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## **CHALLENGES TO PROMOTING ENTREPRENEURSHIP, LEADERSHIP AND COMPETITIVENESS**







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## ***FOREWORD***

The purpose of this publication is to explore new challenges our leaders and entrepreneurs are faced with in today's conditions of global competitiveness. In accordance with this, its structure is defined, i.e. it is divided into four interconnected parts that make a unity. Also, its constitutive parts match the topic of this publication entirely.

The first part of the book deals with the development of entrepreneurship, with a special emphasis on the EU member states and Serbia. This part of the book is primarily focused on start-up and small and medium enterprises (SME) and their growth.

The second and third part of the book are closely connected, i.e. they deal with the new role of entrepreneurs, managers and leaders in changed conditions of conducting business activities, under the influence of different factors. It also analyses the influence of changes in the economic and global business environment and how they reflect on the process of making business decisions and on management's success within enterprises. This chapter is mostly based on the analysis of endogenous factors which determine behavior of leaders and entrepreneurs (e.g. emotional intelligence and communication styles, emotional competence and such). Other questions can be added to this analysis: Can we overcome business rivalry and create conditions for friendship and cooperation amongst business people? To what extent does that cooperation contribute to the business success of enterprises? Why is business networking important? Etc. Likewise, presented papers in this part of the book open many other research questions. Special attention should be paid to consideration of relations between the endogenous and exogenous factors and their influence on forming innovative entrepreneurs and leaders in "the new economy". Besides, it is necessary to dedicate special attention to the relation between creative and logical opinion and emotional and social communication and to put this research into a psychological, social and economic context.

Being the editor of this publication, the above mentioned questions were imposed on me because of their significance and because of the need to deepen the analysis in this area. Therefore, I can rightfully expect that other researchers will recognize them and that the results of their researches will be presented in some of the following publications in the field of entrepreneurship and leadership.

The fourth part of the book logically draws on the previous parts by putting an emphasis on finding new ideas about the most efficient ways to improve conditions for encouraging innovations and competitiveness. Central part of this chapter represents an opinion that the rising competitiveness and globalization have put innovation in the first plan of the economic development. Namely, exploitation of possibilities of finding new ways to lead a management, administrative and organizational processes, as well as founding new companies, will in great extent

positively reflect on the growth of their competitiveness. Managers and leaders can use a wide range of new, technologically supported options in the process of formulating their strategies. They are now using it even more in the management so as to meet changes, not only react to them. Then we can come to a conclusion that there is a correlation between different types of changes in an organization and changes that occurred while using electronic functions of the company. Numerous examples in Europe tell us that there is a comparative advantage in the implementation of new technologies by the employees with IT education because they adopt new ideas faster than others. Also, serious obstacles that stand in the SME's way to enter a new market are facilitated by an increased use of information technologies because in this way we reduce costs, increase profitability and productivity and additionally motivate work force to learn and increase their competence.

I hope that this book will be a contribution to our expert and professional public and that they will, straightforwardly, gain an insight into new theoretical and methodological approaches to the issue, collect current information and get ideas that will encourage them to apply and further enhance them in their research activities.

*Academician Professor Mirjana Radovic Markovic, PhD*  
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***PART I***  
***ENTREPRENEURSHIP AND ECONOMIC***  
***DEVELOPMENT IN EU AND SERBIA***





# ***STARTUP COMPANIES: LIFE CYCLE AND CHALLENGES***

*Aidin Salamzadeh PhD<sup>1</sup>*

*Hiroko Kawamorita Kesim PhD<sup>2</sup>*

## ***ABSTRACT***

*Startup companies are newly born companies which struggle for existence. These entities are mostly formed based on brilliant ideas and grow to succeed. These phenomena are mentioned in the literature of management, organization, and entrepreneurship theories. However, a clear picture of these entities is not available. This paper tries to conceptualize the phenomenon, i.e. “startup”, and recognize the challenges they might face. After reviewing the life cycle and the challenges, the paper concludes with some concluding remarks.*

***Key words:*** *Startup, Life Cycle, Challenges, Conceptualization*

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## ***INTRODUCTION***

It is natural and reasonable to think of the history of organizations and small businesses in evolutionary terms (Simon, 1993). This history is full of experiences and evidence supporting the evolution of organizations, however, the existing history lacks enough focus on the very early stages of a company, i.e. startup phase (Salamzadeh, 2015a). Although this early phase is less studied in the existing literature, there are many studies which examined controversial issues in this domain (Salamzadeh, 2015b). Amidst this chaos, a challenge arose: what are these entities, i.e. startups, and how they turn into companies?

The work of scholars of management, organization, and entrepreneurship, and others who might pursue this challenge, will affect the heavily lifting of applying theories to make a clear picture of these entities (Salamzadeh, 2015 a, b). Due to several reasons, these studies are of paramount importance. First, many startups fail in the very early stages and less than one third of them turn into companies- "*high rate of failure*" (e.g. see, Vesper, 1990). Second, failure occurs due to several reasons, such as lack of finance, team management problems, lack of enough business knowledge, technology lag, etc.- "*startup problems*" (e.g. see, Núñez, 2007). Third, most of startups that survive might turn into successful companies which play a significant role in economies- "*success stories*" (e.g. see, Martinsons, 2002). Fifth, there is a black box called "valley of death" which is more of a metaphor than a well-defined stage (Hudson, Khazragui, 2013). Even if this black box is well studied, the startup itself is ignored as the level of analysis- "*startup stage*" (e.g. see, Van de Ven et. al., 1984).

Therefore, this paper attempts to explain and conceptualize startups, and recognize the challenges they might face in *the valley*. Thus, the paper deals with explanation and not all the mentioned reasons why confirm that startup research is important. To do so, three main issues are discussed: (i) determining the main theories of management, organization, and entrepreneurship in this domain, (ii) explaining the lifecycle of startups, and last but not least (iii) the startup problems. Finally, the paper concludes with some concluding remarks.

## ***STARTUPS THEORIES***

As mentioned earlier, startups are rarely considered as the main focus of theories in different domains. However, there are some theories which could be implicitly considered as "startup theories" in the existing literature. This paper categorizes these theories in three main areas: (i) organization, (ii) management, and (iii) entrepreneurship.



## ***ORGANIZATION THEORIES FOCUSING ON STARTUPS***

Van de Ven et al. (1984) were among the first scholars who considered three main approaches toward studying startup creation. They considered entrepreneurial, organizational and ecological approaches; and argued that prior research had only examined one of these three approaches without considering the others. As they pointed out:

“The organizational approach argues the conditions under which an organization is planned and the processes followed in its initial development [phase, which] have important consequences on its structure and performance in later life”.

Yet, organization theories are silent on the issue of organizational evolution, or more specifically on startup evolution (Salamzadeh, 2015a). However, there is limited research which investigates the startup phase (e.g. see Boeker, Wiltbank, 2005). Moreover, most of the existing theories and perspectives in organization science are defined to answer organizational questions. Among these theories, the following are more relevant in studying startups: organizational ecology theory (e.g. see, Scholz, Reydon, 2009), organizational configurations (e.g. see, Miller, 1990), contingency theory (e.g. see, Tosi, Slocum, 1984), resource dependence theory (e.g. see, Davis, Cobb, 2010), uncertainty theory (Kamps, Pólos, 1999), etc. Among the existing theories, Gartner (1985) and Katz and Gartner (1988) are more specifically related to this category.

## ***MANAGEMENT THEORIES FOCUSING ON STARTUPS***

According to its general definition (getting things done through the other people, or coordinating the efforts of people toward common goals), management is about people (Hofstede, 1999). On the other hand, management theories are either “perspectives” or “descriptions of the relationships among organizational characteristics” (Dean, Bowen, 1994). Thus, according to this view, while management theories have less to do with startups in an organizational sense; they have more to do with those entities as individuals/teams that coordinate their efforts toward some common goals.

Moreover, management theorists and scholars are becoming more interested in studying startups (Davila et al., 2003). Some of the main management theories which used in startup research are as follows: strategic management (e.g. see, Pettigrew et al., 2001), small business governance (e.g. see, Ritchie, Richardson, 2000), human resource management (e.g. see, Miles, Rosenberg, 1983), team management (e.g. see, Kaiser, Müller, 2013), complexity theory (e.g. see Lan, 2006), etc. However these theories are loosely connected to startup research and are mostly considering startups as their samples or cases.

## ***ENTREPRENEURSHIP THEORIES FOCUSING ON STARTUPS***

In Van de Ven et al.'s (1984) view, "the entrepreneurial approach argues the characteristics of the founder and promoter of a new organization". Although this view holds a basic presumption regarding the existing theories, it lacks enough entrepreneurial focus on the phenomenon in question, i.e. startups. Although the founder is important, there are several issues to be discussed, described, and explained by entrepreneurship theories on startups. As Salamzadeh (2015b) argues, entrepreneurship theories on startups fall into two categories: (i) macro level theories (e.g. see, Schumpeter's theory (Schumpeter, 1934), population ecology (Hannan, Freeman, 1977)), and (ii) micro and meso level theories (see e.g. Vesper, 1990; Lim et al., 2008; Bhaves, 1994; Veciana, 1988; Deakins, Whittam, 2000; Núñez, 2007; Serarols, 2008; Samuelsson, Davidsson, 2009).

This category of theories is more focused on startups. This might be due to several reasons. First, entrepreneurship deals with idea, creativity, innovation, new product or service development, opportunity, and the like. Thus, entrepreneurship theories are more prone to be considered in the early stages of any business or organization. These concepts are integral parts of a startup (Radovic-Markovic, Salamzadeh, 2012). Second, going beyond entrepreneurship theories, theories of organization and management will emerge, which deal with managing people and organizations (Van de Ven et al., 1984). Third, startups are about turning ideas into businesses which is a critical point in entrepreneurship studies such as new venture creation, value creation, and opportunity recognition, evaluation and exploitation.

## ***THE LIFECYCLE OF STARTUPS***

However, startups are diversified and complex in nature, these entities have their lifecycle. Hopefully, research on startups' lifecycle is well-developed in last few years (see Salamzadeh, 2015a,b). Since the sequence of activities and stages might vary among different startups, a holistic perspective is presented in this paper to offer a better understanding of the lifecycle of startups. The stages are as follows (Figure 1):

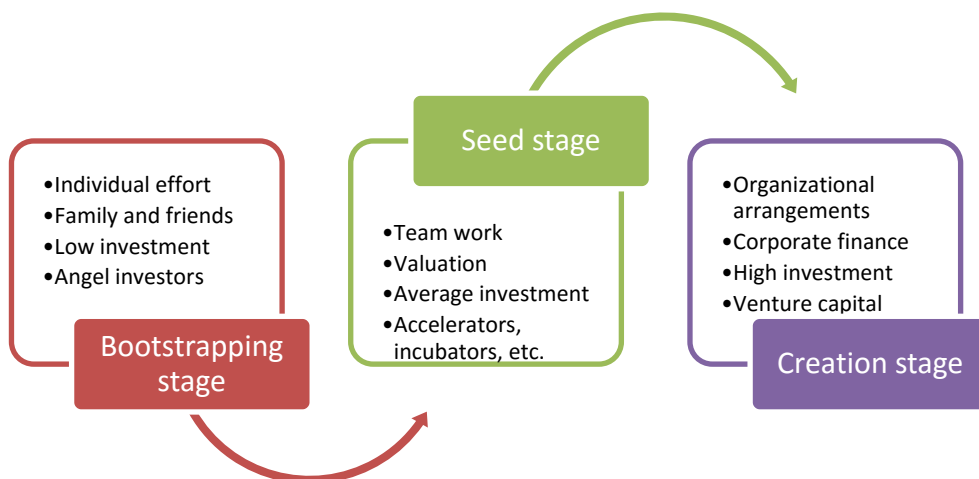


Figure 1: Lifecycle of startups

Source: self-elaborated

## ***BOOTSTRAPPING STAGE***

In this very early stage, the entrepreneur himself/herself initiates a set of activities to turn his/her idea into a profitable business. However, he/she considers a higher risk or even uncertainty level, continues working on the new venture idea, makes a team, uses personal funds, and asks family members and friends for their investment in the idea. Bootstrapping, which is sometimes defined as highly creative ways of acquiring the use of resources without borrowing (Freear et al., 2002), is considered to be one of the areas of entrepreneurship research that most need to be addressed (Ebben, Johnson, 2006). The purpose of this stage is to position the venture for growth by demonstrating product feasibility, cash management capability, team building and management, and customer acceptance (Brush et al., 2006). Moreover, angel investors are more likely to invest in this stage. In sum, as Harrison et al. (2004) argue: “bootstrapping is a way of life in entrepreneurial companies”. This argument reveals the reason why most of the theories of startups are borrowed from entrepreneurship theories (see, Entrepreneurship theories focusing on startups).

## ***SEED STAGE***

After the bootstrapping stage, the founder enters into a new stage, which is the seed stage. ( Some scholars consider pre-seed stage between bootstrapping and seed stage. Moreover, to some scholars bootstrapping is the pre-seed stage. Also, some scholars consider bootstrapping as startup stage. Some other scholars believe that the creation stage is identified as the period between the nascence of a business idea until the moment of sustainable profits. Here by startups the author means the early stage of any business, venture, or entrepreneurial activity until it turns into a firm.) This stage is characterized by team work, prototype development, entry into market, valuation of the venture, seeking for support mechanisms such as accelerators and incubators, and average investments to grow the startup. Frankly speaking, for most startups the seed stage is a mess and is construed as highly uncertain (Salamzadeh, 2015 a). The seed stage is characterized by the initial capital that is used to do product and/or service (Manchanda, Muralidharan, 2014). Thus, founder seeks for support mechanisms such as accelerators, incubators, small business development centers, and hatcheries to accelerate the process. A great number of startups fail in this stage. Since they could not find support mechanisms and in best case they would turn to a low profit company with a low rate of success. On the other hand, those who succeed in receiving support would have a higher chance of becoming profitable companies. It goes without saying that valuation is normally done at the end of this stage.

## ***CREATION STAGE***

Creation stage occurs when the company sells its products, enters into market, and hires first employees (Salamzadeh, 2015). Some scholars believe that entrepreneurship stops when the creation stage is ended (Ogorelc, 1999). This supports the argument that most of the theories which cover startups are borrowed from entrepreneurship theories and not management and organization theories (see Entrepreneurship theories focusing on startups). At the end of this stage, organization/firm is formed and corporate finance is considered as the main choice for financing the firm. Venture capitals could facilitate the creation stage, by funding the venture.

## ***CHALLENGES OF STARTUPS***

Prior research on challenges of startups addresses a number of common challenges among different startups (Shepherd et al., 2000). However, there are some common challenges, most of the challenges are unique, and the extent to which they affect startups differs. Some of the main common challenges are as follows:

## ***FINANCIAL CHALLENGES***

As mentioned earlier, finance is an integral part of the startup process. Any startup would face financial issues and problems for several reasons and in different stages (Colombo, Piva, 2008; Tanha et al., 2011; Salamzadeh, 2015 a, b; Salamzadeh et al., 2015). For instance, while bootstrapping the founder negotiates with family members and friends to convince them to invest in his/her idea. He/she invests in the business, and since the idea is in its early stages, he/she might need more money to expand it. Afterwards, in the seed stage, founder should look for angel investors and convince him/her with reasonable valuation plans. Next, in the creation stage, the founder should prepare a plan along with support documents to take advantage of venture capital.

## ***HUMAN RESOURCES***

Startups normally start with one founder and/or some cofounders. As time goes by, founder needs more experts to develop the prototype, MVP, etc. Then, he/she has to negotiate with people, make team and finally hire employees. This process is so critical to succeed and if the founder lacks enough knowledge of the field, the startup might fail due to human resource management issues (Salamzadeh, 2015 a, b; Salamzadeh, 2014).

## ***SUPPORT MECHANISMS***

There are a number of support mechanisms that play a significant role in the lifecycle of startups. These support mechanisms include, angel investors, hatcheries, incubators, science and technology parks, accelerators, small business development centers, venture capitals, etc. Lack of access to such support mechanisms increases the risk of failure (Salamzadeh, 2015 a, b).

## ***ENVIRONMENTAL ELEMENTS***

Last but not least is the effect of environmental elements. Many startups fail due to lack of attention to environmental elements, such as the existing trends, limitations in the markets, legal issues, etc. While a supportive environment facilitates the success of startups, a maleficent one could result in failure (Boeker, 1988). The environment for a startup is even more difficult and critical than for an established firm (Bruton, Rubanik, 2002; Van Gelderen et. al., 2005).

## **CONCLUSION**

This paper explained and conceptualized startups by elaborating their lifecycle. The lifecycle includes three main stages, which are bootstrapping stage, seed stage, and creation stage. Moreover, the paper concluded that among the three main streams of research on startups, entrepreneurship theories are the most dominant theories. Finally, the paper considered four main challenges that startups might face. Researchers might elaborate each of the mentioned stages, and study the challenges in different areas. Also, scholars might compare the existing theories of management, organization, and entrepreneurship in order to develop a comprehensive theory of startups.

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# ***BUSINESS INCUBATORS AS ALLIED IN REDUCING THE TRANSACTION COSTS IN MEXICAN ENTREPRENEURS***

*José G. Vargas-Hernández PhD<sup>3</sup>*

## ***ABSTRACT***

*Strategic alliances are given by voluntary agreement between the parties, and have various forms, means and objectives which exist. In this text, the incubators as potential allies for entrepreneurs in the creation process of the company and as a cause of reduction of transaction costs in the process, where the relationship between the two sides have discussed them generates benefits of various natures. While it is not set as the union of both, if it looks like the relationship and close contact, as a network, which allows the incubator to survive and achieve its objective and entrepreneurial reduce the risk of birth as a company, in addition to build networks with other companies, organizations or institutions and ease of financing, and even the possibility of investors.*

**Key words:** *Strategic Alliance, Transaction Costs, Entrepreneurship, Business Incubator*

**JEL Classification :** *M13, M10*

**UDC:** *005.961:005.914.3(72)*

*005.411:005.591.45(72)*

*334.012.64(72)*

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## ***INTRODUCTION***

Businesses have a life cycle, just as humans are born, grow, develop and die. But there are companies that live longer than others, given various internal and / or external factors to the organization such as training of managers, experience, competence, product or service and even some innovative factors, lack of resources and regulation which are subject.

This document shows business incubators as allies of the entrepreneur, thanks to their services, experience and expertise to help the latter to reduce their transaction costs, thus reducing the uncertainty and risk of a possible early death of the company; this focused on Mexico since the emergence of incubators until their role towards entrepreneurship.

Thus, in the following pages will be possible to know the little known business incubators, which are organizations that support entrepreneurs from the business idea to the creation of the company even already being consolidated may accompany the company. Where incubation can be physical, the entrepreneur is in the incubator facilities, or virtual, that is not within the incubator. It also talks about the services they provide and as they are reducing transaction costs in the process.

## ***DEFINING THE PROBLEM***

There are major efforts in Mexico to the creation and success of companies such as example are the existence of institutions like National Finance providing credit and training is another example ProMéxico who also helps companies to reach international markets; the efforts of these organizations are important and useful, but not sufficient, at least not for entrepreneurs looking to set up their business.

Moreover, it finds the Secretary of Economy (SE), which supports entrepreneurs in the SMEF and (Fondo Pyme). The fact is that access to these resources for the entrepreneur may not be easy for them, and that requires the help of an incubator recognized by the Secretary of Economy (Secretaría de Economía), as part of the requirement to obtain the resource for the use or knowledge is limited or the SME are having trouble making a business plan or project that are required to access various resources of this nature. Moreover, entrepreneurs can find investors, loans with financial institutions or sources other than the range of funds that have government financing institutions; however, for most of these, with the exception of family and friends, requires a project, a business model or business plan that give formality, forms and funds to the entrepreneurship.

For these situations, the incubators to undertake value as important allies to start a new business, as they often have important contacts in both government institutions that facilitate government paperwork such as access to information; and also incubators have contacts with capital and investors interested in contributing to the projects arising under the shelter of a business incubator.

## ***BACKGROUND OF THE PROBLEM***

The first incubators of business emerged in Mexico in 1990. These were in Ensenada, Baja California and in Cuernavaca, Morelos, and the first with the Technology Based-Incubator (IEBT) and the second with The Business Centre of Technological Innovation (CEMIT). Two years after it was created the first incubator in Jalisco, hosted by the University of Guadalajara and under the direction of Dr. Juan Villalvazo Naranjo, called Technology – Based Incubator at the University of Guadalajara (IEBT-UdeG) that continues to date under the same name, and classified as intermediate technology incubator.

These incubators emerged with the aim of providing space and administrative services to entrepreneurs, besides advice on the different areas of business, including legal. Also the management of government funds and resources and technology transfer. All this to enable the new entrepreneur or existing processes are sometimes complicated by ignorance or issues of time and capital.

The National Council for Science and Technology (CONACYT) was an important promoter for creating incubators in Mexico. To do this with the National Business of Technology-Based Incubation Program (PIEBT), which was intended to accompany in creating companies and were a means of modernizing industries along with the dissemination and promotion of technology creation, whether applicable to company or developed by the same. The program lasted six years, from 1992 to 1998 included.

Subsequently, the Ministry of Economy (Secretaría de Economía) created the Fund for Small and Medium Enterprises, today SMEs FUND (Fondo PyME). In 2003, which granted temporary economic supports and develops projects for the creation and development of SMEs in Mexico? This being one of the main funds managed by incubators, as this secretariat values and gives recognition, which serves to facilitate the acquisition of these resources. This fund still continues. According to the Ministry of Economy, with data of 2009 (Villalvazo Naranjo, and Becerril 2010) in Mexico there are 500 incubators, out of which 217 focuses on traditional companies, 262 are intermediate and 21 high-tech technology. In total, these incubators contributed to the creation of 24,394 jobs through 6,100 new companies during that year.

Finally, on January 11, 2013 came the National Institute of Entrepreneurship (INADEM), part of the Ministry of Economy and which come to give strength to incubators and actions aimed at entrepreneurs and SMEs, tending a goal that encompasses from policy implementation and coordination related to entrepreneurship to promoting innovation and competitiveness that affect the economic development and welfare of Mexican society.

## ***JUSTIFICATION***

According to a study by RSMB ogarin Mexico, called Entrepreneurship Spirit, shows that between 2007 and 2011, Mexico has had a rate of entrepreneurship and creating new business of 6.6%, a high figure, much more than that recorded by developed nations such as U.S., Japan, Germany, United States, for which, according to this study was 0.8%. These results show that Mexicans just do seek to undertake and do, which would be fine if the majority survived the first, as even fifth year; and further, grow and achieve consolidate over time.

More over, according to the INEGI (2012), in 2012 were created 1'135, 089 new companies nation wide, of which 20.4% belong to the manufacturing industry, 28.4% commercial and 30.7% to the sector of private non-financial services. From such business, 884.240 died, being 16.7% in manufacturing, 22.6% in the service sector and 22.9%, in commerce and trade the latter being the sector with the highest death, which adds the pitiful 62.2% of total. Thus, it is clear that entrepreneurship is given, but something is missing for success that any new employer expects. What Mexican entrepreneurs need to and their businesses?

It is for this that the present text focuses onto show business incubators as an important strategic partner for entrepreneurs who can facilitate them the way and help reduce the risk of death at an early time. This is because there are statements about the secan help significantly to accompanying and guiding the entrepreneur. As Zapata (2011), supports the claim that between 80% and 93% of companies in Mexico die in 5 years, and that companies that were incubated reduce this death by 20%. Similar statement makes the Secretary of Economy (SE) saying that about 80% of incubated companies are successful.

## ***ASSUMPTION***

Business incubators are allied strategies to engage and generate more successful companies in Mexico.

## ***CONCEPTUAL THEORETICAL FRAMEWORK***

To support the vision of a business incubator as an important ally for entrepreneurs, the analysis is done about the transaction costs that are generated when starting a business, and in which the support of the incubator will be reflected in greater visibility; being the direct impact to the nascent entrepreneur. Recalling that transaction costs are incurred in doing business, which includes seeking information from, buyers, sellers and prices to supply and carry out contract (Eggertsson, 1995).

Such essential costs sometimes performed to minimize uncertainty and risk of trading and, in this case, the starting a business. This in accordance with the arguments of North and Wallis (1986) cited by Eggertsson (1995). These costs are transaction that are not directly related to the final good, but are important for development. Examples are insurance, inspectors, office staff, and even monitor the merchandise or other exchange company.

For transaction costs, it is important to have an ally to provide information, training, tool sand even spaces where several of these costs are reduced by making use of what it offers a business incubator. A business incubator reduces risk, uncertainty and time to start up; having full knowledge of the process, regulations, plus expertise of its members inspecific are as that lead to medium and long termin reducing costs.

It should highlight the importance of formal relations in the process of undertaking and start up new business. Contracts and agreements are essential for a clear specification of the relationship between the parties, and the secrecy and intellectual property. These are features very important in the relationship of the company with other companies such as, in this case, between the entrepreneur and the business incubator. The first step is precisely to reduce the risk of informal relationships where resources extracted are usually implemented in programs and government funding.

Further support to the accompaniment of an incubator gives Williamson (1991) when it includes the theory of transaction costs associated with the efficiency and performance of the organization in order to minimize these costs. This being the main benefits while the aforementioned objectives of incubators to provide training, advice and consultancy to entrepreneurs, which in many cases, it requires in order optimizing its resources.

Also, part of the important and essential for the entrepreneur and certainly will involve transaction costs is to generate reputation, which is important for being born and it will come to give permanence to the future. Also for the generation of reputation and cost reduction in this sense, the incubator under its wing and its own formal and consolidated image is the way to provide for the generation of entrepreneurial self; so does the inexperience and bounded rationality to the problems that are presented in the incubator process and it has experience and therefore information to help you better decision.

Finally, do not forget what notes Williamson (1981) as the generators of transaction costs, which are the behavior of economic agents participating in the process, bounded rationality and opportunism. Besides the problems belongs to the competitive markets which creates uncertainty, in this case, possibly inexperienced entrepreneur.

## CONTEXTUAL FRAMEWORK

If it is assumed the costs of starting a business, according to an study conducted by Doing Business from World Bank, held in 189 countries among which is Mexico, the different sections evaluated are precisely what is of more interest, opening a business. The study mentions that to open a business in Mexico are required six days to perform six steps and generating a 19.7% cost per capita (U.S. \$ 9,740) income, being the country at position 41 of the study, below the average for Latin America and the Caribbean, and in some areas, it is also compared below to the average for OECD countries (Banco Mundial, 2014).

*Table 1: Starting a business*

Table 1: Starting a business			
Indicator	México	Latin America and the Caribbean	OCDE
Procedures (number)	6	9	5
Time (days)	6.0	36.1	11.1
Cost (% per capita income)	19.7	33.1	3.6
Requirements of minimum paid capital (% per capita income)	0.0	3.6	10.4

*Source: Banco Mundial (2014). Doing Business.*

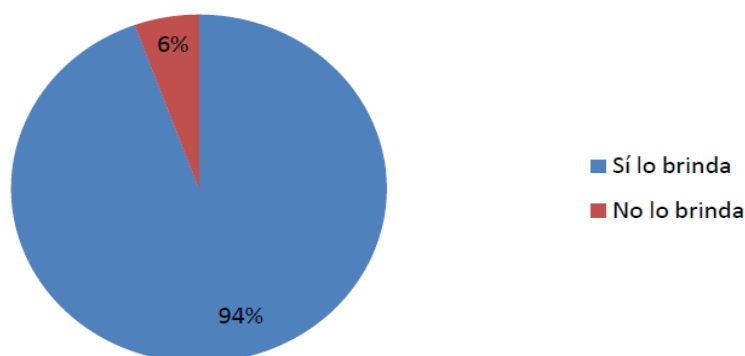
Based on the above data, although not directly, it can be observed if an incubator can influence the process for opening the business, it is known that part of its job is counseling, which is legal. It may help that the transaction cost decreases for the opening of a business, given the accompanying counseling and saving time as possible.

Sure, this is data analysis compared with the experience, contacts and staff that has available the incubator. However, also the legal counsel of the incubator can contribute to the realization of contracts and the protection of intellectual property of the entrepreneur with the Institute of Industrial Property (Instituto Mexicano de Propiedad Industrial IMPI). The consultation from these organizations are often focused to the needs of the entrepreneur, who sometimes does not know this type of actions to protect and formalize its relationships with customers, suppliers, government and at the same competition as in the case of intellectual property.

It has been found that some incubators, for a rent, make it easier for entrepreneurs from one physical space, services as clerk, allow the use of facilities such as meeting rooms and, in the case of specialized incubators some area, the use of equipment and laboratories. In addition, other costs are included in the rent, usually the safety, cleanliness and fixed costs such as electricity, internet and water. All these costs are reduced to a pre-established fee, which also provide the advisory and consulting fees, which are clearly savings to entrepreneurs in transaction costs.

That is to say, with the fact the entrepreneur pays a monthly, usually a fee to be established to initiate relations with the incubator and set out in the agreement they both signed to formalize, time and efforts are avoided and of course, having decrease the costs in starting up and undertaking their business, they would have to devote all transaction costs focused on the operation and provide certainty as mentioned above.

More in favor of a pro-entrepreneurial incubator relationship, is that the incubator has networks that makes use of everything already mentioned and besides to raise funds for entrepreneurs to start operations. In some cases, also incubators have networking with investors that typically invest in start-ups. Already in more special cases, there are also incubators for financing seed capital to entrepreneurs. This specific function is a core task that gives support to start up a new business. The person or people who are looking for starting up a new business also find difficult to obtain resources because it often involves the formulation of a project or a business plan. Some of the entrepreneurs have the knowledge necessary to create and for them also the incubator provides support in their activities.



*Figure 1: The incubator provides planning and entrepreneurship*

*Source: Villalvazo Naranjo, J.E. Becerril, M. (2010)*

Using as an example the incubators of Jalisco, of the 43 existing in 2010, 94% of them provide services to facilitate the entrepreneurial start up a business as signaled by Villalvazo Naranjo, and Becerril (2010). Moreover, these researchers also note that these incubators also serves 94% of pre-incubation that virtually refers to the phase of landing the business idea and integrate the business plan. Another important aspect that helps to conclude that the incubators, even with all the services provided for a fee, although most often 89% of services are provided non-profit, as is well shown in their study by Villalvazo Naranjo and Becerril, (2010). Many of the incubators work using funds obtained from the Ministry of Economy (Secretaría de Economía) and SME Fund (Fondo PyMES).

## ***RESEARCH METHOD***

The method used for this paper is based on the analyses of official documents of the institutions referred, some studies on entrepreneurship and startups, and finally available data on new firms and institutions as RedJal and INEGI. In addition, incubators and studies on such cases were also reviewed to learn about the experience, services and working methods of these. This focused on observing what happens in Mexico about.

## ***CONCLUSION***

Business incubators in Mexico use to be strategic partners for entrepreneurs that enable the latter to reduce their transaction costs to startup a new company. Business incubators are also important to reduce the risk of death of the company and reduce uncertainty in the process. Also, the services provided, experience and expertise by incubators are important for a growing business arises with the required formality and according to the law, of course protecting its intellectual property and creating an image that pays to create its own reputation.

Notably incubators are also sources of information, since they know the process of business creation and study what happens in the markets to better serve the entrepreneur. These activities aim to reduce the bounded rationality of the latter because they provide information that will facilitate decision-making and guide to using the most appropriate advice and consultancy. This, coupled with the low cost of housing, facilities for obtaining resources for the entrepreneur and the inclusion of various costs in one installment by incubation concluded that transaction costs are reduced by undertaking significantly.

Perhaps the above is the sample that holds to conclude that more than 80% of the incubated companies are successful. As incubators facilitate the process of creating new business and give them specialized and geared to the specific needs of each entrepreneur support. All this is good news for a country eager to grow with a high entrepreneurial spirit, and that only lacks the necessary guidance to achieve its goals, survive the first year, and why not, to grow over time.



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# **SMALL AND MEDIUM-SIZED ENTERPRISES ARE BECOMING PILLARS OF DEVELOPMENT OF EU AND SERBIA**

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*Dejan Vukosavljevic PhD*<sup>5</sup>

## **ABSTRACT**

*The subject of this paper are small and medium-sized enterprises as important business entities and pillars of development in European Union and Serbia. The basic aim of the research is in one of the important hypotheses and facts that investing into small and medium-sized enterprises and entrepreneurs is investing into the key pillar of economy and that the process of employment in the European Union countries and Serbia, and that European Union supports this sector significantly since this sector of economic activity is an important generator of income. The paper is based on analysis and synthesis of scientific and relevant literature, papers and communications, and the methods used are desk research, logical research, interdisciplinary approach, comparative method etc.*

*It is important to note that business models of this sector of the economy in the European Union and Serbia are substantially changing and that the changes require radical changes in the way of thinking of the subjects involved, i.e. radical changes in financial sector, central bank policy, fiscal policy makers etc.*

**Key words:** *Small and Medium-Sized Enterprises, Entrepreneurs, Economic Development, Finances, Fiscal Policy*

**JEL Classification:** *M21, G21, G39*

**UDC:** *334.713(4-672EU)*

*334.713(497.11)*

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## ***INTRODUCTION***

In the general economic policy of European Union member states and Serbia, small and medium-sized enterprises play an important role in the economy. In the European Union member states, there used to exist large differences in respect to the question what small and medium-sized enterprises are, their categorization and definition. In order to solve this issue, the European Commission recommended to the member states, European Investment Bank and others to set the unique criteria defining small and medium-sized enterprises considering the criteria such as:

- Number of employees;
- Annual turnover;
- Average asset volume;
- Independence in decision-making and management.

According to the Recommendation (Commission Recommendation concerning the definition of micro, small and medium-sized enterprises, 2003) of the Commission of the European Communities, there are specific factors according to which small and medium-sized enterprises are categorized:

- The category of SMEs is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million;
- Within the SME category, a small enterprise is an enterprise which employs fewer than 50 persons and the annual turnover of which does not exceed EUR 10 million;
- Within the SME category, a microenterprise is an enterprise which employs fewer than 10 persons and the annual turnover of which does not exceed EUR 2 million.

These criteria are used in Serbia, too, especially in the banking sector during the course of examination of solvency and creditworthiness of small and medium-sized enterprises. Due to the great significance and role of small and medium-sized enterprises in the economic development of the European Union member states and Serbia, European Union member states offer numerous support programs, such as the program for financing, research, innovation, strengthening competitiveness etc. When it comes to the support of Serbia to small and medium-sized enterprises, a progress in institutional improvements of operation of small and medium-sized enterprises has been recorded on the level of the Republic, Autonomous Provinces and regions in implementation of the strategy for development, strategy for competitiveness and innovations, especially in the period from 2008 to 2014. Support programs have been established by the Republic, as well as local governance.

Small and medium-sized enterprises in Serbia still participate in high proportion in the basic indicators such as employment rate, gross national product, export etc. despite very difficult economic environment for doing business. The fact that small and medium-sized enterprises participate with over 99% in the total number of business entities in Serbia is sufficient enough to support the data mentioned together with some others.

## ***PREVAILING VIEWPOINTS***

Economic system as an environment in which an economy is developed can influence both positively and negatively economic development of an economy. It regulates the entire process of social reproduction (production, exchange, distribution and consumption), contents of many important subsystems, one of which is the system of coordination. It is also a fact that market is the most important coordination mechanism. There are numerous state mechanisms which “assist” in coordination, the most important of which is economic policy. If economic policy is adequate, it can properly direct the right and optimal development of the economy, a part of which constitute small and medium-sized enterprises and entrepreneurs.

Economic policy, however, can frequently adversely affect development and even cause or aggravate crisis. If economic policy does not monitor events properly, if it receives inadequate information (or does not receive them at all), it is late in decision-making and taking actions, and it may considerably hinder the market or make it even worse.

We may conclude that crisis is not generated only by the cyclical economic trends. It is generated to a good extent also by the actions of a state, which are the second most important factor. Microeconomic subjects (companies and banks, and especially small, medium-sized enterprises and entrepreneurs) cannot be blamed for the negative trends in business sphere since they are the subjects that first suffer their influences, which then spread further. Entrepreneurs (small and medium-sized enterprises) in Europe and Serbia have numerous obstacles in doing business. Those obstacles mainly refer to various limitations of administration, lack of employees of the appropriate qualifications, insufficiently developed infrastructure, problems regarding introduction of new technologies, unqualified management, insufficient demand, difficult or limited approach to financing, low profitability of this sector, problems with policies of the environment, underdeveloped financial market, lack of business ethics and presence of corruption and bribery.

## ***REASONING AND METHODOLOGY***

This paper is based on researches and analyses, findings of authors from around the world, relevant literature, recommendations. The following methods will be used: logical research, interdisciplinary approaches, indicative methods, general methods of research compatible with economic and social sciences with empirical and theoretical approaches, deduction, subjective methods, comparative methods and discrimination methods, statistical data and practice.

Serbia and the European Union encourage growth of small and medium-sized enterprises as this significant sector of business activity participates with over 90% in the total number of business entities, employs the large number of employees

(around 66% of the total number of employees in the EU), account for over 60% of turnover and 49% of gross added value. “According to the data of official statistics (Eurostat, 2015, pp. 11) there are 21 million of small and medium enterprises which employ around 135.8 million workers”.

In an attempt to point to the role and significance SMEs have in growth and development of national economies, apart from the analysis of participation of this sector in basic macroeconomic indicators, it is necessary to devote special attention to the influence of the large and dynamic sector of SMEs on total economic performances of an economy.

“SMEs are more superior than large business systems in adaptation to the demands of consumers and dynamic changes in business environment in the global market” (Beraha, 2011, pp. 316). The power of these companies is in their size and organizational structure, which is simple and flexible when compared to the huge and complex large companies. The greatest parts of SMEs and entrepreneurial sector are micro business entities which employ up to 5 people and frequently only family members, while large systems function with large number of hierarchies, i.e. levels of management, clear division of work, formal procedures and rules, and often slow and bureaucratic decision-making.

## ***LITERATURE AND THEORETICAL GROUND***

“When it comes to small and medium enterprises, every owner and individual desires to employ the capital in the best way and secure the highest return. This is in accordance with the goal of starting every small and medium-sized enterprise, and the aim is profit. It does not aspire to support public interest, nor does it have the perception to what extent it supports it. The enterprise looks only after its own security, its own profit, guided by the so-called “invisible hand” to accomplish the goal it did not intend to. It follows its own interest and frequently supports the interest of society (public interest) far more efficiently than it would have done if it really intended to” (Smith, 1776).

There are various stands regarding evaluation and defining small and medium enterprises and entrepreneurs. “In the EU, the category of small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons, and which fulfill one of the following two criteria: have an annual turnover not exceeding EUR 50 million, and an annual balance sheet total not exceeding EUR 43 million.” (Recommendation 2003/361/EC).

SMEs are characterized by less than average labor productivity since these companies are too small to achieve the effects of economies of scale or economies of scope. Apart from that, they are less capital intensive and more labor intensive. However, on a specific level of development of a national economy, achieving effects of economies of scale, which is inherent of large companies, becomes less important and a need for establishing conditions in which one part of production will be performed out of the capital intensive sectors of economy. This is achieved by

involving less labor intensive companies in the chain of supply of large systems, i.e. creating a networks of suppliers belonging to the SMEs sector. The strategy of involving SMEs into chains of supply of large companies gains in importance particularly in the process of globalization and in the multitude of activities. Accomplishing strong competitive position in the global market requires high participation of theoretical-methodological basics of financing productivity, which a priori puts in a more favorable position large companies which are able to achieve economies of scale effect.

The breakup of SFRY and international sanctions gravely affected trade balance of the Republic of Serbia. Import into the Republic of Serbia is two and a half times bigger than export. Increasing export is of critical importance for the Republic of Serbia, and SMEs sector can contribute significantly to this. "In February 2001 the Government of the Republic of Serbia founded Serbia Investments and Export Promotion Agency (SIEPA), which, among other things, should provide assistance to export oriented small and medium-sized enterprises" (Ministry of Economy and Privatization, 2003).

Increasing employment and new jobs creation are the key goals of economic policies of the developed countries worldwide. SMEs are potential generators of employment, especially for creation of "decent", i.e. well enough paid jobs. "In the EU, SMEs and entrepreneurs create two thirds of jobs in the private sector", according to the results of one study (Study on the SMEs 2012, European Commission).

Key document of the European Union supporting development of entrepreneurship is so-called Lisbon Strategy. European Council in March 2000 set the key goal of the EU: becoming the most competitive and the most dynamic economy, based on knowledge, capable of maintaining economic growth, with the highest rate of employment, capable of sustainable economic growth. In order to achieve the clearly defined goal, in March 2000 so-called Lisbon Strategy or Lisbon Agenda was adopted. The Strategy was developed and annexed in the subsequent meetings of the European Council. "Lisbon Strategy, the main goal of which is creating the most competitive and the most dynamic economy, is based on three main segments." ( Kesner-Škreb, 2007, Lisbon Strategy pp. 441-443)

## ***MISCONCEPTIONS OF NEOLIBERALISM REGARDING ECONOMIC DEVELOPMENT***

Economic integration and economic interdependence in the world nowadays are at an unprecedented level. The result of this interconnection is that the global economy cannot function for the benefit of all, without existence of international solidarity and cooperation. Global financial and economic crisis, followed by the collapse of large financial institutions, highlighted this problem, which accentuated the need for development of new approaches for new forms of global cooperation. G-20, which has become the leading forum for international economic cooperation, attempted to coordinate global anti-crisis policy, but it seems that so far they have not succeeded in it.

It is needless to speak a lot about crisis periods which are not good for economy and society in general because everybody is at loss. System mistakes are the most frequent causes of structural fluctuation, so that we have recorded decrease in almost all the macroeconomic aggregates- decrease in GDP, employment, consumption, investments, inventory, and inflation grows.

“Even during the Great Depression in 1930s it was definitely clear that active role of state in regulation of the process of social reproduction was necessary, so it is believed that economic policy in the true sense of the words appeared at the time. Even though it is still debated whether and to what extent an economy should be (de) regulated, the facts are that at the end of 1970s the developed world had excess regulation which obstructed market operations, and again during 1980s and 1990s the market was deregulated, and the deregulation turned out to be excessive. A market with sufficient and adequate regulation (regulated market) is the key premise for exiting from the current global economic crisis.” (Bošnjak, 2011, p. 9)

Deregulation, above all of financial and banking sector, followed by expansive monetary policy, is considered to be the key cause of world financial crisis, so in order to exit from it is necessary to provide controlled monetary policy and adequate regulations.

There are almost no more doubts that the reality definitively denied neoliberalism and confirmed it as a very bad paradigm (or even ideology), which was intensively promoted by Friedman and Hayek and applied in practice mostly through “Washington Consensus” as practicum. Even the most consistent propagator Geoffrey Sax admitted that there is a serious flaw in this concept.

“It is evident that all the countries which consistently applied the recipe of neoliberalism suffered economic collapses, and the latest one is the typical consequence of neoliberal recipe. Every country which accepted or which was imposed the concept of economic neoliberalism, entered a heavy economic crisis, and those countries which abandoned this concept or never accepted it, achieve very solid economic results.” (Kovačević, 2014)

## ***CAUSES OF FINANCIAL CRISIS***

In the paper which is supposed to analyze operation and development of small, medium-sized enterprises and entrepreneurs, it is necessary to reflect on the big financial crisis which occurred in 2008 and its consequences in almost entire world and our country, and to note the causes of the crisis.

For some time after beginning of the financial crisis, its effect on the real sector, a part of which are small, medium-sized enterprises and entrepreneurs, were not that visible, but this changed very soon.

Lower real-estate prices, lower share prices (initially started by financial institutions because of decrease in value of securities in the market), higher premium risks and more rational loan extending, were felt in the second half of 2007. When everybody wished for the end of the new crisis disturbances, in the fall

of 2008 the effect of the crisis suddenly became more pronounced. The concern led to a sudden fall in share prices, but also to the consumer and corporate trust worldwide.

“It happened as the result of accumulation of several basic causes during the previous period in which the crisis was not foreseen. These causes did shape the crisis, but we have to stress some additional mechanisms, which intensified it and accelerated it. Blanchard identified two related, but at the same time different mechanisms: the first was sale of assets for the purpose of liquidity of investors and the second, the sale of assets in order to reestablish adequate capital ratio.” (Blanchard, 2009, pp 48)

Coupled with the initial causes of the crisis, these mechanisms additionally aided the occurrence of the worst global recession since 1930s.

It is logical to start with the analysis of initial causes of global crisis. Although majority deems that “fuse” which “ignited” the crisis was dropping of the real-estate prices in the USA, there are four more key causes:

1. Underestimated risk of the newly issued assets;
2. Unpredictability of the influence of newly issued securities in balances of financial institutions;
3. Interconnection of financial institutions within and between countries;
4. High leverage of the financial system as a whole.

Assets were created and they were in the market, which did not appear to bear any serious risk. In the expectation of stable real-estate prices (and even their growth), most subprime mortgages appeared with relatively low risk. Value of a mortgage could have been relatively high compared to the price of real-estate, but it was believed that this disbalance will gradually disappear over time as the prices increase. Looking back, the delusion of this hypothesis was the following: if the real-estate prices really go down, many mortgages will exceed the value of the real estate, which indeed led to defaults and loan cancellation.

Why did economic subjects who took mortgage loans underestimate a risk like this? The basic explanation is more general, while economic history teaches us that benign economic environment can very frequently lead to loan boom and creating marginal assets and marginal loans. Observing the current distribution of returns, debtors and creditors become too optimistic regarding future returns.

Securitization led to the complex and hard for evaluation assets in balances of financial institutions. Even though this phenomenon of converting mortgage loans into mortgage securities started much earlier, it was intensified especially during the last decade. In the mid 2008, for example, more than 60% of all mortgages in the USA were securitized – pooled as mortgage securities – and returns from those securities were separated (trenched) in order to offer riskier flows to some investors, and less risk intensive to some others. Securitization and globalization led to increased interconnection of financial institutions within countries and between them.



Leverage (return) grew within global financial system since financial institutions financed their portfolios with less and less capital, thus increasing the rate of capital return.

The basic causes are optimism and underestimating risk, but also numerous “holes” in regulations. If by any chance value of assets becomes lower and more uncertain, leverage is higher, higher is the probability that capital will be destroyed, and institutions become insolvent, which is exactly what happened.

### ***SOLID FINANCIAL SECTOR IS NECESSARY FOR SMES***

The group of twenty major economies summit was held in London during the peak of the second wave of the crisis (in April 2009). They examined various challenges and different crisis scenarios. The conclusions were that common fiscal incentives (proposed by the USA and Great Britain) are obligatory, that stricter regulation of financial institutions and products is necessary (proposed by France and Germany), and that global supranational currency was necessary (proposed by Russia and China). Key propositions regarding regulations presented at this summit are:

1. Creation of international regulatory body with the existing market model of asset value setting;
2. Consolidation of capital reserves of financial institutions, especially banks, as protection from deterioration of market environment;
3. Regulation of hedge funds – private financial companies which gather professional investors;
4. Regulation of rating agencies which evaluate risks in financial markets and assisting investors that way;
5. Changing of accounting standards. (Bošnjak, 2011. pp. 11)

The second summit (Pittsburg, September 2009) explicitly proposed regulation of banking sector and a new code of financial rules.

New rules are necessary in order to prevent a new crisis. These rules, of course, refer to financial institutions.

All the important economies in the world, the stronger ones, as well as those rising (Brazil, Russia, China- BRIC), supported new and more efficient measures of regulating financial system, as well as for decreasing consumption.

A serious state activity is the key for starting a phase of rising, while state (financial) stimuli for the shaken national economies are necessary until these economies stand on their feet again.

At the end of 2009 general impression was that financial institutions started going back to the risky behaviour, which once again showed that imposing a more strict discipline and complete surveillance over the global financial system (global financial reform) are necessary are necessary.

At the beginning of the following 2010 (in March) the third summit of the most developed countries was held in Toronto, and it was devoted to the economic crisis and solutions for overcoming of it. An agreement over those solutions, however, was not reached since the points of view were completely different. For example, the USA promoted encouraging demand as the key measure for overcoming the crisis, which would stimulate economic growth in the subsequent period, while the EU finds saving measures to be crucial recommendation, since that would lead to decreasing of huge budget disparities (deficit). As the conclusion, it was only noted that it is necessary to continue with the common policy of stabilization in the second phase of recovery of the world economy.

As far as the monetary sphere is concerned, excessive fluctuations of currencies should urgently be stopped, as well as their formation based on the market principles. In addition, protectionist intentions of some countries should be stopped, sudden rises of prices should be disabled (especially of strategic raw materials) and the destructive behavior of financial sector should definitively be prevented.

“All the forms of financing small and medium-sized enterprises and entrepreneurs are available if their credit worthiness allows it. This refers to own funds, joint funds, loans, issuing and sale of securities, lease and concessions. For small and medium-sized enterprises and entrepreneurs, and for beginners above all, the most suitable form of financing is lease” (Vukosavljević, Kvrđić, Vukosavljević, 2013, pp- 89-97).

## ***ECONOMIC CRISIS IN EUROPE, CAUSES AND CONSEQUENCES***

European economy saw the deepest recession since 1930, with the lowest point occurring in 2009. European Union could in a longer period record low growth and difficult transformation for several reasons:

1. Loss of skills and knowledge of employees;
2. Decrease in inventory and its getting out of date because of the decreased investments;
3. Less innovation due to lower expenditure for research and development.

Member states implemented a wide range of measures in order to provide temporary support for the labor market, increase investments into infrastructure and measures that are to be taken for encouraging development of small, medium-sized enterprises and entrepreneurs, to secure sustainable recovery and encourage long-term growth of the EU. The focus had to be shifted from the short-term managing of demand, towards structured measures on the offer side.

This crisis had a great influence on the real EU economy. This does not mean that all the EU economies were equally endangered – some were more and other less affected. Not only the current economic activities were hit by the crisis, but also the potential output (output based on the full exploitation of production

factors) of some countries. This surely influenced and will influence long-term growth of these economies and economy of the EU as a whole.

It seems that the crisis began to influence EU economies mostly since fall 2008, and mainly over the three transmission mechanisms:

1. Through connections inside the financial system;
2. Through effect of wealth and trust. As households suffered decrease in their wealth, savings were increasing, while demand for permanent goods, as well as real estate investments were decreasing. Further consequence is the decrease in production, which in subsequent iterations additionally adversely affected financial markets.
3. Through global trade. World trade suffered real collapse in the last quarter of 2008. The reasons for this are the decrease of business investments and decrease of the demand for permanent goods. Both factors are loan dependent.

### ***SIGNIFICANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES AND ENTREPRENEURS***

Small and medium-sized enterprises and entrepreneurs (herein after: SMEs) have a significant role in all economies, and particularly in transition and developing countries which are facing big challenges in respect to solving the problem of high unemployment and unequal distribution of earnings. SMEs make significant contribution to increasing income and creating new jobs on one side. On the other side, they are the next and very important phase in development of micro businesses at the same time; they encourage innovations and development of new technologies and have direct influence on the level of aggregate demand and investments. In an attempt to direct attention to the role and significance of SMEs sector on growth and development of national economies, it is necessary to review the influence of large and dynamic SMEs sector on total economic performances of an economy with special attention apart from analyzing participation of this sector in basic macroeconomic indicators.

During the last decades of the 20th century, parallel with the growing problems of large national and multinational corporations in the field of organization and management, the importance of small and medium-sized enterprises (SMEs) continuously grew. Owing to its flexibility, vitality, tendency to get involved into innovative and risky ventures and greater capacity for specialization, SMEs adapt in a superior manner to the demands of consumers and dynamic changes in the circumstances of operations in the global market compared to large business systems (Beraha, I., 2011, pp. 316).

The strength of these companies is in their size and organizational structure, which, in comparison to huge and complex companies, is simple and flexible. Most of the SMEs sector is made of micro companies which employ up to 5 people, and frequently only a couple of family members, while large systems function with great number of hierarchy levels of management, clear labor division, formal procedures and rules and frequently slow and bureaucratic process of decision making.

**Table 1:** Categories of small business according to the EU regulations

Business category	Number of employees	Turnover	Balance sheet total
Medium	< 250	≤ 50 mil. Euros	≤ 43 mil. Euros
Small	< 50	≤ 10 mil. Euros	≤ 10 mil. Euros
Micro	< 10	≤ 2 mil. Euros	≤ 2 mil. Euros

**Source:** Commission regulation (EC) No 70/2001

In the EU, the phrase small and medium-sized enterprises stands for all the companies employing fewer than 250 persons, which meet one of the following two criteria: having an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Based on these criteria, the distinction was made between micro, small and medium-sized enterprises, while the number of persons employed is the basic and the most important criterion. Accordingly, micro enterprises are those employing fewer than 10 persons, whose annual turnover does not exceed EUR 2 million, and/or an annual balance sheet total does not exceed EUR 2 million. Small enterprises employ between 10 and 50 persons, have an annual turnover not exceeding EUR 10 million, and/or an annual balance sheet total not exceeding EUR 10 million. Finally, the number of persons employed by medium-sized enterprises does not exceed 250 persons, total revenue does not exceed EUR 50 million, and/or an annual balance sheet total does not exceed EUR 43 million.

In Serbia, we have to point to one paradox first. Although the phrase small and medium-sized enterprises is at wide use, according to the current Law on Business Entities the term company officially does not exist. Still, classification of business entities into small, medium-sized and large is based on the Accounting and Auditing Law and three basic criteria from it:

- The number of persons employed
- Annual turnover, and
- Balance sheet value on the day of writing a financial statement in the business year.

Starting from these three criteria, the division was done in the following manner:

1. Small enterprises are those employing fewer than 50 persons, having annual turnover not exceeding EUR 2.5 million, and/or whose annual balance sheet total does not exceed EUR 1 million;
2. Medium-sized enterprises are those employing fewer than 250 persons, having annual turnover not exceeding EUR 10 million, and/or whose annual balance sheet total does not exceed EUR 5 million;
3. Large enterprises are those employing more than 250 persons, having annual turnover exceeding EUR 10 million, and/or whose annual balance sheet total exceeds EUR 5 million.

In order to classify a business entity properly into one of the three categories, the business entity has to meet at least two out of the three criteria.

Classification within sector of SMEs into micro, small and medium-sized enterprises is based on the number of persons employed in the following manner: micro enterprises – number of person employed up to 9; small enterprises – number of persons employed from 10 to 49; medium-sized enterprises – number of persons employed from 50 to 249. The phrase micro enterprises refers to entrepreneurs as natural persons independently performing business entities.

Apart from the number of persons employed, the size criteria may also be gross turnover and asset value.

Experiences show that there is a direct correlation between the degree of industrialization of a country and the share of SMEs sector in its economy. In the rich and highly industrialized countries, SMEs generally participate in a significant proportion in the total number of business entities, total employment, gross domestic product (herein after: GDP) and new jobs creation. A widely accepted opinion is that industrialization is one of the key drivers of economic growth and development, which is of importance particularly in the circumstances of the current position of transition economies and developing countries.

For the developing countries, industrialization is the basic source of employment, earnings growth, technological advancement and creating the state of prosperity. The role of SMEs is important on all levels of economic and especially industrial development since these companies are the core of private sector of every economy as they participate with over 90% in the total number of business entities and generate between 50% and 60% of the total and between 40% and 80% of the employment in production sector. In transition countries in which large, mostly inefficient state-owned companies still dominate, encouraging a more dynamic development of SMEs sector is perhaps one of the greatest development opportunities.

However, global business environment creates some new chances for SMEs, which should take over the role of subcontractors, i.e. suppliers of large companies, especially when transaction and transport costs are high. In the field of internationalization of business operations, a tight business cooperation through subcontracting between large companies and SMEs sector becomes extremely important when it comes to products of labor-intensive sectors.

Despite the fact that labor-force productivity undoubtedly rises with the increase of size of a company, contribution of SMEs to development of economies is becoming more and more important. This particularly stands in respect to the possibility for increasing employment and creating new jobs, increasing efficiency and a more balanced distribution of earnings. Lower productivity of SMEs is the result of the role which these companies have in national economies.

Increasing employment and creating new jobs are among key goals of economic policies of the developed countries worldwide. SMEs are potentially significant generator of employment, particularly in creating “decent”, i.e. good enough jobs. In the EU, SMEs create two thirds of jobs in private sector. Results of a research showed that 85% of the new jobs in the EU from 2002 to 2010 were created in SMEs sector, and one has to bear in mind that this period is characterized by dynamic growth of net

employment of 1.1 new jobs on average annually. Compared to the large companies, with an exception of trade sector, SMEs sector recorded twice as big employment growth. Micro enterprises absorbed 58% of the total net increase of employment in private non-financial part of the EU economy. A research also showed that new companies, i.e. companies established less than five years ago, are undoubtedly most deserving for creation of new jobs.

Small and medium-sized enterprises adapt to changes in the environment more quickly and more easily. This sector employs more than two thirds of the total number of employees in the EU. In the last few years, the number of employees in small enterprises increased, while it decreased in the large ones. A large number of companies is oriented towards growth and it is involved into global business flows. Small and medium-sized enterprises are the heart of economy since they are the main source of employment, innovations, dynamics, continuity and growth in general.

Small and medium-sized enterprises that operate within EU encounter numerous problems in their operations, which prevent them from doing undisturbed business and growing. The problems of SMEs are the following: lack of qualified labor-force, too high labor costs, low management quality, problems with public administration, low purchasing power of population, problems with implementation of the new models of business organization, inadequate infrastructure (traffic, electricity, communication networks), lack of financing sources, unfavorable political environment, unprofitable sector, lack of knowledge regarding public procurement procedures, bribery and corruption, financial markets underdeveloped to satisfy the needs of SMEs.

### ***EXPORT OF SMES FROM SERBIA IN COMPARISON TO THE EU, PROMOTION OF EXPORT AND LARGE MARKET***

Compared to the EU member states, small and medium-sized enterprises in Serbia are considerably less developed. Among SMEs in Serbia, for example, there are three times less exporters among companies of the same size than in EU-14. Only 4.1 percent of small and medium-sized enterprises from Serbia export, while the average of EU-14 is around 11.9 percent. In Serbia, they participate with 8.8 percent in the total revenue of the sector, while EU-14 average is 25.2 percent. These data show that the past 13 years of transition in Serbia have not brought Serbia any closer to the EU.

Because of these indicators, Serbia needs a serious strategy for development of small and medium-sized enterprises and entrepreneurs, which cannot be written by a ministry according to the practice existing so far. The starting point of the new strategy for development of small and medium-sized enterprises have to be recommendations of managers and owners of SMEs based on the personal experience, too. Result of this work has to be several tens of thousands of new SMEs until 2020, which should and can be very profitable and which could improve return percentage to at least 15 percent. These results should be and they are the precondition for Serbia to rise to the level of a medium-developed European country from the group of the six poorest European countries to which it belongs currently.

Data of the European Economic Institute (EEI), Eurostat and European Commission and data of the Republic of Serbia cross-referenced with the facts of National Statistics Institute, Agency for Business Registers, National Agency for Development of SMEs and other analyses, show that in EU-14 there is the highest number of export companies among these companies- in Denmark 18.4 percent, and the smallest number of them is in Romania- 8.5 percent. In Denmark, small and medium-sized enterprises participate with around 37.2 percent in the total revenue of the sector, while in Romania they participate with 17.3 percent.

Owners of small and medium-sized enterprises in Serbia have been pointing to the fact that they are the greatest victims of the state and global crisis for years, while high growth of unemployment and fall of state income matches their stumbling for a longer period, i.e. the past five years.

An undisputable fact is that financial sector, and in particular banking sector in Europe has realized that small and medium-sized enterprises and entrepreneurs are a great opportunity for creating new earnings and the shortest path to economic growth and development. Data for Serbia show that from 2009 until today the number of small and medium-sized enterprises and entrepreneurs has decreased by nearly 50.000, and that the number of employees decreased by nearly 200.000. In the first six months of 2014, 13,919 new entrepreneurs were registered, while at the same time 8,846 stopped doing business. Many business operation conditions have contributed to these oscillations, and above all impecuniosity, subsidized loans, terms of extending loans etc.

*Table 2: Export results of small and medium-sized enterprises*

Country	Percent of SME exporters	Percent of revenues from export in SME sector
1. Denmark	18.4	37.2
2. Sweden	18.0	33.9
3. Germany	14.3	36.8
4. Italy	14.0	32.0
5. France	12.2	26.8
6. Great Britain	12.0	25.9
7. Netherlands	11.0	24.7
8. Austria	10.6	24.3
9. Czech Republic	10.4	22.2
10. Spain	9.6	17.1
11. Hungary	9.2	15.2
12. Poland	9.0	20.7
13. Latvia	8.8	18.0
14. Romania	8.5	17.3
15. EU-14 average	11.9	25.2
16. <b>Serbia</b>	4.1	8.8

*Source: Article „Politika“ - Ekonomija A.Mikavica October 19, 2014*

Serbian Investment and Export Promotion Agency (SIEPA) is a public agency the activities of which are meant to help Serbian companies to export their products and services and become more competitive in foreign markets. Furthermore, by promoting the possibilities to invest and by offering assistance to foreign investors to start doing business in Serbia, SIEPA actively works on creating new jobs, starting domestic economy, transferring technologies and transferring new knowledge and skills.

### ***LARGE MARKET OF SMALL AND MEDIUM-SIZED ENTERPRISES AND ENTREPRENEURS***

A big market is made of the entrepreneurs, which do not have current accounts and do not keep the books. How can financial sector and bank work with these clients? They can if they want to open current account, but when it comes to additional services, such as extending loans, what can a bank offer and how can it manage the matter of risk? These questions are important since this is the market with a potentially high growth in some countries. In the region of Central and Eastern Europe, some entrepreneurs have considerable earnings, while others barely survive. In that case, the usual techniques for estimating the potential or weaknesses may not be applied.

Contrary to that, there are frequently many entrepreneurs, such as physicians, lawyers, dentists and accountants, whose finances are stable. The question is if these are the entrepreneurs of importance. There are some answers that banks have a special segment for entrepreneurs and a special approach for them in terms of products and loans. Some point out that some entrepreneurs can easily be identified, but that there is a large market of entrepreneurs who do not want to keep the books because of taxes and for other reasons.

### ***MARKETING OF SMES***

Registering small or medium-sized enterprises is frequently driven by desire of an individual to operate independently and that way be responsible for successful business and earn more on average than an employee in a large company. An entrepreneur faces greater challenge and bigger responsibility for success or failure, which gives a feeling of pleasure in building an independent business carrier. Investing into marketing in a small or medium-sized enterprise and entrepreneurship varies considerably from investing into marketing in large companies. In practice, marketing is frequently neglected, sometimes because of the lack of information, and more frequently because insufficient budgets.

How could an SME rise its profit? Probably if it attracts a large number of buyers who would buy products and services and leave their money. How can those buyers be attracted? More attention should be paid to marketing, among other things. Marketing



strategy does not consist only of advertising (although advertising is probably the most important part of marketing strategy), but of some other things, too. The entire strategy should be closely connected with the “philosophy” of development of SMEs, it could help defining offer for buyers, and, finally, bring many new buyers. Many “players” in small markets should ask themselves questions: “Does sale of products (services) grow every time when advertisement is paid? Do potential buyers call when promotional flyers are distributed in a particular zone? Do people (buyers) visit web pages, does it increase sale? Are advertisements on the local radio station effective at all?” These and similar questions are posed to many owners of small businesses and chiefs of marketing of many small and medium-sized enterprises. Marketing managers have to be prepared to change strategies, and owners of small and medium-sized enterprises to change strategic orientations.

Many world experts say that the best method for attracting a buyer is a good advertisement, and a good advertisement is the one which can attract a buyer and sell him a product or service. As simple as that. Many marketing methods have no results, and they should be abandoned immediately. This means that all the marketing tactics should be carefully evaluated.

Marketing process leads to sale. When one invests into marketing, the result of that investment should be increased sale of product and profit. Marketing should be organized so that it can help create demand for products, attract buyer’s attention, create a brand out of the product, attract buyers and influence their habits, help increase market share and increase profit.

## ***IMPORTANCE OF SMES MARKETING***

Marketing is a management process which creates demand for a certain product or service in a market. Modern marketing concept can be described as achieving corporate goals through satisfying needs of a buyer better than competition. Marketing management is considered to be an art and science of choosing the market and ability to attract and keep consumers and increase their number through creation, delivery and communication of superior value for a buyer. Marketing management facilitates doing business and creates an offer which will be interesting for the targeted market since small entrepreneurs are not able to satisfy the needs of all consumers, nor can they service an entire market.

Marketing as a concept is a specific way of thinking on which the company’s policy is based and developed, which is of special importance for small entrepreneurs. Entrepreneurs encourage exchange and by means of the appropriate management, they tend to satisfy needs of organization and market, providing adequate products or services at adequate place and adequate price owing to communication. In order to achieve goals of an organization, entrepreneurs use various marketing activities, at any moment of their operation they tend to satisfy consumers’ needs, taking care to act in accordance with the requirements of social surrounding.

In case of small and medium enterprises and entrepreneurs, marketing never acts for itself, but only in the situation in which a company is aware that every employee respects its influence on consumers' behavior. Profit is made in the market; it is not created by products, managers or employees. Only consumers are willing to pay the right price for a certain product or service. Small and medium entrepreneurs in particular have to be aware of this role of marketing and have to make sure that consumers will first look for their products or services instead of going to a bigger competitor.

The main role of marketing in a company is creation of corporate strategy and fulfilling promises that the company gave to its buyers. Small and medium-sized enterprise has to be informed about the needs and lifestyles of its consumers; it should visualize a wider range of services for loyal consumers. In this process, marketing experts have multiple roles: discovering and evaluation of the new opportunities, developing concepts, preferences and demands of consumers, taking care of orders, maintaining contact with consumers, gathering ideas of consumers on improving products and services etc.

Small entrepreneurs benefit from long-term cooperation with small agencies for market communication. Together with experts from marketing agency, they can propose ideas useful for a company and for the agency itself, which will eventually influence growth of both business subjects. Market research in small and medium-sized entrepreneurship are rarely used because of high expenses of researches, although investment into research could very soon pay off (especially focus groups) since it serves as the base for making careful decisions regarding doing business and market approach.

## ***MARKETING BUDGET OF SMES***

Marketing experts wish to invest as much as possible in order to achieve goals of integrated marketing communication, while investors and company owners wish to balance all investments. Budgeting is based on previous experiences, tasks and goals a company wishes to achieve or what is done by competition in order to achieve maximum profit based on the invested assets.

One of the most frequently used methods for budgeting is percent of sale. This method is simple, but it is retrograde and not logical since it uses data on sale from past periods, which implies that advertising is a consequence, and not the cause of increasing sale. Decrease in sale in this case causes decrease in marketing investments and does not take into account cyclic movements in business nor competitors' activities.

The method of fixed budget is used in permanent and semi-permanent products of high value. Large number of companies determine investments according to the investments of competition, but this method has substantial weaknesses. Advertising has some goals set in the strategy and the same amount in budget does not imply the same efficiency of investment. Frequently used arbitrary

method means that investments will be adjusted with the capacities of a company when it settles other expenses. This method is used by small enterprises which are not informed on efficient investments. Such investments into marketing are most frequent, and they are in connection with the notion that business operations are possible without marketing.

Therefore, we can conclude that marketing is in function of production and that it is not a disposable function in the production process and providing services. On the contrary, it is an indispensable function in market economy without which not a single business entity can do, and particularly SMEs if they want to operate successfully and be recognized in the market and by their competitors.

### ***EUROPEAN CHARTER FOR SMALL ENTERPRISES***

European Charter for Small Enterprises is the document adopted by the European Council at Santa Maria de Feira in 2000. The Charter invites member states and the European Commission to take actions in order to support small and medium-sized enterprises in the following policy areas: education and training, starting business, legislative framework, availability of skills, online access, taxation, technological capacity, e-business models and top-class small business support, strong and effective representation of small enterprises' interests at Union and national level.

The Charter communicates commitment of the European Union to small and medium-sized enterprises as the key job creators, innovators, enterprises with dynamic capacity which foster social development.

The European Council adopted the European Charter for Small Enterprises in 2000, inviting member states and Commission to support SMEs. The Charter is actually a document the signatories of which oblige themselves to adopt the principles of the European Union aimed at creation of appropriate environment for development of SMEs, education of future entrepreneurs and education and training for entrepreneurship in the European Union, encouraging entrepreneurial spirit, knowledge and new skills of entrepreneurs. Educational system should be focused on providing specific knowledge from this area, which should encourage entrepreneurial initiatives of the young.

This Charter refers to ten key policy areas: ([/www.mvep.hr](http://www.mvep.hr)12.05.2015.)

- Encouraging young people for entrepreneurial initiatives and providing the necessary knowledge regarding entrepreneurship through various training programs.
- Cheaper and faster start-ups. The costs of start-up should be minimized, start-up procedures simplified, registration time shortened, entrance barriers reduced and electronic registration enabled.
- Better legislation and regulation. Legislation should be simplified when possible in order to make it more efficient.

- Availability of professional and entrepreneurial skills. Training institutions should deliver knowledge and skills adapted to the needs of small business, and provide lifetime training and consultancy.
- Improving online access. Introducing online communication with small and medium-sized enterprises.
- More out of the single market. Creation of the unique European market adjusted to fit the needs of small and medium-sized enterprises. Application of the European competition rules in order to create loyal competition in the internal market and remove trade barriers.
- Adaptation of tax and financial systems. It is necessary to adapt tax systems in order to facilitate creation of small business, as well as for its growth and development.
- Strengthening of technological capacity of small enterprises. Small and medium-sized enterprises should be enabled to use new technologies in order to increase their efficiency. Promotion of new technologies among young entrepreneurs and ability of entrepreneurs to choose and adopt new technologies increase their competitive advantages.
- Adoption of successful e-business models.
- More effective representation for small enterprises' interests at national level and at the Union.

The Charter obliges signatory countries to systematically monitor and evaluate annual progress of the development of small and medium-sized entrepreneurship, reviewing all the relevant issues of small business, ranging from regulations to education.

The key principles of the Charter are:

1. Awareness of dynamic capacities of small enterprises to answer to market needs in a new way and provide jobs.
2. The importance of small enterprises in the process of fostering social and regional development, while behaving as examples of initiative and commitment is stressed.
3. Entrepreneurship as an important and productive skill at all levels of responsibility is recognized.
4. Successful enterprises, which deserve appropriate reward, are applauded.
5. Since failure is inevitable with every responsible initiative of risk-taking, it should be envisaged only as an opportunity for progress through learning.
6. Values of knowledge, commitment and flexibility in the new economy are recognized.

## ***LISBON STRATEGY ON ENTREPRENEURSHIP***

Key document of the European Union supporting development of entrepreneurship is so-called Lisbon Strategy. European Council set the principal goals of the EU in March 2000: becoming the most competitive and the most dynamic economy based on knowledge, capable of sustaining economic growth, with the highest employment rate, and capable for sustainable economic growth. In order to achieve the clearly defined goals, in March 2000 so-called Lisbon Strategy or Lisbon Agenda was adopted. The Strategy was developed and amended in the subsequent meetings of the European Council. Lisbon Strategy, the main goal of which is creation of the most competitive and most dynamic economy, is based on three basic segments: (Kesner-Škreb, M. (2007) Lisabonska strategija p. 441-443)

1. **Economic segment** which prepares transition towards competitive, dynamic entrepreneurship based on knowledge. Constant adjustments to changes in information society and supporting development and research are highlighted.
2. **Social segment** is oriented towards modernization of European social model. Member states are expected to invest into education and training and to have a proactive employment policy, which facilitates the path towards entrepreneurship based on knowledge.
3. **Ecological segment** was adopted later in the meeting of the European Council in Goteborg in June 2001, and it warns about the fact that economic growth should be adjusted with the reasonable use of natural resources.

## ***STRATEGY EUROPE 2020***

The Strategy Europe 2020, or more precisely a strategy for smart, sustainable and inclusive growth, is supposed to enable coming out from the economic crisis and preparing of economy for new businesses. Europe 2020 (EUROPE 2020 - European Commission) highlights three interrelated priorities:

- Smart growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more resource efficient, “greener”, sustainable in a different way and a more competitive economy;
- Inclusive growth: a high-employment economy delivering social and territorial cohesion.

Inclusive growth and supporting of high-employment by increasing market share and delivery of social and territorial cohesion supports development of SMEs. Europe 2020 is about what we have to do today and tomorrow in order to get EU economy back on track. The crises exposed structural weaknesses and unsustainable trends which can no longer be ignored. We have to deal decisively with our weaknesses and use our many advantages. We have to create new economic model based on knowledge, an economy with low carbon emissions and

high employment. Although initially it was meant to be a continuation of Lisbon Strategy, Europe 2020 introduced several new targets, so that instead of two, now there are five key goals.

The key targets of the Strategy are:

- Employment rate of the population aged 20-64 should increase from the current 60% to at least 75%, with greater involvement of women and older workers;
- Devoting 3% of total GDP in the EU to research and development;
- Fulfilling so called 20/2020 climate and energy targets. This primarily refers to reducing greenhouse gas emissions by at least 20% compared to 1990 and increasing the share of renewable energy sources in total energy consumption;
- Reducing the early school leavers rate to 10%, and increasing the share of population having completed tertiary education to at least 40%;
- Reducing the number of Europeans living below poverty lines by 25%.

The success of Europe 2020 strategy will primarily depend on willingness of member states (and future member states) to accept it as the national program. The crisis has clearly demonstrated that there is no alternative to keeping pace with the most competitive global companies. Therefore, we can expect high pressure of EU institutions and member states which have successfully pursued the goals of Lisbon Strategy on the member states which so far have inadequately met the goals of it (Butković, Samardžija, 2010, pp 26).

## *CONCLUSION*

One of the very important conclusions and hypothesis is that small and medium-sized enterprises and entrepreneurs are the pillars of EU and Serbian economy. This segment of business activity has a vital role in all economies, and especially in the transition economies and economies of the developing countries which face great challenges in respect to solving the problem of high unemployment and unequal distribution of earnings. SMEs (small and medium-sized enterprises) contribute significantly to increasing earnings and creating new jobs on one hand. On the other hand, they are the next and very important phase in development of micro enterprises, they encourage innovations and development of new technologies, and have direct influence on the level of aggregate demand and investments. There have been attempts to prove the importance of SMEs sector in achieving competitiveness, i.e. competitive economy structure as the precondition for efficient economy. However, the authors believe that this is not adequate for the situation in this sector. The better formulation would be that SMEs should become the power and the pillar of development of economy since social preconditions have not been provided for that in the full sense of the word.

It is still debated at length about the way of providing financing and more favorable loans. In Serbia, the issue of capital price and interest rates on bank loans has not been resolved. European Union member states have rather convenient

solutions, so interest rates on loans for SMEs range from 0.05% to 1% annually, while in Serbia these interest rates are tenfold. There are also issues of incompetent workers or workers not trained for this area, rather high share of grey zone business, inadequate taxing etc.

A considerable part of this paper is on financial crisis which has disturbed business globally. The conclusion is that the crisis is not generated only by cyclic movements in economy, but also by state as well. Microeconomic subjects (companies and banks, and especially small, medium-sized enterprises and entrepreneurs) cannot be blamed for negative trends in economy since they are the subjects who first suffer the consequences which then spread out.

The essence of knowledge about bank as a financial institution of contemporary and modern economic activity in financial business lies in relationship with bank and bank deposit business, loans, payment operations and various currency operations in a bank. This is why a contemporary businessperson and entrepreneur needs to be informed on the resources a bank has in its structure of basic roles and functions. Without this knowledge, there can be no proper and effective business, nor a good support for small and medium-sized enterprises and entrepreneurs.

It is necessary to underline that a bank has a business policy regarding very significant and massive segment of operations, i.e. operations with small and medium-sized enterprises. State finances and banking sector of European Union and Serbia have to consider what they can do with their own models of services in order to adapt to the situation and the sector of small and medium-sized enterprises. If we assume that on the short run there will be no dramatic improvements, one of the key tasks is to change the model of services and redesign them, improve and adjust to this level of profitability.

Marketing as a concept is a specific way of thinking and it deserves attention in this paper as an important hypothesis or conclusion. A company policy is based and developed on marketing, which is particularly important for small entrepreneurs. Entrepreneurs encourage exchange and by the appropriate governance, they tend to satisfy needs of organization and market when providing appropriate products or services, at an appropriate place and price, employing communication. In order to achieve targets of a small company and such an organization, entrepreneurs use various marketing activities and at any point of their operations they tend to satisfy needs of consumers, attempting to act in conformance with a wider social surrounding. More than once the highest-ranked officials of our country have declared that small farms and agriculture as a whole saved the country's economy. This is one of the reasons to change the relationship towards SMEs.

If we conclude that small and medium enterprises are pillars of development of economies and employment in European Union member states and Serbia, it is clear that European Union member states and Serbia have to offer substantial support to this sector and to establish it as the base for development of the entire economy since they participate with over 99% in the total number of companies. The entire growth and development depend on the scope and value of investments and support of states to this sector. The success of the European strategy Europe 2020 mostly depends on member states and membership candidates such as Serbia

and their accepting of the program of development of small and medium-sized enterprises. Therefore, it is necessary for the Lisbon Agreement to be adopted by all the European Union member states and membership candidates according to the model of the countries which successfully applied it.

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# ***THE IMPACT OF FEMALE SMALL BUSINESSES ON SMALL COMMUNITIES' ECONOMY, EMPLOYMENT, AND OVERALL FINANCIAL WEALTH***

*Neila Holland PhD<sup>6</sup>*

## ***ABSTRACT***

*This study examines the impact of female small business owners on the economic health and employment of the communities where the businesses operate.*

*The results of the investigation indicated that, although the types of business that women owned are often categorized as of lower potential for growth, and tend to be within low capital intensive industries, women were more likely to retain workers, even during periods of low profitability. This practice leads to a continuous flow of local employment.*

*Several factors were identified that may be related to the women's willingness to keep their employers and maintain payroll even in times of low returns. Women may assign more value to social responsibility and less value to achievement and power. Humanitarian rewards with 'pragmatism' tend to be more important than self enhancement. Social responsibility and willingness to give back to one's community may also be related to the women entrepreneur's social values.*

*Recognizing the importance to support women owned businesses, selected global programs and initiatives that are now in place to fund these business ventures, are discussed in this study.*

***Key words:*** *Female Small Business, Employment, Financial Wealth*

***JEL Classification:*** *L26, J24*

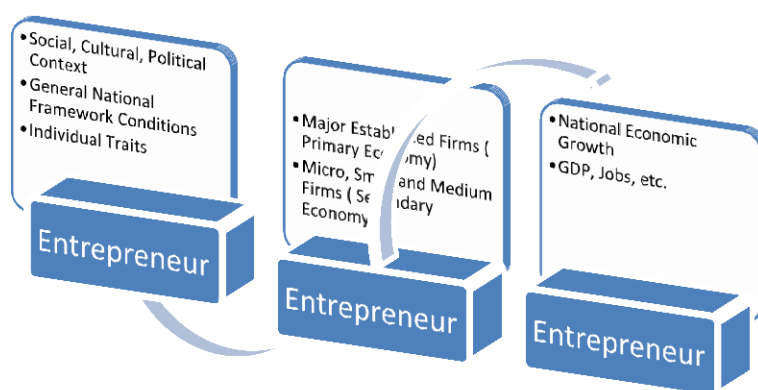
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## ***INTRODUCTION AND AIM OF THE STUDY***

It has been observed that national economic growth is largely due to the growth of entrepreneurial activities, either in developed or emerging nations. The Global Entrepreneurship Monitor conventional model of national economic growth, clearly depicts the relationship between external factors in the environment, entrepreneurial activities and national economic growth. Figure 1 displays this relationship.



*Figure 1. Adapted from the Global Entrepreneurship Monitor Report (2014)*

Entrepreneurial processes positively affect the growth of national economies across the globe, and women owned businesses have flourished in the last decades and continue to grow as more talent professionals leave the corporate world to start their own businesses.

The reason women are flocking to start their own business varies from dissatisfaction with the ‘glass ceiling’ syndrome (Holland, 2014) to a need to look for an activity where flexibility and self-actualization can be met.

Because of lack of financial resources has been a constant road block to women’s start-ups, in March 2014, the initiative “Goldman Sachs 10,000 women” became the first global finance facility dedicated to women owned small and medium businesses. The program has already helped over 25,000 women across the world in seven emerging markets, making approximate \$150 million in committed investments (Goldman Sachs, 2014).

How female business owner leadership impact on business outcomes and consequently on the wealth of the region where the business is located, is of increasing interest as women's representation has grown in recent years.

The aim of this study was to examine the impact of female small business owners on regional economic wealth, with a special focus on small businesses located in the city of Cary, North Carolina.

In order to reach the aim of the study, the following research questions were established:

1. What are the women's perceptions regarding the 'value' of their business?
2. Are these perceptions impacting on social responsibility and willingness to give back to the community rather than focusing on pure profits, power, achievement, and competitiveness?

## *LITERATURE DISCUSSION*

It has been recognized that entrepreneurship plays a major role in fostering economic development (Carre, Thurick, 2002). Women own businesses represent 30% of all firms in the United States. Entrepreneurs and small firms create an important share of newly created jobs and lay a very important role in regional and national economies (Holland, 2014).

However, even with the increasing participation of women's own ventures in the overall entrepreneurial scenario, women owned business tend to focus on low income industries and activities. The types of businesses that women owned are centered around retail and small service firms (Holland, 2014).

In general, women entrepreneurs are better represented in labor intensive sectors such as trade and services rather than capital intensive manufacturing and high tech firms. This phenomena may be associated with the fact that these types of ventures require less funding in the formal sector, but at the same time may have a lower potential for growth and development. But a concentration in these lower potential for growth ventures may also be driven by barriers women encounter regarding access to finance (Klappa, Parker, 2010). Therefore, improvements in the business environment can help promote high growth female entrepreneurship (Klappa, Parker, 2010).

A strand of research points out that women are less likely than men to lay off workers when presented with a hypothetical decrease in demand for their venture's goods and services (Rubinstein, 2006).

Even in times of economic downturn, like the 'great recession' of 2009 in the United States, it has been argued that women are less likely to hire temporary workers and are more inclined to keep their full time workers (Matsa, Miller, 2014). These can greatly impact on the job market in the community, especially if the business is located in a scarcely populated area and the women's businesses are among local major employers.

Another interesting point associated with privately held firms owned by women was raised by Spencer (cited in Matsa, Miller, 2011). It was observed that overall women in privately held companies, were less likely to downsize their workforces during the 'great recession' than their male counterparts. Spencer (cited in Matsa, Miller, 2011), notes that 'women's empathy enables them to look at business issues through a wide angle lens'. This assertion may indicate that certain motives other than financial returns could foster the will to operate their business.

## ***GENDER DIFFERENCES IN LEADERSHIP AND BUSINESS OWNERSHIP***

A strand of research on gender stresses fundamental differences between men and women. Women tend to engage in more in relational social behaviors and more societal oriented functions (Eagly, 2009). They also tend to be more altruistic (Andreoni, Vesterland, 2001), more risk averse (Holland, 2015), tend to shy away from competition (Niederle, Vesterland, 2007), and are inclined to actions associated with large but delayed rewards (Silverman, 2003), as opposed to 'instant pudding' returns. This finding seems to indicate that women are more patient than men when it comes to business results.

It has also been observed that religion plays a major role in female entrepreneurship in the US (Holland, 2015); so spirituality may be associated with more altruistic values which the women embed into their ventures.

Adams, Licht and Sagiv (2011) argue that women may assign more values to 'self-transcendence' (exemplified by a desire to maintain payroll during times of low demand). This may indicate emphasis on universalism and benevolence (Adams, Licht, Sagiv, 2011); perhaps women's business owners pay less attention and give less value to self-enhancement, achievement and power, and tend to look at the well-being of their employees.

Holland (2014) in a study of women entrepreneurs in Brazil and the US, found that recognition by society is a recurring global theme pointed out by respondents. The female business owners participants in this study, seem to perceive that a successful business is a business that impacts the society at large by offering products and services to the community, and in turn gets acceptance from the community stakeholders (Holland, 2014). Another global theme that emerged from the study which can be associated with the impact of the business on the wealth of the community, was expressed by the women's perception that their business 'help others help themselves' (Holland, 2014). This perception may indicate the humanitarian and social values embedded in the women's businesses.

## ***TYPES OF BUSINESS THAT WOMEN OWN***

It has been observed that the majority of the small business women owned are in merchandise retailing activities or service retailing activities (Holland, 2014). Examples of businesses are exercise studios, dry cleaners, cleaning and maid services, pet shops, nail salons, and boutiques.

Women entrepreneurs tend to be better represented in labor intensive sectors such as trade and services rather than capital intensive manufacturing companies. The concentration of women in low capital intensive industries in the formal and informal sector, requires less funding to launch and operate, but at the same time may have a lower potential for offering high paying jobs. This phenomenon might be a consequence of the barriers against women regarding access to finance (Klapper, Parker, 2010). Improvements in the environment associated with access to financial resources may help promote higher growth for women business owners and their entrepreneurial ventures. This in turn, will consequently bring more prosperity and wealth to their local communities.

For entrepreneurial activity purposes, the GEM 2014 report breaks down global economies in three distinct groups based on economic development levels:

1. Innovative Driven Economies ( i.e. USA, Germany, Japan)
2. Efficiency Driven Economies ( i.e., Brazil, Croatia, Argentina), and
3. Factor Driven Economies ( i.e. India, Angola, Bolivia). Every economy, big or small, is part of the global entrepreneurial scenario and contributes to the wealth of its stakeholders.

Therefore, the bigger the growth of the business, the larger the contribution to the society and wellbeing of its members. This can be ultimately translated into jobs and increased GDP.

If female entrepreneurial social values affect business outcomes and other facts such as employment and community wealth, then there should be an increasing interest in helping these business grow. More high growth businesses should be part of female business owners' portfolios, moving beyond the labor intense and low growth ventures.

## ***METHODOLOGY AND METHODS***

This study was conducted based on a methodological stance supported by a phenomenological approach, which is linked to interpretive inquiry (Cohen, 1987). It focuses on understanding experiences of women's small business owners, by listening to their stories and perceptions.

The data was first collected through secondary data and then enhanced by face to face in depth interviews with female business owners in the city of Cary, North Carolina, United States. Interviews are considered of great value as contributors to

knowledge (Weiss, 1995). Qualitative interviews have provided description of phenomena that could have been learned in no other way. The goal was to gain understanding of the women's perceptions on if and how their business contribute to the wealth of the local economy. It was not intended to test hypotheses or to measure the competitiveness, financial returns, or profitability of the women's ventures.

The individual interviews lasted approximately one hour. There were five face to face individual interviews and a panel of three women entrepreneurs was also formed to enhance the data collection process. The three member panel lasted approximately one hour and a half. The criteria to participate in the study were: a) the woman had opened the business b) the woman owns at least 50% of the business, and c) the woman manages and operates the business.

## ***INTERVIEW FINDINGS***

The face to face interviews were conducted either in a coffee shop or restaurant or in the women's residence to allow a relax atmosphere conducive to candid responses. The following open ended questions were asked:

1. In your opinion, what is the impact of your entrepreneurial venture on the wealth of your local community?
2. Please elaborate a bit on the overall benefits that your business brings to the community.

Although not every women spoke of 'humanitarian' aspects of their business, some of the responses indicated that the social awareness was embedded in the vision and mission of their ventures. For example, 'Debbie', a social media strategist, views her business as a platform to connect people with each other, 'spurring business opportunities. 'Debbie's' perceptions on how her business positively impact on the community's wealth can be described through the following testimonial:

*'By increasing connections through social media engagement, my clients and the local community, all benefit from increased connections and increased business awareness. This increased business awareness leads to increased local business for my clients, improving the local community in a multitude of ways' (Debbie)*

When asked on the overall benefits that her business brings to the community, 'Debbie' indicated that :

*'One overall benefit is that most entrepreneurs meet and network in local business places such as Cafes, Coffeeshouses, and local businesses hubs su as the Frontier and HDRaleigh, which experience increased sales from the presence of business people at their locations as compared to traditional office based meetings. The local community becomes the entrepreneurs' office leading to many networking opportunities as well as increased business and benefits to local community'. (Debbie)*

The idea of starting and operating a business for profits was not always emphasized by the respondents. ‘Tracy’, owner of a small Zumba dance and exercise studio, stated that she started her business, Cary Fitness Friends less than a year ago, with the objective of doing what she loves – exercise and dance. She wanted to gain satisfaction from creating something new and then nurturing its growth. The business relies on social networking and, in ‘Tracy’s’ own words “... it offers women a group of friends to support their efforts to maintain a healthy lifestyle”. ‘Tracy’ stated that she is surprised with the growth of her business and with the impact on the community, something she did not anticipate happening so fast. She considers herself a ‘social entrepreneur’ and added:

*”Impact is often measured in economic terms; for example, it may be said of an entrepreneur that by assuming risks and seizing new opportunities, she is rewarded a profitable return on her investment and she is credited for adding a quantifiable number of jobs to the local economy: however, the kind of impact that I envision Cary Fitness Friends making is more societal, and for the risks that I am taking with my time and capital, I am anticipating a positive return to our local Community, both in terms of improving the well being of our members and creating cohesive relationships between women...So the wealth created by Cary Fitness Friends can be measured in increased happiness, quality of life and longevity for our members, all of which certainly can translate into more traditional measures of wealth such as increased economic productivity and reduced health expenditures”. ( Tracy )*

‘Rhonda’ is an interior designer and stated that as a designer she creates a team of vendors and service providers who always benefit from her business. They are not her direct employees, but she perceives that her business brings wealth to the community, by using these third party vendors (many owned by women), although indirectly. As an interior designer she uses many products and services, such as installers, builders, and through this practice brings overall business to the local community, increasing wealth. She adds that ‘ economic benefits reach further into the national and international corporations who manufacture the items we use and the families who work for these corporations “ ( Rhonda).

‘Constancia’ is both an entrepreneur and intrapreneur. She started out her cleaning services business out of necessity, at a very young age. She needed to provide for herself and perceives female entrepreneurs as ‘survivors’. She is now a motivational speaker and teaches at a local Community College. She spoke of passion and nurturing a business by integrating practicality with social values. In her opinion, these are the key ingredients for her success. She mentioned that embedding ‘practicality’, plus recognizing and balancing humanitarianism and social factors, are constant elements in her business agenda. For ‘Constancia’, ‘money is not everything’.

'Theresa' owns an Arts and Crafts small business in Cary, North Carolina. Her sewing skills helped her to transform her dream into a real venture. Her artistic talent translates into beautiful dolls, purses and various decoration items for the home. 'Theresa' frequently participates in her community trade shows to promote her art; in her own words she expresses the impact of her business: '*...not many people sew anymore; I try to revive this skill and teach young women my trade; I like to bring art and beauty to the community; eventually they will make money out of it...*'. For Theresa, blending social activities with the teaching of a trade (sewing) impacts on these young women's lives and it seems that her humanitarian values foster these activities which can be a potential source of income for these women.

As they tell the story of their businesses, both 'Constancia' and 'Tracy' do not believe that women always create businesses with a 'humanitarian' value in mind. In the words of 'Tracy' "pragmatism in business" is essential rather than pure humanitarianism. Without 'pragmatism' there is no profit and 'one cannot sustain a payroll". However they do agree that women are willing to accept a lower income than men for several reasons, but commented that this practice is changing.

All participants agreed that their businesses bring social benefits, but the focus on profits and job satisfaction is equally important as 'humanitarianism", especially when it comes to sustain a workforce.

## **CONCLUSION**

### Humanitarian, a Pragmatic Business Owner, or Both?

A major factor investigated in this study was the perception of women business owners regarding the overall impact of their business in their local community.

The literature tells us that women entrepreneurs are more represented in labor intensive sectors and lower income businesses ( Klappa, Parker, 2010). Moreover, a strand of research indicates that women are less likely to lay off workers when in times of economic downturn (Rubinstein, 2006). Can this be attributed to 'humanitarianism" and social values embedded in the female business venture? Eagly (2009) posited that female business owners tend to engage in more relational social behaviors than their male counterparts. This can also be influenced by religion and other socio cultural components (Holland, 2015).

But although the literature indicates that benevolence and humanitarianism are more prevalent in women business venture than achievement, power and profits, the results of this study are mixed.

The respondents did indicate that social and relational values are important, but the focus on pragmatism and profits help to hire and retain workers. Social values alone cannot sustain a business, although most of the respondents consider themselves 'social' entrepreneurs.



The impact of their businesses can be translated into social wellbeing and physical fitness (‘Tracy’), fostering new businesses in the community (‘Rhonda’ and ‘Debbie’), bringing beauty and creativity to the local society (‘Theresa’) and ‘survival’ for women entrepreneurs (‘Constancia’)

The business ventures that the respondents owned are micro to small enterprises with one or two employees on board; however, they recognize the potential to grow and could benefit from programs and financial initiatives that could impact on the growth their business ventures. With their altruism, social values, pragmatism and humanitarian values these female business owners can flourish and greatly benefit their local communities.

Initiatives such as the ‘Goldman Sachs 10,000 Women’ in conjunction with the World Bank IFC, a successful pioneer initiative to help finance women’s businesses which has already helped 25,000 women across the world, should be more wide spread and frequently implemented. The project plans to provide a \$32 million investment in association with local banks in emerging markets, with the view to extending lines of credit to female entrepreneurs.

With the help of initiatives such as this, women businesses will have a chance to expand and to greatly impact on their communities either financially and socially.

### ***LIMITATIONS OF THE STUDY***

This qualitative and exploratory study was not intended to measure the financial success of the women’s ventures, growth potential or longevity. The main focus was on the women’s perceptions and stories which illustrated their views and opinions about their businesses.

Because of the size of the sample and its nature, generalizations should be carefully considered.

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# **SOCIAL ENTREPRENEURSHIP AS A MODEL FOR IMPROVING EMPLOYMENT AND ECONOMIC DEVELOPMENT**

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## **ABSTRACT**

*Social innovation includes new ideas, organisations or ways of functioning that more effectively meet social needs than previous alternatives and improve social wellbeing. They play an important role in the EU 2020 strategy by contributing to reasonable, inclusive and sustainable growth in Europe, and are primarily serve as the basis for the creation of new employment opportunities. In fact, social entrepreneurship is part of social innovation, because social enterprises demonstrate the efficacy of combining business with social and environmental issues. They contribute to the development of new social and useful services and products and ensure a greater choice to customers, enable vulnerable groups to be included in the labour market and largely contribute to better integration and greater social capital.*

*To alleviate the problem of unemployment and the consequences of such a situation, through a number of measures, the programs of alternative economy should be strengthened, such as the creation of a legal framework for the establishment of social enterprises, opening of public works, strengthening of protected labor markets, support the diversification of economic activities and the like.*

*Subject of this research are: entrepreneurs, entrepreneurship, economic development, employment. The aim of the research is to analyze the relevant data, processes and relationships in the theory and practice of entrepreneurship, to point to the growing role and importance of the concept of social entrepreneurship as a modern model of improving employment and economic development, as well as the possibilities of its further implementation and development in the future.*

**Key words:** *Social Entrepreneurship, Entrepreneurs, Employment, Economic Development*

**JEL Classification:** *M14*

**UDC:** *005.35*

*331.5*

*330.34*

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## ***INTRODUCTION***

In today's environment we are faced with not only the economic but primarily with social problems, among which are the most essential poverty, hunger, food security, water shortages, income inequality, unemployment, migration, the unsustainability of the existing health care system, an aging population, the issue of energy resources etc. In this way, countries are faced with a big challenge - to find new, sustainable development resources. Increasingly, it raises the dilemma of whether the pattern of economic growth, as the current Western model offers it, is really correct and the only possible path of development. In the focus of new plans for economic and social recovery, as well as normal social development, which will, to a larger extent, follow the principles of sustainability, the innovation has come. They have become a crucial element in the (trans) formation processes and trends in civil society, public administration, political institutions and economy. Innovation is far from a new phenomenon. Most progress in material living standards since the Industrial Revolution was the result of innovation. New or improved products and services, new or improved methods for their production for some time are the main engine of economic growth and social welfare (Konda et al., 2014).

We are entering a period in which the company, on the one hand, will be limited with costs, and on the other side of sustainable development and environmental requirements. Sustainable development requires a more dimensionally thinking that, in addition to economic factors, also takes into account the ecological and sociological factors of development, therefore, interdependency with the wider society and the environment (European Commission, 2013). This is precisely the mission of social enterprises. With its operation, enterprises contribute to smart growth by responding to unmet needs by social innovations; it generates sustainable growth taking into account environmental impacts and inclusive growth due to their emphasis on people and social cohesion. In addition to the social benefits, social enterprises, therefore, follow the environmental and economic sustainability. This means that social enterprises at least part of the revenue generate in the market and thus are not dependent only on state funding and grants (Konda et al., 2014).

In recent years around the world, especially in Europe, the "third sector" is strongly expanding and developing. This term means the organizations which are located in the space between the state and the market and do not fully belong to either one. The third sector is a series of different types of organizations, systems, organizations, and various activities. In this diversity, the characteristics that connect them are focusing on improving the organization of society and the achievement of social goals, not making profit. Social enterprises, the most common form of organization of social entrepreneurship, have the characteristics of the third sector, but also the new specifics compared to other organizations in the sector, because they connect economic activity and public affairs by creating goods and services for the social advancement (Raicevic, Glomazic, 2012). Organisations that are established in the field of social entrepreneurship in their activities combine public and private,

constituting themselves as nonprofit organizations and working with people whose needs the state through its institutions could not satisfy. These organizations through the market create private goods and services in markets that correspond to the objectives of social importance (Cuk, 2014).

The emergence of social entrepreneurship is the product of overall and very complex economic and social context in the world that is characterized by the presence of major social problems. The failure of the state in addressing the structural social problems such as poverty, unemployment and social exclusion, forced many governments, during their search for efficient solutions, to turn to civil society initiatives that are focused on achieving the public interest or the interests of certain socially excluded groups. Such initiatives have emerged in all societies, and 40 different forms of association can be classified into actors of the social economy, including the largest social enterprises and cooperatives. The term "social enterprise" overcome the cultural and linguistic borders without major problems. The characteristic organizational form of social enterprises depend on the existing legal framework, policy, economy, welfare, as well as cultural and historical traditions of the development of nonprofit sector in each country (Cuk, 2014).

### ***DEFINITION AND THE ROLE OF SOCIAL ENTREPRENEURSHIP***

In the literature, there is a very diverse definition of social entrepreneurship. One group of authors have approach to social entrepreneurship as a non-profit initiative that is looking for alternative funding strategies or management systems to create social value (Austin et al., 2006). Another group of researchers observe social entrepreneurship as a socially responsible practices of commercial enterprises engaged in cross-sector partnership (Sagawa, Segal, 2000). The third group of authors have the attitude that social entrepreneurship represents the instrument to mitigate social problems and a catalyst for social transformation (Ashoka Innovators, 2000, adapted from Raicevic, Glomazic, 2012). Numerous definitions emphasize different aspects and dimensions of social entrepreneurship. Despite the large number of settings, there are few systematic attempts to map the initiative and definitions.

