yes
H ₂	Growth and WCR	-0.059	0.909	No
H ₃	Leverage and WCR	-0.426	10.324	Yes
H ₄	Firm size and WCR	-0.005	0.125	No
H ₅	Age and WCR	-0.0064	1.992	No
H ₆	Industry and WCR	-0.426	0.521	No

Based on the research findings, WCR identified as being influenced by profitability ($\beta = 0.176$, $t = 3.785$, $p < 0.05$). This finding is in line with previous studies (Nazir & Afza, 2009; Saarani & Shahadan, 2012; Abbadi & Abbadi, 2013). These results means that the more profitable companies are able to manage their working capital better. Besides, the better the company manages its working capital, the more profitable is the company.

From the analysis, Working Capital Requirement is not influenced directly by Growth ($\beta = -0.059$, $t = 0.909$, not significant). These results are consistent with previous studies results (Nazir & Afza, 2009) (Saarani & Shahadan , 2012).

Based on the research findings, WCR was identified as being influenced by Leverage ($\beta = -0.462$, $t = 10.324$, $p < 0.05$). This result is supported in other studies (Nazir & Afza, 2009; Onaolapo & Kajola, 2015; Saarani & Shahadan,2012). These results mean that by increasing the ratio of debt to total assets, companies should pay more attention to effective management of working capital in order to prevent excess capital in accounts receivable and inventories. This means that the financial manager can manage the working capital management by reducing the company's debt level to prevent unnecessary tying up of capital in accounts receivable and stocks. As comprehensively discussed in the literature, this outcome is in accordance with the pecking order theory.

From the analysis, working capital requirement is not influenced directly by Firm Size ($\beta = -0.005$, $t = 0.125$, not significant). This finding is in line with previous studies (Nazir & Afza, 2009; Saarani & Shahadan, 2012).

Working capital requirement is influenced directly by Age ($\beta = -0.064$, $t = 1.992$, $p < 0.05$). These results are consistent with previous study results (Nazir and Afza, 2009; and Goel and Sharma, 2015)

Working capital requirement is not influenced directly by Industry ($\beta = -0.462$, $t = 0.521$, not significant). These results are consistent with previous study results (Saarani & Shahadan, 2012).

Conclusion

The study finds that profitability, age and leverage factors, which are influencing the working capital requirements significantly. So, it can be concluded that the listed companies in BIST their working capital requirements based on the profitability, age and leverage. For age, results are in accordance with the earlier studies of Nazir and Afza (2009) and Goel and Sharma (2015). For profitability, results are in accordance with the earlier studies of Nazir and Afza (2009), Saarani and Shahadan (2012) and Abbadi and Abbadi (2013). For leverage, results are in accordance with the earlier studies of Nazir and Afza (2009), Saarani and Shahadan (2012), Onaolapo and Kajola (2015). In addition, if they manage these factors in a more efficient way, it may be the result that companies can improve their profitability.

On the other hand, contrary to expectations, this study could not confirm statistically the importance of four factors- growth (Nazir and Afza, 2009; Saarani and Shahadan, 2012), age (Saarani and Shahadan, 2012), firm size (Nazir and Afza, 2009; Saarani and Shahadan, 2012) and industry (Saarani and Shahadan, 2012) as determinant factors of working capital requirements. These results are in accordance with the earlier studies.

References

- Abbadi, S., & Abbadi, R. T. (2013). The Determinants of Working Capital Requirements in Palestinian Industrial Corporations . *International Journal of Economics and Finance* , 5 (1), 65-75.
- Abor, J., & Biekpe, N. (2009). How do we explain the capital structure of SMEs in sub-Saharan Africa? Evidence from Ghana . *Journal of Economic Studies* , 36 (1), 83-97.
- Abuzayed, B. (2012). Working capital management and firms' performance in emerging markets: the case of Jordan . *International Journal of Managerial Finance* , 8 (2), 155-159.
- Agha, H. (2014). Impact of Working Capital Management on Profitability. *European Scientific Journal* , 10 (1), 374-381.
- Akbulut, R. (2011). An application to measure impact of working capital management on profitability in firms in manufacture sector quoted on ISE. *Istanbul University Journal of the School of Business Administration* , 195-206.
- Appuhami, B. R. (2008). The impact of firms' capital expenditure on working capital management: An empirical study across industries in Thailand. *International Management Review* , 4 (1), 8-21.

- Azeem, M., & Marsap, A. (2015). Determinant Factors and Working Capital Requirement . *International Journal of Economics and Finance* , 7 (2), 280-292.
- Binti Mohamad, N., & Binti MohdSaad, N. (2010). Working capital management: The effect of market valuation and profitability in Malaysia. *International Journal of Business and Management*, 5(11), 140–147.
- Chin, W. W. (1998). The partial least squares approach to structural equation modeling. *Modern methods for business research* , 295 (2), 295-336.
- Dang, C., & Li, F. (2015). Measuring Firm Size in Empirical Corporate Finance. *SSRN Electronic Journal* .
- Deloof, M. (2003). Does Working Capital Management Affect Profitability of Belgian Firms? *Journal of Business Finance & Accounting* , 30 (3-4), 573-588.
- Ding, S., Guariglia, A., & Knight , J. (2013). Investment and financing constraints in China: Does working capital management make a difference? *Journal of Banking & Finance* , 37 (5), 1490–1507.
- Filbeck , G., & Krueger, T. (2005). An Analysis of Working Capital Management Results Across Industries . *American Journal of Business* , 20 (2), 11-18.
- Fornell, C., & Bookstein, F. L. (1982). Two structural equation models: LISREL and PLS applied to consumer exit-voice theory. *Journal of Marketing research* , 19 (4), 440-452.
- Francis, A. (2013, February 13). *Dangers of Excessive and Deficiency of working capital* . Retrieved from <http://letspeaktogether.blogspot.ba/2013/02/dangers-of-excessive-and-deficiency-of.html>
- Gefen, D., & Straub, D. (2005). A practical guide to factorial validity using PLS-Graph: Tutorial and annotated example. *Communications of the Association for Information systems* , 16 (1), 91-109.
- Gill, A. (2011). Factors That Influence Working Capital Requirements In Canada. *Economics and Finance Review* , 1 (3), 30-40.
- Gitman, L. J. (1974). Estimating Corporate Liquidity Requirements: A Simplified Approach . *The Financial Review* , 9 (1), 79-88.
- Goel, U., & Sharma , A. K. (2015). Working capital management efficiency in Indian manufacturing sector: trends and determinants . *Int. J. Economics and Business Research* , 10, 30-45.

- Gumbochuma, I. (2014). *Relationship Between Working Capital Management And Profitability In Retail Sector Companies Listed On The Johannesburg Stock Exchange*. Master Thesis, Tshwane University of Technology, Department of Business Administration.
- Hair, J., Hult, G., Ringle, C., & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modeling* (2nd Edition ed.). Thousand Oaks: Sage.
- Hair, J., Ringle, C., & Sarstedt, M. (2011, March). PLS-sem: Indeed a silver bullet . *The Journal of Marketing Theory and Practice* .
- Hashim, K. F. (2012). *Understanding the determinants of continuous knowledge sharing intention within business online communities*. PhD Thesis, Auckland University.
- Hawley, J. (2015, October 7). *Why is working capital management important to a company?* Retrieved from Investopedia: <http://www.investopedia.com/ask/answers/100715/why-working-capital-management-important-company.asp>
- Henseler, J., Ringle, C. M., & Rudolf, R. S. (2009). The Use Of Partial Least Squares Path Modeling In International Marketing. *Advances in International Marketing* , 20, 277–319.
- Hulland, J. (1999). Use of partial least squares (PLS) in strategic management research: a review of four recent studies. *Strategic Management Journal* , 20 (2), 195–204.
- Khajeh, S. G. (2014). *BIST tekstil, deri sektöründeki firmalarda çalışma sermayesi yönetiminin firma karlılığı üzerine etkileri (The Effects Of Working Capital Management On Firm Profitability In Textil And Leather Companies On BIST)*. Master Thesis, Atatürk Üniversitesi, Department of business, Erzurum.
- Kwong, K., & Wong, K. (2013). Partial Least Squares Structural Equation Modeling (PLS-SEM) Techniques Using SmartPLS. *Marketing Bulletin* , 24, 1-32.
- Lamberson, M. (1995). Changes in Working Capital of Small Firms in Relation to Changes in Economic Activity. *American Journal of Business* , 10 (2), 45-50.
- Lazaridis , I., & Tryfonidis , D. (2006). Relationship between working capital management and profitability of listed companies in the Athens stock exchange. *Journal of Financial Management and Analysis* , 19 (1), 1-12.
- Napompech, K. (2012). Effects of Working Capital Management on the Profitability of Thai Listed Firms. *international Journal of Trade, Economics and Finance* , 3 (3), 227-232.

- Naser, K., Nuseibeh, R., & Al-Hadeya, A. (2013). Factors Influencing Corporate Working Capital Management: Evidence From An Emerging Economy. *Journal of Contemporary Issues in Business Research* , 2 (1), 11-30.
- Nazir, M. S., & Afza, T. (2009). Working Capital Requirements and the Determining Factors in Pakistan. *IUP Journal of Applied Finance* , 15 (4), 28-38.
- Onaolapo, A., & Kajola, S. (2015). What are the Determinants of Working Capital Requirements of Nigerian Firms? *Research Journal of Finance and Accounting* , 6 (6), 118-127.
- Qurashi, M., & Zahoor, M. (2017). Working Capital Determinants for the UK Pharmaceutical Companies Listed on FTSE 350 Index. *International Journal of Academic Research in Accounting, Finance and Management Sciences* , 7 (1), 11-17.
- Perković, G. (2012). The impact of working capital management on profitability of manufacturing firms in Bosnia And Herzegovina. *Zbornik radova-Sarajevo Business and Economics Review (SBER)*, 32, 117–137.
- Raheman, A., & Nasr, M. (2007). Working Capital Management And Profitability – Case Of Pakistani Firms. *International Review of Business Research Papers* , 3 (1), 279-300.
- Saarani , A. N., & Shahadan , F. (2012). The Determinant Factors of Working Capital Requirements for Enterprise 50 (E50) Firms in Malaysia: Analysis Using Structural Equation Modelling. *Scottish Journal of Arts, Social Sciences and Scientific Studies* , 5 (2), 52-66.
- Sharma, A., & Kumar, S. (2011). Effect of Working Capital Management on Firm Profitability: Empirical Evidence from India . *Global Business Review* , 12 (1), 159-173.

Models of linking recreational tourism and agribusiness thought use of ICT

Šemsudin Plojović

*University of Novi Pazar
Serbia*

Suad Bećirović

*University of Novi Pazar
Serbia*

Senadin Plojović

*Technical faculty “Mihajlo Pupin” Zrenjanin
Serbia*

Enis Ujkanovic

*University of Novi Pazar
Serbia*

Abstract: Paper is presenting results of project “With better cooperation towards better future” which is supported by University of Novi Pazar and Sanjak business association with focus on segment of project about investigating the possibility of application of information communication technologies in order to increase the visibility of tourism resources and linking individual farmers who can make their agriculture products, food, accommodation and other services available to tourists. This study addresses the issue of linking the tourist offers and offers of organic food from small agriculture households. The project treats the area of South Serbia and northern Montenegro, which is known for the beauty of mountain trails, glacial lakes, large cave systems, fast-flowing rivers and cuisine specialties. The aim of the project is to popularize this potential and its actualization within the tourist industry. This project involves the registration of pedestrian trails, bicycle paths, trails of photo safaris within the google maps system as well as within the specific mobile applications. The essence of the project is the implementation of mobile and other applications and electronic services to improve the lives of small farm households through the improvement of tourist offer, the development of organic production and enabling farmers to sell their products to final customers directly.

Keywords: tourist industry, organic products, market positioning

Introduction

Paper is presenting results of project “With better cooperation towards better future” which is supported by University of Novi Pazar and Sanjak business association.

