



# **ENTREPRENEURSHIP: TYPES, CURRENT TRENDS AND FUTURE PERSPECTIVES**

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ENTREPRENEURSHIP: TYPES,  
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## **PREFACE**

During the final years of the 1960s, the scientists proved in their studies that there was a tight connection between entrepreneurship and economic development, as well as that entrepreneurship could be developed through planned efforts. Therefore, the development of entrepreneurship and entrepreneurial activities has since become a part of economic development strategies of many countries in the world. Recently, current trends of the modern business system have become closely connected with the continual economic globalization. Those trends involve an increasingly large number of international corporations, they are strengthening global economic competitors, they are determining new types of businesses, changing business culture and styles of leadership, and are introducing great diversity into the work force. Consequently, entrepreneurship is becoming a more dynamic research field embellished with new sub-fields of deliberation and debate.

All major aspects of entrepreneurship are covered in this extensive thematic monography that is divided into six separate parts: financing and investing the capital, innovations, competitiveness, new technologies in business, communication and marketing, leadership, organizational behavior and culture, women entrepreneurs; social and corporate entrepreneurship, inclusive entrepreneurship, as well as the perspectives of entrepreneurial development.

Regardless of the fact that this is an extensive and comprehensive monography, during the making of this concept we were not able to cover all research aspects in the field of entrepreneurship. That seemed impossible given the fact that research areas constantly expand and acquire different forms of interdisciplinarity. However, since this is one highly practical and usable manuscript and since it can be used in education of students and researchers, but also of others interested in this area, I'm expecting that it will quickly reach a wide range of readers and gain plenty of attention.

October 2016.

*Academician Professor Mirjana Radovic-Markovic, PhD*

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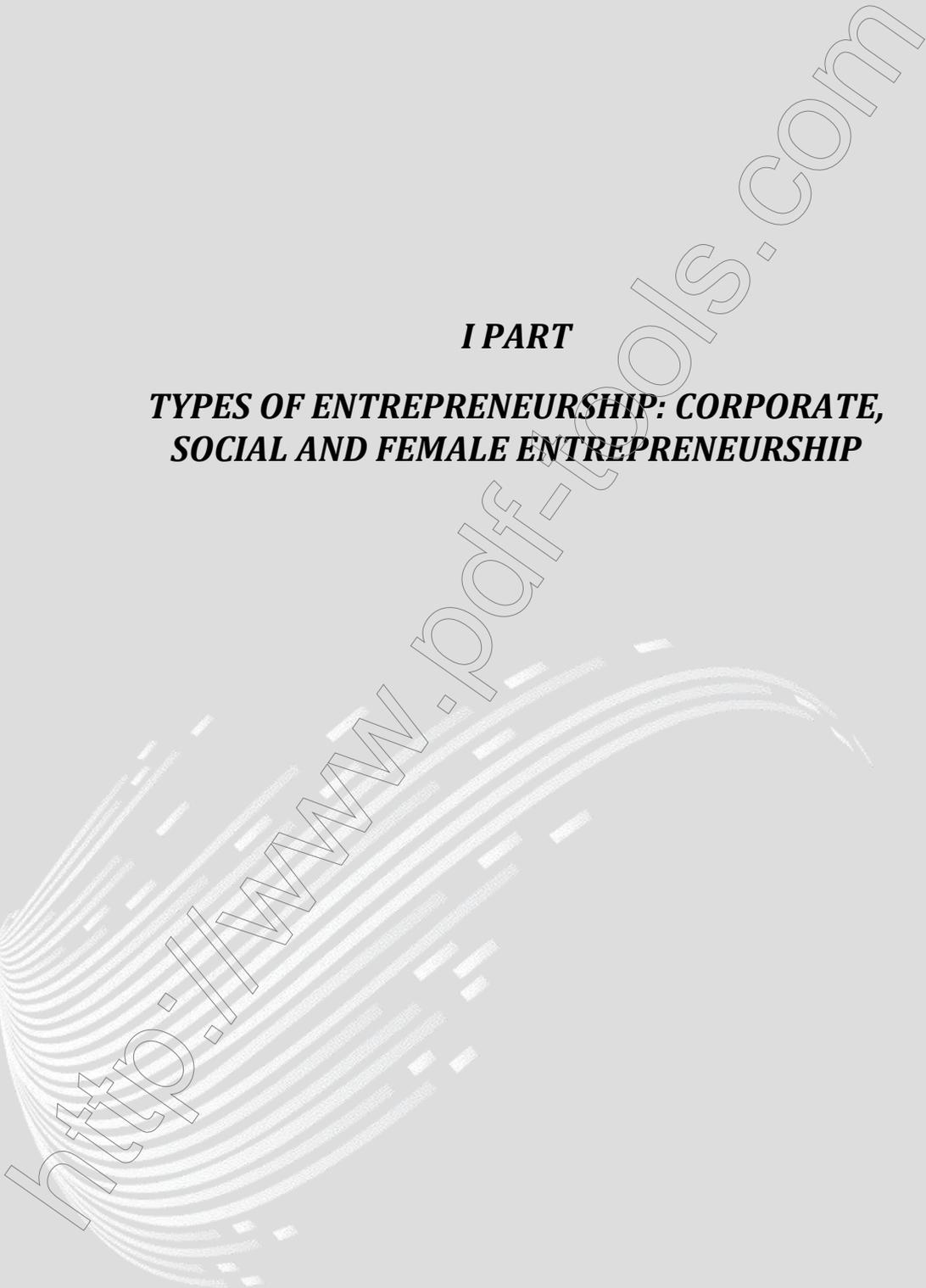
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***I PART***