Organisation for Economic Cooperation and Development (OECD) defines social entrepreneurship as an enterprise whose goal is to provide innovative solutions to unresolved social problems. Therefore, it's often intertwined with social innovation processes in order to improve people's lives by promoting social change. Social entrepreneurship has a positive influence on the market because it provides products and services in market segments that classic, profit-oriented companies did not want or were not able to identify. In addition, social entrepreneurship has an important role in removing imperfections in the labor market because it increases the employment opportunities for the most vulnerable groups and reduce discrimination in employment.

The concept of social enterprise has become known in academic and political circles and the general public as a new innovative business model that meets the social and economic objectives, and contributes to the integration of the labor market, social inclusion and economic development. The interest in social enterprise is following a decade of recognition of local and national governments and international organizations for the role of the social economy, the non-profit sector, solidarity economy or third sector (Borzaga, Defourny, 2001).

Generally accepted opinion is that social entrepreneurship represents the use of entrepreneurial behavior to achieve social objectives and well-being, as opposed to commercial entrepreneurship where the primary goal is profit. It combines an innovation, resourcefulness and opportunity. Social entrepreneurs are committed to creating social values, they find new processes, services and products, and unique ways in which proven practices are combined with innovative models of solving complex social problems. They express their social responsibility in the choice of business activity and have increased responsibility towards the community and individuals during the performance of certain business entrepreneurial activities. Regardless of whether the field of their activity is enterprise development, health, education, environmental protection, working conditions and human rights, social entrepreneurs are people who, problems that come with the changes, see as an opportunity to change the society (Cuk, 2014).

Social entrepreneurs are active in both public and private sectors. Their target group are people whose needs the state is not able to meet effectively by essential public goods and services. On the other hand, they treat the shortcomings of the market by creating access to private goods and services in markets that can't make large profits, and which performance is accompanied by a high risk and that need help to ensure their sustainability.

Social entrepreneurship in its basic definition has sociability or result set for the public good where entrepreneurial behavior is used to achieve public goals, and to solve economic, social, educational, health and environmental problems in the community. Local communities, which in the socio-political language are referred to as local governments, are responsible for the regulation and management of public affairs in their jurisdiction such as the creation of development plans, management and disposal of assets, the performance of specific tasks in the areas of culture, education, sports, social and not child protection, civil protection, craft, tourism and environmental protection, and for the planning and performance of public utilities. The above areas are wide and varied area with social innovation and creative response to the social problems that the state did not respond, but also for social inclusion of marginalized and socially excluded groups to which social entrepreneurship creates a new space and a chance to change its position. That's why local communities are in need and are invited to support social entrepreneurs in action and the use of existing goods and services with which communities have the newer social productive way for the establishment of new products and services, and to set standards in order to redefine the social issues and suggest new solutions (Cuk, 2014).

Social entrepreneurship has an important role in the realization of the concept of sustainable development. The concept of social enterprise overlaps with the traditional organizations of social economy, as an entity that operates as a social enterprise. It may be associations, cooperatives, humanitarian organizations and the like. Social enterprises differ from the company from conventional businesses in that they have their primary social purpose. In doing so, the most common are social enterprises and cooperatives. Social enterprises may be facing a variety of social programs, as well as assistance to vulnerable groups such as children, disabled, infirm and old, ex-offenders and addicts and others. Workers' cooperatives and companies can be productive and market-oriented in the field of production and services. However, the most represented new form consists of social cooperatives that serve the satisfaction of social needs of members of the (local) community. They are viable only with technical and financial assistance, government incentives and cooperation with government institutions. Because of its importance, a policy of development of social enterprises should be integrated into the strategic documents (Macura, 2014).

### ***CHARACTERISTICS AND TYPES OF SOCIAL ENTREPRENEURSHIP***

Modern social enterprises, from traditional cooperatives differ in their objectives, activities, beneficiaries and method of organization. In the European Union, social enterprises are mainly registered as citizens' associations. A considerable number of countries have introduced specific legal exemptions for social enterprises. As noted above, the cradle of contemporary social enterprises is northern Italy, where these companies are called cooperatives (Macura, 2014).

Professor of Economics at the University of Trento, Borzaga (Borzaga, Defourny, 2001) believes that cooperatives can be productive and market-oriented, in accordance with the principles of free and profit-oriented market.

According to the European Commission these organizations are (Kolin, Petrusic, 2007):

- Private - are not part of the state apparatus,
- Formally organized - have a legal basis on which to establish,
- Autonomous in decision-making - can choose and disband their governing bodies, to control and organize their activities,
- Free - Membership is not compulsory,
- Only partly profit oriented, and the distribution of profits is not proportional to the capital but corresponds to their activities,
- Oriented to meeting the needs and not the creation of capital,
- Have a democratic decision-making ("one man, one vote"), which is independent of the capital because of control of decision-making by the members.

The key economic elements common to all social enterprises, regardless of national differences are (Cuk, 2014):

- Social enterprises are engaged in production and / or selling goods and services,
- Voluntarily established by citizens who establish them and manage them. Social enterprises use a variety of sources for its financing as well as donations from public sources or private organizations, profit from the sale of goods and services, but regardless of the funding source retain a high degree of autonomy in relation to the financiers, and members are able to participate in the work of organization, and to leave when they decide to do,
- The sustainability of social enterprises is directly depending on the activities of its members. Members' operations provide adequate funding. It is guaranteed only by work, which is opposed to public organizations that ensure their sustainability in the budgets. That is why they present more risk business and a constant struggle to find financial resources,
- In social enterprises activities are performed by paid workers and volunteers. The ratio of voluntary and paid work is in favor of volunteer work.

In addition to economic elements, social enterprises are characterized by social elements. These are (Cuk, 2014):

- Social enterprises are private organizations that are created as an expression of civic initiatives for the association of persons belonging to a community or group. The basis for the merger are common needs and interests,
- The nature of social enterprises is participatory, founders and users participate in management activities. Most often, one of the goals is to strengthen democracy at the local level through economic activity,
- Decision-making power belongs to all interested parties through the principle of "one man, one vote". Although capital owners in social enterprises play an important role, decision-making power is not based on capital ownership,
- It is formally organized organizations on the basis of a legal basis stem of the country where they are established. Autonomous in decision-making - can choose and disband their governing bodies, control and organize their activities,
- Social enterprises are focused on meeting the needs, not the creation of capital, are only partly profit organizations and the distribution of profits is not proportional to the capital, but fits their activities,
- Social enterprises follow a clear objective beneficial to the community or a specific group of people. In this way they directly and indirectly promote a sense of social responsibility at the local level.



*Table 1: Discussion themes across 3 types of social enterprises*

	Internationally-based Social Enterprise	Community-based Social Enterprise	Commons-based Social Enterprise
<b>Equity priorities</b>	Strong sense of equity in the provision of goods and services	Equity is desirable but there is a tendency to exclude non-members	Benefits are not equitable and there is no importance attached to equity
<b>Understanding of social enterprise - depends on the market place</b>	High competition in market / explicit understanding of profit/social goals	Limited competition in market / implicit understanding of social business	Low competition locally / no real understanding of social enterprise concepts
<b>Constrained by conservative forces</b>	Not heavily impacted and actively addresses power relations	Impacted by community expectations but challenges male dominance over local economic development	Heavily embedded within the structural features of communities.
<b>Driven by individuals?</b>	Yes – entrepreneurial individuals in Phnom Penh	Yes considerably – individualism balanced by democratic mechanisms	Yes somewhat – but leaders are dependent on external actors for legitimacy
<b>Social innovation?</b>	Very strong social innovation	Recognized social innovation to improve wellbeing	Aspiration for some social innovation is constrained by power and dependency
<b>Social Capital 'typology'</b>	Bridging social capital across community groups has facilitated success	Linking social capital firstly – bridging capital harnessed but tendency towards in-group benefits	Linking and bonding social capital are most evident – not much contact with external actors

*Source: Lyne et al, 2013, p.22*

According to Borzaga (Borzaga, Defourny, 2001) social enterprises engaged in work integration can be classified into four main types:

1. Organization for the reintegration of workers - offering transitional employment to workers who have problems in employment on the labor market who require additional support or training. These are the most common enterprises. Recognized as centers for training and development of skills and qualifications for jobs that are in demand in the labor market, retraining and other types of training to find a job. This type of business has a good chance of being economically viable,
2. Enterprises that employ social groups who have difficulty finding jobs in the labor market - creating the conditions for independent work of the unemployed when jobs, that will eventually be economically viable, are being created. These enterprises employ marginalized social groups or individuals who have difficulty finding jobs in the labor market or are beneficiaries of social welfare. Companies of this type are generally economically viable, although they can sometimes seek for donations or support of state institutions,

3. Social enterprises that provide work integration, with permanent financial support - usually government institutions, which employ disabled persons who need rehabilitation in accordance with their remaining abilities. This model of a organization falls into traditional form of social enterprises, which are known to us as sheltered workshops for the disabled. It is present in most European countries,
4. Enterprises that offer the possibility of re-socialization - provide support to people with serious adjustment problems. These include alcoholics, drug addicts or people with severe mental and physical disorders. As an example may be mentioned centers to adapt to work in France, which ensure re-socialization of former convicts. Such enterprises are centers for occupational therapy and are adapted to social and health problems of users. Compared with the "third sector" or "nonprofit organizations", social enterprises are located in one of the spectra of the "third sector" or "nonprofit organizations" because they have their characteristics, such as voluntary associations, formal organizational structure and autonomous decision-making system (Kolin, 2007). Social enterprises are characterized by the fact that undertake economic activities, not only to develop entrepreneurship, but to work on improving the quality of life.

### ***MEASURING SOCIAL ENTREPRENEURSHIP***

The diversity of economic structures, cultural traditions and legal frameworks across the world makes measuring social entrepreneurship difficult, particularly for the purposes of making international comparisons (CIRIEC, 2012). In an attempt to overcome country-specific definitions and differences in legal status, the Global Entrepreneurship Monitor (GEM) constructed a dataset on social entrepreneurial activities in 49 countries in 2009 using a household survey that indirectly identified social enterprises through questions to entrepreneurs on the predominance of the social mission, their innovativeness and their revenue model. This allows for some cross-country comparisons and an assessment of the level and characteristics of social entrepreneurial activity. (European Commission, OECD/European Union, 2013, p.5)

As shown in Figure 1, the rate of social entrepreneurship as a percentage of the working age population varies between 0.4 in Brazil and 5.0 in the United States. In most countries the majority of social enterprises are early stage (under 42 months). Germany and Italy are exceptions where the rates of young and established social enterprises are the same (European Commission, OECD/European Union, 2013, p.5).

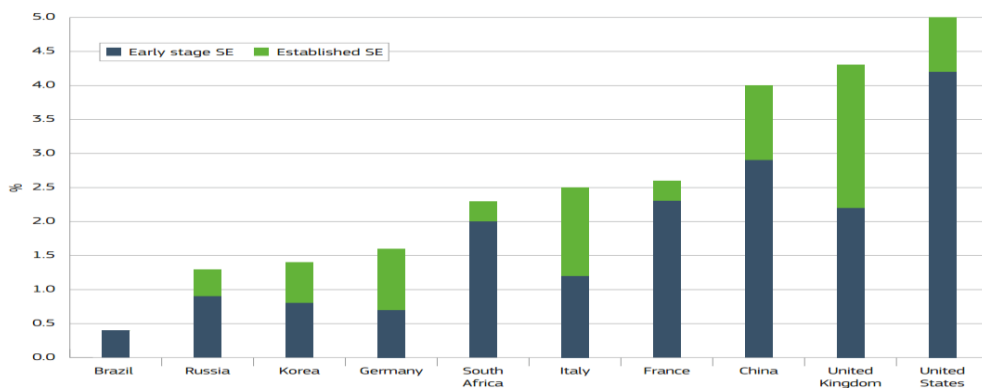


Figure 1: Social entrepreneurship prevalence rate as a percentage of the working age population by enterprise maturity in selected countries

Source: Terjesen et al, Global Entrepreneurship Monitor Report on Social Entrepreneurship, 2011.

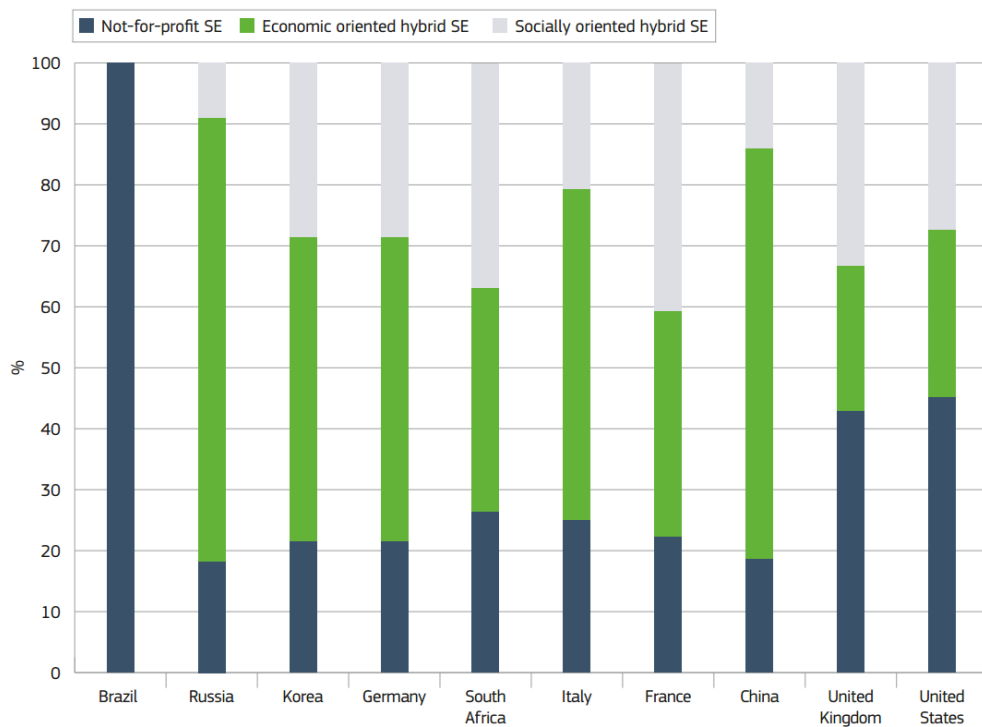


Figure 2: Strictly defined social enterprises by type in selected countries

Source: Terjesen et al, Global Entrepreneurship Monitor Report on Social Entrepreneurship, 2011.

The GEM study proposes different classifications of social enterprises. Following the strict definition, social enterprises include only not-for-profit social enterprises, economic oriented hybrid social enterprises and socially oriented hybrid social enterprises. As shown in Figure 2, the prevalence of the different typologies varies significantly across countries. (European Commission, OECD/European Union, 2013, p.6)

Nearly half of the social enterprises in the United States and in the United Kingdom are composed of not-for-profit social enterprises. However, this proportion is around 20% in all other countries examined except Brazil, where all social enterprises belong to this category. Economic oriented hybrid social enterprises are very strong in Russia and China where they represent respectively 72.7 % and 67.4 % of the strictly defined social enterprises. By contrast, socially oriented hybrid social enterprises account for more than 40 % of social enterprises in France, and are also relatively important in South Africa and the United Kingdom (European Commission, OECD/European Union, 2013, p.6).

Another research project, SELUSI (Social Entrepreneurs as Lead Users for Service Innovation), has undertaken an assessment of social enterprise in five European countries (Hungary, Romania, Spain, Sweden and the United Kingdom). The SELUSI study defines social enterprises as ventures whose primary goal is to create social value, and which do so in a business entrepreneurial (market-oriented) way (European Commission, OECD/European Union, 2013, p.6).

In the five countries analysed, approximately 75 % of the social enterprises surveyed were concentrated in five sectors: social services; employment and training; environment; education; and, economic, social and community development. Some 15 % of these social enterprises aimed to employ people from disadvantaged groups and increase social inclusion (European Commission, OECD/European Union, 2013, p.6).

Overall, social enterprises appear to be more active in comparison to commercial enterprises in launching new services or products, albeit with innovation taking place mainly in the services sector (SELUSI, 2011). The SELUSI study also highlights that three-quarters of the social enterprises operates in areas relevant to the EU2020 growth strategy (European Commission, OECD/European Union, 2013, p.6).

This project also illustrates that the national context plays an important role in shaping the characteristics of social enterprises in terms of sectoral specialisation, funding and employment. For example, enterprises in Romania and Hungary operate predominantly in the health and social work, and education sectors, whereas in the other three countries (Spain, Sweden and the United Kingdom) the sectoral specialisation was less pronounced. It is notable that Eastern European countries also have a higher share of women social entrepreneurs (European Commission, OECD/European Union, 2013, p.6).

Evidence from a recent survey in the United Kingdom suggests that whilst social enterprises were not immune from the economic downturn, “social enterprises employed more people relative to turnover than mainstream small

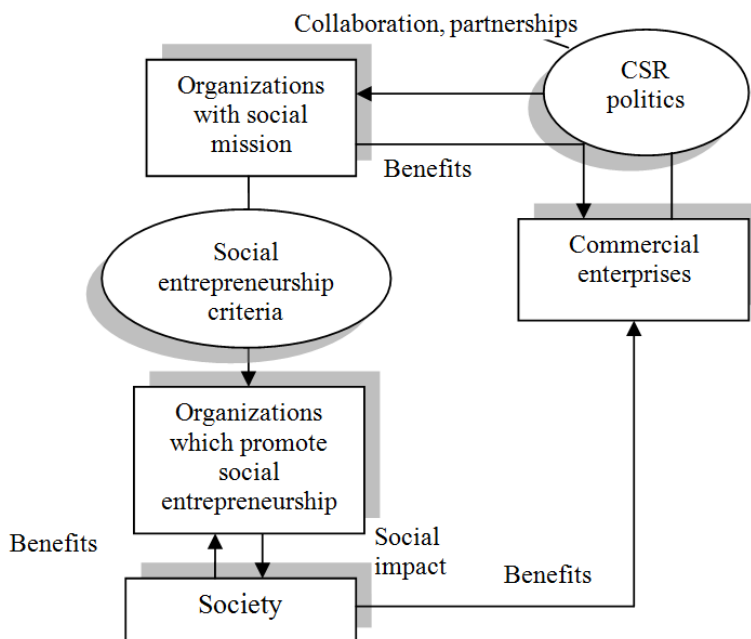
business” (Social Enterprise UK, 2011). At the same time, the survey found that social enterprises were highly concentrated in the most deprived communities in the United Kingdom. The concentration of social enterprises in these neighbourhoods was three times higher than that of the small and medium size enterprises (SMEs) stock in general, and the ratio was similar with respect to the concentration of social enterprise start-ups (European Commission, OECD/European Union, 2013, pp.6-7).

### ***SOCIAL ENTREPRENEURSHIP MODEL***

Social implication of enterprises is a practice that can start either from the existing theory in the field or from experience of other companies, although most aspects are learned from the experience of conducting business as a result of social responsibility programs. Certainly social involvement is achieved gradually from initiatives that do not involve too many resources but which may lead in time to support social entrepreneurship through the creation of organizations that work effectively for social causes (Borza, Mitra, 2011).

Citizen’s perception of enterprises social involvement is often marred by mistrust and suspicion which is a challenge for many companies. Unfortunately the desire to be competitive puts an intense pressure on the enterprises that consider social involvement too expensive. Thus, when social involvement does not have a positive contribution to company’s development, social responsibility is minimized or even eliminated. Somehow, it is justified in the context in which businesses conduct activities are aimed at profit and less to the charities. To support the involvement of social enterprises we must have economic stability, any social involvement, requiring the mobilization of resources that can be allocated for other purposes affecting business prosperity. Relationship between social and financial performance affects the competitive advantage held by the company arising from social responsibility programs undertaken. In social responsible programs are undertaken by large enterprises wishing to gain a competitive advantage but it cannot be sustained if small (Borza, Mitra, 2011).

Borza, Mitra, (2011) presented a model designed to support social entrepreneurship that can work both for social organizations and trade organizations that address social involvement at a complex level. According to this model, businesses can contribute significantly to support social entrepreneurship although they have a mission-oriented concept. Developed model reflects up a view on the manifestation of social entrepreneurship.



*Figure 3: Social entrepreneurship model*

*Source: Borza, Mitra, 2011*

Figure 3 reflects a vision of the organizations involved in addressing social problems and how it can be done in practice. As we can see, companies can help sustain social entrepreneurship, a factor which triggered the process of social entrepreneurship. This can manifest itself as collaborations, partnerships, or even by creating an organization with social mission. Not all organizations that promote social mission falls under social entrepreneurship, but only those which meet the criteria of social entrepreneurship (Borza et al, 2009). Finally, organizations bring substantial benefits to the society by creating social value. The benefits are mutual for both social organizations, organizations promoting social entrepreneurship and businesses. If the first two will get a considerable advantage in support of social mission, the last will get some advantages that will be transposed in greater benefits for the economic activity (Borza, Mitra, 2011).

## ***FACTORS AFFECTING SOCIAL ENTREPRENEURSHIP***

Opportunities and threats in the environment influence the vision, reflecting the need that is to be addressed by the corporate social responsibility (CSR) initiative and the challenges that must be overcome. Crises induce action. Opportunities do as well. Opportunities may be openings for overcoming crisis

(e.g., providing goods and services of the corporation to help victims of a natural disaster). Strong situational conditions suggest what type of help is needed and how it can be provided. However, this doesn't guarantee that people will act in a productive way. Some situations are so complex that the needed resources and actions may be underestimated, goals may be unrealistic, or operations may be mishandled. (Global warming is an example. The issue has been brewing for 20 years or more and there is still uncertainty and controversy about the source and nature of the problem, its severity, and what corporations and governments can do about it (London, Morfopoulos, 2010, p.154).

Table 2 summarizes conditions that may facilitate social entrepreneurship and conditions that may discourage or be barriers to social entrepreneurship:

*Table 2: Conditions That Facilitate and Discourage Social Entrepreneurship*

Situational Conditions	Conditions that Facilitate Social Entrepreneurship	Conditions that Discourage Social Entrepreneurship
Contact with the beneficiary	Personal beneficiary (the social entrepreneur or someone close: identifiable by name), visible need	Impersonal (e.g., send money to a village in Africa) or general common good (e.g., global warming)
Time frame for action	Short-term, immediate outcomes; help needed now (e.g., to assist flood victims)	Long-term outcomes, outcomes will occur sometime in the future (e.g., save energy, promote green construction)
Clarity of goals and action	Clear goals and high agreement about what to do	Ambiguous goals and low agreement about what to do
Goal and action difficulty	Low-desired outcomes require minimal effort and resources	High-desired outcomes require considerable effort and resources
Cost and value	Action is low cost, high value	Action is high cost and low immediate value (but presumably high long-term value)
Relationship between effort and effect	High-direct impact; high relationship between effort, action and goal accomplishment (e.g., seeking volunteers to drive cancer patients to chemotherapy appointments)	Low-low impact; low relationship between effort, action and goal accomplishment (e.g., raising money for cancer research, which eventually affects medical treatment and outcomes)
Support	Clear alliances and coalitions with shared goals, volunteers readily available	Few shared interests
Social encouragement (peer pressure and reinforcement)	High	Low
Adversaries, nay-sayers, and doubters (controversy and potential polarization)	Low	High

*Source: London, Morfopoulos, 2010, p.155*

Here are some recommendations to turn a discouraging situation into a supportive one (London, 2008, pp. 323–324):

- *Get the word out:* Educate employees about CSR, how the organization is contributing, and how they can help. Provide education and opportunities for participation about specific issues and initiatives, whether they are corporate-wide donation campaigns and team efforts (the United Way, Habitat for Humanity), individual employees' volunteering in the community (one employee starting a soup kitchen for the homeless in a local community), or corporate investments in environmental sustainability in the community (a recycling initiative),

- *Link to bottom-line objectives:* Clarify the tie between social entrepreneurship and the corporation's success. Don't assume effort helps to attract more customers or talented employees, for instance,
- *Recognize accomplishments:* Celebrate (reinforce) achievements to build organizational commitment and loyalty and honor those who contributed most,
- *Highlight spin-off benefits:* Show how CSR can increase employee pride and loyalty, enhance teambuilding, improve communication between departments, and generate goodwill that benefits sales and attracts and retains valued employees,
- *Invest corporate resources:* Provide support for individuals who want to be involved in corporate social entrepreneurship efforts or start their own. Consider starting a community service support center that would offer materials, advice from fellow employees who are social entrepreneurs, and money (e.g., small grants, micro-loans, or contributions from company-wide fund raising efforts with employees determining how to distribute the proceeds),
- *Encourage employee participation:* Identify people who have a proclivity to work on and lead social entrepreneurship efforts. Ask for volunteers. Assess their skills and development needs (e.g., design an assessment center or online, self-administered assessment tools) to evaluate social entrepreneurship skills such as communication ability, political sensitivity, and knowledge of change management. Involve executives in CSR projects to increase the projects' visibility and importance. These can become developmental assignments for high-potential managers. Don't make these assignments for soon-to-be-downsized executives or people who are being forced to retire.

Now, here are some ways to overcome these barriers and respond to nay-sayers and doubters (London, Morfopoulos, 2010, p.156):

- *Provide convincing data or other information:* This may be information about the numbers of people affected; the costs to the individual, the company, or society; testimonies from those affected or helped or in other ways demonstrating the seriousness of the problem or issue and the positive impact that is possible,
- *Join forces with others who have like minds or shared interests:* There is power in numbers, especially if others are opinion leaders, people who are respected and have resources,
- *Negotiate with opposing forces:* People who object strongly may be amenable to small trial efforts or experiments to demonstrate the value of the initiative. If the goal is seeking volunteers for a community initiative, the social entrepreneur may start in one department or business unit to see how people react. In general, small, local efforts may be more palatable to the organization than grandiose ambitions. Small efforts can get employees involved and demonstrate impact. Over the years, specific efforts have become part of a corporate strategy for social entrepreneurship in relation to the health care mission of the business,



- *Use behavioral tactics* (e.g., demonstrations, ad campaigns, petitions): Today, there are many methods to gain attention including online blogs, Youtube, and television sound bites. Corporate leaders can use such technology within their organizations to build momentum and enthusiasm for a social issue,
- *Learn social entrepreneurship skills*: Leaders can learn and practice social entrepreneurship skills. One step in that direction is understanding the social entrepreneurship process. Here are some steps that can be taken to educate leaders in social entrepreneurship: Leaders can observe successful social entrepreneurs. Consider examples of social entrepreneurs for local and global initiatives. Also, look for examples of social entrepreneurs who have a personal objective (i.e., to help specific individuals) and those that benefit others in general or in communities far removed. Examples might reflect a variety of topics and goals, such areas as social welfare (poverty, education, wellness, health care), the environment, politics, and religion. Include goals such as raising money, delivering services, building awareness, preventing negative outcomes, and influencing others' votes and resource allocation decisions. Understand how these social entrepreneurs carried out the basic elements of social entrepreneurship including issue identification, solution formulation, taking action, and evaluating and refining the effort. Think about the problems these social entrepreneurs faced and what could have been done (or still could be done) differently. Consider the skills and knowledge that social entrepreneurs need to be effective. These include communication skills (e.g., ways to formulate a clear message and how to use media effectively), how to elicit support (e.g., recruiting volunteers and raising money), political and cultural sensitivity, knowledge of change management (unfreezing seemingly intransigent attitudes), forming alliances and coalitions and seeking compromise, and resolving conflicts and negotiating agreements,
- *Practice social entrepreneurship*: Leaders can practice and finetune their social entrepreneurship efforts. Try the following: Write a mission statement. Are your goals clear? Collect to determine the nature and scope of the problem(s). Set short-term goals that target specific outcomes, (e.g., increase recycling in the organization by 5 percent within the next year). What actions will you take? Determine who controls policies and brainstorm ways to approach policy makers (e.g., a letter-writing campaign, forums for speaking, anticipating questions and practicing answers). What transformational and transactional leadership steps will you take to recruit, motivate, and direct volunteers? Consider how you can evaluate and report outcomes, celebrate your successes, and learn from failures.

## ***SOCIAL ENTREPRENEURSHIP, SOCIAL INNOVATION AND EMPLOYMENT***

Social Innovation (SI) are new solutions for existing social problems and affect the process of social interaction (BEPA, 2011, p.34). Centre for Social Innovation in Toronto defines SI beyond, as new ideas addressing existing social, cultural, economic and environmental challenges for the benefit of people and planet that by changing the existing attitudes, behavior and structures affect the whole social system. (<http://socialinnovation.ca/about/social-innovation>)

Social innovation is about new ideas that work to address pressing unmet needs such as poverty, homelessness, violence. This phenomenon addresses these challenges by applying new learning and strategies to solve these problems. For social innovations to be successful and have sustainability, the innovation should have a measurable impact on the broader social, political and economic context that created the problem in the first place. To a large extent, social innovations are innovations that are both social in their ends and in their means. Specifically, social innovations are new ideas (products and services) that simultaneously meet social needs (more effectively than alternatives) and create new social relationships or collaborations. In short, they are innovations that are both good for society and enhance society's capacity to act (Soni et al, 2014, p.4).

SI are not typical only for the non-profit sector. Increasingly them through growing corporate social responsibility is also found in successful economic societies. The future of global companies in the SI (Osburg, Schmidpeter, 2013, p. 320). The development of SI can be managed by the government with concrete actions through various policies (for example, new models of public health), markets (eg. open source software or organically grown food), movements (eg. fair trade) and academic spheres (eg. pedagogical models of childcare), and with social enterprises (microcredits, magazines for the homeless, etc.) (Konda et al, 2014, p.12).

If economic globalisation offers opportunities to improve living conditions, it also implies substantial and continuous restructuring and change (particularly in a time of economic crisis) and a renewed or new approach, not only to the new social challenges but also to the old ones that have not yet been met successfully. Competition keeps increasing and as a consequence, most emerging economies have to engage more strongly in innovation. Consequently, this requires engagement in both technological and social, and in entrepreneurship, i.e. both commercial (for-profit businesses pursuing as a primary objective economic value and its appropriation) and social (primarily aiming at addressing and satisfying unmet social needs, and therefore creating social value) (Soni et al, 2014, p.2).

In most emerging economies social entrepreneurship and social innovation are part of the solution, as they both explicitly aim to provide innovative solutions to unsolved social problems, putting social value creation at the heart of their overall strategy in order to improve individuals' and communities' lives and increase their well-being. This goes far beyond our current conceptions of entrepreneurship and small business development in South Africa. Besides bearing the basic tenets of a

basic needs paradigm, the concepts also exemplify 'organic growth' or 'bottom up growth' and deal with the overall social development of a collective rather than an individual. It is, in a sense, holistic development (Soni et al, 2014, p.2)

Although social entrepreneurship and social innovation are developing rapidly around the world, both these concepts are relatively recent fields of research and practice and the epistemologies are still ill-defined. A concept like social entrepreneurship, for example, tends to overlap with terms such as 'social economy', 'third sector', 'non-profit sector', 'social enterprise' and 'social entrepreneur', some of which are also ill-defined and overlapping. Moreover, definitions are context-sensitive, in the sense that the geographical and cultural contexts matter. Yet, on other occasions the terms are used liberally to mean almost the same thing (Soni et al, 2014, pp.2-3).

Good practices of social entrepreneurship in the EU and in the world shows that social enterprises during the crisis are less vulnerable, that their business is more stable, and they provide employment for people who are classified among less employable. With its SI, they represent an alternative to existing methods for a way out of the crisis and provide long-term solutions to current problems and new opportunities for development. SI, on the one hand, support and encourage creativity and initiatives of different actors from all sectors and promoting new samples of behaviors, new social relationships and models of cooperation that are necessary for solving the existing problems. (European Commission, 2013). On the other hand, they are offering concrete solutions. SI can, for example, offer an alternative to government sources and the welfare state, and at a time when budgets of the countries are limited and reduced, may represent significant relief to the country (BEPA, 2011, p. 17-18). They can offer new economic and social opportunities where others see only problems (Konda et al, 2014, p.14).

The social economy is currently one of the fastest growing business sectors in the EU and, according to some data, employing more than 14.5 million people, representing 6.5% of all employees. The share of employment in social economy by countries is shown in Figure 4. Approximately one out of four established companies should be social. The largest share of them is in the UK and Germany, followed by Spain, France, Finland, etc. All organizational forms of social entrepreneurship in the EU represents three million businesses and 10% of all European enterprises. The largest share of employment comes to non-profit organizations with 70%, followed by cooperatives with 26%, and mutuals with 3%. Social economy enterprises are present in almost all sectors of the economy, such as banking, insurance, agriculture, trades, different commercial services, health and social services, etc. (European Commission, 2013)

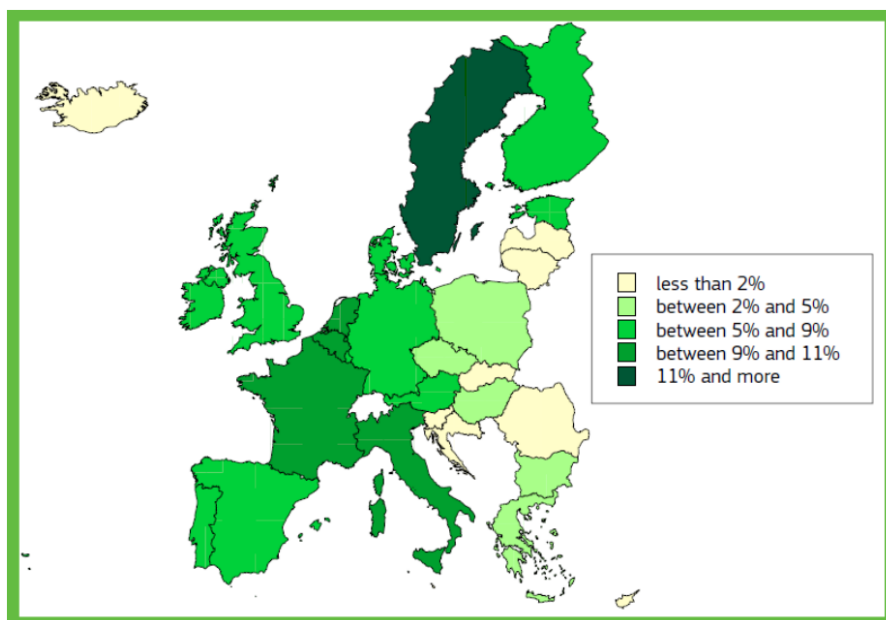


Figure 4: The share of employment in the social economy by countries

Source: Konda et al, 2014, p.16

In order for social enterprise to take root, network organisations, individuals and institutions are required. They may be government departments, foundations, corporations, non-profit organisations or social capital investors and their prime function in terms of investment is to benefit the collective and not an individual. They can be referred to as the new ‘social venture capitalists’. A thriving social economy that includes for-profit and non-profit blended value enterprises need to work together with government, community programmes, academic institutions, and investors to open, operate and scale revenue generating enterprises that provide a social and environmental benefit as part of their core operations (Soni et al, 2014, p.4).

## CONCLUSION

Changing approaches to solving social and economic problems in the community, is becoming one of the biggest challenges for companies that are in transition and are laden with social problems. Abandoning the traditional ways of solving social problems, which are based on a high share of the state, generous social benefits and broad social rights, becomes imperative for all these companies. Expectations that in solving the problem that engage the international community must be directed to rely on their own resources to be efficiently and effectively used, for greater involvement of citizens and their active participation in meeting the needs, partner connectivity and action towards common goals that are social

interest and co-ordinated and planned management of individual initiatives and the different programs. The local community is an environment that allows broad social participation, solidarity and mutual support to community members, and hence the possibility of developing different initiatives, programs, forms of association and activity, all with the aim of creating a more organized, better and more humane living space.

Social entrepreneurship receives increasing importance in the world in recent years as evidenced by the increasing number of activities and initiatives in this field, and the necessity to share best practices and experiences of the world, European and regional actors in social entrepreneurship. As the most important segment of the social economy, this innovative and creative entrepreneurship model of solving social and environmental questions is used to encourage sustainable development and employment for the benefit of the wider community. In other words, attention is devoted to the results of certain entrepreneurial activities to be manifested in the community, that the success achieved is the long term and not short-lived, and emphasize the renunciation of profit or part of the profits to be used for further development of the same or other entrepreneurial activities.

In the development of social entrepreneurship, we must recognize its possibilities, but also the obligation to actively create and supports what brings progress and solve problems. Realization of broader social objectives can contribute to quality and to profit-oriented company or entrepreneur if their quality standards introduce the standard of corporate social responsibility. It means to accept its mission as the value and obligation that the part of the profit will instruct in achieving the broader needs of the community in which it operates. Entrepreneurs are increasingly aware that their customers and reputation will be gained with social and environmentally conscious operations. If this is so is confirmed by increased cooperation between the private sector and civil society, the development of corporate social responsibility, the increase in the provision of public services by businesses in some countries, and the development of new social business models. At a time when social and economic problems are getting worse and when the old methods of solving do not bring a result, social entrepreneurship is emerging as a new alternative.

For the development of social enterprises are essential systemic approaches and appropriate incentives, whereby models of stimulation should be based on the specific conditions and needs of the entities, individual local communities or regions. In this regard, it is necessary to include all the institutions at the level of legal, financial and political assistance whose role is important in establishing the basic framework of social action. In order that social entrepreneurship „come to life“, we must have a solid investment and business plan, well educated entrepreneurial management, several sources of financing, and the support and encouragement of society and government authorities.

The EU is aware that innovation is essential to competitiveness of companies and the economy, because of all the new ideas provide added value and provide new sources of growth. So, smart growth or development of an economy based on knowledge and innovation, has become one of the main, if not the most important part of Europe 2020. strategy.

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# ***SIGNIFICANCE AND ROLE OF THE STATE IN DEVELOPMENT AND GROWTH OF SME AND ENTREPRENEURSHIP***

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## ***ABSTRACT***

*In this paper we analyze one of the main conditions for achievement of economic development of Serbia, and that is economy development, i.e. development of small and medium enterprises and entrepreneurship. In order to achieve this, it is required to have adequate laws that should provide favourable conditions for market economy functioning, i.e. to create favourable climate for entrepreneurship development. The aim of the paper is to point to the need for Serbia to use the potential and opportunities that are related to small and medium enterprises and entrepreneurship, to increase the number of persons dealing with private business and all of these would result in the increase of the number of employees, higher standard of living, prosperity both for entrepreneurs and Serbian economy as a whole. In this paper we presented the data obtained through interviewing the owners of small and medium enterprises and entrepreneurs, the data are tabularly processed by using Chi-square test ( $\chi^2$ ) – method for determination of statistical congruence between respondent's frequency and expected respondent's frequency. The emphasis is put on the relationship of the state towards entrepreneurs (how stable is the taxation system, what are the conditions for foundation of stores, small and medium enterprises like, what are the measures of financial support...).*

**Key words:** *Entrepreneurship, Development, Economy, State, Small and Medium Enterprises*

**JEL Classification:** *L26*

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## ***INTRODUCTION***

Development of small and medium enterprises and entrepreneurship is one of the most significant trends in the world. Continuous need for creation of a new organization form, new technology and innovation is applied, as well as practice that is supported with knowledge represent a basis for development of the same. Small and medium- sized enterprises represent a good basis for the development of new ideas and innovation. As drivers of economic growth in of a country, small and medium-sized enterprises are very important for increasing employment as well as reducing regional disparities (Vujicic et al.,2012). As the SME sector represents the framework of economic development, it is necessary to support the development of small and medium enterprises, especially in transition countries where development is mostly supported by foreign investments or state interventions and where there is economic recession and unemployment (Vujicic, Nikitovic,2014).

In our country, not much attention is paid to SME and entrepreneurship development, i.e. different stimulants are required (subsidies, giving grants to small and medium enterprises for the purpose of production, not services; trainings (seminars, courses, as well as obligatory introduction of entrepreneurship in elementary and secondary schools, in order to form new generations that will be ready for starting their own business when their time comes).

Entrepreneurship development is one of five main potentials (work, technology, capital, land) of the development of Serbian economy. In practice of developed countries that have economic and social stability, development of entrepreneurship and private business has a crucial, primary role in development, adaptation to European norms, employment increase, higher standard, economic growth and development of entrepreneurs, family members, local community, i.e. state. The solution is in bigger number of entrepreneurs, entrepreneurial enterprises, creativity, creation of favourable environment, existence of administrative simplicity, equity, giving primacy to entrepreneurship development, as well as attraction of foreign direct investments, in order to provide prosperity both for entrepreneurs and the state. It is required to: make laws for the future and avoid their frequent changes; create favourable economic environment; bring a series of tax and other reliefs; stimulate private sector, it is obligatory to make it even with government sector (not as it was the case until now that primacy was always given to the government sector); establish the principle of administrative simplicity and equity; raise the cooperation between the state and entrepreneurs to a higher level...

Global economic movements are characterized by: development of e-business, development of the Internet, globalization process, specialization, brands development, entrepreneurship and small and medium enterprises development...

Keys (factors) to success in such an environment are: (Milošević, 2014. pp. 10-13).

- Ability to accept changes. The essence of strategic management is that it has an active relationship towards changes, that it spots them, uses their chances and implements, i.e. it needs to be the agent of changes in an organization.
- The ability for creativity and innovations. The ability to apply creativity and innovations is the essence of competitive advantage.
- Creativity is the ability for the ideas to combine in a unique manner and to create inventions in that manner. Innovations represent the application of something new in practice and creation of competitive advantage in this manner. The application of innovation draws many challenges with it, from the request for the change of organization itself to market acceptance of a particular innovation.
- The need for the organization to be on a global level. This could be also defined as the request for being the best in own environment. Each organization begins its development doing business at local level first, with its growth and development, the conditions for appearance on regional, and for smaller number of organization, on international markets, emerge. In that manner, the effort to be as better as possible is ultimately natural reaction of an entrepreneur and in a way it is the preparation of upcoming international competition.

### ***ROLE OF THE STATE IN DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES AND ENTREPRENEURSHIP***

The emphasis, on one hand, is on the necessity of the country to:

- create equal entrepreneurial conditions both in private and government sector,
- introduce the simplicity principle in administrative aspect, in order to facilitate the foundation of entrepreneurial shops, small and medium enterprises, i.e. reduce direct and indirect costs,
- ability to create and use knowledge,
- create innovation society,
- analyze innovative performances,
- reduce the share of grey economy in gross domestic products,
- create competitive advantage...

On the other hand, entrepreneurs, owners of small and medium enterprises should:

- comply with laws of the country they live and work in,
- perform complete work in accordance with the law without entering the field of grey economy,
- employ new workers,
- pay taxes and contributions,
- make good business practices together with the state, for mutual interest and satisfaction,
- to invest in the knowledge and education, both of their own and their employees' in order to create higher profits...

Great drop in economic activity and real earnings of population in the period of long-term economic crisis during 1990's, high real and covert unemployment, as well as rigid regulations, inefficiency of legislation and taxation system, are some of the main causes for escalation of grey economy in Serbia (Pejanović, Njegovan, 2009, pp. 42.).

Significance of entrepreneurship development and its impact on the prosperity of the owner, family members, local self-government, i.e. Serbian economy is multiple.

Strategy for development of small and medium enterprises requires to undertake the activities to support and strengthen entrepreneurial sector in crucial fields, due to importance for development, competitiveness, employment, where the framework for policy towards these entrepreneurial organizations and shops should be created on the basis of some kind of a program for medium-term period, according to the requests of European Charter for Small enterprises in the area: (Karavidić et al., 2014, pp. 27.)

- education for entrepreneurship,
- cheaper and faster foundation of entrepreneurial organizations and shops,
- better legislation and regulation,
- availability of skills and knowledge,
- more favourable taxation and financial policies,
- strengthening of technological capacities of small and medium enterprises,
- application of successful model of e-business and development of the best support to small and medium enterprises,
- development of stronger and more efficient representation of the interests of small and medium enterprises and entrepreneurs at local and national level.

On the other hand, it is required for the state to analyze techniques, methods and experiences of other countries that have by far more developed entrepreneurship, to prevent corruption, monopoly and tax evasion... Development of small and medium enterprises and entrepreneurship should result in: deficit reduction, increase of public incomes, attraction of foreign capital, real growth of earnings, export increase... All of it can be achieved with the application of the principle of transparency, time limitations, legal security, equity, stimulation, comprehensiveness...

According to professor Avijaš: based on the experience of developed countries and those who successfully transformed the economy to market forms of entrepreneurship, it is concluded that sector of small and medium enterprises is an important component of economic system, and thus their development is not a tactical move in current economic moment, but it is primarily an important condition for efficient economic growth and solving many social issues“ (Avijaš, 2008. pp. 3).

## ***ORGANIZATION FORMS AND OWNERSHIP***

According to professor Lovre, the advantages of unique ownership are (Lovre, 1998, pp. 20-21)

- Cheap organization form,
- Big freedom of the owner in organization's regulation,
- Owner has a complete control in management,
- In companies of this type, minimum circulation capital is required,
- There are advantages regarding fees for small owners,
- Entire achieved profit goes to company owner,
- Profit is taxed only once.

In the centre of a revolutionary milestone there is such a form of business that has a power to dramatically transform each company from chaos into order, excitement and continuous growth. (Gerber, 1996. pp. 49.)

The Law on Enterprises (Official Gazette of RS, no. 36/2011, 99/2011) in our country regulates legal position, foundation, changes, cessation and all other issues important for functioning of enterprises, as well as entrepreneurs. The first part of the law regulates: the term of enterprises, registration, legal forms, members, headquarters, business name, official secret, complaints, information... (Stevanović et al., 2014, pp. 141.)

Main step of the enterprise is: memorandum of association, role of society members and their share in distribution of profits.

For existence and foundation of enterprise, it is required to have a contract, i.e. Foundation Act. Foundation Act of an enterprise represents compliance, will of two or more persons to start business cooperation with common goal. Conclusion of the contract is always in written form because it is the only legal valid form. Lack of obligatory elements and prescribed norms also leads to nullity of the contract.

The stakes represent capital, value that founders bring into enterprise. If we look from economic aspect, the stake represents some economic good that founders bring into society. Based on the stakes, we form share capital and it is, as such, the initial property of the enterprise.

Stakes can be monetary and non-monetary. Monetary stake to enterprise is paid on temporary account in commercial bank and when the conditions of legal subjectiveness are achieved, those funds are transferred to the account of the company. Non-monetary stakes are evaluated by all company founders or by a professional who is authorized by state body that owns a licence for valuation.

Main goal of founding an enterprise is profit acquisition and right of all members to its distribution. Share of members in profit distribution also implies the share in covering the loss of enterprise.

Enterprise is a legal entity that performs an activity in order to obtain profit. (Law on Enterprises Off.Gaz. of RS no. 36/2011 and 99/2011.)

Enterprise acquires the status of legal entity through registration process. It has an activity (primary), but it can also perform other activities in accordance with the law, although the law leaves the opportunity that depending on additional activity in some cases special permits are required. (Stevanović, et al., 2014, pp. 142.)

Legal forms of enterprises are: joint-stock company, limited liability company, limited partnership, partnership.

Advantage in formation of business as corporation-joint stock company is that it limits personal responsibility, which is not the case in partnership or private ownership. (Karavidić et al., 2014, pp. 204.)

In theory and practice, we can find different definitions of entrepreneurship.

Entrepreneurship is based on individuals that shape the reality through special approach in order to use their own or other people's knowledge and experience, own or borrowed funds, disposable equipment, objects and everything else that is required to start with certain business undertakings. (Popović, 1995, pp. 1.)

According to professor Jokić „Entrepreneurship is a business activity of transferring available resources from low productivity and small profit sector into sectors that provide high accumulation and rapid development“ (Jokić, 2002, pp. 5).

The second part of the Law on Enterprises defines the term of entrepreneur, period for which the shop is registered, business name, headquarters, property and responsibility, activity, cessation of activity.

Entrepreneur is a physical entity that is capable for doing business in order to obtain profit and that is, as such, registered in accordance with the Law on Registration. (Law on Enterprises, Official Gazette of RS no. 36/2011 and 99/2011).

Entrepreneur can register his activity for limited or unlimited period. For obligations that emerge in process of activity performance, entrepreneur is responsible with its entire personal and business property. (Stevanović et al., 2014, pp. 143.)

Entrepreneur can perform all the activities that are not prohibited by the law and for which he meets all the conditions prescribed, including old and artistic crafts and homecraft. (Law on Enterprises Off.Gaz. no. 36/2011 and 99/2011)

Entrepreneur can cease with the activity by erasing from the register of companies: by notice of withdrawal (application is submitted to competent body) and by operation of law.

Entrepreneur ceases with his work by operation of law in the following cases: (Law on Enterprises (Off.Gaz.of RS no. 36/2011 and 99/2011)

- 1) death or permanent loss of business ability;
- 2) if the time has come, in case if activity is registered for a limited period;
- 3) if his business account is blocked for more than two years, based on request for erasing of entrepreneurs from the register that is submitted by the National Bank of Serbia or Tax Administration;
- 4) if final judgement determines the nullity of entrepreneur's registration;
- 5) if final judgement, executive decision of a competent body or court of honor of the chamber it belongs to prohibit the activity performance;
- 6) in case of termination of the approval, compliance or other act of competent body prescribed as a condition for registration;
- 7) in other cases prescribed by the law.

## ***FUNDING OF SMALL AND MEDIUM ENTERPRISES AND ENTREPRENEURS***

In case of founding small and medium enterprises, entrepreneurial stores, owners of private capital, at the very beginning, bring an important decision and that refers to the manner of funding. More precisely, whether they will use their own or somebody else's means. In any case, regardless of the decision they make, the manner of managing those funds is important.

In our entrepreneurial practice, the following sources are usually stressed, as well as the manners of funding independent entrepreneurial jobs: (Jokić, 2002, pp. 332-333.).

- funding by entrepreneur himself – company's owner,
- funding by partners, from the country or abroad,
- funding by shareholders,
- funding by business partners: suppliers, buyers or other interested parties,
- funding based on commission relations and jobs,
- funding by the banks and other creditors (lenders),
- funding by franchisers or franchisees,
- funding from sale or cession of a part of property or job,
- funding from means of current trade, i.e. from selling of products of services in the market,
- funding through share in commonly achieved income, based on joining work and capital,
- funding from means obtained from the Institute for labour market, based on new employment,
- funding from obtained loans for the development of trade, agriculture, export, from social community,
- funding based on compensations, regresses, premiums, grants and stimulations on different basis determined by the law on in other manners,
- funding based on leasing,
- funding from the part of family members, friends or other interested parties,
- funding from other sources.

Characteristics	CAPITAL	
	Own	Borrowed
Status	Owner	Creditor
Period for which capital is given	No time limit	With time limit
Management rights	Total (owner)	None
Yield expected	Dividends	Interest
Character of company's obligations	Varijabile –depending on results	Fixed-not depending on results
Order of right realization	The last	The first
Security	Not guaranteed	With guarantee
Relation towards risk	Bear full risk	Does not bear risk

*Figure 1: Comparative presentation of capital givers' status*

*Source: Karavidić et al., 2009, pp. 82*

Support to entrepreneurship, from the part of the state, is not sufficient if it is based on educational seminars, promotions and presentations. Through strategic commitment, the state should help entrepreneurship because it is crucial for recovery and development of economy itself in Serbia. National and international support programs in Serbia are: („National and international support programs in Serbia“, Chamber of Commerce of Serbia, Belgrade, March 2012, pp. 1-3.)

#### 1. Domestic sources of funding/support programs

- State aid – funds from the budget of the Republic of Serbia (funds, agencies, credit lines and incentives of ministries of the Republic of Serbia and government agencies..),
- Crediting of the SME, entrepreneurship, etc.,
- Other domestic forms of support.

#### 2. Foreign sources of funding/support programs

- Credit lines of international financial institutions,
- Funds and programs of EU,
- Donation programs/projects,
- Foundations,
- Other foreign support forms (other international funds and programs, investors,...).

#### 1. Projects funded from EU and donations.

##### *Examples of successful project practice*

##### Domestic funding sources/support programs

##### 1.1. State aid – funds from the budget of the Republic of Serbia.

##### *Fund for development of the Republic of Serbia:*

- Loans for encouragement of even regional development for legal entities and entrepreneurs,
  - Loans for encouragement and development of enterprises and entrepreneurship in undeveloped municipalities,
  - Loans for investments in work intensive branches of processing industry in insufficiently developed municipalities,

- Start up loans – for legal entities and entrepreneurs,
- Loans for legal entities
  - Short-term loans for legal entities,
  - Investment loans for legal entities,
  - Loans for permanent working capital for legal entities.

- Loans for entrepreneurs
- Loans for old artistic crafts
- Loans for female entrepreneurship
- Guarantees for legal entities and entrepreneurship

##### *National Employment Service (NES)*

- Subsidies for self-employment for unemployed persons
- Subsidies for opening of new work places
- Training programs
- Professional practice programs

- Practical knowledge acquisition program
- Exemption of employers from payment of contributions for obligatory social insurance
- Obligation of employing persons with disabilities
- Public works

*Ministry of Economy and Regional Development (MERD)*

*National Agency for Regional Development (NARD)*

- Support to SME that have a tendency of rapid growth – Gazelles
- Support to SME, entrepreneurs and cooperatives in order to strengthen innovativeness
- Support to innovative clusters development
- Measurement for subfunding of initiatives of local self-government for preparation and implementation of projects on local and regional level

*Ministry of Economy and Regional Development, Tourism sector*

- Program for awarding grants and dotations for projects of tourism development

*National Agency for Regional Development (NARD)*

- Support program for competitiveness development of SME
- Support program for entrepreneurs associations

*Forms of financial support for exporters*

- Support of the Agency for insurance and funding of export
- Support of Development fund
- Support of USAID
- Support of the National Bank of Serbia

*Serbia Investment and Export Promotion Agency (SIEPA)*

- Grants for export funding
- Program for encouragement of competitiveness and internationalization of Serbian economy
- Financial support for investors in Serbia – Investments attraction program

*Agency for Export Insurance and Funding of the Republic of Serbia*

- Export insurance
- Factoring
- Crediting
- Guarantees issuing

*Ministry of Agriculture, Trade, Forestry and Waterpower Engineering*

- Competitions and public calls
- Department of Agricultural Payments
  - Regulations
- Structural incentives:
  - Measures of rural development
  - Measures of quality improvement of agricultural land
  - Measures of institutional support
- Subsidized loans and insurance



Regulation on encouraging agricultural production through loan support through subsidizing a part of interest rate in 2011.

- Department of agricultural land  
1.2 Crediting of small and medium enterprises, entrepreneurs etc.

*Loan offer through commercial banks*

Great number of commercial banks credits SME and entrepreneurs. There are: foreign currency and dinar loans for economy, long-term and short-term loans, loans for small and medium enterprises, loans for micro enterprises, loans for entrepreneurs, loans for big enterprises, subsidized loans for economy, etc.

*Program of subsidized loans for 2011*

Government of the Republic of Serbia has adopted Program of measures to mitigate negative effects of global economic crisis in Serbia for 2011 in order to achieve a mild economic growth of economy, preserve employment and stimulate exports and domestic demand:

- Loans for investments; loans for liquidity maintenance and funding permanent working capital and for export affairs; consumer loans and loans for legal entities, i.e. financial leasing, for procurement of particular permanent consumer goods and services.

Foreign sources of financial support are realized through credit lines of international financial organizations in order to develop small and medium enterprises through an agent, i.e. National Bank of Serbia.

Credit lines of international financial institutions (National and international support programs in the Republic of Serbia), Chamber of Commerce of the Republic of Serbia, Belgrade, March 2012. pp. 5-6.):

1. EAR – Credit line of European Agency for Reconstruction – Brussels
  2. Revolving Loan Fund
  3. EBRD – Credit line of European Bank for Reconstruction and Development
  4. EFSE – Credit line of European Fund for Southeastern Europe
  5. Credit line of the Government of the Republic of Italia -
  6. KfW – Credit line of German Bank for Reconstruction Frankfurt
  7. Donation of the Kingdom of Denmark for funding SME and entrepreneurs of Nisava region (LEDIB program) Through:NLB Bank
  8. Other credit lines
- Credit line of Dresdner Bank A.G.
  - Credit line of Bankgesellschaft Berlin A.G.
  - Credit line of Banca Agricola Mantovana, Italia
  - Credit line of Banca Antoniana popolare Veneta, Trieste
  - Credit line of Bank Austria, Bayerische Hypo Und Vereinsbank
  - Credit line of The Hungarian Export – Import Bank LDT, Budapest
  - Credit line of Croatian Bank for Reconstruction and Development

EU support programs for the period from 2007-2013 (in EUR), (National and international support programs in the Republic of Serbia, Chamber of Commerce of the Republic of Serbia, Belgrade, March 2012, pp. 5-6.):

I IPA „Instrument for Pre-Accession Assistance“ components: 11,468 billions

1. Aid in transition process and institutions construction
2. Cross-border cooperation
3. Regional development
4. development of human resources
5. Rural development

Component 1. and 2. are ment for countries- potential candidates, components from 1 to 5 are ment for countries-candidates.

II SEE „South East Europe Transnational Cooperation Programme“ – Transnational cooperation program „SEE area“ 206 milions through ERF and 245 mil. from national public fund

- Primary cooperation sectors:
- Facilitation of innovativeness and entrepreneurship
- Protection and improvement of living environment
- Accessibility improvement
- Transnational synergies development for areas of sustainable development

Technical aid for support, implementation and construction of capacities

III CIP „Competitiveness and Innovation Framework Programme“, Framework programme for competitiveness and innovativeness 3,6 billion

- Entrepreneurship and Innovativeness Programme– EIP
- Politics Support Programme ICT - ICT- PSP
- Intelligent Energy Europe Programme– IEE

(SME in Serbia can compete)

IV FP7 „The Seventh Framework Programme for Research and Technological Development“ 50,5 billion

- I Cooperation – Collaborative Research (32 billion, 413 milions of EUR)
- II Ideas (7 billion, 510 milions of EUR)
- III People 4 billion, 750 milions of EUR)
- IV Capacities (4 billion, 97 milions of EUR)

(SME in Serbia can compete)

V LIFE+ 2.143 milions

Financial instrument for living environment

Goal: providing support to implementation, promotion and development of politics and legislation of the Community in the field of living environment. Components:

LIFE+ Nature and biodiversity

LIFE+ Politics and environmental management

LIFE+ IT

VI Marco Polo II 450 milions

VII EUREKA – A network for market oriented research and development

VIII Lifelong Learning „Integrated Action Programme in Lifelong Learning“, Integrated programs for lifelong learning Comenius - program for general education, activities in schools, including secondary schools Erasmus – educational

activities and trainings at high education level Leonardo da Vinci – secondary professional education Grundtvig – adult education, lifelong education – 7 billions  
IX Erasmus for young entrepreneurs 4,3 milions  
X TEMPUS High education modernization  
XI Progress Program of the Community for Employment and Solidarity 743,25 milions  
XII Culture 2007-2013 - 400 milions  
XII Media 2007-2013 - 755 milions  
XIII Youth in action - 885 milions  
XIV Europe for citizens - 215 milions

## ***RESEARCH DESCRIPTION***

Research included 125 respondents, owners of entrepreneurial stores and enterprises. Main indicators of sample structure having in mind the characteristics of respondents are: gender of respondents, age of respondents (from 20 to 30, from 31 to 40, from 41 to 50), education level (elementary school, secondary school, high school and faculty) and organization form (entrepreneur, enterprise).

As a process of data collection, scientific research was used, through survey as questioning technique. Survey was anonymous and it had 20 questions. Each question had three to five answers offered and the respondents chose between them by encircling one letter standing before the answer.

Collected data of the research are tabularly processed by using Chi-square test ( $\chi^2$ ) – method for determination of statistical congruence between respondents' frequency and expected respondents' frequency.

Based on such research manner, results that are hereinafter presented were obtained.

## ***ANALYSIS OF RESPONDENTS SAMPLE***

Main indicators of sample structure having in mind respondents' characteristics are:

- Gender of respondents
- Education level
- Age of respondents
- Organization form

The following results were obtained:

1. This survey included 59,68% male respondents and 40,32% female respondents.
2. Most of them are respondents over the age of 50, more precisely 38,71%, while the smallest number are those aged from 20 to 30, i.e. 9,67%. In relation to the youngest respondents, in percents, almost twice more are those from 31 to 40, i.e. 18,55%. Respondents aged from 41 to 50 make 33,06 %.

3. The least number is of those with university degree 8,8%, after them there are those with elementary school 12,8%, then those with high school 16,8%, and the majority are those with secondary school 61,6%.
4. As for the organization form, 10,48% respondents are owners of small and medium enterprises, while 89,52 of respondents are entrepreneurs.

## **RESEARCH RESULTS**

During the research, respondents answered the questions asked by taking their own stand.

*Table 1: Answers of respondents to the question „Do you believe that Serbia is characterized by simplicity in administrative aspect in founding and work of small and medium enterprises and entrepreneurial stores?“*

	Answers obtained	Answers expected	Difference
Yes	50	25,0	25,0
Mostly yes	55	25,0	30,0
No	10	25,0	-15,0
Mostly no	6	25,0	-19,0
Indecisive	4	25,0	-21,0
Total	125		
Chi-Square -test	102,08		
DF – fluctuating members	4		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Differences were confirmed by statistical test ( $\chi^2_{0,01} = 102,08$ ) and thus we reject basic assumption for the answers expected to be equally present for random variable which determines administrative simplicity when company is founded and we conclude that we have a significant alternative for starting entrepreneurship because the majority of the surveyed evaluated that it is not an obstacle.

Terms: Ho - Basic assumption– null or basic hypothesis ... depending on the literature, H1 - Alternative – alternative or working hypothesis...depending on the literature, we have alternative security 99%, contrary – when there is almost the same number at the ends.

*Table 2: Respondents' answers to the question „Do you believe that the costs for founding small and medium enterprises are high?“*

	Answers obtained	Answers expected	Difference
Yes	24	41,7	-17,7
No	90	41,7	48,3
Indecisive	11	41,7	-30,7
Total	125		
Chi-Square -test	86,128 <sup>a</sup>		
DF - fluctuating members	2		
PROBABILITY OF ERROR P < 0,01 => H1	0,000		

*Source: authors*

Based on answers offered, you can with certainty conclude that costs are not an obstacle when founding small and medium enterprises. Even 90 respondents answered negatively to the question and thus confirmed that costs are not high when founding small and medium enterprises. Answers frequency is confirmed by Chi-square test and it amounts 86,128.

*Table 3: Respondents' answers to the question “For which time period (with mandatory collection of all documents) can you open a store, an enterprise?”*

	Answers obtained	Answers expected	Difference
Up to 10 days	77	41,7	35,3
From 11 to 20 days	45	41,7	3,3
From 21 days to 30 days	3	41,7	-38,7
Total	125		
Chi-Square -test	66,112		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Answers obtained show that in the shortest time period, up to 10 days, it is possible to open a store, an enterprise. Only 3 respondents answered that period from 21 to 30 days is required for it, while 45 respondents answered that it takes from 11 to 20 days. This frequency of answers is confirmed by Chi-square test in relation to uniform respondents' answers.

*Table 4: Respondents' answers to the question "How long does it take to fill in legally prescribed applications, forms?"*

	Answers obtained	Answers expected	Difference
1 day	52	41,7	10,3
Up to 5 days	56	41,7	14,3
Over 5 days	17	41,7	-24,7
Total	125		
Chi-Square -test	22,096		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Time required for filling in legally prescribed applications, forms is 1 day according to 52 respondents, 56 respondents believe that it takes 5 days. This frequency of answers points to the fact that in a short time you can fill in all the forms required for opening a store or founding an enterprise and it is confirmed by Chi-square test which is 22,096.

*Table 5: Respondents' answers to the question "How long does it take before the administration (state, local) provides you the answers to the requests?"*

	Answers obtained	Answers expected	Difference
1 day	9	41,7	-32,7
Up to 5 days	48	41,7	6,3
Over 5 days	68	41,7	26,3
Total	125		
Chi-Square -test	43,216		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

We can notice that it takes much more time to receive answers to the requests. Chi-square test confirmed this frequency of answers. Of all the answers offered, only 9 respondents have answered that it takes 1 day to receive the answer to the request. 48 respondents answered that it takes up to 5 days, and 68 respondents that more than 5 days would be necessary, which points out that administration (state, local) must more efficiently answer the requests.

*Table 6: Respondents' answers to the question "Would e-business affect costs reduction?"*

	Answers obtained	Answers expected	Difference
Yes	82	41,7	40,3
No	23	41,7	-18,7
Indecisive	20	41,7	-21,7
Total	125		
Chi-Square -test	58,672		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

E-business would affect this costs reduction because 82 respondents answered affirmatively to the question. Only 23 respondents answered negatively, i.e. 20 respondents were indecisive. This frequency of answers is confirmed by Chi-square test 58,672, in relation to uniform answers of the respondents.

*Table 7: Respondents' answers to the question "Is Serbia characterized by equity both towards government and private sector?"*

	Answers obtained	Answers expected	Difference
Yes	18	25,0	-7,0
Mostly yes	17	25,0	-8,0
No	47	25,0	22,0
Mostly no	40	25,0	15,0
Indecisive	3	25,0	-22,0
Total	125		
Chi-Square -test	52,24		
DF – fluctuating members	4		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

The answers obtained point out that Serbia is not characterized by equity both towards government and private sector because 47 (answer "no") i.e. 40 (answer "mostly no") respondents answered negatively. Only 18 respondents answered positively, i.e. 17 of them answered with "mostly yes", while 3 respondents were indecisive. Based on results obtained, Chi-square test is 52,24.

*Table 8. Respondents' answers to the question "Are the conditions for employment the same for the workers in government and private sector?"*

	Answers obtained	Answers expected	Difference
Yes	19	41,7	-22,7
No	90	41,7	48,3
Indecisive	16	41,7	-25,7
Total	125		
Chi-Square -test	84,208		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

90 respondents answered that the conditions for employment are not the same for workers in government and private sector. Only 19 respondents answered affirmatively and 16 respondents were indecisive. This frequency of answers is confirmed by Chi-square test, which is 84,208, in relation to uniform answers of respondents.

*Table 9: Respondents' answers to the question "Are the condition for employment the same in government and private sector?"*

	Answers obtained	Answers expected	Difference
Yes	7	41,7	-34,7
No	92	41,7	50,3
Indecisive	26	41,7	-15,7
Total	125		
Chi-Square -test	95,536		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Chi-square test is 95,536 and the results obtained point that 92 respondents believe that work conditions are not the same in government and private sector. Only 7 respondents answered affirmatively to the question asked, and 26 respondents were indecisive.



*Table 10: Respondents' answers to the question "Is the law, legal regulations, implemented selectively, i.e. depending on whether you do business in private or government sector?"*

	Answers obtained	Answers expected	Difference
Yes	54	25,0	29,0
Mostly yes	23	25,0	-2,0
No	15	25,0	-10,0
Mostly no	24	25,0	-1,0
Indecisive	9	25,0	-16,0
Total	125		
Chi-Square -test	48,08		
DF – fluctuating members	4		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Majority of respondents answered that the law, legal regulations are implemented selectively, more precisely 54 respondents ("yes"), i.e. 23 respondents ("mostly yes"). Negative answers came from 15 respondents, i.e. 24 respondents. Statistically observed, Chi-square test is 48,08 in relation to uniform answers of respondents.

*Table 11: Respondents' answers to the question "Whether the share of jobs in grey zone is bigger in private or government sector?"*

	Answers obtained	Answers expected	Difference
Bigger in private sector	43	41,7	1,3
Bigger in government sector	68	41,7	26,3
Indecisive	14	41,7	-27,7
Total	125		
Chi-Square -test	35,056		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Based on results obtained, majority of respondents, 68 respondents, answered that share in grey zone is bigger in government than private sector which was chosen by 43 respondents. Only 14 respondents were indecisive. This frequency of answers is confirmed by Chi-square test (35,056) in relation to uniform answers of respondents.

*Table 12: Respondents' answers to the question "Do you believe that cooperation of the state and entrepreneurs is at satisfactory level?"*

	Answers obtained	Answers expected	Difference
Yes	7	25,0	-18,0
Mostly yes	16	25,0	-9,0
No	55	25,0	30,0
Mostly no	42	25,0	17,0
Indecisive	5	25,0	-20,0
Total	125		
Chi-Square -test	79,76		
DF – fluctuating members	4		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Cooperation between state and entrepreneurs is not at satisfactory level because 55 respondents answered negatively, i.e. 42 respondents encircled "mostly no". Only 5 respondents answered positively to the question asked and 16 choose the answer "mostly yes". 5 respondents were indecisive. Based on this frequency of answers, Chi-square test is 79,76.

*Table 13: Respondents' answers to the question "Do you think that state has created a favourable economic environment for entrepreneurs?"*

	Answers obtained	Answers expected	Difference
Yes	9	41,7	-32,7
No	98	41,7	56,3
Indecisive	18	41,7	-23,7
Total	125		
Chi-Square -test	115,216		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

From the table presented, we can see that even 98 respondents believe that the state didn't create a favourable economic environment for the entrepreneurs. 9 respondents have answered this question affirmatively and 18 were indecisive. This frequency of answers is confirmed by Chi-square test (115,216) in relation to uniform answers of respondents.

*Table 14: Respondents' answers to the question "Do you believe that state has adopted all laws, regulations and rule books required for easier and more efficient work of the private sector?"*

	Answers obtained	Answers expected	Difference
Yes	14	25,0	-11,0
Mostly yes	17	25,0	-8,0
No	54	25,0	29,0
Mostly no	29	25,0	4,0
Indecisive	11	25,0	-14,0
Total	125		
Chi-Square -test	49,52		
DF – fluctuating members	4		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Based on results obtained, we can conclude that the state didn't adopt all the laws, regulations, rule books required for easier and more efficient work of the private sector because 54 respondents answered "no", i.e. 29 respondents answered "mostly no". Only 14 respondents answered with "yes" and 17 respondents with "mostly yes", while 11 respondents were indecisive. Based on uniform answers of the surveyed, Chi-square test was 49,52.

*Table 15: Respondents' answers to the question "Does the state provide incentives to private sector which is registered and works in accordance with valid laws of the state?"*

	Answers obtained	Answers expected	Difference
Yes	14	41,7	-27,7
No	92	41,7	50,3
Indecisive	19	41,7	-22,7
Total	125		
Chi-Square -test	91,504		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

State does not provide incentives for private sector which is registered and works in accordance with the law because the majority, i.e. 92 respondents have answered in such a manner. Only 14 respondents answered affirmatively, i.e. 19 respondents were indecisive regarding this question. This claim was confirmed with Chi-square test as well (91,504).

*Table 16: Respondents' answers to the question "Did the state reduce taxes, i.e. introduced tax incentives for opening new stores, enterprises?"*

	Answers obtained	Answers expected	Difference
Yes	15	41,7	-26,7
No	95	41,7	53,3
Indecisive	15	41,7	-26,7
Total	125		
Chi-Square -test	102,4		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

State didn't reduce taxes, i.e. introduce tax incentives for opening new stores because it was the answer of 95 respondents. Affirmative answer came from 15 respondents, i.e. the same number of respondents were indecisive. In relation to uniform answers of the surveyed, Chi-square test was calculated, and it is 102,4.

*Table 17: Respondents' answers to the question "Does the state take measures in order to eliminate grey zone of business, which would result in positive business of registered enterprises?"*

	Answers obtained	Answers expected	Difference
Yes	17	41,7	-24,7
No	93	41,7	51,3
Indecisive	15	41,7	-26,7
Total	125		
Chi-Square -test	94,912		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

State does not take almost any measures in order to eliminate grey zone because 93 respondents confirmed it and only 17 of them encircled the answer "yes". 15 respondents were indecisive. Based on these parameters, Chi-square test was done and it is 94,912.

*Table 18. Respondents' answers to the question "Do you pay contributions for the employees who work for you?"*

	Answers obtained	Answers expected	Difference
Yes	71	41,3	29,7
No	28	41,3	-13,3
Indecisive	25	41,3	-16,3
Total	124		
Chi-Square -test	32,048		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Most respondents, 71, answered that they pay contributions for the respondents who work for them and 28 respondents answered negatively, while 25 respondents were indecisive. This frequency of answers is confirmed by Chi-square test (32,048) in relation to respondents' answers.

*Table 19: Respondents' answers to the question "Do you think that subsidies should be equal for foreign and domestic investors?"*

	Answers obtained	Answers expected	Difference
Yes	71	41,7	29,3
No	21	41,7	-20,7
Indecisive	33	41,7	-8,7
Total	125		
Chi-Square -test	32,704		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

Based on obtained answers, we can conclude that they agree with equalizing subsidies for foreign and domestic investors, because 71 answered affirmatively. Only 21 respondent does not agree with equalization of subsidies and 33 respondents were indecisive. Chi-square test (32,704) is confirmed based on respondents' answers.

*Table 20: Respondents' answers to the question "Do you believe that the state provides a lot of incentives for entrepreneurs for opening of new workplaces?"*

	Answers obtained	Answers expected	Difference
Yes	17	41,7	-24,7
No	83	41,7	41,3
Indecisive	25	41,7	-16,7
Total	125		
Chi-Square -test	62,272		
DF – fluctuating members	2		
ERROR PROBABILITY P < 0,01 => H1	0,000		

*Source: authors*

The following answers were obtained: 83 respondents answered that the state does not provide sufficient incentives for opening new workplaces, 17 respondents answered affirmatively and 25 were indecisive. This frequency of answers was confirmed by Chi-square test, 62,272, in relation to uniform answers of respondents.

## **CONCLUSION**

When creating the development policy for small and medium enterprises and entrepreneurship, we must primarily perform the analysis of efficiency or non-efficiency of earlier period (which measures were taken, what were the types of financial aid, did they have any effect in practice and what was it like). Development policy for entrepreneurship and small and medium enterprises must be functional, must have clearly defined goals of its own, as well as social goal and government goals. It must be in compliance with economic policy in such a manner to provide implementation of development policy, which is determined in one state. It means that if there are more entrepreneurs, i.e. entrepreneurial enterprises, if there is more energy, creativity, engagement of hundreds of thousands of entrepreneurs, then Serbian economy will be strong, rich, i.e. it is the only manner to exit the economic crisis that our economy is in at the moment.

Our country is characterized by: rapid opening of stores and enterprises; relatively low costs of opening, and they could be even lower if e-business would be introduced; slowness and inefficiency of administration in regard of the requests from small and medium enterprises and entrepreneurs; difference between private and government sector in favour of the government; selective implementation of legal regulations; work and employment conditions are not the same, again in favour of government sector. Cooperation between government institutions and private sector is not characterized by satisfaction of the private capital owner, i.e. state didn't create favourable conditions for the work of private sector, it didn't bring any regulations for the purpose of more efficient work, it does not give incentives (tax, when employing...), it does not take any measures against the grey zone...

It is necessary to have a required compliance between economic and non-economic parameters, in order to achieve positive effects both for the state and the individual, i.e. entrepreneur. It means that entrepreneurship development policy must be in the function of economic policy. Necessity of the existence of strong state institutions. The state must pay attention that both theory and practice are permeated, i.e. they cannot be contrary.

Through legislation framework, the state must prevent negative events such as: corruption, monopoly, tax evasion, foundation of a phantom enterprise, uneven burden of tax payers, entrepreneurs. Prevention of negative effects positively affects the economic system of our country, export increase, gross domestic product growth, tax collection, greater charging of public income, opening new entrepreneurial shops, small and medium enterprises.

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## ***BUSINESS INTELLIGENCE IN QUALITY OF SERVICES IMPROVEMENT***

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### ***ABSTRACT***

*In the very connected and global consumerism and customer opportunities, competition and benchmarking among providers of the services are growing and pushing them to the implementation of new technologies in their operations. Business intelligence has been seen as the advantage technology tool in capabilities improvement. The subject of this paper is issue of business intelligence advantages in improvement of the quality of banking services. The key results are seen in Relevant, Accurate and Timely information in the delivery system as a corporate bank asset. The ways of the usage of BI in an organization is also discussed from the aspects of improving: planning, controlling, measuring, monitoring processes. The aim is to: increase revenues, reduce costs, improve operations, detect and prevent fraud, sales campaign execution, purchasing, accounts payable processing. The results of the research would further support banking system as the system of record, overall performance of the organization and the strategic feedback mechanism based on new information technologies and business intelligence involvement.*

***Key words:*** *Business intelligence, Banking services, Clients*

***JEL Classification:*** *G21, M15, M31*

***UDC:*** *005.94:004.9*

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## ***INTRODUCTION***

New challenging banking environment seeks today from management quickly and decisively adoption of modern approaches, formulation of their strategies in the midst of unprecedented changes (Darius, Hedgebeth, 2007).

Explicit caps on key sources of revenue are placed through challenges mostly connected with regulatory environment, changes as- reforms within restrictive new lows impacting bank's relationships with customers (Consumer Protection Acts, The Credit Card accountability, FDIC insurance premium prepayments, and Basel III rules). As these regulative are expected to triple banks' capital requirements, increasing funding costs and leading to slower growth, to increase revenues and maintain profitability (Davenport, 2005) would be an imperative in further adaption to environment circumstances.

Banks should address some fundamental changes in consumer behavior changes, as changing customer behaviors and expectations include more savings (driven by uncertainty over retirement income and tighter restrictions on consumer lending). Customer satisfaction levels, more often measurement of the satisfaction index, as clients are spending less, and paying down debt, should be new contents of the core strategy.

The emergence of social media has created a new source of publicity with which banks must contend. About that talks more a mobile technology and development social media trends (outlets as Facebook, YouTube, and Twitter), explosive growth of smartphone technology creation of a new distribution channels. The fact that the most of adults have today a mobile phone makes this a nearly ubiquitous channel for reaching customers and prospects.

Trying to sustain their businesses by reaching customers and prospects through mobile technology and social media, banks would need to offer more effective financial planning and related products.

These trends further dictate the banks to have also a mobile strategy available on a smaller device, what is more sophisticated than on- line banking only. Also, it is needed to monitor the public opinion, what is being said about banks and to take advantage of this channel in building the loyal advocates.

Legacy core banking platforms as aging, nonintegrated becoming a liability with the rise of maintenance costs and customers demand real time access to information and services would have to be replaced. The adoption of new core banking platforms would be an imperative in more and more competitive market situation (Rouhani,Asgari 2012).

The subject of the research in this paper is issue of new technologies involvement in business, in sector of services and banking. The main purpose is to contribute to the process of service development by business intelligence implementation as an effective IT technology too in staying competitive.

## LITERATURE BACKGROUND

There are numerous researches who have contributed to the theory findings and phenomena of business intelligence definitions; Adelman, Moss, and Barbusinski, (2002), Anandarajan, Anandarajan, and Srinivasan, (2003), (Annie, Green, (2007), and other.

The knowledge valuation of business information is a natural path to business intelligence, as well as accounting information systems. The most often this phenomena (according to is defined as a “set of methodologies, processes, architectures, and technologies that leverage the output of information management processes for analysis, reporting, performance management, and information delivery”

([http://en.wikipedia.org/wiki/Information\\_and\\_communication\\_technologies\\_for\\_development](http://en.wikipedia.org/wiki/Information_and_communication_technologies_for_development))

Chen, Suleiman, Mao, and Frolic (2000) and other theorists writing about Business intelligence types defined:

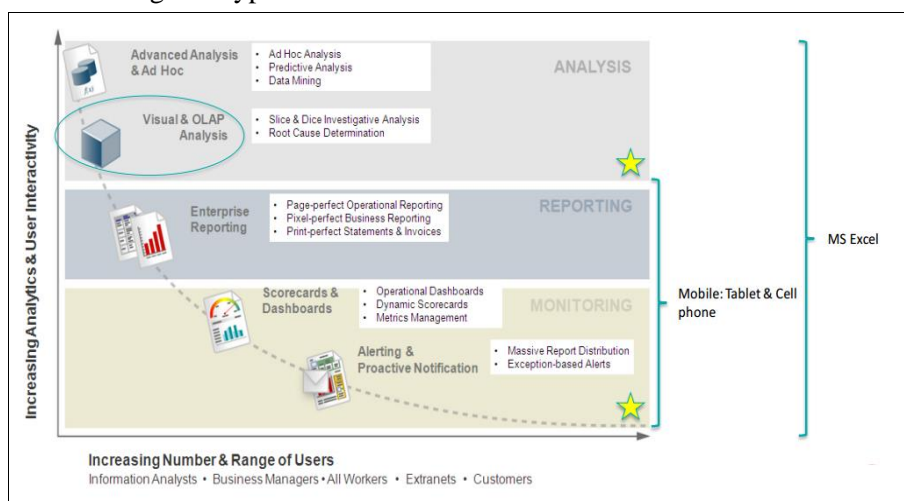


Figure 1: Broad types of BI

Source: Daconta et al.,2003

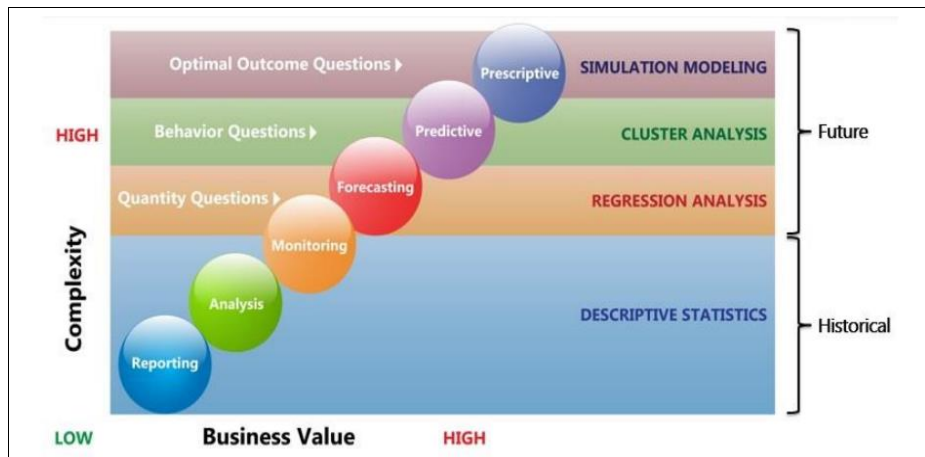


Figure 2: A BI Maturity Model

Source: Daconta et al., 2003

Basic Principles of Business intelligence can be grouped as:

X3 Core properties of information form:

Information must be:

- Relevant,
- Accurate
- Timely

2. Define a focused information delivery system as a corporate asset.

3. Delivering value via BI can be valorized through the usage:

- Improvement of planning, controlling, measuring, monitoring, as basic functions of financial management
- Changings in which management quickly realize the increase of revenues and reduce costs
- Improvement of processes
- The impact on banking operations that drive business results through the use of BI within those operational processes themselves
- Information technologies, and IT banking system as very important in maintaining BI is the SYSTEM OF RECORD for banking activity and business processes
- The Financial system is the SYSTEM OF RECORD for financial performance
- The strategic feedback mechanism

Business intelligence basics (Biere, 2003), see it an advanced information technology tool , which can be efficient, focused in preparing an institution to survive in the changing economic climate, grow and expand its reach and touch more lives (Benson,Smith, 1997).

Business Intelligence empowers bank officials to -see where they are going- in turbulent times and markets with a challenging business model in pursuit of their mandate (Wixom et al., 2008; Baseness, et al., 2003).

Formula for the value of Information in decision making = Value of not having the information –the value of having the information (Back, 2002).

## ***FINANCIAL SERVICES IN SERBIA***

Banks in Serbia (according to National Bank data, 2015) with over 198 million payments per a year through their services which can be mostly divided as follows:

- Payment operations: 198,6 million payments in 2014, amounting to 506, 2 million RSD;
- E-banking: 924.730 users;
- Telephone banking: 70.209 users;
- Mobile banking: 81.347 users;
- M-commerce: 1.841.363 people bought goods or services via Internet by bank accounts;
- Credit cards: 5.423,334 payment cards;
- Standing order: 224.204 citizens use the standing order instead of going to the bank.

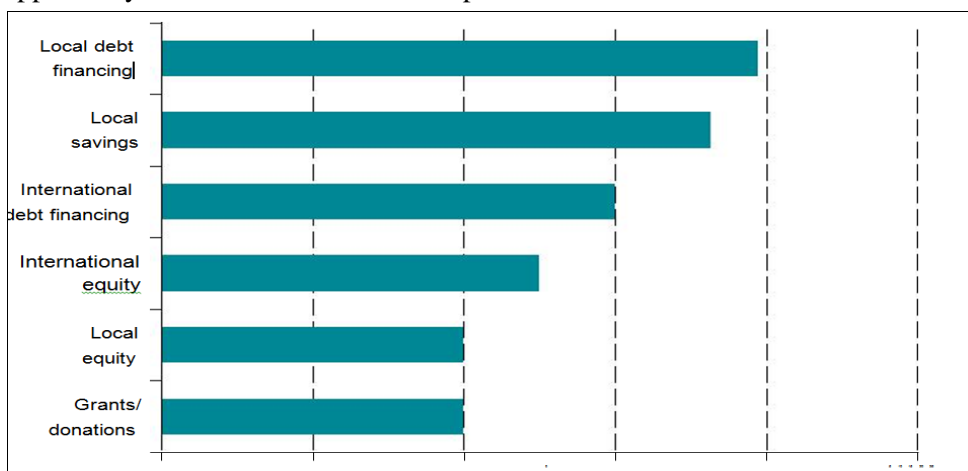
As the structure of Serbian economy concentrates in 99% small and medium enterprises, where 95% are from micro sector, the main problem is seen in financial services which are not interconnected with the needs of the biggest economy sector needs and their clients. So, a facilitating lending to micro and small entrepreneurs, enabling payment systems would have to be established, as well as opportunities for creating new savings options for private households (rural entrepreneurs and farmers make important economy sector).

Such initiatives micro sector operates 90% on local market, so the finance business can better contribute to the quantitative growth of other sectors of the economy too, such as small-scale industry, construction and trade. In Serbia there is about 40% of grey economy seen as big problem, so the above mentioned approach could further influence the transition from the shadow economy to becoming a tax-paying enterprise, farmer or entrepreneur with contractual commitments.

Capital market access for all members of micro sector is hard, financial sector development in the direction to provide small enterprises and households with better leading, and inclusion in the local, regional and ultimately the global economy, could be helped by such an understanding business activities. Microfinance institutions are providers active in this segment, more than classic banks, but as in Serbia micro financing is not covered by low or any legacy micro finance segment now encompasses thousands of providers with different legal statuses that are at varying stages of operational development.

Needs for loan products specific for that capital market segment, which number according to end- lower-income consumers shows the strongest growth potential is big.

The problem is the fact that the growth of the financial sector underpinned by companies that provide a range of bank services, The only financial services providers that are attractive for investors are those that operate profitably and meet regulatory requirements as effectively as possible, with professional structures and processes in place to fulfill strict requirements in key areas - accounting and risk management. Further, the importance of other financing sources as international debt financing, equity, grants/ donations, are big and at the same time the new opportunity if would be in the services portfolio of the banks



*Figure 3: The importance of financing sources*

*Source: Expert survey, responsibility Research*

## **BANKING SERVICES**

National Bank of Serbia's Banking Sector Report for Q4 2014 shows that there were 29 banks in Serbia, with continued downsizing (number of bank outlets decreased by 52 and number of bank employees by 308 during Q4 2014). 17 banks have made profit in the amount of RSD 30.6 billion, while 12 banks have recorded losses in total amount of RSD 27.1 billion, resulting in cumulative result of RSD 3.5 billion. At the end of Q4 2014, RoA and RoE indicators of the Serbian banking sector were 0.12 and 0.58% respectively.

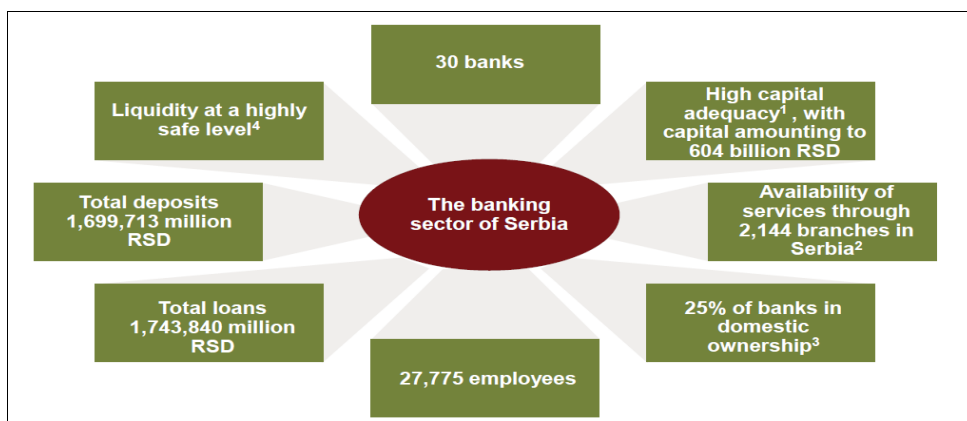


Figure 4: Banking sector impact to the national economy

Source: NBS, Kearney, A.T, 2015 <http://www.ubs-asb.com/LinkClick.aspx?fileticket=M9ISQ6UfQf8%3d&tabid=8979&mid=19057>

In Serbia, as in other countries in the region there are a lot of problems in economy itself which is not in a good shape, so high level of non-performing loans add problems to banks.

The trend of changes indicates the controlled collection and responsibility of the banks in Serbia to manage credit risks, with high coverage of such loans of 116%.

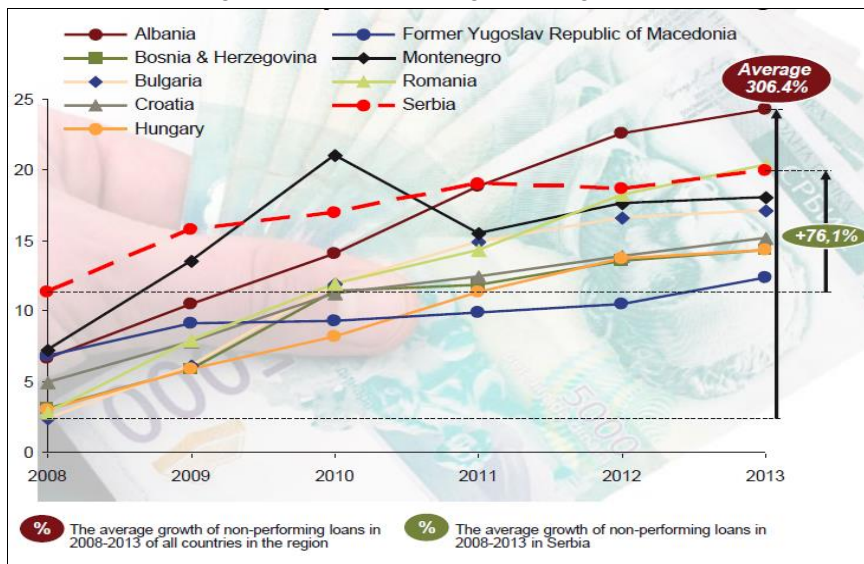


Figure 5: Serbia compared within countries in the region in NPLs, risk management

Source: NBS

*Table 1: Banks with highest profit and highest losses for 2014*

	Gross profit (in million RSD)
Banka Intesa	7,096
Raiffeisen Bank	5,839
Unicredit Bank	5,680
Komercijalna Bank	4,758
Procredit Bank	2,388
Srpska Bank	-16,030
Eurobank	-2,657
NLB Bank	-2,170
Dunav Bank	-1,375
Piraeus Bank	-1,340

*Source: NBS, 2015*

Total net loans of the banking sector (in nominal value) at the end of Q4 2014 were higher by RSD 11.9 billion (0.7%) than at the end of the previous year and they amounted to RSD 1,653 billion. Retail loans have showed biggest growth of RSD 15.6 billion.

Total gross amount of banking sector's loans in default over 90 days (NPLs) at the end of Q4 2014 decreased by 3.5% to RSD 421.3 billion as compared to the previous quarter when it amounted to RSD 436.7 billion.

Majority of the loans in default still comes from the portfolio of loans disbursed to companies, however, due to the growth of credit activity in this segment and decrease of NPLs, the NPL of companies at the end of the year decreased to 24.6% from 27.3 at the end of previous quarter. NPLs in the retail segment have slightly increased from 10.2% in Q3 to 10.3% in Q4 2014, but are still well below average.

Clients who have accounts in the four Greek banks operating in Serbia are "completely secure," the central bank (NBS) has taken all measures necessary in an emergency situation that will make the savers and legal entities completely safe from risks that the Greek banks may face due to an indication of Greece's potential bankruptcy. There are four Greek banks doing business in Serbia - Vojvodjanska Bank, Alpha Bank, Eurobank and Piraeus Bank. According to the NBS, Greek banks in Serbia have satisfactory capital adequacy indicators and do not have any liquidity issues, as well as no exposure towards Greek state bonds.

Komercijalna Banka, the biggest bank with national capital is in the process of privatization. The government is the biggest shareholder. Also, Dunav osiguranje, Serbia's largest insurance company, should begin by the end of 2015. By paying the amount of EUR 10.1 million on 27 May 2015, Turkish Halk Bank officially became majority owner of Cacanska Banka. Halk Bank acquired shares from the four biggest shareholders of Cacanska Banka: the Republic of Serbia, the International Finance Corporation (IFC), and the European Bank for Reconstruction and Development. Beogradska Banka is in bankruptcy.

According to the World Bank reports (WB, 2014) two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending gets credit rank for Serbia of 52 position comparing to 188 other economies.

Summarized key indicators Doing Business 2014 data for Serbia. (Out of 189 economies), for credit rating show further results:

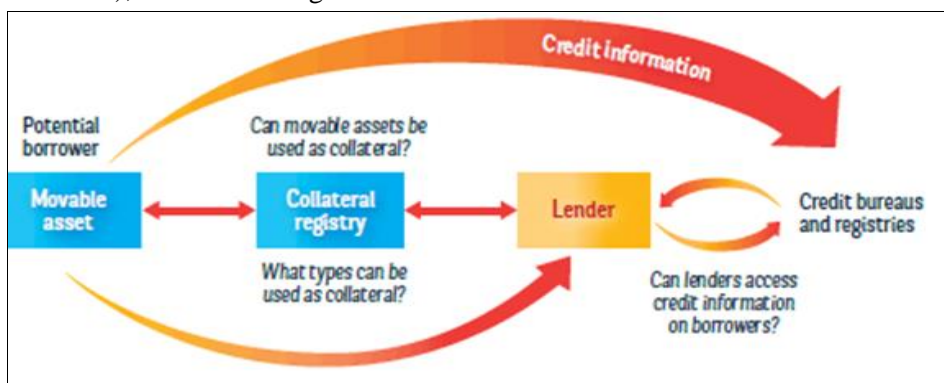


Figure 6: Answers to the question on lender having credit information

Source: Doing business 2014, World Bank

Doing Business is World Bank yearly publications based on national collected data according to the accepted methodology, each year for more of 185-189 countries for various aspects of business environment.

In the field of credit rating, the legal rights of borrowers and lenders are measured with respect to secured transactions through one set of indicators and the sharing of credit information through another, and more precise further set of indicators is given:

1. Whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws,
2. The coverage, scope and accessibility of credit information available through credit reporting service providers such as credit bureaus or credit registries
3. Sorting economies on the ease of getting credit by their distance to frontier scores for getting credit, with scores of the distance to frontier score for the sum of the strength of legal rights index and the depth of credit information index.



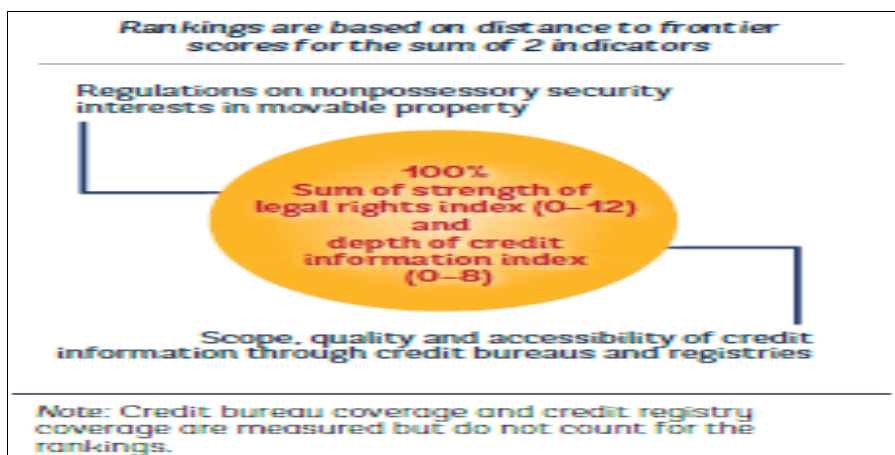


Figure 7: Getting credit: collateral and credit information

Source: Doing business 2014, World Bank

Table 2: Serbia, rating on getting credit, 2014

Getting Credit rank	Strength of legal rights index	Getting Credit DTF	Depth of credit information index (0-8)	Credit registry coverage (% of adults)	Credit bureau coverage (% of adults)
52	60.00	5	7	0.0	100.0

Source: Doing business 2014, World Bank

<http://www.doingbusiness.org/data/exploretopics/getting-credit>

Table 3: Changing in rank, 2014-2015

	DB 2015 Rank	DB 2014 Rank	Change in Rank
Getting Credit	52	45	-7

Source: Doing business 2014, World Bank

<http://www.doingbusiness.org/data/exploreeconomies/serbia>

Table 4: Comparison of Serbia within the Region, 2015

Indicator	Serbia	Europe & Central Asia	OECD
This index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. Strength of legal rights index (0-12)	5	6	6
This index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public credit registry or a private credit bureau. Depth of credit information index (0-8)	7	6	7
This indicator reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past 5 years. Credit registry coverage (% of adults)	0.0	19.3	12.1
This indicator reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past 5 years. Credit bureau coverage (% of adults)	100.0	33.7	67.0

Source: doing business 2014, World Bank

<http://www.doingbusiness.org/data/exploreeconomies/serbia#getting-credit>

## **BUSINESS INTELLIGENCE IN BANKING SERVICES IMPROVEMENT**

The ways and possibilities to boost the bank value, according to the McKinsey Institute survey can be illustrated by below Figure:

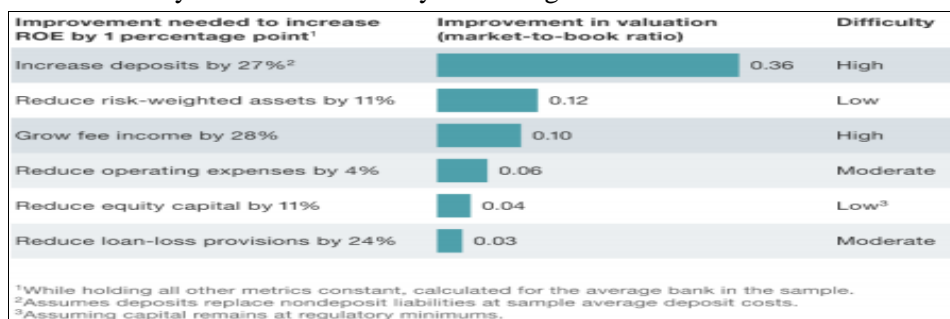


Figure 8: Ways of boosting bank value

Source: S&P Capital IO, McKinsey analysis

In efforts to boost value very important role would have ( Cottrill, 1998):

- Definition and pursuing drivers to change outcomes
- The decision support tools must be agile enough to change as the environment changes (cost effectively)
- Finding the drivers in the core banking system, track, change and influence the end result.