The focus of this paper is segment of the project about investigating the possibility of application of information communication technologies in order to increase the visibility of tourism resources and linking individual farmers and rural households who can make their agricultural products, food, accommodation and other services available to tourists.

This study addresses the issue of linking tourist offers and offers of organic food produced by small agricultural households.

The project treats the area of south west Serbia and northern Montenegro, which is known for the beauty of mountain trails, glacial lakes, large cave systems, fast-flowing rivers and cuisine specialties.

The aim of the project is to popularize this potential and its actualization within the tourist industry.

The project also involves the registration of pedestrian trails, bicycle paths, trails of photo safaris within the google maps system as well as within the specific mobile applications.

Scope of the research

Starting hypothesis of the research is that there is no valid possibility of linking recreational tourism and agribusiness using ICT.

If this starting hypothesis is not confirmed that means that complementary hypothesis is valid and that is: There is at least one possibility of linking recreational tourism and agribusiness using ICT.

Authors have translated the idea of linking recreational tourism and agribusiness in adequate and usable model that has been constructed based on the research done in ten municipalities in south west Serbia and northern Montenegro. Research has been done using different research method including observing, interviewing and analysis of the existing solutions in this area.

Objective of the work is to find applicable model of linking recreational tourism and agribusiness that can be used as a base for developing adequate software solution.

In order to achieve this objective following research tasks had to be conducted:

- Analyse business of agricultural households in the research area, collect data on key challenges that agricultural producers face.
- Identify potentials for development of recreational tourism, collect data on key challenges that tourist organizations face in developing recreational tourism.
- Based on the collected data and their analysis, as well as SWOT and GAP analysis develop model that could improve market position of small agricultural households and at the same time improve tourist potential of the area.

In order to fulfil these research tasks authors have used data collection methods already mentioned. In addition to this, for the analysis of the collected data, following methods have been used: comparative method of existing solutions, SWOT analysis of agricultural producers

and SWOT analysis of the tourist potentials as well as GAP analysis of the agricultural households and tourist resources from the aspect of market potential and customer relations.

Separate chapter of this paper will cover each of the mentioned tasks.

Position of the agricultural households in the area

Authors emphasize the fact that this is not a first paper dealing with the analysis of market position of small agricultural households in this area as well in other places around the world. Previous research in this subject are numerous and different authors showed development of agricultural households in the mountain areas from different aspects and tried to indicate the solutions to development of these areas. For this purpose, we will use existing information on position of small agricultural households in the mountain areas in official documents developed by teams hired by European Commission, FAO as well as strategies for rural development of the individual municipalities. Beside these documents authors use results of the work of Nobel Prize winner Muhamed Yunus that he presented in his book *Banker of the Poor*. Authors also reference work of Swinned that dealt with the challenges of marketing of small agricultural producers. In the part related to organization of small agricultural households authors, beside their own research, also reference results of Ravindran S.N. as well as Toader M. and Valentina G.R. that in separate papers covered challenges of sustainability of small rural households. In the part related to finances authors reference work of Zender R. that researched alternative sources of financing small agricultural households since classical sources of finance are hard to get or expensive for them. Also, authors rely on their own earlier publications covering individual segments of agribusiness development as well as tourism in the given area.

When development of small agricultural households is concerned following local, regional and national stakeholders and factors are most important (Plojovic at all. 2016):

- *Natural factors (land, insolation, availability of water...)*
- *Demografic factors (population, age, available information...)*
- *Infrastructure factors (road networks, communications, water supply systems, facilities for storage and processing agricultural products...)*
- *Community support (financial and organizational support from the municipality, national and international institutions, availability and willingness of support institutions...)*
- *Legal and economic environment (regulations regarding loans and financing, collateral...)*

On the other hand, internal most important internal factors of individual agricultural households are (Plojovic at all. 2017.):

- *Market entry*
- *Availability of financing sources*

- *Join use of land*
- *Infrastructure conditions*
- *Personal conditions*

Position of agricultural household depends on adequate development of these factors. Task related to this part of research is consisted of analysis which factors can be improved the most and which of them contribute most to the market position of the agricultural household.

As far as the data on current situation of agricultural households, authors present the information they obtained from the field research and using secondary data. Using method of generalization in some areas, authors used the collected data on sampled households to present the current situation agricultural households in the region.

Key challenge that individual agricultural producer face in the mountain areas of the west Balkans is access to markets for their products. If we take export of corn for example, we can see that it is one of the agricultural with the biggest export. However, these products are mostly not produced by the small agricultural producers, but instead it was produced by large agricultural corporations. One of the reasons is that large corporations, using the economy of scale, can afford to pay larger fee to rent the government land. At the same time they also negotiate buying the government land. Market present demands a capacity to be able to interact with the buyers constantly and continuously and inform them on the current offers. That part small agricultural producers can achieve best trough the joint use of resources.

Next factor is consolidating of land ownership, and that is mostly true in the mountain areas were land owned by individual producers is very limited and physically divided in different locations (see the attached graph).

As we can see, average size of the land owned by individual producers is very small and if we take into account information that this land is usually divided is several locations, not linked to each other that this situation becomes even more severe.

Data from the National Statistical Office show that available agricultural land in Serbia is 5,346,597 ha, accounting for 68.9 percent of Serbia's territory (7,759,200 ha). (Ševarlić, 2012, p. 37) The 2012 Census of Agriculture ascertained for the first time in the current public databases on land resources two very disturbing facts:

1. Total agricultural land (3,861,477 ha) is less than half (49.8%) of the total territory of Serbia (7,759,200 ha) and
2. even 424,054 ha or 11.0% of total agricultural land is not utilised, which makes 7.9% of the available agricultural land. (Ševarlić, 2012, p. 248, 249).

If we add to this information that number of rural population is in constant decrease at the same time when the land owned by individual producers is decreasing we can see a paradox caused by

the fact that many people that have enherited agricultural land decided not to cultivate it. The bad consequence of this is, as mentioned, that a large percentage of available agricultural land is not cultivated. Aging rural population is one more indicator that shows on bad current situation in rural areas. At an old age, rural population decrease their productivity dramatically. Also, readiness for change and embracing new production methods also decreases with age. There is also lack of motivation for new investment in agricultural production if there is no new generations to continue the work. All this indicates that demographic factors have very large influence on development of agricultural production in rural areas.

Potential for Rural Tourism

Natural factors used for tourist valorisation are consisting of following elements: Geomorphology characteristics, climate, hydrography, plants and animal world. Initial factor for development of tourism is geographic characteristic of the area. Complex natural tourist values are best valorised by analysing geomorphological, climate, hydrological and biogeographical tourist elements.

In the tourist morphological sense the researched area is consisted of following parts:

- City valleys
- Mountains
- River valleys
- High plains
- Hilly areas.

However, in each of these parts there are many tourist potentials that are not know to a wider audience of current and potential customers.

Pester plain and Vlahovi, as well as mountains are part of the Dinarica mountain system.

Lower areas, river valleys as well as Pobrđa also part of this system.

Geomorphology characteristics as touristic value is consisted of complex geological materials, tectonically arranged valleys of river Lim, Uvac, Raska and Ibar as well as smaller valleys connected to them. Geomorphologic objects have special importance for the whole touristic valorisation.

Geomorphology of the researched area has mainly mountain characteristics were Pester high plain is in the central part and valleys of river Ibar and Lim in the east and west borders surrounded by mountains Haila, Prokletije, Golija, Radocela, Rogozna, Ninaja, Giljeva, Jodovnik, Zlatar and Mojstirskodraske mountains.

Although, the area is not suitable for communication infrastructure, valleys enable enough space to build roads necessary for development of tourism in this area.

Researched area, because of its geographic position is on the transit communications between main regional centres. Based on the number of tourists that visits and/or pass through this area we can conclude that the region has not used its potential as transitory position to attract more tourist revenue.

In this cross-border region, beside City of Novi Pazar, other towns and rural settlements are not established as tourist destinations, if we exclude several spa places and mountain Golija.

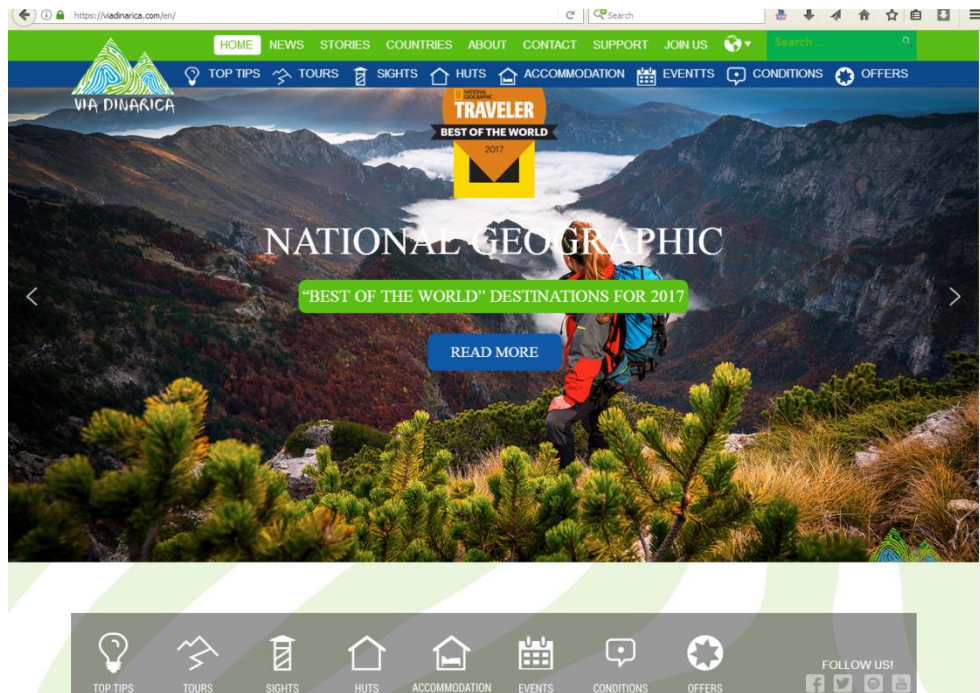
Group of closer regions and centres cover West Serbia and Sumadija in the west with the Pomoravlje. Bigger centres are Užice, Čačak, Kraljevo, Kragujevac and Krusevac. Other regions surrounding the area are Montenegro and Kosovo with centres like Kosovska Mitrovica and Peć.

In the near future, role of stronger source of tourists will have East and Central Bosnia and Bosnian Posavina including centres Sarajevo, Tuzla, Banja Luka, Brčko and others.

In the group of tourist sources centres further than 300 km are Vojvodina, East and South East Serbia with centres including: Belgrade as the capital, Novi sad, Subotica, Zrenjanin, Pancevo, and in the east and south Zaječar, Negotin, Bor, Nis, Leskovac and Vranje.

To all mentioned tourist sources centres more attention needs to be paid in order to promote tourist values and potential of the researched area.

The importance of this area, when it comes to recreational tourism can be best illustrated by project Via Dinarica (www.viadinarica.com). For the destinations that covers, the project received a received a “2014 Travel Awards: Best New Trail” by the Outside Online magazine (<https://www.outsideonline.com/1921701/2014-travel-awards-best-new-trail>) in 2014, and “Best of the world” destination for 2017 by the National Geographic Magazine (<https://viadinarica.com/en/blog/280-national-geographic-traveler-via-dinarica-medu-najboljim-svjetskim-destinacijama-2>).



Source: www.viadinarica.com , 20.04.2017.

Project Via Dinarica has an objective to map tourist potential along three routes through mountain pass of Dinarica mountains starting from Slovenia all the way through Albania. Three routes are marked as green, white and blue. Green and white route pass through area of southwest Serbia and northern Montenegro. It is hard to list all the tourist potential in one paper, but it is very important that they are generally recognized and to work on validating each individual resource.

Information collected by the authors about responses from tourists that visited these places show following:

- Road infrastructure is in very bad condition.
- Accommodation capacities are not distributed well.
- Tourist organizations are not focused on recreational tourism
- Near tourist attractions there is no safe accommodations and establishing camps.
- Mountain paths are not marked well.
- There is no adequate cooperation of tourist organizations and local communities.
- The mobile networks do not cover all the area
- Lack of cooperation between tourist organizations with an aim to create joint tours.

These are most common answers that authors have summarized from many answers that, unfortunately, indicate that actualization of tourist potentials is very low as well as awareness that these potential can be transformed in development potential of the region.

Possibilities of linking recreational tourism and agribusiness

The research points to the possibility, that through the development of tourist potentials of recreational tourism, with adequate cooperation, to improve the position of small agricultural households.

The basic precondition for successful cooperation is a "win-win" strategy, that is to find a benefit in the cooperation for all sides. And if there is a benefit for a wider social community then a synergistic effect is achieved.

The current SWOT analysis of small agricultural households with focus on factors which can influence recreational tourism is given bellow:

<p>S Organic production, Natural beauties, Clean air and water, Special features of cuisine products</p>	<p>O The development of new products, Finding market niches, Direct contact with customers</p>
<p>W Poor road infrastructure, Crushed production, Insufficient implementation of agro-technical measures, The problem of entering the market</p>	<p>T Emigration of young people, Dependence on the buyer, Exclusion from strategic documents Media neglect</p>

In the SWOT analysis of the position of small agricultural households, many factors are noted: Bad road infrastructure, small scale production, insufficient application of agro-technical measures, the problem of entering the market, and so on. The essence of linking recreational tourism with agribusiness is to minimize the impact of these shortcomings. Reducing the impact of these shortcomings is reflected in the fact that recreational tourists do not request road infrastructure, since the essence of recreational tourism is movement of foot, visits of natural beauties, such customers are looking for products that are specific, special and with less use of biochemical treatments of modern chemistry. This approach, on the other hand, enables the leveraging of the advantages of agricultural households in the mountainous region, which are: organic production, natural beauty, clean air and water, the specificity of food products and many others. It also positively influences Chances, which are the development of new products, finding of markets niche, direct contact with customers. This approach also decreases likelihood of Threats occurring, such as emigration of youth, dependence on customers, exclusion from strategic documents and media neglect.

The current SWOT analysis of the offer of recreational tourism with a reference to the factors that can be influenced by linking with small agricultural households is given bellow:

<p>S Organic production, Natural beauties, Clean air and water, Special features of cuisine products</p>	<p>O The development of new products, Finding market niches, Direct contact with customers</p>
<p>W Accommodation capacities not well distributed. Tourist organizations are not oriented towards recreational tourism. There are no safe conditions for lodging and camping near tourist attractions. Mountain trails are not well marked. Adequate cooperation between the tourist organization and the local population not establish.</p>	<p>T Emigration of young people, Exclusion from strategic documents, Media neglect</p>

If we consider the improvement of the tourist offer as an improvement in the services that the customer buys, then the improvement of the tourist offer is also an additional benefit for the customer.

Adequate linking with agricultural households will greatly contribute to overcoming the shortcomings of the tourist offer. In the part of the accommodation capacities within the rural tourism, accommodation facilities can be created at the tourist site near tourist attractions. The goal of every agricultural household would be to get more customers and they would make an effort to conserve nature with an adequate improvement their offer. If an agricultural household is aiming to sell their products to tourists who are not going to use the accommodation services but want to camp, then the agricultural household has an interest in arranging and protecting camping sites in order to increase the sales of agricultural products. Since the rating of a tourist destination depend on the well-marked trails, then the agricultural holding has an interest in maintaining these markings. A software solution can facilitate exchange of information between tourists and agricultural households. Tourist organizations can be as support to the initiative, but with no need to be part of providing the service. As we have already talked about other factors of SWOT analysis in this paper, it is sufficient to justify the ways of reducing the impact of the weaknesses of the tourist offer

The proposed model of connecting recreational tourism and agribusiness

Based on the analysis of the current state of small agricultural households and the analysis of the tourist offer, with reference to recreational tourism, the possibilities of linking have been considered. A model of linking recreational tourism and agribusiness with the use of ICT has been created.

To create this model following sets of activities are needed:

- activities related to the information system
- activities related to tourist offer
- activities related to agricultural households

The project implies the following activities related to tourist offer:

- Work on identification of tourist resources
- Valorization of tourist resources
- Gap analysis of the current and desired state of exploitation of tourist resources
- Mapping tourist resources through integration into Google Maps or similar navigation software
- Mapping roads to tourist attractions as well as mapping of the hiking, cycling and photo safari trails

The model implies the following activities related to agricultural households:

- Identification of households who are ready to offer their agricultural products to tourists
- Identification of suitable places for visiting
- Mapping of touristic facilities within tourist offers
- Preparation and training of agricultural households in order to increase their capacity to include catering services in the framework of their offer

The model implies the following activities related to the information system that would support the linkage of tourist offer and supply of agricultural households:

- Identification and creation of tourist routes
- Presentation of agricultural households on these routes and presentation of the services they provide
- Development of internet portal and mobile application that connects tour operators and agricultural households, as well as individuals tourists and agricultural households
- Development of a special form of social network that would gather visitors and users of these services
- Development of reservation, ordering and billing of products and services electronically.

The end result of these activities should be an interactive internet site that is linked to a mobile application. Data on tourist tours, attractions and places to visit are entered by Local Tourist Organizations. This creates awareness of the tourist offer. Using GPS values each location is shown on Google Maps application. Also, each of the tourist routes is presented as a tracking route on Google maps. Each route would have a full description, length, sights, hosts along the route, time to visit and the time needed to get around.

Registration of agricultural households, that is, obtaining a user account for every agricultural household would be done in local tourist organizations. After registering and obtaining the ID number, agricultural hosts would download a mobile app from the Google Play Store and enter their data. Every agricultural household enter general characteristics about their offer:

- Positioning on the map
- A short film about the household
- Products that they offers
- Indicative price list

Customers - recreational tourists can use either an internet site or a mobile application for tourists. Through the application, they can contact the tourist organization or individual households with their requests. For each request, the household with a confirmation also sends a pro forma invoice. After confirmation of the payment of funds to the household account the tourist services can be provided. In order to be able to further use the site and mobile application, both the household and the guest are obliged to evaluate each other in the system. In this way, the status and reputation of individual households is created.

The system is to be maintained by local tourist organization, and would be funded by the fees charged as a percentage to each financial transaction in the system. This would ensure sustainability of the model.

The authors also recommend that the agricultural households propose camping sites and build sanitation facilities and showers in the vicinity of those places. Some households might build special capacities for accommodation.

Conclusion

The research carried out by the authors and the data they collected indicate that linking recreational tourism and agribusiness can contribute to following:

- Improving market position of agricultural households
- Improving local tourist offer
- Impact on local, regional and national factors to devote special attention to small rural households in the mountain areas.

This disproves the initial work hypothesis that there is no possibility of linking recreational tourism and agribusiness using ICT.

It also confirms complementary hypothesis which is: There is at least one possibility of linking recreational tourism and agribusiness using ICT.

This paper presents an overview of the research conducted by the authors with the aim to point out the unused potentials that can be used to improve the lives of small agricultural producers as well as recreational tourists. In order for this research to achieve its goal, it is necessary to disseminate the results of this research and take appropriate actions based on specific knowledge acquired through the research. This can contribute to improvement of the position of agricultural households, as well as the improvement of the tourist offer and thus contribute to better life of the local population.

References

- Agribusiness and Development: How investment in the African agri-food sector can help support development, Seminar co-organised with DG Development and Cooperation EuropeAid, April 10, 2013 Charlemagne, Brussels
- ARCOTRASS- Consortium, Study on the State of Agriculture in Five Applicant Countries, Country Report: B&H - BOSNIA and HERZEGOVINA, Country Report, December 2006
- Bećirović S, Plojović Š, E Ujkanović: Impact of investments with a fixed income on the development of entrepreneurship. *Anali ekonomskog fakulteta u Subotici*. 01/2012; 48(27):187-199.
- Bećirović, S., The Role Of Microfinance In The Agricultural Development Of The Cross-Border Region Of Sandzak, Novi Pazar: International Conference “SMEPP 2011”.
- Bosna i Hercegovina, Federacija Bosne i Hercegovine, Federalno ministarstvo poljoprivrede, vodoprivrede i šumarstva, Srednjoročna strategija razvoja poljoprivrednog sektora u federaciji Bosne i Hercegovine za period 2014. - 2018. godina, I dio, Strateški okvir, Draft, Sarajevo, oktobar 2013. godine
- European Commission, Agricultural Policy Perspectives Brief, EU-10 and the CAP, 10 years of success, April 2014
- Plojović Š., Bećirović S., Ujkanovic E., Possible directions of economic development of Novi Pazar area, The Faculty of Economics, University of Kragujevac, International Conference “Contemporary Issues in Economics, Business and Management”, which is held at the Faculty of Economics in Kragujevac, Republic of Serbia, December 14th and 15th, 2010.
- Plojovic S., Ujkanovic E.: Slovak-Serbian EU Enlargement Fund Collection of Selected Policy Papers. Slovak-Serbian EU Enlargement Fund Collection of Selected Policy Papers, first edited by Andrea Cox, Ed Holt, 10/2011: chapter Attracting and Directing Foreign Direct Investments: The Example of Slovakia in EU Enlargement and how Serbia can Benefit from It: pages 25-33; Pontis Foundation.
- Plojovic S., Becirovic S., Busatlic S., Ujkanovic E.: Possibilities of application of Robinson Crusoe example and the theory of closed systems in the theory of economic development in countries in transition along the silk road, case of Serbia. Monograph publication Reslikroad,

Editor Mehmet Bulut., Istanbul Sabahattin Zaim University Publications, ISBN: 978-605-62038-79

Ravindran S. N., Reaching out to organic agriculture for sustainability in agribusiness, *International Journal of Globalisation and Small Business* 10/2015; 7(3/4):pp.284-299. DOI:10.1504/IJGSB.2015.072690

Swinnen J., Agribusiness Investments, Value Chains, and Farmers “Linking (Rich) Consumers to (Poor) Producers”, University of Leuven, CEPS & Stanford University Milano, October 2015

The status and constrains of agricultural sector in Bosnia and Herzegovina and the country food security situation The report prepared by Sabahudin Bajramović, National consultant in FAO project TCP/BiH/3302

Toader M., Valentin G. R., Family Farming – Examples for Rural Communities Development 12/2015; 6:89-94. DOI:10.1016/j.aaspro.2015.08.043

Vladimirovna Bannikova N., Nikolaevich Baydakov A., Sergeevna Vaytsekhovskaya S., Identification of Strategic Alternatives in Agribusiness, *Modern Applied Science* 12/2015; 9(4). DOI:10.5539/mas.v9n4p344

Yunus, M., Bankar siromašnih – Mikrokrediti i bitka protiv siromaštva u svijetu, Zagreb: Masmedia.

Zander R. New Trends in Financing Agricultural Value Chains - Promising practices and Emerging Recommendations for Policy Development, G20 GPMI SME Finance Working Group, Antalya. Turkey; 09/2015

Detection of Financial Statement Fraud Using Beneish Model

Elvisa Buljbasic

*International Burch University
Bosnia and Herzegovina
elvisa.buljbasic@ibu.edu.ba*

Sanel Halilbegovic

*International Burch University
Bosnia and Herzegovina
sanel.halilbegovic@ibu.edu.ba*

Abstract: *One of the greatest challenges faced by auditors is to detect anomalies in financial statement reporting. Once the anomalies are detected they have to be further investigated by forensic accountants. However, the practice of forensic accounting has not yet become a reality in Bosnia and Herzegovina. So the main purpose of the study is to analyze to which degree BH companies are exposed to the financial statement fraud and with respect to that the need for forensic accountants. The financial statement data will be collected from BH companies and it will be analyzed using Beneish model. The Beneish model is the mathematical model that identifies the manipulation of earnings through financial ratios. These analytical techniques should reveal the unconventional variations in financial statement reporting, indicating that there is possibility of fraudulent transactions.*

Key words: *Beneish model, fraudulent reporting, forensic accounting*

Introduction

One of the greatest challenges in 21st century faced by companies, institutions and organizations is financial statement fraud, which is increasing in number and size, what significantly affected the people's trust in credibility of financial statements and corporate reports. As stated in the Report to the Nation on Occupational Fraud and Abuse (2016), published by ACFE, compared to the other types of occupational fraud (corruption and asset misappropriation), financial statement fraud is the least frequent (9.6%), however, it is the largest in terms of size of median loss (\$975 000).