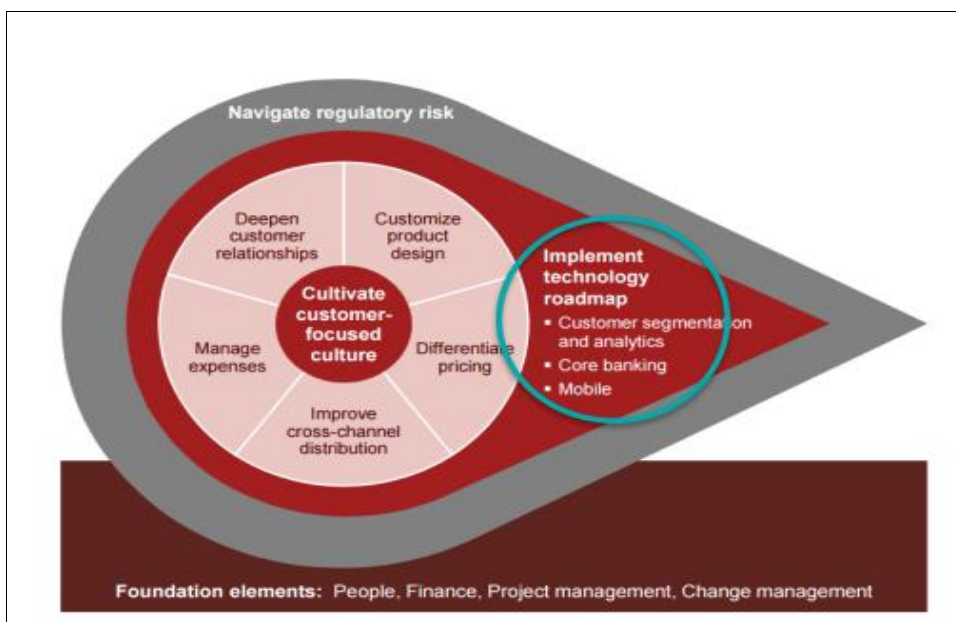
Today, banks operate in a disruptive, mobile, regulated environment with a lot of initiatives which are not possible without accurate, relevant and timely information got through business intelligence implementation. For example, only a cost cutting initiatives would include:

In Front office:

- Targeted cost cutting in Front office which has to include a certain elimination of product, locations and customers not core to the business
- Reinvested savings: In ambition to increase efficiency, reinvesting the savings in next-generation customer services initiatives, banks would have to continue to implement process innovation
- Sales and Marketing: Ensure that sales efforts support the bank's customer growth strategy; analyze the effectiveness of spending on targeted customer segments (Sahay, & Ranjan, 2008).

In Back office:

- Technology: Align Information technology projects with the business strategy (Baars et al., 2008)
- Risk Examine the impact of risk processes on customer experience, and streamline where possible
- Quality: Quantify and examine operational errors, increase simplicity and efficiency by replacing costly internal processes with a shared services model (Azoff, Charlesworth, 2004).



*Figure 9: Implementation of the technology roadmap*

*Source: Financial Services Institute*

[www.pwc.com/en\\_US/us/financial-services/publications/viewpoints/assets/](http://www.pwc.com/en_US/us/financial-services/publications/viewpoints/assets/Viewpoint-when-the-growing-gets-tought.pdf)

*Viewpoint-when-the-growing-gets-tought.pdf*

In the effort to achieve operational excellence most successful banks more and more use the following X5 key approach:

1. Strengthening the customer experience
2. Increasing sales performance
3. Improving productivity
4. Enhancing organizational efficiency
5. Reduce complexity

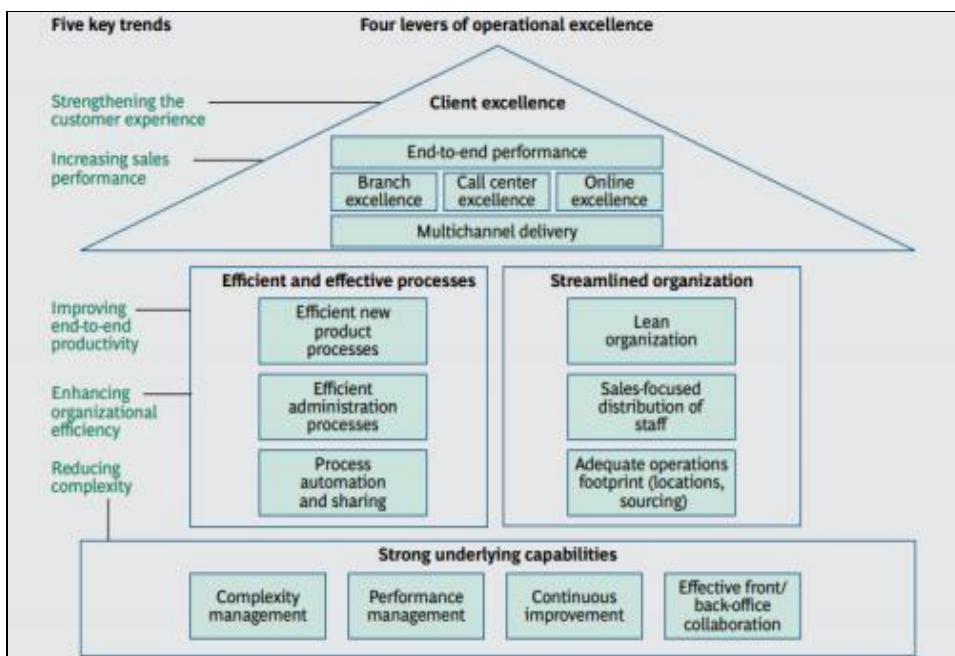


Figure 10:Operational Excellence trend

Source: BCG analysis

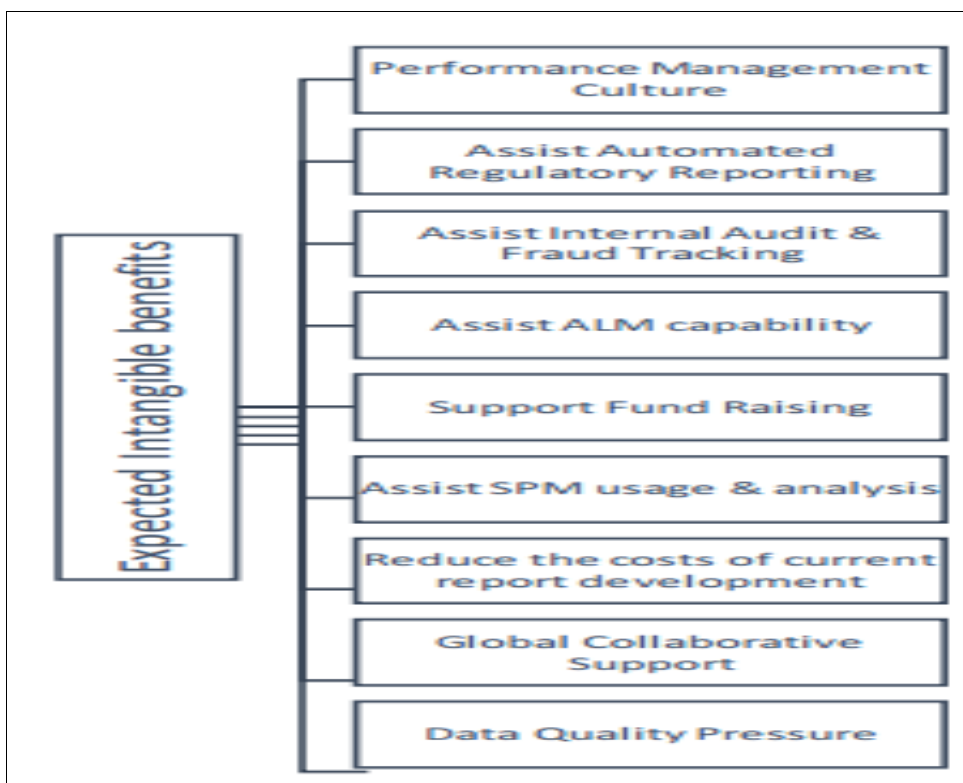
[www.bcgteleviv.com/documents/file126548.pdf](http://www.bcgteleviv.com/documents/file126548.pdf)

Trying to raise overall bank performance level: Client Excellence, Efficient and Effective Processes, a Streamlined Organization and Strong underlying Capabilities are critical levers of operational excellence for banks (illustrated above)

The usage of the BI solutions in banking services quality improvement can be seen in following Tangible quantifiable benefits:

- Growth in Loans
- Growth in Deposits
- Reduction of Risk
- Increase in Staff efficiency

There are also some in-tangible benefits from the usage of BI in quality banking services improvement which can be expected as:



*Figure 11: In-tangible benefits from the usage of BI*

*Source: Hannes Van der Walt, 2015*

The process of adding targets to core corporate financing can create accountability and transparency around what's important, what's being measured and where the bank is aiming.

There are opportunities to reduce losses resulting from poor lending decisions (as fraud). There are the calculations that a reduction of these known losses over a two year period in a certain percent would cover the cost of running BI for the x5 major for 2 years on its own.

The Business intelligence tool can bring together and analyses financial and operational data with social data –allowing banking management to make strategic decisions with the full information required rather than looking at social and financial and operational data separately.

## ***DISCUSSION AND CONCLUSIONS***

The results of research described in this paper confirm the fact that –aging nonintegrated banking systems are becoming a no efficient enough for new normative, competitive and mobile environment. Maintenance costs rise parallel with the customers demand in real-time access to information and services, what seeks new, modern distribution applications.

Aiming to decrease market and solvency risks, a customer centric core banking system can help an organization in being more flexible.

According to the basis of the coordinated channel theory, banks would be handful to begin to implement new IT technologies, first business intelligence and operational platforms.

Customers integrated information assessed from any location, avoiding boring procedures and requirements to complete redundant forms, a single credit underwriting process, and loyalty programs reward customers for activity across multiple product lines could be solved through so cold “customer centric model”.

Business intelligence support features designed to improve the products and customer experience could help in effective and quick realization of these innovations. More, as business intelligence supports customer relationships, the product design, pricing and quality of services, cost management, would help the modernization of distribution channels, and reaching the aims of the competitive intelligence of banks.

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# **THE PRESENCE OF FACTORS OF STABILITY IN ORGANIZATIONS CULTURE OF ORGANIZATIONS IN SERBIA**

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## **ABSTRACT**

*Modern business conditions are not at all simple nor easy, and to achieve and maintain a high competitive position it is necessary to fulfill the requirements for rapid and appropriate responses to the challenges and the way to preserve stability. Two seemingly contradictory phenomena, stability and flexibility have become key factors of achieving long-term success. Due turbulence of changes and the desire to achieve a better financial result, the organizations pay a lot of attention to the development of its flexibility. Although profit, undoubtedly, is an important outcome of the activity of each company, it should not be the main motive of the existence of companies, but a means of achieving its mission. How are organizations in Serbia dedicated to their missions and consistency in the work, as factors of stability, will be the subject of this paper. Clearly defined mission that is familiar with all employees and well-defined values and system operations, provides a strong basis of organizational culture which with work on flexibility brings long-term success to organizations. The questionnaire created for the purpose of this paper was carried out according to the Denison's model, world-renowned scientist.*

**Key words:** *Mission, Stability, Organization Culture, Organization*

**JEL Classification:** *M14*

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## ***INTRODUCTION***

The mentality of a strong organizational culture as an ideal culture necessary for realizing the long-term effectiveness and efficiency of the organization, is no longer current. A strong culture is considered to be insufficiently flexible and therefore inadequately contemporary business conditions that include frequent and radical changes. Current position is that the ideal organizational culture does not exist, but only appropriate culture that in certain situations an organization can lead to the desired performance. According to Denison model, world-known and recognized scientist, appropriate crops in the current business conditions are one that involves balancing between the four basic elements of the organization: its mission, involvement of employees in work processes, consistency and adaptability. Mission and consistency in the work are the factors that contribute to the stability of organization and involvement of employees and adaptability allow the desired flexibility. Thus, two contradictory phenomena, stability and flexibility have become key factors of achieving success in modern business conditions.

Development and change in organizational culture is seen as particularly important for organizations in countries such as Serbia, that are in the process of transition. The transition brought the privatization, and the ultimate goal of privatization is to increase the efficiency of organizations. In addition to the transition process and privatization, the companies in Serbia have been faced with the challenge of the globalization process, which overall situation on the domestic market would make it much more complex. Suddenly it is necessary to make fundamental changes in the current way of working and doing business in and out of comfort zone. People naturally resist changes, so it is clear why the process of changing organizational culture requires a lot of time. Authors of paper *The impact of organizational culture on economic indices – A study in Serbian companies* agree that the level of organizational culture in Serbia is very low, and that there is an unfavourable base in national culture (Nikolic et al., 2011, pp. 4622), while Mirjana Radovic-Markovic on the basis of the research claims that privatization has not resulted in an expected economic growth in terms of improving the efficiency of business doing and in employment rise (Radovic-Markovic, 2014, pp. 701). The whole situation the subject of the study of organizational culture in Serbian companies makes even more interesting.

Under the pressure of market forces, organizations have begun rapidly and constantly working to develop their flexibility. The recipe for achieving flexibility has long been known: investment in human resource development through support and encourage constant innovation of knowledge and work easier creation, introduction and implementation of changes. Although flexibility is an important feature of modern organizations in turbulent economic conditions, we can not overlook the fact that for an organization is as important to develop the elements of organizational culture that enabled her stability. Stable organization with a high degree of unity is more likely to survive in time of crisis, what can be considered the period in which are currently domestic companies.

Based on the above, the research conducted for this study should shed light on the presence of the stability factor in the organizational cultures of companies in Serbia. Presentation of the results and their analysis will complete the theoretical framework of the importance of development and changes organizations' culture in contemporary business conditions, with special emphasis on the importance of the presence of the stability factor in organizational cultures. Comparing that we made in research relates to the differences between foreign and domestic companies which operating in our market, given the diversity that they are based, i.e. national cultures on which they are based.

### ***STABILITY FACTORS IN ORGANIZATIONS CULTURES***

Given the high degree of uncertainty, increased complexity of operations due to tougher competition and faster changes, organizations are in constant fear that they will be able to survive and prosper. It is clear that in the global area now, do not eat great small, but quick slow. In order to achieve a better market position that will bring them greater profit, organizations due to the need for flexible behavior, often neglected, thus endangering their stability factors.

Globalization creates opportunities for companies to increase their revenues with sales worldwide (Kozuharov, Ristovska, 2013, pp. 337), but one of the most problematic factors and limitation for doing business in Serbia is poor work ethic of national workforce (Stankovic, Radic, Vukadinovic, 2013, pp. 92). Work ethic is significant part of organization's stability.

Stability is achieved by a well-defined mission that is shared between all members of the community, as well as precisely defined values and system operations. The realization of the unity of the organization in this way is clearly directed efforts of enterprises and allows for its survival in periods of lower profits and crisis periods. Many writers have expressed the view that the mission statement should be the 'starting point' for effective strategic management (Bart, 1996, pp. 480). It gives focus and encourages strategy implementation, improves organisational climate, internal or external communication, and improves management and leadership in a company (Musek Lešnik, 2008; Stallworth Williams, 2008) (Dermol, 2012, pp.321). The mission statement is the most important tool in the hands of managers in management by modern enterprises. It is a key mechanism by which all members of the organization held together and shows them the direction of their movement.

Building a high degree of unity through a relationship of trust and commitment between the company and the people who work there is the most significant challenge within the organization that responsible thinking about his future. Smith et al. (2003) highlight some studies reporting that after the creation and introduction of mission statement, company performance increases for about 50% (Dermol, 2012, pp. 327). A factor that affects the workers and increases its productivity has been known since Hotorn's experiment when workers are invited

to participate in something that is essential for the organization, which made themselves felt honored to achieving important results, better than before.

Unclear, missions as an image or label, or its absence makes the company to be left at the mercy of market forces.

Previous theoretical and practical knowledge show that there is a strong positive correlation between high performance and long life business with one hand, and a strong sense of mission on the other side. It is important to emphasize that, despite the developed awareness of the importance of large profits for the company, profit can not be an end of itself, but a means to achieving the company's mission. Christopher K. Bart in his paper *Industrial firms & the power of mission* emphasises if managers see the creation of the mission simply as a "ticket to fortune" in achieving their firm's economic objectives, they will most likely emerge frustrated and disappointed. Our findings have shown that there is practically no association between mission and a firm's financial performance (except in a few isolated instances which have yet to be more fully explored). The real benefits and impact from a mission statement come from its influence on the day-to-day behavior and actions of the firm's employees. And this is the proper perspective that managers should adopt in crafting their mission statements. The benefits from mission are emotional and psychic. To the extent that mission statements are developed with that in mind, desired behaviors should materialize - and financial riches should soon follow (Bart, 1996, pp. 16).

Another important factor that brings stability organization is consistency in the work. Although the flexibility and speed are considered as sources of competitive advantage in a dynamic environment, research in evolutionary strategy sees consistency (instead of aggression or mere speed) as a necessary condition for firm survival (e.g. Barnett, Hansen, 1996; Sheth, Sisodia, 2002) (Lamberg et al., 2005, pp 2). Using established business practices in the company, the company develops efficient processes and routines that support its long-term goals and strategies through knowledge that the organization remains independent of the departure of the individual.

We can conclude that the organization of today will not achieve much if they are reflected in the short term and be oriented solely on profit. Like the organism dies when his impairs unity and organization will begin to crumble when the sense of unity falls below a specific level. The best companies, one that will survive in the coming years, they are to learn how to increase profits and unity and at the same time (Cardona, 2009, pp 10).

Developing and nurturing a sense of commitment to the company as well as his long-term enterprise by defining the mission and the involvement in all in its achievement and a clear definition of the values and business systems is important tasks for management to work on. In this way, build a strong basis of organizational culture while working on the long-term flexibility brings organizations and financial effects of the management and undoubtedly most interested in.

## ***METHODOLOGICAL-HYPOTHETICAL FRAMEWORK OF THE RESEARCH***

### ***THE SUBJECT OF RESEARCH***

Sources of interest in the study of organizational culture can be found in the fact that it is considered an extremely useful tool for effective management of the organization and the desired operation on the basis of human psychology and behaviour (McMillian, 2012, pp 34). The study of organizational culture made it possible to discover and define what it is that is common for companies that are long-term success and what differentiates them in relation to those that do not. Modern organizational culture according to available research does not have to be strong, but appropriate circumstances in which the organization operates. According to the latest models of organizational culture constructed by Denison, world famous and renowned scientist, a great culture in the current business conditions is one that involves compliance stability factor (mission and consistency in work) and flexibility factors (involvement of employees and adaptability).

Due to the turbulent business conditions, the ability to adapt and to react quickly became a requirement of competitive advantages and high market positions, and flexibility is the most desirable feature of modern organizations. The focus on managers is mainly directed on achieving this significant characteristic. Commitment factors of stability in this often lacking. Companies that care about their future should have a developed consciousness to a higher level of the unions of the survival of the organization and the achievement of financial results of crisis situation.

Organizations in Serbia, like many in the world, its attention primarily focus on improving the capability of rapid adaptation to modern business conditions, which is very often the subject of scientific studies on this subject. Our intention in this paper is that through research conducted to count how many managers are committed to the development of factor's stability as an important feature of modern organizational culture that brings success. In this context, the paper will be presented comparing the presence of a factor of stability in the domestic and foreign companies, given the diversity of grounds (national culture) on which form their organizational culture. The main criticism of the national culture, which is then transferred to the business, refers to the deep-rooted values that are no longer useful and should be changed.

According to the mentioned Denison's model, we examined mission through assessment of the following paragraphs: „There is a long-term purpose and direction“, „Our strategy leads other organizations to change the way they compete in the industry“, „There is a clear mission that gives meaning and direction to our work“, „There is a clear strategy for the future“, „Our strategic direction is clear to me“, „Leaders set goals that are ambitious, but realistic“, „There is widespread agreement about goals“, „The leadership has "gone on record" about the objectives we are trying to meet“, „We continuously track our progress against our stated

goals“, „People understand what needs to be done for us to succeed in the long run“, „We have a shared vision of what the organization will be like in the future“, „Short-term thinking seldom compromises our long-term vision“, „Leaders have a long-term viewpoint“, „Our vision creates excitement and motivation for our employees“ and „We are able to meet short-term demands without compromising our long-term vision“.

Consistency in work was examined through assessment of the following paragraphs: „The leaders and managers „practice what they preach““, „There is a characteristic management style and a distinct set of management practices“, „There is a clear and consistent set of values that governs the way we do business“, „Ignoring core values will get you in trouble“, „There is an ethical code that guides our behavior and tells us right from wrong“, „When disagreements occur, we work hard to achieve "win-win" solutions“, „There is a "strong" culture“, „It is easy to reach consensus, even on difficult issues and key issues“, „There is a clear agreement about the right way and the wrong way to do things“, „Our approach to doing business is very consistent and predictable“, „People from different parts of the organizational share a common perspective“, „It is easy to coordinate projects across different parts of the organization“, „Working with someone from another part of this organization is not like working with someone from a different organization“ and „There is good alignment of goals across levels“.

## ***THE AIM OF RESEARCH***

The research had objective:

Analysis of the current state of employees' about presence of factors of stability in organization culture of organizations in Serbia.

## ***HYPOTHESES OF THE RESEARCH***

H1: In the companies in Serbia, there is a commitment to stability factors as important feature of modern organizational culture that brings success.

H2: There is a significant difference in the presence of a factor of stability in the foreign and domestic companies in Serbia.

## ***METHODS AND TECHNIQUES OF THE RESEARCH***

Analysing the applied methods and techniques of the research and bearing in mind their strengths and weaknesses based on its subject, tasks and objectives set for the purpose of the hypotheses, the research was carried out using theoretical analysis and empirical method called 'a research method'.

Empirical research was conducted in three phases:

1. Collecting data from respondents in writing;
2. Sorting and grouping of data;
3. Processing data using method of statistical analysis (ANOVA) and interpretation of obtained data.

The questionnaire created for the purpose of this paper was carried out according to the Denison's model. The questionnaire was in the form of Likert scale for measuring opinions (1- completely disagree, 2- partly disagree, 3- neither agree nor disagree, 4- partly agree, 5- completely agree). Results obtained by this method were compared to the knowledge obtained by theoretical analysis and that facilitated the execution of more complete findings and recommendations.

Reliability Statistics for paragraphs which investigated mission:

Cronbach's Alpha	N of Items
,931	15

Reliability Statistics for paragraphs which investigated consistency:

Cronbach's Alpha	N of Items
,929	14

Cronbach-alpha tests show that there is an internal consistency and that the items consistent enough for measurement of the above constructs.

## ***RESEARCH SAMPLE***

A survey research process, in the form of Likert scale, was selected for collecting employees' information about presence of factors of stability in organization cultures of organizations.

The sample included employees of companies in Serbia. The structure of the sample is as follows:

*Table 1: The gender structure*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	74	45.7	45.7	45.7
	female	88	54.3	54.3	100.0
	Total	162	100.0	100.0	

According to gender structure 54.3% are female and 45.7% are male.

*Table 2: City of examinees and their companies*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Jagodina	10	6.2	6.2	6.2
	Senta	8	4.9	4.9	11.1
	Vranje	8	4.9	4.9	16.0
	Loznica	20	12.3	12.3	28.4
	Krusevac	10	6.2	6.2	34.6
	Leskovac	10	6.2	6.2	40.7
	Kragujevac	10	6.2	6.2	46.9
	Aranjdjelovac	14	8.6	8.6	55.6
	Novi Sad	12	7.4	7.4	63.0
	Cacak	6	3.7	3.7	66.7
	Kraljevo	8	4.9	4.9	71.6
	Lazarevac	8	4.9	4.9	76.5
	Subotica	8	4.9	4.9	81.5
	Belgrade	14	8.6	8.6	90.1
	Kanjiza	8	4.9	4.9	95.1
	Vrbas	8	4.9	4.9	100.0
	Total	162	100.0	100.0	

Regarding to the city of company, the biggest number of employees are from Loznica 12,3% and the smallest number are from Cacak, 3,7%.

*Table 3: Company size*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-9	36	22.2	22.2	22.2
	10-49	42	25.9	25.9	48.1
	50-249	40	24.7	24.7	72.8
	250 and more	44	27.2	27.2	100.0
	Total	162	100.0	100.0	

Regarding to size of company according to number of employees, in sample are the biggest number of employees who work in large companies, 27.2 %, then in small companies, 25.9%, in medium companies work 24.7% of examinees and in micro companies work 22.2% of examinees.



*Table 4: The activity of the company*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	transport and storage	14	8.6	8.6	8.6
	accommodation and food services	4	2.5	2.5	11.1
	information and communication	2	1.2	1.2	12.3
	financial and insurance activities	8	4.9	4.9	17.3
	administrative and support service activities	8	4.9	4.9	22.2
	public administration and compulsory social security	30	18.5	18.5	40.7
	education	26	16.0	16.0	56.8
	health and social work	2	1.2	1.2	58.0
	arts, entertainment and recreation	8	4.9	4.9	63.0
	production	36	22.2	22.2	85.2
	other service activities	24	14.8	14.8	100.0
	Total	162	100.0	100.0	

Regarding to activity of the company, most of the employees work in the company which is engaged in production, 22.2%, and the smallest number of examinees work in company which deals with information and communication, 1.2%.

*Table 5: Domestic or foreign company*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	domestic	148	91.4	91.4	91.4
	foreign	14	8.6	8.6	100.0
	Total	162	100.0	100.0	

Most of the employees, who took part in research, work in domestic companies, 91.4%, and the rest of examinees work in foreign companies, 8.6%.

*Table 6: Owned companies*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	private	92	56.8	56.8	56.8
	social	8	4.9	4.9	61.7
	state	62	38.3	38.3	100.0
	Total	162	100.0	100.0	

According to owned company, more than a half of employees (56, 8%) are from private companies, 38.3% are from state companies and only 4.9% work in social companies.

*Table 7: Position of examinees in company*

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	top management	22	13.6	13.6	13.6
	manager of the medium level	18	11.1	11.1	24.7
	manager of the operating level	36	22.2	22.2	46.9
	worker	86	53.1	53.1	100.0
	Total	162	100.0	100.0	

Regarding to employees' position in the company, the most of examinees are workers 53.1%, 22.2% are managers of the operating level, 11.1% are managers of the medium level and 13,6% are top management or part of them in company.

### ***RESEARCH OF PERSENCE OF FACTORS OF STABILITY IN ORGANIZATION CULTURE OF ORGANIZATIONS IN SERBIA USING METHOD ANOVA***

By applying the methods of ANOVA on paragraphs which examined the mission, the following results were got:

*Table 8: Descriptive statistic*

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Long-term purpose	domestic	148	4.08	1.027	.084	3.91	4.25	1	5
	foreign	14	4.14	1.027	.275	3.55	4.74	2	5
	Total	162	4.09	1.024	.080	3.93	4.25	1	5
Leads strategy	domestic	148	3.76	1.028	.084	3.59	3.92	1	5
	foreign	14	3.86	.363	.097	3.65	4.07	3	4
	Total	162	3.77	.988	.078	3.61	3.92	1	5
Clear mission	domestic	148	4.07	1.111	.091	3.89	4.25	1	5
	foreign	14	4.43	.756	.202	3.99	4.87	3	5
	Total	162	4.10	1.088	.085	3.93	4.27	1	5
Clear strategy	domestic	148	3.74	1.107	.091	3.56	3.92	1	5
	foreign	14	4.43	.756	.202	3.99	4.87	3	5
	Total	162	3.80	1.097	.086	3.63	3.97	1	5
Strategic direction	domestic	148	4.01	1.100	.090	3.83	4.19	1	5
	foreign	14	3.86	.864	.231	3.36	4.36	3	5
	Total	162	4.00	1.081	.085	3.83	4.17	1	5

Leaders' goals	domestic	148	3.72	1.101	.090	3.54	3.90	1	5
	foreign	14	3.43	.756	.202	2.99	3.87	3	5
	Total	162	3.69	1.076	.085	3.52	3.86	1	5
Widespread agreement	domestic	148	3.58	1.245	.102	3.38	3.78	1	5
	foreign	14	4.00	1.240	.331	3.28	4.72	2	5
	Total	162	3.62	1.247	.098	3.42	3.81	1	5
leadership has "gone on record"	domestic	148	3.73	1.158	.095	3.54	3.92	1	5
	foreign	14	3.86	1.610	.430	2.93	4.79	1	5
	Total	162	3.74	1.198	.094	3.55	3.93	1	5
Track progress	domestic	148	3.80	1.069	.088	3.62	3.97	1	5
	foreign	14	4.00	1.109	.296	3.36	4.64	2	5
	Total	162	3.81	1.070	.084	3.65	3.98	1	5
People understand	domestic	148	3.47	1.146	.094	3.29	3.66	1	5
	foreign	14	3.29	.914	.244	2.76	3.81	2	4
	Total	162	3.46	1.126	.088	3.28	3.63	1	5
Shared vision	domestic	148	3.49	1.226	.101	3.29	3.69	1	5
	foreign	14	4.00	.784	.210	3.55	4.45	3	5
	Total	162	3.53	1.201	.094	3.34	3.72	1	5
Short-term thinking	domestic	148	3.43	1.108	.091	3.25	3.61	1	5
	foreign	14	4.00	1.109	.296	3.36	4.64	2	5
	Total	162	3.48	1.116	.088	3.31	3.65	1	5
Leaders viewpoint	domestic	148	3.76	1.243	.102	3.55	3.96	1	5
	foreign	14	3.71	.914	.244	3.19	4.24	3	5
	Total	162	3.75	1.216	.096	3.56	3.94	1	5
Vision creates excitement and motivation	domestic	148	3.38	1.151	.095	3.19	3.57	1	5
	foreign	14	2.86	1.292	.345	2.11	3.60	1	5
	Total	162	3.33	1.169	.092	3.15	3.51	1	5
Able to meet	domestic	148	3.73	1.021	.084	3.56	3.90	1	5
	foreign	14	3.57	1.342	.359	2.80	4.35	1	5
	Total	162	3.72	1.048	.082	3.55	3.88	1	5

According to the obtained results, it can be seen that average marks of all tested paragraphs exceed the average mark of 3, what it positive (table 8.). Top rated statement is „There is a clear mission that gives meaning and direction to our work ” (4.10), and lowest-rated statement is „Our vision creates excitement and motivation for our employees” (3.33) (table 8.). Given the average marks can be concluded that in the companies in Serbia, there are clearly defined mission to channel the movement of enterprises and that employees are familiar with them, but they are not defined to operate on motivating employees and creating a sense of community. Organizations

should more how to commit themselves, as a significant factor in labor productivity, which ultimately contributes to the success of business organizations.

The analysis of the results shows that in domestic companies in Serbia to assess of employees present following examined paragraphs: „Our strategic direction is clear to me“, „Leaders set goals that are ambitious, but realistic“, „People understand what needs to be done for us to succeed in the long run“, „Leaders have a long-term viewpoint“, „Our vision creates excitement and motivation for our employees“ i „We are able to meet short-term demands without compromising our long-term vision“ (table 8.). The presence of other paragraphs is better vote in foreign companies. It can be seen, then, that the employees of foreign companies greater number of examined paragraphs rated a higher mark, and then, in general, we can conclude that the foreign companies pay more attention to mission factors such as factors of stability.

*Table 9: ANOVA statistics*

		Sum of Squares	df	Mean Square	F	Sig.
Long-term purpose	Between Groups	.049	1	.049	.046	.830
	Within Groups	168.741	160	1.055		
	Total	168.790	161			
Leads strategy	Between Groups	.129	1	.129	.131	.717
	Within Groups	156.958	160	.981		
	Total	157.086	161			
Clear mission	Between Groups	1.667	1	1.667	1.413	.236
	Within Groups	188.753	160	1.180		
	Total	190.420	161			
Clear strategy	Between Groups	6.007	1	6.007	5.121	.025
	Within Groups	187.672	160	1.173		
	Total	193.679	161			
Strategic direction	Between Groups	.313	1	.313	.267	.606
	Within Groups	187.687	160	1.173		
	Total	188.000	161			
Leaders' goals	Between Groups	1.058	1	1.058	.913	.341
	Within Groups	185.510	160	1.159		
	Total	186.568	161			
Widespread agreement	Between Groups	2.245	1	2.245	1.448	.231
	Within Groups	248.027	160	1.550		
	Total	250.272	161			
leadership has "gone on record"	Between Groups	.208	1	.208	.144	.705
	Within Groups	230.903	160	1.443		
	Total	231.111	161			
Track progress	Between Groups	.526	1	.526	.457	.500
	Within Groups	183.919	160	1.149		
	Total	184.444	161			

People understand	Between Groups	.448	1	.448	.352	.554
	Within Groups	203.749	160	1.273		
	Total	204.198	161			
Shared vision	Between Groups	3.373	1	3.373	2.357	.127
	Within Groups	228.973	160	1.431		
	Total	232.346	161			
Short-term thinking	Between Groups	4.120	1	4.120	3.358	.069
	Within Groups	196.324	160	1.227		
	Total	200.444	161			
Leaders viewpoint	Between Groups	.023	1	.023	.016	.901
	Within Groups	238.100	160	1.488		
	Total	238.123	161			
Vision creates excitement and motivation	Between Groups	3.475	1	3.475	2.568	.111
	Within Groups	216.525	160	1.353		
	Total	220.000	161			
Able to meet	Between Groups	.321	1	.321	.290	.591
	Within Groups	176.618	160	1.104		
	Total	176.938	161			

According to the results statistically significant difference exists only in the test in paragraph "There is a clear strategy for the future" in relation to whether the company is domestic or foreign, in favor of foreign companies (table 9.).

By applying the methods of ANOVA on paragraph which examined the consistency, the following results were got:

Table 10: Descriptive statistics

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Practice what they preach	domestic	148	3.22	1.353	.111	3.00	3.44	1	5
	foreign	14	2.43	.938	.251	1.89	2.97	1	4
	Total	162	3.15	1.338	.105	2.94	3.36	1	5
Characteristic style	domestic	148	3.57	1.179	.097	3.38	3.76	1	5
	foreign	14	3.14	.663	.177	2.76	3.53	2	4
	Total	162	3.53	1.148	.090	3.35	3.71	1	5
Clear and consistent set of values	domestic	148	3.51	1.046	.086	3.34	3.68	1	5
	foreign	14	3.29	.726	.194	2.87	3.71	2	4
	Total	162	3.49	1.023	.080	3.34	3.65	1	5
Ignoring core values	domestic	148	4.09	1.045	.086	3.92	4.26	1	5
	foreign	14	3.57	.756	.202	3.13	4.01	3	5
	Total	162	4.05	1.032	.081	3.89	4.21	1	5
Ethical code	domestic	148	3.82	1.194	.098	3.63	4.02	1	5
	foreign	14	3.71	1.326	.354	2.95	4.48	1	5
	Total	162	3.81	1.202	.094	3.63	4.00	1	5

Disagreements	domestic	148	3.97	1.154	.095	3.79	4.16	1	5
	foreign	14	4.00	.961	.257	3.45	4.55	3	5
	Total	162	3.98	1.136	.089	3.80	4.15	1	5
Strong culture	domestic	148	3.53	1.226	.101	3.33	3.73	1	5
	foreign	14	3.86	1.167	.312	3.18	4.53	2	5
	Total	162	3.56	1.221	.096	3.37	3.74	1	5
Easy to reach consensus	domestic	148	3.50	1.097	.090	3.32	3.68	1	5
	foreign	14	3.00	1.240	.331	2.28	3.72	1	5
	Total	162	3.46	1.115	.088	3.28	3.63	1	5
Clear agreement	domestic	148	3.62	1.151	.095	3.43	3.81	1	5
	foreign	14	2.86	.663	.177	2.47	3.24	2	4
	Total	162	3.56	1.137	.089	3.38	3.73	1	5
Approach to doing business	domestic	148	3.97	1.069	.088	3.80	4.15	1	5
	foreign	14	4.29	1.069	.286	3.67	4.90	2	5
	Total	162	4.00	1.069	.084	3.83	4.17	1	5
Common perspective	domestic	148	3.22	1.459	.120	2.98	3.45	1	5
	foreign	14	2.86	1.512	.404	1.98	3.73	1	5
	Total	162	3.19	1.463	.115	2.96	3.41	1	5
Easy to coordinate	domestic	148	3.50	1.134	.093	3.32	3.68	1	5
	foreign	14	3.43	1.089	.291	2.80	4.06	2	5
	Total	162	3.49	1.127	.089	3.32	3.67	1	5
Working with someone	domestic	148	3.55	1.300	.107	3.34	3.77	1	5
	foreign	14	3.71	.914	.244	3.19	4.24	2	5
	Total	162	3.57	1.270	.100	3.37	3.76	1	5
Good alignment	domestic	148	3.66	1.193	.098	3.47	3.86	1	5
	foreign	14	3.57	.514	.137	3.27	3.87	3	4
	Total	162	3.65	1.149	.090	3.48	3.83	1	5

According to the obtained results, it can be seen that average marks of all tested paragraphs exceed the average mark of 3, what is positive (table 10.). Top rated statement (4.05) is „Ignoring core values will get you in trouble”, and lowest-rated statement is „The leaders and managers "practice what they preach"” (3.15) (table 10.). Sharing core values and principles among staff facilitate dispute resolution and other efforts in the functioning of the organization and contributes to its stability. Consistency managers what they say and do is the basis of building trust of employees and their dedication to the company as a long-term endeavor, why managers should seriously make an effort to improve this impression.

According to the results we can see that in the domestic companies in Serbia according to assess of employees are more present following examined paragraphs : “The leaders and managers "practice what they preach"”, “There is a characteristic management style and a distinct set of management practices”, “There is a clear and consistent set of values that governs the way we do business”, “Ignoring core values will get you in trouble”, “There is an ethical code that guides our behavior and tells us right from wrong”, “It is easy to reach consensus, even on difficult issues and key issues”, “There is a clear agreement about the right way and the wrong way to do things”, “People from different parts of the organizational share a common perspective”, “It is easy to coordinate projects across different parts of the organization”, “There is good alignment of goals across levels” (table 10.). The presence of other statements is better vote in foreign companies. More top rate statements about consistency in business gave employed in domestic companies, which clearly points to the conclusion according to which domestic companies are more dedicated to fostering the core values, principles and expectations in work as a factor of stability and successful business.

Table 11: ANOVA statistic

		Sum of Squares	Df	Mean Square	F	Sig.
Practice what they preach	Between Groups	7.935	1	7.935	4.526	.035
	Within Groups	280.510	160	1.753		
	Total	288.444	161			
Characteristic style	Between Groups	2.307	1	2.307	1.757	.187
	Within Groups	210.039	160	1.313		
	Total	212.346	161			
Clear and consistent set of values	Between Groups	.664	1	.664	.633	.428
	Within Groups	167.830	160	1.049		
	Total	168.494	161			
Ignoring core values	Between Groups	3.501	1	3.501	3.332	.070
	Within Groups	168.104	160	1.051		
	Total	171.605	161			
Ethical code	Between Groups	.155	1	.155	.107	.744
	Within Groups	232.290	160	1.452		
	Total	232.444	161			
Disagreements	Between Groups	.009	1	.009	.007	.933
	Within Groups	207.892	160	1.299		
	Total	207.901	161			
Strong culture	Between Groups	1.394	1	1.394	.935	.335
	Within Groups	238.606	160	1.491		
	Total	240.000	161			
Easy to reach consensus	Between Groups	3.198	1	3.198	2.597	.109
	Within Groups	197.000	160	1.231		
	Total	200.198	161			
Clear agreement	Between Groups	7.475	1	7.475	5.964	.016
	Within Groups	200.525	160	1.253		
	Total	208.000	161			
Approach to doing business	Between Groups	1.251	1	1.251	1.095	.297
	Within Groups	182.749	160	1.142		
	Total	184.000	161			
Common perspective	Between Groups	1.649	1	1.649	.770	.382
	Within Groups	342.795	160	2.142		
	Total	344.444	161			
Easy to coordinate	Between Groups	.065	1	.065	.051	.821
	Within Groups	204.429	160	1.278		
	Total	204.494	161			
Working with someone	Between Groups	.328	1	.328	.203	.653
	Within Groups	259.425	160	1.621		
	Total	259.753	161			
Good alignment	Between Groups	.105	1	.105	.079	.779
	Within Groups	212.537	160	1.328		
	Total	212.642	161			

According to the results statistically significant difference exists only in the test in paragraphs "The leaders and managers "practice what they preach"" and „There is a clear agreement about the right way and the wrong way to do things“ in relation to whether the company is domestic or foreign, in favor of domestic companies (table 11.). In domestic companies mentioned examined paragraphs were assessed with significantly higher marks than in foreign. Serbian workers, therefore, believe more to domestic managers than foreigners and according to their statements, the Serbian national companies there is greater consensus about ways, the rules and principles of business.

## ***CONCLUSION***

The phenomenon of stability is closely linked with the utmost success rate of business of an organization. The high degree of unity through developing and fostering a sense of commitment to the company as well as his long-term enterprise among employees and a clear definition of the values and business systems enables organizations to manage their future, survive in crisis situations and to fight the ruthless market forces.

Based on the results of descriptive analysis of the scores of most of the examined attitudes relating to the mission and consistency in operation above 3, we can say that the starting hypothesis, "In the companies in Serbia, there is a commitment to stability factor as an important feature of modern organizational culture that brings success" confirmed. All test paragraphs are of average grade above 3, and most are between 3 and 4, what is positive, but also leaves space for organizations of Serbia to work on improving the stability factor .

Hypothesis 2: "There is a significant difference in the presence of a factor of stability in the foreign and domestic companies in Serbia", is also confirmed. The results obtained by the method ANOVA showed that the domestic companies, according to the estimates of employees, present stability factors related to the consistency in the work, while the employees in foreign companies better assessed the presence of the stability factor relating to the mission. These results can be explained with the cultural aspect.

Companies in Serbia for decades operated in circumstances that involved the safety and stability, and to provide the ability to work in a certain habitual way, without change, because today is for managers always the same as yesterday and tomorrow. Thus in local company deeply rooted certain principles and values that apply in business and who are difficult to deviate. Principles and values inherited from the previous period, and that in the new era are considered useless, are a major barrier to the development of organizational culture in local companies. The greatest problems facing organizational culture in Serbian companies is the fact that the new model of conduct is based on the foundations of old values (Nikolic, et al.,2011, pp. 4623).



Although the final results of the research are positive, room for improvement and development of organizational culture has on how to work with the ultimate aim of improving the competence and the rating of our companies and the countries in the world.

Future work on the topic of modern organizational culture should include research and the presence of flexibility, in order to obtain a complete picture of organizational culture of companies which perform their activity in Serbia.

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## ***CULTURAL DIMENSIONS AND SPECIFICS IN ORGANIZATIONAL CULTURE: A CASE STUDY OF AN IT COMPANY IN BULGARIA***

*Tsvetelina Alexandrova-Panchelieva*<sup>15</sup>

### ***ABSTRACT***

*This article aims to explore the organizational culture of the Human resources department in international IT company located in Bulgaria. A theoretical overview is made of the development of the concept “organizational culture”. Due to the importance of the culture in the field of organizational psychology and the contribution of the Trompenaars and Hampden-Turner framework in the business field, our scientific interests are focused on the study of an industry that combines technological progress and economic growth - Information Technology (IT). The main objective of this paper is to examine the specific value dimensions in the team of information technology company in terms of the theory of Trompenaars and Hampden – Turner. The study uses the achievements of organizational psychology and puts in practice the seven dimensions of culture.*

***Key words:*** Organizational Culture, Cultural Dilemmas, IT Company

***JEL Classification:*** M14

***UDC:*** 005.32:[658.1:004(497.2)]

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## ***INTRODUCTION***

Scientific achievements in the field of organizational psychology have shown that the effectiveness of an organization or the economic sector in which it works depends on the consistency of dominant strategy, structure and culture. In the presented work the focus is on what type of culture dominates the human resources team in IT company and has an impact on its results. Research on organizational culture suggests that the expression of culture takes place on two levels - a surface one through organizational climate and a deep one, manifested in organizational values. The level of culture is manifested through visible symbols or artifacts such as company logo, company history, rules of behavior etc. The level of the values is more evaluative and includes invisible norms and values. In the present article we make analysis both on the artifacts and on the values. The culture of an organization is critical to its maintenance and growth. An organization's culture shapes its daily activities, how it understands its past and future, the relationships between the people within and the relationships with outsiders - and the decisions that are made over time.

## ***THEORETICAL FRAMEWORK***

In terms of culture in the IT sector, Leidner and Kayworth indicate that "the least attention in the literature on the subject of IT and culture gets the concept of IT culture" (Leidner, Kayworth, 2006, p. 371). National cultural values can be important predictor in the process of adoption of IT products (Bagchi, 2004). Bagchi et al. (2009) studied the influence of values in terms of Schwarz in IT and Telecommunications sector in different countries. The results show both similarities and differences between countries. Interviews with the methodology of Hofstede conducted in Swedish and Finnish IT companies show confirmation of national values and characteristics in companies in the sector. National values match those shown in IT organizations, which confirms the role of national culture on organizational one. The survey shows that the low power distance, the high levels of individualism, femininity and tolerance to uncertainty are consistent with the results of the Hofstede. Therefore, the international IT companies in Sweden and Finland have the characteristics of the Swedish and Finnish national culture (Helou, Viitala, 2007).

There are various models for exploring organizational culture. One of the most popular, and yet the most contradictory research, is by Hofstede (1980). He aimed at developing "a commonly acceptable, well-defined, and empirically based terminology to describe cultures" (Hofstede, 1983, p. 77). With his systematically collected data across 50 countries, he achieved unmatched simplicity and assertiveness of findings. The main appeal of Hofstede's research is that it is based on a systematic collection of cultural data. The author describes the process in the following way: "the four dimensions were found through a combination of multivariate statistics (factor analysis) and theoretical reasoning" (Hofstede, 1983,

p.78). Hofstede's factors, however, explain only 50% of the variance across nations. The four dimensions of Hofstede for evaluation of cultural dispositions are the following: "power distance", "uncertainty avoidance", "individualism / collectivism" and "masculinity/ femininity". Consequently a fifth dimension is introduced by the author - 'Confucian dynamism', described as the maintenance of long-term orientation vs. short-term orientation (Hofstede, 1993).

Trompenaars provides a different view on culture. He draws upon the work by Parsons (1951), Kluckhohn and Strodtbeck (1961), and defines the concept as the way people solve problems, particularly related to relationships, time and the external environment (Trompenaars, 1993). He suggests the following scales on which individual responses to problems are interpreted: "universalism versus particularism", "individualism versus collectivism", "neutral (meaning instrumental and achieving objectives) versus emotional" (meaning being personally involved in the choices and the solutions), "inner-directed (through personal judgments, commitments and decisions as guides to action) versus outer - directed (driven by signals, demands and trends in the outside world)", "specific (meaning a prescribed relationship through a technical contract) versus diffuse (relationship based on understanding and trust)", "analyzing (or fragmenting the issues) versus integrating / synthesising (as an approach to problems)", "achieved status (when status is acquired through recent accomplishments) versus ascribed status (when status is attributed by birth, kinship, age, gender or social network)", "equality versus hierarchy (the way one treats others)", "attitudes to time" (when values lay in the past or in the future and the time is perceived as a linear function, vs. as a repetitive cycles), "attitudes to environment" (individual versus nature determinism) (Trompenaars, 1993, Hampden-Turner, Trompenaars, 1993). Most of these scales originate in previous research and the authors themselves have rejected some of them as vague and ambiguous for an empirical study (Hampden-Turner, Trompenaars, 1993). As a general overview Trompenaars's acceptance of the constructivist methodology consists of that individuals make choices through alternative (or bipolar) constructs. The research work done by F. Trompenaars and Ch. Hampden-Turner contributes to our understanding of the cultural diversity in business. They define seven fundamental dimensions of culture (Trompenaars, Hampden-Turner, 2004). Culture is defined as the way people solve problems and reconcile dilemmas. It is not necessary to polarize or oppose the values represented by the two sides of the dilemma (Ilieva, 2009, p. 63). Rather the integration of conflicts is the key to the success of a certain type of culture. Five of those dimensions are connected with the relationships with people and are designated in the following way: universalism – particularism, individualism – communitarianism, neutral – emotional, specific – diffuse, achievement – ascription. The other two dimensions (sequential time – synchronous time, internal direction – outer direction) are related to time and environment.

- The dimension universalism versus particularism concerns the standards by which relationships are measured in other words whether the human behavior follows the direction of the rules (universalism) or the relationships between people (particularism).

- The dimension individualism versus communitarianism is about the conflict between the desire of the individual and the interests of the group he/she belongs to. This dimension helps us to recognize whether we are oriented to ourselves only (individualism) or to the joint objectives and tasks (communitarianism).
- The dimension neutral versus affective focuses on the degree to which people express their emotions and the complex interplay between reason and emotion in human relationships. This dimension will show us to what extent it is allowed to reveal one's feelings in the organization or they should be put under control in a careful way. Normally the researcher would observe whether the respondents are emotional or reserved, use gestures or have specific facial expression. The Bulgarian respondents would reveal in a limited way their feelings in the office unlike for example Italians, Greeks and Spaniards.
- The dimension individual (i.e. specific) – diffuse cultures shows to what extent people are involved in specific or multiple areas in their lives. In specific cultures the working relations are isolated from the remaining ones and the relations between the manager and the employee are limited. In diffuse cultures there is a mixture of working and personal relations; the penetration into the personal space is considered to be a means for getting acquainted with the individual. Bulgaria falls within the framework of a specific culture according to the data provided by Trompenaars and *Hampden-Turner*.
- The dimension achievement versus ascription attempts to find out whether one's achievement is the result of personal efforts or is due to some external characteristics (origin, age, sex etc.). It takes into consideration whether one's development is a result of personal capabilities and achievements or it is due to the duration of service and seniority. It is considered that the successful cultures are able to combine both the development based on duration of service and the one based on skills.
- The sequential time versus synchronous time dimension is about the way we perceive time for example whether time is accepted as running along a straight line and thus the individual events follow one after the other. Normally this would mean that the past and the future are in agreement and follow the well-recognized pattern of sequentialism. In fact the terms sequentialism and synchronism stand for the different approaches we structure time. Those people who structure time in a sequential way view it as a series of passing events. They prefer keeping to their plans once they had been made and refer in a serious way to their commitments and tasks. So in this way they stay firm on schedule. In the opposite case those people who structure time synchronically view past, present and future as being interrelated. Such people are usually involved in doing several things at once. This dimension shows to what extent we keep to our agenda and planning and how they matter for us.
- The internal direction – outer direction dimension is concerned with the meaning people would assign to their environment. Based on that we

differentiate between two types of people namely people with mechanistic view of nature and people with organic view of nature. The first type would refer to themselves as the point of departure for defining the proper action in a certain situation while the second type would focus on the environment rather on themselves. This dimension is related to the so called Locus of Control found in the definitions of Rotter – outer (external) or internal. The outer direction is market-oriented and helps us to take into account the needs and requirements of the client while the internal direction focuses on the good internal practices.

Recent results from the application of the conceptual frame of the culture of Trompenaars and Hampden-Turner in Bulgarian IT field can be found in the research of Ileva (2014). The research amongst 200 participants, who work mainly in IT companies in Bulgaria, indicates preference towards competition in the business and in social environment and also tendency for individualism. In addition, results show that the participants are prone to relying on themselves in their work. Nevertheless, there is a preference for team work and for sharing group interests (Ilieva, 2014, pp. 84-86).

Another model for exploring organizational culture is the model of competing values. In 1983 the researchers Quinn and Rohrbaugh have launched a series of empirical studies on what makes an organization effective. As a result of their studies the model of the competing values was created and it gave answers to this question. The competing values model of Quinn (1988) describes four cultural orientations, reflecting what people estimate and defining what is perceived as good, right and proper. Organizations can fall in one, several or none of these types of culture. The model determines four types of culture and climate in one organization: goals, rules, support and innovation. An international team of scientists from twelve countries develop a questionnaire based on this model. Its main purpose is to measure for cross-cultural specifics. It is called FOCUS-questionnaire (Van Muijen et al., 1999). The FOCUS questionnaire is used to analyze the relationship between the economic sector and the organizational culture. Technology and market requirements define organizational practices (Van Muijen et al., 1999). This means that not only the variable 'organization', but also the variable "sector", explains the differences in organizational practices. According to the results obtained in the study of Van Muijen of several industries, the sector explains variations slightly and only in terms of the orientation for innovation (Van Muijen et al., 1999). The model of competing values of Cameron and Freeman was applied in Bulgarian bank institution and shows that the bank's organizational culture is a balanced combination of the four types of organizational culture – market, hierarchy, adhocracy and clan. However, there is a little preference towards the market culture (Ilieva, Stancheva, 2014).

## ***METHOD***

For the purposes of the present article we decided to make a case study of an international IT company operating in Bulgaria. In order to have a broader view of the company's culture and more specifically of the culture of one of the departments – the Human Resources department we used both quantitative and qualitative research methods. To analyze the organization as a whole and the HR department in particular, we conducted an artifacts analysis, an interview with the HR Manager. In addition, the questionnaire of Trompenaars and Hampden-Turner was fulfilled by the members of the HR team.

## ***OVERVIEW OF THE RESEARCHED ORGANIZATION***

The researched organization is an international IT company that offers different software products. Founded in the late 90s with offices on three continents, the main research and development team of the company is in Bulgaria. The development center of the company coordinates one other office of the company in Europe. In this way the HR team in Bulgaria is involved in coordination and supervision of teams in two countries in terms of administration, pay-roll, recruitment, learning and development and motivation of the teams in the two countries. The cross-cultural image of the company is formed also by the type of the clients they have. The company operates on international markets so the Bulgarian development team creates products that are sold globally. The scope of the company's business requires restructuring and transformation of the company from a limited liability company into a joint stock. The general manager of the company, the middle management team and most of the employees are Bulgarians. The total number of the team in Bulgaria is 250. The software specialists can be divided into two major groups – software developers and quality control specialists. According to company data 65 % of the employees are men and 35% are women. The HR department that is on focus for the present research is formed by eight people – all of them are women. As part of the HR team are the office management and the general administration of the company (i.e. pay-roll).

The researched company has the following structure:

- Operations level of developers who work on a team basis depending on the clients' projects.
- Team leaders – they coordinate the work of the specialists.
- Managers who are responsible for the different functional departments. Each department has several teams.
- General Manager – responsible for the business of the company in Bulgaria.

## ***ORGANIZATIONAL ARTIFACTS***

The culture of an organization is critical to its maintenance and growth. An organization's culture shapes its daily activities, how it understands its past and future, the relationships between the people within and the relationships with outsiders and the decisions that are made over time. The visible aspect of organizational culture is reflected in artifacts, symbols and visible behavior of employees. The artifacts are visible components of the culture like rituals and ceremonies, symbols and slogans, myths and legendary, stories (Ilieva, 2006). The artifacts are aspects of the culture that are easy to observe but not so easy to explain (Ilieva, 2006). The organizational artifacts, norms and values form the three component structure of the organizational culture. The meaning of the symbols depends on the system of shared values. Part of them can be noticed easily if entering the office space of an organization. The company that we research has an open office and most of the employees share one and the same big room, desks are located close to each other and everyone has an easy access to the free of charge food and beverages (snacks and fruits).

The open space is surrounded by smaller rooms. They are with glass walls and provide a good view towards the open space. The transparency of the walls is like a symbol of the transparency in the communication between the different hierarchy levels as the glass rooms are for the department managers. For example, in this type of rooms work the Financial Manager, the HR manager, the General Manager. In the company office there is a recreational area – fully equipped with table tennis, darts and foosball. The recreational area is very popular amongst the employees and stimulates the communication and the team work. The recreational area provides opportunity for relax form the work in the workplace. In addition, this area means that the company takes care of its employees' physical health and tries to prevent them from stress, for instance. According to the HR Manager the area contributes to better communication and creates friendly environment on the workplace. Overall, for the researched company the health and the wellbeing of the employees is important – they have special recreational area to keep fit, to relax. The area also encourages communication and cooperation amongst colleagues and they have free fruits and healthy beverages at the office. The communication is non-formal in the different hierarchy levels and within the departments. In the interview with us, the HR manager shared that in case of some technical issues the employees communicate it directly with the line manager. It is considered a bad practice if someone goes over his/her line manager in case of technical problems. As far as personal conflicts are concerned, most of the employees feel uncomfortable to talk to their line managers for the conflict. They prefer to go to the HR manager and share with her the problematic situation. Sometimes the HR team provides consulting services and tries to resolve workplace conflicts which complicate their day-to-day work, according to the HR manager. There are some soft skills trainings for the line managers in order to learn them how to manage conflicts in their teams but the trainings have to be organized more often. There is a kind of contradiction up to certain extent – on the one hand the company encourages open communication, on the other – in case of conflict the teams can't react effectively on



their own and go to the HR department. The HR team act like a mediator but in this way they interrupt their work. A possible solution is the organization of more soft skills trainings for the employees and especially for the team leaders. However, this kind of recommendation is not the focus of the present article. As for organization culture and trainings are concerned, a good practice that is part of the HR functions, is the on boarding procedure for new employees. Its aim is to facilitate the newcomers, to integrate in a better way the individual' values with the organizational ones. Also, during the initial training the new employee is presented to the rest of the teams and the code of conduct within the company is explained to him/her.

When analyzing the artifacts of the HR department we observe that the manager and the team are located in separate rooms which could be interpreted as a sign of the manager's status. However in the context of the organizational environment described above this fact is related to the general trend followed by all managers to be physically separated from the team in their own offices (cabinets). It is assumed that in this way the formalization in the organization is being underlined. The members of the department address each other by their personal names and share personal information. Conversations between the individual members do not always involve working topics. The recreational area is being used. An interesting tradition inside the department is related to the regular meetings that are intended to adjust the agenda for the week of the department members. From the interview made by us we understand that the team spirit and informal atmosphere prevail in this Human Resources department. However practices as having lunch together are not observed which for example could contribute to creating a stronger bond between the team members. It seems that the team spirit is generated when the members work on joint projects intended at achieving the objectives of the organization and does not go beyond that.

### ***CULTURE IN THE HR DEPARTMENT***

In the present study participate six out of the eight members of the Human Resources department. In order to analyze the organizational culture we use both quantitative (interview with the Human Resources manager) and qualitative (Trompenaars and Hampden-Turner's questionnaire) methods. Being a quantitative method for studying culture the interview outlines the characteristics and peculiarities of culture in the Human Resources department of the organization. The interview monitors the indicators related to the integration of the Human Resources Management team and its participation in the policies and procedures of the organization. The Human Resources manager and her team operate as an intermediate unit between the company management and its employees. In this case study of the researched organization the Human Resources manager is also acting as a business partner to the company – she participates in the process of planning and building up the company strategy, plays a certain role in defining the company structure and is responsible for the organizational climate.

The Human Resources department consists of eight people:

- Human Resources Manager who coordinates the people and processes in the department.
- Two specialists dedicated to administration and pay-roll.
- One person is taking care of office management.
- Three HR Generalists with focus on recruitment but involved in motivation and development of the people in the company.
- One Learning and development specialist who is involved in internal trainings like onboarding and induction and also for teambuilding activities.

Based on the interview with the Human Resources manager it became clear that the major part of the department team is involved in selection procedures and administration of personnel. Three department members are responsible for the selection procedures and two are responsible for administration issues. The Human Resources manager participates in the decision making and selection process for the higher manager positions in the company and exercises control on the overall activity related to the Human Resources management in the office that is located near Bulgaria.

Taking into consideration the international outlook of the company (the ownership, the clients, the team) and for the purposes of the current research, we examined the cultural characteristics of the HR department in the Bulgarian office of the company. We applied in practice the questionnaire of Trompenaars and Hampden-Turner that consists of 16 items. According to the two Trompenaars and Hampden-Turner the culture of a country is represented in the way they solve the cultural dilemmas (Trompenaars, Hampden-Turner, 2004, p.269). The dilemmas (or two contrasting statements that form one item) in the questionnaire are 16 with a scale from 0 to 10. The scale shows up to what extent each characteristic is represented in the national culture of the participants. Answers from 0 to 5 show preference towards one of the statements in the dilemmas in the item. With answers from 6 to 10 there is a preference to the other statement of the dilemma that is in item. For instance, 0 can be seen as stronger preference towards the dilemma from the item than 5. If the respondent prefers to choose 10 so she/he definitely agrees with the statement of dilemma. The questionnaire is standardized for Bulgaria and shows good psychometric characteristics.

The total number of the participants in the survey is 6 people from the HR department. All of them are Bulgarians and filled in the questionnaire in Bulgarian. As the authors of the article conduct a pilot research, the number of the participants is relatively small and not so statistically strong. To obtain more reliability of the data, an additional research is needed. The data in the current article was analyzed through SPSS 19<sup>th</sup> version. Descriptive statistics and frequency analysis were applied.

Results from the statistical analysis are presented in Table 1:

*Table 1: Mean scores of the characteristics of the culture*

Characteristic of the culture (statement of the dilemma)	X
Emotional – Neutral culture	4,83
I can rely on other people for my career growth – I can rely on myself for my career growth	8,16
Universalistic – Particularistic culture	6,33
Specific – Diffuse culture	7,66
Strong need to protect human beings from the environment – Strong need to protect the environment from the human beings	5
Monoculture – Mixed-culture	7,33
Belief in the effectiveness of centralized system – Belief in the effectiveness of decentralized system	5
The best leadership style is democratic – The best leadership style is autocratic	4,33
Propensity for cooperation in the business – Propensity for competition in the business	5,83
Propensity for cooperation in the social life – Propensity for competition in the social life	5,50
Uncertainty avoidance – Uncertainty acceptance	5,83
Communitarianism in the management – Individualism in the management	6,33
Communitarianism in the work activities – Individualism in the work activities	6,16
Philosophic way of thinking – Pragmatic way of thinking	5,50
Weak time management - Good time management	4,16
Weak goal setting – Good goal setting	5,16

#### Analysis of the cultural dilemmas:

- “Emotional – Neutral culture”: the mean score from the six participants is 4,83 . The result defines the culture as emotional. The data corresponds with the tendencies that Trompenaars and Hampden-Turner outline – the southern countries tend to be more emotional on the workplace. The description of the culture as emotional might be predetermined or tied to biological sex. Taking into consideration the fact that the HR team is formed by women, we can suggest that emotional expression can prevail in communication as well as sharing emotions.
- “I can rely on other people for my career growth – I can rely on myself for my career growth”: the mean for this item is 8,16 so the respondents have personality traits and personal skills that help them to grow in the organization. As a possible explanation, the strong personality is a predictor of success and not the support of other people. The results correspond with the results of Snezhana Ilieva (2014) and can be explained as a confirmation of the tendency that in the IT field in Bulgaria people rely on themselves for their career development.
- “Universalistic – Particularistic culture”: the mean for this item is 6,33 and there is a tendency for particularism. On the workplace participants prefer to focus on relationship. Based on the results there is a tendency to maintain good relationship with the colleagues and not so much to obey formally the rules or the hierarchy.
- “Specific – Diffuse culture”: the mean is 7,66 which shows diffusive culture. The results show that the team members tend to build relationship with their colleagues and not only to merely work with them. There is a non-formal atmosphere, personal issues are discussed freely. The results correspond with the information shared by the HR Manager that the HR team works in non-formal friendly environment where team spirit and open communication is widely spread.

- “Strong need to protect human beings from the environment – Strong need to protect the environment from the human beings”: the result is 5. There is a balance between people with mechanistic view of nature and people with organic view of nature, between people with outer and internal Locus of control in terms of Roter. In addition, the participants demonstrate balanced attitude toward the market orientation and the one that is focused on internal processes.
- “Monoculture – Mixed-culture”: the mean score is 7,33 so there is a mixed-culture. A possible explanation is that each one of the team members has contributed with something particular for the culture formation within the team – it can be tradition, values, point of view or something else.
- “Belief in the effectiveness of centralized system – Belief in the effectiveness of decentralized system”: the mean is 5 with a balance between the responsibilities and the tasks. They are not waiting for somebody to give them orders to fulfill their tasks; neither there is a chaos or lack of responsibility.
- “The best leadership style is democratic – The best leadership style is autocratic”: the result 4,33 shows a preference towards the democratic leadership. This style involves members of the group to take a more participative role in the decision-making process. For the democratic leader results are important as well as the individual.
- “Propensity for cooperation in the business – Propensity for competition in the business”: the mean score is 5,83 and is a sign for a competition. The respondents strive to gain or win something by defeating or establishing superiority over others.
- “Propensity for cooperation in the social life – Propensity for competition in the social life”: there is a sign of competition within the team with the result for this item is 5,50 mean score.
- “Uncertainty avoidance – Uncertainty acceptance”: the mean score for the item is 5,83 and shows tendency for coping with the sense of ambiguity and uncertainty and also coping with unstructured situations and changeable environment. The respondents tend to be tolerant to change. They have rules but they don’t control entirely their work.
- “Communitarianism in the management – Individualism in the management”: the respondents tend to be individualistic and the mean score for the item is 6,33.
- “Communitarianism in the work activities – Individualism in the work activities”: again there is a individualism and the mean score for this item is 6,16.

The two dilemmas “Communitarianism in the management – Individualism in the management” and the “Communitarianism in the work activities – Individualism in the work activities” are part of the dimension Individualism – Communitarianism. Based on the results from the dilemmas in the researched HR department tend to be individualistic. This means that individual work on the tasks is encouraged, as well as the individual responsibility and freedom. Up to certain

extent the individualism is fostered by the type of work in the HR department. For example, during the recruitment process, the decision whether to approve a candidate for a technical interview or not is personal and individualistic. The responsibility is personal, too. Another explanation for the individualistic tendency consists of the projects and the tasks within the department – they require working alone rather than working in a group.

- “Philosophic way of thinking – Pragmatic way of thinking”: the mean for the item is 5,50 and reveals a tendency to pragmatic way of thinking. However, we talk about tendency and not about a general assumption.
- “Weak time management - Good time management”: the mean for the item is 4,16 and can be interpreted as a relatively weak time management.
- “Weak goal setting – Good goal setting”: for this item the mean is 5,16 so the respondents tend to plan their time.

The results from the two items “Weak time management - Good time management” and “Weak goal setting – Good goal setting” demonstrate average planning skills. It is possible that the team has a schedule but the priorities are set according to the situation. This requires flexibility and adaptability. So if the team has fixed goals and time frames but something else and urgent appears, they change priorities. The results correspond with what the HR Manager shared during the interview – “we often change priorities” and participate in non-planned activities, urgent situations within the organization. It is possible that the team has an action plan but it is regularly interrupted and modified by unforeseen circumstances which explain the results of the items for time management and goal setting.

## *CONCLUSION*

Key aspect to the success of the organization is coherence of culture, strategy and structure. The HR unit and the researched organization in general, is a long-standing organization with proven experience in the market area. According to the terminology of R. Miles and C. Snow (Ilieva, 2009) for the types of strategies for business organizations, the company concerned and in particular the HR department strives to achieve productivity and efficiency, there are elements of innovation in services, but above all they strive to maintain market proven products and services. The appropriate structure of the department and the company should combine stability and flexibility. The interview with the HR Manager made it clear that the department and the company are characterized by mechanical structure but there are teams for new products. For example, HR has a clear structure and division of roles, but if necessary it can be flexible and respond to the specific needs of the company. An appropriate illustration is the fact that the department is focusing on the selection and administration of human resources, but once a year it takes up organizing and participating in teambuilding events and PR events for the company.

Human resources department is also responsible for:

- motivating employees
- annual attestation
- building a career path which contributes to achieving the organizational goals of the company
- implementation of certain functions of the organizational culture.

Two of the key functions of culture – the one that forms meaning and the motivational one, are acting within the researched organization as follows:

1. The function that forms meaning is working through setting up programs to develop leaders, adapting- facilitating the process of coping with the organization through induction programs for new employees.
2. The motivational function operates via providing individual performance and strategic partnerships for the organization.

Based on the results of the questionnaire we can summarize the following: within the team there is a clear individualistic preference combined with team spirit and tendency to maintain friendly relationship with the colleagues in the department. Perhaps the individualistic characteristics make the team in the HR department stronger, united and in this way more effective. The individualistic culture is related to responsibility, self-reliance, drive for success and preference to democratic leadership. A deeper analysis can be made for the team and the researched organization in terms of motivation or analysis of the climate and the culture. However, this aim goes beyond the purpose of the current article. Further comparative research is required to through light on this question.

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## **CONTEMPORARY CHALLENGES OF ENTREPRENEURSHIP**

*Aleksandra Pilcevic MSc<sup>16</sup>*

### **ABSTRACT**

*The author analyzes contemporary challenges of entrepreneurship in the spirit of Euro-integration, to which the Republic of Serbia aspires as a candidate country on the path towards the European Union. In this paper, the author tries to point to the possibility of entrepreneurship development through analysis in the Republic of Serbia. The author examines and analyzes entrepreneurship at the micro level through conduct of his own business; the entrepreneur is legally capable natural person who performs activities in order to earn revenues, and who is registered as such in accordance with the law, as well as at the macro level through social innovation and social entrepreneurship. Entrepreneurship imposes the understanding of number of areas that are essential for understanding the wider picture of the environment in which the business is conducted. The most important of these are definitely strategic thinking skills, creating and implementing a vision, knowledge of taxation and accounting, as well as networking as capability to connect with groups of people who are in the same or similar business. The state must stimulate entrepreneurs and small and medium enterprises. Entrepreneurs create opportunities, and entrepreneurship is the core of the national economy. European governments encourage entrepreneurs through affordable loans and lower tax rates that make starting a business easier. In Serbia, this is not the case although a lot of work has been done quite recently in this area. In the previous period, significant legislative and administrative reforms were implemented in the Republic of Serbia, which should provide more favorable conditions for the functioning of market economy, including the development of entrepreneurship. However, this has not led to satisfactory results and it is necessary to intensify work on the improvement of business conditions in the coming period. In order to ensure legal certainty in entrepreneurship, Apart from changes of the regulatory framework, it is necessary to significantly improve the operation of the courts.*

**Key words:** *Entrepreneurship, Entrepreneur, Responsibility, Social Entrepreneurship, Serbia*

**JEL Classification:** *K10, K29, K39*

**UDC:** *005.961:005.914.3*

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## ***INTRODUCTION***

The entrepreneur is legally capable natural person who performs activities in order to achieve income and who is registered as such in accordance with the law. Entrepreneurship is a set of activities that through knowledge and innovation creates products / services that make a profit (income). Theorists worldwide agree that entrepreneurship plays a very important role in the development of society and its welfare. At the same time, not everyone has the same perception of entrepreneurship and this makes it difficult to create a uniform interpretation of this term. The word “entrepreneurship” is a loanword from French "Entreprendre", means to “undertake” or do something, that in literal interpretation would mean that “the entrepreneur“ is any person who undertake certain actions or moves for the purpose of their own economic gain. Today, however, in a business context, the word “entrepreneur” is exclusively used for people who are self-employed or run their own business. The entrepreneur or entrepreneurial team stands out as one of the most important component of the entrepreneurial model. More specifically, the entrepreneur is the one who needs to gather and connect all components of the entrepreneurial process in order to realize a specific project. The word entrepreneur comes from the same French word as the word entrepreneurship „entreprendre“ which in this case can be freely translated as the contractor, the doer. A quality research on this subject was done by (Timmons, 1971, pp 81-94). He believes that an individual who has the following nine qualities can be considered as successful entrepreneur: set high business objectives; possession of energy; a sufficient degree of confidence in order to take moderate business risk; ability of bringing together the necessary team around you; possession of a long-term vision of the business; high business standards; continuously increasing the competitive advantage of its business; willingness of learning from its own mistakes and motivation for further elaboration of the work.

The main prerequisite for success in business is that the entrepreneur adopts certain models and principles that will make him successful. Modern top entrepreneurs have: a certain psychological and personality traits that distinguish them from mediocre employers and managers (Bygrave, 1994, pp 7-9).

1. Personal integrity and reliability that make people respect them and have confidence in them.
2. Self-esteem, which many consider to be the key definition of a successful entrepreneur.
3. Order and discipline in life.
4. Autonomy, commitment, courage and willingness to take risks.
5. Optimism that is key thing that leads to success in business.
6. Perseverance and endurance in order to achieve objectives.
7. Patience and calmness that must have experienced entrepreneur.

An entrepreneur can only predict factors and the reasons which lead him into starting small businesses. Every entrepreneurial activity is exposed to certain risks and precisely his key role in these circumstances is to provide and connect the

other components of the entrepreneurial model, or to recognize opportunities and to identify and obtain the necessary resources, as well as to manage the numerous activities and processes within the organization. Twenty year old Steve Jobs and his friend Steve Wozniak founded a small computer company in a Jobs's parents' garage, investing \$ 1350 which they had collected when Wozniak sold his calculator while Jobs sold his Volkswagen van. Four years later, the company "Apple" was selling computers worth over 200 million dollars, and that was just the beginning of the story. Many business ventures fail. There are many entrepreneurs who earn less money than they would earn by working for someone else. Entrepreneurship often means loneliness, a lot of time dedicated to work, a lot of stress and a lot of personal sacrifice. Why, then, many people become entrepreneurs?

To survive - Throughout the world, especially in countries with low incomes, people are dedicated to entrepreneurship simply to survive. Due to poor employment prospects or modest salaries, running own business venture appears as a better option. In richer countries, in turn, entrepreneurship provides the sense of personal freedom and creativity that do not exist when you work for someone else.

To realize dreams - Many are turning to entrepreneurship in order to realize their visions and ideas in reality. Wanting to prove themselves in front of others and themselves, they invest their intelligence, energy, and ability to devise and launch a variety of new business.

To modify things - To make contribution to the environment achieving something that has a positive and lasting impact on the people around them, regardless of whether they are in materially better or worse standing areas. Developing new products and services is not just a way to make money or become famous, but also to do something good for the world around.

## ***ASSET AND LIABILITY AND DUTIES***

According to the Law on Enterprises, ("Off. Gazette of RS", no. 36/2011, 99/2011, 83/2014 - and 5/2015) an entrepreneur is lawfully obliged for all liabilities incurred in connection with his activities with all his assets and also the assets that are acquired in connection with his activities. Responsibility of the entrepreneur does not stop by deleting entrepreneur from the register. The basic rule of the executive procedure is that the execution is conducted on the property of the execution debtor. When the debtor is entrepreneur, the vexed question that can arise is what constitutes his property. In practice, entrepreneurs are usually persons who are married, so the main issue is what is the common property of spouses and therefore what is the share of a spouse who is an entrepreneur, and what is his particular property. Entrepreneur is lawfully obliged with all his assets. According to the provisions of the Family Law, the spouse is lawfully obliged with separate property and share in the joint property for his own commitments taken before or after marriage. Both spouses are charged for obligations undertaken to meet the

needs of communal life in marriage and for obligations under the legislation eg. Child support, spouses are jointly and severally liable with their joint and separate property. Considering the above provisions on liability for obligations, first issue is whether the commitments made in connection with performing the registered business activities of a spouse represent his own obligations or obligations to meet the needs of living together in marriage or for obligations that charged both spouses under the legislation. This is a factual question in each case, but it would be logical that a spouse who establishes an action to gain a profit, the same profit generated from registered economic activity invests in his household and family. However, this question would be relevant in a case in which a party - defendant appears or only the spouse of entrepreneurs, with a proposal for the adoption demands towards him as a solidarity debtor or both spouses appear with a proposal to jointly commit themselves to the fulfillment of obligations (solidarity on side of the borrower means that each solidarity debtor is responsible for the entire obligation and the creditor may demand fulfillment of the obligation) pursuant to Article 414 of the Law on Obligations. Sole proprietorship (trade, craft, catering) or some other forms of business (office, service bureau, and agencies) do not have legal personality and party in the proceedings may only be the owner, founder, and entrepreneur. The lawsuit in which the proprietorship is marked as a party is incomplete, and it's about a defect which can be remedied by highlighting its owner. Procedure of the Court with this lawsuit depends on the applicant. The asset of the entrepreneur is unique and he is lawfully obliged with his entire asset for commitments that are taken in carrying out the activities for which the proprietorship is registered and for the obligations beyond those activities from other legal relations. According to the entrepreneur debtor who is married, the execution can be carried out on his particular property and his share in the joint property. Under certain conditions, for the obligations of the entrepreneur - spouse, both spouses are jointly and severally liable with their joint and separate property. The law assumes that the shares of the spouses in the joint property are equal and this presumption is refutable.

In the last decade, a reduction in the number of entrepreneurs is observed because everything I mentioned previously lead to the huge uncertainty and a poor prospect for anyone who wants to start own business. On the other hand banks do not look favorably to entrepreneurs and an entrepreneur in Serbia can not easily get a loan due to uncertainty of their business. Bad and expensive loans are forcing entrepreneurs to close their shops because they can not pay expensive loans and high state taxes. The US Bureau of Statistics has estimated that 75% of all newly established businesses fail within 2-5 years. This means that they only have a 25% chance to survive in business and to survive their certain doom. In Serbia, the situation is even more critical because of poor business conditions that the state puts in front of small business and entrepreneurs. The tax system encourages bankrupt giants and eternal losers, and punishing small businesses and entrepreneurs.

## ***FAMILY ENTERPRISES***

In the last decade development of entrepreneurship is accelerated in Serbia. In the past ten years, the development of entrepreneurship has received greater importance by forming the National Agency for Regional Development. An important part of a healthy Serbian economy are private companies whose owners, in a relatively short period of time, developed their business from a small entrepreneurial ventures to large enterprises, even to the holding structure and concerns that involve a number of different business lines. A period of expansion, which was made by the first generation entrepreneurs, is followed by a period of consolidation. At the same time, the lifetime of the founder entrepreneur is coming to an end and it is essential to transfer management and ownership from the first to the second generation. Experience shows that the inheritance or transfer the management and ownership are the hardest task for an entrepreneur who has to be successfully resolved in order to business become sustainable. Studies show that only 5-15% of entrepreneurial ventures meet the third generation. The goal is to help Serbian entrepreneurs to solve the most difficult task by using the experience that awaits them at the end of lifetime - the transfer of business to their children. Family businesses are one of the oldest and most common forms of companies, the drivers of economic growth and development because they represent a large percentage of the total number of companies in the world. Family businesses in most countries in the world account for over 70% of the total number of companies. Besides a very high share, it is considered that family businesses have a very significant impact on economic growth, as well as to contribute to the employment. In the US, family businesses create 59% of jobs, while their share in the gross national product (GNP) is 50% and they represent almost 90% of all companies (Kuratko, Hodgetts, 2004). Family businesses in Spain generate 75% of GDP, while in Latin America 60% (Network for Family Enterprises, 2008). It is therefore considered that the creation, growth and sustainability of family businesses are of crucial importance for the development of national economies. Many of these owners, who were once entrepreneurs and who are faced with the fact that they are slowly approaching to the retirement, are waiting for the solution of problems of the first generation and the answer to the question - who, when, how and in what way will someone inherit the company. The inheritance of family business involves the transfer of companies and business to the next generation. This transfer has two important aspects - the transfer of management and ownership transfer. The process of inheritance and its planning in terms of ownership and the management is a dynamic process that lasts for years. (Othmar, Kaniskas, 1987, pp. 25-28). Even in cases where the first generation of entrepreneurs has clearly defined process of inheritance, development and establishing the plan, then its implementation and regulation of relations and interests of the family and the family business, make that process very complex and demanding. Many researchers proved how much and in what way the complexity of the process of inheritance increases the probability of ruin family businesses that started their business as an entrepreneurial venture.

## ***ENTREPRENEURSHIP, EDUCATION AND INNOVATION***

Under entrepreneurship is meant the perception of business opportunities and the entry into a new business venture. An entrepreneur is the holder of entrepreneurial activity, i.e. the initiator of a new business venture. In the United States an entrepreneur is a person who begins his small and new business (start - up), and in Germany, the entrepreneur is identified as the owner of the business and a person who owns and runs the company. Becoming an entrepreneur means more than just get an idea and find funding for its achievement. Starting one's own business requires certain skills and knowledge. The question is which skills and what knowledge? Do you really need a college and master diploma? There are many stories about entrepreneurs who start their own business without a diploma, some without even finishing high school. Are they an exception or being an entrepreneur is actually the art that you have or do not have? Although there is no definitive answer to any of these questions, a large number of educational programs indicates that a significant number of people believe that establishing a successful business requires a whole range of knowledge and skills. It is impossible to be an entrepreneur without specific preference. The old dilemma is whether the entrepreneurs are born or created, and many examples from practice are in favor of both the first and the second stance. Thus, for example, Mark Zuckerberg created Facebook in his dorm at Harvard. Only after the great success and enormous popularity of a new social network, Zuckerberg dropped out of college to become an entrepreneur. Unofficial list of executive directors of the leading companies (Fortune 500), who dropped out of high school or college, to be entrepreneurs and became billionaires, including the following: Bill Gates (Microsoft), Larry Page (Google), Michael Dell (Dell), Steve Jobs (Apple), Richard Branson (Virgin), Ralph Lauren (Ralph Lauren), Jerry Yang (Yahoo) and aforementioned Zuckerberg. Entrepreneurship imposes a number of areas of knowledge that are essential for understanding the wider picture of the environment in which the business is conducted. The most important of these are definitely the skills of strategic thinking, creating and implementing a vision; knowledge of taxation and accounting; risk capital; networking as the ability to connect with groups of people who are in the same or similar business and who are willing to exchange their experiences and knowledge; knowing the rules and laws of attraction, retention and motivation the right and valuable employees; negotiation and conflict resolution skills; continuous improvement of products and services; the ability to create inspiring organizational culture; legality of teamwork ; creativity and innovation; monitoring the development of technology; crisis management. It can be concluded that learning is an integral part of entrepreneurship. Actually it is the essence of what entrepreneurship is and that is continuous learning, knowledge acquisition and application of knowledge in a new and creative way to the business opportunities that constantly arise. Innovations are the part of the entrepreneurial project. Today we can not imagine the process of innovation without organized activities aimed at creating changes. It manifests itself through product design, production processes, marketing, and product placement on the market. Innovating allows you to create a brand and make a difference in relation to the

competition. Surviving is the right path to the leadership in the industry. An organization or company that is not creative and innovative is unlikely to survive.

## ***ENTREPRENEURIAL STRATEGIES***

Taking into account the best international experience in the field of small and medium-sized enterprises and regulations of the United Nations Declaration on cooperation in the development of small and medium enterprises in the area of North-Eastern Europe, the objectives of the development strategy of entrepreneurship are:

1. Increasing the number of small and medium-sized enterprises registered in the private sector.
2. Achieving a greater diversity and integration of economic activity, thus increasing the participation of small and medium-sized enterprises which are based on production and non-commercial service.
3. Significantly increasing the participation of SMEs in relation to micro-enterprises in the overall structure of the company.
4. Increasing the participation of small and medium-sized enterprises in export revenues.
5. Increasing the participation of small and medium enterprises in foreign strategic alliances and arrangements of joint investments (joint ventures).
6. Increasing the participation of small and medium enterprises in Gross Domestic Product.
7. Increasing the share of SMEs in total employment.

Some countries are not able to successfully perform the aforementioned strategy, but require joint coordinated efforts of a number of entities, including governments, international credit institutions, foreign donors, NGOs, business and advocacy organizations, business consulting and advisory services. The level of entrepreneurial activity in most states is currently at a very low level by international standards. To enable a country to become competitive in the international market economy, it is necessary to take all steps to support the development of entrepreneurship. In addition to taking measures that would facilitate the establishment of the citizens and the conduct of business, a close cooperation with the media and other "opinion makers" is required to highlight the useful side of entrepreneurship and private initiative, as an alternative to employment in public companies and the government, and to create a positive "pattern model" for entrepreneurs. The most frequently proposed in practice is to: examine mechanisms for promoting entrepreneurship through partnerships between government, business representatives, educators, media and representatives of the free press, providing various forms of communication (round tables, promotional seminars, special programs on small and medium-sized businesses, business clubs and so on.). In cooperation with educational institutions and the commercial banking sector, continuing promotional projects should be organized (eg. The project "Youth in Business"). Particular specialized magazine should be initiated, which would be

particularly aimed at promoting the development of small and medium-sized enterprises and should publish "examples of success" in this sector. The coordination of the application of such strategies for the development of entrepreneurship, especially small and medium-sized enterprises as well as overseeing its development are the primary responsibility of government agencies for development of small and medium-sized enterprises. (Erić et al.,2012, pp 147-154).

The development of the enterprise strategy is reflected in the following:

1. Identifying the potential contribution of SMEs to economic growth.
2. Opening new job positions, innovation, technology transfer and achievements in social and economic harmonization.

### ***DEVELOPMENT AND PROMOTION OF ENTREPRENEURIAL SPIRIT AND ENCOURAGING SOCIAL ENTREPRENEURSHIP AND WOMEN AND YOUNG ENTREPRENEURS***

Today, numerous problems such as unemployment, poor living conditions, and social exclusion of individuals or groups represent one of the most important issues that have been dealt with by the government and various public institutions. The role of social entrepreneurship as a form of social economy is precisely to improve the quality of life in the pursuit of the concept of sustainable development. What is crucial in understanding the concept of social entrepreneurship is the fact that social problems are converted into controlling ones, because the problems are solved in an innovative and entrepreneurial way by individuals or entrepreneurs. It is estimated that the sector of social entrepreneurship employs about 40 million people, with over 200 million volunteers. In addition to employment which gives the opportunity to overcome poverty, this type of entrepreneurship allows these entities inclusion in society and developing the awareness of personal responsibility. The aim of social enterprises is development of local communities, often founded by a group of citizens and the distribution of profits is extremely limited since the profit is reinvested in the mission of the social company. In what form will it be established primarily depends on the type of social objective and market as well as the legal and economic restrictions and regulations of the observed countries. By literature review we can find numerous classifications of social enterprises, for example SeConSs. Specifically, they have identified the following organizational forms in Serbia, which almost completely or closely resemble the concept of social entrepreneurship:

1. Cooperatives
2. Non-governmental organizations
3. Companies for Vocational Training and Employment of Persons with Disabilities

## ***COOPERATIVES AS A FORM OF SOCIAL ENTERPRISES***

Unlike commercial companies cooperative can be established only by natural persons, in order to achieve economic, social and cultural interest, based on the principles of voluntarism, solidarity, democracy, economic participation, equal management rights, independence, cooperative training and collaboration. Cooperatives are based mainly in the fields of agriculture, environmental initiatives related to community development and entrepreneurial initiatives within the women's movement. At the end, I will illustrate the operation of this form of social entrepreneurship by an example from our country. An example of a cooperative model of social enterprise in Serbia: New Vision is registered as a cooperative, founded in 2010, in the southeast of Serbia, in Pirot. The cooperative is engaged in mixed agricultural production, with the aim of integration and poverty reduction of refugees and internally displaced persons, socially disadvantaged and the poor elderly. The founders of the cooperative were 20 private persons from vulnerable population, especially displaced population. New Vision is principally engaged in the production of grain and vegetable products on a plot that they received to use it from the town of Pirot. Also, the plan is to purchase greenhouses and irrigation systems, as well as expansion of existing arable land and an assortment of production in terms of commencement of pig rearing. Excess profit will be invested in the expansion of the membership of the cooperative, promoting the idea of social entrepreneurship at the local level and in programs for vulnerable groups. All Cooperative members participate equally in the profit distribution.

## ***NON-GOVERNMENTAL ORGANIZATIONS (NGOS) AS A FORM OF SOCIAL ENTERPRISES***

It is the association or organization that is not under the authority of the government and whose founder is not the state. Therefore, NGOs are largely independent of the Government. NGOs are non-profit citizens groups based on the will of the citizens that are organized on a local, national and international level. Non-governmental organizations are focused on specific social problems, goals and objectives and are driven by people who have a common interest. They offer different types of services, and carry out many humanitarian functions. Social services may be realized in the form of psycho-social support, day care, protected housing, home care and home help, social entrepreneurship and employment, education, rights advocacy service, etc. Non-governmental organizations as a part of civil society are of great importance in social policy in developed countries, especially as modern state can not meet all the needs of citizens, and many of its programs are left to the NGO sector. In this way the non-governmental sector is becoming an alternative and a new partner (but not competitive) to the state sector where people in crisis situations rely on their own strength. The most widespread forms of NGOs are Telecottages. These are non-governmental organizations that



provide services of information and communication technologies to support rural development and to connect rural communities with the broader society. Telecottages have been developed in Serbia since 2000 and includes about 70 Telecottages all over Serbia.

### ***COMPANIES FOR VOCATIONAL TRAINING AND EMPLOYMENT OF PERSONS WITH DISABILITIES AS A FORM OF SOCIAL ENTERPRISES***

The oldest forms or traditional forms of social enterprises, which are known to us as sheltered workshops for the disabled, are companies that operate on engaging handicapped (mentally or physically ill persons) who require rehabilitation and employment in accordance with their abilities. It is about employment of risk groups who can not engage in a classical way into the labor market and social enterprises provide them with ongoing support, especially if they are members of the company who have a handicap and it is necessary to provide them with so-called sheltered employment. In order to gain support from the state of the Serbia, enterprises must meet certain legal requirements for employment of persons with disabilities, such as: to employ 40% or more people with disabilities, to employ the appropriate profile of HR professionals (psychologists, special educators, practice teachers within the framework of vocational training), to develop programs for training of persons with disabilities that must be approved by the Ministry of Education and Ministry of Health, to provide adequate space and technical conditions. Also, in order to support development of these enterprises, and to raise the level of their operations and thereby provide increased employment of persons with disabilities in the Republic of Serbia, Regional Chamber of Commerce Zrenjanin, as well as the Association of Enterprises for Vocational Rehabilitation and Employment of Persons with Disabilities conducted a project "Feasibility Study to establish brand FER product for the products and services of disability enterprises" within the Program of support Enterprise Development and Entrepreneurship, financed by the European Union through the European agency for Reconstruction. The main objective of the study was the elaboration of the capabilities of the institutional labeling of product and services of the companies for professional rehabilitation and employment of disabled persons.

Women entrepreneurs account for a quarter of the total number of entrepreneurs in the Republic of Serbia, and the trend of increasing the number of women in top positions of companies in the Republic of Serbia is observed. However, statistics still indicate underused economic potential of women in the Republic of Serbia. Only 38.1% of women of working age (15-64) were employed in April 2013, compared to 53.6% of men. Among employed women, only 15.6% perform independent work, compared to the 30.5% of employed men. Women decide to establish their business mostly out of necessity, and they face a number of difficulties in establishing and running a business. Although most of these difficulties are common to both genders, in many cases they are extremely

important for women entrepreneurs – they are influenced by the choice of sector, gender discrimination and the existence of stereotypes, insufficient and inflexible childcare, difficulties in harmonizing family and work commitments or the difference between men and women towards entrepreneurship. Women own less real estate registered in their name, making it difficult to obtain loans due to the lack of security interests.

In Serbia, there is no strategy that is directly and exclusively related to the development of women's entrepreneurship. The importance of women's entrepreneurship is clearly indicated in the National Strategy for improving the position of women and promote gender equality ("Official Gazette of the Republic of Serbia", number 15 / 2009-129), the Action Plan for the Implementation of the National Strategy for improving the position of women and promote gender equality for the period from 2010 to 2015 ("Official Gazette of the Republic of Serbia", No. 67 / 2010-9) and the National Employment Strategy for the period 2011-2020. ("Official Gazette of the Republic of Serbia", No. 37 / 2011-38). Legal, institutional and policy frameworks are in place, but the key problem is the lack of integration of a gender perspective and insufficient law enforcement. (Djuricic, 2012, pp 110-118).

Since women are a minority and face the specific constraints, it is essential to provide the necessary support to women in all stages of business - from starting a business, management, growth and development to the termination of business operation. The European Union, through Small Business Act stresses that female entrepreneurship is a priority, and a number of activities encouraging women to start their own entrepreneurial business or strengthen existing ones through mentoring schemes. Lately, Serbian government has put an emphasis on women's entrepreneurship and seeks to maintain a good working environment for women entrepreneurship development in the Republic of Serbia.

It is necessary to support women's entrepreneurship, youth entrepreneurship and social entrepreneurship through development of service training, mentoring and other forms of professional support. In Serbia, it is necessary to carry out a series of measures and actions that will accelerate development of both social as well as women and youth entrepreneurship as one of the key economic drivers of the state.

In Serbia, the concept of social entrepreneurship has not been adequately recognized by the legal system. There is no legal regulation which comprehensively regulates this matter, but there are several laws and strategies, and provisions which are the basis and support the future development of social entrepreneurship. The goal that we must strive for is the adoption of the law in this area, to ensure that adequate and clear legal basis for its development. It is necessary to enable the stimulation of different measures of entrepreneurship education and various educational programs that will point the importance of social entrepreneurship.

## ***ENTREPRENEURSHIP DEVELOPMENT***

As for the further development of entrepreneurship in the European Union, it is important to emphasize the fact that it is very much involved in European development strategy for 2020. Specifically, three priorities have been set both in front of the Member States, and in front of the candidate countries:

1. Smart growth: developing an economy based on knowledge and innovation;
2. Sustainable growth: promoting a more efficient, "greener" and more competitive economy;
3. Inclusive growth: fostering job creation with the aim of social and territorial cohesion.

Right here we can see how entrepreneurial behavior will be important and necessary in the future, both in the EU and the countries seeking its membership. Social innovation, social entrepreneurship and social economy are growing theme in different social spheres. Due to the financial crisis in 2008, the European Union is showing more interest in this area of development that is able to respond to the many challenges that contemporary society and local communities are facing. The *acquis communautaire* of the European Union relating to enterprise and industrial policy are defined in section 20, and the Directorate General for Enterprise and Industry is responsible for this area. Modern industrial policy of the European Union is focused on the promotion of competitiveness, the creation of a favorable business environment to encourage investment, as well as the continuous improvement of entrepreneurship and innovation. In the previous period significant legislative and administrative reforms have been implemented or have started in areas that should provide favorable conditions for the functioning of market economy, including the development of entrepreneurship.

## ***CONCLUSION***

The state must stimulate entrepreneurs and small and medium-sized enterprises as they are the core of today's economy. Entrepreneurs create opportunities for development of the national economy and promote the growth of GDP. European governments encourage entrepreneurs through affordable loans and lower tax rates that make starting a business easier. In a competitive market it is important which entrepreneur has a better idea and who knows to implement it better. In Serbia, this is not the case, although quite a lot has been done in this area. In March 2015, Serbia adopted a strategy to support development of small and medium enterprises and entrepreneurs from 2015 to 2020. So far, tests have shown that 45% of new entrepreneurs in Serbia do not survive another year which is bad as entrepreneurship has enormous potential that exists in our country for years, although hampered by our misunderstanding, neglect or even distrust toward it. According to the Agency for Business Registers, more entrepreneurs disappear even before being registered. The responsibility of entrepreneur which is reflected in the bankruptcy of a natural person badly affects him and his entire family. Financial and economic situation for entrepreneurs is difficult in Serbia, because they are not given secure. On the one hand

they are required to operate positively, to open a large number of shops, to be competitive on the market, but on the other hand the State prescribes large flat taxes to a scale that is unrealistically high for our standards. I believe that we should draw attention to the potential and the opportunity that lies in entrepreneurship around the world, but especially in Serbia, because our country will hardly overcome the economic crisis if does not rely more on people who are now entrepreneurs. This is possible only if the attitude towards entrepreneurship is changed.

The state should establish a mechanism that will protect entrepreneurs eg. in the first year of business, that a flat tax is at least 50% lower than it is now. It should enable the entrepreneur to take some time to start working, to acquire clients and to gain customers, and then the state should gradually increased responsibilities. On the other hand banks should reduce interest rates on loans for small and medium-sized companies, as well as to provide favorable start-up loans.

In the previous period significant legislative and administrative reforms were implemented or started in the Republic of Serbia, which should provide more favorable conditions for the functioning of market economy, including the development of entrepreneurship. However, this has not led to satisfactory results and it is necessary to intensify work on improvement of business conditions in the coming period. Apart from changes to the regulatory framework in order to ensure legal certainty, it is necessary to significantly improve the operation of the courts.

In front of the Serbian Government are serious and difficult tasks to be met in order to satisfy the conditions and criteria that have been set in front of it as a candidate country for EU membership. Also, it is necessary to work on improving in order to facilitate administrative procedures which significantly hinder business. If the government does not start serious initiatives in this area, the responsibility remains on entrepreneurs and non-governmental organizations and the media who must persistently fight in order to change attitudes - especially through investment in the collection and dissemination of information about what opportunities the state of Serbia missed by neglecting entrepreneurship, as well as the development of knowledge and mutual cooperation on advancing entrepreneurship.

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***PART II***  
***THE IMPACT OF ENTREPRENEURIAL MANAGEMENT***  
***ON DECISION MAKING AND BUSINESS SUCCESS***





# ***THE ROLE OF INFORMATION MANAGEMENT IN DECISION MAKING AND BUSINESS SUCCESS***

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*Milos Vucekovic<sup>18</sup>*

## ***ABSTRACT***

*The purpose of nearly every business organization is to be profitable, to grow and survive. To do this or to fulfil any defined purpose involves making effective decisions – decisions that anticipate problems (and opportunities). After making the decisions, it is necessary to monitor them and control their implementation. Finally, the business must also operate routinely on a day-to-day basis. These tasks - decision-making, control and operation- are only made possible through a proper information management. It is the purpose of the information management to supply these information.*

*The aim of this paper is to identify the interaction between management information systems and the quantitative decision making aids available for the use of the modern managers and administrators in organizations. In line with this, the authors concluded that management information will conceivably help improve decision-making and, as a consequence, financial performance and success of contemporary organization. Likewise, firms that rate their management IS highly will conceivably adopt New Management Tools to a greater extent, with the objective of improving their business performance.*

***Key words:*** *Information Management, Management Information Systems, Decision Making, Business, Information Technology*

***JEL Classification:*** *M10, M15*

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*005.311.6*

*005.336*

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## ***INTRODUCTION***

Information can be defined as “data converted into something valuable and usable for certain users“(Baumgartner, 1978).The term Information Management covers the entire scheme of data collection, organization, presentation and processing. All these are closely associated with the computers today. It includes all the uses and processing of information within an organization. For example, clerical staff could process orders by a computer or in the case of an exceptionally large contract, by managers personally. Information Management have both formal and informal elements. The formal elements are where information is processed on a routine basis using predefined procedures. The informal element consists of where data is processed on a more ad-hoc basis and where the processing involves, to a large extent, judgement and even intuition.