The financial statement fraud become a global concern, affecting not only large, multinational companies and organizations, but also small and medium sized enterprises. However, the well-known corporate scandal cases such as Enron, WorldCom, Tyco and few others are the most known examples of not only financial statement fraud, but also other types of occupational fraud. After these corporate scandal cases the issue of auditor's failure to detect fraud signs or

symptoms was brought to the attention and the role of forensic accountant become irreplaceable in fraud investigation. In order to be a forensic accountant one has to possess a broad spectrum of knowledge and skills in different fields such as accounting, auditing, law, psychology, criminology, etc. Also, the forensic accountant needs to possess outstanding moral and ethical principles and values.

Technology advancements significantly improved the detection process of frauds and embezzlements, so today auditors have access to many tools, programs and software that save time, produces more relevant findings and point out the critical areas that should be further investigated by forensic accountants. Some of the common tools used in the audit of financial statements are: Benford's Law, Beneish Model, ratio analysis, data mining. This study will focus on the Beneish Model financial statement fraud detection tool as one cost-effective and efficient tool that should be utilized by auditors.

Beneish (Beneish M-Score) Model extracts the necessary data from the balance sheet, income statement and statement of cash flow, and uses eight variables (days sales in receivables, gross margin index, asset quality index, sales growth index, depreciation index, sales, general and administrative expenses index, total accruals to total assets index, and leverage index) as indicators of companies prone to manipulate financial statements. Companies with the higher Beneish score are more probable to manipulate financial statements.

Fraud Triangle

The first step in fraud investigation is to understand the motives behind the fraud commitment. The forensic accountant has to investigate why fraudster commits the fraud, under which circumstances and what is used as fraud justification or rationalization. These three elements are perfectly depicted in so-called fraud triangle which was developed by Donald Cressey in 1973, what is shown in the figure below.

Figure 1: Fraud Triangle



Source: Singleton T.W. & Singleton A.J. (2010). *Fraud Auditing and Forensic Accounting*. Wiley.

The fraud triangle was created after Donald Cressay had interviewed 200 people accused for embezzlement. Cressay had discovered that each fraud had three elements in common: pressure (motivation or need), knowledge or opportunity and rationalization (Singleton and Singleton, 2010).

Pressure, incentive or motivation is related to the something that is happening or has happened in the fraudster's personal life what forces him or her to commit the fraud, for example: financial difficulties, bad habits such as gambling, or incentive such as bonus payments based on the performance (Singleton and Singleton, 2010).

Opportunity is related to the knowledge and experience with respect to the fraudster working environment. Fraudster will utilize the weaknesses of internal control, familiarity with the environment and trust given to him to commit the fraud (Singleton and Singleton, 2010).

Rationalization is related to the way in which fraudster justifies his or her fraudulent actions. It is interesting that, according to the ACFE Report to the Nation from 2008, 93% of fraudsters did not have criminal record, and it is not rare situation that fraudsters are religious people (Singleton and Singleton, 2010).

Types of financial statement fraud

According to the ACFE Report to the Nations on Occupational Fraud and Abuse (2016) the financial statement fraud occurs in 9.6% of cases, with the median loss of \$ 975,000. The intention of fraudster is to misstate the financial statement entries or disclosures to trick the users of financial statements.

The financial statement fraud is classified into two groups: financial and non-financial. Within financial group there is further classification on asset/revenue overstatement and asset/revenue understatement. Since the focus of this research paper is on the financial aspect of the financial statement fraud the following common types of fraud will be further explored: timing differences, fictitious revenues, concealed liabilities and expenses, improper disclosures and improper asset valuations.

Association of Certified Fraud Examiners (2017) describes the types of the financial statement fraud in the following way:

Timing differences refers to the incorrect treatment of sales where the revenues and expenses are shifted from one period to the another, affecting the earnings in a desired way. For example, the inventory is recorded as a sale, knowing very well that part of it will be returned back or two-year service contract is treated as the revenue of the current year what leaves the consequences on the future period earnings.

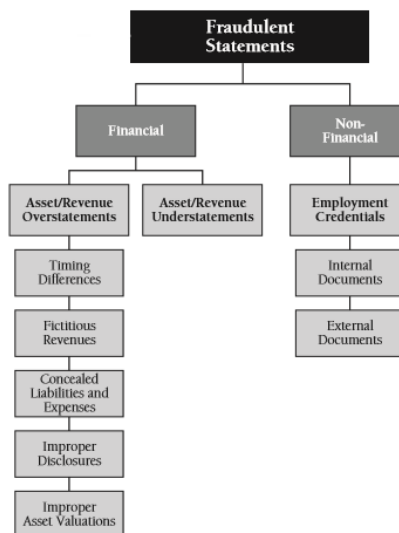
Fictitious revenues are related to the sales that are never realized, which not rarely include fake customers, what leaves the impact on the revenues, profits and assets. The common sign of fictitious revenues are obscure accounts receivable that are overdue for a long period of time. The companies in a financial problems are prone to record fictitious revenues.

Concealed liabilities and expenses refer to the incorrect treatment of liabilities what usually happens at the end of the accounting period where liabilities are moved to the first month of the consequent period or when the company is large enough, liabilities are moved to the subsidiary companies, which are either not being audited or they are audited, but by a different audit company.

Improper disclosures refer to the obligation of the management to disclose all relevant information in the financial statements. Improper disclosures related to the financial statement fraud usually include the following: omission of liabilities, subsequent event, related-party transactions and management fraud.

Improper asset valuation refers to the incorrect statement of asset amounts (accounts receivable, inventory, business combinations, long-lived or fixed assets), capitalization of expenses, or deflating the contra-asset amounts (allowance for doubtful accounts, accumulated depreciation). Through improper statement of the assets, contra-assets and expenses the financial indicators will show a better than a true equity and profit values.

Figure 2: Part of Fraud Tree



Source: ACFE (2017)

Schilit's seven shenanigans

Schilit and Perler (2010) in their book *Financial Shenanigans*, have identified seven financial “sins” related to the earnings manipulation, which are:

- recording revenue too soon
- recording bogus or fictitious revenues
- boosting income with one-time gains
- shifting current expenses to later period
- failing to disclose all liabilities
- shifting current income to later period
- shifting future expenses to current period.

According to the research done by Isakovic-Kaplan and Delalic (2013), the comparison is made regarding the frequency of seven financial shenanigans in the world and in the Bosnia and Herzegovina, what is summarized in the table below:

Table 1: Comparison of seven financial shenanigans between the world and Bosnia and Hezegovina

WORLD	BOSNIA AND HERZEGOVINA
Recording revenues too soon	Recording revenues too soon
Recording bogus revenue	Recording bogus revenues
Boosting income with one-time gains	Shifting future expenses into the current period
Shifting current expenses to a later or earlier period	Shifting current expenses to a later or earlier period
Failing to disclose all liabilities	Shifting current income to a later period
Shifting current income to a later period	Recording bogus expenses
Shifting future expenses into the current period	Failing to disclose actual revenues

Source: Adjusted from Isakovic-Kaplan and Delalic (2013). Creative accounting in companies in B&H

By looking at the table above, the first two fraudulent practices are common to the B&H and the world. However, the four out of five remaining financial shenanigans show that companies in B&H are prone to demonstrate lower net income through increase in expenses or by moving future expenses to the current period. The possible reason behind this kind of situation is the fact that BH companies usually do not have established reward system based on the performance, so there is no incentive to increase revenues. So the top management of BH companies is usually motivated to commit the fraud against the government through showing lower net income what implies lower income taxes to be paid to the government.

Red Flags of Financial Statement Fraud

Almost every fraud has warning signals detected in its financial statements, which are commonly called red flags. According to the ACFE (2017) the red flags that are usually detected in financial statements are anomalies in profitability, cash flow, assets, liabilities, equity accounts, anomalies in relationships between financial statement items. Warshavsky (2012) argues that accruals are very often used as the basic component in the earnings manipulation. The purpose and size of accruals should serve as one of the important instruments that should assist the forensic accountant in detection of financial statement fraud, or earnings manipulation.

Methodology

Beneish M-Score Model

Beneish M-score is the mathematical model developed by Messod Beneish which uses eight variables derived from the company's financial statements (balance sheet, income statement and statement of cash flow) with the aim of detecting the companies prone to manipulate its financial reports (Beneish, 1999).

The variables that are included in the Beneish model are financial ratios computed from the financial statements for two consecutive years. The formulas for variable computations are shown in the table below:

DSRI – days sales in receivables index – increase in receivables that is not proportionate to the sales may be sign of revenue inflation (Beneish, 1999).

GMI – gross margin index – if the GMI index is greater than 1, it means that gross margin have declined and Lev and Thiagarajan (1993) argue that it is negative sign regarding company's performance. So there should be a positive relation between increase in GMI and probability of manipulated earnings (Beneish, 1999).

AQI – asset quality index – if AQI is greater than 1, it is the indication of company's potential involvement in cost defferal. So, as in the case of GMI index, there is positive relation between increase in AQI and manipulated earnings (Beneish, 1999).

SGI – sales growth index – growth does not necessarily indicate manipulation, but when large companies are exposed to pressure, there is greated probability that their earnings will be manipulated. The positive relation is expected between SGI and manipulated earnings (Beneish, 1999).

DEPI – depreciation index – if DEPI index is greater than 1, it means that the rate at which assets depreciate have slowed down, indicating that the company has examined its estimates of assets useful life. The positive relation between DEPI index and earnings manipulation is expected (Beneish, 1999).

SGAI – sales general and administrative expenses index – the increase in SGAI is positively related to the manipulation of earnings (Beneish, 1999).

LVGI – leverage index – if LVGI is greater than 1, than it represents an indication of increase in leverage. This variable is included in the model with the aim of analyzing debt agreements incentives for manipulation of earnings (Beneish, 1999).

TATA – total accruals to total assets – the variable is used in the model with the aim of analyzing the extent to which cash corresponds to the reported earnings. It is expected that greater positive accruals are related to the increased likelihood of earnings manipulation (Beneish, 1999).

Study hypothesis

H1 – The companies in Bosnia and Herzegovina are prone to manipulate financial statements.

Table 2: Variables used in Beneish Model

Variables	Formulas
DSRI	$\left[\frac{\text{Receivables}_t}{\text{Sales}_t} \right] / \left[\frac{\text{Receivables}_{t-1}}{\text{Sales}_{t-1}} \right]$
GMI	<p>Gross margin_{t-1} / Gross margin_t</p> <p><i>Gross margin = (Sales - Cost of goods sold) / Sales</i></p>
AQI	$\left[1 - \frac{\text{PPE}_t + \text{CA}_t}{\text{Total Assets}_t} \right] / \left[1 - \frac{\text{PPE}_{t-1} + \text{CA}_{t-1}}{\text{Total Assets}_{t-1}} \right]$ <p>PPE: Plant, Property and Equipment/ CA: Current asset</p>
SGI	$\left[\frac{\text{Sales}_t}{\text{Sales}_{t-1}} \right]$
DEPI	$\left[\frac{\text{Depreciation rate}_{t-1}}{\text{Depreciation rate}_t} \right]$ <p><i>Dep' rate = Depreciation / (Depreciation + PPE)</i></p>
SGAI	$\left[\frac{\text{SGA}_t}{\text{Sales}_t} \right] / \left[\frac{\text{SGA}_{t-1}}{\text{Sales}_{t-1}} \right]$ <p>SGA: Sales, general, and administrative expense</p>
TATA	$\frac{\Delta \text{Current Asset} - \Delta \text{Cash} - (\Delta \text{Current Liabilities} - \Delta \text{Current maturities of LTD} - \Delta \text{Income Tax payable}) - \text{Depreciation \& Amortisation}_t}{\text{Total Assets}_t}$
LVGI	$\left[\frac{\text{Leverage}_t}{\text{Leverage}_{t-1}} \right]$ <p>Leverage = Debts / Assets</p>

Source: Anh and Lihn (2016)

The study examines 31 randomly selected company from the Tron Systems database for the period 2013-2014. The company's financial statement data is analyzed using Beneish M-Score model.