Hence, most accounting jobs are formal and processed by a computer. In contrast, the preparation of a request for further aliens of credit would involve a finance manager in gathering information from many sources (both formal and informal) and processing that information to prepare cash-flow statement and profitability forecasts. The information management is concerned with all forms of information ranging from facts to predications or even feelings.

The advent of computers is regarded as the key element of the information management. The introduction of computers necessitates a rigorous definition of a company’s information needs. Computers have caused companies to investigate their information management techniques at one time or the other. Hence, the growth in awareness of information management has gone hand in hand with the growth of the use of the computers.

Modern organizations such as small business units in the private sector and giant multinationals in the public sector, etc., have become increasingly complex. The complexities of these organizations tend to be characterised by such phenomena as over-crowded population, conflicting models, policies, theories etc. Ironically, there is an increasing demand by the public that these organizations should improve the qualities and quantities of their products; be it goods or services.

The problem of paucity of information and poor capacity for information management is contained in the above list of complex variables. Most organizations in the public and private sectors are expanding and as they expand, grow or develop, so do the problems of their planning, organising, control, etc. Correspondingly, there is the need for increased information management capacity. Other multitude of variables may need to be considered for given decisions relating to planning regulations, attitudes of employees, customers or clients, trade unions, marketing and advertising implications, competition in the industries, resource and supply problems, and the financial consequences of the decision. The manager in considering the above examples needs relevant information that increases his knowledge and reduces his uncertainty; and thereby is usable by him for the intended purpose.



Consequently, managers and administrators must establish a method of evaluating performance and result so that they can determine if their firms are on target with regards to operational expectations. To be able to do that, organizations have to determine the type of indicators and information regarding those indicators of performance by applying what is sometimes referred to as the exception principle” When a key indicator is not attained, the information systems will flag this exception (Radovic-Markovic, Omolaja, 2009). .

The flow of information moves through various levels of decision structure in an organization and at each decision point, a choice is made which moves the organization one notch towards the attainment of its objectives. If a wrong decision is taken, it results quite often in deviations from expectations or from expected operational outcomes. It is therefore the work of good information management to ensure that such deviations can be picked up quickly and dealt with before more damage is done.

In this age of electronics and information technology, (IT), some would equate information management with data processing using a computer. Whereas, computer-based information system is by far faster than manual ones and desirable if a manager can afford it, having a computer can easily become part of the problem of information management. In short, an organization orders the flow of information within it, from the operation level to top management and back, as well as with its environment. It can be all done manually, but modern organizations have developed their management information systems around computer hardware and software.

These issues are chosen from a theoretical perspective, although there have been studies on the interaction between management information systems, decision making and business success, there has been no study that integrates all aspects in a single framework to be investigated.

## ***THEORETICAL OVERVIEW***

Globalization has created a diverse and complex workforce that places a high level of demand on organizations and managers. In order to survive in this global economy, managers must foster creativity and competitive growth (Radovic Markovic, 2011). In this context, when a firm commits to implementing, using, and supporting an IS, the firm often does so because some type of positive organisational impact is desired, such as improved profitability or productivity (Petter, DeLone, McLean, 2013).

Making of high-quality software for complex systems represents a very hard and comprehensive task. Development of such software in areas such as managing business processes in industry and business processes in education represents the most complex project tasks (Radovic-Markovic et al., 2014). Their goal is automation of the process. In that context, a broad spectrum of paradigms is thought out through software engineering. Each successfully developed phase makes engineering process easier for performance and construction of complex applications (Radovic-Markovic et al., 2015). Modern IS system requires flexible and adjustable software. Software changing

can relate to data, structure or working sequences of the system. User satisfaction is one of the most important measures of IS success (Urbach, Müller, 2012). In this context, IS users expect the system to be of high quality, to have quality information and to provide substantial benefits (Wu, Wang, 2006). The main determinants of user satisfaction with IS are relevance, content, accuracy, and timeliness (Seddon, Yip, 1992). It is apparent that successful organizations do not focus solely on the speed and ways information is transmitted, and the amount of information they can process, but mostly on capturing the value of information along the information value chain (Popovič, 2012).

According to Hasan (2013), a successful system will provide benefits such as helping the user do more or better work in the same time, or to take less time to achieve as much work of the same quality as was done in the past.

Although there is a large amount of research over the last ten years on information management and its impacts on business performance, past studies provide empirical evidence that mere investment in IS and new Management Tools (NMTs) do not guarantee better business results (Perez –Mendez & Machado-Cabezas, 2015).

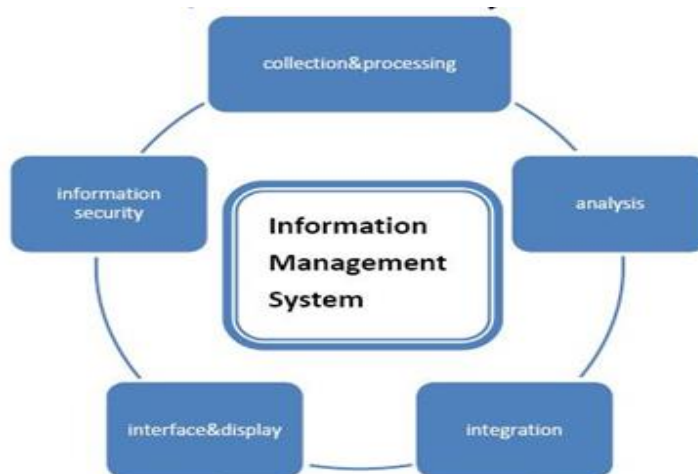
## ***INFORMATION MANAGEMENT***

The discipline now known as Information Management has become the most significant aspect of daily affairs over and above any other specialized field of knowledge irrespective of relevance or application. Whether an organization is as small as a household (a family unit) or as large as the most successful industrial empire in the universe, information management is of great relevance and treasure. To communicate at all in whatever language or form, there is the need for information as the major ingredient of the communication mechanism. This claim can be substantiated from the way Information Management as a discipline has contributed significantly to the development of other academic and professional pursuits, which are individually, specific aspect of knowledge both in concepts and applications (Kroeber et al. 1984).

Can we imagine the roles of Information Management in, and its impact on, accountancy, medicine, law, engineering, history, economics, agriculture, geography, sociology, psychology, philosophy, etc? These other disciplines and professions are, in fact, nothing other than what can be referred to as subjects or even subsets of Information Management (Omolaja, 2004)

This position becomes more apparent when we consider information as the life wire of any human endeavor being the most critical factor for success. Without an appropriate information, nothing but eventual failure and subsequently total corporate collapse can be achieved. For instance, a medical practitioner needs information about life (not only of human beings but also those of insects, parasites, fungi, etc) to operate. He collects stores and manages information on responsiveness of his patients to treatments, bed space and drugs availability, outpatients and inpatients, the number, grades, qualifications or mix of available nursing staff as well as legal aspects of his profession. He also needs to obtain information on medical philosophy and ethics to be successful in his line of business!

Besides, his own knowledge and experience is both practically and theoretically based on information he has been exposed to. An economist, statistician, manager (or administrator), or politician also relies on availability and appropriateness of information to analyze, predict, project, forecast, plan, control and monitor his individual and group operations and performance. Namely, without information about the past and present, who will call himself a historian? A geographer makes use of information about the universe to study the rock, sea and ocean, volcanic eruptions and earthquakes, natural vegetations, rivers, mountains and valleys, mineral resources, space, world populations, imports and exports, solar system, etc. This is one of the roles of Geographical Information Systems (GIS). Organizations today need adequate and up-to-date information to cultivate or create and retain good corporate image (goodwill) for them. Consequently, it has now become a commonplace that Information Management is the pivot upon which all other disciplines and professions revolve especially in these days of information revolution and explosion in response to the advancement in Information Technology (IT) (Omolaja, 2004).



*Figure 1: Management of Information System*

*Source: Xu, 2010*

## ***MIS AND DECISION MAKING***

In recent years, increasing global competition has intensified the challenges faced by managers, and many experts warn that management accounting needs to adapt to meet managers' changing needs if it is to maintain its relevance (Chenhall, Langfield-Smith, 1998). In order to be effective, managers need accurate and timely information, which can be used as a basis for decision-making. Namely, the information can contribute to effective decision making or planning to be carried out (Patterson, 2005).

Just as a production manager needs the latest and best possible product forecast information in order to prepare his production schedule, a stockbroker needs good up-to-date information on stock market behavior in order to make effective portfolio management decisions. In addition, an effective manager needs to spread information among team members. MIS basically involves the process of collecting, processing, storing, retrieving and communicating the relevant information for the purpose of efficient management operations (Hasan et al., 2013). According to his opinion, MIS is defined as type of information system that transforms data to information and summarizes the information to Meaningful and useful forms as management reports to use it in managerial decision making (p.5).

The essence of information is that it conveys a message. The term information is interrelated with, or structured as, data; including collection, storage, processing and dissemination of news, data, facts, figures, messages and comments, required in order to react knowledgeably as well as be in appropriate position to take decisions and actions.

Since the desired management information often comes from a variety of sources and since the total information needs of the manager or administrator may be large, many organizations have designed and implemented formal systems for capturing, analyzing and reporting information to the managers. A complete introduction to management information systems would range from a broad, philosophical discussion of the management function to the information system details of data file organization, data base management, and data retrieval codes.

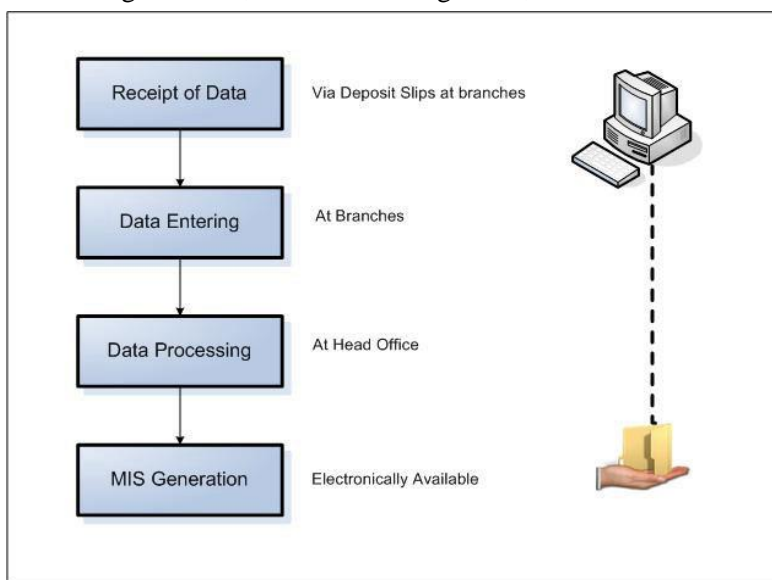


Figure 2: MIS and Decision Making

Source: <https://joelcareyblog.wordpress.com/2013/02/16/introduction-to-mis-and-its-uses-in-decision-making-3/>

## ***CLASSIFICATION OF MIS***

The starting point for any management information system is an organized collection of data that is popularly referred to as database. Because of the large volume of data available in many organizations, the database is frequently stored in a computerized system. The purpose of this information system is to transform the raw data contained in the database into useful output information.

There are many different computer hardware and/or software systems currently being used to make the transformation from raw data to information possible. Consequently, management information systems are often classified as being one type or another, based upon hardware and /or software difference. However, a much more important criterion for classifying management information systems is the type of output information the system provides (Kroeber et al.,1984) . Using this criterion, we can identify three types of MIS as follows (Radovic Markovic, Omolaja, 2009):

- Report generator MIS :
- Management
- Information-Decision Systems

### ***REPORTS- GENERATOR MIS***

The report-generator MIS is the simplest type of management information system in that it simply transforms the raw data contained in the database into summary reports. Essentially, the reports (information) produced by these systems attempts to capture and convey the result of business activities that have happened in the past or currently exist. Typical instances of the kinds of reports crated by MIS are as follows (Omolaja, 2004):

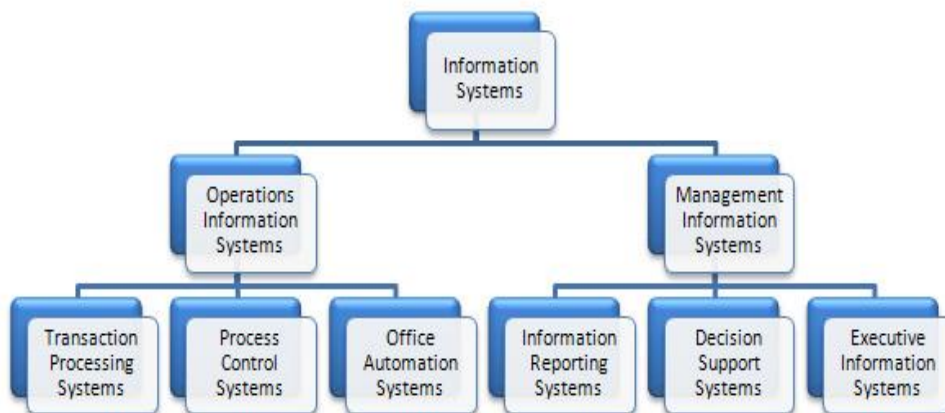
1. Balance sheets;
2. Production efficiency reports;
3. Personnel absenteeism reports;
4. Current inventory status; and
5. Current accounts receivable status.

In its basic forms, the RGMIS consists of several computer programs each of which has been specially designed to access the database and create a specific report. To use this management system, the manager merely requests the desired Report-Generating Program, RGP. The more advanced systems often permit the user to select specific information and then custom design the output form of the report generated.

In order to obtain this user flexibility and a fast response/capability, these versions of the RGMIS are often operated in a time-sharing computer environment. Consequently, the REGMIS has the fundamental objective of transforming the database into historical or current status reports on management activities.

## ***MANAGEMENT INFORMATION DECISION SYSTEM***

The information systems (IS) literature has long emphasized the positive impact of information provided by business intelligence systems (BIS) on decision-making, particularly when organizations operate in highly competitive environments (Popović et al.,2012).

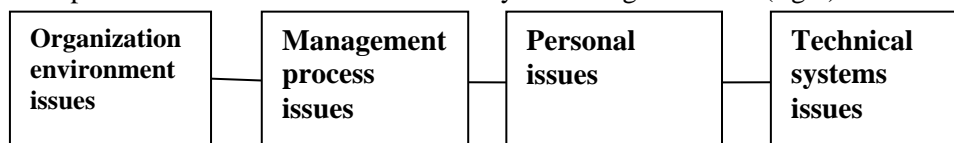


*Figure 3: Management Information Decision system*

*Source: O'Brien, 1993*

In a decision-support context, business intelligence systems (BIS) have emerged as a technological solution offering data integration and analytical capabilities to provide stakeholders at various organizational levels with valuable information for their decision-making (Turban, et al.,2010).

A successful organization should be able to make selection among all alternatives and implement right ones. An information system (IS) is a group of components which can increase competitiveness and gain better information for decision making. Consequently, the organizations decide to implement IS in order to improve the effectiveness and efficiency of the organizations (fig 4).



*Figure 4: Important issues in assuring the competitive advantage of the firm*

*Source: Kornkaew, 2012*

- Business intelligence

Business Intelligence solutions grew out of a combination of increased globalization, competition, and pervasiveness of information systems .Business intelligence or BI as a discipline is made up of several related activities, including data mining, online analytical processing, querying and reporting (SQL Power, 2014).

In an enterprise where end-to-end operational business processes are not fully understood and managed, data integration is much more difficult if not impossible, and understanding of information needs for BIS is impeded. Understanding of business processes is required in order to find out the relevant indicators (Popović, 2012).



*Figure 5: Business Intelligence*

*Source: <http://www.cougartg.com/business-intelligence/>*

- The management information decision making system (MIDS)

The management information decision making system, (MIDS), is a new and more sophisticated class of MIS that ultimately transforms the WIMIS information into recommended decision. Basically, we are referring to a generalized management information system component that would incorporate decision-making capabilities into the framework of the WIMIS. The decision-making component of a MIDS may take a variety of forms. A MIDS decision model component based on a linear programming representation of the production system could provide the manager with information such as inventory levels, machine utilization, and most importantly, a recommendation for a minimum cost production schedule (Radovic Markovic, Omolaja, 2004).

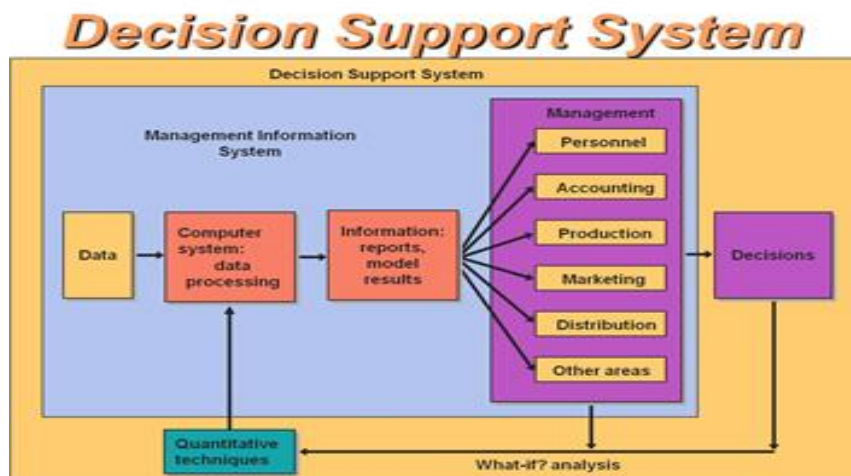


Figure 6: Management Information Decision System

Source: Sainbhi, 2011

In order to utilize the MIDS to its fullest potential, there must be online interactive capabilities such as those available in time-sharing system. Therefore, using the MIDS approach, the decision-maker would receive the potential consequence information as simulated by the WIMIS. Further, he would receive information in term of recommended courses while the changes in the projected reports will be of interest to the decision-maker, the critical question MIDS will attempt to answer is how these changes should affect the decision (Radovic Markovic and Omolaja, 2008). Even with the *MIDS* concept, decision-making will ultimately rest with management evaluation and judgment. The purpose of the *MIDA* output is not to impose a decision on the manager or claim an absolute optimal decision for the problem. The results are only meant to provide a recommendation to the manager. The decision-maker should consider and evaluate the *MIDS* recommendation, incorporate his management skills, and then make the final decision (Omolaja, 2004).

### ***EXAMPLE OF BEST PRACTICE***

We will give an example of an organization that uses information systems to make business decisions with a positive impact on the business success of the company. Namely, The American multinational corporation Google is a company that focuses on internet-related services such as technologies, online advertising, and software. They have been around since the 1990's and the company has grown tremendously since then. Their mission has always been to organize the information of the world and to make it accessible to all. Google is an innovative



company that also has a unique management practice. They hire a mix of people from different backgrounds and ages. They do not put the focus on a CEO team, just because they have more experience and are older; they instead use a bi-generational approach and hire numerous youngsters that have bright new ideas and also some older employees that have extra life experience. The company is divided into specific teams and they range from engineering, program management, to sales and marketing. The engineers at Google are some of the most talented and they make an impact on millions of people around the world. Google engineers work on storage solutions and different applications as well as revolutionizing the Google search engine. The hardware, network, test and site engineers also work on new platforms for developers all over the globe. Engineers work on many projects and they continue to improve applications and websites such as Chrome, AdWords, and YouTube.

Hardware engineers for example have to keep up with the demands of the growing internet and this is just the beginning of their long list of tasks. The engineering team faces many computational tasks that require special hardware that cannot just be bought at the store; Google engineers have to make their own from scratch. The platform teams at Google design and build hardware, networking technologies, and software that helps power all of Google's services. Another team at Google that has a very important role is program management. This team works in a collaborative manner and works closely with the engineers of Google to develop and design new technologies that will improve decision making system and business success.

## ***CONCLUSION***

Today in the world of rapid changes, on time and precise information is the key of success for all. In addition; they are basis for each decision. High quality of management information systems means high quality of information, perceived usefulness, decision makers' satisfaction and increase the quality of managerial decision making (Hasan et al.,2013).

The essence of information management in organizations is to help solve the problems of institutional growth, development and productivity by making the best use of resources in a hanging and dynamic environment growing steadily more complex. Information is the very substance of management functions and is therefore an integral part of the meaning and achievement of organizational operations. A key component of the management information system is the database. When a database currently exists as part of a management information system, the data preparation step can be greatly simplified and, as a result, the use of a mathematical model can often be cost justified by virtue of the fact that data needed by the model are readily available. To make use of most of the quantitative modes available for management decisions, we need data describing the situation under study. In applying an inventory models, such as the economic order quantity model, we would hope to use the database of a management information system to

find the holding cost, order processing cost, and annual demand, for each product we might want to analyze. Since both management information systems and mathematical models strive to provide decision assisting information, it makes sense that the greatest contribution to decision making in contemporary organization can be made by integrating the quantitative analysis and management information systems.

Finally it can be concluded that effective use of information systems in management decision making gives power to managers and helps organizations succeed (Namani, 2010). So It would be a good idea for these managers to embrace change as it is inevitable by listening to their employees, adjusting long term goals to stay relevant in the global market, and focus on data-driven decisions and results-based practices.

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# **THE DEVELOPMENT OF METHODOLOGY FOR RESEARCHING THE EFFICIENCY AND EFFECTIVENESS OF MANAGERIAL DECISION-MAKING**

*Milan Krstic PhD<sup>19</sup>*

*Ana Skorup PhD<sup>20</sup>*

## **ABSTRACT**

*The development of management theory singled out the key functions of management process (planning, organizing, staffing and controlling), as well as important elements of subjective support of managers (communication, motivation, leadership and decision making). The successful performance of managerial functions is enabled by mutual interweaving of elements of subjective support of managers. In this paper, the focus is on one of these elements of subjective support of managers - managerial decision-making, from the point of decision process. Starting from the need of continuous improvement of all business processes, including the improvement of management process, this paper considers the need of improvement of elements of subjective support of managers - managerial decision making, in terms of its effectiveness and efficiency. As a rational way to achieve this improvement, it is proposed to develop a methodology for empirical research on the effectiveness and efficiency of managerial decision making, especially from the standpoint of implementation of new IT tools for decision support. The research includes a survey of a representative sample of managers of different hierarchy levels, from business entities of different sizes, in terms of their current decision-making practices. For the realization of the research the specific instrument is proposed – The Decision Questionnaire. In purpose of creating the questionnaire, the main dimensions of managerial decision making are identified, and then the items for the measurement of certain dimensions. On the above mentioned principles, the methodology for research of the effectiveness and efficiency of managerial decision making was built. The research results and subsequent statistical data processing, could later be used for creating recommendations for improving existing practices in managerial decision making.*

**Key words:** Management, Decision-Making, Research, Methodology, Survey

**JEL Classification:** M10

**UDC:** 005.311.6:001.8

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## ***INTRODUCTION***

*Decision-making*, or making decisions is something which each one of us do on a daily basis, and it can be said that it is an integral part of our lives. It is a case of *individual* decision-making which takes place mostly spontaneously, most often by habit, and as a rule we do not give it a thought. Starting from when to get up, what to eat, what to wear, which transportation to use to get to work, which shop to stop by at, what to buy, etc. Along with the mentioned, we can also speak about decision-making on the level of the organization.

Organizational decision-making is continually being carried out in profit organizations (managerial and corporate decision-making), in non-profit organizations (administrative decision-making), at the level of various groups of associations, alliances and similar (administrative decision-making), at the level of the state (administrative and political decision-making), at the level of various regions and further.

At the same time, in the conditions of a known situation and conditions, decision-making includes minimum risks and it is relatively simple. However, in the conditions of a more or less unknown situation and/or complex circumstances of decision-making, it is significantly more complex and includes certain risk-taking. Thus, this decision-making can be significantly more difficult, and most often demands the seeking of creative solutions for which special skills and decision-making knowledge is needed.

From the point of view of the authors of this paper, organizational, that is, managerial decision-making is crucial. Within the framework of the management process in an organization, a manager carries out several different activities which are intermittently repeated during certain managerial functions, as well as throughout the elements of subjective managerial support.

In coordination with the achieved level of theory development on management as a process, the functions of the management process are the following: planning, organizing, staffing, and controlling. Managerial functions, according to (Bulat, 2008), can thus be determined more precisely:

- Firstly, managers plan the system of organizational aims (as desired states) from the standpoint of space (the organization as a whole or its parts) as well as time (long-term, medium-term or short-term), and then the ways and methods for its realization are worked out.
- Organizing creates an interaction between the necessary activities and the resources for their realization, and within the framework of human resources it sets tasks and responsibilities for execution, that is, the necessary resources for a successful realization of the plan are assigned and activated.
- Staffing primarily plans human resources which are necessary for the plan's realization, then the same are secured adequately, they are subsequently engaged, and during the entire process all the necessary activities are carried out in order to maintain and promote their performances.

- Controlling by the managers follows the plan's realization, comparing the realized with the planned (expected) state of affairs, and if the differences exceed the permitted limits of deviation, adequate measures are undertaken to remove them.

*Elements for subjective managerial support* contribute significantly to the realization of the management process, elements which are mutually interlinked and which enable a successful carrying out of managerial functions and are represented by the following: communicating, motivating, leading and decision-making. According to (Bulat, 2008), the elements of subjective support can thus also be determined more precisely:

- Communicating is realized through a specific process within which messages, information and/or data between managers and associates are exchanged.
- Motivation helps to realize the active role of a manager within the process of satisfying the associates which results in the manager's practical behavior.
- Leadership is realized by the manager creating a motivating atmosphere which contributes to a determination on the part of the associates to dedicate themselves to carrying out individual or group tasks.
- Decision-making is realized through the process by which the manager identifies and defines the problem, then finds possibilities for its solving, and at the end chooses the solution which for the most part satisfies the adopted criterion of choice.

Thus, managerial decision-making is of a fundamental relevance for the successful functioning of an organization. It is without doubt that the improving of effectiveness and efficiency of managerial decision-making may in the long run result in improving the business activity of the organization.

However, it seems that this issue is not receiving enough attention in Serbian business conditions. Based on the insight into the available sources of researching decision-making, it can be concluded that research mostly considers the partially resolved cases of decision-making, such as the case of researching the application of multi-criteria decision-making in public supplies. Of the empirical research which is involved with decision-making from the systemic standpoint of carrying out its functions, we can also mention the research of the engagement of managers according to the elements of a plan-control cycle (Skorup, Bojković, Krstić, 2011), which in this part is also related to the research of managerial decision-making.

Thus, the authors deal with the research of improving the effectiveness and efficiency of managerial decision-making from the methodological standpoint.

## **RESEARCH METHODOLOGY**

Based on the hitherto research of decision-making, as well as the basis of knowledge from other research in which this issue was of a secondary character, the authors proceed from the following *presumptions*:

- Within the framework of Serbian businesses there is a difference between the achieved level of development of the theory of decision-making on one hand and the application of the same (methods and tools) in daily managerial practice on the other hand,
- The mentioned difference is a significant one.

In the aim of confirming or denying the mentioned presumptions, an *empirical research* was carried out which was methodologically conceived primarily on *identifying*, and then also on the *measuring* of values of the relevant factors of effectiveness and efficiency of managerial decision-making, based on a subjective approach, which consists of surveying company managers based on the previously defined questionnaire. The applied methodology of practical research is basically founded on mathematical statistics and includes the following practical steps:

1. Defining the survey instruments (a questionnaire),
2. Determining a representative sample of respondents,
3. Gathering data on the respondents – field research,
4. Statistical data processing,
5. Statistical analysis (regression analysis, co-relational analysis and other)
6. Bringing conclusions.

In this paper, a desk theoretical research was primarily carried out based on the available literature based on which the *main areas of research* of managerial decision-making were identified, as well as the *key dimensions* of decision-making and the measuring units (items) which serve as an expression of the quantity of their measured values. The results of this research are presented in Chapter 3 (The identifying of relevant factors of the effectiveness and efficiency of managerial decision-making).

Thus, this paper, based on the results of research from Chapter 3, presents the results on carrying out Step 1 (Defining instruments for polling – questionnaire).

### **IDENTIFYING THE RELEVANT FACTORS OF EFFECTIVENESS AND EFFICIENCY OF MANAGERIAL DECISION-MAKING**

During the research of the relevant factors of effectiveness and efficiency of managerial decision-making, two main areas of research were identified, namely: individual and group managerial decision-making.

In the area of researching individual managerial decision-making, the following key dimensions of managerial decision-making have been identified: the time spent on decision-making; the method of decision-making; decision-making techniques; the level of the decision's organization, the decision-making model; the managerial way of thinking; the personal features of managers; the conditions of decision-making in regards to risk; the way of acquiring information; the managerial level which makes the decision; managerial methods for supporting decision-making; the decision support system (hereinafter: DSS).

In the further text, the mentioned dimensions of managerial decision-making, also including the appropriate measuring units of these dimensions (items) will be analyzed in detail.

### ***THE TIME SPENT ON DECISION-MAKING***

The time spent on decision-making is one of the key dimensions of individual managerial decision-making. According to (Krstić, 2013) the traditional resources of a company are the following: capital, physical resources, the work force, management and time. Considering that time is a resource, and an irretrievable resource (the time gone by cannot be returned), time spent on decision-making is an important indicator of managerial decision-making.

### ***THE METHOD OF DECISION-MAKING***

The method of decision-making is the next of the key dimensions for individual managerial decision-making. While bringing managerial decisions, the manager must on one side rely on his own common sense and/or his own experience, and on the other hand s/he must rely on the principles of contemporary science exemplified in a wide array of various tools and software for decision-making support. Depending on how managers bring decisions, according to (Roljić, Landika, Mikić, 2013) we differ between intuitive and scientific decision-making.

Intuitive decision-making is the way of bringing decisions whereupon the manager primarily relies on intuition, a certain feeling and his own knowledge, and with which there is a smaller likelihood that the brought decision will be expedient.

Scientific decision-making is the way of making decisions whereupon the manager primarily relies on some of the various methods, which enable the resolving of the problem of decision-making via a mathematical method and with IT support which in turn significantly eases the decision-making process, and in which the decision brought would also be optimal (for example business intelligence and OLAP - On Line Analytical Processing (Živadinović, Medić, 2014)).



## ***DECISION-MAKING TECHNIQUES***

The decision-making technique is the next key dimension of individual managerial decision-making. According to (Roljić, Landika, Mikić, 2013) for managerial decision-making there are several techniques (regulations and decision-making skills) at disposal, namely: optimalization, simulation, the theory of strategic games and system dynamics approach.

Methods of optimalization are mathematical methods which serve to seek the best solutions – the optimum of various types of problems, and consist of the following: formulating the problem model, analysis of possible solution variants, and from this, seeking the most optimal solution according to the chosen criteria. The most represented of these methods are the methods of linear optimization.

Simulations represent a gathering of methods directed towards an organized testing of possibilities and seeking the best and most acceptable solutions within the framework of the set tasks and without a former accurately defined criteria for ending the research process.

The theory of strategic games is a mathematical method which is applied for seeking the best solutions – the optimum, in conflict conditions. In this context, the term conflict implies the various interests of players, that is, a situation of complex decision-making in which decisions and results of decisions depend on the interactions of those involved.

The system dynamics approach is one of the widely used and instrumental approaches to solve different types of real-time problems from different areas. System dynamics modelling is often the background of a systemic thinking approach and has become a management and organisational development paradigm (Salamzadeh, Farsi, Salamzadeh, 2013).

## ***THE LEVEL OF THE DECISION'S ORGANIZATION***

The level of the decision's organization is the next key dimension of individual managerial decision-making. According to (Bulat, 2008), there are two levels of a decision's organization, namely: *programmed (routine)* and *unprogrammed (problem)* decisions.

***Programmed (routine)*** decisions are brought by managers in the case of resolving routine problems for which the procedure of solving is already set. These decisions as a rule do not demand a more significant analysis of the circumstances of the problem and are based on the existing organizational regulations. These decisions are mostly brought by lower level management (first line management).

***Unprogrammed (problem)*** decisions are brought by the management in the case of resolving problems which occur in new and complex situations. As a rule, they also include the undertaking of a certain amount of risk. These decisions are mostly brought by higher level managers (top and medium level management).

## ***THE DECISION-MAKING MODEL***

A decision-making model is the next key dimension of managerial decision-making, and represents a managerial *approach* to bringing decisions. According to (Dolan, Lingham, 2010) the following models are the most significant: *the model of rational decision-making and the model of limited rationality*.

### ***Model of rational decision-making***

The model of rational decision-making is the classical model of decision-making, represented by a logical order of decision-making steps based on the following presumptions: that managers are rational and objective in decision-making, that the information needed for resolving a problem is easily accessible, that there is an ambivalence in problem solving, and that there will be a consensus regarding the chosen solution. The model of rational decision-making consists of the following steps:

1. ***Defining the problem.*** It is presumed that the observed problem needs to be defined more closely.
2. ***Gathering information.*** This presumes the gathering of relevant information which is necessary for determining the cause of the problem for the sake of establishing possible alternatives.
3. ***Developing alternatives.*** It is presumed that other creative alternatives are generated for resolving the problem.
4. ***Assessment of the alternatives.*** It is presumed that the developed alternatives are assessed based on the previously set criterion.
5. ***Choice of alternative.*** It is presumed that of the assessed alternatives, the one chosen is the best one which meets the criterion of choice.
6. ***Application of alternative.*** It is presumed that the chosen alternative is operationalized in regard to its key entries: who, in which role, when, where, and with which means will be included in the realization, as well as to start off the realization of the alternative.
7. ***Following the application of the alternative.*** It is presumed that the realization of the applying of the alternative is being followed, during which there is a continued gathering of feedback information for the effect of the applied alternative and bringing a decision regarding the further proceeding.

### ***The model of limited rationality***

The model of limited rationality is a simplification of the model of rational decision-making, that is, a logical response to the realistic limitations of managers in regards to their abilities to process all the relevant information on all the alternatives. According to (Dolan, Lingham, 2010) the model of limited rationality is based on the following presumptions: that the ability of the manager to totally comprehend the complex nature of the problem is limited; that it is not possible to generate all the possible alternatives; that a complete analysis of each alternative based on all the foundations is not possible. Due to the mentioned limitations, managers are satisfied with *acceptable* solutions, which do not necessarily have to be the *best* solutions.

## ***THE MANAGERIAL WAY OF THINKING***

The managerial way thinking is the next key dimension of individual managerial decision-making and it can be significant, as it is decisive to first initiate and then direct the flow of generating the alternatives for resolving problems. According to (Bulat, 2008) the managerial way of thinking can be the following: systematic thinking, intuitive thinking and multi-dimensional thinking.

***Systematic thinking*** implies a rational and analytical approach.

***Intuitive thinking*** implies allowing for a wider range of information from a higher viewpoint, and includes the developing of a larger number of alternative solutions, but in comparison with systematic thinking, it is more flexible and more demanding, as it seeks more detailed arguments.

***Multi-dimensional thinking*** implies a simultaneous considering of various aspects of problems and an appropriate interaction of relevant elements.

This way of thinking is applied primarily when there is a complex problem and potential long-term implications of the decision.

## ***THE PERSONAL FEATURES OF MANAGERS***

The personal features of managers are the next key dimension of individual managerial decision-making. According to (Dolan, Lingham, 2010) the key personal features of managers which are relevant for decision-making are the following: creativity, intuition, innovativeness, personal values, and preference for risk.

### ***CREATIVITY***

Creativity is a phenomenon that implies a specific process which highlights the creative abilities of the individual, and which is reflected in the fact that novelties and new inventions are based on intuition, perception and imagination, as well as knowledge, experience, and other relevant elements. There are no known fixed rules for this, and if they do exist, they are most often unknown. At times, it is equated with intelligence, originality, mental health or productivity and occurs as a consequence of self-actualizing or sublimation and the restitution of destructive impulses (Krstić, 2013). Mail Alice defines creativity as a “process of a designed creating of new combinations or modeling of structure, movements, words, symbols or ideas and the enabling of a product to be in some way accessible to others, visually or in another way.” The creativity of managers especially comes to the fore in regards to unprogrammed (problem) decisions made by managers which are brought in the case of resolving problems incurred by new and complex situations.

## ***INTUITION***

Intuition is a complex phenomenon which plays a significant role in organizational deciding, and based on (INT, 2015), implies “concepts or connections such as sixth sense, the inner voice, external insensitive perception, the subconscious or the unconscious mind.” According to (Karavidić, Čukanović-Karavidić, 2012) intuitive decision-making is deciding which is based on the manager’s previous experience, skills, knowledge and training, reliance on the subconscious for help, feelings and emotions, the constructed ethical values and culture.

## ***INNOVATION***

Innovation is a personal feature of managers which relates to his or her attitudes and behavior within organizational innovativeness. Organizational innovativeness, according to (Bešić, Krstić, Bojković, 2011), can be defined as a measure of the totally available innovative ability of the organization, within its key innovative areas of innovative capacity, strategic access to innovation, and innovational behavior, and can be quantified by the Innovation Index. This managerial feature impacts the measure of innovativeness in managerial decision-making.

## ***PERSONAL VALUES***

Personal values represent the individual ethical and moral traits of managers which are formed as the consequence of key factors such as inheritance, upbringing, education, religion, et al., and it is without any doubt that they have a significant role in decision-making. According to (Karavidić, Čukanović-Karavidić, 2012), personal values represent the following relevant features: the ability of rational thinking and seeking the best solution; firmness and tenacity, security and decisiveness in risky situations; moderation in life as well as work; fairness in regards to respecting the rights of others; conscientiousness in regards to objective behavior. Also, due to personal values, the manager can bring moral decisions.

## ***PREFERENCE FOR RISK***

Preference for risk is a personal feature of managers regarding his or her inclination or aversion in regards to undertaking risk. According to the Preference Theory (Bulat, 2008) in regards to undertaking risk, there are two extreme borderline types of individuals, conservative people who tend to minimize risk, and the others inclined towards high risk, that is, are ready to accept a much larger

degree of insecurity. Every individual is a combination of the mentioned two borderline types, while the inclinations of one or the second type prevail to a smaller or larger extent. Managers are also classified within the mentioned types. In regards to the size of the risk undertaken by the manager, significant is a position within the hierarchy (on higher and lower levels) as well as whether the funds belong to the organization or they are personal.

### ***CONDITIONS OF DECISION-MAKING IN REGARDS TO RISK***

The conditions of decision-making in regards to risk is the next key dimension of individual managerial decision-making. This is especially relevant if we take into consideration that making decisions today occurs amidst rapid changes in the organizational setting. According to (Karavidić, Čukanović-Karavidić, 2012), during decision-making, managers can be faced with the following conditions:

***Decision-making in conditions of security*** occurs in situations in which the results are known so the manager can forecast the result of each alternative for resolving problems, and usually this involves programmed (routine) decisions;

***Decision-making in conditions of risk*** occurs in situations in which managers can only assess the probability of certain results, which enables them to merely forecast different alternatives for resolving problems. The largest number of decisions is brought in these conditions.

***Decision-making in conditions of insecurity*** occurs in situations in which managers lack sufficient and/or adequate information (in regards to the methods and/or the probability of resolutions) and thus they are not able to assess the probability of certain results.

### ***THE WAY OF OBTAINING INFORMATION***

The way of obtaining information is the next key dimension of individual managerial decision-making. The ways of obtaining relevant information for decision-making can be different. According to (Bulat, 2001), the most common sources of information for managers within an organization are the following: relevant information obtained via the available management information system (MIS); different types of reports of business activities and other types of documents and materials; direct observation, and indirectly by applying the pyramidal information system (from lower and higher level management); and talks with associates. The quality of the brought decisions depends to a large extent on the availability of the method and reliability and relevance of the information sources.

## ***THE MANAGEMENT LEVEL WHICH MAKES THE DECISION***

The managerial level which makes the decision is the subsequent key dimension of individual managerial decision-making. According to (Bulat, 2008), there are three management levels to which decisions can pertain, namely: the highest (strategic) level, the middle (tactical) level, and the lowest (operational) level. The time limit of the decision will be in accordance with the appropriate level at which a decision is allocated.

## ***MANAGERIAL METHODS FOR SUPPORTING DECISION-MAKING***

Managerial methods for supporting decision-making is another key dimension of managerial decision-making. According to (Bulat, 2008), the following managerial methods for supporting decision-making can be specified: mathematical methods; quantitative methods; qualitative methods (for problematic situations, those which imply uncertainty, with risks); and heuristic methods (for group problematic situations, when the access to problem solving is combined).

## ***THE DECISION SUPPORT SYSTEM (DSS)***

DSS is the following key dimension of individual managerial decision-making. According to (Mišković, 2013) relevant to this is a commercial integrated group of programs for risk analysis and decision support in conditions of insecurity represented by *Palisade Decision Tools Suite* which is applied as an addition to *Microsoft Excel*. It has several modules, such as the following: *Precision Tree* for decision-making with decision trees, *Neural Tools* for learning/forecasting via neural networks (ANN), *Stat Tools* for statistical analyses and forecasts (*forecasting*), *@RISK* for Monte Carlo simulations, *TopRank* for a *what-if* sensitivity analysis, as well as *Evolver and RISKOptimizer* for different optimizations.

Within the area of researching group managerial decision-making, the following key dimensions of decision-making have been identified: group deciding, techniques for improving group decision-making; support systems for cooperation and group decision-making.

## ***GROUP DECIDING***

Group decision is one of the key dimensions of group managerial decision-making. According to (Dolan, Lingham, 2010), the decisions which relate to group decisions are as a rule more advanced than individual decisions. There are two key reasons for this. Firstly, due to the fact that decision groups are usually composed of members with a variety of skills and experience, which all together create synergy, considering that combined contributions of two or more individuals together generate an increased contribution in regards to their partial contributions. For example, experience has shown that those working in the radio industry prefer to accept a decision they themselves have contributed to. With this dimension of group decision-making, we can differ between *individual, group and collective* decisions. Group decision-making is the most efficient when all group members who participate in bringing a decision are willing and endeavor to achieve a consensus, and thus it is very important for the manager to create such an atmosphere.

## ***TECHNIQUES FOR IMPROVING GROUP DECISION-MAKING***

The techniques for improving group decision-making is another key dimension of group managerial decision-making. According to (Dolan, Lingham, 2010) we can identify the following relevant techniques, namely: brainstorming, the Delphi technique, the nominal group technique and the focus group.

### ***BRAINSTORMING***

The brainstorming technique for developing creative thinking is realized via a group made up of 5 to 12 persons, which can during a 30 minute session freely present their own ideas for solving a defined problem. The problem can be defined in a concise and/or extended form but it is always presented in the form of a query. According to (Činčin-Šain, 2015) brainstorming consists of the following stages: formulating the problem, presenting ideas, and assessing the idea. It is based on the principles of a free presentation of ideas, especially in regards to its imaginativeness.

### ***THE DELPHI TECHNIQUE***

The Delphi technique is a method for stimulating creative thinking, and it is realized by conveying an opinion, often in writing, by a larger group of competent people about defining a problem. The results of the opinions are in an appropriate way (by post, e-mail) distributed to all participants in the aim of coordinating

opinions. The process is repeated with as much iteration as is needed to achieve a consensus regarding a common solution.

### ***THE NOMINAL GROUP TECHNIQUE***

The nominal group technique is a method for stimulating creative thinking which in its basis has the approach of the Delphi technique with the key difference that it is carried out in the presence of all the group members in one place. The suggestions of a solution by particular members are immediately presented to all the other members, and coordinating is carried out on-site, so the process does not last too long.

### ***FOCUS GROUP***

The focus group is a method for stimulating creative thinking. The group as a rule consists of six to eight members who discuss a particular issue, topic or problem. The persons are stimulated to give their opinions (or to provoke) by way of a methodical testing on the part of the presiding member. The procedure is usually recorded in order for an analysis of the opinion of the participants to be carried out after the meeting.

### ***SUPPORT SYSTEM FOR COOPERATION AND GROUP DECISION-MAKING***

The support system for coordination and group decision-making represents the following key dimension of managerial decision-making. According to (Mišković, 2013) we can name the following significant Group Decision Support Systems (GDSS): the systems for a direct support of group deciding, systems for an indirect support of group decisions, and integrated tools for supporting group deciding.

*The systems for a direct support of group deciding* are represented by interactive systems among which the most significant are GDSS rooms for electronic conferences, systems for electronic conferences/EMS deciding;

*The systems for an indirect support of group decisions* are represented by tools for group work – *groupware*, and they can be *synchronous* (real-time collaboration tools-RTC, such as systems for video conferences), and *asynchronous* (e-mail, SMS, online workspace systems – MicrosoftSharePoint, discussion groups, blogs);

*Integrated tools for supporting group deciding* - *groupware sites* are represented by the following systems: Lotus Notes/Domino, MS NetMeeting/Live Meeting/SharePoint, Groove Virtual Office, WebEx Meeting Center.



## FINDINGS AND DISCUSSION

### THE RESEARCH RESULTS (FINDINGS)

Based on the research carried out in the former chapter within the two main areas of research, individual and group deciding, key dimensions, measurement units and the appropriate scales for measuring the level of application were identified. Based on this, an adequate **Questionnaire** for assessing managerial deciding from the standpoint of efficiency and effectiveness was created, and it is presented in the further text.

### QUESTIONNAIRE

for assessing the effectiveness and efficiency of managerial decision-making

Research area: INDIVIDUAL DECISION-MAKING BY MANAGERS

Dimension	Measuring unit	hours
Time spent on deciding	<i>Time</i>	

Dimension	Measuring unit	Scale of measuring the level of application: 1-none; 2-slight; 3-considerable; 4-to a significant extent; 5-to a great extent				
Method of deciding (Roljić, Landika, Mikić, 2013)	<i>Intuitive</i> (a feeling and one's own experience)	1	2	3	4	5
	<i>Scientific</i> (application of tools and software for decision support)	1	2	3	4	5
	<i>Other ways</i> , which?	1	2	3	4	5
Techniques of deciding (Roljić, Landika, Mikić, 2013)	<i>Method of optimization</i>	1	2	3	4	5
	<i>Simulation</i>	1	2	3	4	5
	<i>Theory of strategic games</i>	1	2	3	4	5
	<i>System dynamics approach</i>	1	2	3	4	5
Level of decision Organization (Bulat, 2008)	<i>Other methods</i> , which?	1	2	3	4	5
	<i>Programmed decisions</i> (situations which repeat themselves)	1	2	3	4	5
	<i>Unprogrammed decisions</i> (new and complex situations)	1	2	3	4	5
Model of deciding (Dolan, Lingham, 2010)	<i>Other decisions</i> , which?	1	2	3	4	5
	<i>Model of rational deciding</i> (7 step model)	1	2	3	4	5
	<i>Model of limited rationality</i> (in acceptable solutions)	1	2	3	4	5
Way of managerial thinking (Bulat, 2008)	<i>Other model</i> , which?	1	2	3	4	5
	<i>Systematic thinking</i> (rational and analytical approach)	1	2	3	4	5
	<i>Intuitive thinking</i> (a wider range of material, from several aspects, various variants are developed, but there is a need for detailed arguments)	1	2	3	4	5
	<i>Multidimensional thinking</i> (concurrent consideration of various aspects of the problem and an appropriate interaction of relevant elements)	1	2	3	4	5
Personal features of managers (Dolan, Lingham, 2010)	<i>Other</i> , which?	1	2	3	4	5
	<i>Creativity</i>	1	2	3	4	5
	<i>Intuition</i>	1	2	3	4	5
	<i>Innovativeness</i>	1	2	3	4	5
	<i>Personal values</i>	1	2	3	4	5
Conditions	<i>Preference</i> (aversion or inclination) towards risk	1	2	3	4	5
	<i>Deciding in conditions of security</i>	1	2	3	4	5

<b>regarding risk</b> (Karavidić , Čukanović- Karavidić , 2012)	<i>Deciding in conditions of risk</i>	1	2	3	4	5
	<i>Deciding in conditions of insecurity</i>	1	2	3	4	5
	<i>Other, which?</i>	1	2	3	4	5
<b>Way of obtaining information via...</b> (Bulat, 2008)	<i>Managements of the information system – MIS</i>	1	2	3	4	5
	<i>Direct observation</i> (direct insight into the problem)	1	2	3	4	5
	<i>Indirect application of the pyramidal information system</i> (from lower and higher level managers)	1	2	3	4	5
	<i>Talks with associates</i>	1	2	3	4	5
	<i>Other ways, which?</i>	1	2	3	4	5
<b>Management level</b> (Bulat, 2008)	<i>The highest (strategic) level</i>	1	2	3	4	5
	<i>The medium (tactical) level</i>	1	2	3	4	5
	<i>The lowest (operational) level</i>	1	2	3	4	5
<b>Methods for decision-making support</b> (Bulat, 2008)	<i>Mathematical methods</i>	1	2	3	4	5
	<i>Quantitative methods</i>	1	2	3	4	5
	<i>Qualitative methods</i> (for problem situations, uncertainty, risky situations)	1	2	3	4	5
	<i>Heuristic methods</i> (for group problematic situations, when the access of resolving problems is combined)	1	2	3	4	5
	<i>Other methods, which?</i>	1	2	3	4	5
	<i>Pentaho</i>	1	2	3	4	5
<b>Decision support system (DSS)</b> (Mišković, 2013)	<i>Palisade Decision Tools Suite</i> addition for Microsoft Excel.	1	2	3	4	5
	<i>@RISK</i> for Monte Carlo simulations	1	2	3	4	5
	<i>Precision Tree</i> for decision trees	1	2	3	4	5
	<i>Neural Tools</i> for learning/forecasting via neural networks	1	2	3	4	5
	<i>Stat Tools</i> for statistical analyses and forecasting	1	2	3	4	5
	<i>Evolver</i>	1	2	3	4	5
	<i>TopRank</i> for a <i>what-if</i> sensitivity analysis	1	2	3	4	5
	<i>RISKOptimizer</i> for different optimizations	1	2	3	4	5

## Area of research: GROUP DECISION-MAKING

Dimension	Measuring unit	Scale of measuring the level of application: 1-none; 2-slight; 3-considerable; 4-to a significant extent; 5-to a great extent				
		1	2	3	4	5
<b>Group decision</b>	<i>Individual</i> decisions	1	2	3	4	5
	<i>Group</i> decisions	1	2	3	4	5
	<i>Collective</i> decisions	1	2	3	4	5
	<i>Others, which?</i>	1	2	3	4	5
<b>Techniques for improving group decisions</b> (Mišković, 2013)	<i>Brainstorming</i>	1	2	3	4	5
	<i>Delphi</i>	1	2	3	4	5
	<i>Nominal group technique</i>	1	2	3	4	5
	<i>Focus group</i>	1	2	3	4	5
	<i>Other methods, which?</i>	1	2	3	4	5
<b>System support for cooperation and group deciding</b> (Mišković, 2013)	<b>GDSS rooms for electronic conferences</b>	1	2	3	4	5
	<b>Systems for electronic conferences/EMS deciding</b>	1	2	3	4	5
	<b>MicrosoftSharePoint</b> - online workspace systems	1	2	3	4	5
	<b>Lotus Notes/Domino</b>	1	2	3	4	5
	<b>MS NetMeeting/Live Meeting/SharePoint</b>	1	2	3	4	5
	<b>Groove Virtual Office</b>	1	2	3	4	5
	<b>WebEx Meeting Center</b>	1	2	3	4	5
	<i>Other, which?</i>					

## ***DISCUSSION***

According to (Mihailović, Cvijanović, Hamović, 2011), “Managing an organization is a continuous process which serves to deploy and direct business activities in the aim of realizing business aims. The result of the managerial process is the managerial decision and its implementation in a business activity”.

However, not every managerial decision which a manager makes is also a real decision. A real decision is the one which is effective and efficient. In other words, effective deciding is that which addresses the valid aims, and efficient deciding is the one which is carried out in a real way.

Concerning the models of managerial deciding which prevail in practice, it is to be expected that this is a model of limited rationality which stresses the limiting of human rationality and necessary compromises which are included in the decision-making process. In that sense, regarding the effectiveness of decision-making, the majority of managers will no doubt agree that a 75% of trust within a reasonable period (efficiency) is a better result than the manager insisting on a decision which has a greater degree of trust but an undue time period for deciding, which is not efficient.

When comparing individual and group decision-making, group decision-making based on a group dynamic can be more progressive in comparison with individual decisions, considering that several individuals take part in forming decisions, as well as the fact that the carrying out of such a decision is easier.

## ***CONCLUSION***

This paper sets the concept of methodology for researching which should either confirm or deny the hypotheses introduced in the Methodology chapter. In that sense, a part of research which concerns theoretical research was carried out, which helped identify the *main areas of research* of managerial decision-making, and the *key dimensions of decision-making*, as well as the *measuring units* (items) as scales which serve as a quantitative expressing of their measured values.

Based on the results of the mentioned research, the instrument for surveying the managers has been defined – a Questionnaire for assessing the effectiveness and efficacy of managerial decision-making. The questionnaire includes two main areas of research of individual and group decision-making. Within the area of individual deciding, a total of 21 key dimensions were identified with a total of 49 items, while in the area of group deciding, 3 key dimensions with a total of 17 items were identified.

Based on such a questionnaire, empirical research carried out in the field has yet to ensue, that is, a surveying of managers based on this questionnaire needs to be carried out. It may seem that this is a slightly large number of dimensions and items which can be an aggravating circumstance while surveying managers, but only after the carried out empirical research and a subsequent statistical processing of the gathered data will it be possible to determine whether all dimensions are statistically significant in our conditions.

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# **MANAGERIAL ACCOUNTING AND BUSINESS DECISION MAKING**

*Carmine D'Arconte PhD<sup>21</sup>*

## **ABSTRACT**

*The focus of this paper is on a fundamental question, that is: "how entrepreneurs in organizations approach management performance in general and in particular managerial accounting and customer satisfaction monitoring". The question is nowadays even more vital if we consider the high competitive and unstable environment that companies nowadays have to face with a persistent economic and financial crisis.*

*For this purpose, apart from a desktop research on the contributions from academic literature, a research based on questionnaires was carried out with entrepreneurs in order to ascertain on one side their managerial preparation and on the other their specific approach to these two critical issues.*

*The results, apart from an excessive theoretical approach in academic contributions, show a rather critical situation with a considerable lack of managerial competences, tools and systems for monitoring both profitability and customer satisfaction level. The extremely reduced size of most companies, quite often with a very few employees and very limited investments in technology, is definitely worsening the situation.*

*In other words, management do not seem to have the necessary information on these two critical issues so to make the right decisions or, to put it in a more pessimistic but realistic way, the impression is that they do not even have a correct representation of the critical key drivers to monitor, so to be able to handle better processes and optimize the company's outcomes.*

*To offer a practical contribution it's proposed an innovative matrix that may help companies to make a proper segmentation of their portfolio, so to implement specifically targeted and not generic actions so to allocate their scarce resources in the best way.*

**Key words:** *Entrepreneurs Competences and Approach to Management, Profitability Monitoring, Customer Satisfaction Level Monitoring, The Profit and Customer Satisfaction Level Matrix*

**JEL Classification:** *M30, M41, L26*

**UDC:** *005:657*

*005.346*

*005.311.6*

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## ***INTRODUCTION AND THEORETICAL REVIEW ON ACCOUNTANCY AND CUSTOMER SATISFACTION***

In the relevant literature there are a lot of contributions highlighting the importance of accounting and customer satisfaction but, as a general rule, the impression is that considering the companies' necessities as well as their size especially in European countries, scholars seem to be concerned, in all respect, with rather theoretic aspects. For sure their contributions are important to understand better the nature and the frame of these fundamental topics, but, at the same time, these really seem to be of very little importance for companies and entrepreneurs who have to face every day practical problems.

For instance interesting discussions can be found whether companies should have a normative or a positive approach to accountancy (Thinker et al., 1982, p.167-200) while others are magnifying the importance of the Balance Sheet, stating that the Financial Statements provide information about the performance of a company and that it may be used to develop business plans and short and long-term goals. The Balance Sheet also seems to be the best tool for directing investments as entrepreneurs, when analyzing the past, can project and build the future so to increase the growth and remain competitive.

It's evident that the theoretic approach to accountancy is definitely of no interest for companies in practical everyday life but also the Balance Sheet, though fundamental for many aspects, is absolutely insufficient to run a business as it will be better explained later on.

As far as accountancy is concerned it is true that this may be considered at different levels such as the Balance Sheet, or the financial general aspects, or the financial portfolio optimization and so on, but in no way this should induce not to take into consideration the basic fundamental mission of Business Administration, that is to offer entrepreneurs a significant practical contribution to run their business.

As some authors (Sayegh et al.,2004, p. 179) point out: "Managers have to make decisions everyday to solve problems, sometimes during period of crisis and uncertainty, when the pressure is enormous and, in order to make a decision, they need to evaluate the situation before they can make an effective decision". So data are necessary and it will be possible to have them only if there are appropriate systems to gather them on time and with the necessary details so that the management will be able to make the best use of them; if complete and reliable data are not available on time, the management will obviously run the risk to make the wrong decision and this, in profit companies, will necessarily mean a loss of money.

Even like this, the representation of the situation is far from being complete as entrepreneurs problems in this regard begin much earlier; for instance when preparing a good business plan with reliable sales forecast, cost evaluation, price determination, processes control and improvement and more in general knowing in advance what data to look for and how to use them to make the right decision.

In this direction a great contribution may be found in what is generally defined as "managerial accounting" referring not to simple accountancy that normally regards ordinary clerks, but to the process of identifying, analyzing, interpreting and also communicating information to all the people concerned and with all the necessary details, so that the right decisions may be made in line with an organization's goals; after this, what is fundamental, Managerial Accounting also takes care that the results obtained through these decisions are systematically measured and assessed.

In this regard, remarkable texts are to be found (such as Anthony et al., 2005; Metallo, 1985 and so on) that are focusing on simple fundamental aspects that may be of great help in running a business though they probably should be a little simpler, down to earth and produce more practical examples.

As for customer satisfaction the situation is not very different as there are so many articles, books, presentations and so on, all declaring how fundamental it may be to ensure customer satisfaction on the generic assumption of the so called centrality of the customer in a high competitive environment as it is nowadays.

Some authors (Constabile, 2011) have written books on the so called "relational capital" trying to highlight the fundamental importance of customer satisfaction and loyalty but we believe that scholars should be able first of all to explain more in detail why it's convenient for entrepreneurs to invest in this direction, giving them some practical example of possible extra profit that they could have. They should also let them have better indications regarding *when*, *how* and *how far* to invest in Customer satisfaction; finally, we believe that entrepreneurs should have some practical and down to earth schemata on which to work.

## ***PRELIMINARY REMARKS, RESEARCH OBJECTIVE AND METHODO- LOGY***

### Preliminary remarks:

The main goal of this paper is to give a practical contribution in underlining the possible consequences of the lack of internal knowledge regarding the customer portfolio in terms of two critical aspects such as profitability and satisfaction level. In fact, wondering what types of client are fundamental for a profit company and on what is indispensable to concentrate attention and efforts, it will probably not be difficult to agree on the fact that clients should simultaneously have two basic characteristics, which are:

- to generate sufficient profitability
- to be loyal over time because they are satisfied with their relationship with the company so as to constitute an ongoing source of profitability for the future

In this regard, companies nowadays may bank on several communication channels to guarantee a constant and complete interaction with customers; this can lead not only to a continual enrichment of the company database but can also make it possible an integration with other types of data, such as accounting results, and more generally all

the data that can be obtained both within the company and from the external environment, with the objective of setting up a company data warehouse.

In this way it's possible not only to carry out complex analyses and predictions of future trends but also, at a more simple but still fundamental level, to monitor profitability levels and the state of relationships with the various customers apart from other internal and external processes with which a company carries out its contacts with the reference market.

Research question:

How entrepreneurs in organizations approach management performance in general and in particular managerial accounting and customer satisfaction monitoring?

Methodology:

It was prepared a complete and detailed questionnaire with nearly 80 questions on entrepreneurial competences and their approach to business. Out of these 80 questions, 13 were focusing on different aspects related to accountancy, 2 to process monitoring and re-engineering and 4 to customer satisfaction. The questionnaires were distributed to 30 entrepreneurs, most of them members of CNA, Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa di Roma, mainly the owners of little companies, and they were asked to fill it alone, without reciprocal consultation with the possibility only to ask explanations regarding the text of the questionnaire; after this, there was a long, open and interactive discussion on every single item.

The research with questionnaires has been then integrated with a desktop research, analyzing the most important contributions from the academic literature on the relevant topics as already indicated in point one.

## ***RESULTS***

The questionnaires and the following interactive discussion confirmed what we had been observing in our experience teaching several courses on business administration to approximately 200 members of the already mentioned organization (CNA).

Entrepreneurs normally show some natural recurrent traits in their personalities that help them in their company's management such as propensity to risk, creativeness, endurance to fatigue, intuitive problem solving skills, relationships skills and so on. Unfortunately they seem to be very poor as far as managerial skills are concerned mainly because they did not receive any managerial preparation; they have difficulty in fundamental issues such as the methodology for preparing an estimate, fixing a price and adapting it, costs assessing and control and so on; beyond this, they normally do not have any advanced accountancy system to relate properly the effective costs and revenues of their products and services such as an Activity Based Costing. On top of this, referring to the Italian Market situation, around 60% are individual companies



while around 35% are micro companies with an average of 3,6 persons (Sorsoli, 2013); therefore it's easy to understand how in these conditions it's extremely difficult to have a professional accountant who might help providing correct and complete data necessary to make the right decisions. For most companies the Balance Sheet is the only fundamental reference as far as Accounting is concerned with some fundamental limits that we will highlight later on.

Another critical issues is the Customer satisfaction level and how it's generally assessed and evaluated; for individual and micro companies the assessment is inevitably an unquestionable representation of the owner, generally also the only Manager of the company, without any possibility of serious and objective confrontation while in average size companies and big ones there may be some exchange of opinions among the different managers but, generally, it remains a self-centred, not objective and therefore often significantly biased assessment. This may be even more true considering that always from the same research as well as from our direct experience with entrepreneurs, despite impressive verbal declarations of a full availability in respect of customer's needs, companies still continue in practice to be focused primarily on themselves.

What may be the consequences of this cultural gap and lack of competences and appropriate systems both in accountancy as well as in Customer Satisfaction monitoring? The two items will be first considered one by one to focus later on the possible effect combining them together.

### ***CONSIDERATIONS ON THE ROLE OF MANAGERIAL ACCOUNTANCY AND POSSIBLE RISKS IN CASE OF ITS LIMITED AVAILABILITY***

As indicated in the introduction, the Balance Sheet has serious limits for managing correctly a business; in fact, the first point is that it is summing up what already has happened and that cannot be changed any more, though it may be useful for future optimization; the second is that it gives a total result which in no way is sufficient to give us a thorough representation of the single activities and the third one that in most companies the balance sheet is something not understood and normally handled by an external consultant that is examined generally at the end of the year to know the results and to pay the relevant taxes.

Focusing now here on the second point with a practical example, we can imagine to have in the financial statements of the X company, with  $n$  customers and a turnover of 100,000 Euros a year, 70,000 Euros of total costs with an operating result of 30%. Now the question is: "May the owner be sure that his company is doing well?" Definitely no, because these data, though important, are global values that tell us nothing about individual customers and the activities carried out on their behalf.

For simplicity's sake it can be imagined that the company only has 3 customers, A, B and C, with one activity each, and that an analysis gives the results shown in the

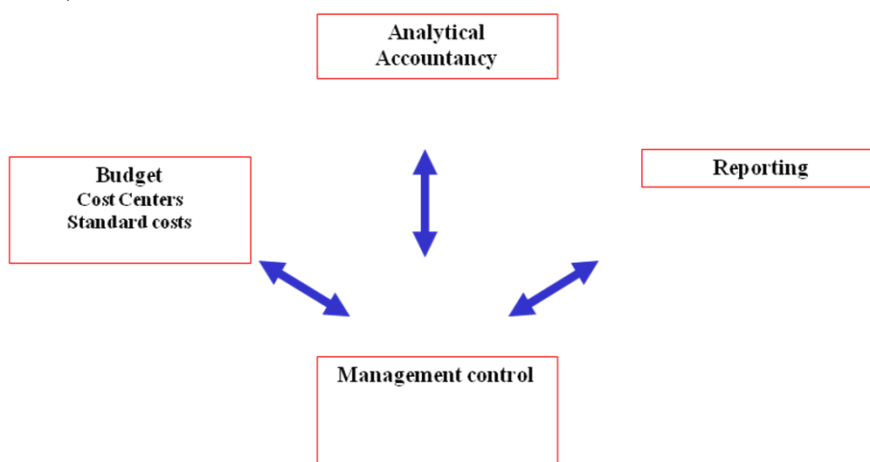
table 1. As it can be seen the three customers contribute in very different ways to the final result, which is in any case positive overall; in the first place C is in the red and only “contributes” to making the situation worse, B has the highest sales income at 60% but only represents 20% of the turnover, and then A follows with a gross profit of 33.33% but that vice versa ensures 60% of total revenues.

*Table 1: Simplified analysis per individual customer of a company which shows a positive result equal to 30%*

	A	B	C	TOTAL
Revenues	60000	20000	20000	100000
Costs	40000	8000	22000	70000
Gross Profit	20000	12000	-2000	30000

This simple example clearly shows how dangerous it can be to make evaluations based only on overall results and how it is essential to have detailed data on individual products or activities that can only be obtained thanks to good analytical accounting or still better by using advanced accounting methods such as Activity Based Costing which takes into consideration the real use of the resources required by each individual activity.

To sum up general accountancy is not sufficient as it will give us the total result as shown in the Balance Sheet, that is values aggregated considering their “nature” (revenues or costs) while we also need “partial” costs to be aggregated according to their “destination” (that is cost 1 is for product A, cost 2 for product B and so on).



*Figure 1: The fundamental elements of an analytical accountancy system*

Only in this way can be created a close relationship between every revenue with the cost we sustained and have in a company the so called "accrual accountancy", an accounting method that measures the performance and position of a company by matching revenues to expenses (the matching principle).

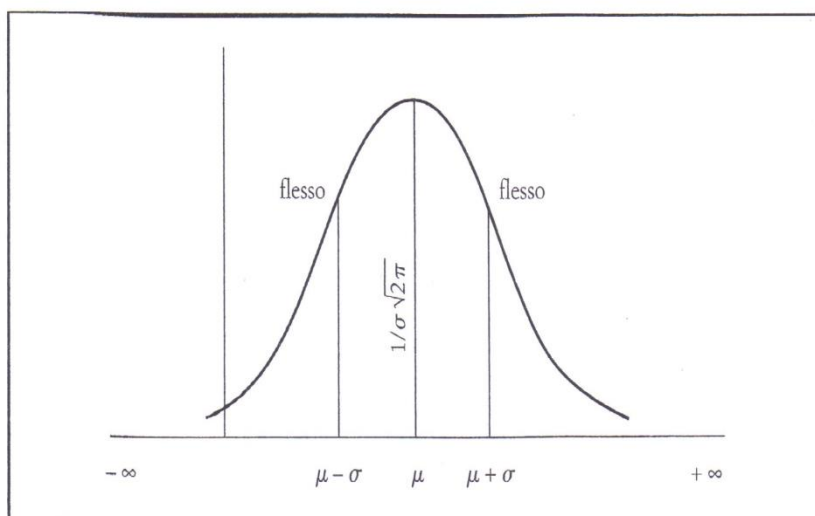
Is this all? Definitely no! In fact it's not only necessary to know what and how much has been consumed for every activity (or in other words to have exact figures about costs per product or service), but it's also fundamental to know whether the *right* amounts of materials and labour have been consumed and, to do this, it's necessary to implement a complex analytical system defining standard costs, cost allocation and cost centres, implementing processes and procedures for costs determination. In the picture 1, greatly simplifying, there is a concise representation of how analytical accountancy, thanks to a well designed and implemented information system that produces the necessary reports, may help the management to make the right decisions.

To let understand better the importance of all this, it should be added that only in this way a company may be sure to evaluate correctly the costs when making an estimate so to be able to make the right prices, a fundamental issue for all profit companies.

What may happen if in a Company there is no good accountancy system (like an ABC system)? If companies only have traditional and unsophisticated methods they will find it extremely difficult to provide accurate data regarding the use of resources for individual customers and for each activity, especially when a company has a large number of customers.

Furthermore, in this type of situation, the problem may even be more serious since the profitability will have to be “distributed” in some way, statistically speaking, in the sense that there will obviously be greater or lesser differences between customers as there will be between a single customer’s various activities. What will probably be the profitability distribution in such a situation? The central limit theorem can help in this case since it states that: “whichever probabilistic model is chosen, using very general hypotheses, as the number of replications increases, the standardized sum of casual variables tends to be distributed as a Normal (Iacus, 2006, p. 116)”.

It should be said that the Gaussian curve is anything but a theoretical abstraction, in fact it represents a wide variety of phenomena in the fields of physics, biology, psychology and marketing, to the extent that this curve may be seen as a real “bridge” between theoretical mathematics and reality. As it is well known, this curve has a classic bell shape, with two inflexions near  $\mu + \sigma$  e  $\mu - \sigma$ , where  $\mu$  is the distribution average and  $\sigma$  is the standard deviation, that is to say the square root of the variance; it can be seen how  $\mu$ ,  $\mu + \sigma$  and  $\mu - \sigma$ , subdivide the area of the curve into 4 areas (see picture 2).



*Figure 2: Optimistic hypothesis of profitability minimum, modest, good, high profit  
Pessimistic hypothesis of profitability high losses, modest losses, modest profit,  
high profit*

*Source: D'Arconte, 2013, p. 222*

Having said that, considering now companies that:

- have a lot of customers who remain with companies for a long time (who therefore repeat their interactions with a company over time as expressly foreseen by the central limit theorem)
- do not have advanced cost data gathering systems of the ABC type
- do not carry out systematic or scientific data gathering at the profitability level, limiting themselves to recording costs and revenues according to normal accounting practice

As it was already said, companies with these characteristics can expect that the profitability will tend to be distributed physiologically in a “normal” way, in the statistical sense of the term and this could be equivalent to having basically 4 customer segments that correspond to the 4 areas defined by  $\mu$ ,  $\mu + \sigma$  and  $\mu - \sigma$ , as follows:

- 15.86 % with a high profit
- 34.14 % with a good profit
- 34.14 % with a modest profit
- 15.86 % with minimum profit

This hypothesis is already quite worrying since it is obvious that the economic result of those customers who fall on the left of the central value heavily penalize those who are on the right of the same value, so that, if we reason in terms of average profit, the result produced by the more profitable half of the customers is strongly reduced by those with a low/minimum income.

Nevertheless the hypothesis illustrated above is an “optimistic” one, based on the assumption that all the customers are, to a greater or lesser extent, profit-making and that therefore the central point of normal income distribution corresponds to the average value but there could be an even worse scenario. In this regard, some authors (Wayland, Cole, 1997, p.104) state that not all activities always make a profit, statement with which we completely agree. In fact, it's well known how it is perfectly normal that in the initial phase customers are in the red and that it takes a while before they produce a positive cash flow but, unfortunately, this does not happen automatically in every case; some customers continue to stay in the red without being noticed by a company's unsuitable accounting process.

As a result, particularly for companies with a lot of customers that have difficulty monitoring activities' profitability and that also have a high loss rate so that they need to focus hard on new acquisitions, it is likely to occur that, although a company makes an overall profit, a part of the income generated by profit-making customers is heavily “eroded” by those in the red. There could even be an extreme situation, in which the profit generated by 50% of customers could be “wiped out” by the other 50% who are in the red (see picture 2, pessimistic hypothesis). In this case the central distribution value would no longer be the average revenue but the break-even point and the possible distribution, this time between profitable customers and customers in the red, in an extreme scenario, would be the following:

- 15.86 % with high losses
- 34.14 % with modest losses
- 34.14 % with a modest income
- 15.86 % with a high income
- 

Which of the two hypotheses is more truthful? For Robert E. Wayland and Paul M. Cole (Wayland, Cole, 1997, p. 104) there is little doubt that it is often the second one since they maintain that “some customers remain in the negative cash flow area for a long time before they reach the break-even point. Even then the cash flow they generate may be a little weak. Others never leave the negative zone” and the authors even state that “this distribution model may found in almost all sectors.”

Anyway it is highly improbable that in reality companies may be in this extreme scenario as, no matter what kind of accountancy systems they might have, they will easily realize that they have no money in their cash desks; nevertheless we believe that are quite common intermediate situations where a significant part of the income generated by profit-making customers is heavily “eroded” by those in the red and this may definitely represent a devastating damage for companies.

## ***CONSIDERATIONS ON CUSTOMER SATISFACTION MONITORING***

It's not possible to go too far into detail regarding how to set up and maintain a good Customer Satisfaction data gathering system and, in this regard, the reader may consult specialised studies and publications on the topic; here we will limit ourselves to expressing our belief that the only way to conduct serious monitoring of Customer Satisfaction is to ask customers directly about their experiences with companies at all levels, that is to say during the sales, the handling of administrative aspects, the post-sales management and so on.

As far as data gathering methods are concerned it is obviously important to avoid in all cases any “do-it-yourself” approach and to use specialized external Research Institutes; these will carry out periodical surveys on representatives samples and give the results to companies without any type of conditioning both in the start-up and research phases and, above all, in the final phase when conclusions are drawn.

This is obviously an expensive method and often quite “painful” since it can reveal deficiencies and limits that more usually are to be attributed to management rather than to the executive staff or to the external context; anyway it is the only way to obtain a truthful picture, essential for each successive optimization rather than investing time and money with the only result being a certified but distorted and often untrue confirmation of the effectiveness of the Management work.

Why is it so important to monitor the Customer Satisfaction level scientifically? Because as already seen in the case of profit, the level of satisfaction will have a distribution and it is obvious, here too, that organizations that do not look after these aspects carefully and have a lot of customers must expect that the Customer satisfaction level will be distributed physiologically in a “normal” way, in the statistical sense of the term.

As a result if a company has  $n$  customers we can reasonably assume, under the conditions already specified, that also in this case there will be a Gaussian curve which will subdivide the customer portfolio into roughly 4 segments as indicated in figure 3:

- 15.86 % very dissatisfied
- 34.14 % averagely dissatisfied
- 34.14 % averagely satisfied
- 15.86 % very satisfied

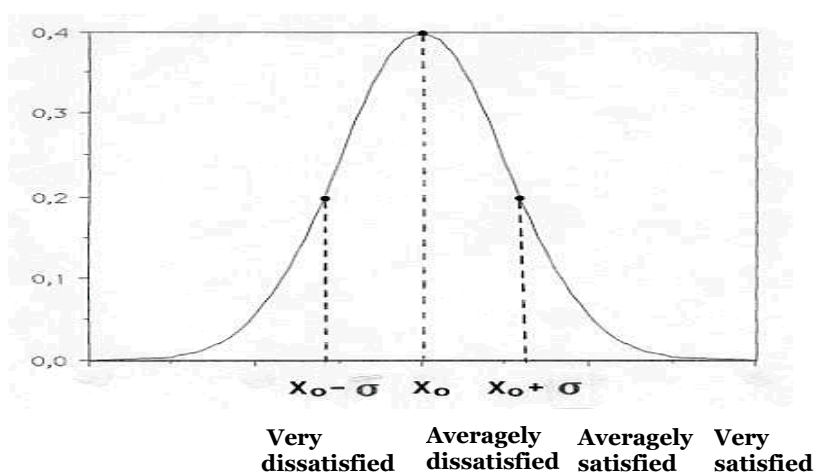


Figure 3: Probabilistic distribution of the level of Customer Satisfaction among a company’s customers

Source: D’Arconte, 2013, p. 226

In more expressive terms it would be “normal” to expect that about half of the customers will be dissatisfied (and of these about 16% very dissatisfied), that about 34% will be more or less happy with our services and that only 16% are very satisfied.

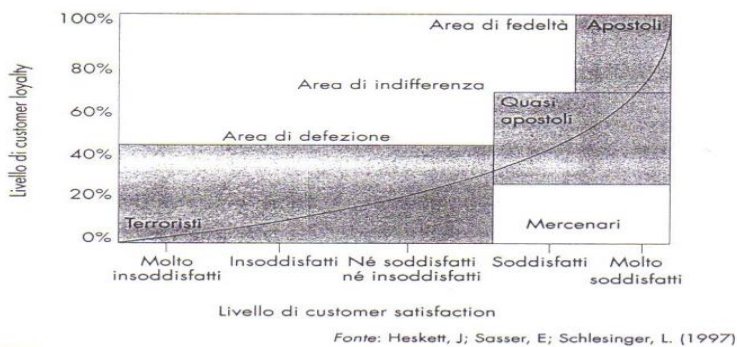


Figure 4: Customer classification and possible behaviour

Source: Peter, 2013, p. 227

It is obvious that various levels of satisfaction will correspond to various types of reaction and therefore potential different behaviours; in this regard the Heskett’s matrix (Iasevoli, Pratesi, 1997) is very interesting as, by relating Customer Satisfaction and Customer Loyalty, it identifies classes of customers among which there are, for example, the so-called “apostles”, those who activate a positive word-of-mouth by praising a company’s abilities, then “mercenaries”, “the indifferent” and so on.

The matrix, according to this classification, allows to place customers in three fundamental areas, such as “loyalty”, “indifference” and “defection” (see figure 4).

## ***CONSIDERATIONS ON THE COMBINED EFFECT OF PROFITABILITY AND CUSTOMER SATISFACTION LEVEL***

In the event that companies do not carry out an appropriate and systematic monitoring of their customers' satisfaction levels and at the same time do not have advanced accounting recognition systems, what the consequences may be of all this? In this regard the next step will be to combine the two Gaussian curves, one related to the satisfaction level distribution and the other to profit level (with reference to the pessimistic hypothesis), thus obtaining the Satisfaction - Profit matrix (see figure 5) which places the 4 classes of the state of relationships on the ordinates and the 4 profitability sectors on the abscissas; in this way we obtain 16 quadrants which identify 16 "classes of customers".

In line with what already seen in the case of Heskett's matrix, it can be understood how each of these "classes" will inevitably tend to display different behaviour which is closely connected first to the satisfaction level and then to the price paid.

Two "classes" are immediately drawn to our attention because they require immediate intervention, such as the customers in the last quadrant down on the right and all those that show losses, but, in particular, those in the top quadrant on the left.

In the first group we have highly profitable and at the same time highly dissatisfied customers; a company should give absolute priority to intervene and ensure that they do not leave the company for another supplier; it is to be noted that the high profitability may be due to the fact that customers pay high prices. This means that if customers leave, apart from the severe economic damage, there would also be a very negative word-of-mouth, for example "not only do they work badly but they are also very expensive!".

In the second group, on the top quadrant on the left, we have customers who represent a serious loss for the company, probably because they pay very little for a company's services but, in this case, they are, alas, very satisfied. It is to be noted that here the level of Customer Satisfaction could play a negative role as they will very probably tend to remain as customers indefinitely thus worsening the damage over time. It is essential to take immediate and corrective action with this group too, or if there is no other alternative, to try and disinvest as soon as possible (contractual clauses and commercial "good manners" permitting so as to avoid negative fallout in terms of company image).

The matrix also allows to understand that apart from urgency there is another critical factor to be considered, that is the level of difficulty to carry out optimization actions that may be inversely related to the customer satisfaction level. Unsatisfied customers may be ready to leave at any moment while in case of satisfaction it will be exactly the contrary.



Satisfaction and profit matrix

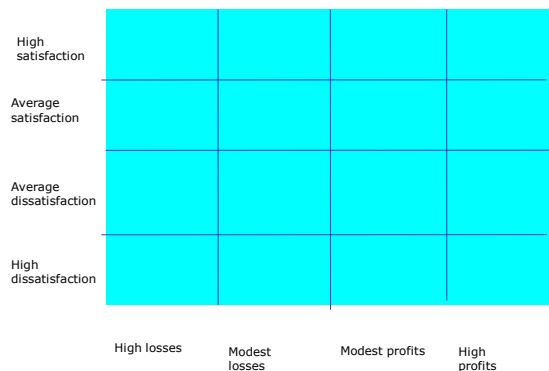


Figure 5: Satisfaction- Profit matrix that “crosses” satisfaction level and profitability thus identifying 16 possible classes of customers

Source: D'Arconte, 2013, p. 228

In the picture 6 there is a representation of these aspects; in fact we can see here two arrows run through the two macro-classes while each class has a number assigned to it. The number represents the degree of urgency for carrying out interventions for optimization (it is to be noted that level 3 in the “high profits” represents the maximum level as 4 is in the other class); the direction of the arrow represents instead the growing level of difficulty, which in the case of “high losses” goes from the bottom to the top and in the class of “high profits” goes in the opposite direction.

Satisfaction and profit matrix

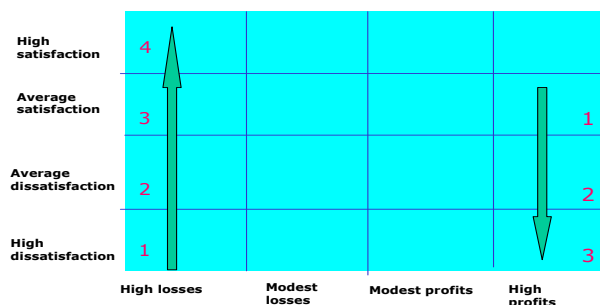


Figure 6: Degree of urgency for optimization interventions (from 1 to 4) and growing level of difficulty according to the direction of the arrows.

It is clear how it will be more difficult to salvage the relationship and to retain the customer in the case of strong dissatisfaction; in a similar way it will not be easy to regain profitability or at least to rescind contracts with loss-making but satisfied customers. For the latter case it is important to remember to read the Life Time Value in the diametrically opposed direction, in the sense that keeping a customer that does not make a profit means automatically multiplying losses over time so that companies, should it not be possible in any way to improve economic results satisfactorily, have to be willing to bear the costs, pay penalties and so on, rather than to continue serving loss-making customers who, as well as accumulating losses over time also prevent companies from using some of their resources to conduct other more profitable activities.

Essentially even if the matrix immediately identifies 16 classes of customer in different situations, the degree of urgency in relation to the satisfaction level makes it possible to considerably expand the scenario: this means that companies that aim to optimize their portfolio can and must carry out an in-depth "segmentation" and choose the type of customer to concentrate on. In this way they will obtain precious insights as to how personalize any actions for optimization and finally they could start specifically targeted actions, allocating the necessary investments wisely, according to the "value" of the various segments and to the set objectives.

## ***CONCLUSIONS AND FUTURE PERSPECTIVES***

So to sum up, it should be clear how important it may be for a company to invest in tools that may allow to have a correct representation of its customers profitability and satisfaction level so to invest its resources not in an indiscriminate way with all customers but, on the contrary, selecting them and giving the priority to the more profitable ones. So in plain contrast with what is generally declared, we are not speaking of a generic centrality of all customers but of a selected group of them; we think it should be clear at this stage how it can be misleading or even dangerous to consider only the state of relationships as shown by the Heskett's matrix (see figure 4); with regard to this, in fact, it's not difficult to imagine the consequences if the so called "apostles" were precisely those customers producing heavy losses!

It was also provided a simple but effective schema for segmentation with the profit and satisfaction level matrix and we believe that companies applying these simple principles may have extraordinary results especially if they avoid considering only the starting point when it's necessary to invest in implementing a good accountancy system and in serious researches to assess the customers satisfaction level; at this stage companies have to make an investment and this will probably worsen the economic situation but in the long run, segmenting the portfolio and implementing tailored actions according to the different situations, the cumulative result will give a boost to the financial situation.

Apart from this, companies might stop investing so much resources (time and money) in a continuous and indiscriminate research of new customers starting to take care of the good customers they already have; they will save like this a lot of money avoiding unnecessary advertisement as well as limiting disputes with

difficult and not profitable customers, they will benefit of a reduced churn, of an increased lifetime value of customers and of a positive word of mouth that in most cases will bring for free new profitable customers.

In the same direction, companies will have to focus on all the processes in order to make them as effective and efficient as possible by optimizing the use of the available resources, thus improving profit margins. Here again this fundamental activity (process re-engineering) can only take place when a company has advanced data gathering systems that make it possible the continuous monitoring of processes and promptly make available “targeted” quantitative data, that is data that may be referable in a precise, complete and detailed way to a particular phenomenon to be investigated (for example production hours, consumption of materials, rejects and so on for each single activity). These data gathering systems, which are the basis of a valid analytical accounting, then have to be integrated at the level of a Data Warehouse System.

We have already been investigating on the return companies may have investing in this direction in our research and studies on CRM, Customer Relationship Management (D'arconte, 2015, p. 203-229) where we also worked out some formula in order to assess the benefit companies may have investing in reasonable and well targeted retention and at the moment, as a future perspective, we are working to improve this quantitative approach developing a simple but effective software that may immediately show the benefits that such an approach may bring to companies.

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## **ASSESSMENT OF JUSTIFIABILITY OF IMS IMPLEMENTATION FOR SMEs IN SERBIA**

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### **ABSTRACT**

*Integrated Management Systems (IMS) are developed by integrating the demands of standard management systems: QMS (Quality Management System), EMS (Environmental Management System), OHSAS (Occupational Health and Safety Assessment System), and others. IMS are guidelines to help companies tackle some of the most demanding challenges of modern business. They bring numerous technological, economic and societal benefits and can be applied to any organisation, large or small, regardless of the sector of activity. IMS are strategic tools that reduce costs by minimizing waste and errors and increasing productivity. For small and medium sized enterprises (SMEs), IMS can help to build customer confidence, meet regulation requirements, reduce costs across all aspects of business and gain market access across the world.*

*Many domestic small and medium enterprises (SMEs), precisely through the implementation of integrated management systems, are trying to provide effectiveness and efficiency in its operations and meet the expectations of both internal and external stakeholders. In this paper, we have discussed the justifiability of investments in IMS and the primary objectives of their application in SMEs in the Republic of Serbia. The accent is also put on the support that SMEs receive for the introduction and implementation of IMS by the institutions relevant for the issues of standardization, certification and quality. The authors have presented some of the results of research conducted in the period May-December 2013th, on a sample of 52 enterprises employing up to 250 workers and possessing the certification of two or more management systems. IMS implementation is conditioned on the assessment of their usefulness for potential users (SMEs), so the basic hypothesis of the paper is H1: SMEs consider that investments in IMS are justified.*

**Key words:** *Integrated Management Systems, Small and Medium Enterprises, Standards, Implementation*

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## ***INTRODUCTION***

More than 99% of the total number of enterprises in Serbia belongs to the SME category. As being key players in the market, domestic SMEs are trying to improve their competitiveness, increase effectiveness and efficiency of processes, and improve the quality of products and services, precisely by implementing integrated management systems (IMS). Therefore, with justification we can say that the implementation of IMS becomes an important issue of SMEs business on global market in the twenty-first century.

In addition to SME owners, whose priority is profit and as fast as possible fertilization of invested capital, a variety of stakeholders: customers, communities, employees, suppliers and governments, perform an increasing pressure and set requirements for enterprises to adapt their management system according to different standards to make sure in advance they will meet their expectations. Integrated management systems, which are mostly used in domestic SMEs, are: QMS (Quality Management System), EMS (Environmental Management System), FMS (Food Management System), OHSAS (Occupational Health and Safety Assessment System), HACCP (Hazard analysis and critical control points) and others. Respecting the requirements of those systems, SMEs have to deliver technologically superior products, at perfect quality and competitive price, taking into account the environmental protection, the health and safety of employees, and the fulfillment of expectations of all interested parties (stakeholders). SMEs that decide to implement the integrated management systems must be prepared for radical changes that will happen, especially in processes and procedures, which can lead to change in business philosophy and culture of the entire organization.

Despite the unquestionable benefits of IMS, it is evident that the domestic market is currently characterized by very unfavorable business conditions, unfavorable macroeconomic trends, the high level of corruption, insufficient institutional support and so on. For that reason, in the paper we have engaged in more detail with the justification of IMS investments and the primary objectives of their implementation in SMEs in the Republic of Serbia.

## ***LITERATURE REVIEW***

The numerous empirical studies about justification and effects of the implementation of quality system ISO 9000 and other models have been conducted so far. In most cases, based on the results of analyzes, were made claims that the contribution of quality systems implementation to company's performance improvement is very big, but some authors have concluded the opposite - that the contribution is none or is very little. As possible influencing factors on level of success of IMS implementation usually stand out: motivation and approaches to implementation, the quality of planning, management and employees commitment, implementation procedures, etc., then the effect of external variables in the

environment, such as macro-economic, legal, financial and other. Therefore, there is general confusion and uncertainty about the effectiveness of standards and their long-term contributions to companies (Gotzamani, Tsiotras, 2001).

Empirical studies confirm that the ISO 9001 is successful in building the capacity of conformation and that the usage of ISO 9001 can realize benefits by improving process efficiency and competitive abilities (Rusjan, Castka, 2010). Calvo-Mora et al. (2013) point out that for setting up the efficient TQM system is necessary to have an adequate level of culture, human resources and management (soft factors), as well as the commitment to quality. Soft factors must be integrated into the management system that includes resources, tools and management techniques (hard factors). In their study, Terziovski et al. (2003) have confirmed the hypothesis that the motivation for ISO 9000 certification is a significant and positive predictor of the benefits derived from certification, and that there is a significant and positive relationship between the quality cultures of ISO certified organizations and the benefits arising from the certification process. Companies seeking certification to improve the quality of products and services tend to gain greater benefits from the ISO certification process (Feng et al., 2008). Authors Ullah, Wei (2013) find that by internal improvements, the company should benefit from the ISO certificates through greater awareness of quality among employees, improvement of products and services and increased productivity and efficiency. In their study Alic and Rusjan (2010) indicate that internal audits have more positive than negative effects on business performances and that they contribute to achieving business goals of the company and thus to efficiency.

Martínez-Costa and Martínez-Lorente (2004) have explored the relationship of TQM and ISO 9000 in the Spanish industrial companies. Results of the analysis on a sample of 713 questionnaires showed a positive relationship between the use of TQM and hard factors (which are mainly related to costs) and soft factors (which are mainly related to quality).

The Ministry of Economy, Trade and Industry of Japan by surveying 680 Japanese companies operating in China in the year 2000 have investigated the degree of adoption and implementation of the ISO 9000 series for quality management in order to improve the corporate image and increase product quality (Shimada, Okamoto, 2010). Most companies agreed to be able to achieve these goals after implementing the ISO quality management system. The research results of these authors show that serious application of quality management philosophy based on ISO 9001 leads to increased responsibilities of employees and better financial results of companies.

Using a unique set of data, on a sample of 45.050 companies with ISO certification in 115 countries in the period 2006 - 2011, Ullah and Wei (2013) investigated whether the benefits of ISO certification vary when companies work in different levels of business in a corrupt environment. They found that ISO-certified companies showed significantly higher growth and achieved greater work productivity than firms that were not certified. This result is very important because they, in the process of research, have considered factors such as: effects of the industrial sector, macroeconomic variables at the state level, the size of the

company, the level of corruption and potential partiality in relation to data from survey of self-reporting. They also found that the positive relation between ISO certification and labor productivity is very important, regardless of the degree of corruption. However, the positive relation between sales growth and ISO certification becomes meaningless when the firm operates in a very corrupt business environment.

Certain number of companies is introducing quality system from external reasons, or the realization of marketing benefits, customer expectations, competitive pressures, and the like (Feng et al, 2008), rather than from internal reasons, which include improving processes at all levels, reducing costs, increasing product quality and the like. Companies seeking certification of ISO 9000 from external reasons are likely to be able to gain fewer benefits because of their narrow focus, since ISO certification could serve as a signal that certified companies have certain desirable, solid characteristics and that can provide the expected level of product quality. Certificates can be used as a guarantee of quality (Ullah,Wei, 2013). This approach is based on the fact that the companies focus mainly on quick and easy certification, with no real commitment to quality. This can lead to disturbances in the development of static system, which increase bureaucracy and reduce flexibility and innovation, with no guarantees of real continuous improvement of products and processes and improvement of customer satisfaction. These companies receive certification of ISO 9000, but this by itself can not allow them to achieve world class economy (Gotzamani,Tsiotras, 2001).

### ***IMS AND REQUIREMENTS OF STAKEHOLDERS***

The interested party (stakeholder) is a person or group that has an interest in performances or success of an organization. The most important groups which make an organization's stakeholders are: users or customers, owners, employees, suppliers, partners (bankers, unions, and business partners) and society. Interested parties add value to organization, or are otherwise interested in activities of the organization, or activities of the organization affect them. Meeting the needs and expectations of stakeholders contribute to achieving sustainable success of the organization (Heleta, 2012, pp. 87). Before the introduction of IMS, it is necessary to identify all the stakeholders, assess their potential impact on the performances of the organization and determine how to balance in meeting their needs and expectations.

*Table 1: Integrated management systems and stakeholders*

MANAGEMENT SYSTEM		STANDARD	USER
Mark	Name	Mark	Stakeholder
QMS	Quality Management System	ISO 9001:2008	Customer
EMS	Environmental Management System	ISO 14001:2004	Community
OHSMS	Occupational Health and Safety Management System	OHSAS 18001:2007	Employees
CSRMS	Corporate Responsibility Social Management System	SA 8000 ISO 26000:2010	Employees, Society
FMS	Financial Management System	Sarbanes - Oxley Act	Shareholders
FSMS	Food Safety Management System	HACCP ISO 22000:2005	Customer
SMS	Security Management System	ISO/PAS 28000:2005	Shareholders, Community
ISMS	Information Security Management System	ISO/IEC 27001:2005	Shareholders
CTCL	Competence of the Testing and Calibration Laboratories	ISO/IEC 17025:1999	Customer
DMS	Dependability Management System	IEC 60300	Customer

*Source: Heleta, 2008, pp. 151*

The tendency of modern business is for all stakeholders to standardize their requirements. The realization of these requests is generally accepted concept, based on QMS for all companies that want to operate successfully and survive on the market. Certainly it would be easy to come to the conclusion that one of the main tasks and interests of the organization is to all its stakeholders be satisfied with what the organization offers, ie those areas that are the subject of their interest.

*Table 2: Areas of stakeholders' interests*

Stakeholders	Area of interests
Customers	Quality of products Price Terms of delivery Maintenance of products after delivery
Employees	Wages Operating conditions The stability of the organization
Owners	Profits Customer loyalty Employee loyalty
Suppliers	Regularity of orders Long-term cooperation Good payment
Community	Satisfied citizens Environment Regularity of taxes and contributions

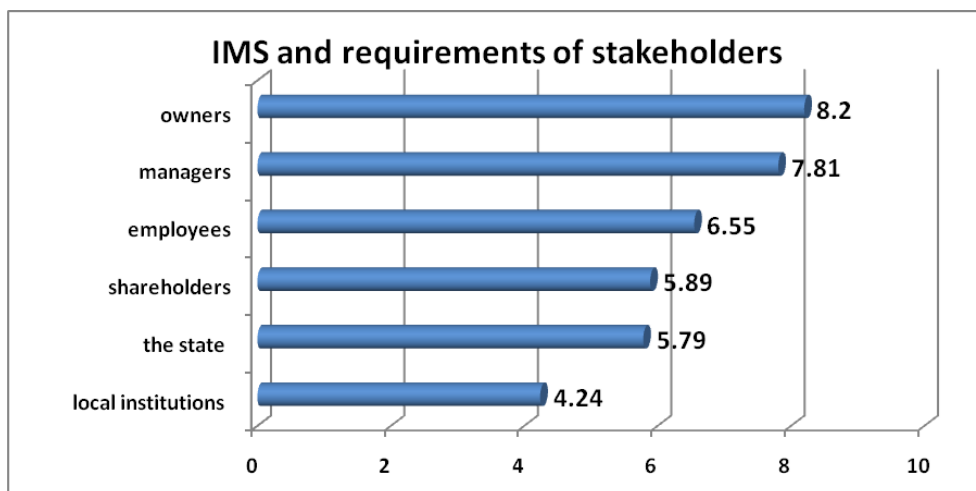
*Source: Djordjevic, 2007, pp. 3*



The integration of a growing number of new standards is becoming a very serious problem. That is a particular problem for SMEs that do not have sufficient resources to build the required systems by themselves. Seen from the side of certain groups of users of the organization (customers, shareholders, employees, suppliers and society), each of them requires only a certain system, according to a specific standard. Seen from the side of the organization, it already has a basic management system and is interested to adapt and adjust it, as simple as possible, to the requirements of different standards, but with unique resources, competencies, objectives, plans, documents, trainings, checks, improvements and certifications.

For SMEs, it is very important to adequately respond to the requirements of stakeholders, so surveyed companies were asked to estimate their requirements in the domain of IMS. Authors were using scale ranging from 1 (the lowest rank requirements) to 10 (highest rank requirements). Among the most influential stakeholders for SMEs are business owners, managers, employees, shareholders, state and local institutions. When asked about the assessment of stakeholders requirements, unfortunately, 18 SMEs did not give an answer, and based on reviews of 34 SMEs (65% of the sample) were obtained the following average grades.

In the first place were ranked the owners, with an average grade 8.2 which can easily be explained by the fact that 87% of surveyed enterprises (45 SMEs) are privately owned (Vukadinovic, Stankovic, 2014, pp. 32). The following are managers (7.81), which play a key role in the implementation of IMS and its acceptance by the employees, who are ranked in third place (6.55). Managers need to communicate with employees about the implementation of standards, changes and improvement of work, but also to be open to suggestions of other stakeholders, with simultaneous presenting the work on the integration of management systems. Insufficient knowledge and motivation of employees are among the biggest constraints for the establishment of IMS, identified by more than 90% of surveyed enterprises, and with resistance to changes belong to three biggest problems in IMS implementation (Vukadinovic, Stankovic, 2014, pp. 45). The introduction of any standard draws energy from each employee and they often do not see the purpose of standard implementation. Therefore, enterprise needs to develop awareness of management about the importance of standards, as well as the benefits of their introduction, while the management should continuously work on approaching standards to employees. According to range of requirements in terms of IMS, the employees are followed by shareholders (5.89), the state (5.79) and local institutions (4.24).



*Figure 1: The requirements of stakeholders in terms of IMS*

*Source: The authors' illustration, based on the research results*

## **OBJECTIVES OF IMS APPLICATION**

Enterprises can gain competitive advantage and greater market share by meeting the demands of customers with quality products and competitive prices. Therefore, the product quality is vital to the economic success of enterprises and is considered as critical factor of success in the global competitive market (Stankovic et al., 2014, pp. 70-75). Although the philosophies of quality management seem relatively simple, their implementation is certainly very complex, difficult and time-consuming. Some authors believe that for full implementation of quality system takes about eight years of intensive work. This value depends on numerous factors, but realistically can vary significantly in different regions. Such a claim applies for the adoption, as for the successful implementation of integrated management systems. Probably, this is the reason that the number of successful applications and the realization of excellent results is small compared to the total number of companies that have initiated the process of introducing a quality management system (Stankovic et al., 2014, pp. 70-75).