5 variables model:

$$M = -6.065 + .823 \text{ DSRI} + .906 \text{ GMI} + .593 \text{ AQI} + .717 \text{ SGI} + .107 \text{ DEPI}$$

8 variables model:

$$M = -4.84 + .920 \text{ DSRI} + .528 \text{ GMI} + .404 \text{ AQI} + .892 \text{ SGI} + .115 \text{ DEPI} - .172 \text{ SGAI} + 4.679 \text{ Accrual to TA} - .327 \text{ Leverage}$$

If the M-score is greater than -2.22, there is an indication that company is a potential manipulator of financial statements data. Otherwise, the M-score lower than -2.22 indicates that the company is not prone to manipulate its financial statements.

Out of 31 companies, 21 had the M-score lower then -2.22, indicating that there is no potential manipulation of financial statements data. Six companies had the M-score greater then -2.22, what points out that they have manipulated their financial statements. Four companies were classified as non-manipulators according to the 5-variable model, however, after adding three more variables to the model (accruals to total assets, sales general and administrative expenses, and leverage index), they were classified as manipulators.

Table 3: Descriptive statistics of sample (n=31 company)

Variable	Mean	Median	Stan.dev.	Min	Max
DSRI	0,98	0,95	0,57	0,16	3,05
GMI	0,87	0,99	1,11	-4,31	3,00
AQI	0,93	0,80	1,55	-0,14	8,61
SGI	1,47	1,03	1,71	0,32	7,69
DEPI	1,04	0,97	0,28	0,59	2,12
SGAI	1,20	0,90	1,28	0,17	7,50
TATA	0,04	0,02	0,10	-0,05	0,57
LVGI	1,28	1,05	0,89	0,60	4,32
5-variable model	-2,75	-3,11	1,81	-7,02	2,08
8-variable model	-2,10	-2,37	1,50	-4,11	1,96

The analysis showed that the common variables that were manipulated are gross margin, days sales in receivable, sales growth, and asset quality. When gross margin decreases from year to year, there is greater possibility that the company will manipulate the sales and cost of goods sold. The increase in day sales in receivable signals that the company's policy regarding accounts receivable has weakened, so when DSRI is greater than 1, there is greater likelihood that the receivables will be manipulated, leading to the conclusion that revenues will be inflated. Also, the increase in asset quality index could be related to the cost deferral or capitalization of expenses.

The findings indicate, that consistent with the Schilit's seven shenanigans, Bosnian companies prone to commit financial statement fraud, are manipulating usually with the sales revenue and expense capitalization in order to improve the financial statements performance.

Furthermore, the R square for the GMI, AQI and SGI was 45.8%, 21.0% and 26.8%, respectively, with the level of significance lower than 0.05, what leads to the conclusion that there is a significant relationship between GMI, AQI, SGI and financial statement fraud.

Conclusion

The purpose of the study was to analyze the current situation in Bosnia and Herzegovina related to the degree to which companies are exposed to the financial statement fraud. For that purpose, the financial statements data was obtained from the Tron Systems for 31 company. The obtained data was analyzed using Beneish M-score model, which is eight variables model that was developed by professor Messod Beneish in 1999.

Findings revealed that 16% of the analyzed companies are prone to manipulate their financial statements data, where sales revenues and capitalization of expenses were two main areas where manipulations were done. The regression analysis showed that gross margin index, asset quality index and sales growth index significantly influence the Beneish M-score.

This research is a first step in the more detailed investigation of financial statement fraud among BH companies, since the audit and forensic accounting profession is not yet fully developed in the country. Also, the Beneish M-score model could be utilized by the auditors in BiH as a time and cost efficient tool in the financial statement audit. In that way the attention would be drawn to the areas, accounts or items that should be further explored by forensic accountants, providing in that way space for development of forensic accounting profession.

References

- Anh, N.H., & Lihn, N.H. (2016). Using the M-score model in detecting earnings management: evidence from non-financial Vietnamese listed companies. *Journal of Science: Economics and Business*, Vol. 32.
- Association of Certified Fraud Examiners (2016). Report to the Nations on Occupational Fraud and Abuse.
- Association of Certified Fraud Examiners (2008). Report to the Nations on Occupational Fraud and Abuse.
- Association of Certified Fraud Examiners (ACFE) (May 2017). Financial Transactions and Fraud Schemes. Retrieved from ACFE website:
http://www.acfe.com/uploadedFiles/ACFE_Website/Content/review/examreview/12-accounting-concepts.pdf
- Beneish, M. (1999). The detection of earnings manipulation. *Financial Analyst Journal*.
- Isaković-Kaplan, Š., & Delalić, A. (2014). Kreativno računovodstvo u privrednim društvima u BiH, Međunarodna naučno stručna konferencija: Borba protiv prevara i korupcije 2014, Forenzika i prevencija Beograd.
- Schilit, M.H., & Perler, J. (2010). *Financial Shenanigans: How to detect accounting gimmicks & fraud in financial reports*. McGraw Hill.
- Singleton, T.W. & Singleton, A.J. (2010). *Fraud Auditing and Forensic Accounting*. Wiley.
- Warshavsky, M. (2012). Analyzing earnings quality as a financial forensic tool. *Financial Valuation and Litigation Expert*, issue 39.

Implementation of TQM in Local Government Using Quality Management System in Accordance with ISO 9001 and CAF Self-Assessment Model

Mirza Ćelik

*Faculty of Administration University of Sarajevo
Bosnia and Herzegovina*

Dževad Šahić

*Faculty of Administration University of Sarajevo
Bosnia and Herzegovina
dzevad.sasic@gmail.com*

Abstract: *Quality of township management is highly related to society, and it reflects the local government situation. The paper presents the idea of improving the quality of service in local government through the application of TQM. This paper presents two approaches that are commonly used in recent years and moved closer to these organizations that the concept of TQM which uses a quality management system based on ISO standards 9000 and model self-assessment CAF. This paper describes the interactions between these approaches and their possible joint application with a view to the implementation of TQM system in local government.*

Within this approach public sector organizations should be interested in improving the quality of their services through the implementation of TQM. The process is a long-term and complex one, where the client is its key element. Thus, it should be understood by the whole staff (both the management and the inferiors) that a well served citizen is the core of the procedure and he/she should always be assisted and have even his most complicated problems solved in the institution he/she turns to.

When implementing the principles of TQM, significant changes regarding the management and administration should occur in organizations. The methods that are helpful in the course of the implementation of TQM rules are the management quality systems based on the ISO 9001 quality standards and the CAF self-assessment model, which aim at perfecting the organization operations in order to meet the clients' needs and introduce the necessary improvements.

The public sector organizations in Bosnia and Herzegovina (e.g. state or self-government offices) have started applying a certified Quality Management System(QMS) in compliance with the ISO 9001 standards already since 2001 (following the reform of the self-government administration). Recently – due to the implementation of the CAF model in the state administration offices (in BiH since October 2006) – a significant increase of interest on the part of the public sector units in the improvement of service quality by means of this model of self-assessment can be noticed. The completion of several programs that implemented this method enabled the application of the model in several hundred offices.

Quality management systems and the EFQM model (CAF is the EFQM model adjusted to public sector) are necessary not only to companies but also to public sector organizations. They are based on similar principles and they aim at the improvement of services offered. Despite certain differences, it seems that they can complement one another and be used simultaneously in an organization.

Key words: *Public administration, quality management system, model self-assessment, ISO standard, TQM*

Service quality in public administration versus TQM

The concept of Total Quality Management (TQM) consists in the integration of the company's objectives with the ones of its customers. In this approach it is crucial that the operations involve the whole organization (a system approach), the whole staff is engaged in the quality issues with the leading role of the managing staff, a process approach of management is applied as well as continuous process of improvement, various quality management techniques and other supporting methods that aim at achieving the strategic, long-term success of the company. The success is due to an increasing satisfaction level of customers and results in several benefits to all the members of the organization and society. If their work is to be efficient, the employees must be highly motivated and well behaved, be ready to work in a team and to improve their qualifications. Furthermore, the managing staff should act as leaders, plan relevant tasks and then create the right atmosphere to carry them out. That is in line with the Oakland's approach, who says that TQM has the following strategic objectives: customer oriented quality strategy, understanding of the fault prevention processes, people treated as subjects, their motivation, team problem solving and quality assurance in compliance with the ISO 9000 standards; they all guarantee the customers' demands will be met (Oakland, 1992). Thus, TQM is a vision that can be achieved by means of long-term planning, by carrying out and implementing annual quality plans that will gradually result in making the vision come true, that will lead to the situation where the definition of TQM becomes a reality (J. Dahlgaard, K. Kristesen, G. Kanji, 2001).

The use of such approach in the public sector organizations results in several benefits for the whole organization members (the achievement of the strategic, long-term success) and the members of the society (the increase of customer satisfaction). It should be stressed that the concept of TQM is also associated with Deming's 12 principles, and a similar approach was presented by such forerunners of management as Crosby (in his 14 stages of quality improvement) and Juran (in his 10 steps to TQM).

For many years public administration has been treated in a completely different way than private sector and it has not been applying the methods of management and ways of increasing the organizational effectiveness and efficiency as well as high standards of customer service that have been used in private business. It seems that particularly public sector organizations should devote a lot of time to introduce suitable management methods that would improve the efficiency of their operations and the level of their services. However, it is the monopolistic character of the services offered by public administration units that they have no incentives (these appear on commercial markets) to improve the quality of the service. Thus, it is not the issue of the public service quality level or its improvement but the problem of creating relevant incentives; in other words it is the problem of creating a situation where public institutions themselves will be interested in *improving the quality of their services*.

Public administration, when offering services that are in a way monopolistic in nature, has the duty to do it properly and with commitment so that the demands of citizens, who cannot take advantage of a competitive organization, should be met.

When considering the issue of improving the service quality in public administration, one should look more closely at the notion of the quality of such type of services. The definition that is in force now and is included in the EN ISO 9001:2009 standard states that “*quality determines the degree to which a set of inherent characteristics fulfill the requirements*”. If so, the quality of services could be defined as a degree to which a particular service meets the needs and expectations of customers, and the fact if the condition has been fulfilled (or not) is evaluated every time and individually only by a customer. However, if the definition is to answer the question of the quality of a particular service, a broader look will be indispensable that considers such detailed aspects as the customer’s needs and expectations. A need is a feeling of unfulfillment that forces an individual to undertake actions to meet it. Customer’s expectations are simply his/her requirements that may be perceived as the clearly defined ones (e.g. completion of a case, short time of waiting) or the unspecified ones (e.g. polite service). Both requirements are equally important, however, the fulfillment of unspecified requirements, which are difficult to define in a clear way, is much more complicated. Thus, the quality of services rendered by administration can be defined as follows: “*quality is the value that contributes to the improvement of the quality of our life and culture, and it is the degree of the fulfillment of common and individual needs*” (Lazibat, 2012).

The implementation of the TQM concept in public administration involves a complete change in the ways of behavior, set of values and attitudes. The quality of service depends on people, their motivation, culture and readiness to work in a team, etc. The concept takes into consideration not only all the most important factors that decide about the success of a project (leadership, commitment, customer satisfaction, processes, relations with partners, staff motivation, their qualification, resources) but also the objectives of the organization and all the operations related to management.

The implementation of the CAF model in public administration

The CAF method was created by the IPSG, Innovative Public Services Group. It functions within the EUPAN, an informal European Public Administration Network, whereas CAF RC (CAF Resource Centre) is the body responsible for the implementation of CAF, which was set up within the EIPA (European Institute of Public Administration) in Maastricht. The Institute cooperates with a network of national correspondents and is supported by EFQM (European Foundation for Quality Management) and the Speyer University in Germany.