Integrated objectives include all financial and non-financial objectives of enterprises containing the quality objectives, environmental objectives, health and safety objectives, product safety objectives and the objectives of other standards/systems. The respondents were asked to rank the objectives, ie performances of IMS, ranging from I (objective of the highest rank) to VII (objective of the lowest rank). The answers were presented in the succeeding table.

Table 3: Objectives of IMS

OBJECTIVE	RANK							SME $\Sigma$	GRADE
	I	II	III	IV	V	VI	VII		
increasing customer satisfaction	24	6	5	6	5	2	2	50	8,48
increasing profits	13	13	6	4	5	3	3	47	8,09
reducing costs	9	11	9	5	11	2	3	50	7,68
increasing the number of customers	13	7	8	10	5	1	5	49	7,80
reducing occupational accidents	7	6	7	1	12	10	7	50	6,74
reducing the legal penalties	10	3	1	2	3	10	18	47	6,15
the quality of IMS process	11	6	6	10	5	6	5	49	7,39

Source: The authors' illustration, based on the research results

Given that all enterprises have not ranked all stated objectives and that for several objectives have allocated the same rank, in order to perform an objective ranking, to objectives were assigned weightings. To the I rank objective was given the weighting 10, the II rank objective the weighting 9, the III rank - 8, the IV rank - 7, the V rank - 6, the VI rank - 5 and the VII rank objective the weighting 4. After weighting objectives, we have divided the sum of obtained values for each rank of objective with the number of responses, reaching the average grade based on which was made the final ranking of objectives.



Figure 2: Ranking the IMS objectives

Source: The authors' illustration, based on the research results

The highest rank objective with an average grade of 8.48 is increasing the customer satisfaction, which is also the primary condition for successful business of enterprises. Therefore, is quite logical the fact that many as 51 enterprise (98% of the sample) apply the standard QMS - ISO 9001 (Vukadinovic, Stankovic, 2014, pp. 35). The next are increasing profits (8.09) and increasing the number of customers (7.80), as quite understandable economic objectives of market-oriented enterprises.

## JUSTIFIABILITY OF INVESTING INTO IMS

The application of integrated systems is conditioned on assessment of their usefulness by potential users (SMEs) which they are intended for and which are left to estimate by themselves, what is worth in terms of use of certain management system (standard). The surveyed enterprises were asked to estimate the justification of investment in IMS (from the point of benefits/costs) and to evaluate generated effects. As there is a direct correlation between the increase of product quality, as the main factors of competitiveness, and achieved financial results between, precisely the financial effects of IMS introduction were used as a measure of justification of investing. Companies have been offered a numerical scale ranging from 1 to 10, in the evaluation of their investments in IMS, and the results are graphically presented below.

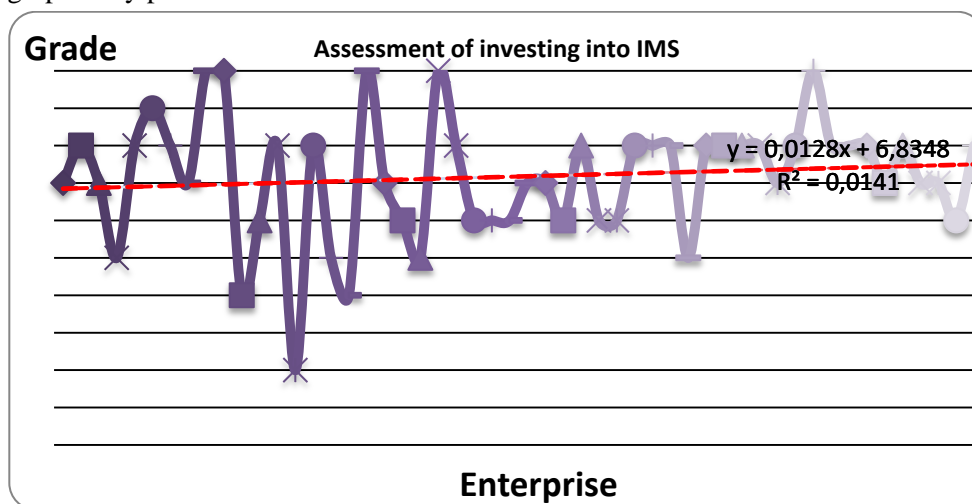


Figure 3: Assessment of justifiability of investing into IMS

Source: The authors' illustration, based on the research results

We can see that the lowest obtained score is 2, and that many as 5 SMEs have rated IMS with highest possible score - 10. The negative rating (from 1 to 5) to IMS was assigned by 7 enterprises (13% of the sample), and concretely 1 SME score 2, 2 SMEs score 4, and 4 SMEs score 5. As for the positive rating (of investments in IMS), the situation is the following: score 6 is allocated by 9 SMEs, score 7 by 10 SMEs, score 8 by 20 SMEs, score 9 by 1 SME and score 10 by 5 SMEs.

Positive evaluations (between 6 and 10) to IMS were assigned by 45 enterprises (87% of the sample), proving the hypothesis H1: SMEs consider that investments in IMS are justified. This could be supported with the fact that total achieved average rating, based on a sample of 52 enterprises, is also positive and amounts 7.17.

It is also important to point out that enterprises have noted numerous internal and external benefits that have occurred due to the implementation of the IMS (Vukadinovic, Stankovic, 2014, pp. 40-41).

*Table 4: The benefits of IMS implementation*

Internal benefits of IMS implementation	% of SMEs	External benefits of IMS implementation	% of SMEs
more precise definition of the employees' responsibilities	81 %	achieving the competitive advantage	83 %
increasing the quality of products	79 %	improving the reputation	83 %
increasing the level of efficiency	65 %	meeting the customer demands	79 %
reducing the level of scrap	63 %	better environmental management	46 %
increasing the competences of employees	50 %	reducing complaints	42 %
reducing documentation	46 %	improving relations with suppliers	42 %
improving communication in enterprise	38 %	reducing risks	37 %

*Source: The authors' illustration, based on the research results*

In favor of justification of investing into IMS, certainly speaks the facts about the positive impact of IMS application on increasing competitiveness and customer satisfaction. Namely 50 surveyed SMEs (96% of the sample) recorded an increasing in level of competitiveness as a result of IMS application, and in 39 SMEs (75% of sample) that increasing was greater than 10%. In addition, 48 SMEs (92% of the sample) have recorded an increase in the level of customer satisfaction, which enterprises pointed out as the top priority with an average score of 8.48 (Vukadinovic, Stankovic, 2014, pp. 43-44).

## ***EVALUATION OF SUPPORT OF EXTERNAL INSTITUTIONS TO IMS IMPLEMENTATION***

Quality infrastructure is, by definition of World Trade Organization, a set of state and/or private organizations, landscaped relevant regulations, whose activities relate to the development and adoption of standards and the issue of proof of compliance with them in order to improve the suitability of products/services, processes and systems for their intended purpose, namely the prevention of barriers to trade and facilitation of technological cooperation. Quality infrastructure, as set of specific rules, is precondition that products, processes and services improve in a way that they become safer, higher quality, and more competitive. The establishment and development of quality infrastructure is one of the important steps for EU membership.

Quality infrastructure is based on five basic components that make so-called European house of quality, and these are standardization, accreditation, metrology, conformity assessment (testing, calibration, inspection and certification) and quality. In recent years, foundations were laid for system of quality infrastructure in the Republic

of Serbia. The system is based on "four pillars", i.e. four crucial legislation, such as: Law on Technical Requirements for Products and Conformity Assessment, Standardization Law, Law on Metrology and Law on Accreditation. Although still lagging behind the neighboring countries, it should be noted that Serbia has made considerable advances in terms of quality infrastructure in the last ten years.

In order to improve the competitiveness of SMEs and the national economy, the importance of standardization and certification increasingly emphasizes. SMEs are encouraged to apply international standards, the procedures for certification simplify and subsidies for certification assign. Several ministries have programs to support this process and help and SIEPA (Serbia Investment and Export Promotion Agency), EAR (European Agency for Development), the Provincial Government of Vojvodina, Serbian Chamber of Commerce, Belgrade Chamber of Commerce, the Institute for Standardization of Serbia, USAID (U.S. Agency for International Development), Dutch organization SPARK and other organizations. However, when the surveyed enterprises were asked to assess the institutional support for the introduction and implementation of IMS, a different picture has obtained. SMEs have valued the support of relevant institutions for the issues of standardization, certification and quality with grades from 1 to 10, and following results were generated.

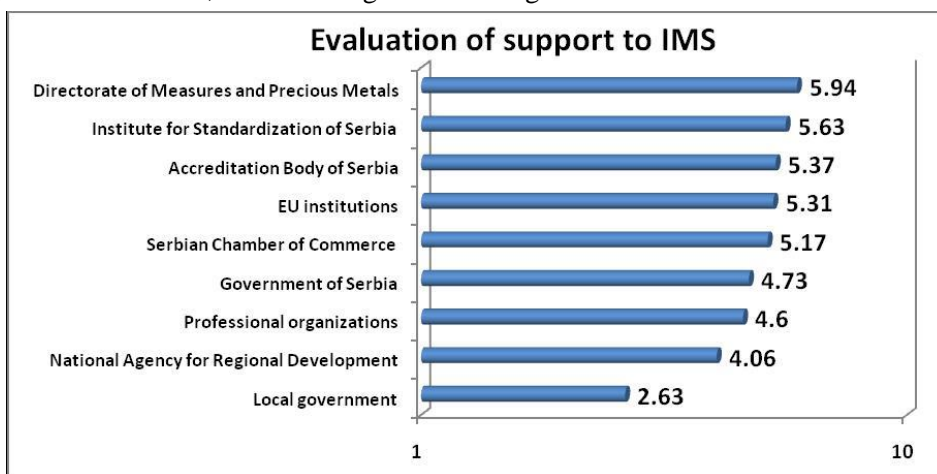


Figure 4: Support for IMS implementation

Source: The authors' illustration, based on the research results

How achieved grades are quite low, i.e. none of the institutions has not received a grade above 6, we can conclude that, in the opinion of surveyed SMEs, there is no adequate support for IMS implementation in SMEs. Average rating of overall institutional support is 4.94 (negative), which only confirms the previously disclosed. Best rated institutions are the Directorate of Measures and Precious Metals (5.94), the Institute for Standardization of Serbia (5.63) and the Accreditation Body of Serbia (5.37), while the lowest score was given to local institutions, only 2.63. Notable is very poor score for NARD (4.06), which should provide the greatest support for SMEs in all business aspects.

## ***COSTS OF CERTIFICATION***

Certification is the process through which a third party gives written guarantee that a product, process or service comply with the specified requirements. After the company designs and establish a system (product or service) harmonized with the requirements of a standard, it is necessary that to be confirmed by an independent and unbiased organization - the certification body, specialized in such tasks. The process ends with an official confirmation - certificate of conformity and by entering the holder of certificate in the relevant register. Hence, the quality system must be checked regularly and evaluated to determine its functioning and effects provided for quality assurance. When speaking about the checks of the quality system, we are mainly talking about the three types of checks. Internal audits are performed within the company by the employees. External checks include verifying one organization by another, that for such tasks has the appropriate certificate. Audits through a third party are checks with the aim of estimating the quality system and obtaining the certificate. Issued certificate is valid for 3 years from the date of issue, and every issued certificate has date of validity. For the duration of certificate the annual inspection is mandatory, or the certificate is withdrawn. Recertification involves the same procedure as the initial assessment, so once again detailed review of documentation and evaluation. The cost of certification and recertification is established by Certification Company.

Price of certification in our market varies, but it should not be decisive in the selection of the certification body. As a rule, one should not choose the most expensive, but certainly not the least expensive bodies, which depart from the usual prices. The second rule is that you can ask for lowering the starting price with presentation some of the following arguments: that your system is globalized, that many processes repeating, that the locations were identical, that do simple tasks equivalent that work in shifts, to work with similar equipment in many places, you have a lot of seasonal workers, etc. The second rule is that you can ask for lowering the starting price with presentation some of the following arguments: that your system is globalized, that many processes are repeating, that locations were identical, that you do simple equivalent tasks, that you work in shifts, with similar equipment in many places, that you have a lot of seasonal workers, etc (Heleta, 2012, pp. 350).

When asked about the estimated costs of certification, as we have assumed, a large number of enterprises avoided to give an answer. The question of finances is very delicate and enterprises practice that all financial information be treated as a business secret. For this reason, to the question of cost of certification, responses were received from only 17 enterprises, or just 33% of the interviewed sample. Based on analysis of responses, we came to the data that the average cost of certification is 7.353 euros per company. Enterprise that stated the lowest cost of certification of only 1,000 euros applies in its operations two standards, while 2 enterprises whose costs of certification were per 15,000 euros, also applied two, ie three standards. From the above, we can conclude that the number of certificates does not have a decisive influence on costs of certification, but also factors such as the business of the company, the differences in the

prices of certification bodies, the duration of certification, etc. In fact, given on small sample, as well as reasonable suspicion in the objectivity of individual responses (due to lack of understanding what is meant by total costs of certification and other reasons), this issue is not grateful for a more meaningful analysis.

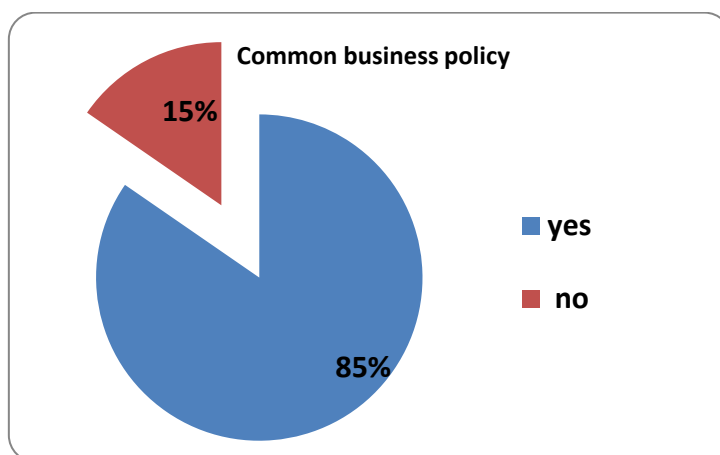
## ***DOCUMENTATION OF IMS***

One of the goals of management system integration is to reduce documentation on a level that includes all requirements of all partial management systems included in integration, without having repetition of similar requests for several times, and not to leave out some of the requirements of partial management system. Out of a possible integration processes, the simplest is the inclusion of new standards that are introduced into the organization with standard that already apply, which would mean the utilization and expansion of documentation which is used for the already existing standard with documentation of new standards that are included in integration. For example, when QMS is integrated with other standards (EMS, OHSMS, HACCP, etc), the company can integrate their documentation, while documents of quality system are basis for integration.

One of the essential requirements of standards in companies that have certified its quality systems is to form and possess the relevant documentation, primarily the quality policy and quality manual. For this reason, the question on IMS documentation was also included in the questionnaire. The issue consisted two parts: the first part is related to whether the business policy of SMEs is common and the second part whether quality manual is integrated? The aim was to determine the level of integration of documentation with the surveyed SMEs. This question was answered by all 52 SMEs and the results were as follows: common business policy has 44 SMEs (85% of the sample), and integrated quality manual 46 SMEs (88% of the sample). These results undoubtedly show that the integration of documentation is generated in a very large extent.

Business policy is a declaration of top management about way of doing business in order to ensure satisfaction of all stakeholders. The optimum is to announce one common policy that most simple and realistically reflects the values pursued. Top management defines the policy of organization according to its management system and ensures that this policy is appropriate in relation to activities, products and services of the organization, that complies with all legal and subordinate requirements to which the organization is committed and to continually improve the effectiveness of the management system, that provides a framework for setting and reviewing goals, that is transmitted and understood by all employees and persons working on behalf of organization and that its suitability is regularly reviewed. Hence, the formulation and presentation of policy is the responsibility of management which implement it, but also takes the initiative for its eventual modification. Policy of IMS must take into account the values, vision and belief, continuous improvements, as well as coordination with other policies, if they are not integrated into one.





*Figure 5: Common business policy of management systems*

*Source: The authors' illustration, based on the research results*

Quality manual is a document that includes a description of system as a whole, interaction of individual elements and reference to documents of lower level, and that provides complete information about QMS of the organization as a whole, both internally and externally. Quality manual describes the QMS in organization established in accordance with the requirements of ISO 9001:2008 and principles of quality management contained in the international standards ISO 9000:2005 and ISO 9004:2009. In Quality manual is defined the entire documentation of QMS, consisting of several interconnected layers. ISO 9001: 2008 requires special Quality manual and EMS and OHSAS do not have a special request for this document.

However, similar specific requirements of these two standards (internal audits, description of the subject and application areas, responsibilities and authority, etc.) may be included in the existing Quality manual. In preparing the Quality manual it should be remembered that this is a document used primarily by the top management, but customers also can require it, so a commercial version of Quality manual is often made. Quality manual has to be submitted to auditors of the certification body prior to certification.

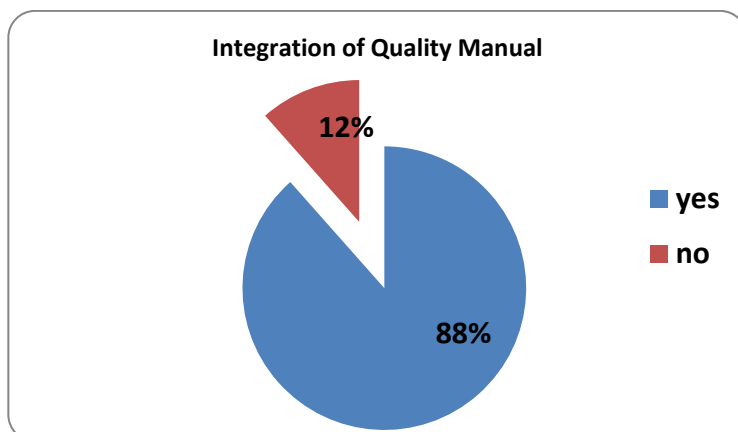


Figure 6: Integration of Quality manual

Source: The authors' illustration, based on the research results

### ***PLANS OF ENTERPRISES REGARDING IMS***

The last question from the questionnaire related to the further plans of enterprises regarding IMS. Among the surveyed enterprises, as many as 50 SMEs (96%) are planning to carry out re-certification of existing systems, reflecting the high level of satisfaction by using standards and their positive impact on operations of SMEs. Let us remind the fact that 92% of surveyed enterprises have recorded an increase in customer satisfaction, and 96% of SMEs increase of competitiveness as a result of implementing IMS (Vukadinovic, Stankovic, 2014).

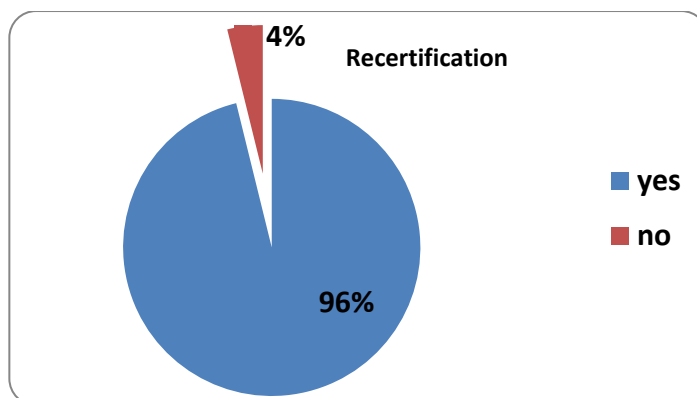


Figure 7: Plans regarding recertification

Source: The authors' illustration, based on the research results

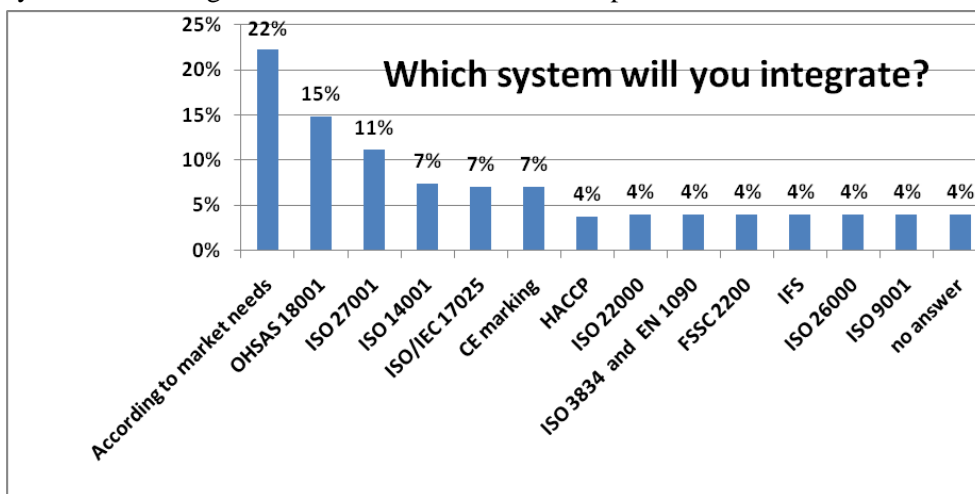
27 SMEs (52%) said they are planning integration of additional management system and answers to the question which that system will be are shown below.

*Table 5: Plans of management system integration*

Standard	Number of enterprises	Percentage
According to market needs	6 SMEs	22%
OHSAS 18001	4 SMEs	15%
ISO 27001	3 SMEs	11%
ISO 14001	2 SMEs	7%
ISO/IEC 17025	2 SMEs	7%
CE marking	2 SMEs	7%
HACCP	1 SMEs	4%
ISO 22000	1 SMEs	4%
ISO 3834 and EN 1090	1 SMEs	4%
FSSC 2200	1 SMEs	4%
IFS	1 SMEs	4%
ISO 26000	1 SMEs	4%
ISO 9001	1 SMEs	4%
no answer	1 SMEs	4%

*Source: The authors' illustration, based on the research results*

The table shows that the majority of enterprises decided to integrate systems OHSAS 18001, ISO 27001 and ISO 14001 in the future, which are also most frequent in the sample and considered to be (in addition to ISO 9001) the basis of the IMS. Also, 6 SMEs will decide about future integration of management systems according to the needs and business development.



*Figure 8: Integration of systems in the future*

*Source: The authors' illustration, based on the research results*

## **CONCLUSION**

The study results show that the primary motivation of IMS implementation for enterprises in Serbia are changes in the internal environment, continuous process improvement at all levels, increasing competences and responsibilities of employees, increasing productivity, reducing scrap etc. This resulted in decrease in variation of product quality, consumption of all resources, scrap etc. and thus in total cost reduction. In this way in enterprise were created conditions for increasing competitiveness, customer satisfaction, and trust in company and so on. In 96% of surveyed SMEs occurred increasing of competitiveness and 92% of surveyed enterprises increasing of customer satisfaction, as a result of IMS implementation. These results indicate that hypothesis ***H1: SMEs consider that investments in IMS are justified*** was completely confirmed.

This is confirmed by assessments about justification of IMS implementation: positive assessments (between 6 and 10) to IMS were assigned by 45 enterprises (87% of the sample). This could be supported with the fact that total achieved average rating, based on a sample of 52 enterprises, is also positive and amounts 7.17. The results are impressive because they show that significant improvements can be achieved in very unfavorable business conditions, unfavorable macroeconomic trends, under high level of corruption, insufficient institutional support for the introduction and implementation of IMS (average rating of total institutional support is negative: 4.94).

Positive experiences of surveyed enterprises confirms the fact that even 96% of enterprises are planning to carry out re-certification of existing systems, reflecting the high level of satisfaction using standards and their positive impact on operations of SMEs. Many enterprises are planning integration of additional management system (52%). The most commonly planned systems are OHSAS 18001, ISO 27001 and ISO 14001, which are also most frequent in the sample and considered to be (in addition to ISO 9001) the basis of the IMS.

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# **THE ROLE OF ENTREPRENEURS IN CREATING A SAFE AND HEALTHY WORKPLACE AS A FACTOR OF SUCCESSFUL OPERATING OF ORGANIZATION**

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## **ABSTRACT**

*In many of the activities to be carried out by manager, important place belongs to the plans of health and safety at work. There were oscillating periods in the last ten years, when there was working on the plans more or less, which dependent on whether the inspection was in the field or not. It is certain, that the awareness of the need for a healthy and a good job went upward, but still it is not enough. The reason is not only on the employer, but also a number of others. The aim is to point out what are the reasons, what is the situation, where we are supposed to be, and how to get to the desired goal, with emphasis on what is the role of the entrepreneur in all of this*

**Key words:** *Manager, Safety, Health, Workplace, Risk*

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## ***INTRODUCTION***

Safety and health at work falls into the category of activities for which there was a lot of talking about in the last ten years, but not just talk, also a lot was done on improving.

There are different opinions of the profession whether it is better to say the safety and health at work and protection at work. In the following text we will use the term safety and health at work, but both essentially involve conditions at work where employees feel safe, provided it complies with all prescribed procedures and work processes.

The paper aims to highlight the role of a single factor of safe workplace, ie. managers (employer-entrepreneurs) not putting by the side at any moment the other participants in creating a safe workplace and environment, and that are the employees (union) and the state (government). In other words, for the achievement of this goal the participation of all social partners is required.

At the beginning, it is necessary to eliminate a huge misconception, and that is that we deal with the safety of employees since 2005, ie. with the coming of the Law of Safety and Health at Work.

There has been given attention to the safety of the workers in the beginning when the first forms of work arrived, but to the extent which showed hazards for that period.

The first organized form of employee safety appears at the beginning of the 19th century. With later development of the industry a need for a greater degree of organization of security appeared because the working conditions were becoming less favorable, so as to form workers associations in order to seek workers rights from the state when it comes to safety.

The current rate of technology development, apropos automation, leads to a new way of organizing the process of the workplace with many different activities, part-time for the implementation as well as manual work has been replaced by intellectual, thus creating greater difficulties for employees in terms of safety.

Employee safety can be viewed through two aspects:

The first aspect is reflected in preventive action in order to create safe conditions in the workplace and work environment.

The second aspect of the application of legislation that is reflected in the obligation of employers and employees in creating conditions for safe operation, full-time, part-time, holidays, wages, the right to compensation, social security and so on.

It is necessary to undertake a variety of activities and measures to ensure a safe workplace.

Nowadays come to the fore diseases that occur as a result of stress, illness regarding the workplace, psychological and physical strain, occupational diseases and so on.

Unfortunately for these categories of potential risks and hazards are not given great attention because of the risks and hazards do not act now, but when they manifest it can be late for an employee.

Because all of this it is necessary to undertake a series of measures to achieve a remarkable level of protection. Practice has shown that a high level of protection is achieved when in these activities engage employers together with employees.

The question is: Who knows the best the potential dangers and hazards in the workplace and the environment? Is it the employer, the person for safety, employee or anyone else? Certainly employees, especially if they are working for long time in the workplace. Thus it is necessary to create conditions for the attraction of employees to be actively involved in the processes of safety.

Why is for the manager (employer) a safe and healthy workplace a need, especially if he needs to allocate some funds to meet these needs? If we put aside (what the union often says) social and human aspect, ie. that employers are inhumane and that little attention is paid to the security of the workplace, researches in Serbia show that the situation is different. The third aspect is of great importance, and that is the economic aspect of the organization and competitiveness on the market.

If a worker is on sick leave because of injuries at work, occupational diseases, it is certain that the employer has a cost, which is manifested in the delay of production, quality of products (services) etc.

## **WHAT STATISTICS SHOWS**

World Health Organization statistics show that the number of casualties on an annual basis is higher than 2.000.000, while over 260 million employees get light or severe injuries. In the following table are comparisons of tendency of injuries at work in the region:

*Table 1: Statistical data for the region*

<i>Country</i>	<i>Employees</i>	<i>Severe injuries</i>	<i>Fatal injuries</i>	<i>Fatal injuries index (per 100.000 employees)</i>
<i>Serbia</i>	1.716.491	1.003	26	1.5
<i>Croatia</i>	1.322.795	1.096	33	2.4
<i>Slovenia</i>	817.211	430	21	2.6
<i>Serbian Republic</i>	237.520	86	14	5.8
<i>Montenegro</i>	175.144	42	7	3.9

*Source: The report for 2012, the labor inspectors of Serbia, Slovenia, Croatian, Montenegrin and Serbian Republic*



In Serbia, according to the official (but uncertain) data, life in 2012 lost 26 people and 6.800 got injured. Since we do not have the correct database because there is no uniform system of records of injuries, and if you take into account the violations that occurred during the black market, those injuries are certainly higher.

In table 2 are given injuries at work in Serbia in the period from January to April 2012 and from January to April 2013, and in Table 3 are given fatal injuries that occurred in the period 2003-2013.

*Table 2: Injuries at work in Serbia*

Period	Total	Fatal	Severe fatal	Collective	Severe	Light
January – April 2012	364	4	4	8	298	50
January – April 2013	346	3	3	3	267	67

*Table 3: Fatal injuries at work per year in Serbia*

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Numer of fatal injuries	25	58	38	54	28	42	37	35	28	26	49

Based on the presented data we should be thought about, and those who have not made a final decision on the need for implementation of standards OHSAS 18001: 2008 should do the same, and those who did it, but due to the participation in tenders, should change their way of thinking about necessary health and safety at work.

There are employers who did it with the intention to demonstrate that they manage their risks based on defined policies of health and safety at work and on the basis of defined goals. All of this was done mostly by engaging a licensed entrepreneur for managing jobs of persons for health and safety at work, paying regularly their obligations to the entrepreneur, but mostly a lot of entrepreneurs give a lot to gain some.

## ***WHAT'S THE PROBLEM?***

One one side we have engaged entrepreneur for managing jobs of persons for health and safety at work, the person who knows best processes in the organization, much less the requirements of OHSAS 18001: 2008, but generally "does the" obligations related to legal requirements.

On the other hand we have a person who is representative of management for quality and which was entrusted with the role of a management representative for health and safety at work, or a person for safety and health at work, where he does not know legal requirements good enough, so we have two representatives for health and safety that does not "interfere in each other's business."

Here it should be noted that this refers to the organizations that employ the person for safety and health at work as an external service. Organizations that have a person with passed professional exam and who are also responsible for the implementation of standards OHSAS 18001: 2008, the situation is much better.

And only of one problem, which consists of two major problems:

1. A large number of consultants does not know enough legal and other requirements, but there are those of which consulting services for OHSAS 18001: 2008 are "additional activity" because they are usually consultants for ISO 9001, and why not do this, and why not ISO 14001, ISO 22000, and so on.
2. Auditors OHSAS 18001 also have poor knowledge of what the legislation should meet and then we have a big problem as well, how to make recommendations for improving safety and health at work in the organization.

### ***KEY FACTORS OF SUCCESS IN THE PREVENTING OF THE RISK***

#### **1. The commitment of the management to the culture of management of safety and health at work**

The commitment of the management to safety and health at work is essential to the safety and health at work in general. The obligation for the management of safety and health at work may be the most important determinant of development of culture in the organization. Management should demonstrate its commitment to OSH with concrete examples, or need to make key decisions and be aware of the importance of initiatives in the field of safety and health at work.

#### **2. Involvement and participation of employees**

Active participation of employees in the management of safety and health at work at all levels is important because employees can use their knowledge and can propose practical ways to eliminate or mitigate the risks. In addition, the involvement of employees is important for ease of acceptance of the rules for safe and healthy work, and is also a requirement of regulations Convention 155 on occupational safety and health and the working environment (Official Gazette FRoY - International Agreements, no. 7/87, as well as in law on Safety and Health at Work (Official Gazette RS 101/2005) in Articles 44-48 stands that's it's the duty of the employer to include employees in all questions OSH.

#### **3. A well conducted risk assessment**

Before starting any activity (business), risk assessments should be carried out. The participation of workers in the initial assessment of the risks allows workers to better understand the process and later to learn to independent perform an assessment of the risks in their workplace.

#### **4. Preventive measures according to the hierarchy of prevention**

Preventive measures should be identified and implemented in accordance with the results of the risk assessment. It is important to apply the principle of hierarchy of prevention (elimination - replacement - projecting - administrative control - the use of personal protective equipment) at any time. When the potential risks can not be eliminated, they should be reduced to a minimum with the use of preventive measures. Training and awareness of employees are of the utmost importance here.

#### **5. A combination of preventive measures**

Preventive measures are more effective when used in combination. For example, the implementation of risk assessment and implementation of safety procedures and instructions for safe operation, all supported with the initiative for safe behavior, training and informing of employees.

#### **6. Continuous improvement / development**

Performance of safety and health at work during the maintenance operations should be constantly evaluated and improved on the basis of the findings and checks of the inspection, the result of the risk assessment, incident, injury, previous experience, feedback from employees, contractors and persons for safety and health at work.

#### **7. Training and continuous management of the system for safety and health at work**

Workers who work in their appropriate positions, it is necessary to be competent. They should also be trained in safety and health at work, and that they are informed about the dangers regarding the specific tasks and instructions for safe and healthy work. There is a legal obligation for employers to provide information and training for safety and health at work of all employees who need it, including temporary staff and subcontractors.

### ***EUROPEAN LEGISLATION ON OSH***

Since 1989, a number of European directives are adopted establishing a general framework of minimum requirements for the protection of workers in the workplace. These directives apply to all work processes, including the obligation for employers to carry out risk assessment in the workplace.

#### **1. Directive 89/391/EEZ - "General Directive" on the introduction of measures to encourage improvements in the safety and health at work**

This directive contains general principles of prevention, prescribe the obligation of employers regarding risk assessment, elimination of risk and accident factors, information, consultation and balanced participation and training of workers and their representatives.

The European Commission has made guidance on risk assessment in the workplace in order to help employers and employees to implement the requirements of the Framework directive 89/391/EEZ.

## **2. Directive 89/654/EEZ on the minimum requirements for safety and health in the workplace**

This directive includes a requirement for employers to ensure that:

- roads and exits for emergency evacuation to be free at any time.
- during the technical maintenance of the workplace, equipment and devices all registered errors that may affect the safety and health of workers must be removed as soon as possible.
- safety equipment and devices intended to prevent or eliminate hazards should be regularly maintained and checked

## **3. Directive 89/655/EEZ on the minimum requirements for safety and health protection when using work equipment**

With this directive the use of work equipment includes maintenance and service, and provides that:

- the employer shall take the necessary measures to ensure that the work equipment during their life span is maintained through adequate maintenance.
- the employer is obligated to provide equipment for the operation of adequate working conditions.
- to perform periodic and special inspections to ensure that it maintains a safe and healthy working conditions and that the potential hazards can be identified and eliminated on time.

## **4. Directive 89/656 / EEC on minimum health and safety requirements for the use of personal protective equipment**

This directive provides that personal protective equipment is obtained free of charge by the employer, who must ensure that the equipment is in good condition, that meets satisfactory hygienic requirements and that is regularly maintained, serviced and replaced.

## **5. Directive 2002/44/EZ on the minimum protection of workers from physical risks (vibration)**

## **6. Directive 2003/10/EC on the minimum protection of workers regarding physical risks (noise)**

## **7. Directive 2006/25/EC on the minimum protection of workers for exposure to risks arising from physical agents**

## **8. Directive 2004/40/EC on the minimum protection of workers when exposing workers to the risks arising from electromagnetic radiation**

## ***HOW MUCH ATTENTION IS PAID TO SAFETY AND HEALTH IN SERBIA***

The Law on Safety and Health in Articles 27-31, and in particular Article 28 states that: "The training of employees for safe and healthy work, employer realizes theoretically and practically."

When it comes to OHSAS - 18001 - occupational health and safety - requirements in Clause 4.4.2. Competence, training and awareness, emphasize the importance of the organization that *must ensure staff which are educated and trained to carry out safety and health at work*. To prevent this attitude is that the organization *must identify needs for training associated with risks to health and safety at work and manage its OHSAS system*.

Observing at the previous quotations there is no reference about education of employer in the part of health and safety at work. It is perhaps normal bearing in mind that the employer is not exposed to hazards because most often is not in the manufacturing process, but he is exposed to other risks and harms that are related to the workplace, for psychological and psychophysiological effort, and it is necessary to point out that we have a large number of entrepreneurs where they are implemented of the work process.

What happens in Serbia when it comes to the education of employers?

A greater number of educational seminars are held organized by the Agency for Safety and Health at Work and the Union of Employers of Serbia, the Labour Inspectorate, the faculties, the Association for Safety and Health at Work Serbia and other institutions, but it seems that it is still insufficiently.

The big problem of accepting something "new" by any part is a method and procedure to clarify what for that "new" is used and what are the benefits of stakeholders.

An obvious example is the need for education for safety and health at work as well as training. Employers of Serbia have accepted the need, but a big impact on the acceptance had a law on safety and health at work for education due to the imposition of fines if it fails to implement, which is not the attraction, but a compulsion towards achieving the goal.

Union of Employers of Serbia, in cooperation with the Directorate of Security, the International Labour Organization as well as autonomously organized a large number of seminars for employers on how to apply the Law on Safety and Health at Work, and in particular for performing the person for Safety and Health at Work, with the appropriate topics essential to the carrying out of safety, where special emphasis is given to the risk assessment in the workplace.

Bearing in mind the fact that the child has to walk and then to run, all these educations are very important, but it should go further where Union Of Employers proposes continuing education of employers and employees.

How to implement education and training?

It is necessary to make a plan, and to multi-year due to the current state of knowledge level of our employers and employees.

It is necessary to clearly divide education plans through employers target group of those who have up to 10 employees and those who are over 10 in the non-manufacturing industry.

The first target group (up to 10 employees) must be part of the education of persons carrying out activities for safety and two-day-day seminar "accredited" content and lectures, especially those who can form and on what topics.

In the second group (over 10 employees) and production activities educational plans should be made by industry (sectors) for a period of three to five days.

By this education, employers should acquire knowledge for performing the person for security as well as the necessary knowledge on how best to ensure a healthy and safe workplace.

The most common concerns of the employers for this type of education is their lack of time.

It is necessary to remember that in Japan, top management annually several dozen days spent on education, in Denmark ministers spend 10 days, and deputy ministers 15 days.

This "lack of time" is our biggest problem, the problem is usually interpreted as "we know all about that" or "Who will learn now – we don't have time." This problem must be overcome by constant emphasis that knowledge management is phenomenon of 21st century. Another even bigger problem when it comes to safety and health at work is the training of employees. What training? Classical training of competent experts for on-site training - in the company (production hall), multi-day training checking the skills acquired after completing training

Education is one of the most important aspects of motivation, sometimes maybe more pronounced than in modern times. But education means that health and safety really deserves a great need, necessity in which mass realization should participate by employers, employees and the Government.

Maybe we should try with stimulus measures for those organizations that are leaders in thus promoting safe workplace. These stimulating measures would have to be significant for both employers and employees, because the days without sick leave due to injuries are the greatest benefit for all. Organizations should assess realistically and with clearly defined criteria. That job is extremely large, but after a while, the job would be multiple cost effective and useful.

## ***WHERE ARE THE MOST COMMON PROBLEMS***

According to the International Labour Organisation (ILO), about 2.2 million workers die each year due to accidents at work or occupational diseases. Concerned about the fact that this phenomenon is on the continuous rise. Price injuries resulting in death, as well as the annual number of injuries (270 million occupational injuries with at least three days absence from work) as well as 160 new cases of occupational diseases amounts to 4% of GDP - gross domestic product.

What is the " participation " of the Republic of Serbia in this bad event?

Every year it happens about 50 injuries resulting in death or accurate data on injuries where an employee does not come for three consecutive days on the job as the new occupational illnesses absolutely do not have, so we can not tell you how many employers of the Republic of Serbia costing these injuries during the year.

One thing is certain, it is necessary to wage a campaign to raise awareness to a higher level of both the employers and employees working in prevention and reducing the number of injuries and the number of new patients at the end of the year.

This campaign will succeed if they are all on one side - employers, employees and the government (especially the Ministry of Labour and Social Policy), with the Administration for Safety and Health at Work and the Inspectorate for work.

After the evaluation of the QMS is necessary to give an analysis of the discovered condition, and the obligation of appraisers is always the first point to the well-observed fact, and after that to point bad and wrong things in the business system.

Considering that the author of this article carried out the assessment in a larger number of companies, following the logic of assessors will try to point out first what is good so far in the implementation of the Law on safety and health at work, then what is it that makes problems especially to employers.

It is commendable that the need for safety and health at work is understood as a necessity. Engaging expressed by Directorate of Security, the Labour Inspectorate, employers and employees (union), but there are differences in the activities.

A series of activities were conducted from 2005-2009 year but the general assessment is that it might be more. The biggest protest is on employers, because the Law on Safety and Health at Work greatest responsibility lies on the employer. Many believe that he was the only one who needs to enforce the law. However, when things are going well then all are meritorious but the least employers. The famous old folk proverb "when things are not going good the fault is always on other side", reflects the true state of accountability in the implementation of the Law on Safety and Health at Work.

Employer-Serbian entrepreneurs have a significant role in the overall work on the application of the law, primarily expressed actively participate in all activities conducted by the Agency for Safety and Health at Work and the Labour Inspectorate, the union, the Association for Safety and Health at Work Serbia, but they also independent activities that significantly influence on the raising of awareness when it comes to safety and health at work.

Where employers have the most problems in the implementation of the Law?

- They have no real information about what they need to do and what are exactly their obligations required by law. This problem occurs because there is a small number of licensed companies, and unlicensed too, because many of them in this business are without a license and do not know how to clarify to the employer what it is that they have to do even without legal obligations and should do in their businesses to be more successful and efficient. They do not use enough manners of business communication and business conduct, rather than create an environment that's it for the employer an aspect of motivation where the motivation is the desire (volition) to achieve the goal, not a compulsion towards achieving the goal.
- Do not have enough time to study what the law requires from them. They find that they have done so far and have not had major problems with safety.
- That someone else will do inside of them.
- Even where they overlook the importance and needs, they do not have time to deal with it.
- Many of them accepted this need, fearing primarily high fines if they fail to meet some of more obligations defined by law.

But there are legitimate reasons for inconsistent applying:

- The problem of individual Articles, and items in the law must clearly be interpreted, and some might be otherwise defined.
- The deadline for the implementation of obligations under the law is quite long over, but there is still a lot of things done poorly and also a lot of unnecessary, that just creates problems to the entrepreneurs and employees.
- The definition of the workplace and of the decision for a position as a space, without taking into account the terms of reference which the employee performs is unacceptable, but should be integrated in the process of consideration of risks and identification (Article 4, paragraph 6).
- A big problem is the order of the labor inspection (mostly verbal) that the employer must engage occupational health services for all working places, which in Article 16, paragraph 1 does not stand. It is necessary to urgently coordinate different interpretations because large funds are allocated by the employer unnecessarily.
- The difficulties that come as provision of documents in the Serbian language, or if you need a language that employees understand, use and maintenance, and documentation where the supplier defines all technical safety information. If there is not such documentation, you should purchase it from a legal entity registered for activities and product quality control. As a country in transition, the level of quality of our equipment is on the trim level, the EU countries thirty years ago. Application of the Law Article (Article 24) will certainly reduce the number of equipment in the application and in proportion with that would reduce the level of production. Another question is how much do we really have the legal



entities to produce the necessary documents, for how much time can be done and at what price, is a particular problem.

- Training of employees for safe and healthy work is necessary, but whether the employer is in a state that for each type of work train employees for safe and healthy work practically and theoretically (take the example lab technicians, chemists, grinders, sawmill, electricians, operators), and the employer is the person who certainly knows all these processes, only invests in new business. There should be respected diploma and expertise of newly admitted to work (Article 28).
- Person for safety and health at work, see, inter alia has the obligation "to daily monitor and control the implementation of measures for safety and health at work". If it is considered to be physically present, it is not realistic because employers under a single legal entity may have multiple locations. You must anticipate the action plans that enable monitoring of health and safety at work (Article 40, paragraph 7).
- Injury report on the work for which the employee is able to work more than three consecutive working days, the employer is obliged to issue a written report to the competent Labour Inspectorate within 24 hours. How will the employer to carry out if there is no information from the employee (the victim) how long he will be on sick leave?
- Training in first aid ... It's a little uncomfortable when the director of the Health Center, hospitals must give an order to equip a certain number of employees in first aid. It should make a selection.
- Measurement of climatic conditions, noise, light. Would be that it works for each position, even when the employer is certain that there is no noise, there are good climatic conditions, good lighting, but this should be proved with a document. These are unnecessary expenses for the employer.
- Security lightning rod instalation in the object where you rent area of several square meters.

*These are the problems of employers in implementing the Law. On this occasion, does not emphasize the problems related to funding for the purchase of personal protective equipment, provision of working conditions, education and so on.*

## **RECOMMENDATIONS TO IMPROVE HEALTH AND SAFETY AT WORK**

If we talk by vocabulary of the auditor, then we can ask the question what would be the recommendations for better functioning of health and safety at work, as in the preceding items are given the disadvantages of previous functioning implementation of the Law of safety and health at work.

What are the most important recommendations (R) to improve the safety and health at work, arising from a number of consulting and application services SRPS OHSAS 18001: 2008 standard.

R1. The need for greater involvement of all employees, primarily employers

R2. Greater knowledge and competence of persons for Safety and Health at Work and representatives of security from the organization or their better communication and cooperation

R3. Clear and precise objectives, numerically expressed with deadlines, responsibilities and most importantly with the plans how to achieve these goals.

R4. Training in safe working, but the real training for jobs and activities where and what employees are doing, rather than generic training and tests to fill in forms No.6, so that's going to have lectures for the Office's work, to work on field (engineering), to work on the street (garbage scavengers) the same training for safe and healthy work.

R5. Clearly and precisely defined procedures (instructions) for:

1. The identification of hazards, risk assessment and the establishment of management, but with the maximum involvement of employees
2. The role, responsibility, and the importance of fulfilling the OHSAS requirements
3. Internal communication
4. preparedness, emergency response. Here it is important to review the Emergency Preparedness.
5. Performance measurement and monitoring
6. Periodic evaluation of compliance with the relevant legal requirements
7. Research incident

One of the most important procedure that generally defines, and little is being implemented by top management (because it leaves to the representative for safety) is revising carried out by the management.

The most common reason for this is the lack of knowledge of top management is what is the purpose of this review, what the inputs are and what is the way out of the review.

These are only the most important recommendations for better functioning safety and health at work, but we should not forget that there is still a lot of elements that need attention.

When it comes to legal and other requirements the organization must prescribe, implement and maintain procedures for the identification and access to appropriate legal and other requirements.

What are the legal requirements relating to the duties and responsibilities of the employer?

- Making Risk Assessment Act for the position ("Position is a **space** intended for performing business at the employer - in the house or outdoors, temporary or mobile construction sites, buildings, equipment, roads ...." - The Law on Health and Safety at work)

In the majority of cases they make mistakes because the Act on risk assessment workplace is defined as an activity for example. Storekeeper, the driver, which is wrong, it should read WorkPlace: Warehouse, WP (Work Place): The vehicle etc.

- To provide the employee work at the workplace and work environment in which are applied measures of health and safety at work.
- By general act or collective agreement establishes the rights, obligations and responsibilities in the area of safety and healthy at work. It should take care who signs a general act (or Regulation about rights and responsibilities)
- Educate employees for safe work
- Ensure that employees use means and equipment for personal protection
- Provide legal entity licensed to implement preventive and periodic inspection and test equipment for work, and working environment conditions
- Ensure medical examinations for employees
- Provide first aid, or qualify a certain number of employees

This is also the only part of the legal obligations that apply to the employer, who should know consultants, management representative for safety and health and auditors.

A big role in the implementation of these activities has a staff representative or committee, whose right are:

- that the employer makes proposals on all matters relating to safety and work
- to require the employer to take appropriate measures to eliminate or reduce risk
- require supervision by the labour inspection

Written proof of the implementation of some of these rights can hardly be found in our organizations, which points to the fact that many organizations have autocratic leadership.

## *CONCLUSION*

Law on Safety and Health at Work to the first plan puts an employer when it comes to responsibility for the implementation of preventive measures in order to ensure a healthy and safe workplace.

However, it is not realistic that the employer (entrepreneur) may alone by itself successfully to the lead a healthy and safe working place. Success can be expected only if participating in that all three parties, the State (Government), the employee and the employer.

Wherein lies the primary role of employers in creating a healthy and safe workplace?

- In volition and desire to provide employees a safe and healthy workplace
- To be informed of all needs and legal requirements for safe workplace

- To delegate the responsibility to the person for safety and health and managers, but also to participate in their work.
- To define the policies, objectives and methods of their implementation
- To perform a review of the efficiency and effectiveness
- To provide funds for realization of set plans
- To find way how to motivate employees to contribute to a healthy and safe workplace

For now, the way things are, many employers have demonstrated their desire to succeed in this business, but most of them are not enough personally involved and it is one of the reasons we have given above number of injuries.

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# **THE IMPORTANCE OF RESPONSIBILITY AND BUSINESS ETHICS IN THE MODERN CORPORATE SYSTEMS**

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## **ABSTRACT**

*In today's business world, which carries with it a common qualitative and quantitative changes, major corporations must be prepared to adequately respond to the challenges of the new business trends, which are more common today than ever before. Great competition and market saturation have led to the company in achieving the goals of its use methods that can be characterized as immoral or unethical. Such an approach to solving the competitive advantage is the establishment of an unhealthy relationship and disturbed operating conditions in the market, which continues to reflect both on the relationship in the business world, as well as to consumers. The sense of responsibility that companies need to possess in order to their employees, and to service users must represent one of the top business values in today's time. Work ethics and moral responsibility should be questions for each company, but also for each individual, because without cohabitation of these two factors it cannot be reached extremely effective results. Responsible and moral attitude toward work are the most important factor of business ethics of each individual, because he invests his whole personality into the realization of a particular project or solution. Companies must encourage their employees with a sense of responsibility and fairness in business, and this will be done by the company itself will be primarily in its operations insist on clearly defined responsibilities of each individual, as well as the possible consequences in the event of a breach of any of the rules. The aim of this paper is to highlight the importance and advantage in a responsible and ethical business, which are short-term and long-term benefits of such a com- work and how to overcome potential moral dilemmas faced by companies and individuals may encounter.*

**Key words:** *Ethics, Responsibility, Business, Morale*

**JEL Classification:** *L21, L22*

**UDC:** *005.35*

*174*

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## ***INTRODUCTION***

Ethics and morality are successfully impose human societies just that their shared ability to express the meaning and value of a certain normative order of social life. For example, it talks about "ethical order" to describe the state of mind of the subject who tried to make the best moral choice. Modern economic and business dynamics calls for greater openness, freedom and liberalization of all economic entities. This implies a high degree of trust and social capital, if it initiates a dilemma about the relation between economics and ethics. Recent research in this area shows that the lack of ethical norms in business running inflicts great damage on individual companies as well as global economy. That is why this issue has increasing importance in research and education. Business ethics has its two basic dimensions of the manifestation, which are collective, group ethics and the ethics of the individual. Collective ethics includes ethical practices in the business decisions of the leadership and management of companies related to external entities and the environment, but also ethical relationships within companies. On the other hand, an individual who does not possess the basic principles of personal business ethics, and has a total deficit of moral standards is always ready to commit fraud, to put their personal interests above the collective, legal, above the norm of customary business morality and human relations, to distort business climate and atmosphere. From the beginning of business and enterprise development, operation and making a profit, wealth and other benefits provided by good and successful business, there is one question the eternal dilemma: whether business has to do with morality and moral behavior of individuals and groups? This question can be set as a dilemma on whether wealth inevitably means and suspicion, distrust and envy for his background, the manner of acquiring and hoarding. Observing the relationship between business and ethics can be extended to a mode, use of natural and economic resources, property relations, management of the company, quality of work, relationships with employees, and the attitude towards the local community, region, and state.

There is the view that business without moral criteria and economy, without ethics cannot give lasting, stable and significant results, nor any particular community do happy and prosperous. It is therefore often speaks of the need to introduce the principles of ethical conduct in business, labor and management in all enterprises. There is also a dilemma about whether business ethics matter of personal conscience, directors, managers, officers, employees, or is it the result of a collective and common morality of a group, community, environment, society. Business ethics has two main dimensions of the manifestation of the collective or communal ethics and the ethics of the individual. Collective ethics includes ethical practices in making business decisions by management and management companies related to the external entities and the environment, as well as the ethical relationships within companies. In contrast to the group ethics, ethics of individuals talking about an individual who does not possess the basic principles of personal and business ethics and morals, ready to commit fraud, to put their personal interests above the collective, legal, and therefore and to undermine the business climate and atmosphere.

Unethical behavior can occur as a result of numerous factors. Some of these factors relate to individuals, while others can be the policy of the company. If culture encourages some companies, or simply cross the suspicious behavior of putting business interests first, ethical behavior will primarily be based on the personal integrity of employees. Honesty individuals may be enough for most, but not all employees. Personal weaknesses and temptations are sources of unethical behavior. There are situations in which an individual knows what is correct, but does not possess the perseverance and personal integrity to withdraw the proper move, perhaps because it involves a certain amount of personal risk.

### ***IMPORTANCE OF BUSINESS ETHICS***

Man as a social, moral, natural and creative being is grounds for liability regardless of which the company worked together with the entire social relations. There is no society without moral responsibility. Responsibility is a sociological, moral, psychological, Political, philosophical and legal categories (Trifunovic, 1996). Two ethical vision of responsibility: Focus on the individual and orientation towards other social groups in which he lives and works. Norms of business ethics that enable the understanding of business and labor activities as activities which man expresses a conscious, free and creative being, but also as an activity that enables the creation of funds of material existence, are not made now but in a gradual continuity of emergence and development of social consciousness (Trifunovic, 2012).

All decisions to direct educational organizations include relevant indicators expresses in quantitative or qualitative form (Medic, Zivadinovic, Piljan, 2013). Business ethics has two main dimensions of the manifestation of the collective or communal ethics and the ethics of the individual. Collective ethics includes ethical practices in making business decisions by management and management companies related to the external entities and the environment, as well as the ethical relationships within companies. In contrast to the group ethics, ethics of individuals talking about an individual who does not possess the basic principles of personal and business ethics and morals, ready to commit fraud, to put their personal interests above the collective, legal, and therefore and to undermine the business climate and atmosphere. From the hawthorn come up with different attitudes with regard to business ethics, as certain of company management may be misleading.

Wrong approach to business ethics company may result from the following paragraphs:

- Business ethics is more a question of religion but of management.
- Employees themselves are ethical, so the company does not have to pay attention to business ethics.
- Business ethics is a discipline for philosophers, scholars and theologians.
- Business ethics is superfluous - it was just "good work".
- Ethics cannot be controlled.
- Business ethics and social responsibility are the same concepts.

- An organization that does not have problems with the law means a good used ethic.
- Management of ethics in the workplace has little practical significance (Carter McNamara, 1997-2007).

A good approach to the management of business ethics is reflected in:

- Attention focused on business ethics has a positive effect on the whole society.
- Ethical programs contribute to maintaining the moral course in turbulent times.
- Ethical programs cultivate strong teamwork and productivity.
- Ethical codes help to avoid criminal and unethical behavior, as well as penalties for such behavior.
- Ethical programs help to manage those setting values that are associated with effective management and strategic planning.
- Ethical programs promote strong public image of the company.
- Ethical standards contribute to legitimizing the business moves, strengthening their coherence and time-series consistency and the overall business culture (Donaldson, Davis, 1990).
- The right place for attention to ethics is the workplace.

## ***BUSINESS ETHICS STANDARDS***

With the development of the world economy, increases competition in the business environment, regulatory requirements by corporations become more complicated and more stringent ethical expectations of customers and partners are playing an increasing role in the business. It is necessary to define the norms and rules of conduct, based on corporate values, and since the company is expected to employees at all levels exhaustively list the behaviors that are unacceptable in the daily work process. Business ethics formulates the basic rules and norms of behavior of every serious company. The principles contained in that kind of ethics are strong and durable. They exclude arbitrariness and provide clear guidelines for making ethical decisions in different situations. It is a universal landmark for anyone who is not sure how to proceed in a situation that causes confusion, and also a useful tool that will help everyone in the practical application of business principles. Every successful business is built on the principles of sustainable development, corporate responsibility and in accordance with the fundamental values of ethical business. Code of business ethics is a document of the highest level and consolidates the existing legal requirements and internal policies. Ethics code, which is valid within the company are obliged to apply and respect all employees and members of management. With the entry into force of the ethics code, all of these entities are obliged to report on any unlawful or unethical procedure when it concerns the company and represents a violation of the applicable code of ethics. Any practice contrary to articles code of ethics is the basis for initiating the procedure for the determination of duties violations and violations of labor discipline, to which must be known to all employees within a company.



Each individual within the framework of company in the course of their working life encounters with some form of moral and ethical dilemmas. If such dilemmas, ethical decision should be made in a particular situation within the codes of practice, which in itself should contain the main provisions such as:

- practical advice related to compliance with laws and other normative acts,
- requirements, recommendations and guidelines that will help to build relationships with colleagues, customers, the public, suppliers, competitors and government authorities, organizations, chambers of commerce and associations and authorities.

Code of Ethics should be the main lever in resolving complicated issues of business ethics and explain how to act in situations that may harm the individual's and the company.

### ***IMPROVING BUSINESS PERFORMANCE***

It is important to inform all employees, if someone believes that there has been or there is a violation of the provisions of the code of business ethics, is obliged to inform the competent that can overcome this kind of problem. The company is counting on the fact that the cases or the possibility of violations of the code of ethics, internal normative documents of the company, the law, and cases of unethical behavior that may negatively affect the company's reputation as well as its financial and strategic interests, each employee report to one of the following persons or services:

- immediate supervisor or the top management
- notify the sector that deals with this kind of problem
- make official note and present violation

Immediate obligation of management is to act in the best interest of the company, that its assessment is based on information and opinions from experts in their respective areas for which there is a belief that they are conscientious and competent. Managers must take into account compliance with statutory regulations, internal acts and ethical standards in the performance of staff. In the evaluation of the employee, they must respect the principles of the applicable code of ethics and results of employee's work. Reporting the actions of employee, who are, in their opinion unlawful or unethical, should constitute an important component of business ethics, each company. Any kind of animosity toward the person who in good faith has reported his suspicions or assist in the regulation of any cases of possible breaches of ethical conduct or violations of legal requirements, must also be a serious form of violation of the code of ethics. In addition, deliberate misrepresentation, considered a violation of the code of ethics and is the basis for the application of disciplinary measures. Employee who dutifully reported his suspicions and information that employees have said, should be known only to the persons who are responsible for carrying out or considering the circumstances that

resulted in this violation. All communications to arise from the conclusions must be considered in terms of strict confidentiality, so that the information contained in them will be opening only to the extent necessary to implement a complete and objective review. All such disclosures must be considered and decisions about them must be made in the shortest possible time, because of the personal integrity of the company and for resolving the status of a particular individual.

In addition to the importance of that process, or passage of decisions binding for each individual to be in accordance with ethical and business objectives of the company, it is also important to make a list of priorities and recommendations that employed can be of great benefit related to the adoption of ethical optimum decree, and they are:

- Define all those affected by the resulting situation and decisions.
- Examine the code of ethics, mission, vision and policies of the company, as well as all internal normative documents that may have to do with ethical dilemmas and problems
- Analyze alternative variants of decisions and consider the consequences of each option.
- Assess the possible results of refusal to making any decisions and keeping the information to themselves.
- Determine if there was a similar situation earlier and resolved under which circumstances.
- Consult with appropriate services.
- Think about the consequences and impact of the decision, as the employees and the customers and the business results of the company itself.

### ***PROTECTION FROM UNETHICAL BEHAVIOR AND THE ROLE OF EMPLOYEES IN THE CREATION OF ETHICS AND RESPONSIBILITY OF BUSINESS***

It is not pleasant to contemplate, but the company itself is often abused by its employees and agents. Cheating on time cards or carrying off supplies and tools, while relatively minor, add up to significant losses sustained every year by businesses—both large and small. It has been estimated that company in the United States lose some 6 percent of their revenues annually to employee misconduct. Basically the concept of social responsibility is the performance of the organization in accordance with the moral and ethical norms, especially with respect to business ethics (Stoilkovska, Milenkovska, Angelovska, 2013)

Every company should strive to provide their employees not only security but also opportunities for professional growth and development, an atmosphere of trust and belonging to the collective. Every employee needs to know is making its contribution to the common success. Every individual has a particular talents and skills and thus creating new opportunities for the development of the company.

Therefore it is essential to work in an atmosphere of mutual trust and friendship, to respect and appreciate the diversity of thought and commitment of every employee in the execution of joint work. It is important that within the company defines how employees come to work, train and advance in their careers, regardless of social, racial, national, linguistic, religious, and gender, state of health, property, marital status, family responsibilities, membership in political and trade union organizations or other personal characteristics. In none of its organizational work, the company cannot tolerate insults and rudeness toward employees, contractors, customers or other parties. It is expected from every individual in the company to have initiatives and maximum efforts in solving the tasks facing the company, because only teamwork can lead to positive results found. The company must encourage and support the development of professionalism of employees and creates all the necessary conditions for those who are willing to enhance their expertise through the conquest of new technologies and acquiring new knowledge.

As some of the basic rules of ethical and responsible behavior of the individual's:

- Respect colleagues and build relationships of mutual respect
- Be honest, respect your colleagues and have confidence in them  
Do not distribute and do not display materials that offend morality or that discriminate against your colleagues
- Strive to increase the level of productivity of their work
- Work in harmony in the team, at the same time and bear individual responsibility for violations of labor discipline
- Never provide personal information about an employee to anyone within the company or outside of it without the appropriate decision
- Do not allow additional work affects the execution of the principal obligation and that the harm the image and interests of the Company
- Do not use alcoholic beverages in the workplace
- Observe the rules uniform code applicable in the company.
- Report to your immediate supervisor about the fact that there is a conflict of interest between you and the Company and required to clarify the circumstances that create or may create a conflict of interest
- be honest when writing your own expense report and approval of reports of his subordinates

The importance of the existence of the ethical responsibility of the individual is reflected precisely in the fact that any problems that occur, and the time is not resolved, could seriously undermine the integrity and corporate image of the company. Putting it clear to employees that they are a major leverage in shaping the future of the company, increasing the individual but also group empathy towards making their decisions can, in a positive or negative, influent on the further business development.

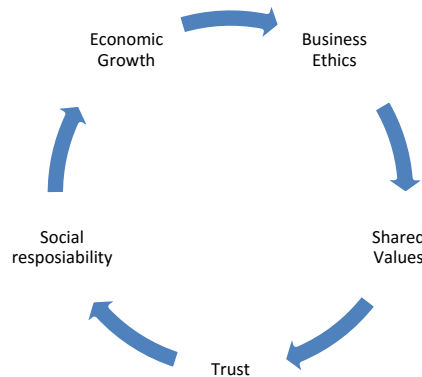
## ***CONTRIBUTION TO THE COMMUNITY***

### Basic Principles:

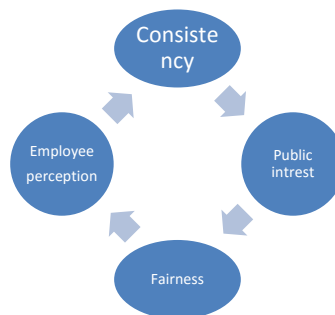
1. Consistency
2. Public interest
3. Voluntary
4. Acceptable by employees

A lot of global companies respect employees' self-motivated participation in voluntary charitable activities, and will never require employees to join such activities, but most of companies will prepare various systems to support their participation.

As a contribution to community, a large number of companies will often support literacy programs, local schools and colleges, and local infrastructure, such as water facilities, roads, or parks. They may benefit from these as members of their communities. Supporting literacy programs and education, may lead to better employee applicants. Some people confuse this sense of social responsibility with what it means to be a socially responsible business. Nothing could be further from the truth.



*Figure 1: Link between profitability and business ethics*



*Figure 2: Model of company business awareness*

## ***RESPONSIBLE BUSINESS***

Underdeveloped economic system, both in economic and legal aspect is one of the causes of many forms of corruption. (Tanjevic, Minkov, Miric, 2013). That is why business ethic and responsibility are very important. Responsible business conduct addresses the issues of ethics, compliance with laws and regulations, and social responsibility. Approaching responsible business conduct as a discipline broadens the thought processes of owners and managers by addressing the issues raised by business and professional ethics, organizational ethics, corporate social responsibility, and corporate governance. A business ethics program provides a toolkit of leadership and management practices to aid any enterprise, large or small, in the responsible pursuit of its envisioned future. It helps owners and managers ensure that their employees and agents comply with applicable laws and regulations. It also helps them minimize risk to the company, enhance its reputation, and bring value to stakeholders by adapting emerging global standards of responsible business conduct and best practices.

## ***THE BUSINESS ETHICS PROGRAM AND CORPORATE SOCIAL RESPONSIBILITY***

Leaders in organizations are the ones that first felt the need to introduce the principles of socially responsible business organizations; towards the staff. (Stoilkovska, Milenkovska, Angelovska, 2013) The amount of attention that management and society attach to social responsibility in recent years has increased and will likely continue to trend growth. That's primarily because the awareness and perception of the consumer - customer's products and services radically changes. Consumers no longer meet only with quality products and services, but increasingly showing interest in how companies behave and what they do outside the sphere of products and services. Today, they primarily want to be sure that some companies do not contribute to that in any way harm society, its resources and people. More and more examples of boycotting goods and services produced by socially irresponsible companies. Therefore it is the duty of management to every important decision valorize not only based on economic, but also social impact, and thus to make decisions and take only those actions that at the same time increase the well-being and societies and organizations.

In essence, the policy of corporate social responsibility efforts should be made to:

1. The values, principles and codes of conduct. Companies that achieve success and have good organizational scheme management system and thus achieve good results. The socially responsible operation after the rule have formulated their own systems of values and principles on which the Code of Conduct.
2. Monitoring, measuring and reporting. Given the demands of the actors for the adoption of information and transparency in the growing number of

reports that the company publicly announced on its operations. Increasingly, the trend reporting which includes both economic and broader social dimension, often with an emphasis on the environment.

3. Leadership- the successful implementation of social responsibility stimulated a process in which the leadership of the company is becoming a key player within the company and in the wider social context.
4. Partnership as a form of involvement of various actors around the common objective means trust and responsibility and openness to new knowledge and cooperation with different sectors.

In the developed countries the emphasis is usually placed on: improving the quality of employment, transfer of technology and knowledge, raising ethical standards and standards of business, insurance and ensuring product quality, human resource development and training, equal opportunity employment, confronting and fighting corruption, support civil society development. As can be concluded, one of the priorities for the development of corporate business is that ethics and responsibility must be raised to the highest level, both for consumers and for the entire society.

### ***BUSINESS ETHICS PROGRAMS AND BUSINESS PLANNING***

Research and experience suggest that the most helpful aspect of a business ethics program may be that it supports management practices that align enterprise strategies and management practices with core beliefs, standards, procedures, infrastructure, and expectations. A business ethics program is a fundamental aspect of organizational development that provides the foundation for other important aspects of business planning such as a business plan, marketing strategy, investment prospectus, and proposal for a strategic alliance. In all these instances, the company must be able to demonstrate consistent theme in thought, communication, and action. Each of the five elements below should be based on the preceding ones and, ultimately, on the core beliefs of the company development:

1. Mission
2. Goals and objectives
3. Strategies, programs, and action plans
4. Performance measures
5. Decisions and activities

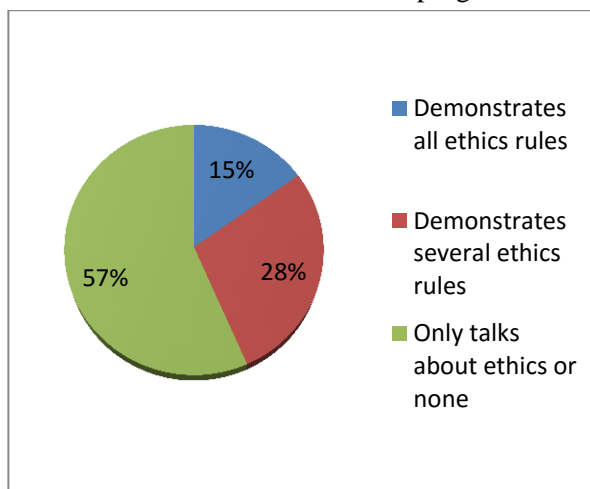
Three fundamental questions address the alignment practices for each company should be:

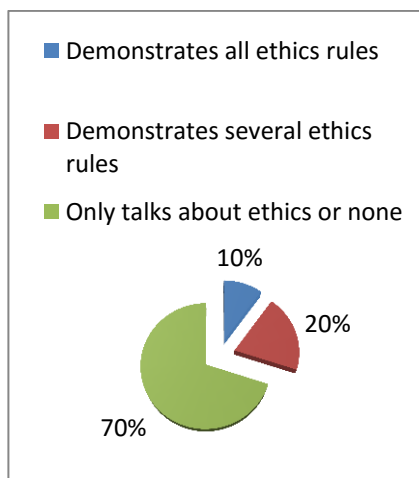
1. How can we ensure that we have the right people in the right?
2. How can we encourage our employees and agents to follow our standards and procedures?
3. What do we owe our stakeholders when mistakes, misconduct, or misunderstandings occur that involve our standards and procedures or their reasonable expectations?

Putting the right people in place allows a company to face a changing world confident that it can succeed, regardless of the pressures its relevant context might present. To finish this task, management needs to attract the right people, train them properly, position them well, and treat them fairly. Owners, managers, and supervisors set the tone for all that happens and does not happen—in their enterprise. Employees and agents watch to see if they “pay attention to ethics, take ethics seriously, and care about ethics and values as much as the bottom line”.

By hiring people who embrace the responsible criteria of a company, owners and managers take a large step toward having an effective business ethics program. It takes only one employee or manager to destroy the reputation of a company. Hiring the wrong people increases the risk of criminal and civil liability and increases the costs of defending the company or correcting any harm done. All of these big risks adversely affect the idea for improving business performance, making a profit, and increasing prosperity in the community. In some cases, as recent examples in Asia of Europe have shown, that the bad acts of a few employees can bring a company to near financial collapse. Owners and managers should also exercise due diligence in selecting their strategic alliances, the entities with which they merge, the entities they acquire, their joint venture partners, and their suppliers and service providers.

All company positions are not the same as far as level of responsibility is concerned. Owners and managers must take care to ensure that their people are able to assume the level of responsibility that their positions demand. As the level of responsibility increases, so too must the competency and responsibility of the person occupying the position. Conduct of managers and supervisors is a key indicator of the effectiveness of the business ethics program.





*Figure 3: Ethic related actions of top management Figure 4: Ethic related actions of supervisor*

Some associations between the ethics related actions of managers and supervisors and expected program outcomes held true for the following outcomes as well: less feeling of pressure to compromise standards, more satisfaction with management's response to reported concerns, more sense that managers and supervisors are held accountable, and more satisfaction with the enterprise as a whole.

Responsible and honest people want to use their own skills and knowledge in pursuit of a purpose they value most. Compensation is important, but the sense of being a good member of a responsible company has value in and of itself. By hiring the right people, companies strive to assign them works they find worthwhile and challenging. It is irresponsible and vary risky to assign a person who lacks the required competitions to a responsible position.

### ***ENCOURAGING EMPLOYEES TO FOLLOW STANDARDS AND PROCEDURES***

Many management practices support responsible business conduct. These supportive management practices fall in three categories:

1. Recognizing employee contributions
2. Rewarding ethical behavior
3. Punishing unethical behavior

The single most important thing that responsible owners and managers can do to encourage responsible business behavior is to recognize the contributions their employees and agents make in pursuit of the purpose of the enterprise. Where managers have tasked employees with challenging work, they should recognize and commend successful completion. Performance evaluations are an important



means of recognizing employee and agent behavior. Core beliefs, standards and procedures, and reasonable stakeholder expectations should be important elements of the evaluation process.

A main principle of management is that employees tend to do what is rewarded. If managers want responsible employee and manager's behavior that meets standards and procedures and that contributes to meeting reasonable stakeholder expectations, they should pay close attention to what they reward them for. There is much opposition to rewarding ethical behavior directly. First, there is a widespread sense that one should not reward people for doing what they should be doing anyway.

*Table 1: Compensation scheme comparison*

<p>Poor compensation scheme:</p> <p>Employees paid a commission based on their sales irrespective of product returns or customer complaints.</p>	<p>Ethical result:</p> <p>Employees may use any tactic necessary to increase volume because this scheme rewards quantity over quality. Such schemes can lead to low quality service, high product returns, channel stuffing, and in some cases fraud.</p>
<p>Good compensation scheme:</p> <p>Employees paid a year-end bonus that requires reaching targets of quality, customer satisfaction, and customer feedback for product improvement set 9 to 12 months in advance.</p>	<p>Ethical result:</p> <p>Employees are rewarded for focusing on projects that produce long-term results. Such schemes encourage employees to consider the big picture and to work with other employees during their day-to-day work life.</p>

Recognition and reward are two means of encouraging employees and agents to follow standards and procedures. But what should owners and managers do when standards and procedures are violated? They need to take all necessary steps to get the violator's attention and to prevent further violations, up to and including dismissal and reporting to law enforcement.

Fairness requires that the violator should have known that the choice or action was inconsistent with company core beliefs, standards and procedures, or reasonable stakeholder expectations. It is not fair to discipline an employee or agent for violating norms he or she had no reason to know existed. Fairness also requires that the manager or agent be given the opportunity to explain its actions.

One final consideration is to avoid the temptation to punish all employees for the violations of some of them by setting new standards or procedures. Often, if managers are uncomfortable with confronting an employee or agent about his or her behavior, they instead admonish the group as a whole or establish another standard or procedure designed to encourage the desired behavior.

## ***CONCLUSION***

The business process is one of the most important factors of morality. The development of the production forces, and thus influences the character of production relations, business process through social phenomenon that indirectly affects and works on moral order (Trifunovic, 2012). In a developed business process participants developed as a personality and the moral necessity or lose it can condemn as immoral. Morality is less conditioned by the business process that takes on the character of goods.

In today's time of rapid business decisions and changes in leadership, we come to common ethical dilemmas. Companies, whether large or small, as the main business objective put achieving a high rate of profit. The way in which profits are achieved, unfortunately not in the foreground, but appear only in case of violations of certain laws. The importance of the existence of ethical and moral responsibility, as well as a high level of social consciousness, should be one of the main drivers of modern business systems. Without respect for basic moral and ethical principles in business, if we do not take care of the environment in which we live, we will not be able to build a better tomorrow, which basically all companies have, but only paper. Contribution to fair market must give everyone, because it is very important to understand what violation of good business practices and ethical norms can take away, both to individuals and to the whole society. By clearly defining ethical rules and representation responsibilities of each individual in the process of work, should be the focal point in one's education about workplace where it is located. With the irresponsible policy of the company, it cannot be expected to assume individual responsibility and automatically be at the forefront of business moral values. The most important thing that a company within their business strategies is to implement clear responsibilities, both individuals and companies, which should be an example of how it is expected that each contributes in creating a better environment in which we live.

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# **CONSEQUENCES OF THE CORRUPT PRACTICES ON THE DYNAMICS OF ORGANIZATIONAL INTERACTION IN BULGARIAN AND COLOMBIAN ORGANIZATIONS AND MEASURES FOR THEIR PREVENTION**

Valeria Vitanova<sup>28</sup>

## **ABSTRACT**

*This article aims to present the results of a study about the consequences of the existence of corrupt practices on the organizational climate and life in Bulgarian and Colombian organizations. Corruption undoubtedly affects organizational dynamics and relationships between employees. The purpose of the study is to find out what exactly are the consequences and to enable employees to formulate and propose measures for preventing this type of practices, in the case of judgment on their part that the corruption is harmful and violate the normal rhythm of work. The focus of the analysis is on the perceptions of the respondents about the positives, negatives and social value of corruption, and more specifically the similarities and differences in both cultures regarding the evaluation and acceptance of this phenomenon acquiring alarming proportions worldwide.*

**Key words:** *Corrupt Practices, Social Value Of Corruption, Negative Consequences Of Corruption, Positive Consequences Of Corruption, Preventive Measures*

**JEL Classification:** K42

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343.85:343.352(497.2)

343.85:343.352(862)

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## ***INTRODUCTION***

The impact that the cultural and historical factors and differences in the nature of national psychology profile of the two studied communities render on perceptions of individuals about the phenomenon of corruption is projected on organizational life and can be found through content analysis of the questions including making a comment from the respondents of the negative and positive consequences, as well as its social value (it is important to note that under the social value here we refer to a specific benefit from the presence of corruption in terms of social dynamics) and measures to prevent it.

The optimal functioning of an organization implies compliance with clearly defined management principles of the relevant performance criteria, precise rules for interaction between individuals, etc. For example, we could identify specific organizational characteristics that favor the inclusion of members of the organization in illegitimate behavior toward the organization and they serve as a basis for the deployment of corruption. The more important are the following (Robbins, 1998):

- Reduction of organizational resources and / or modification of existing schemes for their distribution
- Functioning of the organization in a culture characterized by a low level of trust
- The functioning of the organization's culture which is characterized by role ambivalence
- The employee evaluation system is not well implemented within the organization
- The typical formal group organizational culture is one of the complex factors mediating corrupt behavior within the organization. In general culture is a set of core values , beliefs, norms and standards of conduct adopted by its members. They in any case affect the corruption phenomenon and serve as a control mechanism of the interaction between all individuals involved in the formal organizational framework (Krumov et al.,2006).

On the other side, corruption affects social interaction and leads to a certain change in the rhythm of work in the organization.

## ***SAMPLE***

The study was conducted in a public organization - Sofia University” St. Kl. Ohridski” and a private telecommunication company - Handy in Bulgaria, and a public organization- National University and a private telecommunication company- Comcel in Colombia.

The total number of participants in the Colombian empirical study is 350, respectively - 155 men and 195 women whose percentage is 44.8% to 55.7%. The age of the respondents ranged from 17 to 60 years , divided into three age groups, the

average age of participants was 25 years ( $x = 25$ ;  $SD = 7,00$ ). The respondents are in the following age groups: 17 to 30, 82 % ( respectively 38% of them men and 44% women); 31 to 45- 12.85 % ( 5% of men and 7% women) in the last age group of 46 to 60 fall only 5% of respondents and 2% of them are men and 3% women.

The total number of Bulgarian participants in the empirical study is 347, respectively - 152 men and 195 women whose percentage is 43.8% to 56%. The age of the respondents ranged from 17 to 62 years, the average age of participants was 29 years ( $x = 29$ ;  $SD = 8, 03$ ). The respondents are in the following age groups: 17 to 30, 72 % ( respectively 27% of them men and 45% women) ; from 31 to 45- 22% (men 10, 5 % and 10, 7% women) in the last age group of 46 to 62 fall to 4% of the respondents and their division is 2 % women and 1,4 % male .

Table 1 presents the results of the percentage distribution of perceptions about the negative consequences of corruption in both samples

Both samples with the largest number of elections is the category of “poor quality work “(see Table 1). It can be concluded that both studied groups accepted as the adverse consequence of corruption poor organizational performance.

Overall surprisingly (in light of the cultural conditioning of phenomena in this country) Colombian sample displayed more categories associated with the negative side of the phenomenon than Bulgarian. Both groups formulate several similar categories of negative consequences - bad image of the organization; human rights violations; increase in corruption; loss of confidence; decline in motivation; injustice(see Table 1).

Besides the categories that are common in both groups, each of the groups does also have categories valid only on their own culture. For Bulgaria they are respectively - a bad example, intrigue, bad moral, unreal performance evaluation, personal negatives, public negatives, insecurity, a sense of irresponsibility, decline of trust between colleagues (see Table 1).

For Colombian sample are as follows - inequality, dishonesty, spending public money, illegal enrichment, bureaucracy, poor environment, poor service, bad governance, abuse of power , economic deterioration, poor decision making and lack of loyalty.

The analysis of the defined categories and quantification of the elections reveals a very interesting trend. In the Bulgarian sample respondents concerning the negative effects of corruption in work organization primarily at the individual level, i.e. the phenomenon of corruption leads to negatives mostly for individuals, victims of its manifestations, while Colombian draws attention to the implications for the organization and society as a whole.

Choosing the corruption strategy in the behavior an individual gives a bad example to others, it gives rise to intrigue and interpersonal conflicts, unrealistic assessment of the work of other individuals, which in turn causes a drop in motivation to maintain their chosen model work interpersonal interaction that seems ineffective based on the achievements of the corrupt person.

This attitude reflects the increasing number of employees opting for certain corruption strategy for organizational interaction.

The results of the epidemic spread of corruption lead of course to personal and social negatives, but greater importance is given to the first, because they are a prerequisite for violating moral principles, which in turn give rise to discouragement, loss of trust between people, the feeling of injustice and a sense of irresponsibility. The referencing is an interesting category because it is not socially relevant, that why is possible for a person to be perceived as a reference to the individual, no matter that he is deeply deviant in nature. The challenge for the society is that the reference figures has to be socially positive because only under these conditions is achievable morality (Gaydarov , 1998).

*Table 1: Perception of the respondents in both samples on the negative effects of corruption*

<i>Negative consequences of corruption</i>	<i>Bulgaria</i>	<i>Colombia</i>
1. Lack of productivity	53 %	55 %
1. 2.Poor image of the organization	47 %	39 %
3. Violation of human rights	46 %	7 %
4. Generating the more corruption	47 %	44 %
1. 5. Loss of confidence in the organization		
6. Decline in motivation	36 %	39 %
7. Injustice	51 %	38 %
8. Bad example	53 %	37 %
9. Intrigues	17 %	
10. Unreal performance evaluation	14 %	
11. Personal negatives	49 %	
12. Public negatives	5 %	
13.Insecurity	7 %	
1. 14.Sense of irresponsibility	6 %	
15. Decline in confidence among colleagues	5 %	
16. Inequality between the employees	9 %	
17. Dishonesty		7 %
18. Spending public money		16 %
19. Illicit enrichment		14 %
1. 20. Bureaucracy		24 %
1. 21. Poor working environment		21 %
1. 22. Poor customer service		20 %
23.No effective administration		3 %
24. Abuse of power		26 %
25.Making worst the economic situation of the society		44 %
1. 26. Irrational decisions		39 %
27. Lack of loyalty from employees		5 %
		6 %

Based on the discussed specifics of the social reality in Bulgaria in the past two decades, these results are understandable. The attitude of Bulgarians towards individualism in social relationships affects the perception of the individuals on the phenomenon of corruption. Bulgarians consider and for them the most important ones are primarily the consequences of the corruption into a personal level because that is their perspective of thinking and action - the choice of strategy is determined by its effectiveness and potential benefits that brings to the specific individual.

Social environment is characterized by uncertainty, lack of the controlling functioning of the basic values and lack of incentives of development. These gaps logically reflect on the perceptions of the individual and their behavioral strategy.

“The lack of unity between the individual and society leads to delinquency. There are many reasons catalyzing or inhibiting specific deviation of the individual, but they all design mutual alienation of the two sides” (Gaydarov, 2006).

In Colombian sample the situation is different. Surprisingly it were drawn more negative categories. The surprise comes from the fact that it is valid culturally conditioned understanding of acceptance of corruption as an effective way to develop social interactions in Columbia. But as was noted that reference framework of acceptance is relative, because nowadays Colombian society feels the strong influence of Western and North American values and models and they largely determined the algorithm of social interaction. These models openly condemn the corrupt practices.

Colombians find themselves in a situation of clash of values from two cultural influences that affects individual attitudes and the choice of behavior models. Corruption becomes from a phenomenon characterized by widespread acceptance and even positive assessment of its effectiveness to a pattern that continues to be practiced, but the support of individuals is no longer so clearly and publicly demonstrated and which operates on a latent level. For this particular reason the verbal assessment of the corrupt practices can carry negative characteristics provoked by the expected social position.

The negatives are focused primarily on the public/collective consequences nature of the consequences and there is nothing unusual- Colombians are highly collectivist – oriented. For them the family and the social circle of interaction are of exceptional importance and their interests are more important than the individual ones.

For them one of the most important negatives consequences of corruption in the organizations is the abuse of power (Table 1). Here appears again the cultural paradox - traditions dictate “getting by bribing“ public posts, which is unmistakable corrupt practice and although it is accepted, but they define as inadmissible the subsequent abuse of power that these position provide. Apparently they do apply a double standard to the corrupt practices.

According to the respondents the public negatives includes also the illicit enrichment and spending of public money due to the actions of corrupt public officials, which culminated in a general deterioration of the economic situation.

Corrupt practices are measured also with consequences such as the introduction of bureaucracy in relations, poor working environment which on one hand implies inefficiency in decision-making and management strategies and on the other hand reflected in poor customer service from employees and inability to form sense of loyalty to the organization in which they work.

Regarding the positive consequences that the phenomenon of corruption brings to both groups they clearly demonstrate some differences.

According to the Bulgarian sample the most important benefit from the emergence of such a phenomenon in the social and organizational life, determinant

of the dynamics of interpersonal relationships, is the personal gain, which individuals obtain. In many cases it results in achieving personal goals set in advance, along with the perception that corruption can be an effective method to overcome bureaucracy in social interaction, which is a kind of barrier to more intensive and complete interchange (Table 2).

For Colombian sample also the most significant is the category "to achieve goals", but for the other listed categories the only one, which coincides with the Bulgarian sample is cutting red tape, but unlike Bulgarian respondents Colombians give to this category minimal significance (Table 2).

For Bulgarian respondents corruption can be useful behavioral strategy in order to achieve "material gain", career advancement" ( and "less effort " that the individual must make to achieve something in comparison with situations in which he elect legitimate behavioral tactics ( Table 2).

According to the respondents of Bulgarian sample positive element of corruption can be the calm that it gives to the individual (calm, set by the guarantee for the successful realization of objectives) and the relative sense of freedom for them.

These results reveal the undeniable influence that the corrupt practices exercised on the organizational environment and the formation of a certain cultural framework defining the dynamics of interpersonal relationships.

Bulgarians use corruption as a compensation mechanism in the context of an environment determined by uncertainty, constant change and values system, which is subject to revision and reconsideration. This mechanism certainly gives them a financial advantage or the prospect of a successful career or making another type of significant individual goals and projects.

*Table 2: Perception of the respondents in both samples about the positive effects of corruption*

<i>Positive effects of corruption</i>	<i>Bulgaria</i>	<i>Colombia</i>
1. Personal benefit	37 %	
2. Achieving personal goals	36 %	73 %
3. Instrument to overcome bureaucracy in the organization	38 %	3 %
4. Material assurance	17 %	
5. Opportunity for career advancement	11 %	
6. Less effort at work	14 %	
7. A feeling of freedom	9 %	
8. Ascension in the hierarchy		34 %
9. Potential power		34 %
10. Opportunity for work		31 %
11. Getting out of poverty		29 %

Maintaining many significant connections - the main technique in the recent past of Bulgarians by which they achieve the desired objectives and satisfy their needs today is transformed into tactic to "buy" the favor of others at any cost, because it is the basis of the achievement of social status, the financial, professional and personal stability to the individual.



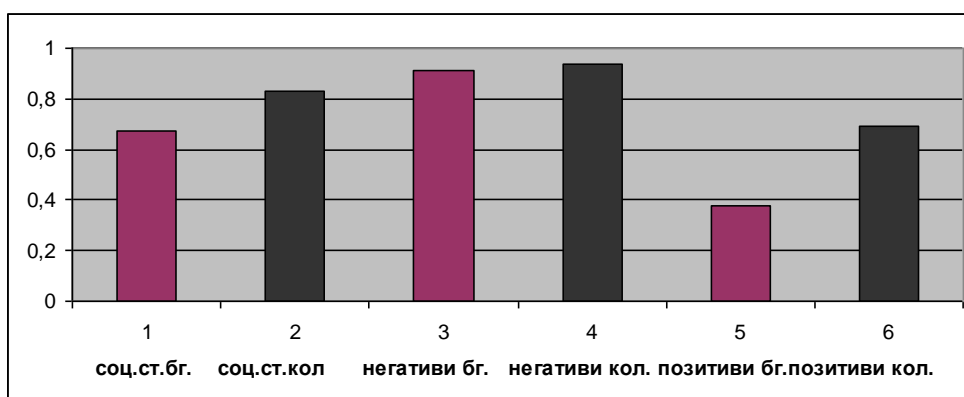
For Colombians the positives consequences of corruption are reflected in the possibility of "rise through the ranks" and providing "potential power", which the individual can use it in the desired direction and shape (see Table 2).

These relations are also associated with cultural and historical development of the analyzed community.

Here it is reflected the tradition mentioned already of "buying" the public posts, and the consequences of the extreme poverty in which lives part of the population. That fact provokes an individual attitude to find work at any price, so even corrupt practices are acceptable strategy even more they are assessed as positive - "job opportunity" (see Table 2). The work gives to an individual a certain security for him and his family, so the corruption serves as a kind of "protection" against poverty and deprivation.

The so formulated from the respondents of the two samples groups of positives consequences of the presence of the corrupt practices into organizational life shows the following tendencies- for Bulgarians corrupt strategy is primarily an opportunity to develop what they have already achieved and allows direct increase in financial income, career and achieving personal goals, at all it is a guaranteed way to extract personal gain. The negatives of choosing such a strategy are streamlined thanks to the vacuum of values, which correspond to their socio-historical stage of development. In Colombia, the situation in some ways resembles the Bulgarian, but its base has a variety of different features. In this society the corruption is accepted as means allowing achieving the goals, but the very nature of these goals is different. Individuals are usually at starting position and are forced not just to develop the existing base as the Bulgarians, but they use the corruption as the only effective way to satisfy their basic needs.

It is evident that the Colombian sample attributed higher values of the negatives consequences of corruption than the Bulgarian sample, but Colombians also attributes higher positives consequences and social value to the corrupt practices compared to the Bulgarians and the differences in these two indicators are significant.



*Graph 1: Individual assessments of the corruption phenomenon*

### Abbreviations:

1-social value of corruption for Bulgarians; 2- social value of corruption for Columbians; 3-negatives of corruption for Bulgarians; 4- negatives of corruption for Columbians; 5- positives of corruption for Bulgarians; 6- positives of corruption for Columbians

The results showed statistically significant differences in the assessment of the social value of the phenomenon corruption in the categories of absolute evil (54% -Bulgarian ; 44.16% - Columbian) and a necessary evil (35% - Columbian; 26.5% - Bulgarian) .

*Table 3: The perception of the respondents in both samples about the social value of the corruption*

<i>Social value of corruption</i>	<i>Bulgaria</i>	<i>Colombia</i>
1. Absolute evil	54 %	44,16 %
2. A necessary evil	26,5 %	35,02 %
3.Equal evil and good	18 %	16,07 %
4. Relatively useful practice	1 %	1,08 %
5. Extremely useful practice	0,50 %	2,50 %

The results reveal that 54 % of Bulgarian sample and 44% of Colombian deny corruption and consider this phenomenon as a totally evil for society and individuals. Bulgarians are more critical because they express more strong rejection of the phenomenon than their counterparts on the study.

An impressive large number of respondents identifies corruption in the category - a necessary evil: 26,5% of the surveyed Bulgarians and 35, 02 % of Colombians. This is the group of individuals who are aware of the negatives consequences of the phenomenon, but tend to use similar behavioral pattern because of its potential effectiveness, overcoming barriers of sense of guilt and moral compunctions through rationalization - situational need. This is the position I don't accept corruption, its evil, but the conditions force me to use it as a strategy.

The third category assumed a neutral position regarding the nature and consequences of the analyzed phenomenon – “as evil as good” and shows very high and almost equal results in both groups. Individuals who gives to corruption this label are not interested in the dynamics of social relationships or the consequences of their actions. Probably they have been on both sides of the corruption process, in some cases victims and in other beneficiaries of the corrupt process, and therefore experience difficulty to define unambiguously the phenomenon.

It was expected that in both samples with minimum percentages are both categories defining the corruption entirely positive –“relatively useful practice” and “exceptionally useful practice”. The rates of the Colombian sample are a little bit higher, which can be explained by cultural traditions, which are in collision with the dominant contemporary Colombian values.

This creates a peculiar duality in the attitude, reflected in the high performance in terms of the category of "necessary evil" - because moral and values put the label -evil, but the cultural traditions and the practical results of efficiency in certain areas led to rational terms - necessary.

Is an interesting fact that the measure, which the respondents themselves must formulate as an effective in preventing and reducing the impact of the phenomenon of corruption in both samples are completely analogous, they differ only in the weight that the respondent give to them.

The most effective measure according to the results is the "control". In Bulgaria, the second most important category is the " punishment " while in Colombia punishment is less effective measure, and secondly are the "values " and " organizational culture ", while in Bulgarian sample this category did not appear (see Table 4).

Displayed trends also have their culture conditioning. Control and punishment methods have been tried in the recent past, carried by inertia into the modern organizational life in Bulgaria. Values in Bulgarian sample didn't have strong influence because after the transition period in the country the new values still not so clearly defined and even less internalized by individuals.

The organizational culture is a factor, which in the present moment in Bulgaria is difficult to define by respondents because the essential part of this construct are exactly the values for which it was already mentioned that are unclear (Vitanova, 2009). Organizations themselves have undergone many changes and transformations that reflect on the stability of the organizational culture, because culture and values are elements that are resistant, they are difficult to change, but fundamental changes in the structure and strategy of the organization affect them without any doubt (Ilieva, 1998).

*Table 4: Measures formulated by respondents in both samples as an effective means for the prevention of corruption*

Measures to reduce corrupt practices in the organization	Bulgaria	Columbia
1. Strict control	57 %	51 %
2. Sanctions and penalties	43 %	29 %
3. Strong organizational values	12 %	31 %
4. Organizational culture		30 %
5. Transparency in organizational life	17 %	14 %
6. Explicit rules	19 %	17 %
7. Better payment	16 %	3 %
8. Improving the process of recruitment	4 %	15 %
9. Improving the communication process in the organization	14 %	3 %
10. Reduction of bureaucracy at work	3 %	5 %
11. Changing/rotating staff	4 %	7 %

Both samples define the important role of the " transparency " in organizational life and the construction of "clear rules" of the organization functioning as preventive measures against the domination of the corruption strategies in social interaction (see Table 4 ).

The next category is "better payment". It is recommended by the economists as one of the means that are particularly effective against the growing trend towards corrupt acts as an effective model of interpersonal interaction. Opponents of the

favoritism of such a measure noted that first it can be a very expensive instrument and, secondly, that it is only valid when the money are significant value for the individuals and this is the reason for involvement in the corruption scheme, but should not overlooks the fact that often the motives and purpose of the individual are of very different nature.

In Bulgarian sample, where the material security is one of the most popular positive consequences of corruption, obviously money is great value and reasonably effective preventive measure would be better payment, which reduce the attractiveness of illegitimate sources to meet this need (of course its effectiveness is not guaranteed because there are individuals who follow the maxim "more and more" and the change in work remuneration would not change the attractiveness of additional income even illegal).

In Colombian sample material security does not appear as a category that takes into account the positive effects of corruption and logical as a measure to stop the corruption process Colombians assign it a null value to the measure of better payment ( see Table 4).

Colombians however seen as an important category "improving the selection process" in the organization. They believe that the choice of people with similar organization values will help them to adapt more easily to organizational life and culture, to develop attachment to the organization, to feel satisfied with belonging to it, which will become powerful barrier to the potential choice of corrupt practices.

In Bulgarian sample this category is not significant, most probably starting from the perception that no matter what kind of people the organization hire, if material compensation provided at their involvement in deviant strategies is large enough, any barriers would hardly deter the inclusion of the individuals in such a favorable opportunity for them. Bulgarians believe that the clear formulation of the goals and aspirations of the individual is more efficient and therefore pledged to "improve communication "(see Table 4).

Both groups (Bulgarians and Columbians) put some expectations that "cutting red tape " can limit the manifestations of corruption (see Table 4). These results correspond to the traditional understanding of the bureaucracy (as an organizational form) as the main source of corrupt behavior.

But corruption is not unique to red tape, it is also present in many other inherently types of organization, which leads to the conclusion that limiting bureaucracy in relations can be an effective tool, but not enough, it must be combined with other tested methods.

As a last resort to stop the corrupt practices, both groups of respondents admitted replacement of employees (in Bulgarian sample it may involve rotation of staff or dismissal).

The analyzed data show that proactive attitude towards corrupt behavior is valid for both groups, but the ways of manifestation, as well as perceptions and assessments on this phenomenon and the consequences which result in the level of social interaction varies.

## *CONCLUSION*

As it was suggested, the functioning of individuals in organizational environment, characterized by the presence of corrupt practices inevitably lead to changes in interpersonal interaction, reflecting into different trends such as waiting for reciprocity in relations with others or striving to maintain (at any cost and by any means) the network of social contacts in order to secure public position, status, power, influence, material security (especially in Bulgaria).

In any society, the specific characteristics of development are reflected in the dominant cultural model. More precisely, the dominant cultural model in some stage designs himself certain characteristics of the society of which depends on how tolerant or intolerant individuals will be to potential deviations in behavior .

In both samples (Colombia and Bulgaria) are detected strong corruption motives and attitudes, but the factors that give rise to them and the form of their manifestation in the process of social interchange has significant differences.

The analysis of the data obtained revealed both similar and different problems affecting the organizational dynamics and given as a consequence of the existence of corrupt practices in organizational life in both samples.

There are outlined serious problems such as lack of productivity, build a bad image of the organization, reduced of the motivation, injustice, etc., valid for both groups.

They were formulated some typical for Bulgarian organizations negatives as intrigue and inequality of employee , as well as in Colombian organizations- abuse of power and worsening of the economic situation.

Respondents determine some positive consequences of the presence of the phenomenon corruption in organizational life. For Bulgarians, corrupt practices are means to overcome bureaucracy in the organization and also serve to acquire better material status. For Colombians corruption is the way to achieve some personal benefits and also to ascent in hierarchy.

The most valuable part in this study are the measures that respondents themselves offered as an instrument designed to prevent corrupt practices and violations in the social exchange to which they lead. Subject of future research is to check how they are applicable and if they are effective in organizational life.

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## ***IS THERE ANY SPACE FOR FRIENDSHIP BETWEEN BUSINESSMEN?***

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*Ana Aleksic*<sup>30</sup>

### ***ABSTRACT***

*In life of each of us the value of friendship is one of the most important and most appreciated. True friendship contributes to the actualization and fulfillment in many aspects of the personality. It seems that the entry into the world of business often requires that we put aside real friendship as an ambition that can only bother us. The aim of this study was to investigate whether this is indeed the case. We will try to explain the phenomenon of friendship and look for the optimal perception of friendship as a value in the context of relations between businessmen. Does the business environment demand to sacrifice friendship, and what is the price of this sacrifice, are some of the crucial questions that we will try to answer. In order to do this we will first deal with the reminder of the attempts to define friendship as a virtue and then point at possible inner conflicts that a person can have, due to conflicting demands of business and other roles. Our considerations bring us to the realistic conclusion that businessmen are not friends, but they strive to benevolence because of the simple fact that the cooperation is useful.*

***Key words:*** *Virtue, Friendship, Moral Values, Business Values, Benefit*

***JEL Classification:*** *Z19*

***UDC:*** *177.63-057.17*

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## **INTRODUCTION**

*“If, for example, a friend of ours who gave false testimony tried to justify in front of us, in that such a procedure used for his own happiness, then said it was his sacred duty to strive for the happiness, we would have laughed at him in the face, or we shrink back in disgust.”*

*(Kant, 1979, pp. 58).*

When I mentioned to my friends that I'm currently dealing with the topic of friendship among the businessmen, most shook their hand and turned my attention to my futility. Though this comment did not offend me, because I'm aware that philosophical thinking arises from leisure, I could not help but wonder about the origin of this non-questioning feature of their attitude. I have also wondered whether that attitude can be established? So, my friends inspire me to hold the lines and to be persistent, in order to persuade them to keep our steady friendship.

We live in a period in which to violate the elementary norms of morality is no longer the scandal, be it on the field of education, politics and business. so our time is easily determined as the time in which morality is a matter of personal belief that in no way binding. The reminder of the forgotten values that should be revived seems to be completely pointless. If so, then this apathy crashes basis of society as we know it and have learnt about. Such a society rests on a foundation based on four grounds: the economy, politics, social protection and value system. If conciliatory argue that the value system of heritage that has fallen into oblivion, then we're out of society as we know it.

Against this impression stand the most elementary anthropological facts. People need values in order to be capable to edit their area of activity. This is because our practice is determined by certain purposes.

However to determine the value system, the friendship is the value that is included in it. If it is not an explicit goal of our relationships with people that we care about, then it is definitely a virtue worthy of praise. Our behavior is optimal if we are capable to build friendly relations. And that is so even more because the fact that friendship does not follow the pattern of actions motivated solely by some interest. How does this value and virtue, at the same time, look from the point of view within a framework that is defined by the struggle for the realization of certain interests?



## **ARISTOTLE'S CONCEPT OF FRIENDSHIP: FRIENDSHIP AS A VIRTUE**

*Friendship is one soul in two bodies.* (Aristotle)

It is impossible to deal with the theme of friendship and not processed Aristotle's insights. In the Nicomachean Ethics, which is one of the most original writings of Aristotle, the theme of friendship dedicated significant attention. The entire book includes ten parts, and two, VIII and IX, are dedicated to friendship.

Originally, Aristotle uses the term  $\phi\lambda\iota\alpha$  to denote friendship. According to the meaning in dictionaries,  $\phi\lambda\iota\alpha$  covers a wide range of meanings, from friendship to the sympathy in business relations, where the feeling of kindness is basis they share.  $\phi\lambda\iota\alpha$  means love, affection and even passionate lust.

Aristotle clearly recognizes what is the true value of friendship. At the beginning of the VIII part of Nicomachean Ethics he says: "And those who are rich and who are high up, and the rulers, it seems that they need friends the most of all, because what is the use of such prosperity devoided of charity, which is mostly applied and the most praiseworthy among friends?" (Aristotle, Eth. Nic. VIII, 1, 1155 a 5). Charity enables good man to express his character, and thus be useful. Here, the Aristotle's notion of usefulness as goodness, implicitly described in the position quoted above, is very interesting, in the light of later basic ethical dualism, utilitarianism and deontology. Thus Aristotle managed to reshape the supreme principle of utilitarianism, the benefit, bringing it into the context of deontological ethics.

A man who is capable of being a friend manifests humanitarianism, love for the people, which is not permeated by a desire to achieve an interest. This becomes evident in Aristotle's division of friendship, though he explicitly says that "among the righteous things most (divine, important) is friendship" (Aristotle, Eth. Nic. VIII, 4, 1155 a 25).

Why is the friendship subject of ethics? Let us remind that Aristotle (Met. V, 1, 1025 b 25), states that knowledge can be theoretical, practical and poetic. Practical knowledge consists of economy, politics and ethics. The highest principle of knowledge is cognition made by theoretic reason. In ethics we base our insights on the activity of the practical reason, *fronesis*. The question of the application of the concept of love in the field of practical reason is one of the fundamental questions that were posed in front of the ultimate achievements of Kant's ethical teachings. And Aristotle's, as we can see now, too, by the issue that follows: "In fact, it seems that we do not love everything, but only what is worth of loving, and that is what is good or pleasant or helpful" (Aristotle, Eth. Nic. VIII, 2, 1155 b 20). The distinction between what we love and what is worth loving is the distinction between descriptive and normative, between is and ought to be. It's a distinction, whose analysis is used to define ethics as a philosophical discipline, as well as for determine some very significant topics in it. Hume's problem and naturalistic fallacy, which treats the distinction between what we desire and what is desirable, are the most famous examples.

According to Aristotle, there is no friendship when you love, or better say, like things, but only between living beings, because of mutual affection that's missing. The first features of friendship that Aristotle explicitly speaks about are mutual affection and good wishes for another being. Then, "a friend should desire the good for its own sake" (Aristotle, *Eth.Nic.VIII*, 4,1155b 30) In other words, a friend is the man who is benevolent.

Aristotle analyzes each of the three motifs of love, which is the basis of friendship. True friendship is the one where love exists for its own sake, not for gain or pleasure. Friendship in which the motive for love is benefit or satisfaction is friendship per accidens, but not the essential one. We love a glib man because we like his glibness, as well as we love someone from whom we expect some kind of benefit because we think that we will get that benefit. When the one we love for the sake of pleasure or benefit does not bring the benefit or pleasure any more, love and friendship cease. If there is external motivation for the friendship, friendship takes time as long as that motive exists. Among friendships with the benefit as a motif, Aristotle (*Eth.Nic. VIII*, 5 1156 b30) particularly speaks of hospitality to strangers and, that is especially interesting for us here, friendships that are based on business relationships.

Perfect friendship is the one that has no external motive, where love between friends exists for the sake of friendship alone. It seems natural to ask which kind of people are able to be such good friends? Reply to this question brings the riddle-solving of Aristotle's *Ethics* in whole: the fact that a central place of that ethical teaching, next to the conception of virtue ethics and moderation, takes the value of friendship. Aristotle, in fact, came to the insight that perfect friendship between good people and those similar in virtue, is the friendship among people who are good and otherwise, for themselves and in a relationship with a friend. This virtue of friendship is manifested regardless of the motives, types of procedures and circumstances. So, the view according to which self-love is prerequisite of friendship is quite logical. Self-love is not selfishness, according to which the individual would wish the highest honors, money and bodily pleasures for himself, because that kind of thing creates conflicts between people. "A good man should love himself (for doing good deeds will benefit himself and others), while a rogue should not, because he may harm himself and neighbors, in emulation of wicked passions" (Aristotle, *Eth. Nich. IX* , 1169 and 8 15). A good man is the one who clearly sees the true values and knows that wealth and honors can only be the source of instant satisfaction. A good man is capable to decide on priorities, bearing in mind the background of real values of which he has a clear knowledge. He does not express love as affection, but love as the ability to properly manage the decision-making process. This Aristotle's insight almost announces the Kant's famous elimination of desire as a reason that determines our will in ethics. A man who loves with the love like this, as a true friend, can really help us when we deal with our personal choices that bother us.

Aristotle was aware that true friendship is a treasure that is worth, the greatest good of all. His standards are very high and therefore real friends are rare, just as much as the good people are rare. The man is worthy of loving when we are fully confident of his reliability, and it takes time and also living together. Opposite to that, the friendship with benefit as a motif does not require spending time together, because the contacts are limited to the satisfaction of current interest. That is why true friendship is the friendship for life, and not only for or because some circumstances.

Another characteristic of the true friendship is equality among friends, which occurs by noting merit. We refer here to the merit of goodness, the moral rightness, the purity of character. The most famous Aristotle's dictum about friendship, that friendship is one soul and two bodies (Aristotle, *Eth. Nic.* IX, 2 1168 5 b) is concerned with equality among good people by their goodness that they recognize. Although this maxim of Aristotle is taken from Euripides (*Orestes*, 1046), Aristotle certainly gave the content to it, and clarified its place in his own ethical teaching.

Let's take a look at one more detail about the friendship of benefit, namely its duration. It lasts as long as a common interest. When people realize the interest or its exercise proves impossible, a journey that we call friendship ends. This is due to a fundamental insight which is the basis of the whole of Aristotle's philosophy. It is a forest (*noesis*) cause of all things, which allows us, and cognition and action, to do and to conceive. Applied to the people and their character, a good man is the one who follows the voice of the mind. Let's conclude with Aristotle: "The corrupt man does not do what he should do, while honorable man does what he should do; because every mind chooses what is the best and honest man listens to his mind" (Aristotle, *Eth. Nic.* IX, 1169 8 and 15).

We must briefly refer to Aristotle's famous division of virtues. In fact, there are ethical and dianoethical virtues. Dianoethical virtues are those concerning by the improvement of knowledge, such as wisdom. Ethical virtues prepare us for resolving things that are not eternal, but are variable. Such are the problems in life. Where does a friendship belong to? First of all, a friendship is true concern and good intentions towards the other man, who has the same quality of goodness as we do. We can recognize equality only on the basis of knowledge about our own and the character of another man, our potential friend. We recognize the requirements and consider improvements, and we are sure that in both cases deeds and attitudes have reached the optimal condition. So, it is clear that the true friendship is a virtue that can't exist without knowledge. According to the content, it remains an ethical virtue, as far as it is concerned with decision-making and proper prioritization in accordance with the requirements of virtue. So it seems that friendship is a paradigmatic case of the practical wisdom (*fronesis*) for Aristotle because, as defined, it is a practical wisdom in action. Good people want to do good to themselves and others, and a friendship is a sign that they were able to recognize the ideal of good as the only truth and the only true guide. These people are happy because they were given the insight and recognition of the Good, so they live in love and friendship, which is based on the knowledge they share.

In the previous lines we have sketched Aristotle's conception of friendship. It was important to show benefit as a motive among friends, and then also pure friendship and his qualities. Aristotle's conception assumes *fronesis* as the greatest virtue. The vision of good is something that friends share, and it is based on the proper insight into what is just, which is assumed to be objective. This intellectualism does not allow the Christian position of merciful forgiveness to a friend. The claim that a man always acts rationally was the problem for Bertrand Russell and D.H. Lawrence, because it was conceived as crude determinism that can lead to the Nazi drive to think by blood. But the question is whether Aristotle really states that and makes the requirement to act exclusively rationally before the moral actors. Excellence of character is there really inseparable from intelligence. The one who's wrong is primary intellectually deficient, and therefore not a good man, he does not know what the good is. This is consistent

with the understanding of love, that is the foundation of friendship, as more rational ability to make the right decisions and not as affection or feeling. This could be a fundamental objection to Aristotle's ethics, for which the famous historian of ethics, Alister McIntayer (Makintajer, 2006, pp. 12) indirectly refers to him as to "arrogant pompous," because to Aristotle too much of a human is yet something strange, and the role of conflicts in people's lives is not taken seriously.

### ***FRIENDSHIP AS AN ETHICAL VALUE***

Horizon of human experience becomes meaningful and clear against the background of the value horizon. Without values, our experiences are made up of the events. On the basis of the values we are actors of the acts, endowed with the free will. Through the value a man receives landmark for his deeds and the aim that has a task to manage our behavior.

In the various spheres of existence, values that determine the priorities are different. The sphere of economic life is oriented towards fulfillment of economic values. The artistic life has aesthetic value as a paradigm, a sphere of scientific knowledge has truth and the sphere of moral procedures has ethical values. The subject of values is the topic of special philosophical discipline, axiology. Though this area has long ago been defined in philosophy, knowledge that we have about the values is not sufficiently precise, so that knowledge in itself is not satisfactory guide for our practice. However, among the well known axiological themes is the division of the values on instrumental and intrinsic, although this was not a definitive conclusion that can't be subject to further questioning.

Plato has already distinguished instrumental, mediating and intrinsic values. Instrumental values are the values of assets, intrinsic values are goal values, while mediating values have characteristics of both these classes. Dewey is of the opinion that all the values are intermediate, ie. there are no purely instrumental or purely intrinsic values. Certainly, Moore is the best known as the man who has made a clear distinction between intrinsic and instrumental values. He developed the idea that the theory of values is based on the intuitive insight, and that idea was announced in Henry Sidgwick's teaching. Later this idea was held by David Ross.

In addition to this dualism or tripartite division, there is a debate about values according to their contents. There are many variants of it. To illustrate this, we are going to Perry's eight different classes called areas of value, so there are moral, aesthetic, scientific, religious, economic, political, legal and customary.

It is interesting that Perry follows Aristotle's concept of value. Aristotle argued that values are not the essence, but that they determine human interests, and Perry, in the same vein, claims that the value is defined as any object of any interest.

The key distinction between the intrinsic and instrumental values was worked out in detail within the dominant normative ethical theories. Deontological view is defined by the struggle for the realization of intrinsic values, which are in this ethical tradition known as absolute, universal, common values. These are values that do not follow the logic of market exchange, which are priceless, so neither of them can be replaced by anything else. Our ethical duties are priceless. This means

that our actions can't be justified if we did not follow the requirements of the moral law, by giving us something else that was more necessary or more comfortable. If you have promised something, and then it turns out that your fulfillment of that promise will complicate your life, and that is not necessary, you should not give up fulfillment of the promise. This is what dictates the moral law within you.

How does the horizon of these introductory notes about values determine the friendship? Can we be indifferent regarding the desirability of friendship and its values? The fate of a man who nowadays lives without a friend is severe but more and more frequent. It seems that the value of the real friendship, one that does not exist for the benefit or pleasantness, but for the joy of recognizing the moral qualities of another man, can't be measured with anything else. Moore claimed that the greatest conceivable goods are personal feelings and aesthetic enjoyment. It follows that the ultimate goals of human actions are exercise of friendship and enjoying in the beautiful nature and in the beauty in arts. So, if the friendship is a value, value of friendship is a moral value which is absolute and which thus has no market equivalent. Friendship is the value that, if we are capable of it, makes life worth living. That is why Aristotle's insistence that all people need love, but that love is also beautiful, is fully in accordance with Moore's recognition of the greatest imaginable goods. People who know Good enjoy in their common knowledge. Their relations are deprived of fighting for the interest and pleasantness. They enjoy in virtue, good and love because they share the same and true value horizon.

## ***POSTSCRIPT ON THE VALUE AND VIRTUE***

Previously, we tried to set philosophical, ie. ethical basis for what friendship is and what kinds of friendship there can be. In these efforts, we came to the conclusion that friendship is love among those who have perceived virtue. This means that true friendship exists between equals, first among equals by virtue, so that is not the characteristic of friendship that is motivated by affability and benefits, although pleasantness and benefit are legitimate human objectives.

Friends wish good to each other and they wish good to themselves. Aristotle's concept of true friendship presupposes that it exists among the good, virtuous people. But many writers, theoretically or encouraged by personal negative experience, tried to challenge this concept of friendship. Here are Hegel's remarks:

*"Friendship can only exist between those who are able to be equal."*

*"Friendship is based on the equality of nature, and in particular interest to work together to produce a joint, not the personality pleasantness of the other as such."*

Bearing in mind Aristotle's analysis, these statements seem extremely confusing. We will not hide that this confusion will only serve to emphasize agreement with Aristotle, although it may seem uncritically. And this is so especially because we will not even try to place Hegel's insights in the wider context of his philosophical system.

The key for this confusion of Hegel's claims about the friendship works is the fact that they can't be interpreted using an attitude that lies at the basis of Aristotle's ethics. And it is an unequivocal assertion that "if there is a purpose of our work we want for its

own sake and everything else for her ... it is clear that it must be good, and particularly the greatest one" (Eth. Nic. 1094 a). So, to create a common good and to strive for power are legitimate human interests, but they are not comparable with the knowledge of good and behavior which in accordance with that information. That is the essence of the value of true friendship, which brings to this knowledge only one impression of happiness, happiness because we are capable of that value. Such a supplement is called love. If Kant's vocabulary came to help us, we would say that love that is in the middle of the phenomenon of friendship is a rational feeling, as Kant claimed that respect was. We tend to claim that Kantian respect for the duties and Aristotelian true friendship share the same status and represent a paradigm of our practical wisdom. We miss the essence of our practical wisdom that guides our choices, if we determine it as orientated towards the interest or pleasure, not as a way to achieve good, the greatest good of all.

Only in this way we can explain how friendship manages to overcome other values, how friendship can laugh in the face of the truth, ideology, political divisions. True friendship is above truth and above the "higher goals".

## ***THE WORLD OF BUSINESS***

Following these lines, which were, in the leisure of philosophy, completely safe, we move into the world of, often harsh, business reality. We will try to see how our attitudes behave in practice and what modifications and restrictions this practice requires. At the very beginning we need encouragement:

*"Pessimism is a cultural luxury which we will have to divest ourselves from in order to survive this difficult time" (Makintajer, 2000, pp. 14).*

The common perception was that there is no friendship among businessmen. Indeed, why should friendship exist or be considered desirable between the people who are, by definition of business transactions they are involved in, excluded? There are two important questions here:

1. Is there a friendship between businessmen? This is an issue that concerns the description of the actual state of affairs. The business relationship is definitely not determined by mutual friendship.
2. Is friendship among businessmen desirable? Is friendship among business people an obstacle to their business relationships?

The answer to these questions requires that we use Aristotle's division into different types of friendship. It should be easy to answer the first question. Business practice among actors creates relationships that may take the form of friendship and sincerity. It would be optimal to say that among businessmen *de facto* might exist friendly relations, but those that belong to the Aristotelian categorization of friendship of convenience or friendship for pleasure, in order to reach an aim. So, it could be characterized as some kind of instrumental friendship. Immediately, it crosses our mind that this is a controversial notion. But instrumental friendship is a term that does not need to contain in itself a contradiction in adjecto, precisely because we rely on the

kind of friendship that Aristotle claims that are not true friendship. Such friendship stops after the end of common interest comes.

It would be more difficult to respond on the second question. Since it is on the desirability of friendship, it belongs to the normative level of analysis. Here the empirical facts are not of crucial aid. We must return to the question of values, and as we are here dealing with ethical norms, we are interested in the moral value of business. In another paper I have argued (Majstorović, Radulović, 2014, pp. 330) that the basic moral value of business is confidence, as trust, which has no inductive origin. It's a bold statement, because we have evidence that is strong enough that it brings higher profits and increases efficiency, in many ways (Fukuyama, 1995, pp. 152). But it provides a space for respect for the moral integrity of the individual, who is then stable participant in business practices. The process of decision making of such moral agent is more consistent and stable. And that is why in that case an indirect profit is guaranteed.

### ***FRIENDSHIP AND MORAL VALUES OF BUSINESS***

What kind of normative status should be granted to the value of friendship, so as not to disturb the basic moral value of business- trust? In other words, is it enough to act in accordance with the moral minimum, be a friend on grounds of common benefit, or is something else needed?

If we accept only the things we must do, that is something that can be truly realized in practice, we lose norms and we lose motivation for the better. That is why, from the perspective of ethics in business, it is better to go beyond the actions that moral minimum requires. Here it comes to mind the position which can be called the position of "Samaritan realist". So, we have an obligation to help others, because it is our duty not to inflict damage on purpose. That is what moral minimum says. Normative may require a bit more or that estimate when our sacrifice is too great and to another man it would mean a tremendous help. This assessment is a matter of duty, and the process that follows does not have to be. This way we determine the duty of benevolence which prevents us from not care much for others in all circumstances. In ethical framework of business so defined, friendship is also not limited to the friendship of convenience, but is also something more or disposition of real friendship that may not be suppressed. Thus we respond to the question of the desirability of true friendship that it is not a duty, but that we must consider all the circumstances and relationships with individual man- moral agent and business actor. This means that you should give a chance for the disposition of real friendship. Our claim is making a challenge for a realistic view of the business: Albert Carr claims that the game of poker, to which business the most resembles, requires distrust in other players and ignoring the demands posed by friendship. (Carr, 1968, pp. 145-148). This is a misunderstanding, conceptual one. In the first place, the game of poker, as well as every game has its constitutive rules. Ethics, entering the area of business, participates in the formation of the constituent rules of the game. It becomes obvious by substituting the concept of profit as the sole objective, with the concept of social responsibility. Then, it seems that even the weak concepts of friendship, such as the

concept of friendship from benefit or pleasure, can't be sustained without respect for the trust. Proof of this is that a very small number of business transactions can be done so that they do not need additional guarantees, which is sometimes very difficult, and in majority of cases almost impossible to secure.

It is expected that Kant's ethical position, applied to the field of business, makes explicit attitude that can help us about the optimal reception of value of friendship in business. So we will look at what about it says Norman Bowie. He is an advocate of deontological ethics in business. He has suggested the application of Kant's concept of duty in professional ethics. Thus, the duty not to lie, do not cheat and do not neglect the trust have status of a perfect duty, while the duty of providing meaningful work to employees has the status of an imperfect duty, that in Kant's original teaching belongs to the duty of helping others. The participants in business transaction are not personalities whose moral attitudes are only private matter. Bowie criticizes Albert Carr, who claims that "the game calls for distrust of the other fellow. It ignores the claim for friendship" (Carr, 1968, pp. 145-146). Because trust is absolute duty, to respect these duty provides constitutive rule of business. The final argument is that the neglect of confidence is practical contradiction that is revealed by the test of practical universalization. Because of that Bowie underlines that "Carr's view is morally wrong because it is irrational" (Bowie, 1999, pp. 12). So, the businessman can not be indifferent to the moral values that he privately respects, because a framework of the successful business is defined by the value of trust.

### ***THE CONCEPT OF COOPERATION LEAVES ROOM FOR THE RIGHT TO FRIENDSHIP***

What is the optimal status of friendship among businessmen, if we accept the settings proposed so far? My view is that the business must leave room for friendship to appear, if there are conditions. That means that we must come out of what dictates the moral minimum. This excess is not required as a duty, but we leave the room for it as right. So, in business there must be room for the right to friendship between the actors. The ambiance of business should be ethically edited so that this right is not stifled. This is a realistic requirement, since the right, as opposed to the duty is accompanied by prohibiting violations.

We can provide such an environment if we assume that the cooperation between participants is useful and from the standpoint of their selfish interests. This is an utilitarian argument, which gives us an excuse to claim that people are not used to being selfish and only concerned with self-interest, even if there are grounds for the claim that people are selfish. The thesis about the people as selfish egoist comes from ancient times and basically was thought as an attempt to explain the origin of human organization. So first sophists, and than Hobbes and Rousseau, explaining the emergence of the state, started from a description of the natural state. People are naturally selfish and they fight for their own interests. Albert Carr would be fond of this claim. But people disclaim the part of their freedom because



it's useful. In the state, it is useful because it will get to us the personal safety of life and property. The assumption of selfish people also exists in other versions. For example, the biologist Garrett Hardin believes that the altruism in humans is extremely limited and short-lived. This is the starting point of his idea of "lifeboat ethics". Dawkins (Richard Dawkins) most explicitly supports the view that people are by nature selfish, claiming that "the unconditional love and the good of the species as a whole are concepts that do not make sense in evolution" (Dawkins, 2006, pp. 2). Susan Wolf says that we do not need a biological determinism to explain selfishness. It is enough that we simply have no desire to give up some luxuries in life, as to go to the opera or taste culinary innovation.

If this is a fact of human nature (humans are selfish), whether there is a reason for the norm that they should not be selfish? The father of modern economics, Adam Smith, has already restricted the pursuit of personal gain and advantage by sense of justice, because he believes that man as homo oeconomicus is a compassionate being. It was clearly stated in his book *The Theory of Moral Sentiments*. We are here interesting in the conclusion from game theory, which concerns the famous prisoner's dilemma (PD). If each participant thinks only of himself, it is better to act contrary to the agreement, and that is the option of non-cooperation (NC). But, in a situation of repeated PD, the greatest gain brings cooperation (C) in the long run. This applies to participation in a game that repeats in time (the participants know each other, so that the trust is assumed), but it is not certain how long it will last. Therefore, even if perhaps it is true that people are only directed to their interest and progress, they should learn to cooperate because then they will come to an option that represents the Nash equilibrium. This can also be applied to the business environment, because that is the case of group decision making process, most of the time. This is the fact that every manager should have in mind, because he creates a decision regarding the large number of participants in the activity, which is the so-called individual collectivizing decision.

## *CONCLUSION*

In this study we were interested in whether there is a place for friendship among businessmen. By analyzing the concept of friendship, we realized that we have to distinguish real friendship and friendship with the motive of pleasure and benefits.

The fact is that there may be a friendship of convenience among businessmen. Also, it would be completely untrue and even dreamy to define the relationship between the businessmen so that it involves an element of friendship. However, it is important to define normative ethical business environment so that it does not exclude the relations of friendship. The frame of duties that define the field of business ethics so as to go over moral minimum, keeps right to the friendship intact. The assumption of such a framework are absolute duties (Do not lie; Do not cheat; Do not neglect confidence!) and the usefulness of cooperation, in which we are assured by means of the conclusions of the theory of games. In short, the businessmen are not friends, but they strive to benevolence and have a disposition for friendly behavior. The framework

of business ethics does not require friendship, but also does not suffocate, but provides the space for it. Businessmen can make friends in a specific way- through loyalty to character values that are manifested in the commitment to a shared vision. It is similar to friendship between Gauguin, Paul Cezanne and Pissarro. They were close friends on the basis of commitment to the vision of a symbolic painting. Gauguin has sacrificed the commitment to his family responsibilities. The interesting question is whether this is a true friendship.

It is common that business partners are called pals, if the friendly relations between them exist and if they successfully cooperate. This work will be closed by an interesting remark about pals that made Vuk Karadzic, supporting attitudes of friendship among businessmen that we presented. In Serbian vocabulary (Belgrade, 1898) on page 483 Vuk Karadzic, with the meaning of the word pal states as the German word *der Gesellschafter einer Handelsunternehmung*. This means not only the partners of the business, but also a good friend, a sociable man. To pal means traffic, but trading and socializing. Simo Elaković, to whom we owe this reminder of the Vuk Karadzic, says that this means that to pal is the business of creating true human community (Elaković, 2007, pp. 6). The original Greek word that is at the root of the term pal (*ortak*) is *orthos*, which means upright, straight, honest, correct. Our use follows that logic- a pal is more than a buddy, because pal relation implies reciprocity in business, to be willing to help and when you do not have any interest, honestly camaraderie and friendship.

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***PART III***  
***LEADERSHIP CHALLENGES: NEW ROLES OF***  
***LEADERS AND MANAGERS***





## **LEADERSHIP CHALLENGES IN THE BIG DATA ERA**

*Jelena Lukic MSc*<sup>31</sup>

### **ABSTRACT**

*At the beginning of the 21<sup>st</sup> century leadership is seen as one of the most important factors for making an organization successful. Leaders are faced with many challenges in globalized, highly competitive, constantly changing and hypeconnected business environment. They are confronted with the very hard task to enable the organization to cope with high volume, velocity, and variety of data (known as big data) from environment and to make decisions on their basis. The motivation for the paper is based on the fact that through history the most successful leaders were focused on sustaining great performance by aligning employees around mission and empowering them to make decisions through collaboration. Advances in information and communication technologies led to big data technologies which enable information visibility in organization and give leaders powerful means for empowering and leading employees to make value on the basis of data from environment. Bearing in mind that technology is necessary but not enough condition for value creation, the aim of this paper is to highlight the challenges of leaders in the big data era and to point out on organizational capabilities which must be established in order to create value on the basis of data. In that sense, this paper will try to answer on the following questions: 1) What challenges confront leaders in organizations which use big data technologies?, 2) How has leadership changed to keep pace with big data environment?, and 3) What new leadership practices have emerged in response to the big data environment?*

**Key words:** *Leadership, Organizational Capabilities, Big Data, Data Driven Organization, Decision Making.*

**JEL Classification:** *M12, O33, D20, D81*

**UDC:** *005.322:316.46*

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## ***INTRODUCTION***

Ever since organizations first arose, their managements have striven to get regular and reliable information for a variety of purposes – for control and coordination of current activities, for planning future moves, for innovating (Khandwalla, 1977, p. 468). As environment of organizations has grown and become complex and dynamic, the organization's internal operations and processes have also become more complex. Technology progress caused generation of data from environment exhibiting high volume, velocity, variety and sometimes questionable veracity, known as big data, which have swept into every industry and individual company. The data sets generated every day by customers, suppliers, retailers, investment firms, competitors, governments and other organizations are so massive and convoluted (Pries, Dunnigan, 2015, p. 12), and they require big data technologies which can handle them.

There is no doubt that big data will be a main source of competitive advantage and means for sorting winners from losers in hypercompetitive global economy which is becoming more digitalized every day (Iafrate, 2015). But, there is little awareness that big data as set of technologies and tools does not create value on its own. Leaders, managers and employees need to overcome many challenges and obstacles in order to benefit from big data. They all need to learn how to use collected data in order to create value through organizational change which should give the organizations capability to make data-driven decisions in a real time (Minelli, Chambers, Dhiraj, 2014).

Bearing in mind that modern information and communication technologies were never the scarce resources, but set of leadership and managerial capabilities needed to create value on their basis (Gurbaxani, 2003, p. 14), the aim of this paper is to show the role and importance of leadership and organizational change for companies which are using big data technologies with the aim to create value on their basis.

The paper is organized as follows. First heading deals with definition and major characteristics of big data bearing in mind that many definitions are focused on technological perspective, leaving the organizational perspective of big data in shadow. Headings 2 and 3 highlight important activities and decisions organizations must execute in order to create value on the basis of big data. New technologies and tools are important, but not enough. Organizations must learn to translate all collected data into information with the main purpose to use them as a basis for real-time, data-driven decision-making. Heading 4 presents the main characteristics of successful leaders in organizations which are using big data technologies for value creation and heading 5 is based on the example of Procter and Gamble as one of the most data-driven company in the world. P&G builds tremendous organizational capabilities around big data with the aim to improve decision-making processes. It has enabled real-time insight about every customer, digitized all operations and activities, established a large number of decisions spheres and employed digital workforce.

## ***BIG DATA STORY: LITERATURE REVIEW***

In the past few years, everybody is talking about big data. It has become a key topic that attracts great attention not just from governments around the world and academia, but from industry as also (Jin et al., 2015). By reviewing the literature, it can be found many definitions regarding big data. One of the most accepted and cited is McKinsey definition, according to which big data refers to datasets whose size is beyond the ability of typical database software tools to capture, store, manage, and analyze data (Manyika et al., 2011, p. 1). In this definition size is placed as the main attribute of big data. Truly, the term big data was coined under the explosive increase of global data and was mainly used to describe enormous datasets (Chen et al., 2014, p. 1). But, big data is not just matter of size, it is also, and even more, about other attributes that makes data on the one hand complicated or impossible to work with traditional technologies and tools, and on the other hand useful for value creation. These attributes can be described with “V” letters. As big data attracted considerable interest from industry and academia, some authors propose three, others four, five and even thirteen “V” for describing big data (<http://bigdatasimplified.blogspot.in>). Most definitions encompass 3Vs of big data. In 2001, Doug Laney, analyst from today’s Gartner, has defined challenges and opportunities brought by data as the increase of volume, velocity and variety. Many other organizations, such as IBM and Microsoft still use 3Vs to describe big data (Chen et al., 2014, p. 4).

In this paper, we are going to use 4Vs for describing big data (Schroek et al., 2012, p. 4): 1) Volume as the huge amount of data that organizations are trying to harness to improve decision making across the enterprise, 2) Variety which refers to different types of data and data sources: data from social networks, digital TV, credit cards, medical devices, sensors, bar codes, surveillance cameras, etc., 3) Velocity as the speed at which data are created, processed and analyzed reflects the need for real-time nature of data creation and decision making, and 4) Veracity which refers to the level of reliability associated with certain types of data and reflects the need for high-quality data.

Leading ICT companies (SAP, Oracle, Microsoft, Teradata, IBM, etc.) have developed variety of technologies and techniques for working with big data. Main big data technologies are Big Table, Business Intelligence, Cassandra, Cloud computing, Data mart, Distributed system, Dynamo, Hadoop, HBase, MapReduce, Mashup, Non-relational database, R, Relational database, Stream processing, etc. Among various techniques for working with big data the most frequently used are: A/B testing, association rule learning, classification, cluster analysis, crowdsourcing, data fusion and data integration, data mining, ensemble learning, genetic algorithms, machine learning, natural language processing, neural networks, network analysis, optimization, pattern recognition, predictive modeling, regression, sentiment analysis, signal processing, spatial analysis, simulation (Manyika et al., 2011, p. 27-33).

Many definitions are focused only on technological component of big data leaving organizational component in shadow. Bearing in mind that technology encompasses “the combination of skills, knowledge, abilities, techniques,

materials, machines, computers, tools, and other equipment that people use to convert or change raw materials into valuable goods and services” (Jones, 2012, p. 240) the aim of this paper is to point out on main skills, knowledge and abilities which are needed for effective use of big data technologies.

Organizations as open social systems must process information in order to accomplish internal tasks, coordinate diverse activities, and interpret the external environment (Daft and Lengel, 1986, p. 555). Converting data into information is the process that gives data relevance and purpose, but requires knowledge (Drucker, 1988, p. 4). Executives and professionals need to think about information that is needed, what data they must collect, how to analyze them, and how to make decisions on their basis (see Figure 1).

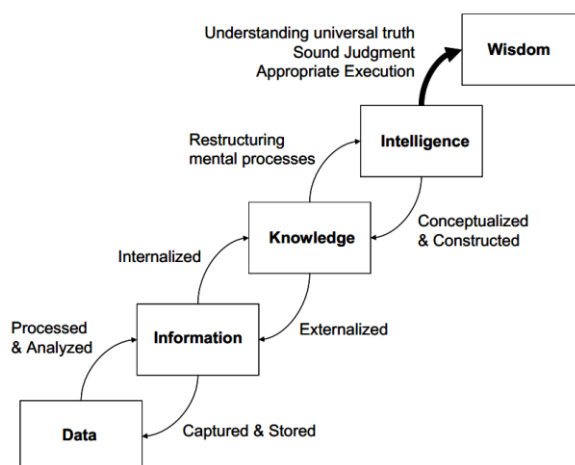


Figure 1: DIKIW (Data, Information, Knowledge, Intelligence, Wisdom) Pyramid

Source: Liew, 2013, p. 60

Without exaggerating it can be said that decisions driven by big data now represents the next lever for innovation and productivity (Gupta, 2014, p. 87), and data are now equivalent of oil or gold (Bilbao-Osorio, Dutta, Lanvin, 2014, p. 3). Succeeding with big data requires more than just having collected data because ultimately data are just data (Less Andrade et al., 2014, p. 82). They must be analyzed in a timely manner to form appropriate basis for decision making. There is a whole range of advanced analytics that can be used to gain insights from big data (Manyika et al., 2011) but besides new technologies and tools as enabling factors, leadership and human resources are very important - they must know what questions to ask, how to handle with data, how to analyze them through analytical models and how to use them as a basis for decision making. It is true that big data analytics can enable organizations to meet stakeholder demands, create market advantages, manage risk, improve internal processes and enhance organizational performance (Bilbao-Osorio, Dutta, and Lanvin, 2014) but what is crucial is organizational change and employees with new knowledge and skills.



## ***THE CHALLENGES OF VALUE CREATION ON THE BASIS OF BIG DATA***

Unless data can help leaders and decision makers to make better decisions, enhance strategic initiatives, allocate resources, and help marketers to more effectively communicate with consumers, they are meaningless (Kudyba, Kwatinetz, 2014). The fact is that only small number of business leaders truly understand the potential that big data poses over their companies and how to properly implement and use big data in order to benefit from it. For that purpose, it can be helpful for them to follow the framework with main activities which are identified as needed for big data success (see Table 1).

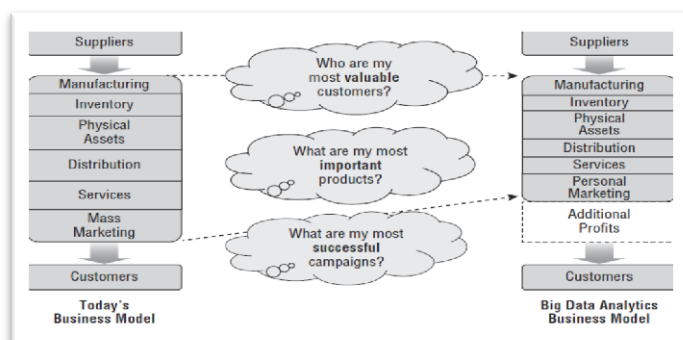
*Table 1: Activities for successful implementation of big data technologies*

<b>ACTIVITY</b>	<b>DESCRIPTION</b>
Define responsibilities	Who collects, who analyzes, and who drives value? The big data program sponsor must try to involve all important organizational functions in identifying big data opportunities.
Get the business functions to ask the right questions	Functional experts need to start asking more fundamental questions that can unlock the value of data. For example, marketing professionals could ask “What is the value of a “tweet” or a “like”?”
Take stock of all data worth analyzing	It is important to explore all sources of data and experiment with new ways of capturing information. Data typically fit into four types: <ul style="list-style-type: none"> <li>●Operational data (from sensors and microchips, transactions logs, navigation and location sensors, networks, servers)</li> <li>●Streaming data (computer network data, phone conversations)</li> <li>●Documents and content (PDFs, web content)</li> <li>●Rich media (audio, video tracks, electronic images)</li> </ul>
Select the business functions best positioned to lead the way	Big data initiatives should be launched in business functions such as marketing, customer service, supply chain management and finance, that are most ready to collect and analyze data and for which the potential payback is high.
Match big data initiatives with compatible business functions	The most suited functions for big data programs are: <ul style="list-style-type: none"> <li>●Customer functions which can use big data for targeted advertising that provides personalized offers to consumers and for loyalty management.</li> <li>●Finance functions which can use big data for liquidity management, real-time monitoring of price movements.</li> </ul>
Determine if big data yield valuable information unavailable through traditional business analytics	Big data initiative will be easier if it can be shown that it creates new value from new data sources. What data are we capturing today? What are the limitations of this kind of structured data? What extra value will we get by collecting external, context-specific, and unstructured data? Where will we find data and how will we collect them? Is the extra business value worth the additional investment of time, energy, and money?
Assess complexities and prioritize them	Recommendation is to start experiment with big data technologies and tools with data that are relatively easy to analyze. Different types of analysis present varying degrees of complexity – descriptive analytics are relatively easy, but on the other hand diagnostic, predictive, prescriptive analytics are very complex to conduct.

Assess the technology architecture	Many traditional and even state-of-the-art technologies were not designed for today's or tomorrow's level of data volume, velocity, and variety. Organizations need to consider a variety of methods to upgrade their infrastructure in support of or in anticipation of big data.
Build a team	Big data initiatives require multidisciplinary teams of business and technology experts. Every team member—business analyst, programmer, data scientist, and data visualizer—will need to have cross-functional familiarity.

*Source: Adapted from Gupta, 2014, pp. 89-91*

Activities presented in table 1 make clear that the key challenge is not only to capture the right data about market, customers, products and services, but to ask right business questions and analyze collected data with sophisticated analytics tools with the main objective to create value for company.

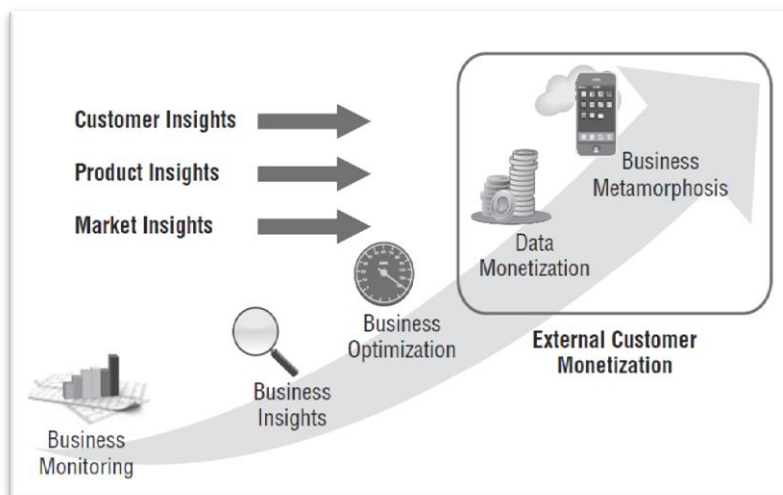


*Figure 2: Big data drives value creation processes*

*Source: Schmarzo, 2013, p. 80*

Big data enables companies to answer questions and make many decisions in detail (see Figure 2) in order to uncover new insights about customers, products, and operations, and apply those new insights for decisions on key business questions in a timely manner (Schmarzo, 2013, p. 81).

Organizations are making significant investments in new infrastructure which will enable them to capture, aggregate, store and analyze big data. But infrastructure is not the only thing that needs to change. Every part of the organization must be reorganized to allow company to integrate, analyze and use data in new ways in order to create value. Following that way, companies go through many stages. Benchmark which can help organizations to measure the phase they have achieved through big data and to identify where they want to be in the future is Big Data Business Model Maturity Index (Schmarzo, 2013, p. 6). The index identifies five stages of big data evolution in organizations among which the first three phases are internally focused on optimizing internal business processes, and the last two phases are externally oriented on new monetization opportunities based upon customers, products, and market insights (See Figure 3).



*Figure 3: Big Data Business Model Maturity Index*

*Source: Schmarzo, 2013, p. 17*

The Big Data Business Model Maturity Index phases are (Schmarzo, 2013):

1. **Business Monitoring** which refers to Business Intelligence and traditional data warehouses capabilities for monitoring and reporting on business performance. It follows basic analytics (trending, comparisons, benchmarks, etc.).
2. **Business Insights** which is focused on leveraging new unstructured data sources with advanced statistics, predictive analytics, and data mining in order to identify material, significant and actionable business insights that can be integrated into key business processes.
3. **Business Optimization** is the phase in which organizations use embedded analytics to automatically optimize parts of their business operations. For example, products pricing based on current buying patterns, inventory levels, and product interest insights gleaned from social media data.
4. **Data Monetization** in which organizations are looking to leverage big data for new revenue opportunities. It is necessary for organizations to identify the target customers and their desired solutions. The example is integration of analytics directly into products in order to create intelligent products.
5. **Business Metamorphosis** is the last phase in which organizations capturing all data about customers, products, overall market trends in order to transform their business model into new services in new markets. For example, retailers moving into the shopping optimization business by recommending specific products given a customer's current buying patterns compared with others like them, including recommendations for products that may not even reside within their stores.

First step for organizations is to build the internal capabilities to use the existing technologies and tools to interpret data. After that, they must decide which new data they want to analyze and which new technologies, tools, and capabilities they need to establish. Technology adds new dimension to the traditional business challenges, but its primary role is to be an enabling factor (Bolling, Zettelmeyer, 2014). Both, technology capabilities and leadership capabilities are very important for value creation on the basis of big data.

### ***THE IMPORTANCE OF ORGANIZATIONAL CHANGE FOR DATA-DRIVEN DECISION MAKING IN REAL-TIME***

Only a few years ago, the ability to have access to data was the real challenge. Leaders struggled to make decisions in the absence of near time information. Nowadays, leaders are faced with another challenge – how to make decisions on the basis of too much data (Carter, Farmer, Siegel, 2014) from social media, smart phones, sensors or machine-generated data. Companies are collecting data about events at the moment they are happening, and they are confronted with streams of data from their environment (Mendelson, Pillai, 1998). If we look back in the beginning of the information economy, the phrase „real-time“ was used to refer to activities of data processing from previous day. This phrase has taken on a new dimension in today’s ultra-fast, wireless world (Kudyba, Kwatinetz, 2014, p. 3) in which real-time data allow companies to influence the outcome at the moment of happening and prevent bad outcomes even before they happen. But organizations must prepare themselves for this real-time action. In history, organizational leaders have tried many approaches to improve performance: growth, branding, downsizing, cost cutting, deployment of new technologies, etc. Unfortunately, these approaches often neglected the importance of organizational change, so consequently they fail to produce desired results (Hollinger, 2012). The same can happen with big data technologies if organizational factor is neglected. With implementation of big data, organizations need to design a decision processes which use real-time data, analyze them to get instant insights, process those insights to arrive at real-time decisions (Galbraith, 2014, p. 3). Organizations are looking to become more data-driven in their business decision-making processes (Schmarzo, 2013, p. 58), which refers to the practice of concentrating decisions on the analysis of data instead of intuition (Provost, Fawcett, 2013, p. 53) and making decisions which will create value for company.

For organizations is very important to get professionals embedded into decision processes which require a shift in power from employees with experience and intuition to digital decision makers. But, big data could not replace human thinking. In fact, it is human thinking that promotes the widespread utilizations of big data which may be understood as an “extendable and expandable human brain” (Chen et al., 2014, p. 87). In modern companies, there are many new positions in organization for handling with big data named as Data Scientist, Big Data Architect, Big Data Expert, Chief Data Officer, Chief Analytic Officer, Heads of

Big Data and Analytics, Information Strategist, Information System Professionals, Data Governance and Ethics Professionals, Data Engineer, Chief Digital Officer, Digital Marketing Expert, Corporate Information Officer, etc. (Minelli, Chambers, and Dhiraj, 2014). These professionals must have mathematical, technology, statistical knowledge and skills, but also the knowledge about business processes (Manyika et al., 2011).

Apart from new knowledge, skills and education, the restructuring of business practices to cope with data rich environments has become a subject of considerable interest (Mendelson, Pillai, 1998). Almost three decades ago, Shoshana Zuboff used the metaphor of the *information panopticon* to describe how computers make work more visible in organization (Zuboff, 1988). Panopticon is a type of institutional building designed in the late 18<sup>th</sup> century with building divided in different cells located around a circle and a huge tower with windows in the middle. This architecture allows the supervisor to observe all individuals in the cells anytime and to track their behavior and results without their knowledge. Big data technologies offer huge opportunities to enhance the level of information visibility in organizations (Berner, Graupner, Meadche, 2014). But, it can lead to negative notion which is called “Digital Taylorism” – people in many jobs are under pressure to achieve defined goals knowing that they are monitored via e-mail, telephone calls, computer files, Internet logs, social networks (Pešić, Lukić, 2014, p. 438). On the other hand, key advantages of information visibility are that it can empower employees to make decisions which used to be formally referred to higher level of hierarchy and result in higher self-control of employees because they know that their decisions are always visible for all employees not just superiors.

## ***THE KEY CHARACTERISTICS OF LEADERSHIP IN THE BIG DATA ERA***

Big data technologies require leadership as the ability to influence a group and individual behavior toward the achievement of defined goals (Robbins, Judge, 2012). Any discussion about big data first has to start with the leader who understand the business logic, recognize opportunities for smarter use of all available data and make value on the basis of collected data. Smart leaders will use big data to make companies better, faster, smarter and more rigorous at many activities - making predictions, hiring and promoting people, deciding on product attributes, optimizing internal processes, marketing and advertising, etc. (Wasterman, Bonnet, McAfee, 2014, p. 246). The study of Bain & Company "Big Data: The organizational challenge" analyzed 400 large companies which are early adopters of big data and found that leadership in these companies sets the data strategy, articulates the vision and objectives, and mobilizes a team to build out the strategy and prepare organization for strategy execution (Thomas, McSharry, 2015). The key challenge for 21<sup>st</sup> century organizations is to become a change leader because they see change as a chance and opportunity (Drucker, 2001), and encourage followers to think “out of the box” and to be creative (Jung, Chow, Wu,

2003, p. 529). In big data era, organizations need leaders who will challenge the status quo, create visions of the future, and inspire organizational change with the main aim to achieve defined goals (Robbins, Judge, 2012, p. 402). By reviewing the literature, there can be found statements that the principles of great leadership are timeless (Burton, Grant, Horn, 2012), but in practice, leaders state that nowadays everything is different from just a decade ago because they are operating in a new environment characterized with uncertainty, speed, turbulence, dynamics.

In the process of designing the organizations in unpredictable and fast changing environment there can be identified some important lessons: (Applegate, Austin, McFarlan, 2007, p. 63):

- Speed counts, but not at the expense of control.

In today's environment speed is quickly becoming a critical success factor (Nadler and Tushman, 1999, p. 49) - new products must be introduced more quickly, order fulfillment cycles must be cut dramatically, and executives are exhorted to create organizations that can turn on a dime. Rupert Murdoch also has concluded that "big companies will not beat small anymore, it will be the fast beating the slow" (Rohrbeck, Hölzle, Gemünden, 2009, p. 421).

- Empowerment is not anarchy.

Big data technologies lead to data-driven decision making at both - strategic and operational levels, empowering employees to make decisions which traditionally belongs to upper levels (Berner, Graupner, Maedche, 2014). Many leaders and managers learn the hard way that isolated efforts to empower employees can lead to disaster when not accompanied by a more comprehensive redefinition of authority and control throughout the organization. In an empowered organization, senior executives must be more involved, not less. Leaders encourage participation of employees in all daily activities and highlight the importance of cooperation in performing collective tasks, providing the chance to learn from shared experience and delegating to followers the authority to execute all necessary action (Jung, Chow, Wu, 2003).

- Transforming an organization requires more than just changing the structure.

It is not enough to simply take out layers or redraw boxes on an organization chart. The resulting organizational confusion from structure changes can help to shake up an organization and create the conditions for change, but structural change alone cannot harness the energy of the workforce to recreate an organization with a common purpose and direction. Nor can simple changes in structure promote the alignment of people, processes, and information needed to make decisions and take actions in a complex and volatile business environment.

There can be identified the significant differences between effective strategic leadership practices in the 20<sup>th</sup> and 21<sup>st</sup> century. These differences are presented in the following table.

*Table 2: Strategic Leadership Practices*

20 <sup>th</sup> Century Leadership Practices	21 <sup>st</sup> Century Leadership Practices
Outcome focused	Outcome and process focused
Stoic and confident	Confident, but without hubris
Sought to acquire knowledge	Seeks to acquire and leverage knowledge
Guided people's creativity	Seeks to release and nurture people's creativity
Work flows determined by hierarchy	Work flows influenced by relationships
Articulated the importance of integrity	Demonstrates the importance of integrity by actions
Demanded respect	Willing to earn respect
Tolerated diversity	Seeks diversity
Reacted to environmental change	Acts to anticipate environmental change
Served as the great leader	Serves as the leader and as a great group member
Views employees as a resource	Views organizational citizens as a critical resource and invest in their development
Operated primarily through a domestic mindset	Operates primarily through a global mindset

*Source: Adapted from Ireland and Hitt, 2005, p. 74.*

It is clear that value creation on the basis of big data technologies must become part of daily activities of all leaders. Effective strategic leaders should strive for information that will allow them to accurately predict and forecast changes in global markets (Ireland, Hitt, 2005).

### ***THE IMPORTANCE OF LEADERSHIP FOR DATA-DRIVEN DECISION MAKING AT PROCTER & GAMBLE***

Procter and Gamble (P&G), as the world's largest consumer packaged goods company, has to struggle with a lot of data from a variety of sources. With 4.8 billion consumers in 180 countries (Egan, 2014) leaders in this company realized that ability to analyze big data has become critical for competitive advantage, and they built tremendous organizational capabilities around big data with the aim to improve decision-making processes (O'Keffe, 2014). P&G has had an analytics group since 1992, and nowadays it forefronts in adoption of big data practices following its mission to become the most technologically enabled business in the world (Chui, Fleming, 2011).

P&G has real-time insights and one-on-one relationship with every consumer in the world. Bearing in mind that customer information captured in data warehouses is potentially wasted opportunity, P&G reacts immediately if something happens in Web site, social networks, blogs, mobile devices. Robert McDonald, a chief executive officer, point out that P&G passed through long path to be in this phase of digitalization:

*In 1984, when I was the Tide brand manager, I would get a cassette tape of consumer comments from the 1-800 line and listen to them in the car on the way home. Then, back at the office, I'd read and react to the letters we'd received. Today that's obviously not sufficient—you've got blogs, tweets, all kinds of things. And so we've developed something called "consumer pulse", which uses Bayesian analysis to scan the universe of comments, categorize them by individual brand, and then put them on the screen of the relevant individual. I personally see the comments about the P&G brand. This allows for real-time reaction to what's going on in the marketplace, because we know that if something happens in a blog and you don't react immediately—or, worse, you don't know about it—it could spin out of control by the time you get involved (Chui and Fleming, 2011).*

Beside real-time insights about every customer, there can be noticed some other factors that lead to successful digitalization in Procter and Gamble. These factors are (Chui, Fleming, 2011):

- Digitizing innovation at each business activity - from factory to shelf. Data modeling, simulation and other digital tools are reshaping how P&G innovates. With new and sophisticated technology P&G can make prototype of products and shows how they would look on a store shelf (Bolling, Zettelmeyer, 2014).
- On the other hand, it is important to point out that P&G has engaged in open innovation practices with the main aim to gather all ideas beyond its organizational boundaries. It has developed Connect + Develop portal several years ago where everybody (customers, suppliers, competitors, scientists, entrepreneurs, etc.) can submit new ideas about product development, design, packaging, marketing, business services, and trademarks.
- The digital workforce. P&G has understood best that the value from data is created by humans – not machines, tools, and technologies (Philips, 2013, p. 18). It has employed people with backgrounds in computer modeling and simulation and established a baseline digital skills inventory that is tailored to every level of advancement in the organization. Besides that, IT staff is embedded in various business units (marketing, sales, production, etc.) with the aim to improve business results.

The most important thing to mention is that in "*P&G they never start with technologies*", they always look at trends in the world that are or may be having an impact on the future of business as Filipo Passerini, Chief Information Officer stated in 2012 in interview with Brian Watson (Watson, 2012).

P&G has established about 50 decision spheres located throughout the entire company. These rooms are specially designed, with spherical shape, and have many different dashboards and video screens on the walls with computer access to various databases (see Figure 4). This sophisticated visualization helps individuals to see the data in new ways and make better decisions. These technologies create "information democracy" because there are no more layers – each employee with



knowledge and skills is empowered to make decisions (Passerini, 2012 in interview with Watson). Furthermore, these rooms put data at the center of discussions which lead to data-driven decisions (Murphy, 2013).



Figure 4: Procter and Gamble decision sphere room

Source: Davenport, 2013

Furthermore, P&G has institutionalized data visualization as a primary tool of management (Davenport, 2013). “Heat map” is just one of the many useful visualization tools which shows where P&G’s products stand in their respective markets (see Figure 5).

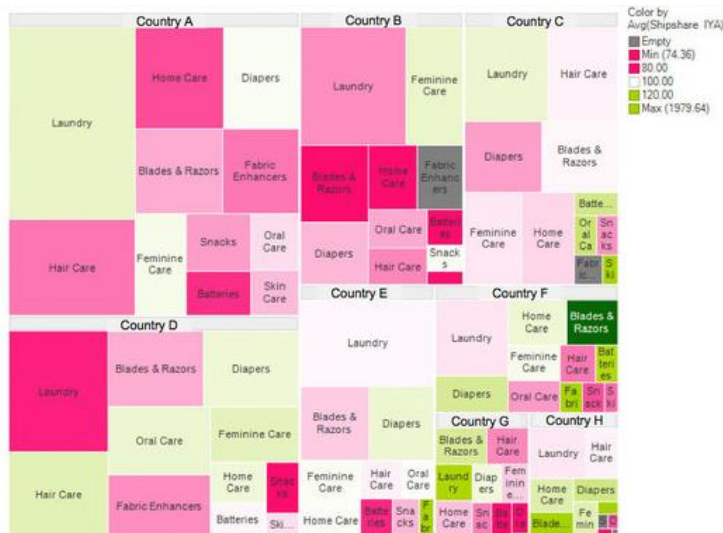


Figure 5: Heat Map at P&G

Source: Davenport, 2013

Following the main advantages of big data decision-making presented in this paper, it can be concluded that P&G is forward looking company, it seeks to know what is going to happen in the future instead of what happened last month or last year. For that purpose, it uses big data technologies and encompasses all sources of

data about customers, operations, products. This approach was supported with new hiring practices and new, data-driven organizational culture which helps the company to answer on the challenges of the rapidly changing environment (Van Rijmenam, 2013). Having in mind phases of big data maturity in company presented in the paper, and all P&G digitalization characteristics, it is clear that big data maturity in P&G is very high and it represents great example how big data can be used for business metamorphosis.

## *CONCLUSION*

Organizations have always collected information in order to coordinate their activities, execute internal business processes and respond to demands of their clients. Today, their need for information is even more expressed, as we are living in hyperconnected and dynamic world. Technology progress caused data with a high volume, velocity, variety and sometimes questionable veracity, known as big data, which are swept in every industry and individual company. Big data enables companies to answer many new questions and make decisions in detail in order to uncover new insights about customers, products, and operations, and apply those new insights to answer on key business questions in a timely manner. Without a doubt, it is clear that big data will be a new source of competitive advantage. But organizations must prepare themselves for real-time and data-driven decision-making. It is not enough to implement new technologies and tools and collect data from environment. What organizations need are new processes and activities for decision-making and human resources with new knowledge and skills combined in a specific way. Leadership is seen as a factor of tremendous importance for organizations which use big data technologies. This paper presented some of the main activities which leaders have to pursue in order to benefit on big data. The conclusion can be summarized in the statement that the big data technology is necessary but not enough condition for value creation. The real driver lies in organizational change and leadership, because at the end big data per se does not make decisions, leaders do (Bolling, Zettelmeyer, 2014). Leaders must have clear vision and deep knowledge about business, but also interest in new technologies and curiosity about how to put those technologies in the function of business and how to create value on their basis.

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## **WOMEN IN LEADERSHIP: GLASS CEILING OR GLASS MIRROR**

Agnes Gondowicz<sup>32</sup>

### **ABSTRACT**

*The number of women that are attaining leadership positions in different organizations is growing but getting to these upper levels is not an easy task for females. Although we live in a modern age, women are still faced with obstacles and barriers due to their gender that make it more difficult for them to obtain higher positions in organizations. When it comes to leadership roles in the business world for example there still remains a glass ceiling that has yet to be broken by women. The glass ceiling is a word used in politics and business that refers to an unbreakable barrier that prevents individuals from a certain group such as women from moving up the ladder regardless of their skills or achievements. There are hundreds of male CEO's in different companies but the number of women in these high level positions is still very low.*

**Key words:** *Glass Ceiling, Glass Mirror, Obstacles, Leadership, Female Leaders*

**JEL Classification:** L26

**UDC:** 005.322:316.46-055.2

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## ***INTRODUCTIONS***

The term glass ceiling is often used in the business world and it refers to an invisible barrier that prevents the advancement of a certain group of people to a new level or stage. This barrier is usually due to a prejudice that can be based on religion, ethnicity or in this case, the sex of a person. Although the individual may have the right qualifications and skills they may still be turned down because of this barrier. This of course is an unfair and illegal practice but it still continues to happen in many places around the world (Business Dictionary, Web Page). The glass ceiling is something that women have always struggled to break through. There are more female leaders today now than in the past but the majority of people who hold high positions continue to be men. Now more women are entering the workforce and leaving their typical house roles behind. Although the amount of women entering the workforce is increasing, females continue to have more supportive roles even if they are part of executive committees. It was estimated that about eighty percent of boards of American companies usually have at least two women but only about sixty percent of the companies have two or more women in the elite committees. According to Harvard Business Review there is still great progress to be made in terms of gender equality in the upper echelons of corporations. This review also mentioned that in order for things to change the corporations should focus on the makeup of the executive committee instead of the number of female board members. It has also been noted that the women who do attain positions on the executive committee usually get placed in roles that carry out supportive tasks. It has been calculated that only about seventeen percent of the executive members are women in the 100 largest companies of US and 67 percent are in communications or human resources. Also because an imbalance exists between the number of men and women holding executive positions, the pay gap is also increased. The CEO's of companies are usually the highest paid workers so the pay gap between men and women will not be decreased until the leadership gap is also lowered (Women in Business Leadership, Web Page).

The gender gap can be clearly seen in today's corporations where women are receiving jobs that give them only supportive roles which do not usually lead to better opportunities and advancement in the future. One Wall Street Journal survey found that women in high rank positions are usually placed in non operating sections of the business such as public relations, personnel or at times in the finance department. According to some studies, women are being locked out of positions in the mainstream business which prevents them from being marked as leaders. One executive recruiter mentioned that one major barrier for woman is that the majority of corporate level workers are men. When there is a group of men and a women present in a board room usually the men will stick together and leave the women out on important decisions. The same goes when promotions are considered; the men will usually promote people who are similar to them and usually this means female candidates will be overlooked. One study also demonstrates that men are given a larger number of people to manage, they have greater freedom to fire and hire workers, and in addition they tend to have more

control over the assets of a company. There was a survey done by Korn/Ferry International and in this survey female executives were asked what the biggest obstacle was that they had to overcome in order to reach success. Not surprisingly the most popular response at 40 percent was that just being a woman was an obstacle. In another study by Wall Street Journal and Gallup about 80 percent of women in executive positions said that being a women brought disadvantages in the business world. In this same survey 60 percent of women admitted that they were actually mistaken for secretaries at business meetings and 25 percent said that in some way they were prevented from certain accomplishments on their way up the corporate ladder (Empowering Women in Business, Web Page).

When women are faced with this glass ceiling phenomenon some of them may feel the pressure and decide to leave the corporate world behind. According to some scholars the female executive may feel that they deserve better opportunities and they can leave the corporation and start their own business. Scholarly research also suggests that although the women may start their own small business they may still experience the effects of the glass ceiling and face hardships due to their sex. Once the female entrepreneur goes off to start her own business she will still be disadvantaged due to gender bias (The Second Glass Ceiling Impedes Women Entrepreneurs). The main purpose of this paper is to show that the glass ceiling still exists in terms of the business world and it creates a barrier for woman that is difficult to penetrate. More women are reaching upper level positions in the corporate world but not many females get to become CEOs of companies. Although if they do make it to those levels then they do not get the same treatment as men usually receive. The glass ceiling also brings about a gap in pay between men and women. This issue will also be explored in this paper in order to show how much of an effect the glass ceiling really has on women in the business world.

## ***METHODOLOGY OF RESEARCH***

Numerous studies show that the number of female CEOs in places such as the fortune 500 companies has not experienced any significant change in the past several years. One particular piece of evidence (Figure 1) shows that from the year 1995 to 2014 the percentage of female CEOs in fortune 500 companies has only increased very slightly. In the year 1995 the female CEO percentage was at zero and each year after that the percentage slightly increased. In 2014 the increase in women CEOs was the highest reaching 5.2 percent. There were exactly 26 women in the Fortune 500 companies that were heads of the organization in 2014. One of the most prominent companies, General Motors, has a female as the head of the company. Mary Barra is their chief executive and she is actually one of the first woman leaders in the world in the automaker industry. Just twenty years ago no female CEOs existed in the Fortune 500 list. This data clearly shows that some progress has been made in terms of the number of women achieving upper level positions but the change is happening at an extremely slow rate. Another graph (Figure 2) shows that there has been a greater increase in the number of female



board members than in the number of women CEOs in fortune 500 companies throughout the years. The number of women that held board positions went from 9.6 percent to 16.9 in the year 2013. This further shows that women are being offered more supportive roles and not the promotions of executive with full power. But according to certain studies only about one in ten Fortune 500 companies have zero women with board positions and less than two in ten companies have a board made up of 25 percent females (The Data on Women Leaders, Web Page).

The techniques mainly used in this paper are based on statistical analysis and research that has been carried out by others in the past. Certain data not only shows that women are being under represented in the corporate world but also that there is a pay gap present because of this leadership imbalance. It is obvious that the top paid people in companies are the CEOs, who are typically men. So until there is a bigger percentage of woman attaining these CEO position then the pay gap will remain the same between men and women are a bigger percentage of women or is a bigger percentage of a woman. Back in the year 1995 the Workforce Developmental Services did a survey and the results showed that women all around the nation in administrative or executive positions had an average weekly earning of \$551 while the men took in \$829 on average per week. Data also shows that many women around the world are working more hours than men but are not getting paid as much for all the overtime (Miller,1997).

Many forms of data show that numerous women have the qualifications and possess work experience that is necessary for upper level work positions. Yet many of these females are still not getting the credit that men receive and they do not attain top job openings that gives them power such as CEO positions. Not only is it difficult for women to attain jobs at these high levels but it also takes a long amount of time and great effort for women to be placed in such powerful positions. Women possess a number of important qualities that many businesses could greatly benefit from yet there is still remains a paradigm where men still have the advantage over women in terms of their abilities to manage (Berry,Franks, 2010).

Some analysis and research also show that the gender discrimination can occur the most in places of high power and the higher an individual goes the greater the gender gap will be. Studies show that a low one to three percent of the top executive positions are filled by women in corporations around the world. Also for those women that are faced with racism the percentage can be even lower. The lack of women in corporate positions can also be seen not just in the U.S but other countries. For example in Australia 1.3% of executive jobs are filled by women, in France that percentage goes up slightly to 2%, in Germany 3%, and in the United Kingdom it is 3.6%. The Glass Ceiling Commission collected data of their own and they found that about ten years ago women made up 46.5 percent of the American workforce and also women accounted for eight percent of top managers. Also data shows that the earnings of female top managers were 68 percent of male counterparts (Special Report: The Conundrum of the Glass Ceiling).

## RESULTS OF RESEARCH

Although there has been some growth in the amount of females in upper level positions over the years data still shows that 95 percent of senior managers continue to be men. In terms of women holding CEO positions the change has not been that significant over 20 years. In the Fortune 500 companies women went from not holding any CEO positions in 1995 to holding 5.2 percent of these upper level positions in 2014. For the Fortune 500 company board committee the number of women holding membership was higher than for the number of female CEO positions. In 2013 Fortune 500 companies had about 17 percent females holding positions on their board committees. It can be clearly seen from data that the number of women in powerful upper level positions is not getting that much higher as the years go on and it continues to be fairly low. The glass ceiling is still very much present even in today's modern world and men continue to be at the top of the corporate ladder. Also the very few women who do reach these powerful positions get paid significantly less than the males that hold similar positions and have the same work load. This pattern of seeing few women at the top echelons of the corporate world is not just seen in the U.S but also all around the world. In countries like Australia and even the United Kingdom, the amount of women obtaining CEO positions is staggeringly low.

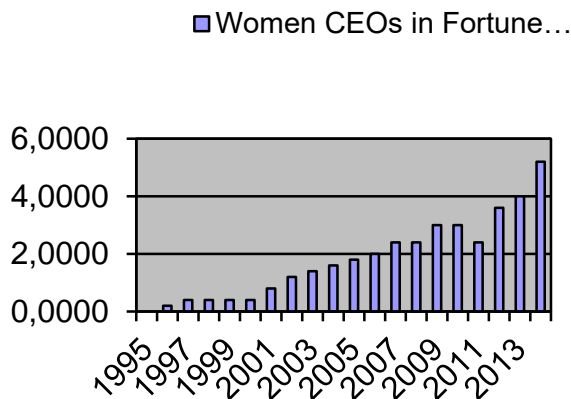


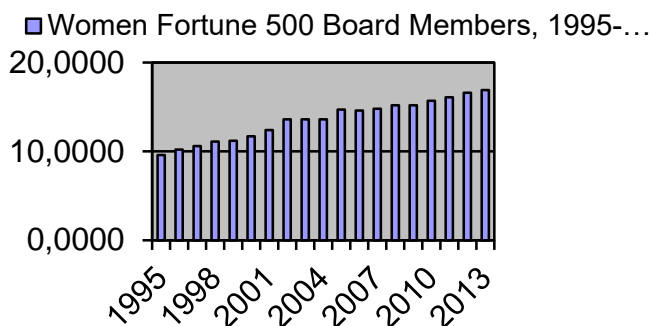
Figure 1. Female CEOs in Fortune 500 Companies (1995-2014)

y-axis: percentage of female CEOs

x-axis: years 1995-2014

Resource: Pew Research Center

Figure 1 demonstrates the percentage of female CEOs in fortune 500 companies. In 1995 female CEOs did not exist and then in the following year in 1996 the percentage increased to still a very low 0.2%. Over the years the number of CEO positions that were filled by women increased but at a very slow pace. The largest jump was seen in 2013 when there were 26 female CEOs in the Fortune 500 Companies.



*Figure 2. The percentage of female CEOs in fortune 500 companies*  
*y-axis: percentage of female board members*  
*x-axis: years 1995-2013*  
**Source:** *Pew Research Center*

The graph (figure 2) presents the percentage of females in fortune 500 companies that were part of the board. This percentage over the years has been higher than the percentage of female CEOs in these companies. The highest number of female board members was in 2013.

## **DISCUSSION**

The low percentages of women in the upper levels of the business world continue to be low. Whether this is due to stereotypes of women or some other preconceived notions that people have about females, the glass ceiling still continues to exist. A number of women have shattered through the glass ceiling but they are still faced with hardships throughout their careers due to their gender. Also some women that do achieve high level positions decide not to stay very long because of the negative attitudes they are faced with and continued pressures from their male peers at work. These women may go off to start their own business venture and become their own bosses. One may think that there are plenty of women in the corporate world in executive positions but it has taken females an extremely long time to reach this point. Even right now in the modern world where equal rights are practiced we still only see a slight increase in female CEOs. From 1995 up until 2014 the percent change in the amount of female CEOs in Fortune 500 companies has only been 5.2 percent. These numbers do not show much progress for women in the corporate world. Although there has been a slight increase in the number of female CEOs, overall this process has been slow and it shows that the invisible barrier, the glass ceiling, is still present.

## *CONCLUSIONS*

There are a number of woman around the world that have made it to top positions such as CEO or president of companies but although this is the case the progress for women in the corporate world has been rather slow. This imbalance between the number of men and woman in top positions is not only noted in several studies but it can also be noticed just by looking at survey responses that were provided by females in executive positions. Many women feel like they are held back from advancing in their careers and this is mainly due to the attitudes of their male counterparts at work. Many females feel that just because they are women they are treated differently in the board room and they are not given as much power or control as men who are at their same level. Although women may have top education, many years of experience and the skills that are required for CEO positions, many times they are not considered for such posts and often male candidates are chosen over them. A number of women who do obtain executive positions are usually put into posts where they provide supporting roles such as human resources for example. It is not often that females get top positions where they have the power and control to direct and manage the operational side of business. In order to reach some kind of balance or get closer to it certain steps will have to be taken and policies may need to be put into place. Companies should look at the makeup of their organizations and add more women to their boards or place them in higher positions to bring about equality in the business world. Stereotypes will need to be set aside and the women that deserve to get these upper positions should be highly considered and given opportunities to advance into upper level posts.

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# ***THE INFLUENCE OF LEADER'S EMOTIONAL INTELLIGENCE ON ORGANIZATIONAL PERFORMANCE LINKED THROUGH CULTURE***

*Vaibhav Birwatkar*<sup>33</sup>

## ***ABSTRACT***

*The topic of emotional intelligence and organizational culture has attracted considerable interest among researchers for many years. Much of the interest in the two areas is focused on explicit and implicit claims that both leader's emotional intelligence and organizational culture are linked to organizational performance. This article explores the nature of this relationship .It concludes with implications for theory and practice.*

***Key words:*** *Emotional Intelligence, Leadership, Organizational Culture, Leadership, Organizational Performance*

***JEL Classification:*** *J24, D23, M14*

***UDC:*** *005.322:316.46]:159.942*

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## ***INTRODUCTION***

Emotions play a very critical role in our life. The construct of emotional intelligence today is one of the most frequently researched topics in organizational study especially in context of human behavior. In a literature can be found that emotional intelligence is directly associated with leadership. Leaders high in emotional intelligence are key to organizational success. Leaders must have the capacity to sense employees' feelings about their work environments, to intervene when problems arise, to keep under control their own emotions in order to gain the trust of the employees, and to understand the political and social conventions within an organization. In addition, a leader has the capacity to impact organizational performance by setting a particular work climate. (Goleman, 2001). Organizational culture is perhaps one of the most important and significant characteristics of a great workplace. In most general way it can be defined as members collective perception about their organization with respect to such dimensions as autonomy, trust, cohesiveness, support, innovation, recognition and fairness (Moran, Volkwein 1992, Koys, Decotilis 1991, Dewitte, De cock 1986, James, Jones 1974). Researchers and investigators in organizational culture literature have reached consensus that it is a psychological multidimensional complex phenomenon that has an effect on learning, performance, organizational commitment, turnover and tenure. (Likert, 1967) High rates of employee turnover result in greater inefficiencies in organizations as they must bear the costs associated with hiring and training new employees, as well as cost of lost productivity when experienced workers leave. This is especially true in organizations where the organizational capital is primarily intellectual that is where employee knowledge skills and abilities form the basis for services and deliverables of the organizations. High rates of turnover may lead to reduced productivity and reduced competitiveness (Balfour, Neff 1993). Talented employees often comprise the organization's core human capital, making it significant to highlight their turnover behavior influence on an organization's competitive advantage (Lee, Steven, 1997; Shaw, 1999; HoukesInge, 2001). The obvious loss of an organization's talent has inspired researchers and practitioners alike to identify the factors that enable organizations to promote effective talent retention and organization performance (Dalton et al., 1982; Allen, Rodger, 1999; Lee et al., 2004). Besides that, extensive research has also shown that transformational leaders who exhibit positive leadership behaviours accomplish better employee performance, effort, satisfaction, and organizational effectiveness (Lowe, Kroek, Sivasubramaniam, 1996). Leaders help the subordinates to grow empowering them and aligning the objectives and goals of the individual, the leader, the group and the larger organization (BasS, Riggio, 2006). Both emotional intelligence and leadership are emotion-laden constructs (George, 2000), and emotional intelligence has been suggested as the foundational theory for transformational leadership (Brown, Moshavi, 2005). Many suggest that emotional intelligence could be one of the factors that influence a leader's behavior and impact the rest of the organization, including the organizational culture

(Harrison, Clough, 2006). The culture of an organization is often cited anecdotally and in both management and psychology journals as an important driver of individual, team, and company success (Barney, 1986). Although culture has been proven to be a powerful force in organizations, as it can shape people's thoughts, behaviours and emotions within their workplace (Pizer, Hartel, 2005), scholarly discourse has largely ignored the role of emotions in organizational culture (Beyer, Nino, 2001). Recently it has been argued that the power of culture is largely due to the emotional needs of individuals (Pizer, Hartel, 2005), and how these needs are fulfilled by leaders (Downey, Papageorgiou, Stough, 2006), groups (Jordan ET AL., 2002) and by association, organizations as a whole. Culture has been defined as a "dynamic phenomenon that surrounds us at all times, being constantly enacted and created by our interactions" (Schein, 2004). In this regard, the ongoing dynamic relationships between individuals, lead to the creation of an underlying schema embodying the sum total of underlying shared beliefs, values and norms which provide meaning in a given social system (Pizer, Hartel, 2005). This cultural schema is shaped by and in turn shapes its members (Ancona et al., 1999). Cultural norms manifest in a given culture can be thought of as shared expectations of group members mandating how one ought to behave (Levine, Moreland, 1990). These norms have been shown to have powerful social information processing effects on organization members (O'Reilly III, Caldwell, 1985). Denison (1996) has argued that the differences between these two research traditions are due to interpretational differences of the same phenomena, and is likely to be a case of research into different levels (individual / group) and abstractions (conscious / unconscious) of the same phenomena. Research into culture is most appropriate at the group level (Anderson, West, 1999), as it is important to identify perceptions as being shared before conclusion about climate can be drawn. In the present study, the term culture will refer to those phenomena subsumed under both culture and climate theory, for as Ashforth (1985) has suggested, the concept of culture may have consumed the climate concept. Logistic and temporal limitations of this study required that the focus on the study be on perceptions of culture from an individual embedded within that culture. On examining the role of leaders in shaping culture, a growing body of research has reported positive effects of effective leadership and leader impression management style (Rozell, Gundersen, 2003; Wendt, Euwema, van Emmerik, 2009; Wu, Neubert, Yi, 2007). Given that it is likely that culture is associated with leadership aspects, our study addresses a related key research question: Can culture and performance be explained by the emotional intelligence of a unit manager? Emotional intelligence has emerged as one of the fundamental elements of leadership effectiveness (George, 2000; Humphrey, 2002; Wong, Law, 2002). Moreover, the ways that emotionally intelligent managers can lead work units more effectively is of continuing interest for both academics and practitioners (Leban, Zulauf, 2004; Goleman, Boyatzis, McKee, 2001; Prati et al., 2003; Rajah, Song, Arvey, 2011; Walter, Cole, Humphrey, 2011; Brunetto et al., 2012). However, there are only a few empirical investigations into the link between the emotional intelligence of a manager and work-unit-level phenomena, such as its culture. Therefore, it is important to address this potentially important link.



## ***EMOTIONAL INTELLIGENCE***

The term Emotional Intelligence (EI) is a popular terminology in the present day world and widely used almost everywhere, even in places where it is quite inappropriate. A lot of academic research is currently focused in the area of emotional intelligence and analyzing its influence on individual's performance in personal and professional life. The word Emotional Intelligence was originally coined by Peter Salovey and John Mayer (1990) to describe qualities like understanding one's own emotions, empathy 'for feelings of others', and managing one's emotions. The sustained interest in the topic began with the publication of two important articles in 1990 by these authors. Later the concept was popularized by Daniel Goleman (1995) with the publication of his bestselling book titled 'Emotional Intelligence'. The literature in this emerging concept contains a range of terminology, which can tend to be confusing and includes the terms emotional intelligence (Salovey, Mayer 1990; Goleman, 1995), emotional literacy (Steiner, 1997), emotional quotient (Goleman, 1995, 1997; Cooper, 1997), personal intelligences (Gardner, 1993), social intelligence (Thorndike, 1920) interpersonal intelligence (Gardner, Hatch, 1989) etc. Emotional intelligence is tactical (immediate functioning), while cognitive intelligence is strategic (long-term capacity). Emotional intelligence helps to predict success because it reflects how a person applies knowledge to the immediate situation. In a way, emotional intelligence is the reflection of one's "common sense" and ability to get along in the world (Bar-On, 1997).

## ***LEADERSHIP AND EMOTIONAL INTELLIGENCE***

In addition, we can consider emotional intelligence as an important factor in human resources planning, job profiling, recruitment interviewing and selection, management development, customer relations and customer service, and more. Recent research showed that emotional intelligence was the *sin qua non* of leadership (Goleman, 1998b). Without it, a person could have had the best training in the world, an incisive, analytical mind, and an endless supply of smart ideas, but still would not make a good leader (Goleman, 1998a: 92). A person with high emotional intelligence has the ability to understand themselves and others and adapt behaviours to a given context. Individuals with high EQ and thus demonstrable personal and social competence may be oriented towards a transformational leadership style with emphasis on motivating and influencing others (Barling, Slater, Kelloway, 2000; Gardner, Stough, 2002). Research shows that an organisation that was characterised by emotional intelligence had increased cooperation, motivation, and productivity and increased profits, an association also reflected in transformational leadership literature (Bass, 1990).

## ***ORGANIZATIONAL CULTURE***

In 1997, Schein defined organizational culture as a pattern of basic assumptions which is learned by a group after going through the external adaptation and internal integration of a problem, where the technique is considered valid and worked good enough to be taught to new comers in order to perceive, think, and feel the same way when they encounter those problems (Tolmats, Reino, 2006). In the literature we can find bulk of papers which argue that organizational culture provides basic values, beliefs and principles which function as the foundation for an organisation's management system (Martins,Coetzee, 2007; Aydogdu,Asikgil, 2011). An organisation's culture generally includes the following four major dimensions (Eskildsen,Dahlgaard, 2000; Martins,Martins, 2002):

1. Policy and strategy – refers to the policies that determine staffs' understanding of the vision, mission and values of the organisation and the methods of transforming them into assessable goals of the groups.
2. Management processes – The management processes in an organization which take account of human resources, administrative, goal setting, managing and organizing changes, innovations and communication.
3. People - The integration of the employees' requests and needs with those of the organisation such as the balancing of work and life, good physical work environment and interpersonal interaction between managers and employees, especially in managing the conflict, diversity and interdepartmental relations.
4. Leadership - The perception of employees on strengthening the leadership on specific areas. Since the people and leadership aspects are considered as the foundations of an informal organization that put forth a considerable influence on employee behaviour, thus the way which an employee prefers to be managed and their experiences of the main leadership style also leads to the way a culture develops (McMurray, 2003; Martins,Coetzee, 2007).

## ***LEADERSHIP AND ORGANIZATIONAL CULTURE***

Leader plays an important role on the development of a culture when an organization has just formed. At that time, leaders are "definers" and "givers" of culture as they construct and instil the principles, values, and attitudes that they consider as essential and important for the organization (Jaskyte, 2004). Bass and Avolio (1993) have argued that an organizational culture can be characterized with transformational qualities, as leadership and culture are so well-connected. Leaders have a high responsibility on forming the organizational culture as the values that leader adopted will easily be adopted by the employees (Aydogdu,Asikgil, 2011). Leaders are usually portrayed as individuals who motivate their followers to take on objectives and beliefs that are in line with the leader's mission and to encourage their followers to give a higher priority for group and the larger organization than

their own interest (Xenikou, Simosi, 2006). According to Bass (1985), a leader promotes a working environment or an organizational culture which is characterized by the accomplishment of high goals, self-actualisation, and personal growth. Bass & Avolio (1993) also proposed that transformational leaders move their organizations towards organizations that adopt more transformational qualities such as accomplishment, intellectual stimulation, and individual consideration in their cultures. In addition to that, Block (2003) found in the situations that that employees view their organizational culture as culture which possess adaptive, involving, incorporating, and with a comprehensible mission are usually rated their direct manager as high in transformational leadership.

### ***EMOTIONAL INTELLIGENCE AND ORGANIZATIONAL CULTURE***

In addition, Emotional Intelligence and Organizational Culture are both social phenomenon which are structured consequently by the interaction between individual and an organization (Tolmats, Reino, 2006). At such, the importance of emotional intelligence brought forward to enable the organization to shape the organizational culture and the activities of all level in the organization (Langhorn, 2004). Though the studies on the topic of emotional intelligence in the work-related setting are inadequate, it is agreed that emotional intelligence has a crucial importance in occupational settings (Matthews, Zeidner, Roberts, 2004). One such study was conducted by Tolmats & Reino to find the interconnections of emotional intelligence competences and types of organizational culture which taken from The Competing Values Framework which conceptualized by Quinn & Rohrbaugh (1983) in two business sectors in Estonia (Tolmats, Reino, 2006). The results of the investigation show that participants with a higher emotional intelligence level gave higher estimates to organizational culture than participants with lower emotional intelligence. According to the results of the study, emotional intelligence is usually positively related to Human Relations, Open System and Rational Goal types of organizational culture, thus forming the hypothesis that by increasing employees' emotional intelligence it is possible to develop the organizational culture of the company (Tolmats, Reino, 2006). In The Human Relations type of organizational culture, leadership and morale are in the focus whereas Open System type of organizational culture promotes innovation, growth, dynamics, imagination, and willingness to transform and the Rational Goal type of organizational culture concentrates on achieving productivity, efficiency, and high performance (Parker, Bradley, 2000; Dastmalchian, Lee, Ng, 2000). Another study conducted by Danaeefard, Salehi, Hasiri, Noruzi (2012) to which aimed to examine the relationship between emotional intelligence, organizational culture and organizational learning in the service providing organizations of Kermanshah, results obtained indicated that emotional intelligence has a direct impacts on organizational culture. This study shows a direct relation between of the relationship between the factors of emotional intelligence and organizational

culture where the relationship between self-stimulation and organizational culture show the strongest value. At such the creation of emotional intelligence could pave the way for the development of organizational culture in the organization (Danaeefard et al.,2012).

## ***CONCLUSION***

This paper is a conceptual research that utilizes literature survey and descriptive-analysis approach to review and interpret the relationship between emotional intelligence and leadership and their effect on organizational culture. Given the positive relationship between emotional intelligence and leadership and their effect on organizational culture, this will eventually boost the organization capability to change and thus improve the prospects for the organization to remain competitive. Current leaders should evaluate their personal leadership behaviors to find out if leadership components and emotional intelligence are being adopted. Leader who has a high emotional intelligence would create an organizational culture with high emotional intelligence and transformational qualities by making it firm until a point where each and every one of the organization share the common norms and values, thus enhancing the achievement, endurance and competing power of the organization.

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## ***EMOTIONAL COMMUNICATION - A NEW LEADERSHIP APPROACH***

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### ***ABSTRACT***

*The future belongs to a specific kind of leaders with a very different kind of mind. Employees demand to be treated as human beings and leaders, who want to give them positive response, are trying to simultaneously please both their emotional and functional needs.*

*For successful way of doing business it is no longer enough to offer an organizational environment that meets employee's rational needs and it is clear that leaders have to be oriented to concept of altered thinking and behavior.*

*The employer needs to share all methods contained in "passion economy" with employees, because it is the only way for them to understand and accept the new business orientation. Furthermore, the most positive emotional provocation has been the one of most frequently receive a positive response.*

***Key words:*** *Future, Emotional, Communication, Behavior, Leader.*

***JEL Classification:*** *D23, M14*

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## ***INTRODUCTION***

People passing through various stages of development of human society reacted differently to the changes that have transformed their way of life and their habits. The impact of new technologies suggests that our understanding of what makes up a primary human group needs to be radically changed. People need companionship and social relationships. One of the primary characteristics of the informal structures in organizations is their communication network.

In a global environment, in a world which, with decreasing frequency, stops in front of the obstacles such as territorial or temporal distance, the requirements for business positioning are becoming increasingly complex.

Man is still a vulnerable being yearning for company. People can hardly cope with isolation for a long time and that they perceive it as an extraordinary and abnormal condition.

The must focus on leadership and possess characteristics enabling it to efficiently face all the challenges waiting on the path to the successful positioning of the organization. The future is looking for the people with “broader minds” people capable of inventiveness and empathy. We have to accept that the future belongs to a very different kind of person with a very different kind of mind. The same is with economy: the traditional model of the economy is being transformed into the economy of passion. The economy of passion represents an economic environment in which employees and consumers demand to be treated as human beings, and where marketing experts are trying to simultaneously please both emotional and functional needs of consumers. Employees have their own needs, thoughts, hopes and aspirations. The economy of passion has been moved beyond the traditional office buildings, thus becoming a modern arena, regardless of whether the substrate is sand or a virtual cloud.

In today’s knowledge-based, high-tech environment, managers have to accept that education, experience and skills become outdated very quickly, sometimes even before they are ever put to use (Luthans, 2004). If they want to be leaders they must involve emotions in their own way of managing. In a two-way partnership recognition channel emotions are given and received.

## ***MANAGERS WITH POSITIVE THINKING***

Traditional communication is under the pressure by new technology, crises, alienation and managers without the necessary managerial skills. One needs “recognition” and positive responses from others. An interaction with other people is a vital factor in human development. A person cannot experience the ultimate happiness in life if this deep need is left unfulfilled (Familaro, 1991).

Managers must learn how to understand other people, their characters and motivations. Employees become loyal team members only if the organization manages establish an organizational culture which includes “the pursuit of employee happiness, health, and betterment issues as viable goals or ends in themselves” (Wright, 2003, pp. 441).

Positive mental state of employees is a prerequisite for their sense of belonging both to the collective and the business idea. When we feel good, we are more likely to be in touch with our values, find a purpose in our work, and have intrinsic goals in harmony with our purpose and values. We are glad to be at work and our work is glad to have us! That's a good thing for individuals, for organizations, and for society (King, et al., 2006).

Positive psychological capital consists of self-efficacy, hope, optimism and resilience, and is associated with a number of favorable outcomes for employees. Employee attitudes affect their business behavior and their contribution to the work.

Trust between business partners is a central premise of modern organizations. Members of a group must share the same vision, and become well acquainted in order to establish mutual trust. People who know each other converse more intensively than strangers.

Effective communication within the organization is defined as a tool for coordination and control of team work, individual socialization and group integration. It cannot be done without special sense of managers' skills like emotional intelligence. This kind of intelligence has a positive effect on work group cohesion, congruence between self and supervisor appraisals and individual employee performance and can prevent emotional, ethical and job conflicts from interfering with job satisfaction (Abraham, 1999).

The term 'emotional intelligence' was first used by Salovey and Mayer in 1990. (Salovey & Mayer, 1990, pp. 189). This skill can be seen as the ability to convince or motivate others to do something; the ability to build a relationship of friendship, to subdue one's own emotions as well as that of another to accept 'feedback' sincerely and openly, to build coalitions, to observe and analyze their own and others' behavior and to be familiar with business policy. Through contact with other people we fulfill both our individual and collective needs (Walters, 2000).



*Figure 1: All organizations require a system of communication to accomplish goals.*

*Source: Mhae, 2012*

However, each organization can be seen as a system of communications (Monge, Contractor, 2001). But, a sense of belonging to a collective is possible only in those organizations where communication has reached a dialogue level in which the views of all participants are acknowledged.

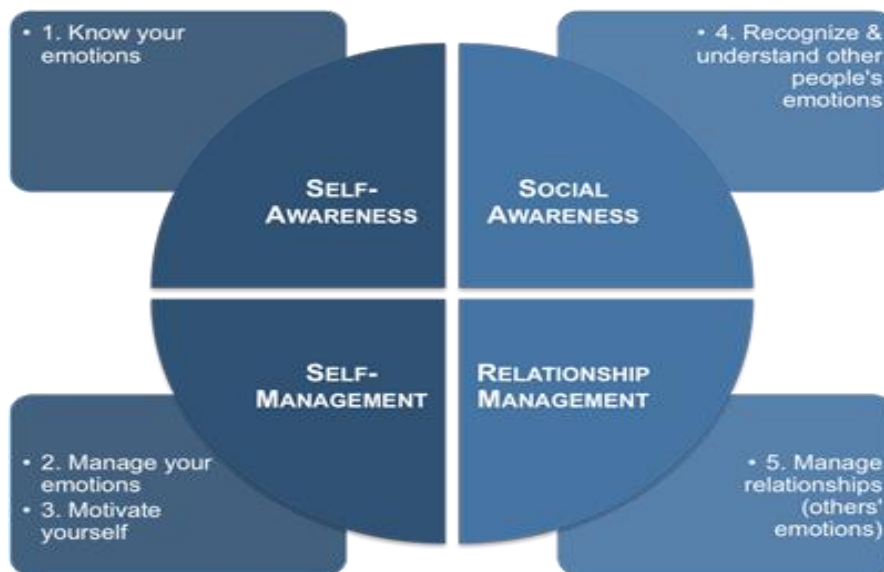
*THROUGH* establishing social relations and communication with other people, our feelings, needs and knowledge are shared. Empathy is the strongest among similar people and people who share similar experiences, such as people in the same profession or siblings (Ickes, 1997). Understanding your own emotions is half of emotional intelligence; the other half is the understanding emotions of others (Handel, 2013). Emotional intelligence can give developing leaders a competitive edge (Childs, 2004).

The central question in today's business world is the organization of human interest and employee commitment to organizational goals, because without good results in this area, our chances of business success and competitive advantage are reduced. Such organizations can be managed only by managers who possess the ability for positive approach and positive thinking. Personal competence leads them to the position of a successful leader. Specific requirement that is set for successful is manager's emotional intelligence (EQ). David Goleman has set the model for recognizing weather manager are emotional intelligent.

As it can be seen Goleman's EQ model is split into four quadrants. The first area is focused on personal competence. Self-awareness means that managers must understand own will first, trough positive response to various demands: understanding their own strengths and weaknesses, find the way to be motivated, to be positive and to be able to manage with personal emotional and self-assured in whatever situation they may find their self.

Second area is focused on social competence which includes social awareness and social skills, or in other words, how successful are manager's relationships with others, and do they understand and response positive to the emotions of the other. It means that they are capable to empathize with others. It is possible when they can understand an emotional environment. Such circumstances produce a social tie power which leads managers to leadership position.

“Relationship management – means using an awareness of your own emotions and those of others to build strong relationships. It includes the identification, analysis, and management of relationships with people inside and outside of your team as well as their development through feedback and coaching. It also incorporates your ability to communicate, persuade, and lead others, whilst being direct and honest without alienating people” (Goleman, 2004).



*Figure 2: Goleman's EQ model*

*Source: Library for managers, 2014*

Managers who think positively are definitely those who have a strong emotional intelligence. They always know what their own emotions are and how to manage them, how to be motivated, but also how to motivate the others and how to read their emotional needs.

## ***EMOTIONAL INTELLIGENCE***

Emotional intelligence means the ability to use emotional information to guide thinking and behavior, or as Mayer and Salovey pointed: it is the ability-based model views emotions as useful sources of information that help one to make sense of and navigate the social environment (Mayer, Salovey, 1997). This ability is seen as capacity to manifest itself in certain adaptive behaviors. It is based on a series of emotion-based problem-solving items “which characterizes emotional intelligence as a set of four related abilities: perceiving, using, understanding, and managing emotions” (Salovey, Grewal, 2005).

Many researchers of emotional intelligence support both personal and social competencies (Bar-On, 2006; Goleman et al., 2002; Mayer, Salovey, 1997).

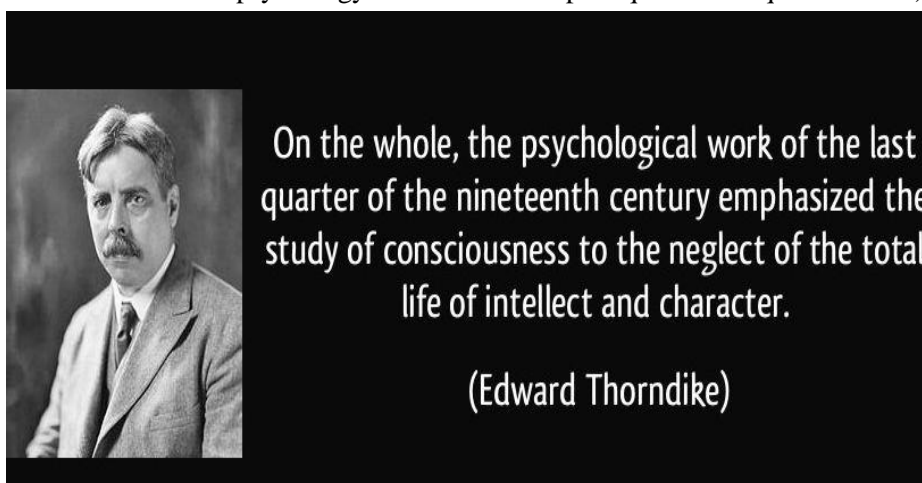
Regardless of the different research approaches and different definitions, we can conclude that emotional intelligence as an ability to identify, regulate, and manage emotions in the self and in others.

For employees demand to be treated as human beings it is necessary that leaders give them positive response both for their emotional and functional needs.

Successful systems of work organization have always been linked to the mutual communication. The organizational environment that seeks quality must ensure that management is focuses on people, relationships, and the importance of human resources in achieving the organization's objectives (Fukuyama, 1995).

“Emotional intelligence is *the sine qua non* of leadership. Without it, a person can have the best training in the world, an incisive, analytical mind, and an endless supply of smart ideas, but he still won't make a great leader”(Goleman, 2004).

Emotional Intelligence - intelligence of the heart - has its roots in the concept of 'social intelligence,' first identified by E.L. Thorndike in 1920. (Edward Lee Ted Thorndike was an American psychologist who spent nearly his entire career at Teachers College, Columbia University. His work on animal behavior and the learning process led to the theory of connectionism and helped lay the scientific foundation for modern educational psychology. Read more at <http://izquotes.com/quote/185046>)



*Figure 3: The first researcher in the field of emotional intelligence*

*Source: Edward Thorndike Quote, 2015*

Thorndike gave the first definition of social intelligence as, “The ability to understand and manage men and women, boys and girls - to act wisely in human relations.”(<http://www.trans4mind.com/heart/eq.html>) His “early work” continued numerous researchers who have been focused on emotions as the primary source of human energy.

Thanks to their work on this subject, today we have clearly defined competencies that distinguish managers with a high degree of emotional intelligence than those who do not have such capabilities.



Figure 4: Difference between low and high emotional intelligence

Source: <http://www.trans4mind.com/heart/eq.html>

As it can be seen emotional intelligence depends of five clearly defined skills: self awareness (understanding self), self regulation (to think before acting), motivation (to pursue goals with energy and persistence), empathy (skill in treating people) and social skill (proficiency in managing relationships).

When managers clearly demonstrate interest for employee's emotions and interest for establishing of good two-way communication model better [workplace performance](#) and positive outcomes can be expected. For employee satisfaction essential are managers with a strong emotional intelligence and sensitive communication skills.

Manager's ability to perceive and regulate own emotions, as well as the involvement of employees in the communication process might increase workplace engagement and reduce stressful workplace.

## **PASSION ECONOMY**

*“Money is a by-product of entrepreneurial success, and very welcome it is, but it isn’t the heart of it. Entrepreneurs change the world first, even in very small ways. They see something new those others don’t. They imagine the world differently.”*

*Anita Roddick*

At the beginning of this chapter we have to ask one question: do we choose to look at the top of our shoe or we have to look to the future? If we accept the second solution we can’t achieve results without passion. Business is only a part of our life, not whole life. But as far as we are satisfied with our life depends on all parts.

In nowadays we are faced with high level of human’s alienations. The workplace is often seen as a modern arena in which employees are struggling for survival. How we can solve negative impact in such environment and achieve satisfaction with our job?

The first step is removing communication barriers. In an environment characterized by a high percentage of psychological problems experienced by the general population, the need for finding security within the group becomes more pronounced. Belonging to a group brings a certain sense of self-evaluation. Psychosocial support has an extremely positive role in overcoming stress reactions. Seeking one’s own individuality within a social group, respecting differences and requesting proper treatment, not only for ourselves, but for all other members of the social environment, carries inherent risks, as well as the freedom to realize a greater degree of individuation and ignition of creativity. Social capital is very much a collective good which determines the actions of individuals in the organization structure. The economy of passion, according to Neill Duffy and Jo Hopper, authors of the book “Passion Branding: Harnessing the Power of Emotion to Build Strong Brands”, represents an economic environment in which consumers demand to be treated as human beings, and where marketing experts are trying to simultaneously please both emotional and functional needs of consumers (Duffy, Hooper, 2003).

Passion depends of recognition of their needs, thoughts, hopes and aspirations. Experiences of the companies are repeated and upgraded in response to the demands of the modern consumers for a special treat, as unique human beings. Power is no longer located within the company and its buildings, computers, machines.... It is positioned within the mass of people who are asking to be recognized and “adopted”. But, who are the people for whom organization have to express its interest. We are not talking only about consumers. We are talking also about employees. Who are the managers that can successfully meet the needs of employees?