The CAF self-assessment model (EIPA, 2017) is the Excellence Model of EFQM assigned to public institutions, which is a practical tool that makes self-assessment possible, helps understand shortcomings and find solutions. It consists of nine criteria that define the organization's area of operations, how it approaches the tasks, what results it achieves in its relations with customers/citizens and society, including the key results of the operations. The evaluation of the criteria is based on opinion research and internal indexes.

The main objective of the CAF model is to assist the understanding process of quality management and to improve the hitherto condition of management. More precisely, it aims at the introduction and consolidation of the principles of the complex quality management in public administration, the facilitation of self-assessment of public sector organizations in order to make diagnoses and undertake suitable operations, the construction of a bridge that connects various models applied in quality management and at the facilitation of mutual learning between public sector organizations (EIPA, 2012). The CAF method constitutes one of the best tools of collecting the information about an organization and of monitoring it on its way to quality management.

The process consists of three phases and ten stages:

- Phase I – The start of the CAF process (Stage 1. Organizing and planning the process; Stage 2. Communicating the launch of the process in the office),
- Phase II - Self-assessment process (Stage 3. Setting a self-assessment group; Stage 4. Training of the group; Stage 5. Undertaking the self-assessment; Stage 6. Reporting the results),
- Phase III – Improvement plan / prioritization (Stage 7. Drafting an improvement plan; Stage 8. Communicating the improvement plan; Stage 9. Implementing the plan; Stage 10. Planning the next self-assessment).

The implementation of the quality management system in compliance with the ISO 9001 standard in public administration

The ISO 9000 Quality Management Standards are not technical standards and they do not describe in a direct way the parameters that a product or service should meet but they describe certain principles that ensure adequate quality. That is why they can be used in all type of organizations, public administration including. However, one should not forget the specific nature of the institutions where the system will be implemented. The specific features result from the following facts (Baković, T., Lazibat, T, 2004):

- the lack of competitors, thus the lack of motivation to increase the efficiency and reduce the costs,
- the effects of operations are immeasurable and do not bring income, it is difficult to determine their effectiveness, however they are socially important and must be carried out,

- financial resources depend on the condition of public finance and not on the quality of management and services rendered,
- the services are ordered by the state and they cannot be commercialized,
- long-term planning is disturbed by rotation and actions on the part of politicians.

At present the group of the ISO 9000 standards consists of four basis standards:

- ISO 9000:2005 Quality management systems** - Fundamentals and vocabulary (in Bosnia and Herzegovina - EN ISO 9000: 2006),
- ISO 9001:2008 Quality management systems** - Requirements (in Bosnia and Herzegovina -EN ISO 9001: 2009),
- ISO 9004:2010 Quality management systems** - Guidelines for performance improvements (EN ISO 9004:2010),
- ISO 19011:2002 Guidelines on Quality and/or Environmental Management Systems Auditing** (in Bosnia and Herzegovina -EN ISO 19011:2003) and other standards, technical specifications and reports that support basic standards, which include guidelines concerning specific issues within the framework of the quality management system.

These standards – as it has been mentioned before – have become one of the most common documents certifying high standard of services rendered by public administration, the offices of self-government administration in particular. At present many institutions and customers are convinced about several benefits gained as a result of the implementation of the systems. They are based on the eight principles of quality management: customer-orientation, commitment, leadership, process approach, system approach, continuous improvement, fact-based decision making, mutually beneficial contacts with partners.

The process of implementing QMS in an organization is not divided into stages very recisely, there are several approaches in this case and the literature on the subject is extensive (Kuhlmann, 2010). However, it is possible to distinguish some characteristic stages of the implementation process:

- Making decision on implementing QMS.
- Setting up a timetable/ plan of action.
- Conducting a review of the organization
- Training senior management.

- Appointing a QMS manager and working groups.
- Preparing system documents.
- Appointing internal auditors and training the staff.
- Internal audits.
- Final audit and applying for certification.
- Obtaining the certificate from a certifying unit.

Following all the indispensable operations in the implementation stages, in the course of the two last ones that aim at the verification and confirmation whether the organization meets the requirements defined by the standards (a certifying audit), the external auditor examines the whole range of the organization operations from the point of view of their compliance with the standards and issues a certificate confirming correct implementation of the QMS.

The implementation of QMS that complies with the ISO 9001 standard in public sector institutions may contribute to the change and improvement of their work organization, and – first of all – it may result in the improvement of the service. It may also constitute an instrument that changes the structure and methods of their functioning and lead to the change of the public administration image.

Implementing TQM concept in public sector organizations – a model approach

The implementation of the TQM concept in organizations is a long –term process that requires a substantial amount of various resources. There is no precisely determined methodology of implementing the process. However, some recommendations can be found in the literature that should be followed by organizations striving to TQM (as in the Oakland’s model mentioned before). The term “striving” seems to be an adequate one as it is difficult to state explicitly (due to the lack of uniform implementation principles) whether the TQM system has been implemented.

First of all, the implementation of TQM in a company starts with the acceptance of the right attitude – that of leadership and involvement – on the part of the Board and the managing staff of particular departments. At this stage, which might be called the initiation stage, it is the duty of the managing staff to coordinate the operations, to define clearly the tasks and, which is perhaps the most vital element, to convince the employees to this concept of management. The staff will only then be committed to the pro-quality operations if they are adequately motivated by their superiors, and this is possible through a wide training programme offered to the managing staff and the employees.

The next step is the review of the existing systems, i.e. the diagnosis of the system, and then the adjustment of processes, which means planning and adjusting them in a way that the TQM objectives can be achieved. Then a plan of the improvement of processes appears and the reorganization of the whole system occurs that aim at meeting the (internal or/and external) customer's requirements. This can be achieved either by radical changes (*reengineering*) or by continuous improvement of the organization (*kaizen*). At this stage it is highly significant to motivate the staff to be active and involved. This is the stage when both of the presented methods (CAF and QMS in compliance with the ISO 9001 standard) may be useful, which is presented in fig.1. It often happens that in the course of the QMS implementation the employees gain new knowledge and increase their qualifications, the processes are formalized and the standard of their quality is specified, which can support a quicker and more efficient evolution of the organization towards QM. An efficient and modern organization structure based on effective communication is the basis of TQM and it is created at the stage of process integration and company restructuring.

The CAF and QMS implementation process in the public sector organizations is not an easy one. *In the course of implementing* either a quality management system based on the ISO 9001 standards or the CAF model, being the elements of TQM, significant changes must occur within the organizations as regards the approach and perception of their objectives, which shows in suitable management and administration. The customer-oriented approach must be supported by adequate culture, communication and commitment because only then the transformation will be permanent and efficient and will aim at meeting the citizens' needs and expectations. Thus, it must result in a general improvement of the services rendered by these institutions and a measurable increase of the customer satisfaction level (Đorđević, 2007).

There are five stages as regards the condition of an organization and they refer to the whole process related to the concepts of continuous improvement and the acceptance of the customer-oriented approach. They form a process of improving service quality and a successful completion of each one will result in the implementation of TQM in the organization. In the course of each stage the organizations will face various problems. Thus, it is crucial to identify them, to find the causes and then to remove them so that the process proceeds smoothly and eventually is beneficial.

The stages may refer to the implementation of every method that increases the service quality, no matter whether it is CAF or QMS. The stages are the following:

- awareness,
- preparation,
- carrying out the self-assessment process,

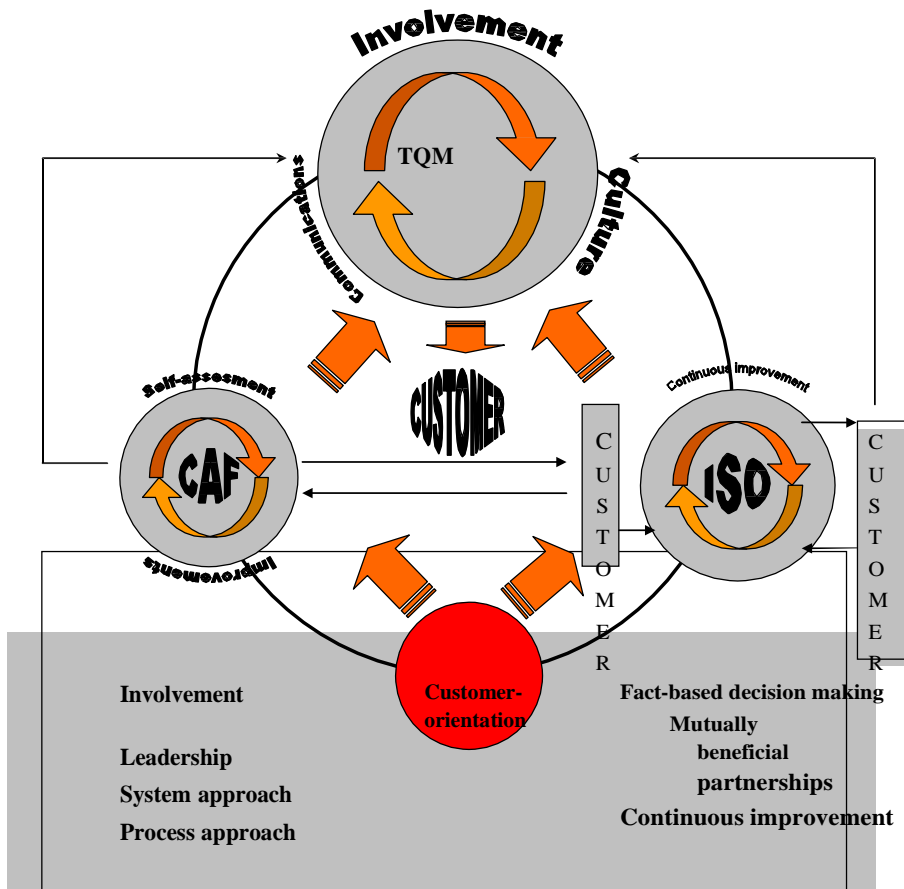
- planning (preparation of the improvement plan),
- implementing the plan of action and continuous improvement.

In this model, *in the course of the process of service quality improvement, the organizations should consider fundamental questions concerning the awareness of their targets and the will to reach them.* It is of vital importance that the public sector organization should have an adequate degree of awareness in order to go through the subsequent stages of the model. The following stages determine the diagnosis of the system and the plan of action. When the organizations ask the question how to meet these targets, the answer may come from the methods of CAF or QMS in compliance with the ISO 9001 standard.

The concept of TQM can be put into practice by means of both methods (fig.1) Every organization must adapt the basic principles of quality management, which in a way constitute the basis of their further actions. It is worth noting that they are compatible as they are based on the same assumptions that customer comes first. Since there are no uniform TQM implementation stages, it seems that both methods can be helpful when building the system. The CAF method achieves this through self-assessments and improvements, while QMS through formalization of the management system based on documents, and both these elements are indispensable when implementing TQM.

The presented model (fig.1) shows all the possible approach configurations when implementing TQM (with both methods) and proves that it is not necessary to choose between the two.