However, it is clear that such a way of doing business involves the concept of altered thinking and behavior. It is not enough that only leaders master relevant skills. The employer needs to share all methods contained in “passion economy” with employees, because it is the only way for them to understand and accept the new business orientation. Furthermore, the most positive emotional provocation has been the one of most frequently receive a positive response.

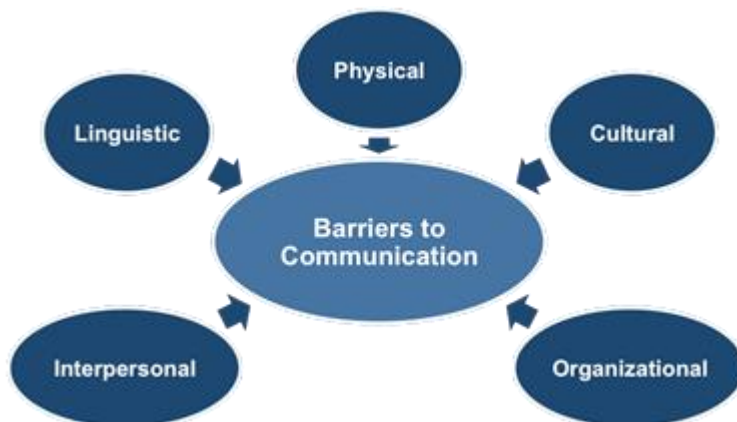


A business entity must become a recognizable brand, as a concept based on the process of emotional acceptance of employees and customers. This concept is based on four main pillars: intimacy, sensual experience, imagination and vision:

“Normally man experiences himself as a process — in that consciousness itself is a process, an activity, and the contents of man’s mind are a shifting flow of perceptions, thoughts, and emotions the sum total of which can never be held in focal awareness at any one time; that sum is experienced, but not perceived as such” (Branden, 1969, pp. 185-86).

New way of leaders thinking is not available to all managers. Managers who may be involved in the mainstream of passion economy must be with special personality. They have to be in control of their selves, and to protect their selves from the control and influence of others, so that they can make the best, most objective, most life-advancing decisions and take the best actions (Familiaro, 2013).

Employee attitudes affect their business behavior and their contribution to the work. Passion economy includes such organizational environment where the organizational group is fully dedicated to a common goal. When we feel good, we are more likely to be in touch with our values, find a purpose in our work, and have intrinsic goals in harmony with our purpose and values (King et al., 2006).



*Figure 5: Classification of barriers to communication*

*Source: Library for managers (2014).*

If there are barriers in communication, employees are not commitment to organizational goals and come up with dissatisfaction at work, which is exactly contrary to the realization of joint activities of the members and groups of organizations to achieve high employment and a sense of unity that are inextricably linked with the organization. Barriers to communication can be classified as organizational, physical, cultural, linguistic, and interpersonal.

Systems of work organization have always been linked to the group way of life that is impossible without mutual communication. The organizational environment that seeks quality, must ensure that management be directed to a man, interpersonal relationships and the importance of human resources in achieving the goals of the organization.

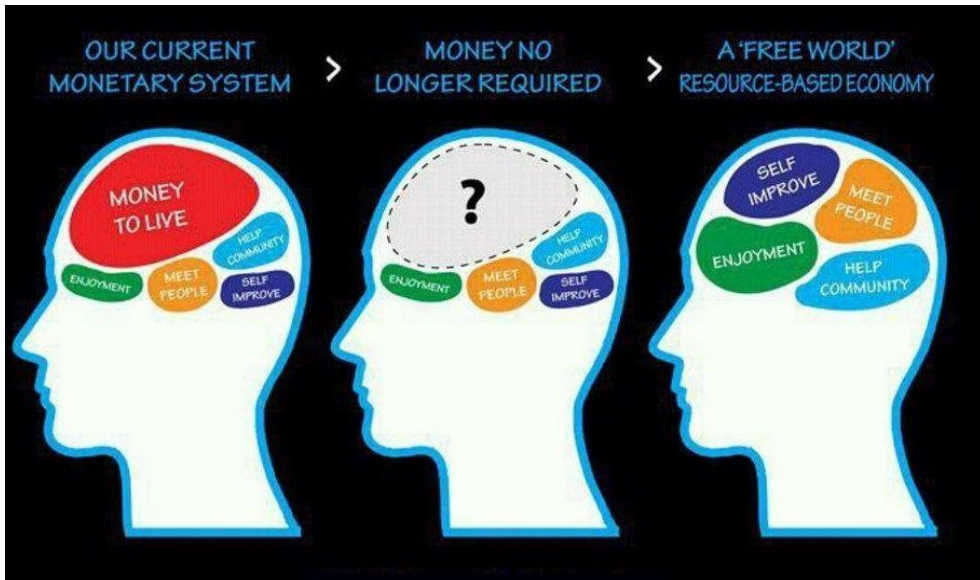


Figure 6: Human reasons to work

Source: [Edgett, 2015](#)

But, our society is far away from passion economy and emotions. People work for survival not for passion (fig.6). We are just on the beginning of changing economy and work orientation. The first step is to achieve a harmonious communication and good working atmosphere. Operating environment is not just a place where employees come to work; it is also a place where employees spend a significant part of his/her life. Involving families of employees by organizing various events such as celebrations, picnics and other gatherings where are invited their family members affected by that work engagement within an organization conceived as an opportunity for personal satisfaction, and the organization is seen as the seat of which are mediated social elements of life.

The head of the organization that accept the challenges of the new era are leaders in their organizations are developing a completely new concept of thinking and acting.

## ***CONCLUSION***

The central theme in today's business world is the organization of human interest and their work motivation. Successful way of doing business meets challenges for leaders who have to be oriented to concept of altered thinking and behavior. The future belongs to a very different kind of person with a very different kind of mind. The same is with economy: the traditional model of the economy is being transformed into the economy of passion because employees and customers demand to be treated as human beings and they ask business leaders to respect their own needs, thoughts, hopes and aspirations.

For successful business position managers must learn how to understand other people, their characters and motivations. Positive psychological capital consists of self-efficacy, hope, optimism and resilience, and is associated with a number of favorable outcomes for employees. Managers who think positively are definitely those who have a strong emotional intelligence. Emotional Intelligence, because of its "people focus," is based on sound competency in two major dimensions: Self and Social. So, managers must have knowledge and a positive attitude, and behave skillfully in the Self and Social dimensions. Positive thinking means that they approach unpleasantness in a more positive and productive way. They are always aware that the best is going to happen, not the worst.

Passion economy definitely puts the people on the top. Managers who may be involved in the mainstream of passion economy must be with special personality. Employee attitudes affect their business behavior and their contribution to the work. Passion economy includes such organizational environment where the organizational goal is fully dedicated to a common goal.

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# ***THE QUALITY OF BUSINESS COMMUNICATION AND EMOTIONAL COMPETENCE OF EMPLOYEES AND MANAGERS***

*Gordana Nikic PhD<sup>36</sup>*

## ***ABSTRACT***

*The life of today's organizations has gone through dramatic changes, which increases everyday stress and actualizes the question of emotions and their expression. Recent psychological studies show that emotional competences are vital for achieving top results at work, especially in the sphere of management, but also in all other segments.*

*The framework of this paper is to discuss the importance of emotional competences for the purpose of better communication at all levels of performance and management. On the other hand, this paper considers the issue of training opportunities in the area of emotions and acquiring practical knowledge and skills in order to achieve better results and overcome problems in everyday communication at work.*

***Key words:*** *Emotional, Intelligence, Attachment, Communication, Teamwork*

***JEL Classification:*** *D23, J24*

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## ***INTRODUCTION***

The life of today's organizations in Serbia has gone through dramatic changes, which increases everyday stress and actualizes the question of emotions and their expression. Recent studies conducted in our environment (Nikic, Mitrovic, Travica, 2014; Nikic, Travica, Mitrovic, 2014) show that emotional competences are significant for achieving top results at work, especially in the sphere of management, but also in all other business segments.

Emotions are most frequently caused by evaluation or assessments of events connected with all we consider important: our goals, concerns, aspirations (Oatley, 2004). Frijda (1996) considers the concept that emotions cause the urge for action.

Thus, emotions are not only feelings but also structured action tendencies. Emotion is an organizational concept, it includes the complex structures of interests, assessments and action tendencies and enables them to be perceived as meaningful wholes, according to Campos and Barrett (Campos, Barrett, 1984). According to Albert Ellis (Ellis, 1988; 2006), emotions do not exist by themselves, or as a special or myopic kind of entity. They are the essential part of the complex process of human beings. What we usually call emotion represents a biased and strong assessment, i.e. the assessment that simultaneously estimates the value of the person and the object. Goleman (Goleman, 1996) supports the idea of "superiority of the heart over the mind", relying on the work of sociobiologists, and he explains why the evolution attributed to emotions the essential role in human life.

For Milivojevic (Milivojevic, 2000), emotion is always a "reaction of a being to an event." This author proposes the use of the term emotional reaction to emphasize the distinctive experiential quality. Emotions lead us to cope with obstacles and tasks too important to rely only on intellect such as a danger, loss, persistence in achieving goals despite the obstacles, attachment, forming a family. Although emotions are often seen as an intense personal experience and have a close relation with our thinking and action, on the other hand, most emotions affect our communication with others.

Researchers say that in recent years organizations have gone through major changes that increased stress among employees, which favors the activation of emotional experiences, even those we gained in the early relationships with parents (Berso, Day, Yammarino, 2006; Popper, Amit, 2009). In the past managers considered emotions in the workplace as the factor that interfered with rational functioning of the organization and management. However, it has turned out that the managerial leadership process is particularly filled with emotions and moods, both from the perspective of managers and employees. It is also shown that the knowledge of emotions and "coping with them" is especially important for managers because managers work in the social context with constant interaction with employees and clients (Salovey, Mayer, 1990). On the one hand, psychotherapists (Ellis, 1996) suggest that emotions are vital for human survival, and on the other hand, emotions are the main problem of a modern man. To support this, the facts show that a part of mankind, referring to the Western culture in the 21st century, no longer suffers from a lack of food, comfort,

entertainment and convenience but from emotional distress and emotional problems. Despite the higher standards and improved life conditions, the progress is insignificant in the sphere of emotions (Ellis, Dryden, 2002).

Why is the progress in the sphere of emotions surprisingly slow? This is a complex issue so it is not possible to give a simple answer. The dynamic development in the last hundred years has favored the development of modern science and technology, but not emotional communication and emotional expressiveness. According to many authors, for example Ellis and Dryden (2002), people are more childish, emotionally and mentally wilder than they used to be. We should bear in mind that the workplace increasingly includes situations in which an individual has to make tough decisions, take the risk, start new relationships and tasks, often in unknown circumstances, which causes daily stress. In order to achieve organizational goals, employees often have to work "as one". The interaction and closeness developed among team members are often similar to those relationships developing in a family with a significant difference that the activity is focused on achieving business goals. Where there are humans, there are emotions, both constructive that help to achieve good communication and working atmosphere and destructive that hinder reaching an agreement and a free flow of information. People have an innate tendency to improve themselves and their environment, but also a "natural" tendency to defeat themselves and their environment in many fields and to disable development. The dual human nature on the one hand encourages the man to preserve and enjoy his existence and, on the other hand, to make additional and unnecessary problems and cause suffering. These two tendencies Ellis marked as rational and irrational tendencies of human beings (Ellis, 1996).

It is undisputed that emotions are an integral part of human beings and also the essential part of every human communication. It is also undisputed that the capabilities are significant predictors of success at work. The issue of motivation is closely associated with emotions, since emotions are felt that underlies motivational processes. Thus, the formula of success according to Petz (1987) has been extended by the factors related to motivation and work conditions, so that it could look like this:  $(\text{effectiveness} = \text{motivation} \times \text{ability} \times \text{work conditions})$ . The studies of social psychologists on the other hand show that emotional competences are needed in all segments of business (Kahn, 1995; Kummel, 1999) and that they explain part of the success at work.

Maturity is another important concept for understanding communication processes, at least when it comes to emotions. Specifically, intellectual maturity is reflected in a realistic perception of reality, openness to new experiences, different interests, curiosity and a relatively stable value system. Emotional maturity is reflected in the ability to perceive and label emotions, the ability to control them, self-esteem, self-confidence, the ability to endure frustration but also to cope with different social situations. Relationships with other people are determined by our ability to recognize emotions, believe them, and build the capacity to cooperate and so on. Psychologists believe that keeping of emotional balance is one of the most important criteria of psychical health. Emotional maturity and stability includes the capacity for cooperation, entertainment, relaxation, humor and expressing emotions in a socially acceptable way (Pajevic, 2006).

“As the intellectual maturity is reflected in the realistic understanding of objective reality, openness towards new experiences, and broadness of interests, curiosity and relatively stable value system. On the other hand, emotional maturity is reflected in the ability to manage and regulate the emotions, self- assurance, ability to endure pressure and failure, creating permanent emotional relationships with other people and similar things. Keeping the emotional balance is one of the most important criteria of health, and it supposes capacity for collaboration, having fun, relaxing, humor and expressing emotions in the socially acceptable way (Pajević, 2006, Nikic, Mitrovic, Travica, 2014, p. 81)”.

The framework of this paper is to discuss the importance of emotional competences for the purpose of better communication at all levels of business performance and management. On the other hand, this paper considers the issue of training opportunities in the area of emotions and acquiring practical knowledge and skills in order to achieve better results and overcome problems in everyday communication at work.

### ***COMMUNICATION AT WORK FROM THE PERSPECTIVE OF THE ATTACHEMENT THEORY***

Emotional dynamics and group relations are very important because the effectiveness of the group depends on how group members work together and communicate with each other (Bar-On, Parker, 2000). Complications come with collaboration, especially in work teams that, by definition, develop much closer relationships than it used to be in organizations in the past. Often, emotions dominate among employees due to competition, inadequacy, superiority, insecurity and vulnerability.

On the one hand, employers have realized that the competences of employees associated with emotions are crucial. On the list of desirable features, the dominant social and emotional qualities of employees are: adaptability in facing failures and barriers, self-management, self-control, self-confidence, motivation to work focused on goals, group and personal effectiveness, team work, negotiation skills and potential for leadership (Bar-On, Parker, 2000). Employers today need these qualities in employees because jobs are increasingly characterized by competitive pressures, constant change and redundancy.

On the other hand, employees are expected to act in interaction, professionally as well as socially, to achieve better results. Many employees have become part of teams and the necessity of cooperation imposes working with others to complete the work and to develop new products. In the past, employees often performed tasks independently, usually behind closed doors, while in modern conditions it is becoming open, from collaborating on projects to joint offices. The team members are highly related to each other so that the individual success of each team member is conditioned by the success in performance of the other team members. In order to achieve organizational goals, all must be "as one". Interaction and closeness that team members develop are similar to those relationships developing in a family.



Bearing in mind the changes in the business environment and the increased stress of employees, it is clear that coping with stress and difficult emotions such as anger, anxiety or depression, conflict as everyday situation, come into the focus of scientific interest for examination of emotional competences. To be emotionally competent means to be proficient in sensitive, empathic and effective response. In this way we achieve a high level of expertise in managing highly sensitive and emotionally demanding conditions for achieving the goals (Thomson, 2009).

Another important contribution of developmental and social psychologists is reflected in the fact that emotional maturity and emotional stability are influenced by experience similarly, family relationship which is in accordance with Bowlby's (1969/1982) attachment theory (Sharf, 1997). First, the theory dealt exclusively with the child /parent relationship, adolescence and partner relationships, but at the beginning of this century, an increased interest to apply the theory of attachment to the sphere of business efficiency occurred among researchers.

According to Bowlby's opinion, attachment behaviors follow us "from cradle to grave" and affect all our later social relationships. The basic question is how the models of emotional attachments formed in early childhood affect all later relationships, including those of business, as well as the question of individual differences and forming various attachment relationships.

These questions we can answer by referring to the basic constructs of the attachment theory, according to which children develop working models of self and others by internalization of their experiences with parents over time.

According to Bowlby, attachment is "every form of behavior that results in someone's acquiring or maintaining proximity with another clearly defined person who is considered better able to cope with the world... While the affective behavior is most apparent in early childhood, it can also be observed during lifetime... attachment is a fundamental form of behaviour with its own inner motivation other than food and sex, and of no less importance for survival (Bowlby, 1988, pp. 26-27)". The overall goal of the attachment system is to maintain feelings of attachment security, and specific strategies formed to achieve this goal are conditioned by a history of experiences of an individual with the key figures of attachment (Bowlby, 1969).

Ainsworth and associates (Ainsworth, Blehar Waters, Wall, 1978) significantly expanded Bowlby's work. Operationalizing Bowlby's basic ideas is an important framework for understanding of emotional security and insecurity at work. Ainsworth (1978) found that mothers who reacted sensitively and responsively to the signals and needs of their child during the first year of the child's life (they perceived the child's signals, interpreted them correctly and reacted quickly and adequately) created preconditions for the secure attachment relationships. To assess the patterns of attachment she designed an experimental procedure "Situation with an unknown person". She identified three patterns of attachment with mother: secure, anxious-ambivalent and avoidant.

Ainsworth et al (1978) used the term "secure attachment" to describe the model of attachment in accordance with healthy development. Securely attached children are convinced that their parent or caregiver will be available, react equitably and help in case of trouble or threatening situation for the child. The second identified

model of attachment is anxious/ambivalent attachment, characterized by uncertainty that parents will be available, react equately and provide support and comfort in situations when the child needs them. The third model is avoidant attachment, where the child does not show confidence that his/her attempt to get help will be positively accepted. In fact, these children seem to expect rejection.

Main, Kaplan & Cassidy (1985) subsequently identified the fourth model of attachment that was identified as insecure-disorganized /disorientated. These children usually grow up with mentally or physically abused parents, who failed to resolve their trauma. Living in conditions of inadequate care, they have not developed strategies for attachment with others (Main, Kaplan, Cassidy, 1985).

Bowlby (1988) believed that young children who developed one of the models of insecure attachment style accurately reflected the fact that their caring environments were unstable, volatile or non-existent caring environments, while small children who developed secure attachment models reflected stable, caring environments.

Applying these ideas to the sphere of business, we can conclude, referring to empirical evidence, that the working models of attachment, appearing as a cognitive/emotional recording in our neurological structure, determine our ability to progress at work, as well as our relationship with managers and other employees. Thus, studies show that, for example, emotionally secure persons more easily cope with work commitments, better perceive social situations and they are generally more motivated and satisfied at work in relation to insecure persons (Hazan, Shaver, 1990). Avoidant and anxious-ambivalent persons have more different problems at work.

Blustein (Blustein et al., 1995) has examined how the availability of attachment figures affects career development. He concludes that the experience of security, whether it comes from the current affective relationships or it is felt through internal working models, may enable research of new domains that are central for progress in career development. Numerous studies point to the far-reaching consequences of early forms of attachment. So Mikulincer and Florian (1993) present the following observations for secure attachment people:

- Basic confidence in the world and the ability of the securely attached people to assess stressful situations favorably
- A highly differentiated and coherent personality structure that provides a sense of control in confronting the problem
- Positive and flexible attitude to the data processing and developing skills necessary for solving problems.

Hazan and Shaver (Hazan, Shaver, 1990), well-known for their research in the field of close emotional relationships, were the first authors who connected the behaviour of attachment with adult work. Through their research they showed that the working activity of adults could be seen as similar to what Bowlby called "research". They access to the work of adults as a form of research in which we engage differently, according to the style of attachment. Hazan and Shaver start from the three patterns of attachment with mother identified by Ainsworth and her associates: secure, anxious-ambivalent and avoidant as the basis for the application of this theory to understanding of business communications. The research results show:

Secure – secure orientation towards work, a greater degree of success, job satisfaction, and rewards. Anxious / ambivalent - work as the means to gain praise, feeling underestimated, the need to meet others. Avoidant – prefer to work alone, seldom interrupt obligations, experience job as an excuse to avoid socialization, nervousness when not working. Recent research results indicate the validity of applying the attachment theory to understanding behaviour at work, especially in the following areas: relationships with the authority (Kahn, 1996), solutions to the problems of employees (Hutt, 1991), communication strategies (Kummel, 1999), career development (Blustein et al., 1995), performance of managers (Nelson, Quick 1985) and leaders (Manning, 2003), capacity for leadership (Bers, Dan, Yammarino, 2006; Popper, Amit, 2009), managing stress and conflict solution (Kahn & Kram, 1994), work to the detriment of health (Hazan, Shaver, 1990).

The results also show that evidently emotionally attached persons have numerous problems at work: they prefer to work alone, rarely break the commitments, experience job as an excuse to avoid the socialization, get nervous when they do not work, often work to the detriment of their own health, etc. The results have shown that avoidant attached managers have more difficulties in finding and hiring satisfactory workers than securely attached managers (Hutt, 1991).

The conclusion of the previous studies is that in stressful situations people react according to their earliest experiences (Rholes, Simpson, Stevens, 1998), as well as they have similar experiences at work (Kahn, Kram, 1994). The main assumption of the attachment theory, which can explain the behavior at work, is that the behavior of attachment is extended throughout the life cycle and it is based on mental representations which are formed in early childhood. Through constant exchanges with the world of people and objects, children create internal working models of attachment as mental representations of the world and important people in it, including themselves. In different social situations at work, especially in those which are permeated with stress, internal working models are activated and determine emotional reactions and behavior of employees. On the other hand, often dynamization of "hard" and negative emotions, anger, anxiety, soreness, depression directly affects the behavior of employees, and also the productivity of individuals and teams.

The recent research shows that emotional competences are crucial for the success of managers (Nelson & Quick in 1990, according to Kummel, 1999) and leaders (Manning, 2003), as well as for assessing and developing capacity for leadership (Bers, Yammarino, 2006; Popper, Amit, 2009). On the other hand, on the list of desirable qualities of employees that employers increasingly seek the dominant social and emotional qualities are adaptability in facing failures and obstacles, self-management, self-control, self-confidence, motivation for work focused on targets, group and personal effectiveness, team work, negotiating skills, and potential for leadership (Bar-On, Parker, 2000). Zohar and Marshall suppose that changes of the value system and a new way of communication between employers, owners and employees hit the very bases of the system and bring the very existence of capitalism into the question. They propose a radical change of values, meanings, motives, and only in this context we can talk about sustainable organizations and sustainable social system (Zohar, Marsh, 2004)

The extensive research conducted in Serbia in 2013, also showed that emotionally secure individuals were more satisfied with their lives, more sociable and with a sense of humor that helped smooth communication.

The main goal of this research was to determine the nature of the correlation between attachment styles, emotional intelligence, life satisfaction, personality and style of humor, in the working population, as well as to consider the implications of the correlations on the quality of business communications. The survey covered 240 participants.

The results of this research indicate that the participants of secure attachment are more sociable, have significant activity and are prone to styles of humor that support their own personality. They are also more satisfied with life compared to the insecure participants. On the other hand, the participants of preoccupied style are more likely to self-defeated styles of humor, less support themselves in a humorous way, they are less aggressive but also less satisfied with their lives (for more information see Nikic, Mitrovic, Travica, 2014).

We can say that emotional security is the basic concept that may predict communication at work. Sociability, openness to new ideas, harmonization with the other members of the team, but also life and work satisfaction are just some of the determinants of positive emotional competences, but also emotional maturity.

## ***EMOTIONAL INTELLIGENCE, BUSINESS AND THE ISSUE GENDER DIFFERENCES***

At the end of last century, psychologists dealt with a new aspect of intelligence which was not included in the former tests – emotional intelligence. The authors of the new concept popularly named EQ, Salovey and Mayer, mostly rely on Gardner's theory of multiple intelligences. (Gardner, 1983) and Sternberg's theory of intelligence (Sternberg, 2000). Salovey and Mayer contributed significantly to the development and scientific evidence for the concept of emotional intelligence. They define emotional intelligence as the ability to monitor and distinguish one's own and other people's emotions, and using this information as a guide for thinking and behavior (Mayer, Salovey, 1990). According to their opinion, the offered definition emphasizes only perception and regulation of emotions, but it does not include thinking of emotions. For that reason, they suggest a revised definition according to which emotional intelligence includes the ability of quick perception, evaluation and expression of emotions, the ability of insight and generating emotions that facilitate thinking, the ability of understanding emotions and the knowledge about emotions, the ability of regulations of emotions in order to enhance emotional and intellectual development (Mayer, Salovey, 1990; Mayer, Salovey, Caruso, 2002). Goleman (1996) defined emotional intelligence as the ability to learn many practical skills, which consists of five elements: self-awareness, motivation, self-regulation, empathy, commitment to relationships.

Numerous authors have continued their work, among them Bar-on (Bar-On, Parker, 2000) who developed one of the first systems for evaluation using the term - coefficient of emotional intelligence. He defines the purpose of emotional intelligence in effective self-understanding and understanding others for establishing good interpersonal relationships and adaptation to the environment for success in meeting demands of the environment. He believes that EQ can be developed over time by trainings, therapies etc., and that the individuals with higher EQ are generally more successful in facing the demands and pressures of the environment

Emotional intelligence is not an ordinary kindness, constant smiling and connivance to interlocutors. On the contrary, emotionally intelligent person will often oppose misconception and prejudices. EQ is not uncontrolled, free expression of all emotions but, on the contrary, it means effective control, especially regulation of unhealthy emotions. And finally, this ability is not genetically based, nor does its development end in childhood. Emotional intelligence is developed throughout life and its role is crucial to every professional in the field of social work. Numerous practical examples show that positive mood enables better creative and inductive reasoning. Salovey concludes that joy improves the performance of task solutions of deductive thinking which requires careful analysis of the various options, while the melancholy mood slows down the performance in analog tasks solving.

It has been examined how emotional intelligence can influence the outcome of the use of various prejudices in thinking. The results indicate a significant correlation between: understanding emotions and self-awareness, understanding emotions and empathy, inappropriate perception of emotion and wrong conclusion and decision making. The results show that there are multiple correlations between the components of emotional intelligence, certain skills and heuristic-based prejudices in thinking (Mayer, Salovey, Caruso, 2002).

For the purpose of the mentioned research, the Questionnaire of emotional competence is used (Takšić, Moharić, Munjas, 2006), constructed according to the model of Mayer and Salovey, which estimates the three aspects of emotional intelligence: the ability to perceive and understand emotions, the ability to express and label emotions, the ability to regulate emotions.

A noteworthy result is that the employed women, compared to their male colleagues, achieve better results on the three dimensions of emotional intelligence: the ability to perceive and understand emotions, the ability to express and label emotions, the ability to regulate emotions. In the key aspects of emotional intelligence, such as self-awareness, awareness of the consequences of actions, empathy, women have better results than their male colleagues as it is evident in this study (Nikić, Mitrović, 2014).

It is also shown that people with high scores on emotional intelligence show less neuroticism and greater sociability, and that the participants with extreme anxiety and avoidant are likely to have difficulties in communication with other employees. (Nikić, 2014). Another noteworthy finding is the difference between top managers and employees with caution to a small number of top managers that their search involved.

On the bases of the gained results we can conclude that owners, top managers and managers in relation to employees have high scores on all three dimensions of emotional intelligence, dominant affiliative humor or style, life satisfaction and show high reactivity. Also, top managers and owners have all the characteristics mentioned more intensively than managers of the middle range (see Nikic, Travica, Mitrovic, 2014).

## *CONCLUSION*

Emotions are the key part of what makes us human. Dealing with emotional issues can be very desirable and enriches experience. However, it is also important to be aware of the other side of reality that the working emotionally demanding atmosphere can be harmful and carries risks which we need to be aware of in order to take the appropriate steps. Emotions can improve our lives and help us to progress in profession, but there is also a danger of burning, constant stress, insensitivity and health problems.

One of the ideas of cognitive restructuring is that every man builds his own philosophy that strongly affects the vision of self, other people and life circumstances. The man is, therefore, by his nature a philosopher, and a scientist (Ellis, 1988). In addition, he has the ability to think about his own opinion as the basis for change in the field of his own thinking, philosophy, attitudes. People have the talent to think irrationally but they also have the ability to think about themselves, others and situations rationally and thus to improve the quality of life.

Why is thought so powerful and are the psychotherapists of cognitive orientation right? Basically, emotional reactions are often "implicit or tacit meanings and attitudes" (Ellis, 1996). The process of creating attitudes is synonymous with the process of assessing the value of a stimulus (the meaning we attach to an event, situation). When a person develops a rational philosophy, attitude, opinion, such that they correspond to reality, the emotions will be adequate and help the person to adapt to reality.

The research results suggest that secure attachment participants will easier deal with demanding conditions of modern business, in the work atmosphere which is literally "emotionally charged". The positive picture of self and others, in secure humans, seems to maintain a sensitive, supportive, emotional care of other people. Persons who acquired a secure self-image in their young age are likely to develop a large number of competences that correspond to what we call emotional intelligence. In contrast, insecure people, whether anxious, avoidant or both, have difficulty in organizing and achieving emotional care for others. Their difficulties of emotional nature will interfere with easy and direct communication with others, which is vital form in a business environment. Instead of a conclusion it can be said that overcoming emotional blockages and developing emotional security and emotional intelligence are essential for achieving top results at work.

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***PART IV***  
***COMPETITIVE CONDITIONS, INNOVATION AND***  
***COMPETITIVE ADVANTAGE***





# **SIGNIFICANCE OF INNOVATION FOR REALIZING OF SUSTAINABLE COMPETITIVE ADVANTAGE OF ORGANIZATIONS**

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## **ABSTRACT**

*In modern conditions, existence, development and growth of organizations are closely linked with attaining sustainable competitive advantage. Competitive advantage can be attained in various ways, where introducing innovation is the most dominant.*

*Innovations as well as the knowledge, which enables them, are the most important source of market success and competitive advantage. Innovations are not only key factors of growth and development but they are also the main moving force of economy in industrially developed countries.*

*Innovating is one of the essential preconditions for successful business operations, and advancement of the existing business ventures. Basic characteristic of innovative organizations is the advancement of business in accordance with the needs (demands) of buyers and changes in market. Introducing the innovations in business includes a whole range of activities, which during the innovative process lead to long-term business success, i.e. creation of values for the organizations and consumers. Innovation is a very wide concept which can comprise technical and technological and business innovations.*

*Nowadays, it is hard to diminish the significance of innovations and it will probably be even harder in the following years. But the issue of the significance of innovations is one thing, and the possibility of innovations management a whole another thing. Analysis of many technological innovations discovers that the largest number of failures is a result of weakness in the way of process management. The success of an innovation depends on two key factors – technical resources and the ability of an organization to manage them.*

**Key words:** *Innovations, Competitive Advantage, Market, Product, Efficiency*

**JEL Classification:** *O31*

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## ***HYPOTHETICAL AND METHODOLOGICAL FRAMEWORK***

Research subject is represented by innovations as a potentially key source for obtaining of competitive advantage on the market. The research will firstly be directed to the notion of competitive advantage and the analysis of all external factors which influence the competitive position of the enterprise. The following segment will be focused on the concept of competitive strategy, remaining at the generic strategies for the realization of competitive advantage. The last and the largest part of the research will deal with the role and significance of innovations for acquiring of competitive advantage in modern business conditions.

Special attention in the research will be dedicated to the examining of the importance of knowledge for the innovations management process and the application of innovation strategies, as well as models of innovation management.

Primary goal of the research is to examine and define the significance of innovations for the realization of competitive advantage of the organizations. Partial goals of the research are directed towards the defining of significance and professional management of development processes and application of innovations in organizations.

Based on the subject and goal of research, we formulated the following hypothesis:

H1: Innovations represent main source for obtaining competitive advantage of organizations in modern business environment.

For the needs of research we also formulated the following assisting hypotheses:

H2: Generating and implementation of knowledge represents basic for innovation development.

H3: There is a close correlation between the ability of management of technological and non-material resources and potential for obtaining the sustainable competitive advantage of organizations.

The following methods will be applied in this paper:

- Content analysis method of relevant literature in printed and electronic form;
- Case study method, which will enable analysing the research subject on the actual examples in practice;
- Deductive method, which will divide the research subject into variables;
- Inductive method, which will enable wholesome understanding of the problem of the issue.

## ***INTRODUCTION***

The greatest challenge with which organizations in modern business conditions face is finding the way and model for acquiring sustainable competitive advantage on the market, which will provide long-term growth and development. Competitive advantage can be defined as the ability of an enterprise to make its offer more attractive than the competitive one in the eyes of the consumers. The practice has shown that only the enterprises, which are responsive enough to the changes and are innovative in their development, can survive and develop successfully. We can say that the ability of an enterprise to develop and introduce innovations represents one of the key preconditions for the acquiring of sustainable competitive advantage. Finding new ideas and efficient economic solutions is a permanent task of an enterprise, on which the survival and growth of an enterprise depend. In conditions of severe competition and saturated market, companies which do not innovate, stagnate and fall behind the competition. Through innovations the company introduces and dictates changes, which competition has to follow and adjust to.

Innovations represent the basic trigger of the company's development, national economy and society as a whole. Innovations, knowledge and technology have the key role in the increase of productivity, development of new products and services and creation of competitive advantage of organizations. In knowledge based economy, innovations are inevitable, and the ability to innovate is the factor which dominantly influences the economic power of organizations. By a successful innovations management the negotiation power is strengthened at all levels. The ability of an enterprise to fight for competitive advantage by placing of more quality and cheaper products shows the development of innovative processes in that enterprise.

## ***COMPETITIVE ADVANTAGE***

The hardest task, organizations face, is how to create and sustain the acquired competitive advantage. As we stated, the competitive advantage is the ability of an enterprise to make their offer more attractive to the consumers than the one that competition has. It is created from the values an enterprise is able to create for their buyers. It can take the form of lower process than the competition for the same or similar level of quality or through providing unique benefits which neutralize low selling price of the product. Sources of competitive advantages are multiple. Entrepreneurial competence is one of the important elements of creating and developing a business (Abol-Ghasem, 2014, p. 28).

The selection of competitive strategy is based on two central issues. Firstly, the activity of economic segment for long-term profitability, and secondly relative competitive position of an enterprise on the market. (Porter, 1985, p. 21).

Attractiveness of market segment dominantly depends on five factors of competitiveness (Porter, 1998, p. 26):

1. Rivalry between competitors;
2. Negotiation power of suppliers;
3. Danger of substitute;
4. Negotiation power of buyers;
5. Danger of new competitors.

*Rivalry between the existing competitors.* Rivalry in the economic branch can be low or high, depending on the numerous factors, like: number (approximate) of equal competitors, slow industry growth, high exit barriers etc. (Milošević, 2012, p. 79-81). Rivalry is not a static category, but it is changed with the changes of business conditions. In the beginning phase of life-cycle of certain industry branch, competition is weak, because the demand for products is not great. In time, with the increase of demand, competition is increased also. In mature phase, competition reaches a peak.

*Negotiation power of suppliers.* Suppliers can realize an effect on the market by change in prices of input they sell, which directly influences the height of selling prices of finished products and average profit of the branch. Negotiation power of the supplier is increased in situations when on the market there is a small number of suppliers, when there are no substitutes, when the inputs suppliers sell are especially important to the buyers, when there are conditions for connecting of suppliers etc.

*Danger of substitute.* Substitute can be defined as a replacement for the specific product. Substitutes for certain products are usually cheaper than the product itself, so with similar level of quality, the difference in price becomes the dominant factor for buyers to opt for a substitute.

*Negotiation power of buyers* is increased when, on the market, there is a small number of buyers, when there are available substitutes of the satisfactory level of quality, when there are conditions for joining of buyers, when the quality of products is especially important to the buyers etc.

*Danger of new competitors.* New competitors bring in the new capacities to the market and the desire to realize the profit with realizing market share. Severity of such threat depends on the attractiveness of market segment (the greater average profit in the branch, the greater interest of companies to enter this market), reactions of the existing competitors to entering of new enterprises and the height of entrance barriers.

There are six main entrance barriers (Porter, 1998, p. 28):

- *Economy of the scope*, which limits the entrance of the interested organizations to the new market, by forcing them to realize new great scope of production or to accept the inferiority in expenses sphere. Economy of the scope can act as an obstacle in distribution, usage of sales staff, financing and all other business aspects.
- *Differentiation of the products.* Existing brands at the market force new companies to great investments, first of all in marketing, in order to gain customer loyalty. If we take as an example, the confectionery market in Serbia,

the greatest problem faced by „Milka biskviti“ brand is when it placed its biscuits to the market is customer loyalty to the famous brands which are sold for over decades on the domestic market (like „Plazma“ and „Jafa“). By great investments in marketing „Milka biskviti“ managed to win over a certain market segment, but are still inferior in relation to the brands „Plazma“ and „Jafa“.

- *Capital demands.* Certain economic branches demand great investments for an organization to be included into market game. Those can be the investments in basic means, marketing, research and development etc. for example, great investments are necessary for computer production or founding of the bank.
- *Expense inferiority regardless of the size.* Company which is already affirmed can realize advantage in expenses in relation to competition regardless of the size and economy of the scope. These advantages are based on the knowledge and experience, patents etc. because the company is longer present on the market, understands better the circumstances and market factors.
- *Difficult access to distribution channels.* Those who want to enter the market branch have to insure the distribution for their products, which initiates not only the cost, but competitive problems. When distributors are more limited for cooperation, the entrance of new competitors in the market branch is harder.
- *State barriers to entry in the industry.* State can build mechanisms which limit or ban the entry to industry, like e.g. forbidden or limited access to key resources, the necessity of paying for the license, introduction of standards for decrease of pollution and increase of safety at work etc.

## **COMPETITIVE STRATEGY**

Competitive strategy deals with creation and maintenance of competitive advantage and sets the way in which the organization will be competing on the competitive market (Milošević, 2012, p. 142)

Competitive advantage is the key concept in strategic management. The essence of strategic management is obtaining of sustainable competitive advantage. Distinctive ability is connected to competitive advantage. That is the ability of an organization to do something that others are not able to or does it better than the competition. Competitive advantage can be realized thorough acquiring and exploitation of unique resources (important resources that competitors do not own).

If the company does not take unfavourable competitive position, selection of attractive market segment does not guarantee the realization of profit. Also, taking the favourable competitive positions will not bring the profit if an enterprise does business in the non-profitable segment. One should have in mind that both categories are subject to change: profitable market segment can in time become non-profitable, and a favourable competitive position can in time become unfavourable because of strengthening of competition or bad moves of an organization (Porter, 1985, p. 21).

A company can realize a small influence on the profitability of the segment, but it can also significantly affect its competitive position. Main tool with which an enterprise fights for a more favourable competitive advantage is competitive strategy.

There are two main types of competitive advantages which company can realize: low expenses and differentiation, which come from the structure of the economic segment and represent the reflection of abilities of the company to face the five factors of competitiveness better than competitors (ibid, p. 30).

Low expenses and differentiation lead to three generic strategies for realizing of competitive advantage (ibid, p. 30-31):

1. Leadership in expenses;
2. Differentiation and
3. Focus on market segment based on low expenses or differentiation.

Leadership in expenses is a strategy which consists of company's tendencies to realize the lowest expenses in the branch. Sources of leadership in expenses strategy can be based on realizing of economy of scope, patented technology, preferential access to raw materials, development of distinct abilities, which will lead to achieving of above-average efficiency etc.

Realizing of leadership position in the overview of expenses will bring a company above average results in the branch under the condition that the observed company can dictate the prices. In case that the company calculates same or similar selling prices as competitors, leadership in expenses will bring greater gain in company. In order to liberate itself from the competition, the company with leadership in expenses can lower the prices of its products to the level which the competitors cannot follow. After the withdrawal of competition from the market, the company will bring back its prices to the economic level. The necessary condition that the company has to be completely sure that it is the leadership of expenses in the branch. In order for the company which applies this strategy to be able to maintain leadership position in expenses, it will not expand the range of products, because that would increase expenses and jeopardize leading position. Also, it is very significant to have permanent budget control and eliminating of unnecessary expenses.

In order for the leadership in expenses strategy to make sense, it is necessary that the group of buyers find that low price is more significant than the wide range of products or aesthetic details which increase the expenses of production, as by that the selling price as well. Buyers take into consideration the relation of price and quality of the product, so that the application of this strategy will not be successful if they have the possibility that they buy products with prices more expensive which are of significantly higher level of quality. Also, overly lowering of the selling price, in order to make up for the lack of the quality, will annul the benefits of leadership positions in expenses. The most favourable effects of strategies of expense leadership are realized when the company, which is expense leader, offer on the market the product of similar or same level of quality in relation to competitive products and by same or similar selling price. In that case, the observed company will realize the higher profit from the competitors because of expense leadership.



Main danger for the company which is expense leader is to make competitors succeed in lowering their expenses by innovations or jeopardize the competitive position of expense leader by copying.

Case study 1: The example of successful expense leadership strategy - ING Direct (Porter, 1985, p. 32)

ING Direct is a part of a Dutch giant, which offers services to banking, insurance and management with assets of over 60 million private, corporate and institutional clients. ING employs more than 112,000 people in 65 countries, including over 11,000 of employees in the United States of America.

ING Direct is very fit for people who do not need much support, i.e. clients which are not demanding – because of the high interest rates which are offered. ING Direct program of savings accounts Orange give 2.6% of interest rates, which is four times higher in relation to 0.56% which is the average obtained in the bank while saving. ING Direct is able to offer such attractive interest rates because 75% of its transactions are done on-line and it avoids giving options like checks.

However, a unique characteristic of the access of ING Direct company to the decrease of expenses is that it usually „lets go“ of about 3,600 to 2 million of its clients a year. So the company saves annually about one million dollars by deciding to terminate the cooperation with clients who demand special terms and expect that the company is available for communication and counselling at any moment. The company is aware that the application of the concept of Customer Relationship Management (CRM) attracts clients, and also on the other hand increases the business expenses. Therefore they decided to offer the clients with minimal scope of services under most favourable conditions on the market. This is how ING succeeded for its expenses per account to be only a third of average expenses per account in banking sector, while at the same time, its total assets reached 30 million dollars, in the period when it entered the market of the USA.

Differentiation is a strategy which is based on company's tendency to make its product different from the competitive one. It is very important to achieve a different position on the market because of fierce competition which represents the characteristic of modern business (Ravić, Minkov, 2014, p. 196). By adding product traits which are not characteristic for the competitive products, the company creates a unique product. One should have in mind that the diversity of the product as such in relation to the competitive one is not the goal and it is not enough for achieving of success. Research of the references of buyers is crucial for achieving of the desired effects of this strategy, in order to establish the characteristics of the product which are important to buyers and what price they are willing to pay for that product. Based on this information the company determines which characteristics it will add to its product and make it special.

Differentiation can be based on multiple grounds: the product itself, sales system, marketing approach etc. (Porter, 1985, p. 33).

When we consider the product itself, there are more fields within which differentiation can be realized (Ravić, Minkov, 2014, p. 196):

- quality,
- reliability,
- characteristics,
- style and design,
- packing and labelling,
- durability,
- brand,
- form,
- following services etc.

In searching for the best sources of differentiation, the company cannot neglect the expenses of creating the unique product. Company which succeeds in realizing and sustaining differentiation will realize above average results only if the price premium is larger than the additional expenses which were made in order to achieve uniqueness. From the same reason the company has to search for the ways of differentiation which will enable for the selling price to be higher than the differentiation expenses (Porter, 1985, p. 33).

The lacks of this strategy are seen in the permanent need and obligation of the company for maintaining the diversity in its offer to the buyers. The moment when the buyers stop perceiving diversity in the offer of the company in relation to competitive products, they will become sensitive to the price and the sales will fall. Also, seeking for uniqueness and creation of the unique product demands additional investments, which increases the business expenses of an enterprise (Milošević, 2012, p. 155).

Case study 2: The example of successful differentiation strategy - Voodoo PC (Porter, 1985, p. 33)

Voodoo PC is world leader in design and production of representative systems of personal computers of high performances and style. For three years in a row Voodoo PC conquers the prestigious award for the best gaming computer.

Every Voodoo PC personal computer is unique and specially designed for every client. If you wish to buy Voodoo PC personal computer, the first thing you do is order what you think you need. Then you are contacted by Voodoo PC engineer in order for him to be sure that your Voodoo computer will flawlessly adapt to unique demands that you made. After the client's conversation with an engineer, 95% of all orders is further processed and enriched by fine production details.

In a certain way, Voodoo computers are not just computers; they are a state of art. Their computer housings have special openings which are on the side and they are lit on the inside. Interior of the computer also looks differently- with gorgeously interwoven wires, which they call „cable origami“. Similarly to the car designers of Mercedes Benz, creators of Voodoo computers leave their signature in the box interior. It is obvious that Voodoo does not compete when it comes to price. Even though there are cheaper models, the regular prices are between 4,000

and 5,000 dollars. One part of their clients are the ones who are ready to pay up to 19,000 dollars for a dual processor, two video chips and liquid cooling system. This company sold one desktop which was encrusted in 22 carat gold for 52,000.

This strategy proved to be successful. Voodoo computers usually get to margin of 30%, while the average margin for a typical personal computer is 10%. For four years, the company sales rapidly increased and exceeded the number of 20 million dollars.

Focus on a specific market segment is the third generic strategy. It is different from all the other strategies by being based on the selection of a narrow segment in which the company will place its offer. Main characteristic of this strategy is that the company completely adjusts its offer to the characteristics of the selected segment and in that way tries to realize the competitive advantage.

Focus strategy has two variations: focusing on low expenses and focusing on differentiation. Focusing on low expenses implies for the company to realize the expense advantage on the selected segment. Both variations of this strategy are based on the differences between the selected segment and other segments within one branch. These differences imply that some certain segments are not favourable to competitors who at the same time satisfy their needs and the needs of other segments of the same branch. For certain reasons, company which opts for focus strategy can realize the competitive advantage only if it is dedicated to the selected segment (Porter, 1985, p. 34).

The success of this strategy is influenced by characteristics of the selected target segment. If the selected segment is not different from the other segments, this strategy will not provide the desired results. Company will achieve success if it succeeds in creating leadership in expenses (focusing on expenses) or in differentiation (focusing on differentiation), under the condition that the selected segment is active. The active segment is necessary condition for the success of the strategy, because not all segments are equally profitable.

Case study 3: Victory with differentiation focus strategy – Porsche (Porter, 1985, p. 34)

Porsche company is a world giant in car production. Curiosity regarding this company is the facts that Porsche employs only 8,200 workers and has only one factory in German city of Stuttgart. What is the secret of Porsche? The answer lies in the orientation towards the specific market niche. This company defines the essence of differentiation focus strategy by their way of doing business. Actually, Porsche Cayenne, the new sports model of the car which was introduced in 2002, according to the Ron Pinelli, analyst of Autodata Corporation, is characterised as a very expensive ‘toy’ for people who want all. Porsche’s key to success is marketing which is directed towards the selected marketing segment. The current sales of 40,000 a year seems unconvincing in comparison to the sales which is realized by the great three car manufacturers (General Motors, Toyota, Volkswagen). To illustrate this General Motors stopped producing the Pontiac Fiero when its sales dropped below 40,000 units. With the growth of their traditional products and the success of Cayenne model, Porsche will increase the scope of annual sales to around 80,000 cars.

Differentiation focus strategy successfully positioned this company as a manufacturer of highly demanded luxury sports cars. As the General Manager Vendelin Videkig noticed: 'Porsche wants to grow, and we want to have luxury exclusive products. This means that we will continue to follow the niche strategy'. The results of the recent survey done by Deutsche Bank show the following: it is about the design, technology and brand which make Porsche unique!

### ***INNOVATIONS AS INSTIGATORS OF DEVELOPMENT AND AS SOURCE OF MARKET SUCCESS***

Innovations represent a basic instigator of the development of companies, national economy and society as a whole. We can say that innovations have multiple significances because:

- they are one of key factors of advancement of productivity;
- they can help business grow through the introduction of a completely new way of work;
- they can decrease the expenses of production through the increase of work efficiency
- they are a source of real competitive advantage of an individual business and one of the efficient ways for a sustainable prosperity of economic branch and economy as a whole (Krstić, 2013, p. 17).

If we observe them in the wider context, innovations represent the basic resource for forming the competitive economy based on knowledge. Speed and efficiency with which the diffusion of innovations is done should be critical for productivity growth, because the final influence can be multiply greater than the one which is provided by its first application (Mosurović-Ružičić, 2012, p. 29).

In literature there are many different divisions of innovations. The most basic one is the division of innovations according to the nature and character to: social, technological and socio-technological innovations.

According to (OECD, 2005), we have the following innovations:

- technological innovations, which are defined as „technological new products and processes and significant technological improvements of the products and processes“;
- marketing innovations, which imply the implementation of new marketing methods and
- organizational innovations, which are based on the implementation of the new organizational method in company's business.

Based on these definitions, we can see than the technological innovations are based on the introduction of completely new products and processes (radical innovations) and on smaller improvements of the existing products and processes (incremental innovations). Innovating is one of key preconditions for a successful

business and it relates to the efficient application of new ideas – for the beginning of business activities, as well as for advancement of the existing business ventures. Innovative organization is a business system which permanently seeks the innovative solutions which are seen in introducing the new or significantly improved products and processes. Basic characteristic of innovative organization is the advancement of business in accordance with the needs (demands) of the buyer and market changes. Introducing the innovations in business implies the wide range of activities, which during innovation process lead to long-term business success, i.e. creation of values for an organization and consumers. Innovations are based on combining the technical and technological possibilities of an enterprise with the goal of creating new values for consumers and their connecting with the needs of the market. Innovative approach gives the function to all available resources. Organizational leaders should be the instigators and leaders in changes and innovations.

Organization can deal only with certain number of innovations. If more ideas are being followed, the resources are wasted and the creative intensity weakens. Innovation represents dilemmas to the organization managers, because it is difficult to estimate the value which will be created once the idea is used. From the same reason, it is necessary for the managers to have great experience, rational evaluation and good intuition.

Knowledge, technologies and innovations have a key role in the increase of productivity, development of new products and services and creation of competitive advantage of organizations. Key question of the modern business activities is to rise to all the challenges of knowledge, technologies and innovations management.

## ***INNOVATIVE BEHAVIOUR OF COMPANIES***

Innovations in the organization of the company increase its efficiency through the improvement of internal processes, on one hand, and through networking with external stakeholders (buyers, suppliers etc.) on the other hand (Mosurović-Ružičić, 2012, pp. 28-29).

According to (OECD, 2005), there are four different types of companies innovators:

1. Innovators who have **leading role** in creation of new ideas, based on the research work;
2. Innovators who are focused on **adopting ideas** from other sectors of the economy and those ideas are later being adapted and implemented in their business;
3. Innovators who use innovations as means for **searching and expanding** to the unused market;
4. Innovators who behave like imitators, by **copying and adapting** innovations which their competitors already placed on the market.

There are two groups of factors which influence the degree of company's innovation (Semečenko, 2009, p. 46). The first group of factors includes the organizational structure, organizational culture and the ability of the company to make quality decisions in the conditions of uncertainty. Other factor group includes financial factors which refer to financing of innovation projects.

## ***INNOVATION MANAGEMENT IN BUSINESS SYSTEMS***

For business systems, innovations present a safe path towards the strengthening of competition. By placement to the market, inventions are transformed in the sustainable result which has a specific value and that is when the entire innovation process is realized. In order for an innovation to make sense, it should be sustainable and to bring certain benefits to the company. However, not all innovations are successful. Moreover, some innovations had catastrophic consequences for the authors and business systems which realized them (Krstić, 2013, p. 73).

By their nature, innovations represent a complex and uncertain process. None of the innovations are guaranteed to bring success, because the final result of innovation process depends on many factors. However, that does not mean that business systems cannot significantly influence whether and in what way the market will accept certain innovation. Planned and designed innovations management can significantly increase the probability of the final success. Corporate learning, acquiring of new knowledge and skills, and quality innovation processes management are the preconditions for the success of innovations. Analyses of numerous innovations have shown that the most frequent cause of failure is the weakness in the way of process innovation management (Drucker, 2002). Innovative procedure is a trajectory on which the company organizes the means available with the goal of finding the best way to use scientific, technological and market circumstances (Kotlica, 128).

Phases in the innovation process managed by business system are (Krstić, 2013, p. 75):

- I phase: Scanning and analysis of the internal and external environment for collection and processing of signals on potential innovations.
- II phase: Strategic selection of ideas which will be further developed.
- III phase: Allocation of necessary resources of knowledge through research and development or through the technology transfer.
- IV phase: Innovations' implementation through development – from the idea to the final realization.

The way in which a certain company will manage innovations depends mostly on the situation in which the observed company is in. That is why it is not possible to generalize the best way for innovations management. Certain access to innovation management can be proven to be successful in one organization, and completely wrong in another, because the specifics and characteristics of these organizations are different.

A turbulent environment with frequent changes present in business is an aggravating circumstance for innovations management process. Time frame between two changes on the market is getting shorter, because the buyers frequently change their preferences in search of better and more perfect products. When we add the growing competition to that, it becomes clear why life cycle of a product is shortened. The shortening of life cycle of the product imposes the need and obligation to the organizations to permanently innovate. Managers must be prepared to manage the changes in the uncertain and dynamic business environment which is increasingly dominated by information, ideas and knowledge.

New ideas, applied and exploited in such a way to lead to increase of profitability of company, directly or indirectly lead to the increase of value. This is how these ideas are characterized as innovative activities which make the company better i.e. more competitive. The increased value can be manifested through the profit increase, market share increase, better positioning in consumers' minds, better work organization and improvement of business processes.

First step in the process of creating the sustainable superior value is the analysis of the general and specific environment, in order to collect information on acting of political, economic, social and technological factors, relevant to organization's business. This leads to collection of information on needs, habits and demands of consumers, their purchasing power, then, possibilities and conditions of input supply, available distribution channels, competition etc. Just after the collection and analysis of this group of information on the environment and the market, organization can start with development of the innovation concept. In searching the ideas for a new product, besides the market analysis, it is important to include all employees, because quality idea can potentially be found in every work position in an organization.

## ***INNOVATION MODELS***

In theory and practice of innovation two schools of opinions on drivers of innovations overruled. Those are:

1. market-based approach (Slater, Narver, p. 48) and
2. resource-based approach (Trot, 2005, p.15).

Market-based approach is based on the attitude that the market represents key factor which dominantly encourages or limits innovative company activities. For the success of an innovation the most important is the ability of a company to recognize market opportunities.

Resource-based approach considers that previous understanding does not provide secure attitudes for formulating of innovative strategy, considering that the market is dynamic and unpredictable. This is why organizations must provide resources, abilities and skills necessary for innovative activities, in order to provide competitive advantage (Jančetočić, Kasagić, 2010, p. 12).

There are four different innovations management models:

1. **Linear model**, which perceives the innovation process as a gathering of interconnected phases or activities. Phases are realized one after another and in order for the next phase to begin, it is necessary for the previous to end. There are two different variations of the linear model for product innovations:

*Technology push*, which presumes that the scientists think of inventions, technology applies them in order to develop a product, and engineers translate it to a prototype for testing. Then the production chooses the cheapest way of production, in order for the marketing and sales, in the end, to promote a product to potential consumers. In this model the market has a passive role, and the sector of research and development dictates the production and sales. Technology push model was popular in 20th century and nowadays, in conditions of modern economy, it is not applicable in most industries, except in certain like pharmacy (Jančetović, Kasagić, 2010, p. 12).

*Technology pull*, which implies that the key instigators of innovations the consumers with their demands and needs. Information on consumers' needs is then forwarded to the sector of research and development in an organization, where engineers and designers develop a product, harmonized with consumers' demands.

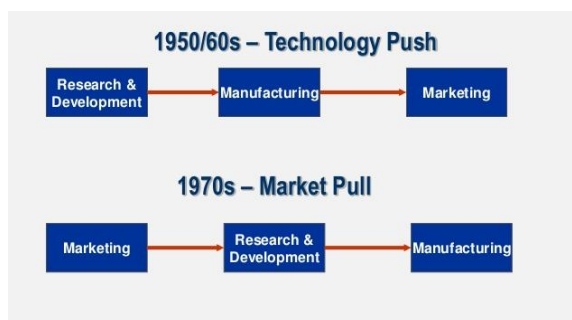


Figure 1: Linear model for innovations management

Source: <http://www.google.rs/search?q=linear+model+of+innovation>

2. **Simultaneous model**, which focuses its attention to how the innovations are created, unlike the linear, which is concentrated on what the instigators of innovation creation is, i.e. where the idea was initiated (Galbraith, 1982, p.5). Simultaneous model is more comprehensive, which shows that the innovations are a result of simultaneous, cumulative knowledge between three functional areas: research and development, production and marketing (Jančetović, Kasagić, 2010, p. 15)



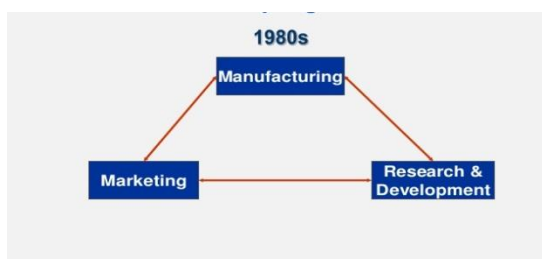


Figure 2: Simultaneous model for innovations management

Source: [www.http://google.rs/search?q=simultaneous+model+of+innovation](http://www.google.rs/search?q=simultaneous+model+of+innovation)

3. **Interactive model** went one step further in relation to linear models and tried to connect technology push with market pull. The essence of the interactive model is in the attitude that the innovations are created as a result of the demand market interaction, scientific grounds and organizational abilities (Rothwell, Zegveld, 1985, p. 151). Even though the first look seems similar to the linear model, interactive model is different, because it emphasizes the significance of the feedback between research and development, science and market.

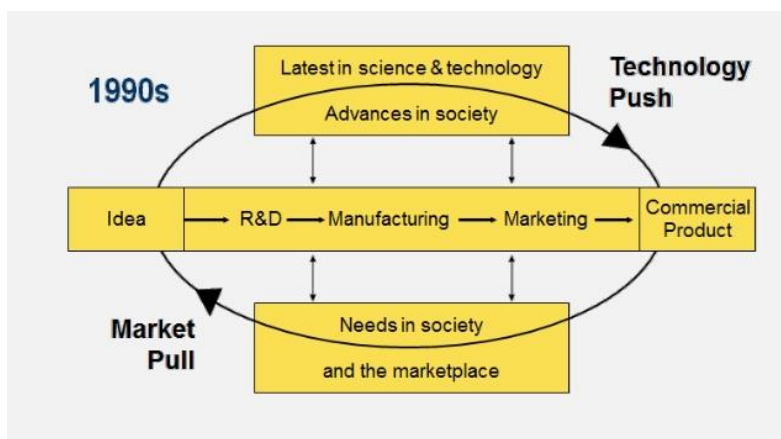


Figure 3: Interactive model for innovations management

Source: <http://www.google.rs/search?q=interactive+model+of+innovation>

4. **Network model** is the most modern, because it emphasises the need to observe innovations as a management process, which includes the interaction between functions in an organisation and external environment (Maison, Beltram, Paul, 2004, p. 61). Network model emphasises the significance of interaction of functions inside the organizations, as well as their connecting with external environment. Employees in the sector of research and development should cooperate with scientific institutes, research centres and universities, in order to gather knowledge on latest scientific and technical and technological achievements. The marketing

sector should permanently research the market and communicate with consumers, suppliers, distributors and other business partners, in order to have relevant and timely information. Company's top management should also support the communication and cooperation with the number of institutions from the external environment, like Ministries, local self-governments, banks, corporate clients etc. Middle level management should mediate between top management and lower levels of management and provide an adequate transformation of strategic decisions into work tasks. All of them together collect significant information and knowledge which represents base for innovations.

### ***ROLE AND SIGNIFICANCE OF KNOWLEDGE IN INNOVATIONS MANAGEMENT PROCESS***

Knowledge is a category which is perceived as the total of accepted and accumulated information and values. Knowledge is significant, because it unifies politics, goals and practice, by creating a coherent whole. It is significant also because it provided to the world, the continuity of achievements, by piling of acquired experiences. It provides information on business efficiency and fulfilling its goals, in accordance with the possibilities of the environment. Also the knowledge provides significant information on work processes and performance (Dimitrovski, 2010, p. 1).

Basic division of knowledge is into explicit and implicit. **Explicit knowledge** is what an individual conscientiously acquires and uses in communication. It can be easily expressed and exchanged with others. It is carefully coded and stored in data bases and literature. It can also be used in order to solve the similar problems. **Implicit or experience knowledge** represents a personal knowledge and it causes that through individual experiences and abilities of individuals. It includes skills and intangible factors of creativity, innovation, personal beliefs, perspectives and values (Ibid, p. 1).

Because of its great significance for a company's business a special branch of management is developed, called „knowledge management“. „Knowledge management is a practice of selective application of knowledge acquired from the previous experience, with the intention of advancement of organizational effectiveness“ (Dženeks, 2007). Significance of knowledge is effectively described by the following sentence: „Every business is knowledge business, and every worker is a knowledge worker“ (Ale, 2002). It is considered that one of the basic factors of increase of company's competitiveness is the increase in their intellectual capital. Intellectual capital and innovation ability do not give the effects separately but only when combined. The increase of the intellectual capital will enable the company to come to new ideas but only increased innovation ability will enable for those new profitable ideas to realize.

Generating and implementation of knowledge represents the base for innovation development. Innovation must be organized and directed process towards modern organization. Modern organization consists of knowledge experts, which implies that it has to be the organization of equals, and not organization of superior and subordinate (Drucker, 1992, p. 96). Knowledge is being perceived as the key factor for a successful realization of the technological development strategy, for the survival, growth and development of an organization, as well as facing of organization with changes. In conditions of constant market changes, when numerous new technologies appear, the competitors multiply, and products become outdated over night, successful enterprises are the ones which continuously create new knowledge, which is adopted very quickly and expanded through an organization and implemented in new technologies and products (Nonaka, 1991, p. 74). Organizational knowledge implies the ability of an enterprise as a whole to create new knowledge and implement it into its products and business processes. Knowledge creation is done in three stages: individual, group and organization.

Organizations can become innovative only with appropriate distribution and knowledge allocation. In order for innovations creation to happen, organization has to form knowledge and key competencies base and after that the ability of knowledge usage. Organization has to develop internal channels, through which the employees will with facility be able to share among them their knowledge. According to (Parlby, Taylor, 2000), the point of knowledge management is innovation creation. Plessis (2007, p. 20-29) states that innovations depend on knowledge and that organizations should develop internal communication and cooperation with the purpose of improvement of innovation process, decrease of risk and expenses of innovating and creating of sustainable competitive advantage. According to (Cavusgil, 2003, p. 6-21), the first and most important aspect of innovation is the increase of innovative ability, in order to advance the implicit knowledge of an organization. Acquiring of implicit knowledge plays a significant role in innovation system management. Implicit knowledge becomes more and more important, especially in certain industries where explicit knowledge is poor. Knowledge management also helps organizations to transform the implicit knowledge in the form of explicit knowledge, and that is important in the process of innovation creation (Plessis, 2007, 20-29).

The procedure in which the knowledge is gathered, adopted and shared with the goal of creating new knowledge (with the purpose of product improvement), is considered to be an innovative process. Sources of this knowledge are new technologies, research results and information from the external environment (Des, Lumpkin, Eisner, 2007, p. 435). Innovation is actually a combination of ideas and knowledge which brings positive changes in a labour organization, is present on the market and satisfies the needs and expectations of stakeholders. To achieve the success of an innovation, it is necessary to combine basic production factors, as well as development of innovation abilities and knowledge management systems. Innovation of an enterprise and creation of innovation depends mostly on their material and non-material resources, as well as on the abilities and competencies of an enterprise (Chen, Zhaouhui, Xie, 2004, p. 195-212).

## ***INNOVATION AND TECHNOLOGICAL STRATEGIES***

In modern researches which deal with technologies and innovations a close correlation between abilities of technological resources management, non-material resources (know-how, patents, brand, information etc.) and potential for achieving the sustainable competitive advantage is emphasized. Innovation technologies and their connections and integrations with other technologies represent one of key elements of competitiveness (Kotlica, 2014, p. 140-143).

An enterprise should tend to harmonize their corporate strategy with innovation strategy and its goals. It is necessary to identify the technologies and markets which will bring the greatest advantage to the company.

Innovation strategy is based on the innovation abilities, resources and processes. Innovation strategy enables the efforts and attention to be focused on how to develop and apply the resources, abilities and processes in the best way.

**Innovative abilities** comprise knowledge and skills collection, which is used by an organization to formulate and apply the innovation strategy. They enable creative usage of resources in the process of innovation management (Dodgson, Gann, Salter, 2008).

**Innovation resources** refer to (Dodgson, Gann, Salter, 2008):

- financial resources;
- human resources;
- physical resources (construction objects, equipment, technology);
- intellectual resources (knowledge, patents, trademarks);
- marketing resources (market share, access to key buyers, market knowledge);
- organizational resources (routines, procedures, processes)
- network resources (partners, suppliers, consumers etc.).

**Innovation processes** include (Dodgson, Gann, Salter, 2008):

- management and organization of activities of research and development;
- technological cooperation;
- development of new products and services;
- operations;
- development and preservation of supporting networks and communities;
- generating of economic contributions and values through commercialization.

The simplest division of innovation strategies is the division to **innovation leader** strategy, which tends to win a significant market share and realize profit before the appearance of competitors with their products and innovation follower, which does not set aside means for research and development of innovation, but he waits for somebody else to think of, develop and place innovation, and then, in case of market success, tries to make a copy or make changes to the product by adding new characteristics.

## ***SIGNIFICANCE OF INNOVATIONS FOR REALIZING THE COMPETITIVE ADVANTAGE***

Innovations, like the knowledge that enables them, are the most significant source of market success and competitive advantage. Innovations are not only the key factor of growth and development, but they are in many industrially developed countries main moving force of the economy.

Nowadays, the most wanted and appreciated products on the market are the ones based on innovations and knowledge. Innovations influence the realization of competitive advantage on the existing markets, where an enterprise acts and places its offer, but on the new markets that a company is trying to win over, and which is neglected by the competitors for some reasons. Competitive advantages, which were once achieved and acquired, are being maintained and advanced by constant search for new and more perfected products, business processes and better way of doing business in general.

Competitive advantages and leader positions are difficultly acquired, but they can be easily lost. The decrease of innovative efforts becomes noticeable and materialized by the loss of leader position, because many competitors constantly innovate and place better and more quality solutions. In the end, buyers are only interested in quality they are getting for their money. If a competitor offers better relation of price and quality, the company will lose their buyers. Creativity in business, technologies, innovations and changes is in the base of concept of competitive advantage. Of course, we should not forget the influence of the factor of competitiveness on the attractiveness of the market segment, which, according to Porter, together with the position of an organization on the market, dominantly influences the organization's profitability.

Technological and innovative changes represent key strengths on which one builds competitive advantage of the company and which are very difficult to respond to adequately and timely. Integration of technology, innovations and strategy is a dynamic process which demands understanding of the dynamics of lifecycle of various technologies and innovations (Kotlica, 2014, p. 381).

In modern conditions of economy, innovations represent the essence of business, because through them organizations generate unique products and services. According to the extensive researches, even 75% of executive directors of the fastest growing organizations claim that their strongest weapon on the market is in innovative products and processes. Organizations which are not able to develop innovative products and services will be pushed out of the market by the competitors, because innovations act as a fuel for survival and growth of an organization in any type of environment.

## ***MOST MODERN TECHNICAL AND TECHNOLOGICAL INNOVATIONS ON THE EXAMPLE OF AGRICULTURAL INDUSTRY***

At the end of 2014 in Hanover in Germany, there was the world's greatest exhibition of agricultural machines under the name "Agritechnics". This fair was attended by 450,000 visitors, and 400 innovations were presented.

Innovative solutions reflect a more mass application of electronic, sensors and soft wares, which offer farmers the new solutions, which are seen in automation of work processes, increase of efficiency in using agricultural machines, higher precision and lower production expenses.

The president of German association of farmers Karl-Albrecht Bertmer stated at the fair: "The one who limits the access to innovative technologies damages himself, his own agriculture; his own agricultural manufacturers and finally the consumers, as well as end users of the food industry" (<http://agroplus.rs/inovacije-sa-sajma-agritechnica-2013-u-hanoveru/>). Further in the text we will show two innovations out of four, which got a golden medal.

### **Tehelendler with hybrid drive – Turbofarmer 40.7 Hybrid - Merlo**

This is electronic, hybrid agricultural vehicle, with the possibility of selection between electric and diesel-electric drive. With electric drive, the lithium battery of 30 Kwh provides power for the machine which works quietly and without the emission of exhaust fumes, so it can be used in closed spaces. In hybrid mode, diesel engine works on the constant number or revs and charges the battery at the same time. This way of drive enables to half the powers at the exit of diesel engine, without the limitation to the work of loader. Besides this, during work in neutral or low burden, phase which is often present in working with tehelendler, the power can be started only in electric mode. As a result of this, the fuel expenses and carbon-dioxide emission, in combination with lowered engine, can be decreased up to 30%. Further decrease of expenses comes from the way of charging the hybrid from the electric network or photovoltaic system. (<http://agroplus.rs/inovacije-sa-sajma-agritechnica-2013-u-hanoveru/>).



*Figure 4: Tehelendler with hybrid drive - Turbofarmer 40.7 Hybrid-Merlo*

*Source: <http://agroplus.rs/inovacije-sa-sajma-agritechnica-2013-u-hanoveru/>*

## ***ON-LINE SIMULATOR FOR TRAINING OF HARVESTER AND TRACTOR USERS***

CLAAS on line simulator for harvesters and tractors, via personal computer, enables the wholesome insight in behaviour of the machine during working in various conditions. In this way users can be trained to work with advanced harvesters or tractors independently, via personal computer and Internet, without the presence of the machine. This simulator can faithfully represent the real working conditions and procedures, which are present while working with machines. In this way the user can practice on his own and, before going to the farm, prepare himself for complicated operations done by the machines. This enables fast adjusting of the user to the machine and its usage. Errors in operations and damages of the machines can be avoided or decreased to a great extent. The experienced ones can easily be adjusted and constantly harmonized by regular practices and by doing so realize greater performance. Significant savings in expenses and time can be realized from the first day of usage of better and more expensive machines. (<http://agroplus.rs/inovacije-sa-sajma-agritechnica-2013-u-hanoveru/>).



*Figure 5: On-line simulator*

*Source: <http://agroplus.rs/inovacije-sa-sajma-agritechnica-2013-u-hanoveru/>*

## ***CONCLUSION***

Based on the research conducted, we can conclude that the main hypothesis:

H1: Innovations represent main source for obtaining competitive advantage of organizations in modern business environment, confirmed.

Assisting hypotheses:

H2: Generating and implementation of knowledge represents basic for innovation development.

H3: There is a close correlation between the ability of management of technological and non-material resources and potential for obtaining the sustainable competitive advantage of organizations are also confirmed through research.

However, regardless of the set and confirmed hypotheses, it is not necessary to emphasise the significance of innovations as a process of thought activity for the survival, growth and development of organizations. Modern moment or time period of several years, was technologically mastered during many decades, so the results were not visible right away. Nowadays, that period is reduced to couple of months, or even less. Because, technological advancement, of not only information and communication technologies, but also biology, chemistry, physics, mathematics and electronic caused a rapid increase in knowledge, the need to distribute it among the members of an organization and to be expected to provide much faster results. In relation to this, we are all familiar with the saying that 21st century is actually the century of knowledge, and according to that the new discipline knowledge management appears.

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# **COMPETITIVENESS OF SERBIA AS THE KEY LIMITATION OF GROWTH AND DEVELOPMENT STRATEGY**

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## **ABSTRACT**

*Global resource constraints dictate certain rules of behavior of the international community. Of course, the rules and standards are prescribed by the strongest, in accordance with their interests, but everyone is obliged to follow them. Postindustrial information society is rapidly changing the rules of the game, and only those countries that reach the standards and adapt to them quickly manage to secure a good position in the international environment.*

*The ability to adapt to the rules given by environment is the essence of the country's competitiveness, and good competitive position opens up the possibility for sustainable growth and development. Serbia has so far been losing the battle to quickly adapt to the environment and to take a better position, which speaks to the fact that it either do not understand the rules or has no competitive strategy (but most likely both). By losing this battle, Serbia loses chances for stable economic growth and lags behind the rest of Europe.*

**Key words:** *Competitiveness, Strategy, Business Development, Economic Crisis, Growth*

**JEL Classification:** *O10, G01*

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## ***INTRODUCTION***

The destructive power of the economic crisis that has hit the world economy calls into question the survival of the global economic system as it is now, and those doctrines which it imposed as the most efficient and irreplaceable. Some dilemmas are still current, such as whether to invest or to save, whether to keep the financial system and too indebted countries or to let them down the drain, whether to keep the EU or not and similar. In the imposed situation, (and let us remember that it has all started from the collapse of mortgage loans in the United States) it is necessary for Serbia to adapt to the new circumstances in which everyone looks to save themselves and preserve the resources and position on the global stage.

Key issues of economic growth and development are:

- Why are some countries rich and others poor?
- Why do some countries grow faster than others?
- What is the engine of growth?
- How do we explain the economic miracles, that is, the rapid economic transformation of countries such as Japan and Hong Kong? (Dragutinovic, 2005, pp. 11)

The starting position of Serbia today is very low - no capital, no investment, no growth and with a lot of inherited structural problems, too much deficits and no ideas. Simply, Serbia is uncompetitive and with little prospect of ensuring stable economic development.

Competitiveness has become the key economic issue, particularly in times of economic crisis. We must look for solutions in three key challenges, such as increasing the inflow of foreign direct investment by repairing the business environment, export growth and GDP growth by increasing productivity and quality of domestic production. The main and common condition for achieving these objectives is to raise the level of competitiveness of Serbian economy. Today we are on the 94th place out of 144 world's countries as seen and measured by the Global Competitiveness Index (GCI).

In such a situation, it is necessary to consider all the possibilities and advantages that, fortunately, we still have and to think of the right devise for development strategy which will be based on improving our competitive position in relation to the environment. Many measures for improving our competitiveness position cost little or nothing, and that primarily means creating a good business climate, attracting investments, arranging institutions, debureaucratisation, reducing the impact of policy, managerial approach to public sector management and the like. Some things, such as the construction of infrastructure, roads, promotion of agriculture, education and health, cost a lot but all of these investments improve our position in the region and contribute to the competitiveness of Serbia. The first good step is the establishment of the National Council for Competitiveness (January 2008), which consists of representatives of the Government, the NBS, businesses and professionals, and which then defined 38 key measures to increase the competitiveness of Serbia which were supposed to be implemented in 2010. Part of these measures has begun with the realization while the majority has still remained unrealized. These measures should be redefined and complemented by new ones in order to improve the competitive position in the future.

Due to the transition shock, Serbia is a country which is trying very slowly and with so many problems (high unemployment and slow economic growth) to adapt to international trends in the economy. This is because it has inherited the economic structure which is destroyed and inadequate for catching up on the world market. We lack an entrepreneurial capacity, high-quality business environment and far more honest attitude towards the transition from socialism to capitalism. The resistance that we as a society showed towards globalization (which does not mean that globalization is something positive, but objectively present fact) cost us too much in the nineties, through political isolation, sanctions, loss of market, exclusion from the financial system, hyperinflation, inefficient public sector and a range of other consequences. Now it's time to face the many realities (and the global economic crisis) and take a decisive step forward in making a far more receptive and pragmatic position of Serbia in global (especially regional) framework using primarily our advantages and relatively good geographical position that we have. Once again it is important to emphasize the fact that it is necessary and possible to do those things that cost nothing or very little. It will all show to the environment and investors that we are willing to change and adapt to the direction of affirmation of entrepreneurship, business, trade and development.

### ***CURRENT MACROECONOMIC DEVELOPMENTS IN SERBIA***

The economy of Serbia, in the first six months of 2015, has continued negative tendencies started in the second half of 2014 with the second wave of the global economic crisis.

*Table 1: Key macroeconomic indicators Serbia (% of growth)*

Economic Indicators	2013.	2014.	2015. Q1
Gross domestic product, real growth	2,6	-1,8	-0, 5(asses.)
Industrial production, physical scope	5,5	-6,5	-2,0
Manufacturing	4,8	-1,4	4,2
Real turnover in retail trade	-1,0	3,0	-1,0
Consumer prices, period average	7,8	2,9	0,9
consumer prices	2,2	1,7	1,9
Exports of goods denominated in Euros	25,8	1,5	5,2
Imports of goods denominated in Euros	5,1	0,4	8,5
The average net wage, total, real growth	-1,5	-1,5	-1,2
The average net wage, public sector	-2,5	-1,8	-7,4
Pensions average growth	-3,4	-2,1	-4,7
Unemployment	1,7	-1,0	-3,9
The total number of employees, period average	-0,7	-1,0	0,3
External debt,% of GDP	75,2	76,6	77, 9 (asses.)
The trade deficit,% of GDP	6,3	6,0	
Budget deficit,% of GDP	-5,5	-6,6	-5, 8 (asses.)

*Source: RSO, NBS, NEA, 2015.*

The end of 2014 was marked by several things: the decline in economic activity, a slowdown in exports and imports of goods, continued balance of payments and fiscal imbalances, slowing inflation, decline in employment, the slight drop in unemployment, the real decline in earnings, the increase in the restrictiveness of monetary policy, the depreciation of the dinar, a slight increase in foreign exchange reserves, slowdown in credit activities of banks and the high proportion of problem loans in total loans. What is of particular concern in this review is the continuing decline in industrial production which in 2014 was -6.5%, and which continues in 2015. It is similar to the manufacturing industry which, finally, has recorded growth in the first quarter. Salaries and pensions are significantly reduced which has compromised the standard of living for a significant number of citizens, and as the first direct consequence of that is a drop in aggregate demand and turnover in retail trade, and relatively stable prices are positive collateral reduction of personal income. The labor market in Serbia is in a sort of spasm. This seemingly paradoxical decrease in the number of employed and unemployed only shows serious and deep disorders in relation to contingent workforce and narrows the labor market. A significant drop in the active job seekers, in terms of decline in the total number of employees suggests that job seekers are discouraged and that they are quitting our labor market by leaving the country, or by working in the black zone. Despite restrictive fiscal policy, external debt is growing and its growth in the following years will exceed 80% of GDP, and it will create conditions for its overthrow provided there is the insistence on restrictive policy.

According to preliminary data of the Statistical Office, the Serbian economy is in recession. Recession tendencies in the Serbian economy are largely a consequence of the economic slowdown and foreign economic activity in the euro zone and in the countries of the region which are the most important partners of Serbia in the field of trade and investment. The situation in the economy has been further deteriorated by adverse weather conditions and flooding in the first half of 2014, which will cause a big drop in annual agricultural production. What is encouraging in 2015 is reducing the budget deficit, primarily due to the reduction of salaries and pensions, but also due to the small increase budget revenues and reduced capital expenditure (which is bad because it shows the ineffectiveness of the administration to spend on capital projects in infrastructure). The RS government has a precautionary arrangement with the IMF, which provides hope that the budget management will be under tougher control. However, what is problematic in the policy of the Government is relying on the hope that the "new management" will run steel mill in Smederevo and that he will "find a solution" for the Petrochemical, PPT, FAP and other fallen giants that will halt the decline of GDP. It is not desire and intention to help these companies that is disputed, but the fact that there is no clear alternative to other parties such as the encouragement of the SME sector, foreign direct investment and, most importantly, fixing the business environment and the dilapidated and neglected infrastructure in all areas.

While Serbia has been dealing with its problems for decades, the world "rides" the second wave of the global economic crisis. As the IMF analysis shows our immediate environment - the European Union has recorded modest results, which further worsens the chances for Serbia's recovery from the recession. In the revised

World Economic Outlook from October 2014 the International Monetary Fund has assessed the main economic indicators at the global level and at the level of groups of countries. Global economic growth has, for the third time this year, revised downward. Weaker economic results of the EU, with the intensification of economic relations with Russia, and expressed disinflationary pressures were marked by economic developments in the international environment. For the countries of the euro zone, after the GDP growth in the first (1.1%), the second and third (0.8%) quarter of 2014, GDP growth was revised downwards for 2014 from 1.1% to 0, 8%. At the same time, it was estimated that there was a slight decrease in the unemployment rate to 11.6% and a reduction in annual inflation to 0.5%.

The continuation of disinflationary pressures in the euro area made the European Central Bank to further ease monetary policy, which resulted in the weakening of the euro exchange rate against the dollar. On the other hand, the growth of economic activity in the United States in the first half of 2014 was above expectations, which contributed to the decision of the US Federal Reserve to continue with a gradual reduction of the volume of quantitative easing.

For 2015 the IMF predicts real GDP growth of the euro zone of 1.3%, reducing the unemployment rate to 11.2%, accelerating the growth of world trade to 5.0% and annual inflation of 0.9%. In the period from 2015 to 2017 the IMF expects global economic growth to follow fiscal adjustment, improvement of conditions in the financial markets and favorable labor market conditions. What is expected is a significant repair of budget balance, gradual increase the banks credit activity and growth in domestic demand as the main initiator of economic growth.

*Table 2: International Environment - Macroeconomic Indicators*

	2013	2014	2015	2016	2017
Real gross domestic product *,%					
World total	3,3	3,3	3,8	4,0	4,1
The European Union	0,2	1,4	1,8	2,0	2,0
Euro zone	-0,5	0,8	1,3	1,7	1,7
USA	2,2	2,1	3,1	3,0	2,9
Russia	1,3	0,2	0,5	1,5	1,8
Developing countries	4,7	4,4	5,0	5,2	5,2
The growth of world trade,%	3,0	3,8	5,0	5,5	5,6
Unemployment rate,%					
Euro zone	11,9	11,6	11,2	10,7	10,2
USA	7,4	6,3	5,9	5,8	5,5
Consumer prices, annual change,%					
Euro zone	1,4	0,5	0,9	1,2	1,4
developed economies	1,4	1,6	1,8	2,0	2,0
Developing countries	5,9	5,5	5,6	5,2	4,9
The growth of oil prices in the dollars, Annual changes,%	-0,9	-1,3	-3,3	-2,0	-2,0

*Source: World Economic Outlook Forum, 2014.*

The revision of the IMF in October 2014 includes the basic movement of interest rates and the movement of crude oil prices (average price of oil type "Brent", "Dubai Fateh" and "West Texas"). For 2014 and 2015 the IMF has predicted interest rates on three-month euro deposits of 0.2% and the interest rates on six-month LIBOR on the dollar deposits of 0.4% in 2014 and 0.7% in 2015. The IMF has forecast reduction of the price of crude oil by 1.3% in 2014 and 3.3% in 2015 (with \$ 102.8 to 99.3 \$).

In November 2014 the European Commission revised growth of economic activity of the EU and euro zone downward in relation to the March projection. In light of these events, the ECB in September 2014 reduced the benchmark interest rate by 0.10 percentage points to 0.05%, confirming its commitment to the policy of quantitative easing initiated by the growth of economic activity in the euro zone. Also, the newly-elected European Commission has prepared an investment plan to revive the economy worth 315 billion Euros.

According to projections of the European Commission, the euro zone economy will stagnate until the end of 2014. The slowdown in economic activity in Europe is the result of lower growth in labor productivity, uncertain performance of the labor market, slower recovery of investment activity and deteriorating foreign trade activity due to tensions in Ukraine and the Middle East. The growth stopped in Germany, prolonged stagnation in France and recession continues in Italy. For Germany, as the largest economy of the euro zone and the main foreign trade partners of the Republic of Serbia in 2014, the European Commission predicts growth of 1.3%. The growth was revised downwards by 0.5 percentage points compared to the spring projections, due to the unfavorable foreign policy situation in Ukraine, the reduction in global demand and falling investment. Economic growth in the period from 2015 until 2017 will be gradual due to sluggish recovery in the labor market, improvements in financial conditions and growth in external demand. For Italy, it is expected to continue contraction in economic activity in 2014 (down from 0.4% of GDP), with very low inflation and high unemployment. A slight recovery is expected in 2015 and 2016 when it is expected that GDP growth will be 0.6% and 1.1%, respectively, due to the stronger recovery in domestic demand and continued growth in net exports due to the increase in external demand. "(MoF, 2015 pp.4-6)

Bearing in mind all these trends at the global level, Serbia has very little room to position itself as a country with serious prospects for attracting investment. The persistent delay of substantial reforms of the public sector (administration, public companies, the completion of privatization, reduction of public sector employees, depolitization, good governance, etc.) aggravates the already delicate position of Serbia, and calls into question our ambition to improve the position in the international competitiveness ranking.

## ***THE CONCEPT OF COUNTRY'S COMPETITIVENESS AND POSITION OF SERBIA***

The competitiveness of a country is a qualitative and quantitative indicator which, among other things, shows the performance of the executive government, which manages key tasks whose quality directly affect the position of the country's competitiveness. Despite a long discussion on this subject there is still no generally accepted definition of national competitiveness, nor fully standardized model of its measurement. Despite these circumstances, various definitions of competitiveness contain certain common elements:

- it is the country's ability to achieve sustained high rates of economic growth, GDP per capita;
- area of economic knowledge that analyzes the facts and policies that affect the ability of countries to create and maintain an environment that supports the successful creation of new values in enterprises and better prosperity of citizens;
- the extent to which a country can, in terms of free trade and fair market conditions, produce goods and services that meet the test of the world market and thereby maintain and increase the real incomes of citizens in the long term;
- the ability of the state to create a favorable environment (institutions and policies) to increase productivity, efficiency and profitability, valued in the world market, so as to ensure long-term economic growth, i.e. long-term rise in real income and welfare standards;
- set of institutions, policies and factors that determine the level of productivity in the country. At the same time, the level of productivity, the sustainable level of prosperity that can be achieved in the economy;
- country's share of production in the world market. (Maksimovic, 2009, pp.86).

Various factors and conditions affect the competitiveness of a country. There are of course macro-economic indicators such as strength of the local currency, the deficit, the level of interest rates, wages, unemployment rates, the eligibility of the workforce and others. Also, natural resources and geographical location affect competitiveness, but only as potential reasons because there are countries with huge resources but poor competitiveness. Of all the factors, the most important is the human potential, in the broadest sense, which affects the level of democracy, the efficiency of the state and most importantly productivity that many authors consider a key indicator of competitiveness. The labor productivity directly determines the amount of national income and standard of living by which is measured the well-being of a society. At this point we must emphasize the fact that national competitiveness is made through the creation of an environment in which most social potential tends to optimum activation including natural conditions which must be managed in a rational, sustainable and efficient manner. Therefore, competitiveness is not something that is given and current now, it is something that creates different social and administrative policies, which are in most cases controlled by national governments.



The determinants of national competitive advantages are:

- Factor conditions: the position of a country in terms of factors of production necessary to compete in certain activities - such as skilled labor and infrastructure.
- The conditions of demand: a type of domestic demand for products or services from specific industries.
- Related and additional activities: the presence or absence of a supply and other related internationally competitive industries in the country.
- Firm strategy, structure and rivalry: conditions in the country which determine how the company is established organized and run as well as the nature of domestic rivalry. (Porter, 2008, pp. 171.)

All these elements affect "solving the enigma" of continued growth and development. The experience of developed countries shows conclusively that the best strategy of growth and development is achieved by raising the competitiveness of the nation state in the international environment. The question is: how can developing countries, which also include Serbia, base their growth and development strategy on improving competitiveness in the broadest sense? How to create an efficient and competitive economy in a country such as Serbia?

In the previous period, Serbia has recorded a growth based on business called 'no exchange sectors' - financial intermediation, trade, transport and telecommunications. These sectors had a utility character, and their products could not be exported, so the overall growth was based on domestic demand. The expansion of this demand could not be reflected in the growth of production which contributed to the increase in the trade deficit and growth of indebtedness. Starting the export-oriented manufacturing (industry, agriculture, tourism) and attracting foreign direct investments (FDI) in these areas is the exit strategy for overcoming our key economic problems. When investing in a national economy, large, global investors are sure to take into account the level of competitiveness of the country in which they invest. Therefore, the index of global competitiveness is of major importance for each country and raising its level directly leads to increased levels of foreign direct investment.

Given the current economic situation in Serbia and the development trends, the question is what the basic points on which we can build our competitive strategy perspective are, but also we should bear in mind the risks and weaknesses that will hinder our growth on a scale of competitiveness. A simplified matrix SWOT analysis shows the current perspective of Serbia when it comes to its economic position in the international community.

Table 3: SWOT analysis

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>• Good geographic position</li> <li>• Cultivable land</li> <li>• Cheap and relatively educated workforce</li> <li>• Foreign exchange remittances of the diaspora</li> <li>• New companies</li> </ul> <p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> <li>• Restructured economy</li> <li>• The large public debt</li> <li>• Macroeconomic instability</li> <li>• The bureaucracy, complicated and unclear laws</li> <li>• Inefficient public sector and losses of public enterprises</li> <li>• Lack of economic freedom</li> </ul>	<ul style="list-style-type: none"> <li>• Environmentally healthy food</li> <li>• Renewable clean energy</li> <li>• Preferential status in exports to Russia</li> <li>• Reserves workforce</li> </ul> <p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> <li>• Extension of the global economic crisis</li> <li>• Energy prices</li> <li>• Strong negative impact of these policies, political instability in Serbia</li> <li>• Regional political instability</li> </ul>

Even a superficial look at the table above may indicate the direction and guidance of the future strategy of fixing competitiveness and areas of activity in order to achieve the objectives of sound economic policies and effective involvement of the international community and its economy. Serbia Competitiveness Strategy has to be based on four key pillars:

- Macroeconomic management that achieves the objectives in terms of growth rates, inflation, employment, exchange rates, balance of payments. Its role is to provide a macroeconomic framework and conditions for the achievement of key performance of the economic system.
- Microeconomic Management includes targets in relation to the business environment, entrepreneurship, attracting FDI, accumulative economy and similar.
- Institutions and laws include targets for specific solutions when it comes to consumer and environmental standards, the duration of the bankruptcy, the role and character of the capital market, efficiency and regulation of the financial system.
- Business ethics, value system and transparency in operations, the level of monopolization of the economy and similar.

In order for the strategy to have enforceability and connection with practice and reality what is necessary are essential and strategic initiatives that have to go towards achieving several goals at once (for example, the use of renewable energy sources). In addition to the strategic initiatives, it is necessary to also encourage conventional (restructure of public enterprises, infrastructure, development of technology parks) and unconventional initiatives (public-private partnerships, cluster development, creation of funds for the development of competitiveness). At this point it is particularly important to emphasize the role of the capital market whose level of development and diversification essentially dictates the character of the strategy and its intensity.

Competitive position of Serbia becomes clearer when we look at its current position in the ranking of competitiveness, especially in relation to the region or the country from our immediate environment.

*Table 4: Ranking of countries according to the Global Competitiveness Index (2007-2014).*

	Albania	BIH	Croatia	Greece	Hungary	Macedonia	Monte Negro	Romania	Serbia	Slovakia	Slovenia
2007	109	106	57	65	47	94	82	74	91	41	39
2008	108	107	61	67	62	89	65	68	85	46	42
2009	96	109	72	71	58	84	62	64	93	47	37
2010	88	102	77	83	52	79	49	67	96	60	45
2011	78	100	76	90	48	79	60	77	95	69	57
2012	89	88	81	96	60	80	72	78	95	71	56
2013	95	87	75	91	63	73	67	76	101	78	62
2014	97	n.a.	77	81	60	63	67	59	94	75	70

*Source: WEF (world economic forum) Outlook, 2014.*

In the Global Competitiveness Report for 2014 we are at the 94th place out of 144 countries, which can be seen in Table 3. Particularly worrying is the fact that in that position we have been virtually stagnating for the fifth year in a row, which means the relative decline in comparison to the countries that are climbing the ladder of competitiveness. Particularly alarming are differences in relation to the countries of former Yugoslavia: Montenegro, Macedonia and Croatia, which shows us that we have done little work on the question of competitiveness when compared to them. Romania registered a significant jump compared to 2013 primarily due to the persistence in the reforms whose effects have not been seen for a long time and only in the past few years have gained value. The business environment in Romania has been significantly improved, and the infrastructure too, which positions this country even in front of the traditionally "advanced" Slovenia.

When it comes to the global environment, the following series of images convincingly shows us "where our current location is", who is in the company of the best ones, and who is at the end of the line...

*Table 5: The company of "the best"*

Country	Rank (out of 144)	Score (1-7)	Rank among 2013-2014 economies	GCI 2013-2014 rank (out of 148)
Switzerland	1	5.70	1	1
Singapore	2	5.65	2	2
United States	3	5.54	3	5
Finland	4	5.50	4	3
Germany	5	5.49	5	4
Japan	6	5.47	6	9
Hong Kong	7	5.46	7	7
Netherlands	8	5.45	8	8
United Kingdom	9	5.41	9	10
Sweden	10	5.41	10	6

*Source: WEF Outlook, 2014.*

The most successful are the richest, or vice versa, it does not matter. Without any doubt, a group of European economic and democratic developed countries, the United States and a group of Asian "tigers" are at the forefront of this column. The reasons lie in the fact that all these countries have a significant level of development of democratic institutions, infrastructure, education, science and sophisticated technological equipment of all major institutions and systems.

On the end of the global competitiveness list are countries such as Burkina Faso, Angola, Sierra Leone, Chad and Guinea - the poorest countries of the planet, mainly in Africa, ruled by dictatorial regimes or unstable governments. These are countries that have been shaken by the civil, religious, tribal and ethnic conflicts, in which have the constitution of states, institutions and order have not been completed until the end. These former colonies have big problems with poor health care, low education levels, undeveloped infrastructure and hunger due to climate conditions and extensive agriculture. Their technological development is still in its infancy and it takes many years and investments to reach the minimum level necessary for serious economic growth. In parallel with this, they also require huge investments in education, health, agriculture and infrastructure. However, most of these countries have a lot of untapped potential in both the natural resources and the labor force, which under certain circumstances can become a competitive advantage. Huge investments in Africa done by China can be a powerful impetus for the development of the African continent in the near future.

*Table 6: "The company" from the end of the line*

Country	Rank (out of 144)	Score (1-7)	Rank among 2013-2014 economies	GCI 2013-2014 rank (out of 148)
Burkina Faso	135	3.21	134	140
Timor-Leste	136	3.17	135	138
Haiti	137	3.14	136	138
Sierra Leone	138	3.10	137	144
Burundi	139	3.09	138	146
Angola	140	3.04	139	142
Mauritania	141	3.00	140	141
Yemen	142	2.96	141	145
Chad	143	2.85	142	148
Guinea	144	2.79	143	147

*Source: WEF Outlook, 2014.*

And just a little ahead of "the company" from the end of the line is Serbian "company"...

Table 7: "The company" of Serbia

Country	Rank (out of 144)	Score (1-7)	Rank among 2013-2014 economies	GCI 2013-2014 rank (out of 148)
Trinidad and Tobago	89	3.95	89	92
Kenya	90	3.93	90	96
Tajikistan	91	3.93	n/a	n/a
Seychelles	92	3.91	91	80
Lao PDR	93	3.91	92	81
Serbia	94	3.90	93	101
Cabodia	95	3.89	94	88
Zambia	96	3.86	95	93
Albania	97	3.84	96	95
Mongolia	98	3.83	97	107
Nicaragua	99	3.82	98	99
Honduras	100	3.82	99	111
Dominican Republic	101	3.82	100	105

Source: WEF Outlook, 2014.

Regardless of the fact that the titles of these images contain a certain amount of irony, the position of Serbia seen from the displayed image is at this point our reality. Thanks to Albania, Serbia would not be alone in the environment of these underdeveloped countries in Africa, Asia and South America. This picture speaks mostly in favor of the pressing need to urgently "abandon" this „company“ and join the group of European countries in which we belong geographically, culturally and in every other way.

Table 8: Value IGK the pillars of competitiveness (2012-2014).

	2012	Changes	2013	Changes	2014
1. Institutions	3,16	↗	3,20	↗	3,21
2. Infrastructure	3,78	↘	3,51	↗	3,93
3. Macro-economic environment	3,91	↘	3,36	↗	3,51
4. Health and primary education	5,73	↗	5,75	↗	5,76
5. Higher education and training	3,97	↗	4,05	↗	4,25
6. Goods market efficiency	3,57	↗	3,64	↗	3,78
7. Labor market efficiency	4,04	↘	3,90	↘	3,73
8. The sophistication of financial markets	3,68	↘	3,48	↗	3,50
9. Technological competence	4,10	↘	3,94	↗	4,45
10. Market Size	3,64	↗	3,68	→	3,68
11. The successful functioning	3,11	↗	3,18	↗	3,21
12. Innovation	2,81	↗	2,85	↗	2,89

Source: WEF

If we analyze the key factors of competitiveness we will also notice that we are terribly behind in terms of development of institutions, macroeconomic stability, infrastructure, efficiency, business sophistication and efficiency of the labor market. Conditionally, the only bright spot in this presentation is the basic education and health care. Especially worrying is a continuing decline in the

efficiency of the labor market which in this report has the only negative change in 2014. The problems of the labor market have already been discussed, and here we will point out another negative feature of the labor force that is reflected in its poor mobility and flexibility. The fact that each season we are missing a huge number of workers for jobs in agriculture unequivocally confirms this bad trait.

Next image more vividly indicates in which direction our competitiveness strategy has to go. So, it is clear that our institutions are undeveloped, that we lack the business environment, innovation and infrastructure. The initiatives that are mentioned in this presentation have to go in this direction. Despite the growth in the value of the IGC in the area of infrastructure, it must be noted that it is still at fairly low level and that its improvement is needed, and that for individual projects maybe decades of investment will be needed (especially when it comes to rail and river infrastructure). Humble results from the macroeconomic domain are supplemented by the substantial progress on the pole of competitiveness that measures technical competence of the country, and where the most important are advances achieved in the development of networks for the provision of mobile telephony and the Internet. The result of this progress is the increasing availability of mobile and Internet communication in relation to the previous report of the World Economic Forum.

“On the basis of spreadsheets and graphics, it can be visually concluded that the decline is noted only in the step 7, Labor market efficiency. Significant growth was achieved in five segments in columns 2, 3, 5, 6 and 9 respectively, and they are about infrastructure, macro-economic environment, higher education and training, goods market efficiency and technological competence.

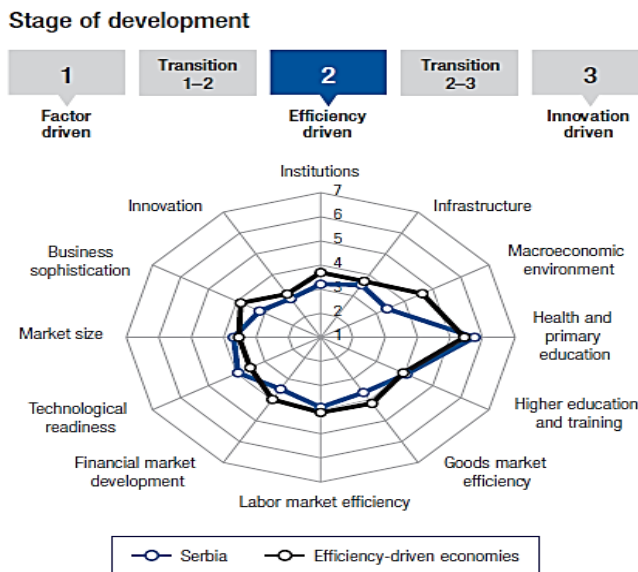


Figure 1: The value of the IGC pillars of competitiveness (2013-2014)

Source: WEF Outlook, 2014.