Figure 1 TQM implementation model with the use of the CAF and QMS in compliance with the ISO 9001



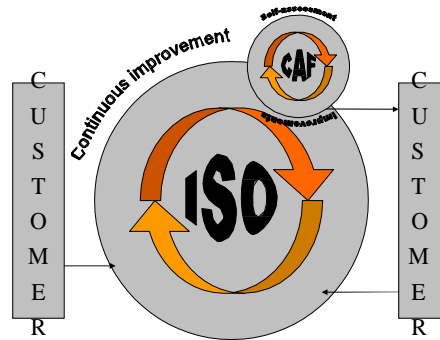
Source: Author's research

As figure 1 shows, the theses of the methods are complementary. So far the public administration has been using the methods rather separately In this case two implementation options of the methods are possible:

- in the case when GMS is functioning, the customer's requirements and relations between processes have been defined and a formalized system exists, the CAF model may serve as a method supporting the improvement of the existing system (see fig.2);
- in the case when the CAF model has been implemented, the self-assessment has been carried out and the implementation of the improvement projects has started,

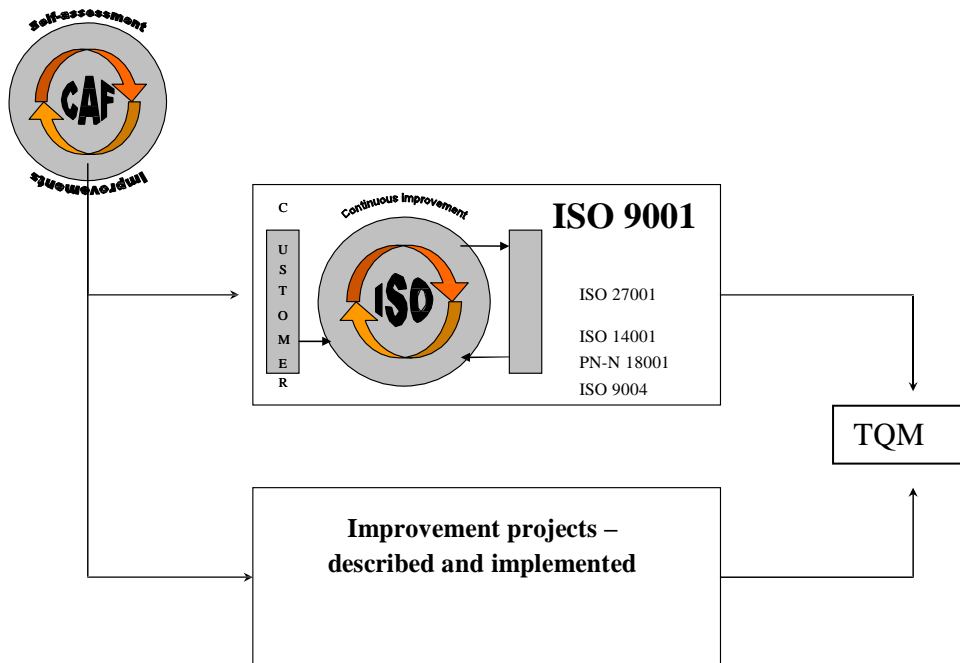
the QMS that formalizes the whole system and has a significant impact on the whole organization can be implemented as one of the projects (compare fig.3).

Figure 2. QMS with the CAF method implemented as the element facilitating the process of continuous improvement



Source: Author's research

Figure 3. CAF method with QMS implemented as one of the improvements



Source: Author's research

Conclusion

The process of the service quality improvement in public organizations is a fact. Although hundreds of such organizations have implemented either the quality management systems in compliance with the ISO 9001 standard or the CAF self-assessment model, they have a long way towards the TQM concept.

As it was presented, the TQM concept may be put into practice through both methods (CAF, QMS); it is important that they can co-exist and complement and there is no need to make choices. However, in order to implement both method properly and to reach TQM, it is crucial that the public sector organization has a certain degree of awareness as regards its targets and willingness to meet them. Only then both these methods may be helpful.

References

- Baković, T., Lazibat, T., Model for measuring the quality of services, Proceedings of the 6th Symposium on the quality of the Croatian Society of Quality Managers: "The quality of European integration ", Zadar, 2004., pp. 203-209
- Colesca, S., Dobrin, C., Popa, I. (2016). *Total Quality Management and Organizational Change in Public Organizations*. Administratie si management public. Bucharest.
- Đorđević D., (2007). *Upravljanje kvalitetom*, Univerzitetska knjiga, Beograd, pp. 45
- Gašparík, M. (2010). "Increasing the effectiveness of organization by implementation of EFQM model." Edition STU Bratislava, pp. 45-60
- Hakes, C. (2007) "The EFQM Excellence Model to Assess Organizational Performance: A Management Guide. Zaltbommel: Van Haren Publishing.
- Oakland, J.S. (1989), *Total Quality Management*. A practical approach, Department of Trade and Industry (DTI), 22-35
- Oakland, J.S. (1992). *Total Quality Management*, Butterworth-Heinemann, Oxford, 75-92.
- Porter, L. J., Tanner, S. J. (2004). "Assessing Business Excellence: A Guide to Business Excellence and Self-assessment." Burlington: Butterworth-Heinemann.
- Tonči L. (2007). *Managament quality system*, Faculty of Economics Zagreb
- Vukšić, B., Kovačić, A. (2004). *Upravljanje poslovnim procesima*, Zagreb: Sinergija.

Internet:

- European Institute of Public Administration, www.caf.eipa.eu, (18.May.2017.)
- Excellence Model – EFQM 2010, <http://www.efqm.org/en/> (5 May 2017)

The Role of Public Relations in the Humanitarian Diplomacy amidst Natural Disasters in Developing Countries: The Case Study of Red Cross of Federation of Bosnia and Herzegovina and 2014 Southeast Europe Floods

*Haris Magrdžija*³¹

*International Burch University
Bosnia and Herzegovina
haris.magrdzija@gmail.com*

Nedim Čelebić

*International Burch University
Bosnia and Herzegovina
nedim.celebic@ibu.edu.ba*

Abstract: *The concept of humanitarian diplomacy is receiving increasing attention internationally, and this concept is popularized especially by the International Red Cross Movement. International Federation of Red Cross and Red Crescent Societies (IFRC) defined humanitarian diplomacy as a persuasion of decision makers and opinion leaders to act, at all times, in the best interests of vulnerable people, and with full respect for fundamental humanitarian principles. Humanitarian diplomacy, according to IFRC, includes advocacy, negotiation, communication, formal agreements, and other measures.*

The focus of this paper is on public relations as a promotion tool within marketing communication mix, and its role in accomplishment of humanitarian diplomacy objectives. In particular, this case study is about a response of Red Cross of Federation of Bosnia and Herzegovina to 2014 Southeast Europe Floods that caused many problems and enhanced vulnerabilities in Bosnia and Herzegovina.

The purpose of this interdisciplinary study is to conceptualize the role of public relations within humanitarian diplomacy through in-depth qualitative research.

Keywords: *Public Relations, Promotion, Marketing, Humanitarian Diplomacy, Natural Disaster, Developing Country, Bosnia and Herzegovina, Red Cross*

Introduction

¹ Disclaimer

Haris Magrdžija is member of Youth Coordination Committee of the Red Cross Society of Bosnia and Herzegovina, and delegate to Assembly of the Red Cross of Federation of Bosnia and Herzegovina.

The opinions expressed and the analysis outlined in this research article do not necessarily reflect the views of the Red Cross of Federation of Bosnia and Herzegovina, but remain solely the interpretations and conclusions of the author.

The author also assumes the entire responsibility for the interpretation and eventual misinterpretation of the contributions from senior officers of the Red Cross of Federation of Bosnia and Herzegovina interviewed within the specific framework of this research article.

The world is facing with different global challenges, and especially with climate changes that cause various natural disasters all around the world and results in many vulnerabilities. Governments together with different stakeholders respond to natural disasters in order to help people in affected areas. In developed countries, governmental institutions more easily and effectively respond to those challenges, while it is not the case with governmental institutions in developing countries. Therefore, various national and international organizations play important role in helping people that are affected by natural disasters in developing countries. The International Movement of Red Cross and Red Crescent (known as International Red Cross) is world leading humanitarian movement. It consists of three components, which are the International Committee of the Red Cross (ICRC), International Federation of Red Cross and Red Crescent Societies (IFRC), and National Red Cross and Red Crescent Societies (National Societies). All three components of the International Red Cross act in accordance with seven Fundamental Principles, but the circumstances in which each component operates slightly differ.

First component, ICRC was founded in 1863, and it was at the origin of both Geneva Convention and International Red Cross and Red Crescent Movement. The ICRC acts primarily in the conflict and post-conflict circumstances all around the world.

Second component, IFRC was founded in Paris in 1919. Firstly, the name was a federation of Red Cross national societies, then renamed in League of Red Cross Societies, and finally, it became IFRC in 1991. According to Statute of the International Red Cross, “IFRC directs and coordinates international assistance of the Movement to victims of natural and technological disasters, to refugees and in health emergencies.” This means, it operates primarily in non-conflict circumstances all around the world.

Third component are National Societies. Since establishment of the ICRC, state governments supported establishment of National Societies, which operate in the conflict, post-conflict, and non-conflict circumstances in their countries. It is important to emphasize that National Societies have an auxiliary role to the public authorities of their own countries, and each National Society has to be recognized by ICRC and IFRC in order to become a member of the International Red Cross.

International Red Cross as global humanitarian leader significantly contributes to development of concept of humanitarian diplomacy which „has only recently entered the lexicon of international relief organization, but the idea is far from new“. (Davison, 2011) Therefore, it is important to emphasize that there are different point of views on this concept, and this research article will focus on IFRC's view that is presented in the IFRC Humanitarian Diplomacy Policy.

In this Policy, IFRC presented its own official definition and objectives of humanitarian diplomacy, and even responsibilities of IFRC and its National Societies. This policy recognizes communication as a humanitarian diplomacy measure, with no specific insights.

Therefore, this interdisciplinary research will contribute understanding the role of public relations in the humanitarian diplomacy.

According to national and international regulations, one country can have only one National Society with organizational structure that is defined by relevant state Law and Statute of National Society.

In the photo monography „Century of Humanity in Bosnia and Herzegovina 1912-2012“ (2012), it is emphasized that the first appearance of Red Cross name in Bosnia and Herzegovina was in time of Balkan War 1912/1913. The organization known as Bosnian-Herzegovinian Society for Aid and Voluntary Sanitary Care in War and in Case of General Trouble in Peace Times had identical goals as the Red Cross today.

Different external factors such as political, social and legal environment resulted in changing of structure of the Red Cross organization in Bosnia and Herzegovina throughout history. Nowadays, the structure of the Red Cross Society of Bosnia and Herzegovina is identical to the administrative structure of the country. Red Cross Society of Bosnia and Herzegovina, as national society, consists of three branches: the Red Cross of Federation of BiH, the Red Cross of Republic of Srpska, and the Red Cross of Brčko District.

Therefore, this research strategy will be case study of Red Cross of Federation of Bosnia and Herzegovina, which is the organizational unit within the Red Cross Society of Bosnia and Herzegovina, and 2014 Southeast Europe Floods.

Literature Review

Humanitarian Diplomacy

The idea of humanitarian diplomacy is very old, but the humanitarian diplomacy conceptualization has become popular in recent years. (Davison, 2011) As the proof for that, Regnier (2011) emphasizes that the first book on humanitarian diplomacy was published in 2007.

The main actors who contribute to process of conceptualization of humanitarian diplomacy are the International Red Cross and other internationally recognized organizations like Doctors without Borders (MSF), and Human Rights Watch (Veuthey, 2012).

According to Veuthey (2012), Aslanov (2013), and Davison (2011) the first example of modern humanitarian diplomacy practice is linked with Henry Dunant, the founder of the International Red Cross. He was witness of suffering of wounded soldiers of the Battle of Solferino. When he came back to Geneva, he wrote the book “A Memory of Solferino”. In this book he described the horror he witnessed, and he proposed ideas for prevention of repetition of similar sufferings. He distributed his book for free to the most important decision makers and opinion leaders of that time (Dunant , 1986).

The main characteristics of humanitarian diplomacy is that its focus is on the interest of vulnerable people, and it is emphasized by Harroff-Tavel (2005), Veuthey (2012) and Regnier (2011). On other hand, Simpson (1968) assert that focus of conventional diplomacy is on state's interest. Therefore, there is difference in understanding of humanitarian diplomacy, as result of author's point of view.

For instance, Davutoğlu (2013) present importance of Turkish humanitarian diplomacy, with the focus on Turkish national interest of becoming "compassionate and powerful state". Likewise, Akpınar (2013) and Hasimi (2014) write about Turkish humanitarian diplomacy as tool for international positioning. Therefore, humanitarian diplomacy is perceived as Turkish soft power diplomacy, and from the state perspective, it serves to nation's interest.