On the other pillars that we have not mentioned changes can be considered minor, so their influence on the change in the total value of the IGC this year is also minor. Improvement in the pillar for the higher education and training was largely due to a higher rate of enrollment in higher education institutions but also to greater access to the Internet in schools. When it comes to the efficiency of markets for goods out of the 16 indicators only one has remained unchanged compared to the previous year, while the growth was recorded in 10 indicators, which was enough to compensate for slightly lower grades in the other 5 elements. Changes, regardless of the direction, are mostly of incremental type but as a more significant progress can be noted improvement in perceptions regarding the intensity of local competition, the effectiveness of the Anti-Monopoly Commission and the level of trade barriers. The growth achieved within the pillars which measured the impact of the macroeconomic environment on business owes only to the increase of national savings measured in percentage of GDP and a slightly smaller fiscal deficit in 2013 compared to the year 2012. As the value of the pillars of macroeconomic environment is formed on the basis of the data from the previous year, we can now say with great certainty that in the coming inflation report which has been recorded from the beginning of 2014 will have the positive impact on the value of the pillar while the increase in the budget deficit and public debt will have the negative effect on the final assessment "(Tanaskovic, Ristic, 2014, pp.5).

*Table 9: Summary of recommendations to decision makers*

WHAT ARE THE OBSTACLES FOR INVESTORS	WHAT ARE THE ADVANTAGES FOR INVESTMENT	WHAT TO DO
Administrative procedures	An educated and relatively cheap labor force	Transparency and reduction procedures for the taxes, customs and foreign exchange operations.
Exchange rate instability	Solid technological culture	Reform the public sector and the depolitization of society
Unreformed public sector	Free export to the SEE countries, Russia, Belarus and Turkey	Stabilize energy prices through tax changes.
Poor transport links and infrastructure	Good geographical position	Fix releases and equality of treatment of tenders, auction and calls for strategic partnerships.
The existence of monopolistic structures	Low energy prices	Improve legal solutions for the application of the law on concessions and application of models of private-public partnerships.
Unfinished privatization	Subsidies	Decentralize authority and transferred ownership to the local level
Corruption	IT infrastructure	Reduce taxes and contributions.

*Source: Ilic, 2014, pp. 206.*

It is clear that economic policy makers are faced with many challenges. Incomplete legal framework for attracting investors and poor professional capacity of institutions for designing and implementing policies for attracting foreign investments worsen the situation in the crisis conditions in which the logic of

capital is different. It is necessary to quickly redefine the policy of attracting investments and largely involve all the potential, in particular to activate the role of local governments in a way that we will enable mechanisms (legal and financial) to take some responsibility in this process. In the following table there is a systematization of obstacles, opportunities and activities that have to be undertaken in order to improve the business climate and attract foreign direct investments.

In Serbia, in the first six months of 2015 there was only about 130 million euros of direct foreign investments which is absolutely insufficient and is an indicator not only of the global recession and economic crisis, but also of our chronically poor competitive position and still "hostile" business environment.

By the end of this year, the Government of the Republic of Serbia must urgently prepare programs and legislative amendments to overcome most of the limitations that face investors in Serbia. Otherwise, our stagnation and relative decline in the global rankings of competitiveness will continue in 2015. Of particular importance in the coming period will be announced reform of public enterprises and the ultimate completion of the privatization of social enterprises. Public enterprises in Serbia (there are over 560 of them) generate huge losses and employ a large number of so-called latent redundancies. Their restructuring and professional management will lead to a significant number of people who are threatened by job loss. It is mainly about the staff employed by a party who makes a significant part of each party structure and the process of rationalization of public companies due to such circumstances can effectuate in dismissal of professionals in these systems. If so, it may happen that a "rationalization" of employees in public enterprises brings into question the functioning of these important systems. For these reasons, this work must be approached to extremely seriously and professionally. In the portfolio of the Privatization Agency remained a little over five hundred state and public companies which have a small amount of time to find a strategic partner or to go into bankruptcy and liquidation. These processes will result in about 50 thousand workers losing their jobs. This will result in additional pressure on the labor market and social funds, which are quite exhausted as it is. However, this process must be completed and we must clear up the remains of "social" capital and economic concept that it stands for once and for all.

## ***CONCLUSION***

In times of economic crisis, when Serbia does not have sufficient resources, technologies, and at the same time it is exposed to the consequences of its own mistakes, wanderings and unrelenting competition on the world market, Serbia must seek exit in persistent and patient creation of environment for attracting investments and economic growth. The role of the Serbian Government cannot be replaced by any other institution. It must not hesitate to enter into the implementation of the strategy to raise competitiveness of Serbia.



The most important recommendations for improving the competitiveness of Serbia is related to the improvement of the factor conditions, infrastructure and institutions. Already shown weaknesses in these two segments have been pushing us to the very bottom of Europe. The responsibility for this trend lies in the state, or more precisely in the government. In terms of education and health, it is necessary to include all institutions in this area and together with them to implement competitive strategy. The development of capital markets and the financial system is the job of the Government and financial institutions, the banking system and the NBS.

Another important recommendation is to create an environment that fosters rivalry and competition among companies, in order to prevent the monopolization of the domestic market. Measures to regulate the market for goods and services, competition policies are also under the jurisdiction of the Government. It must take this opportunity to point out the weaknesses in the business sector, which are manifested especially in the field of innovation, creativity, courage and entrepreneurial spirit. And, of course, not to forget the knowledge without which there is no competition. The strategy of growth and development that is based on the "knowledge economy", the openness of markets, attracting investment and efficient administration based on the principles of good governance will create a competitive economy with an attractive business environment.

From what has been displayed so far it is completely clear that the level of competitiveness of Serbia shows the extent to which the door to international markets is open for us, and vice versa the extent to which we opened the door to investors, new ideas and technologies of the future.

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# **MAJOR PROBLEMS OF CONTEMPORARY SERBIAN ECONOMY THROUGH THE PRISM OF METHODOLOGY FOR EVALUATING COMPETITIVENESS**

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## **ABSTRACT**

*The subject of this paper is to identify the main problems of modern Serbian economy, which can be briefly defined as slower economic growth and long-term economic development difficulties. This is unsatisfactory not only viewed in a global, but in a regional context as well. The problems we mentioned are most concretely manifested by high unemployment and current account balance problems (deficit and increase external debt). The solution can be seen in the growth of investment and exports. The main prerequisite for starting investment cycle and build an export-oriented economy is improving competitiveness. The aim of this article is to point out the main problems of competitiveness of modern Serbian economy, taking into account the methodology for evaluating the competitiveness of the World Bank and the World Economic Forum. For assessing this problem, was used rank correlation analysis of development and competitiveness of economy, as well as descriptions of the current methodology applied in the report "Doing Business" and "The Global Competitiveness Report". In this way, a significant link between development and competitiveness is found, and the main problems of modern Serbian economy are identified through the prism of a methodology for evaluating competitiveness. The concrete elements are featured which nowadays threaten the competitiveness of Serbian economy the most. In this way, precisely and specifically, is indicated to all economic subjects, especially makers of the economic system and policy makers on important issues whose resolution in the most effective way accelerates the growth and development of the Serbian economy, and in terms of methodology for evaluating the competitiveness of the World Bank and the World Economic Forum.*

**Key words:** Competitiveness, Development, Growth, World Bank, World Economic Forum

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## ***INTRODUCTION***

In the context of the global economic crisis Serbian economy in recent years there has been an unsatisfactory annual growth rate of GDP. The most important macroeconomic indicator, according to the World Bank, has for 2010, 2011, 2012 and 2013, the value of 0.6%; 1.4%; -1.0% and 2.6% respectively. As you can see, the entire medium period was achieved average annual growth rate of less than one percent (0.9%).

Determination of the degree of development of an economy is very complex, primarily due to the definition of the term and the answer to the question: What exactly is the economic development? Obviously the answer to this question is very complicated, and that there is no unambiguous and generally accepted answers that would be given once and for all. Certainly, this definition could include the provision of material conditions of life for all citizens above the subsistence level, the realization of the nation's self-esteem, as well as enabling individual freedom in the broadest sense.

For a number of definitions, we will sort over as essential components that represent the very essence of droughts process of economic development and new basis for its quantification despite the growth of GDP per capita, changes in economic structure, improving distribution, standard growth and economic stability.

On this point we can only conclude at first glance that the citizens of Serbia certainly can't be satisfied with the achieved in this aspect, which certainly causes and political instability since in the period in 2010-2013 existed three governments with three different prime ministers.

All these listed macroeconomic problem in the current social life in Serbia in the most concrete way are manifested in the high unemployment rate, current account balance deficit and increase external debt, as well as unsustainable central government debt. As an illustration, we use the data of the World Bank (further referred as WB).

We found that the first actual problem of Serbia in social, political, and economic terms and then, the high unemployment rate, which for 2010, 2011, 2012 and 2013 respectively 19.2%; 23.0%; 23.9% and 22.2%. Such a high unemployment rate, an average of 22.3% for the current socio-political status in Serbia is very cumbersome.

Current account balance deficit is a chronic problem of the Serbian economy and amounts for 2010, 2011, 2012 and 2013 respectively -2.550; -3.843; -4.701 - 2.790 Billion and \$ at the current exchange rate. Its average size for the period in the amount of \$ -3.469 billion annually, represents a serious burden that is increasingly difficult to cover the additional borrowing abroad.

This is because the debt has its limits. The total external debt of Serbia was observed in the medium-term period after 2010 - \$ 32,935 billion at current exchange rate, then in 2011 a little less - 31,724; followed by expansion in 2012 and 2013: 34,444 and 36,397 billion. Average debt balance amounted annually nearly \$ 34 billion (33,875) in the reporting period. When this indicator is most certainly a cumulative

level of last year, which is observed, as we have seen, nearly \$ 36,5 billion. It is about 80% the size of the annual gross domestic product of Serbia.

Addition to this, in recent years there is a central government debt problem, especially in the context of the negotiations of the Serbian government with the International Monetary Fund about "stand by" arrangement. One of the basic conditions for the conclusion of these agreements, which represent a credit for potential foreign investors is the amount of the central government debt below 3% of GDP, but in our case it is for 2010 -3.3%, 2011 - 3.9%, 2012-5. 4% and 2013% - 4.5, i.e. pro cut for the observed period -4.3%.

All the above-mentioned parameters affect the insufficient interest from foreign investors. All the Serbian governments identify foreign direct investment as one of the most important elements of economic development that would bring the country of producing growth, exports and employment through the provision of new technologies and opening new markets. Steps are a number of measures to subsidize these investments, and provide several benefits them, however, the results are very modest. These investments were in 2010 1,340 billion dollars at the current exchange rate, 2011 - 2.7, 2012 to 1.186 and 2013 to 1.974. On average, it amounts to almost two billion annually (1.8) which is certainly not enough to revitalize the Serbian economy and above all necessary to increase exports.

Actual export of Serbia is completely inadequate for solving the above-mentioned cumulated economic difficulties. It is in% of GDP in 2010 to -32.9; in 2011 - 34.0; in 2012 to 36.9 and 2013 to 40.8. It is not enough for a small and open economy, and certainly unsatisfactory when taking into account the comparable economy.

The question is: How to improve investment and exports? In the still prevailing neoliberal thinking, the only way is to improve the competitiveness of the national economy. In the presentations that follows, we will explain the main current methodology for estimating the parameters of competition, and consequently, the answer to the question about the main problems of modern Serbian economy.

## ***THEORETICAL BASIS***

In the context of our research two major topics are economic development and competitiveness of the national economy, as well as their mutual relations. Considering competitiveness of national economy has its main reason for existence.

If we want to look at the achieved level of development of an economy in the simplest way, traditionally starts with the gross domestic product per capita. This indicator is calculated according to the methodology of WB, so that the total GDP divided by number of inhabitants of the country situation that existed in the mid of the year when realized. Gross domestic product is calculated by the method of the gross value added of all economic entities in the territory of the country, including all taxes and excluding subsidies. The calculation is done without deducting depreciation of fixed assets and costs of depletion of natural resources and environmental degradation.

In the world of science competitiveness of national economies is a category of more recent date. It was the last decades of the twentieth century, with the strong momentum of science and the development of the global market, aggravated, as never before, the issues of competitiveness, (Hamel, 1994, pp. 29-30) not only at the micro, but, as recent phenomenon, competitiveness at the macro level.

"The Global Competitiveness Report" by the World Economic Forum (WEF hereinafter) and "Doing Business" WB, include a range of indicators, developed methodology and provide the most complete picture of the competitiveness of almost all national economies, and, as such, are recommended for consideration to all investors in the world, as well as officials who are engaged in improving the competitiveness of national economies.

Report of WEF is more theoretically-founded and gives a broad picture of the macroeconomic aspects of competitiveness and it is very convenient for laborers who are engaged in improvement of the economic system, and the creation of sector policies in each country. On the other hand, the WB report deals with the concrete conditions of business which is valuable to entrepreneurs when they decide to locate investments. Both reports, taken together, complete the picture of the state of each national economy with regard to its ability to increase exports and attracting investors.

The methodological framework of regular annual report "Doing Business", published by WB are mainly concerned with administrative and legal and financial conditions. They are relatively dynamic and can be changed in a relatively short period of time. The starting point of this methodology is based on private business (entrepreneurship) as the main engine of the economy and a liberal conception that advocates active, but a neutral role in the economy of the state bureaucracy.

The philosophy is based on the fact that, firstly, the role of the state in the economy is very important in terms of establishing the so-called, the rule of law, meaning the rule of law, i.e. meaningful and stable legal standards that will be effectively implemented in practice, which means, expeditious and non-discriminatory. In this way, the state would be the guarantor of a stable and orderly economic milieu in which it could be developed free competition of economic entities. Activity of state is valued by the efforts that it directs its actions strongly in this direction and, thus, actively promotes the economic growth and development.

On the other hand, to its engagement should be as neutral as possible in the sense that the aforementioned rule of law is not privileged in any way. Specifically, the general approach and in the methodology of the report "Doing Business", the starting point is implicit from this neutral role of the state.

Of course, that contemporary state of the economy must have a corresponding "guiding" role in economic development, but it is not considered here. The selection of indicators is designed so that they are mainly those parameters of state action, which basically should be largely neutral, while, for example, state subsidies and similar measures, which by liberal philosophy WB anyway should be avoided at all and are not subject to this reporting. Thus, one could conclude that this report assesses and monitors primarily state regulatory component of the

competitiveness of the national economy. The economy is competitive, if it is in terms of state regulations the company easier to do business.

This report WB can be very useful when evaluating the competitiveness of an economy, both in statics (compared with other economies), and in the dynamics (assessing development trends in competitiveness). In any case, the report "Doing Business" covering over 180 countries, is suitable for the study of the competitiveness of the national economy, i.e. is useful in assessing how an economic system stimulant for business and how stimulating effect on domestic entrepreneurs, as well as to attract foreign investors.

The main methodological framework for assessing the competitiveness of this aspect, it makes these 10 indicators, starting from 2012, as follows:

1. Starting a Business;
2. Dealing with Construction Permits;
3. Getting Electricity;
4. Registering Property;
5. Getting Credit;
6. Protecting Minority Investors;
7. Paying Taxes;
8. Trading Across Borders;
9. Enforcing Contracts;
10. Resolving Insolvency.

Each of these criteria can be treated in three ways (Đerić, 2013, pp. 55). Specifically, each listed item is discussed in terms of how long it takes, on average, from the commencement to the completion of the administrative procedure, then, how the procedure is complicated, of how phase consists, at the very least, what is the amount of duties and general overall costs for the rest one of the following procedures.

The value of this research is great since it is based on facts that are collected on a standardized methodology in all countries, and the comparison of results is authentic. Research is, otherwise, based on a hypothetical case of small companies with pre-defined legal status, size, location and type of activity. Consideration of all 10 indicators which, according to all three of these aspects, assessed through standardized parameters. This is done by 7000 local experts in the field who are experts listed 10 areas (lawyers, accountants, architects, government officials, consultants, etc ....) which provide specific factual information for each area of research.

The whole concept of WB is essentially liberal, and indicators that are treated in the report actually treat the ease of entry and exit in a particular market (establishment and closure of enterprises, licenses ..), and legal security of private property (property registration and protection of investors).

The ease of entry and exit from the market, i.e. the existence of barriers in this regard, as a basic prerequisite of market efficiency is reflected in the analysis: the establishment of companies (1), licensing (2), registering property (4), investor protection (6), paying taxes (7), and finally closing a business (10), and the development of financial markets through obtaining loans (5).

Regarding the efficiency of markets for goods and services for market efficiency are the most important indicators: electricity generation (3), the ability to trade with other countries (8) and contract compliance (9).

All of these indicators at the end of synthesized into one that quantifies so. Ease of doing business, and it was ranked the world economy in regular annual reports.

On the other hand, the report on competitiveness in the world, WEF with its comprehensiveness, both in terms of number of countries, and a number of indicators, giving a complete analysis of the competitiveness of each observed economy, both in absolute terms, by the value of indicators, but also relative, allowing comparison with other countries.

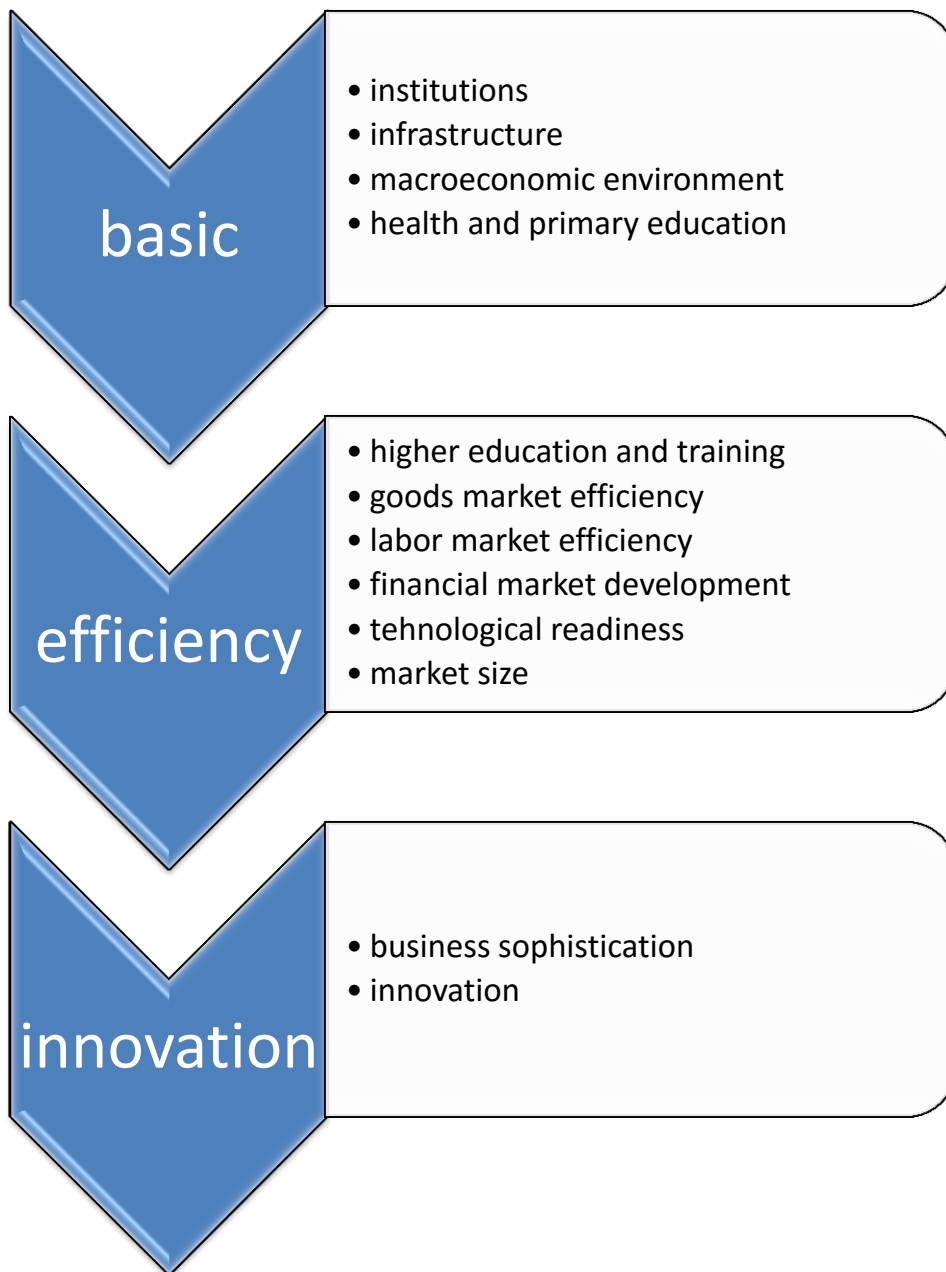
After the value of the Global Competitiveness Index (hereinafter GCI), as well as the individual elements of competitiveness, it provides a detailed analysis and conclusions which should be the basis for taking corrective measures by economic operators in each of the surveyed countries. In addition, monitoring the values of the indicators from year to year, it is in general, as well as of the individual elements, follow the development trend of competitiveness of an economy in absolute and relative terms. In this way, quite reliably, can draw conclusions about the state of and prospects for Economy for every country, and can determine the basic shortcomings of the economic system and development and economic policy and access to the necessary corrections.

The basis for the preparation of the Report makes standardized survey, which each year includes an increasing number of representative companies in each national economy. On that occasion, company executives, according to most indicators, assess economic conditions ranging from 1 (worst) to 7 (best).

This approach is very important because when calculating the GCI data from the survey account for approximately 60%. This ensures a high degree of objectivity and, to a large extent, prevents the influence of political factors, which would certainly have an interest to show the state of competitiveness of "their" economy better than it was indeed in practice. Also, this brings us back to the already mentioned hypothesis that competitiveness of an economy's exactly what it provides economic operators who operate within it.

Given that evaluates the competitiveness of the national economy as a whole, in calculating the GCI, in addition to the aforementioned primary sources must be used, and secondary, official sources of information that can't be obtained in the manner described by interviewing managers of the economy. These are primarily various statistical data such as, for example, the number of installed computers and internet connections, phone lines, data on education and health, monetary and fiscal data, GDP, demographics, .. etc.

By combining these data were constructed 12 pillars of competitiveness, which can be grouped into three sections, and all together, make a synthetic GCI.



*Figure 1: Factors and pillars of competitiveness*

*Source: Schwab, 2010, pp. 9*

This methodology is based on a basic division of developmental stages of each economy, the beginner, intermediate and advanced.



According to the initial setting, which definitely can be accepted because in practice it has been verified in most cases, developing countries for their chance to escape from poverty based on a basic requirements.

In the second development phase economic growth must be based on efficiency enhancers, considering that in this situation, economic growth can no longer be based on the increased quantum of engagement basic factors of production, but in all their efficient use. Economic efficiency, according to this conception, the central developmental stage can raise through the improvement of the aforementioned pillars of competitiveness to which the efficiency of analytical decomposed.

It is worth noting that the share of these pillars of competitiveness estimated at as much as 50% in creating the overall competitiveness of the national economy in the middle phase of development (Schwab, 2010, pp. 23) and what is most important, is identical to participate and for developed countries. Therefore, to improve the competitiveness of any economy that has left circle of underdeveloped, being highly significant aforementioned pillars of competitiveness that determine the economic efficiency.

The competitiveness of the most developed countries, according to this methodology, is based mainly on business sophistication and innovation to the process.

Professor Sala-i-Martin was constructed at the beginning of this century global competitiveness index GCI (Global Competitiveness Index) which connects the micro and macroeconomic factors of competitiveness, and that is adopted and used WEF since 2005 in it's the Global Competitiveness Report.

In this report, national competitiveness is defined as "*... a set of institutions, policies and factors that determine the productivity of a country.*" (Schwab, 2010, pp. 4)

As already stated, competitiveness is assessed by considering the 12 pillars of competitiveness.

- 1) Institutions - represent the first and one of the most important pillars of global competitiveness of each national economy, in addition to developed ones.

It is estimated that in the basic conditions of competitiveness of an economy Institutions affect equally with the other three pillars, means 25%.

The primary impact of the Public institutions. Thus, the structure of this column represent those with three-quarters, while the rest are Private institutions.

- 2) Infrastructure - This column represents the basic material precondition of economic development and business conditions, similar to what it represents in the previous stub "immaterial" sense.

In its framework to monitor and evaluate the two large and equally important groups of factors: Transport infrastructure on the one hand and Energy and telephony on the other.

- 3) Macroeconomic Environment - This column is decomposed for a more detailed assessment of the six indicators.
  - 1 The government budget balance;
  2. The national savings rate;
  3. Inflation;
  4. The interest rate spread;
  5. Government debt;
  6. Country credit rating.
- 4) Health and primary education - Both elements concerning the most important production facts- workforce, and have equal importance.
- 5) Higher education and training - This, the fifth pillar of competitiveness, affects strengthening efficiency of 17%, as is said for the others in this group. Pillar consists of three equal elements with equal importance, namely:
  1. The quantity of education;
  2. The quality of education;
  3. Business training.
- 6) Goods market efficiency - According to this methodological approach this pillar consists of two great entities, competition on the supply side, on the one hand, and the quality of demand, on the other hand. It is estimated that domestic competition and foreign competition, even two-thirds, affect the efficiency of markets for goods, while demand quality has a significant, but less impact.
- 7) The efficiency of the labor market - Methodological this pillar of competitiveness is viewed through Flexibility of labor market and Development of talents which have equal contribution.
- 8) Financial market development - This pillar of competitiveness is decomposed monitored through the following indicators:
  1. Availability of financial services;
  2. Affordability of financial services;
  3. Financing through local equity market;
  4. Ease to access loans;
  5. Venture capital availability;
  6. Soundness of banks;
  7. Regulation of securities exchanges;
  8. Legal rights index.
- 9) Technological readiness - This pillar of competitiveness is monitored and quantified using the following indicators:
  1. Availability of latest technology;
  2. Firm-level technology absorption;
  3. FDI and technology transfer;
  4. Individual using Internet, %;
  5. Fixed broadband Internet subscriptions/100 pop;
  6. International Internet bandwidth, kb/s per user;
  7. Mobile broadband subscriptions/100 pop. (Followed by the Report 2012-13.)

10) Market size - is viewed through the following indicators:

1. Domestic market size index;
2. Foreign market size index;
3. GDP (PPP\$ billions); (Followed by the Report 2013-14.)
4. Exports as a percentage of GDP. (Followed by the Report 2013-14.)

11) Business sophistication - Business sophistication of a country is measured as follows:

1. Local supplier quantity;
2. Local supplier quality ;
3. State of cluster development;
4. Nature of competitive advantage;
5. Value chain breadth;
6. Control of international distribution;
7. Product process sophistication;
8. Extent of marketing;
9. Willingness to delegate authority.

Otherwise, the value of this and the following pillars of competitiveness Factor is at 50%.

12) Innovation - This pillar of competitiveness analytically is observed and measured by the following indicators:

1. Capacity for innovation;
2. Quality of scientific research institutions;
3. Company standing on research and development;
4. University-industry collaboration in research and development;
5. Government procurement of advanced tech products;
6. Availability of scientists and engineers;
7. PCT patents applications/million pop.

We must point out that of 114 indicators that the ultimate level of decomposition pillars of competitiveness monitored by the World Economic Forum, 6 is taken from the Doing Business report, which confirms our assessment that the WB report on competitiveness is largely integrated in the Global Competitiveness Report. These are the following indicators:

1. Protection of minority shareholders' interests;
2. Total tax rate (% of profits);
3. Number procedures to start a business;
4. Number days to start a business.;
5. Redundancy costs weeks of salary;
6. Index of legal rights (debtors and creditors).

We can indeed conclude that the WEF report is the most complete overview of the competitiveness of the world economy, because it includes the biggest part of the problem of the second most authoritative sources. As we have seen, about half showed indicators from the WB report found directly downloaded in the report on competitiveness in the world, while some others also treat from our own research and

other sources, for example, employing workers, getting credit and ease trade with foreign countries. So we can summarize that the WEF report largely truly treat and ease of doing business as an element of a lot broader concept of competitiveness of modern world economy. No other methodology for assessing and monitoring the competitiveness of the modern world economy does not use such a large number of indicators and there is so elaborate and transparent methodology.

## ***CONNECTION OF COMPETITIVENESS AND DEVELOPMENT AND PLACE OF SERBIAN IN GLOBAL AND REGIONAL FRAMEWORK***

### ***LINE: COMPETITIVENESS – DEVELOPMENT***

Because of this we are studying the relationship between competitiveness and development of the national economy and it is defined that our starting point will be WEF reports dealing with the global competitiveness of the world economy. As a basic methodological approach to assess the competitiveness we choose GCI.

Also, regardless of all the above said about economic development for our purposes of analysis one representative indicator of development is necessary. It was certainly hard to find it, especially as it must meet certain requirements and methodological correctness, as it is primarily the availability of all the countries covered by the ranking of competitiveness by the WEF. So, if we want only one indicator of economic development, which would result in connection with GCI individual national economies, it is best, especially because of the availability of data and analytical values, given that we choose only one indicator that we opt for the traditional gross domestic product per capita Population (GDP pc). We are aware of its shortcomings, the most important are the following: it is a nominal, not real sizes, that there are difficulties in calculating rates and does not take into account purchasing power, does not reflect the structure of the economy, not showing the distribution, etc.

Regarding the methodological correctness, we decided to select this indicator to use of those same reports on the competitiveness of the World Economic Forum in which we use the information about GCI. This way we started, not only because of the availability of data, but also because many above mentioned shortcomings of this indicator in our approach does not come into play, i.e. it does not affect the accuracy of the conclusions. For example, we follow the rankings of economies in several successive reports that totally eliminate the need for a more realistic indicator of the dynamics of economic development. In general, the study of both phenomena, competitiveness and development has a practical sense only in mutual comparison of national economies. That is to say there is not some theoretical absolute maximum competitiveness or development which can weigh. The only meaning is to improve the position in relation to the other.

In this way we will in the most objective and methodologically correct way try to observe the relationship between development and competitiveness on the global level as it is presented in seven last reports. So, we begin the analysis of the Report on Global Competitiveness 2008-2009, and end up with the Report of 2014-2015. Note that in each report data on GDP per capita at current prices in US \$, compared to previous years. However, this does not affect the objectivity of research, given that the study takes a seven-year period. Also, the results can be considered quite reliable given that the report covers more than one hundred major economies, and that the coverage of approximately the same in all reports, no major fluctuations.

In the study of the links between competitiveness and development of the world economy we will use correlation analysis. Given that countries ranked by both characteristics, and that is more important than the rank value characteristics, we chose a rank correlation. Since we consider two features, it is common to use Spearman correlation coefficient. (Kvrđić, 2013, pp. 161)

$$rs = 1 - \frac{6 \sum_{i=1}^N d_i^2}{N(N^2 - 1)}$$

Here  $d$  is the difference between the sequence of rank  $i$ -th element in relation to the characteristics of  $X$  and  $Y$ , and  $N$  is the number of elements.

In the initial report on global competitiveness 2008-2009 includes 134 countries. In each of these statements correlation rank of countries is calculated by development and competitiveness, because these indicators considered more important than the value of GCI or GDP. This is because the essence of these macroeconomic indicators are reflected precisely in their relative comparability. They do not reveal much, but they do so in the context of comparison with other economies. So, simply, we want to show how the rank correlation of development and competitiveness of national economies to the seven last report on competitiveness in the world published by the World Economic Forum. In other words, to answer the question, whether developed economies simultaneously marks competitive economy as well. In the case of the first report of the considered rank correlation is extremely high, the ratio is as high as 0,880. This indicates a strong positive correlation between the rank of the observed economy on both indicators.

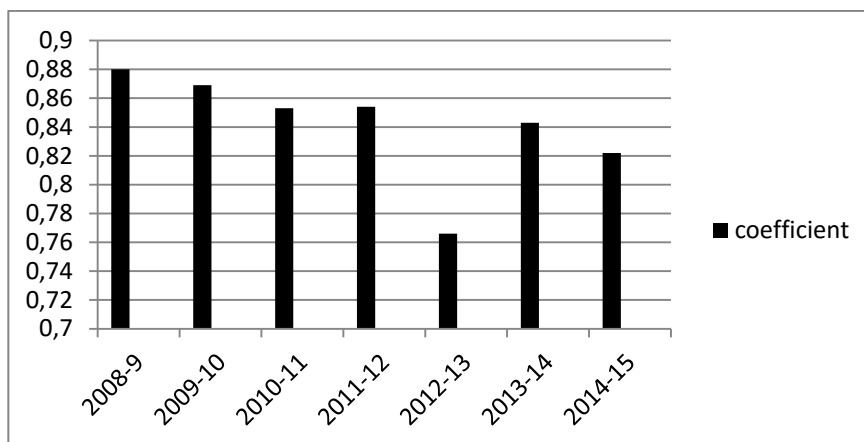


Figure 2: Correlation between competitiveness and development

Source: Authors

In the following report 2009-2010 the number of countries is almost identical to, or is covered by an economy less, but the rank correlation only slightly weaker and is 0,869. In the Report 2010-2011, the number of economies surveyed at 139, but the rank correlation is still in slight decline, is 0,853. In the Report 2011-2012 almost no major changes. Number of analyzed countries is still gradually increasing, so here reaches 142, and the coefficient is almost identical to the previous one, and is 0,854. Nothing dramatic has changed, even in the next analyzed case. In The Global Competitiveness Report 2012-2013, the research included a larger number of countries (144), but the coefficient of rank between competitiveness and development of the smallest, although still very high at 0.766. In The Report 2013-14, the correlation ran it for 148 countries is 0.843; a report in 2014-15 to 144 national economies 0.82 second. We note that only in the case of 2012-13 rank correlation midst of it positive, while in the principle in this period is strongly positive.

The analysis of the period on the basis of the report on global competitiveness, we have found a strong correlation between the ranking of global competitiveness of individual economies and their development. It is true that the correlation of these phenomena is extremely high, and the correlation coefficient has an average value of up to 0,841 for the observed period, which shows the global level, it is evident a strong link between these two phenomena.

## **REPORT: DOING BUSINESS**

The basic starting point of this research, which results in regular annual reports starting in 2004 and covering about 180 countries, is that the legal system through appropriate regulations and administrative authorities through their effective application, can relatively quickly and inexpensively improve the business climate for the private business which improves the competitiveness of the economy.

This research of WB is significant in that it can be observed a direct and strong relationship between competitiveness and level of economic development. Specifically, as the economy developed, it takes less time, money and procedures for start and completion operations, and vice versa, in poor countries is much more pronounced bureaucratic behavior towards business people. Of course, business conditions, accompanied by WB also apply to the operations of the company as a whole, but the legal and administrative difficulties particularly important for the initiation or completion of business eventually, that they are most indicative of the degree of economic freedom in a particular economy.

Over time, the number of countries surveyed grew, and methodology (number of indicators) is only slightly changed and adapted. It is significant that in 2005 it constructed a synthetic indicator - Ease of doing business, which shows the average ranking of certain economies in the world, taking into account all 10 indicators of business. The results of this ranking are published starting from the Report for 2006, and considering that Serbia treats them as independent states of the report for 2007, the most appropriate since then and analyze this data . It is also illustrative display Serbia in the context of the countries in its environment and thus only get a realistic picture of its competitiveness.

*Table 1: Doing Business – ranking*

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Macedonia	92	79	71	32	38	22	23	25	30
Bulgaria	54	44	45	44	51	59	66	58	38
Hungary	66	50	41	47	46	51	54	54	54
Romania	49	47	47	55	56	72	72	73	48
Montenegro	70	84	90	71	66	56	51	44	36
Albania	120	135	86	82	82	82	85	90	68
Serbia	68	91	94	88	89	92	86	93	91
Croatia	124	107	106	103	84	80	84	89	65
Bosnia and Herzegovina	95	117	119	116	110	125	126	131	107

*Source: Doing Business 2007 ... 2015*

As you can see, the competitiveness of this group of countries is relatively weak as of entirely expected, given that in addition to the four members of the EU, five countries in transition have yet to seriously improve this aspect of competitiveness. And most competitive countries in this group (Macedonia, Hungary, Bulgaria and Romania) on a world scale can't be regarded as a top ten countries being monitored. Macedonia in the last few years, notably "facilitate" business in terms of its economy. Montenegro is, considering that only an independent, proved decisive in the constitution of a market economic system, increasingly leaving behind Serbia, with whom he was in the same state.

Serbia is, as expected, in the lower part of the table. The explanation for this can certainly be delayed transition from objective reasons (war and sanctions), but we have already noted that this aspect of competitiveness can be improved quickly with little cost if there is a predominant political will to what is the best example of Montenegro. Due to

ease of doing business, as we have said, depends mainly on legal and administrative requirements, there are no so called «objective» reasons that so many in the region Serbia lags behind not only the already mentioned Montenegro, but also for Albania!

### ***THE GLOBAL COMPETITIVENESS REPORT***

We have already noted that the report on competitiveness in the world, the World Economic Forum, sees more complex phenomenon competitiveness of national economies globally. Therefore, it is very useful to analyze the competitiveness of Serbia in comparison with neighboring countries in the light of the latest report. We will take into account the latest reports, due to current events, and also because of methodological correctness respect to Serbia and Montenegro as an independent state following starting from the Report 2007-2008.

*Table 2: The Global Competitiveness Index Rankings*

	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Hungary	47	62	58	52	48	60	63	60
Montenegro	82	65	62	49	60	72	67	67
Romania	74	68	64	67	77	78	76	59
Bulgaria	79	76	76	71	74	62	57	54
Croatia	57	61	72	77	76	81	75	77
Macedonia	94	89	84	79	79	80	73	63
Serbia	91	85	93	96	95	95	101	94
Albania	109	108	96	88	78	89	95	97
Bosnia and Herzegovina	106	107	109	102	100	88	87	-

*Source: WEF (2008 - 2014), The Global Competitiveness Report 2008 - 2009, ..., 2014-2015.*

There is an evenness of this group of countries in terms of global competitiveness, and those are mainly located between 50th and 100th place without major fluctuations in the range. For us it is important to note the significant progress of Montenegro in one period, since it was with Serbia in the same state. Also, this country is interesting in that it is the only one in the group managed to competitiveness to be above some developed countries in the group, which only indicates the importance of political will in this domain. Serbia has fallen to the bottom of the table.

In the previous analysis we have selected the country and its neighbors into a separate group, and showed where these countries are now at a world map of competitiveness. Such an approach is much more effective than we think to consider the position of Serbia in the context of the global economy taking into consideration more than 140 countries analyzed by WEF.

In order to determine the importance of competitiveness for economic development, it would be very useful if using the latest WEF report which includes



all the lead region, we consider the relation between the ranks of countries that is to study with both aspects: to GCI, and according to GDP per capita

*Table 3: Ranges by development and competitiveness of, 2010.*

	Rang according to GDP p.c.	Rang according to GCI	Difference
Hungary	2	1	1
Croatia	1	4	-3
Romania	3	5	-2
Serbia	6	8	-2
Bulgaria	5	3	2
Montenegro	4	2	2
B and H	8	9	-1
Macedonia	7	7	0
Albania	9	6	3

*Source: WEF (2012), The Global Competitiveness Report 2011 - 2012,*

It is obvious that both Croatia and Serbia still have room for strengthening competitiveness, provided that this gap is now noted with Romania. The crisis in these countries causes stagnation in ranking within the world economy both in terms of development, and in terms of competitiveness. In a comparison of related economies at the regional level there are no significant changes, a rank correlation is positive medium, the same as in the previous year (correlation coefficient is 0.7)

*Table 4: Ranges by development and competitiveness of 2011.*

	Rang according to GDP p.c.	Rang according to GCI	Difference
Hungary	2	1	1
Croatia	1	6	-5
Romania	3	4	-1
Serbia	6	9	-3
Bulgaria	5	2	3
Montenegro	4	3	1
B and H	8	7	1
Macedonia	7	5	2
Albania	9	8	1

*Source: WEF (2012), The Global Competitiveness Report 2012-2013*

In unexploited opportunities for the development of global competitiveness Croatian and Serbia are still leading, unlike most comparable countries that have significantly narrowed the gap between the level of development and competitiveness. Especially in this economy are leading less in the region. It is obvious that in this population, in general, do not leave the orientation of a business model that dominates in the EU. But the deepening economic crisis and the country has an impact as most others. It comes to a certain weakening of rank correlation in terms of development and competitiveness. The coefficient is 0.567, which indicates a weak positive correlation.

*Table 5: Ranges by development and competitiveness of 2012.*

	Rang according to GDP p.c.	Rang according to GCI	Difference
Hungary	2	1	1
Croatia	1	6	-5
Romania	3	4	-1
Serbia	6	9	-3
Bulgaria	4	2	2
Montenegro	5	3	2
B and H	8	7	1
Macedonia	7	5	2
Albania	9	8	1

*Source: WEF (2013), The Global Competitiveness Report 2013-2014*

In this year, which is characterized by gently revival of economic activity in the region, of course, as a consequence of global trends, we see that the difference between competitiveness and development still by far the highest in Croatia, but in itself suggests that a relatively satisfactory level of development of economy in this country particularly stands out in the region, appears to be primarily associated with large external debt and certain political advantages, not the competitiveness of its economy. On the other hand, in Serbia and Montenegro, we notice a regional perspective, stagnation in terms of competitiveness and development. This suggests a still satisfactory adjustment of these countries during the crisis. The situation is similar with Macedonia. This year, Serbia was the least competitive of all comparable countries with traditionally considerable room for improvement in this area, which has somehow to "fill". Correlation - ranking countries in the region towards the development and competitiveness remains weak positive and stands 0,583.

*Table 6: Ranges by development and competitiveness of 2013.*

	Rang according to GDP p.c.	Rang according to GCI	Difference
Hungary	2	2	0
Croatia	1	5	-4
Romania	3	6	-3
Serbia	6	8	-2
Bulgaria	4	1	3
Montenegro	5	3	2
B and H	-	-	-
Macedonia	7	4	3
Albania	8	7	1

*Source: WEF (2014), The Global Competitiveness Report 2014-2015*

Here we can see a slight improvement in terms of competitiveness of Croatian, probably as a result of EU membership. As far as Serbia we can see that competitiveness and development remains relatively stagnant. No matter what this is all about relative terms, ie only on the ratings of countries, it does not diminish the concern about the prospects of the Serbian economy. Especially indicative

remains an important indicator in the column "Difference", which indicates the existence of still untapped possibilities for improving competitiveness. Obviously these negative trends can be linked to political instability or change of government in the previous year and preparing for new parliamentary elections next year. Correlation is still weak positive and stands 0,381.

When you sum up this review, we conclude that Serbia is among the countries with lower competitiveness, and with greater scope for improvement, which implies the idea that it is necessary to do. Another argument for this claim is very significant rank correlation between the above -mentioned results achieved in the economic development and competitiveness of the countries that we have chosen for comparison. The calculated data are very similar, if we take into account all the economies considered WEF. The coefficient is calculated based on the total amount of data for 2007 was 0803; 2008 0719; for 2009, 0.640; 0.597 for 2010; for 2011, 0,533; for the year 2012 and 0,581 in 2013, 0492.

For us, certainly factors of efficiency are the most important, since they are the most affected (50%) in the economic development of Serbia and all other countries under consideration. For Serbia, it is very important that its position in this regional competitiveness table at this most important group of factors completely identical position observed by global competitiveness. This only confirms that this group is really the most important pillars of competitiveness and defines competitiveness as a whole for middle-income countries in general, and that there are no regional specificity in this case. Serbia's position is clearly unsatisfactory because they are behind only Albania and Bosnia and Herzegovina. In order to see more clearly, the above table can be reduced to a regional ranking as we did in the previous analysis, development and global competitiveness.

*Table 7: Factors strengthening efficiency (regional rankings)*

	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Hungary	1	1	1	1	1	1	3
Romania	2	2	2	3	3	3	1
Bulgaria	3	3	4	2	2	2	2
Montenegro	5	4	3	4	5	5	6
Croatia	4	5	5	5	4	4	4
Macedonia	7	6	6	6	6	6	5
<b>Serbia</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>7</b>
Albania	8	8	8	8	8	9	8
Bosnia and Herzegovina	9	9	9	9	9	7	-

*Source: WEF (2008 - 2014), The Global Competitiveness Report 2008 - 2009, ..., 2014-2015*

Thus, we can conclude that for all the countries of this group, especially for Serbia, which is very weak looking at factors strengthening the efficiency, the right way to raise the global competitiveness of their economies just strengthening the pillars

of competitiveness that determine the economic efficiency . This stems from the fact that the ranking of the competitiveness of these countries expressed in this table are very highly correlated with rank their global competitiveness, and it is presented to the World Economic Forum Report: 0.922; 0.892; 0.904; 0.901; 0.897; 0.892 and 0.898 respectively. One sees a constant coefficient of rank correlation between the factors of efficiency and global competitiveness for the observed group of countries in crisis conditions. Correlation is all the time a very strong positive.

However, no matter what the apparent efficiency factors are crucial for the competitiveness of medium-developed countries, including the countries of the region and Serbia among them, for a more subtle analysis would be interesting to identify which particular individual observed poles of competitiveness is mostly defined by the global competitiveness of Serbian and other related industry.

According to the WEF methodology all poles of one group (factors) are equally important competitiveness, and equally contribute to the fundamental factors of competitiveness, efficiency factors and factors of innovation. However, the question is how much each of them contributes to the total (global) competitiveness of national economies. This can generally calculate the basic groupings economy, ie undeveloped (factor-driven), middle income (driven by efficiency) and developed countries (innovation guided). Using the methodology of the WEF, a review of the pillars of importance for the global competitiveness of the main groups of countries look like the following table (8).

*Table 8: The contribution of the individual pillars of the global competitiveness of the national economies*

No	PILLAR OF COMPETITIVENESS	UNDEVELOPED	MODERATELY DEVELOPED	HIGHLY DEVELOPED
1.	Institutions	15%	10%	5%
2.	Infrastructure	15%	10%	5%
3.	Macroeconomic Environment	15%	10%	5%
4.	Health and primary education	15%	10%	5%
5.	Higher education and training	5,8%	8,3%	8,3%
6.	Goods market efficiency	5,8%	8,3%	8,3%
7.	Labor market efficiency	5,8%	8,3%	8,3%
8.	Financial market development	5,8%	8,3%	8,3%
9.	Technological readiness	5,8%	8,3%	8,3%
10.	Market size	5,8%	8,3%	8,3%
11.	Business sophistication	2,5%	5%	15%
12.	Innovation	2,5%	5%	15%

*Source : Calculations performed by the methodological basis of the WEF, " The Global Competitiveness Report "*

As we can see, for Serbia as a medium developed country the greatest importance for global competitiveness have, individually speaking, the pillars of the first group, although the efficiency factors, overall, the most influential. Therefore, it would be appropriate to determine which of the pillars of competitiveness was the single most important for the competitiveness of Serbian economy in the period.

*Table 9: Contribution of the main pillars of the global competitiveness of Serbian economy*

No	PILLAR	2008	2009	2010	2011	2012	2013	2014
1.	Institutions	3,40	3,24	3,19	3,15	3,16	3,20	3,21
2.	Infrastructure	2,68	2,75	3,39	3,67	3,78	3,51	3,93
3.	Macroeconomic environment	4,72	3,88	4,05	4,48	3,91	3,36	3,51
4.	Health and primary education	5,79	5,71	5,95	5,82	5,73	5,75	5,76

*Source: WEF (2008 - 2014), The Global Competitiveness Report 2008- 2009,..., 2014-2015*

The table shows the values of the basic pillars of competitiveness of Serbian economy mentioned in the last report, the WEF Global Competitiveness. If we bear in mind that the overall GCI of Serbian economy to the same reports was: 3.90; 3.80; 3.80; 3.88; 3.87, 3.77 and 3.90, respectively, it is obvious that the pillars of competitiveness that assess the quality level of infrastructure and macroeconomic environment largely determine the global competitiveness of the Serbian economy in the period. From this group the Institution is what most complicates the situation, as the Health and primary education is quite satisfying when you take into account the overall competitiveness and beyond (the maximum score is to remind, 7).

However, because factors are strengthening efficiency as a group for the competitiveness of Serbia, as a middle-income countries most important, it would be useful to consider their individual impact on the global competitiveness of Serbian economy.

*Table 10: Contribution of the pillars of the efficiency of the global competitiveness of Serbian economy*

No	PILLAR	2008	2009	2010	2011	2012	2013	2014
1.	Higher education and training	<b>3,91</b>	<b>3,83</b>	4,01	3,98	<b>3,97</b>	4,05	4,25
2.	Goods market efficiency	3,68	3,70	3,57	3,49	3,57	3,64	<b>3,78</b>
3.	The efficiency of the labor market	4,36	4,18	4,06	<b>3,94</b>	4,04	3,90	3,73
4.	Sophistication of financial market	3,94	3,87	<b>3,84</b>	3,74	3,68	3,48	3,50
5.	Technological readiness	3,45	3,38	3,41	3,63	4,10	3,94	4,45
6.	Market Size	3,59	3,69	3,60	3,61	3,64	<b>3,68</b>	3,68

*Source: WEF (2008 - 2014), The Global Competitiveness Report 2008- 2009,..., 2014-2015*

As we can see, the pillars of these groups are in the reporting period for the competitiveness of Serbian economy of equal importance. Perhaps we could say that in most cases GCI closest assessment of higher education and training, but that this pillar does not really stand out significantly in relation to the other. On the other hand, we can say that in some respects we see substantially lag. It can be inferred about the great importance of uniformity of the pillars of competitiveness that reflect the economic efficiency for the global competitiveness of Serbian economy.

Generally it could be concluded that the improvement of the competitiveness of Serbian economy should pay special attention to the pillars of efficiency considering that the most influential groups. As for the choice of the stairs which affects competitiveness viewed individually, it obviously has to be some of the fundamental. The analysis determined that they were in the observed period, the most influential in the negative sense of the first pillar of competitiveness WEF recognized as an Institution.

If we recall its structures, institutions pillar consists of the dominant public institutions (75%) and private (25%). The relatively favorable situation which, according to this, the key to the functioning of the subjective state and the business sector are that no matter what Serbia is a small country, it largely comes down to the political will and order of the state and business ethics.

All in all, not to repeat basic methodological basis of the WEF in the first part, we will present to the Institution tracked with a total of 21 indicators in the last two reports on competitiveness in a world which is applied now valid methodology for evaluation.

*Table 11: Contribution of individual elements of the Institutions of Serbian economy*

No	INDICATOR	2013-2014	2014-2015
1.	<b>Property rights</b>	<b>3,2</b>	<b>3.1</b>
2.	Intellectual property protection	2,9	2,9
3.	Diversion of public funds	2,8	2,7
4.	Public trust in politicians	2,1	2,1
5.	Irregular payments and bribes	3,7	3,9
6.	Judicial independence	2,6	2,6
7.	Favoritism in decisions of government officials	2,4	2,4
8.	Wastefulness of government spending	2,3	2,2
9.	Burden of government regulation	2,3	2,2
10.	Efficiency of legal framework in setting disputes	2,5	2,7
11.	Efficiency of legal framework in challenging reps	2,5	2,3
12.	Transparency of government policymaking	3,7	3,6
13.	Business costs of terrorism	5,6	5,5
14.	Business costs of crime and violence	4,3	4,2
15.	Organized Crime	4,0	4,1
16.	Reliability of police services	4,0	3,8
17.	Ethical behavior of firms	3,3	3,4
18.	Strength of auditing and reporting standards	3,9	4,0
19.	Efficacy of corporate boards	3,7	3,8
20.	Protection of minority shareholders interests	2,7	2,8
21.	Strength of investor protection (1-10)	5,3	5,3

*Source: WEF (2013, 2014), The Global Competitiveness Report 2013-2014, 2014-2015*

In this review, we limited ourselves to only two last statements due to their current and methodological correctness. In the previous two reports 2011-12 and 2012-13 were considered by the 22 indicators and had not even published value indicators, rather than just global ranking for each of the indicators whose number varied from year to year, from 18 by 22 December.

However, what does this review states, given that the estimated Institutions with 3,20 and 3,21? This analysis tells us that property rights (their regulation and protection, most reliable indicator of the overall state institutions in Serbia, and that's the mark below half compared to the maximum (7). By far the weakest indicator in both the report public trust in politicians (grade 2 1). From this fact it follows that, generally speaking, lately, the greatest impediment to the global competitiveness of Serbia in the sphere of politics.

### ***CAUSE OF SERBIAN UNSATISFACTORY DEVELOPMENT***

From the previous analysis we have conclusively shown that Serbia has an unsatisfactory level of economic development. Table from the above shows that it is among nine comparable economies (along with the eight states that surround it) on stable sixth place. Given that the entire group can be treated as a moderately developed, it certainly cannot be rated as successful. We can, and we must ask ourselves why this is so?

In the last half a century we have witnessed the intensification of the process of globalization of the world economy. Thanks primarily scientific and technological progress, especially the expansion of information and communication technologies, economies are becoming increasingly interdependent and increasingly interdependent. Of course, we should not neglect infrastructure development in the broadest sense of the word, as well as the legal and institutional framework both within individual countries and in international scale. It is therefore to be expected that the current impasse in global growth has consequences and lead to Serbia. However, in our analysis, we also opted for the relative dominance of absolute figures, respectively, compared with the rest of the Serbian economy. In doing so, we focused on surrounding countries with which comparison makes the most sense. With this approach we are maximally removed from the analysis of the results of "objective" difficulties.

Also, the economic results of Serbia cannot be viewed outside the context of neo-liberal economic philosophy that dominates the world economy as one of the main features of globalization since the 80s of the last century. There is simply no alternative context for the analysis of small open economies in the current moment. This, therefore, that despite various criticisms induced current global crisis, we still have formulated a relevant alternative to the dominant neo-liberal concept is demonstrated certain weaknesses.

According to this concept, which among other major international economic institutions strongly promote the WB, the World Trade Organization, International

Monetary Fund, WEF, as well as the strongest regional economic integration organizations such as the EU and NAFTA, the competitiveness of the national economy is the key to development. Our previous analysis of modern concrete data is to a large extent confirmed.

No matter what the global economic crisis are to some extent discredited market mechanisms, which is reflected in a drop of rank correlation coefficient between development and competitiveness, it is still very important. We saw that in the beginning this was a strong positive relationship (2007), followed by medium positive in the next two years, and after that, when the region is deeply sunk into an economic crisis weak positive, however, remains positive! There is no serious argument that the lack of competitiveness of the Serbian economy is not a significant cause of its many problems.

As for Serbia itself, it proves applied "narrower" approach of regional development and competitiveness in many illustrative and more constructive than the global. We see that during the period which is considered its development among nine comparable economies quickly and rapidly dropped from fourth to sixth stable place. As for the competition, and it is, as might be expected, but dropped from sixth place at the beginning of the eighth and ninth at the end of the period. Indeed it is worrying to be last in competitiveness between economies on the global scale do not belong to the top. The area for improvement is also important, and not reduced. Throughout the period under review only for Croatia can be concluded that there is a greater lag in competitiveness level of development. Definitely could conclude that the Serbian economy, improving competitiveness really is no alternative. There is a strategic question: What are the priorities in the action?

The answer lies in the analysis of competitiveness carried out by the World Bank and WEF.

According to the report "Doing Business", which constitutes the WB, Serbia in the last years of the period in the region fell to last place. Here we did not enter into a detailed analysis of the position of any one of the set of criteria that are being monitored. For this there are two reasons. Firstly, the last place all speaks for itself. Second, the level of decomposition of the basic indicators of "ease of doing business", according to which the ranking is very low (only 10 indicators) so that large deviations hardly possible. In addition, the very nature of these indicators: legal and administrative requirements for business, such that there is no need for that. Preference is given in the detailed analysis of the report of the World Economic Forum at the finest level consideration even Thursday among the 114 indicators based on the current methodology includes the most detailed assessment of the World Bank.

It is unambiguously confirmed that the main cause of the problems of modern Serbian economy primarily in institutions or, more precisely, in the political sphere, and then only in economic efficiency and building integrated market.



## ***HOW TO OVERCOME PROBLEMS***

We have seen the development and competitiveness "go hand in hand", and Serbia, as well as other countries in the region to raise competitiveness remains imperative for several reasons. Number one: certainly contributes to the development. Number two: approaching candidates for EU membership. Number three: almost none of the countries surveyed do not have any other essential strategy for overcoming the crisis. Thus, we conclude that for the country and its neighbors continue to improve the competitiveness is a way without alternatives.

Our analysis of current problems of the Serbian economy in terms of methodology for assessing competitiveness has led us to the conclusion that the main cause is in fact of a political nature. In any case, it should be seriously considered. It is completely obvious that the real political instability in Serbia in the XXI century certainly not conducive to competition, that ultimately does not represent an attractive environment for investment. Also, without reaching a national consensus on key national interests, and consequently coarsening of the political scene, it is difficult to expect real strategic preferences and build a successful export-oriented economy.

As far as the pillars of competitiveness that is currently the weakest link, the actual methodology by the World Economic Forum in the case of Serbia called chambers. They normally represent the first and one of the most important pillars of global competitiveness of each national economy, in addition to developed ones.

This term means a legal and administrative environment in which private firms operate in cooperation with the state achieved a certain level of prosperity in society. Here are points to the importance of the state as an economic entity, primarily regarding the adoption and implementation of regulations. This institutional aspect is significant for the business to a wider market beyond national borders so that states which are characterized by very competitive economies, as a rule, intensively cooperate within international organizations and integration through various forms of bilateral and multilateral economic agreements.

Institutions very much influence on investment decisions, the level of productivity and operations. They play a key role in how the distribution of benefits and costs associated with certain economic and development policies. For the investment climate in a country, for example, is crucial institutional protection of property rights, whether it be on earth, actions, or, perhaps, intellectual property. Competitiveness is largely determined and the contracts and financial discipline, which also belongs to the institutional aspect. It is very important influence of state authorities at market freedom and efficiency of operations.

For economic development are very important following institutional aspects in each country: the efficiency of the state bureaucracy, the regularity of the public procurement, independence of the judiciary from politics, understandable and applicable regulations, the level of corruption in the public sector. All these elements greatly affect the cost of doing business and, consequently, to make investment decisions and economic growth in general. The quality of financial management can also be counted as elements of this pillar although has an impact on macroeconomic stability.

"To be in terms of today's global economy, the strategic goals of the national economy defined in a way that will involve achieving real development perspective, it is necessary, inter alia, to take into account the essential meaning of the term competitiveness, with the creation of key assumptions necessary for the formulation of national competitive strategy. In this context, we changed the strategic role of the modern State of which it is expected that, in the function of providing conditions for national economic prosperity, primarily manifested through integrated projects and activities aimed at creating institutional Preconditions for improving competitiveness at all levels - from micro - to macro level. This is important due to the fact that the basis of strategic competitive advantages of modern firms and economic prosperity of the country defines, creates and Paves the national economic environment. At the same time, in terms of the growing liberalization of international flows of goods and capital, which is based on the benefits that are the result of market incentives and export-oriented program, it is necessary to establish compatibility with the global economic environment."(Leković, 2010, pp. 238. Thus, you can generally conclude that if the competitiveness of modern national economies basic measure of their success, a country that has changed, but a very important role in relation to the previous period.

But, regardless of the dominant role of the state in this aspect of competitiveness it should not be completely neglect the influence of large companies when evaluating the quality of institutions and an economy. If by the institutions we assume the established and stable social relationships and patterns of behavior, it is certainly possible, frequent and large, the scandals that rocked significant businesses in one country, reduce the assessment of institutions in it. Likewise, the predominant manner of doing business in an economy, also belong to the quality of institutions, that reflect business conditions and the level of expected costs, which will tell competitiveness.

From a purely methodological aspects it should be emphasized that this pillar of competitiveness that most threatens the global competitiveness of the Serbian economy in the current moment, almost completely corresponded to the WB methodology for assessing the competitiveness of the national economy, which is applied in the preparation of regular annual report "Doing Business." We have already seen in the previous section that there is a ranking of Serbia in the region in recent years, identical to that of the WEF "Global Competitiveness Report of the World".

According to the analysis of current problems of the Serbian economy in terms of methodology for assessing the competitiveness, improving the political system and institutions, comes into wider and longer-term project, which is to improve the efficiency factor of the economy. And it's central developmental stage in which Serbia is, economic growth must be based on increased her efficiency, considering that in this situation, he can no longer be based on the increased quantum of engagement basic factors of production, but in all their efficient use. Economic efficiency, According to the concept of the WEF, can raise the Advancement of the pillars of competitiveness:

- Higher education and training;
- Goods market efficiency;
- Labor market efficiency;
- Financial market development;
- echnological readiness;
- Market size.

An interesting observation is that in addition to educational problems and technology, the main challenge relates exclusively to the different aspects of the market, it would be logical, just and improving markets, see the main targets is to improve the competitiveness of Serbian economy. Other pillars of the competitiveness of this group are not unimportant, but it is clearly the most effective improvement market.

Looking at the economic results of this century, around the world, it may be concluded that they are better if the market is efficient. Here we refer primarily to the representation of institutionalized market as a basic connections and relationships between business entities, primary and places ways to exercise their economic interests. If it is effective, the more the economy as a whole and its individual parts more competitive. This refers to the integrated market, or a market that includes not only goods and services in the strict sense, but the market as the main regulatory mechanism of business which includes the financial market, as well as the labor market. Also, bear in mind the market that stretches across national borders, because ultimately the market and cannot exist otherwise than as the world market. Regardless of different historical circumstances and local specificities, it is obvious that, in the long run, there is a growing realization of the idea of an integrated global market. The goal of each user to the learning it can only be a maximum improvement of competitiveness.

It is obvious that today for solving the economic problems of Serbia in the middle of the second decade of the XXI century, improving competitiveness is no alternative. Due to a confirmed positive correlation competitiveness and development, and the fact that many elements of competitiveness can be improved without substantial investment in improving the economic system and economic policy certainly should primarily take care of it. It is a great opportunity to do so without any restrictions can significantly contribute to economic development. It is difficult to assume that the improvement of the competitiveness of the economy seemed negative. It should also be noted that the increase of competitiveness of an economy does not mean jeopardizing the competitiveness of the others. Each national economy can be independent and unrestricted improve their competitiveness regardless of the drug is.

And what has so far been done specifically in this direction? We could briefly assess that we are at the beginning of the road, which, according to the pace at which we started looking very long.

Changes in policy are evidently started. It started with the improvement of the political system. The tendency of enlarging the political scene. In parliamentary life it can be seen the approaching the creation of a national consensus as regards the direction towards the European Union. Will all of this in due course lead to the formation of a credible elite in the country, which would be more stable entrust her citizens remains to be seen. Both scenarios are possible, particularly as it is dependent on many external circumstances, and especially of the political process in the European Union.

As for the institution as a whole, this question is extremely linked to the previous ones.

## *CONCLUSION*

At the beginning of this study, we found most noticeable problem of Serbian economy on the threshold of the second decade of the XXI century. Searching for a reason, and that includes the way to overcome, we have used a wider concept of the current neo-liberal globalization, which in recent decades has a decisive impact not only in Serbia, but most other small businesses in the region in and beyond.

In our analysis, we used the approach of two important institutions which influence the aforementioned global processes, such as the WB and WEF position that the national economy in the world explained primarily competitiveness. In accordance with the currently valid methodology that they apply for the assessment of the competitiveness we analyze and display the location of the Serbian economy in the region. Displayed are the key weaknesses in accordance with the reports mentioned institutions.

Analyzing "The Global Competitiveness Report " WEF also established that Serbia is at the bottom position of comparable groups of countries. The global link between development expressed by GDP per capita and competitiveness expressed by GCI is confirmed. It is also fully verified methodological premise that all these middle-income countries efficiency factors, collectively speaking, for its value and ranking, almost perfectly in-sync with the overall competitiveness (GCI).

In order to more precise determination of the causes of low competitiveness of Serbian economy was further calculate the impact of individual pillars of competitiveness. In this way it is set up the most important effects of the factors, or Institution among them as the most important pillars of competitiveness, which is the most influential, that ultimately determine the current state of development of the Serbian economy.

Going further, decomposing the Institution to the most detailed level of assessment made by the WEF, we found that the basic indicator that is the weakest of all evaluated (22 total) public confidence in politicians. So, at the end of the most detailed analysis of the current competitiveness of Serbian economy according to the WEF methodology, we came to the conclusion that the weakest link of the Serbian economy is in fact in the sphere of political, rather than economic system.

About the objective analysis of the above methodology for assessing competitiveness, we have tried to contribute to the determination of the weaknesses of the current Serbian economy and point out the way forward. We believe that this contributed to the final result of emphasizing that the main problem in the political system and institutions

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## **FOOD SAFETY AS A FACTOR OF QUALITY AND COMPETITIVENESS**

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### **ABSTRACT**

*The paper discusses the concept of food safety as a factor of quality and competitiveness. Modern technologies and globalization processes provide many opportunities in manufacturing but along with the growth of numerous risks. Accordingly, the issue of food safety is becoming as important as the food itself. Safe food means safe and healthy food through the entire chain of production and processing: production, processing and storage, transport, distribution and placing food on the market, as well as its storage with consumer until consumed. Guided by this assumption, the authors analyze the concept of food safety, putting it in a wider framework, and observe safety as a factor in raising the quality of agricultural and food products and as a factor of competitiveness. Competitiveness is a method for improving the quality of life and well-being of people, as it improves offer, reduces prices and boosts quality. The key question that arises is what are the driving forces of competition? Among the twenty most important factors for long term growth and development of the economy and its competitiveness, according to the criteria of the World Economic Forum, are levels of quality and quantity of supply, as well as the safety of food offered on the market. When it comes to our agrarian market very small number of conditions has been fulfilled or are only partially fulfilled. The authors come to the conclusion that in our market, there is room for improvement in this area and to raise the competitiveness of the agro-industrial sector.*

**Key words:** *Food Safety, Quality, Competitiveness, Agro-Industry, Standardization*

**JEL Classification:** *Q10, Q18*

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338:339.137.2*

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## ***INTRODUCTION***

According to Pejanović et al. (2006) Conventional agricultural production is part of the system of commodity production based on quantity, which is based on the introduction of such agricultural and zoo-technical measures, which allows for obtaining high yields, but, however, have a negative impact on health.

"The risks to which people are exposed to through food, diet and environment, the World Health Organization (WHO) classified according to the degree of danger as follows" (Stanković, 2003):

- 1) microbiologica agents,
- 2) risk due to improper diet,
- 3) the polutter of the environment,
- 4) natural toxicants in food,
- 5) the residues of pesticides,
- 6) food aditives.

An overall pollution of water, air and soil is a significant problem in the area of food production. In such situations, with demands for the production of food that satisfies every modern requirements of health, efforts to make this hapen appears. World movement for quality, today, conquer new specific opportunities for systematic quality improvement - positioning, analysis, definition, monitoring, verification and risk assetment, so-called HACCP concept, then benchmarking or re-engineering of business processes. It goes without saying that the focus of all of these advanced courses are product quality and satisfied customers, and direct user - the consumer.

The increasing demand for quality assurance confirms the rule that the quality of the product plays a significant role both in providing new and in retaining existing markets. Without a doubt, the provision of high quality and therefore safe food for the producers of agricultural and food products has never been more important than in times of competitive global markets. The path to production-driven quality today means that buyers not only expect a quality product, but also require proof that the supplier is capable of producing accurate and high-quality products. With the increasing demand for quality assurance throughout all stages of the production process, manufacturers are working on a recognized set of standards.

The importance of quality is a multifaceted, not only for the overall development of the economy, agro-economy, but also for society as a whole. Quality is, above all, a key factor of competitiveness in the domestic and international market. Studies show that companies with an approved system of quality exercise five times higher rate of profit than companies with low quality and substandard products.

There are many definitions of quality, which depend on access of the values it carries. According to the approach based on customer, quality is the set of physical, structural, aesthetic, environmental and many other features that come in handy in use. From the standpoint of consumers the quality implies compliance with their requirements. The objective of a quality is to satisfy consumers in a way not only responding to his expectations, but overcoming it.

The term quality of the last forty years has evolved so that the quality of the product includes at the same time, all fields of human activity: quality of services, quality of management (governance and management), quality of education, quality of governance and finally the quality of people's life. It is, therefore, a complex, global, international phenomenon, which is necessary to pay special attention.

In the developed countries the movement for quality was developed under the special attention of these countries. The task of Serbian government, in cooperation with experts, is to create and encourage the implementation of the policy of improving quality at all levels, based on a European vision of quality and provide the conditions for an equitable and competitive integration in the EU market.

The aim of this research is manifold: to clarify the essence of this phenomenon, explain how to manage quality across the connection of quality and standardization, which means quality competitiveness and the importance of positioning and brand quality.

## ***BASIS OF FOOD SAFETY SYSTEM***

The food is associated with several concepts, including the concept of "sustainability of life", because it is a source of essential nutrients, then with the concept of quality because there is a need that the food is of good quality and safe for consumption (figure 1) (Havranek, 2014).

Food safety is a term introduced in recent times to increase the confidence in the food consumed. Food Safety Management Systems are connected with the developed countries, since they can afford the possession of sufficient quantities of food and the discussion on what is and is not safe for consumption. When considering the notion of food security at the global level we have to remember that in the world today majority of people care about what they will eat today and do not think about possible indigestion after eating unsafe food (Havranek, 2014).

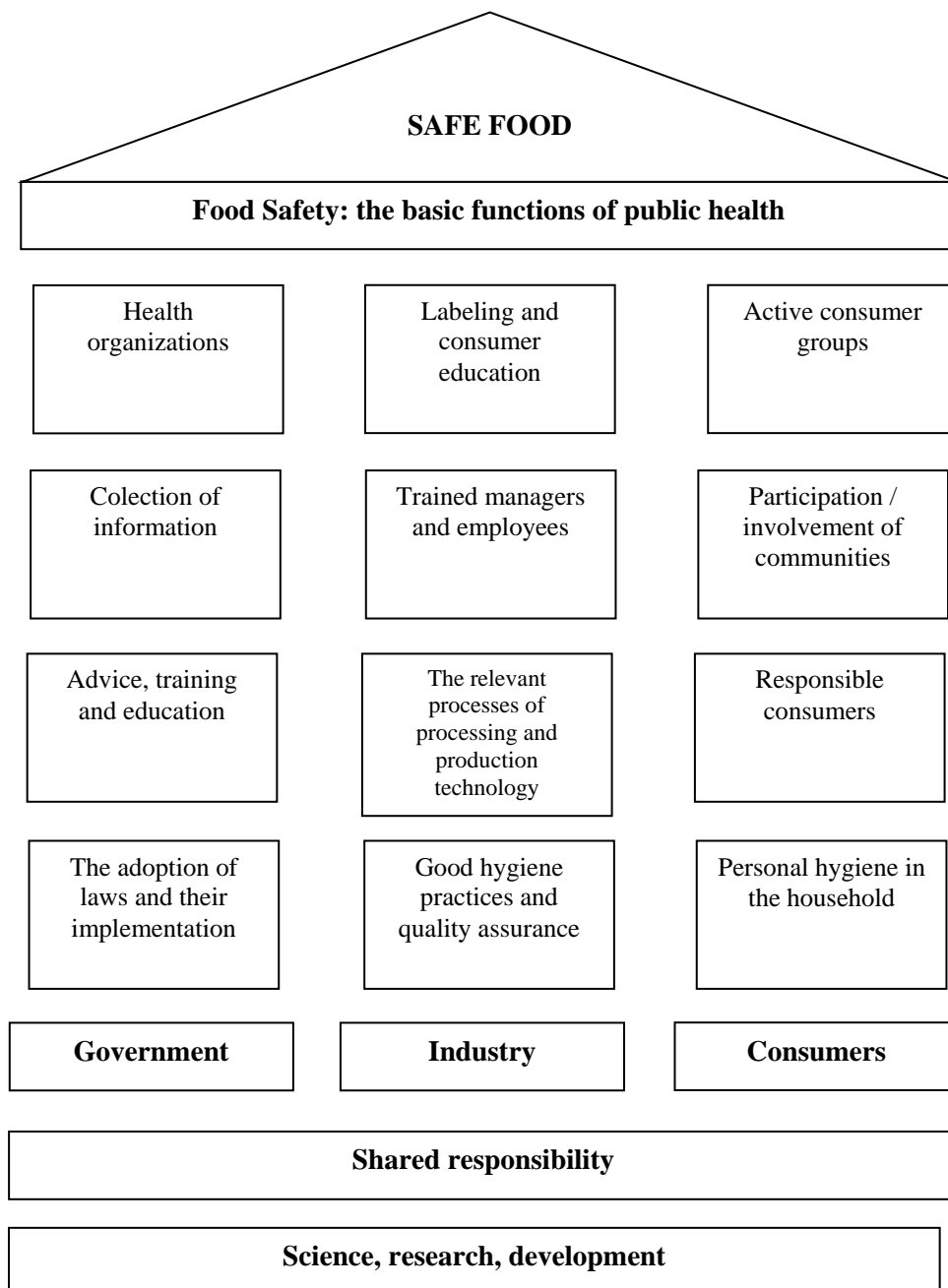
It is generally accepted that the concepts of safe, danger, toxicity form the basis of the concept of ensuring food safety. Absolute safety defines the inability of damage or injuries. This condition is impossible to achieve, and this can result in the dissatisfaction of consumers because they expect to be 100% secure after consuming the food they buy. Any substance, no matter how beneficial or toxic, at a certain level, or, in certain circumstances can be detrimental. Food is safe for most people when used reasonably and consumed optimally, but can be toxic and deadly to some vulnerable groups of people, such as people with diagnosed allergies to certain foods (Havranek, 2014). Toxicity and danger are terms that are often identified. Toxicity is the capacity of (the level of) certain substances that can cause damage or injury of any kind (chronic or acute). Danger is a source of damage or injury (quantity, inadequate conditions of use, etc.). The risk is a function of the probability of harmful effect depending on exposure. Whether a particular risk is acceptable or not depends on the potential benefits it has brought about and the personal perception of a person who engages in risk. If the benefit is



greater than the possible harmful effects, the risk is acceptable. Assessment of risk acceptability of food is a little more complex and the number of factors may depend on the customs and habits.

The concept of safe food is linked to consumers, scientists, regulatory bodies, industry and special interest groups, which suggests that the concept of food safety systems are very complex. For this reason, it is difficult to give a precise definition of safe food, and each of them may, in some way, sound simple. However, the basis of all the definition of the concept of safe food according to some authors may be (Havranek, 2014): Safe food is food that - if handled right (in accordance with the specification) at all stages of production and consumption - will not cause illness or injury. The concept of safe food is different in the US than in the EU, and one of the reasons why it differs are history and culture. It is well known disagreement over hormone residues in beef and genetically modified food. Some authors suggest that food safety scientific and economic dimension, which is connected with the unwillingness of consumers to pay the high price of food with characteristics of absolute safety. Therefore the role of industry and government is very important to educate consumers on practical, everyday aspects of food safety.

The World Health Organization (WHO) defines food security as access to a shared responsibility of the government, the food industry, consumers and science. Of these participants in the system of food safety, the industry should openly share their knowledge to finding a solution to the problems in the sphere of safe food; the role of government is the adoption of legal regulations and their transparent implementation; consumers should recognize their responsibility in establishing food safety systems, including hygienic food handling in accordance with the manufacturer's specifications and scientific institutions have the primary role in education, but also the implementation of science in the profession (scientific research results) to improve the effectiveness of the food safety system.



*Figure 1: Shared responsibility for ensuring safe food*

*Source: Wallace et al., 2011; according to: Havranek et al., 2014*

Food safety may be compromised with three types of hazards: biological, chemical and physical. Unsafe food is first linked to biological contamination. However, natural toxicity (endogenous toxins naturally present in food), the toxicity of the chemicals added intentionally or unintentionally during the production and processing, the toxicity of the components created during processing (cooking) and storage and various interactions with the end result may compromise the toxic food. In late 80s American National Advisory Committee on Microbiological Criteria for Food brought six danger characteristic for ranking biological hazards in order to implement the process of risk assessment. Chemical and physical hazards that are also necessary to assess the risk of certain hazards are listed later. Hazard Characterization was carried out on the basis of criteria such as (Havranek, 2014):

- Risk of a consumers associated with age and health status;
- The risk associated with the materials used in the production of food;
- The manufacturing process and its effect on risk;
- The possibility of recontamination of the product after completion of the production cycle;
- The possibility of mishandling food product during distribution and handling by the consumer;
- The ability of consumers to detect, remove or destroy the threat during the final stage of cooking before eating.

Ensuring safe food to protect consumer health and improve economic development is the major challenge. In order to protect the health of consumers, certain tools that prevent the presence of certain substances in food is requested, or the presence of an acceptable and safe levels of certain substances in the food chain "from farm to table". Tools that make up the basic concept of food safety are: Good Manufacture Practice - GMP, Good Agricultural Practices - GAP, Good Distribution Practice - GDP, Good Hygienic Practice - GHP, HACCP and risk analysis. GMP, GAP, GDP, GHP and HACCP control strategies hazards act on the operational level, and risk analysis is a management approach at a higher level (Tudor Kalit, 2014).

Good Agricultural Practice involves a set of procedures applied in primary production (eg. on farms). Good Manufacturing Practice includes basic requirements in the food processing and minimum requirements for process control and rehabilitation during processing. This includes control of raw materials, pest control, temperature, air and water quality, cleaning, infrastructure (location and design of the building, the suitability of equipment), traceability and concern about waste. Good Distribution Practice provides good storage and transportation products and handling them in the manner prescribed by their specification. Good Hygiene Practice focuses on the liability of manufacturers producing products in strictly controlled aseptic conditions. Four areas of hygiene are: personal hygiene, workplace hygiene equipment hygiene and production hygiene (Tudor Kalit, 2014).

In terms of connections and relationships of public health and food safety Orešković (2014) states that the connection between food, health and disease has

become the subject of intensive scientific research only in the first half of the twentieth century. Although it is a long and rich tradition of popular folk knowledge about the connection between health and food in all cultures and civilizations, modern science is late in devoting serious attention to these phenomena that govern all aspects of human life. Modern science that explore this relationship can be divided into those that deal with it and explore the methods of the science of work (for example, the economy, the development of social wealth and its relation with the quantity and availability of food) and methods of life sciences (e.g., biology, genetics, medicine). An additional division is among those who study the food, health and disease at the level of cells, organs and organisms, therefore the individual level, and those that do are at the population level (Orešković, 2014). The science of food and the way it affects human health is called nutrition. It describes itself as a multidisciplinary science because it involves teamwork of biology, chemistry, biochemistry, physiology, genetics, medicine, psychology, agronomy, food technology and economics ( Tudor Kalit, 2014).

On the issue of regulation of this system, legislation on food is characteristic area of law. In the European Union and most developed countries of the world food production area is first, but also the most complicated and difficult manufacturing sector regulated. Food industry, after the automotive and chemical, is the third strongest legally regulated industry in the EU. At first, the regulation of the food sector came from the need of good regulation of the internal market, and then went on and because of the need to protect consumer health. Agreed international regulations allows the setting of common standards for international trade of food and thus for safety and confidence in food placed on the market, regardless of the origin of production (Havranek, Đugum, 2014).

According to the European Consumer Centre (Dubie, Ireland) the term "food" is related to any substance or product that is processed, partially processed or unprocessed, intended or may be intended for human consumption.

Quality is a phenomenon which is in center of attention nowadays. It is used as a synonym for the desired condition, performance, product attributes and concepts considerations. It can be used in the context of the accuracy and reliability in use. Sometimes it means what is made of special materials, processed in a special way, with a high degree of attention and effort involved.

The concept of quality today is complex and comprehensive, and is defined according to the criteria by which it is explained. The notion of quality is associated with: sophistication, elegance, perfection, consistency, eliminating waste and speed of delivery, setting norms and procedures, delivering meaningful products, satisfying customers (users), full-service and satisfaction of user needs, etc.

In an effort for better, closer and comprehensive explanation of the concept "quality", the authors define it in different ways, and in the literature on this issue one can find a plethora of definitions, from those that explain the quality of the strictly technical aspects, to those quality definition from the psychological and philosophical aspects. They all boil down to the definition of quality (Q) as the degree to which a set of inherent characteristics meet the requirements of customers.

The influence of food on human health has been known for a long time. Most research confirms that about 70% of contamination of humans and animals is due to the introduction of contaminated food of plant or animal origin (Klajić, 2002). The increase of global pollution and the trend of favoring the numerous artificial means in the process of food production, impose food safety as one of the main preoccupations of modern man (Prugar, 1999). Extensive research in the EU from 1998, have shown the loss of confidence of 60% of consumers in the quality of the food (especially meat) offered in the market (Cowan, 1998), which had influence on the safe food market (food produced in the system of organic farming and processed in an appropriate manner) and, in the EU in 2002, this market reach about six billion pounds, or 2% of the total food market (Carboni et al, 2000), which is about three times more than in 1995, when the sales of food was 1.938 billion pounds, according to Irish Agriculture and Food Development Authority.

## ***QUALITY AND COMPETITIVENESS***

Competitiveness analysis is not aimed exclusively on analyzing current competitive position, but, more, the definition of a successful strategy to increase competitiveness, based on clearly defined current position. Successful competitive strategy begins with precise analysis of the key driving forces for increasing competitiveness. Based on this analysis one can identify core weaknesses that prevent the growth of competitiveness and find appropriate solutions. Finally, for a successful strategy, attention have to be dedicate to other economic issues that affect the most important driving forces of competitiveness.

Competitiveness is a key element for success in the international and domestic markets. Although the competitiveness is influenced by numerous factors, it can be increased only if there are competitive companies.

Competitiveness means improving the situation of individuals, companies and countries compared to others. Increasing competitiveness is reflected in the increase in living standards over the long term.

Competitiveness is basically synonymous with productivity and can be enhanced through the use of new knowledge, investment, and increased efficiency. With investment in new knowledge and new technology existing processes can be enhanced together with time saving activities and better efficiency.

Depending on the resources that are available, an increase in competitiveness can be based on different elements. In some cases, the focus is on education, entrepreneurship or the creation of new and dynamic companies. In other cases, the importance is attached to innovation, imports of modern technology or modernizing domestic technology. It is worth noting that there are pre-prepared solutions and that each national economy has certain strengths and weaknesses factors that impact competitiveness. Otherwise, if there were ready-made solutions, anyone could simply apply the recipe and become competitive.

Italian studies from 1999 and 2000 indicate that safe food market reached the status of market niches, and the most important role in the decision of consumers to buy this food, have the availability, security and adequate price level (Pinton, 1999; Carboni et al., 2000).

The quality of food, as well as the quality of any product, is a measure of the competitiveness of the national economy. Therefore, the policy of improving food safety through "European vision of quality" is a prerequisite for an equitable and competitive inclusion of our country in the EU.

**Standardization as a factor of quality** - Standardization is a phenomenon of modern economy that is increasingly promoting the idea of consumer choice. It is present at all levels (international, regional, national, local), in all countries and in all industries.

Standardization represents the processes and activities in reducing many forms of raw materials, products and services to the smallest number of typical patterns of a certain quality, form, size, weight, while standardizing, adapting to a particular sample, and the like. Its main objectives are: the protection of life and health, protection of the interests of consumers (users) and society, security, economy, and so on. Standardization is an activity that includes: preparation, adoption, and implementation of unique solutions to recurrent problems. Subject of standardization is the quality of products as well as a set of product performance, which are based on the ability of products to meet existing and emerging needs.

In addition to the economic aspects, standardization has a technological aspect. It includes unification (unification of dimensions, measure, size, shape, combining multiple specifications) and tissue type (reduction of the number of product types within a series). The subject of standardization can be: products, methods, procedures, operations, processes, dimensions, sizes, symbols, signs, etc.

Models of conformity assessment of products are set to ISO standards, whose implementation can reduce production costs by about 50%, also increases productivity by 50% and profit increase of over 40%.

The main task ISO (International Organization for Standardization) is the creation of international product standards in the broadest sense, which are given as a recommendation to member states. In addition, it works on harmonization and approximation of standards of member countries, in order to facilitate international exchange and efficient quality control, helping to bring standardization.

ISO 9000 is a series of standards that focuses on the satisfaction of consumers. The ISO 9000 does not differentiate between requirements related to system quality and requirements for a product quality. As a result, these standards can be used to all organizations that offer products of all the basic category and to all the features associated with product quality. The quality system requirements are complementary to the technical requirements related to the product. Technical specifications of the products and processes are separate and different from the requirements of ISO 9000.

In the framework of the European Council member countries of EEC in 1985 adopted a new approach to technical improvement and standardization which aims to harmonize the technical legislation (measuring system, standardization, evaluation and

testing, accreditation, certification, trademark, etc.). This project is known as New Vision of European quality system. Two years later (1987), this vision found itself on the agenda of the International Organization for Standardization, which adopted the first version of the standard ISO 9000. After that (2000) was followed by a second version of the standard known as ISO 9001: 2000.

ISO 14000 series of standards is based on the concept of sustainable development. It should be capable of measuring the impact of company operations on the environment and continuous improvement of its performance in protecting the environment. Basically it consists of two groups of standards: those that are related to the introduction of a system of environmental management (ISO 14001, ISO 14010-14012) and other standards - guidelines (for environmental labeling, for measuring environmental performance standards, for life cycle assessments).

The European vision of quality is based on harmonization of five key elements: metrology, standardization, testing and certification, accreditation and quality management.

With harmonization of these five key determinant of the quality system preconditions for the products intended for the EU market was created, that they will meet the conformity assessment procedures laid down by the directives. This is followed by the assessment of conformity of the product, if the product meets the procedure a CE mark is assigned to it. The CE (Conformitee European - European Conformity) symbolizes the compliance with the requirements laid down by Directive EU.

**Competitiveness with quality** - An integrated approach to the analysis of competitiveness should include the system of price (measurable) and non-price (measurable and immeasurable) factors, in order to provide a synthetic assessment of the success of the engagement of business entities in the international market. In the refined product quality competition it is the only way to improve the financial position of the company. Therefore, organizations must define policies, intentions and orientation of the company in relation to quality.

The available literature on competitive strategy says that organizations can achieve a competitive advantage in two ways: lower cost and diversity. Therefore, strategic business planning should be associated with the financial and marketing goals. The strategic quality planning, and systematic approach to setting quality goals so far is treated as a separate activity from different strategic business planning. Quality planning is sometimes performed at lower levels in the organization, and it is focused on production and technology. The role of quality in business strategy, has experienced two significant changes since 1980. First, many organizations have learned that strategically based quality can bring significant marketing advantage. Second, the difference between a quality strategy and general business strategy is becoming fainter. A focus on the customer and operational excellence are the key items of business and an integral part of the overall business planning. Recognizing that quality is the most important element of the financial and market success, led to the trend of quality planning as an integral part of business planning. Therefore, strategic quality planning becomes a synonym for strategic business planning.

Better quality of products and services in relation to the competition can be converted into greater market share or higher prices. The manufacturer benefit will depend on the difference in quality, but also on the competition. Differences in quality, when developing superior quality products and services can be defined as (Juran and Gryna, 1993): differences that are obvious to the user (products or services that have desirable properties lacking all other competing products or services); differences that can be converted into savings of users (some products look like but differ in the operation, maintenance, longer-century of usage or duration of the effects of the application); the differences are small, but they can be proven (products or services that have better properties over competitors and it can be proved by observation or consumption); differences accepted out of trust (products or services where it is not easy to prove the difference, but the belief that it exists is based on trust in the manufacturer).

The basic effort to provide quality is contained in efforts to provide unique properties to the product or service that will differentiate them from other competitors in the market. This approach must be continued, because the environment, the market and competition is constantly changing and developing.

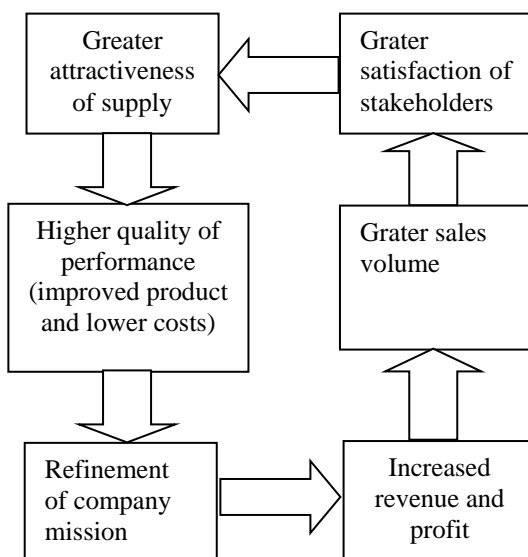
Harmonization of domestic standards with international (ISO) and regional (EN) standards, technical regulations and EU directives, are a priority, because the recognition of certificates and reports on the international or regional level and overall joinment to EU depends on that. At the same time, an essential condition is to ensure the competitiveness, efficiency and effectiveness of Serbian products and the overall economy on the international market. The harmonization of Serbian legislation with the EU is of major importance for transition and achieving competitiveness of agriculture, especially in the current atmosphere of many well-known weakness of privatization, technological backwardness, lacking knowledge, untrained management.

Small percentage of domestic product can compete in the international market with their quality, and improving the quality is one of the priority strategic goals of agriculture and food industry in the Republic of Serbia. A special role in the growth of exports competitiveness is given to harmonization of quality systems with ISO 9000:2000 and HACCP (Hazard Analysis and Critical Control Point). Of the seven fundamental principles of ISO 9000:2000 first place was given to orientation on the customer, because the organization depends on the customer. For the successful implementation of HACCP (control of critical points in the production process) food companies must work under the general principles of ethics for food hygiene and in accordance with the legislation on food security activities.

Investing in quality is confirmed through greater customer satisfaction, resulting in a greater volume of sales, which makes it possible to gain more profit. More profit is the source and stimulus to ennobling mission of the company through investment in improving or maintaining a superior level of quality (figure 2).



*Figure 2. The point of investing in quality*



**Quality, positioning and branding** - Between 60-ies of the last century the world market in general is transformed from "price-market" into the quality market. Price loses its significance, and other product features, such as: quality, shape, ease of use, service life, safety, reliability, speed of delivery, warranty periods, service and supply of spare parts and many other factors become decisive when purchasing products. All of the factors that may affect the competitiveness of products (besides the product price), are classified in non-price competitiveness factors. It is clear that non-price factors have their price and that they were not "non-price". However, to the buyer two components are visible: the price (which could be higher and lower) and the characteristics of the product (which may or may not satisfy the customer completely). The final purchase decision brings a combination of these factors and the selection of the most favorable alternative for the customer.

Based on the structure of competitiveness factors of the goods of one country its national competitiveness can be recognized. Highly competitive countries usually base their competitiveness primarily on non-price factors, among which the technological superiority of product and research and development work, which are embodied in the finished products, through higher product quality, user safety, the ability to meet the new and improvement of existing needs, make the product more attractive than others. The basis of most non-price competitiveness factors are embedded in technological development. Competitiveness of goods, based on technological advantages, represent the technological competitiveness. Technological competitiveness is based on the research and development work.

Philip Kotler (2003) emphasizes the following factors of competitiveness of products:

- Winning through the continuous improvement of the product - continuous improvement of products is a valid strategy, especially if the company can be the leader in improving.
- Winning through the innovation of products - you can often hear - Innovate or perish! Some large companies, such as Sony, reached high profits by introducing new products.

Winning through adaptation and adjustment of the product to the customer - many buyers want the seller to modify its offer so that it include some specific features or services that meet their individual needs.

Kotler believes that the input of good marketing is in the choice of a good commercial name. The process of creating a strong product name consists of many stages. They can be grouped into two: the development of offered value to customers and creating brands.

In the first phase one should start from the fact that companies have limited resources and must decide where to direct them. Related to this, company should:

*Choose clear product positioning* - Porter (1990) proposes three solutions: to differentiate products, to be leader in a low price or have a special place in the market. Porter warns companies that they will lose the battle with companies that are superior in one solution, if they try to be good in all three solutions. The middle way is a kind of trap. It's hard to be the best company in all three areas, and even in two. Most companies do not have enough financial resources to be the best at everything. Moreover, the three value disciplines require different management systems and attitudes, which are often in conflict.

The company should respects the four rules if it wants to achieve success:

- a) to become the best in one of the three value disciplines;
- b) achieve an adequate level of business in the other two disciplines;
- c) continuously improve superior position in the chosen discipline;
- d) continues to become more and more adequate in the other two disciplines, as competition constantly raising customer expectations of what is appropriate and what is not.

*Choosing a specific product positioning* – the companies should not only clearly position it's product, but also to communicate what is specifically obtained by purchasing their products. Most often only one staple of product is advertised, such as: the best quality, performance, most reliable, most durable, safest, fastest, the best thing that money can buy, the cheapest, the most prestigious, best design or style, easy to use and suitable.

During the search for a specific positioning of business unit, according to Kotler, one should consider the following possible sources:

- Positioning according to characteristics (for example, the oldest breweries);
- Positioning according to the benefits for the consumer ("Volvo" says that their car are safer);

- Positioning according to the method of use and application ("Nike" describes one of its sneakers as the best for run, the other for football);
- Positioning according to the users of the product ("Applecomputer" represents their computers and software as best for graphic designers);
- Positioning according to product class (presenting as leader in a given class of products);
- Positioning according to quality/price ratio ("Channel 5" is very good and expensive perfume).

Choosing value (price) positioning of the product - as customers think about what they are receiving for their money, the seller has to position product through value, also. In this regard, there are various options:

- better product - higher price (a luxury product that is a sign of a higher lifestyle, prestige ("Mercedes", "Gucci", some Cuban cigars and the like.);
- better product - same price (for example, "Toyota" presented to the market new Lexus car by promoting it as a product that offers more, but at the same price);
- same product - lower price (all are happy when they can buy a typical product or brand at a lower price than usual);
- weaker product - a much lower price (for example, the supermarket chain "Aldi" in Germany has fewer supermarkets with a smaller range of products, most of which are not found in the shelves but in boxes, and customers have to bring their shopping cart);
- better product - low price (this is especially attractive to consumers in specialized stores, which are characterized by a large range of products in defined category).

Finally, we can say that each brand must adopt a strategy of value positioning in accordance to its target market. Strategy "better product - higher prices" will have one target market, a strategy "weaker product - low price" another, etc. The only value positioning that will surely perish is "weaker product - higher the price" strategy. Here the consumer feels cheated and will avoid that product.

In the second phase (creating brands) marketing skills are particularly prominent. It is important to:

1. The choice of brands name - the desired properties of the name are: it suggests what the product offers; reflect the characteristics of the product such as modes or colors; easy to pronounce, recognize and remember; should be unique; adequate meaning in other countries and languages.
2. Create positive associations - the company needs to ask three questions about association: which associations are positive and which are negative; how strong each association is. The company that is trying to create a brand, should take into account the five dimensions: characteristics (brand should be associated with certain characteristics); benefits; value; character; users (strong brand should suggest what type of people is buying that brand). In short, the brand is strong if a customer connects with its positive attributes, benefits, values, character and users.

3. Tools to create a brand identity - strong brands usually have a characteristic word ("Nestle"), a slogan ("The right choice"), colors (yellow Kodak film), symbols and logos ("Nike" has hired Michael Jordan to advertise sneakers).
4. A set of stories - can be related to the founders and the effort to create a company (think of the role of Henry Ford - and the establishment of his company). Many famous stories are related to the company or its founder, they serve to connect consumer with the brand.

The brand itself implies a relationship between the product and the customer. It means a set of quality and service that the customer can expect. Loyalty to a particular brand creates a satisfying customer expectations. Therefore, the creation of brand, according to Kotler, needs much more than just creating a brand image. It seeks care of every form of contact that a customer may have with the brand.

Brand is not just a set of characteristics of a product of a competitive company, but the means by which the consumer sees, perceives and understands the specific brand products in all its dimensions. Trade mark provides to the consumers consistent and comparable quality regardless of where the product is purchased, and can provide additional psychological satisfaction, given that the status is often associated with the brand.

Successful branding can significantly increase the reputation and the market value of the company. The study, which was conducted in Germany in 2001 showed that the average trade mark constitutes to 56% of the total value of the company - in the field of non-durable consumer goods 62%, durable consumer goods 53%, services 43% and 18% of industrial goods.

Because of its importance, it is necessary to make investments in creating and maintaining brands.

Brand equity is a measure of its intrinsic benefits to consumers. The high level of awareness of consumers on the brand, its market leadership, reputation based on the quality, relevance and high level of brand loyalty – are all elements of the asset value of the brand. The decrease in brand value (brand equity and liabilities) can happen because of the dissatisfaction of consumers, the failure of a product or service on the market, litigation and boycotts, problematic business practices, as well as environmental degradation. Commercially successful brands have a long lifespan, enabling a significant return on assets of the company.

A useful tool for analyzing the process of creating brand value and measuring its effects is a brand value chain. The phases of brand value chain are: investing in brand marketing program, measuring brand perception by consumers, measuring market performance and brand value for the owners. The brand has a positive value, when consumers favor the product that has the brand in relation to the one who does not have the brand, resulting in a positive attitude towards the expansion of consumer brand, less elasticity of consumers to price and propaganda support.

## *CONCLUSION*

Quality is an important factor in the competitiveness of agricultural products and agro-like activity. For adequate implementation of quality systems we need a systematic approach at all levels. An active and effective national strategies and quality policy at macro and micro level, harmonized with corresponding European quality policy. In addition, they require and accompanying measures and activities of the state:

- As part of the strategy of development of agricultural sector, put special emphasis on the quality (standardization and certification).
- To institutionalize and set proper government bodies - bodies that will be stakeholders in the development of technical legislation and harmonize it with European and international legislation.
- Harmonize agrarian legislation, particularly that relating to food safety. When it comes to animal husbandry and veterinary medicine begin with the marking of farm animals, as a first step. The meat industry and dairy products are considered to be the most sensitive to mass production and has to regulary controlled.
- In defining the quality of the food an objective and multidisciplinary approach is needed. The quality of food, in addition to hygienic - toxicology, technological, nutritional and sensory properties, is defined by market - consumer factors.
- To enrich the books and scientific literature in the field of quality management system. We must realize that only with quality we can go to European integration.
- Positioning and products brand are a function of the quality management, which is a new business philosophy and management.

These are all the questions that deserves special attention and further research is needed in this subject area.

Quality of products and services is one of the main conditions when it comes to international market and competitiveness. The quality should be „built in“ human consciousness and that the so-called Movement for Quality should not be seen as a current fad or a fashion accessory. The quality is, in fact, according to ISO 9000, constantly improving, and manufacturing and other organizations coordinated their behavior, operations, performance, marketing and other aspects according to a very dynamic and demanding market.

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