From the international organizations viewpoint on humanitarian diplomacy, there is no single definition of this concept. Regnier (2011) identified various definitions of humanitarian diplomacy that he compared with each other. Definitions vary and in most cases, they are based on organization's mission.

For instance, definition of humanitarian diplomacy from the viewpoint of the ICRC is based on specific mission and mandate of this organization. "The ICRC's humanitarian diplomacy consists chiefly in making the voices of the victims of armed conflicts and disturbances heard, in negotiating humanitarian agreements with international or national players, in acting as a neutral intermediary between them and in helping to prepare and ensure respect for humanitarian law." (Harroff-Tavel, 2005)

Regnier (2011) highlights that some authors such as Minear and Smith (2007) provide definition of humanitarian diplomacy that is more precise than others. According to Minear and Smith (2007) "The concept of humanitarian diplomacy encompasses the activities carried out by humanitarian organizations to obtain the space from political and military authorities within which to function with integrity. These activities comprise such efforts as arranging for the presence of humanitarian organizations in a given country, negotiating access to civilian populations in need of assistance and protection, monitoring assistance programs, promoting respect for international law and norms, supporting indigenous individuals and institutions, and engaging in advocacy at a variety of levels in support of humanitarian objectives."

IFRC Humanitarian Diplomacy Policy

There are various definitions of humanitarian diplomacy, but only International Federation of Red Cross and Red Crescent Societies (IFRC) adopted official policy on humanitarian diplomacy. IFRC Governing Board in Paris adopted Humanitarian Diplomacy Policy in May 2009. (IFRC, 2009) This policy provides following definition: "Humanitarian diplomacy is persuading decision makers and opinion leaders to act, at all times, in the interests of vulnerable people, and with full respect for fundamental humanitarian principles."

According to IFRC humanitarian diplomacy policy, there are four signposts for action. These signposts for action are built around key words in definition:

1. The responsibility to persuade;
2. Persuading with the appropriate diplomatic tools and actions;
3. Focusing on areas of knowledge and expertise; and
4. Engaging at appropriate times with partners outside the Movement.

According to IFRC Humanitarian Diplomacy Policy, humanitarian diplomacy includes advocacy, negotiation, communication, formal agreements and other measures. Humanitarian diplomacy is integrated in the IFRC Strategy 2020, because of its importance. The second enabling action that is to pursue humanitarian diplomacy to prevent and reduce vulnerability in a globalized world. (IFRC, n.d.)

Humanitarian Principles

Humanitarian organizations are following certain principles in their work in order to maximize possibility to reach vulnerable people. These principles are norms, moral rules or values that inspire and guide them. Some principles are perceived as the core humanitarian principles, such as humanity, impartiality, and independence. In addition to core humanitarian principles, different organization are prioritizing other humanitarian principles differently.

Since its beginning, the International Red Cross is defining its humanitarian principles that will guide and inspire staff and volunteers, and create strong ties between different components within movement. Finally, seven fundamental principles of the International Red Cross are proclaimed in Vienna in 1965. The seven fundamental principles are humanity, impartiality, neutrality, independence, voluntary service, unity, and universality. These principles are guiding the International Red Cross and Red Crescent Movement in its work. (Pictet, 1979)

Public Relations

Public relations is the promotion tool, and together with advertising, sales promotion, personal selling and direct marketing is part of promotion mix. (Kotler & Armstrong , n.d.)

According to Kotler and Armstrong (n.d.) Public relations is defined as: “Building good relations with the company’s various publics by obtaining favorable publicity, building up a good corporate image, and handling or heading off unfavorable rumors, stories, and events.” Likewise, Kotler and Armstrong (n.d.) stress that “public relations can have strong impact on public awareness at much lower cost than advertising can.”

Similar definition is provided by More Tench and Yeomans (2006) “Public relations is distinctive management function which helps establish and maintain mutual lines of communication, understanding, acceptance and cooperation between an organization and its

publics”. The communication between organization and its public can be realized through major public relations tools such as speeches, special events, written materials, audiovisual materials, corporate identity materials. (Tomić, 2008)

Methodology

The research nature of this research paper is descriptive, the research approach is deductive, and research design is qualitative. The research strategy is case study of Red Cross of Federation of Bosnia and Herzegovina, while methodology is in-depth interview. The proposed conceptual framework is developed from the Humanitarian Diplomacy Policy (IFRC, 2009) that was adopted by the Governing Board in Paris in May 2009.

The research objective is to determine the role of public relations in humanitarian diplomacy amidst natural disasters in developing countries. This research objective will be achieved by answering the research question: “What is the role of public relations in the humanitarian diplomacy of the Red Cross in developing countries in case of natural disasters?”

Figure 1 Conceptual framework



Due to international and national regulations, only one national society of Red Cross or Red Crescent can operate in one country. In Bosnia and Herzegovina, Red Cross Society of Bosnia and Herzegovina is the only national society that is recognized by local authorities, ICRC and IFRC. According to Law and Statute, it consists of three components that are separate legal entities.

This research focuses on the Red Cross of Federation of Bosnia and Herzegovina (Red Cross of Federation of BiH), as component of the Red Cross Society of Bosnia and Herzegovina. It operates in accordance with Statutes of the Red Cross of Federation of Bosnia and Herzegovina, and Law on the Red Cross of Federation of Bosnia and Herzegovina (Official Gazette of the FBiH no 28/06).

Having in mind that there are only eleven employees in the headquarter of the Red Cross of Federation of BiH, in-depth interview was conducted with coordinator for informing, dissemination and project management on April 22, 2016.

Interview questions were: What were objectives of public relations of the Red Cross of Federation of BiH during 2014 Southeast Europe floods? How did the Red Cross implement fundamental principles in PR activities?

The first evidence that interview questions are valid is the fact that questions are based on official IFRC Humanitarian Diplomacy Policy. The second evidence is the fact that all

interviewee clearly understood all interview questions, and they did not complain on questions misunderstanding.

Results and Discussion

Red Cross of Federation of Bosnia and Herzegovina operates in developing country of Bosnia and Herzegovina. This organization faces with various challenges. One of the main challenges is the lack of staff members that influence on scope and quality of implemented actions. In case of this organization, one staff member is responsible for implementation of many projects and programs.

“There is no systematic approach toward PR in the Red Cross of Federation of BiH, and it is ‘ad hoc’ approach in most cases. Generally, deontological principles and seven fundamental principles of the Red Cross are guiding us when we use some PR tool. Whenever we communicate to public, we point out on needs of vulnerable people. ”

This means that even without systematic approach to public relations, this tool is used to promote interests of vulnerable people, and fundamental humanitarian principles are respected. Promotion of interest of vulnerable people and respect of fundamental humanitarian principles are signposts of humanitarian diplomacy.

According to definition, humanitarian diplomacy is process of persuasion of decision makers and opinion leaders. Therefore, public relations should target these two groups when PR tools are used by organization to accomplish objectives of humanitarian diplomacy.

“...the main our target group is public institutions / ministries, because our organization is financed public authorities, and we have to justify our existence. Transparency of our work is especially important in case of natural disasters and emergencies. By doing so, we are building strong relationship with donors and decision makers who support our work with vulnerable people. The content of our messages is focused on building up credibility and transparency of Red Cross of Federation of BiH.”

In addition to cases of natural disasters that create many vulnerabilities, the Red Cross of Federation of BiH is constantly cares for interests of the vulnerable people. Persuasion of decision makers and opinion leaders to act in the interest of vulnerable people is the most intensive on occasion of important national and international dates.

“We draw public attention on certain social problems and needs of vulnerable people when we mark important national and international days though out the year. For instance, Red Cross marks 13th of October – International Day for Disaster Reduction every year. This is an opportunity for organization to persuade decision makers to help people affected by natural disasters, even there is no natural disaster occurred...”

Conclusion

Red Cross of Federation of BiH is entity branch of Red Cross Society of BiH that operates in developing country of Bosnia and Herzegovina. This research article finds out that, public relations tools, even they are used 'ad hoc' could contribute to accomplishment of humanitarian diplomacy objectives.

Limitation of this research article is that it is focused on one country, and more precisely on one entity Red Cross organization. Therefore, suggestion for future researches is to determine the role of other promotion tools in humanitarian diplomacy, considering the whole structure of the Red Cross from local branches to headquarter of the national society. In addition to that, comparative analysis of case studies of Red Cross organizations that operate in different developing countries will be a great asset for future researches.

References

Pictet, J., 1979. *The Fundamental Principles of the Red Cross*. s.l.:International Federation of Red Cross and Red Crescent Societies.

Akpınar, P., 2013. Turkey's Peacebuilding in Somalia: The Limits of Humanitarian Diplomacy. *Turkish Studies*, 14(4), pp. 735-757.

Aslanov, N., 2013. *Diplomacy for Humanity*, Baku: s.n.

Cohen, L., Manion, L. & Morrison, K., 2007. *Research Methods in Education*. New York: Taylor & Francis e-Library.

Davison, W., 2011. Speaking up for humanity. *Red Cross Red Crescent*, Issue 3, pp. 4-7.

Davutoğlu, A., 2013. Turkey's humanitarian diplomacy: objectives, challenges and prospects. *Nationalities Papers: The Journal of Nationalism and Ethnicity*, 41(6), pp. 865-870.

Društvo Crvenog krsta/križa BiH, n.d. *Historija i tradicija*. [Online] Available at: <http://www.rcsbh.org/o-nama/historija-i-tradicija> [Accessed 19 April 2016].

Dunant, H., 1986. *A Memory of Solferino*. Geneva: International Committee of the Red Cross.

Harroff-Tavel, M., 2005. The humanitarian diplomacy of the International Committee of the Red Cross. *Relations internationales*, Issue 121, pp. 72-89.

Hasimi, C., 2014. Turkey's Humanitarian Diplomacy and Development Cooperation. *Insight Turkey*, 16(1), pp. 127-145.

Hodžić, N., Milanović, N. & Ivančević, D., 2012. *Century of Humanity in Bosnia and Herzegovina 1912-2012*. 1st ed. Sarajevo: Crveni križ Federacije BiH.

IFRC, 2009. *Humanitarian Diplomacy Policy*. [Online] Available at: <http://www.ifrc.org/what-we-do/humanitarian-diplomacy/humanitarian-diplomacy->

policy/

[Accessed 19 April 2016].

IFRC, n.d. *Strategy 2020*. [Online]
Available at: <http://www.ifrc.org/who-we-are/vision-and-mission/strategy-2020/>
[Accessed 18 April 2016].

International Committee of the Red Cross, 2013. *Components and bodies of the International Movement of the Red Cross and Red Crescent*. [Online]
Available at: <https://www.icrc.org/eng/resources/documents/misc/components-movement.htm>
[Accessed 19 April 2016].

International Federation of Red Cross and Red Crescent Societies, n.d. *History*. [Online]
Available at: <http://www.ifrc.org/en/who-we-are/history/>
[Accessed 19 April 2016].

Kotler, P. & Armstrong, G., n.d. *Principles of Marketing*. 12th ed. New Jersey: Pearson Education International.

Minear, L. & Smith, H., 2007. *Humanitarian Diplomacy: Practitioners and Their Craft*. Tokyo: United Nations Press.

Régnier, P., 2011. The emerging concept of humanitarian diplomacy: identification of a community of practice and prospects for international recognition. *International Review of the Red Cross*, 93(884), pp. 1211-1237.

Simpson, S., 1968. The Nature and Dimensions of Diplomacy. *The Annals of the American Academy of Political and Social Science*, Volume 380, pp. 135-144.

Tench, R. & Yeomans, L., 2006. *Exploring Public Relations*. 1st ed. Harlow: Pearson Education Limited.

Tomić, Z., 2008. *Odnosi s javnošću - teorija i praksa*. Zagreb-Sarajevo: Synopsis.

Veuthey, M., 2012. *Humanitarian Diplomacy: Saving It When It Is Most Needed*. Geneva, Webster University, pp. 195-208.