***TYPES OF ENTREPRENEURSHIP: CORPORATE,  
SOCIAL AND FEMALE ENTREPRENEURSHIP***



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## **CORPORATE ENTREPRENEURSHIP IN SERBIAN PUBLIC SECTOR**

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Djordje Vidicki<sup>2</sup>

### **ABSTRACT**

*This paper presents an empirical study and analysis of corporate entrepreneurship within Serbia public sector. Many authors have pointed that corporate entrepreneurship can be interpreted and measured in many different ways. The research instrument named Corporate Entrepreneurship Assessment Instrument (CEAI), developed in the USA, is used to assess organizational potential for a corporate entrepreneurship. Regarding different characteristics of national cultures, the main aim of this study was to investigate the construct validity of CEAI in case of Serbia. The objective of the study was the attitudes regarding innovation from managers from four public organizations. Data analysis was conducted using SPSS Statistics 19.0. The research findings revealed possible practical implementation of CEAI in Serbian organizations. From a theoretical perspective, the study represents an important step in understanding the internal factors of entrepreneurship in Serbian organizations. The results of research contribute to the literature on corporate entrepreneurship by documenting the existence of an underlying set five stable organizational factors that should be recognized. The study limitations are also suggested.*

**Key words:** Corporate Entrepreneurship, Public Sector, Innovation, Organizational Culture, Serbia

**JEL Classification:** L26, M14

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## **INTRODUCTION**

Many authors stated that corporate entrepreneurship is growth strategy and the way to gain and sustain competitiveness (Dess et al., 1999; Kuratko, 1993; Merrifield, 1993). There is no unique definition of the corporate entrepreneurship. The corporate entrepreneurship includes organization deversification, new ideas as well as entrepreneurship philosophy in the entire organization (Covin, Miles, 1999).

The corporate entrepreneurship focuses on increase of organization ability to absorb innovation. The role of organizational culture is in acceleration of innovation process and affirmation of the entrepreneurship spirit.

The empirical validation of corporate entrepreneurship is complex. Therefore, many authors focused their efforts toward creation the conceptual models that were not empirical tested or implied to a case study analysis. Main contribution of this paper is expand existing literature by empirical validation of the corporate entrepreneurship instrument in Serbian public sector. Hornsby et al. (2008) pointed that for evaluate organization climate and to assess willingness of managers to initiate change, appropriate methodology may be Corporate Entrepreneurship Assessing Instrument (CEAI).

The main aim of this study is assess organizational factor for introducing change in Serbian public sector.

Research questions:

1. Can proposed instrument be used in Serbian public sector?
2. Are organizational factors that support entrepreneurial action supportive for all?

The paper is structured as follows. The first section is devoted to theoretical background in relation to the mere concept of corporate entrepreneurship and corporate entrepreneurship measurement; the second one is devoted to the research context. Third section explains methodology of this study, then we presented results and discuss them.

## **THEORETICAL BACKGROUND**

Any study of corporate entrepreneurship should be start with definition of the term (Holt et al., 2007, p. 41). Regarding the fact that the concept of corporate entrepreneurship is relative new in the literature of management science, there is no consensus about definition or measuring instrument. The authors have identified four types of corporate entrepreneurship: sustainable regeneration, rejuvenation of the organization, strategic recovery and strategic turnaround, considering that there is no precise definition of the term longer that those four categories include most forms of corporate entrepreneurship in organizations (Dess et al., 2003). Generally, corporate entrepreneurship is the process of rebuilding the organization that has two related dimensions - innovation and investment, but also the reconstruction strategy (Zahra, 1993). A larger number of authors believes that corporate entrepreneurship has the following three components: proactive, innovation and the

willingness to take risks (Miller, 1983; Morris, Paul, 1987; Covin, Slevin, 1990; Dean et al., 1993).

Corporate entrepreneurship represents the organizational behavior that requires resources and management support for the development of different types of innovations that contribute to the creation of new value (Kuratko et al., 2005, p. 700). Although the characterization of specific organizational behavior there is no consensus, empirical research have convergence in terms of innovation, proactiveness and risk taking, members of the organization (Covin, Slevin, 1989; Zahra et al., 1999).

Corporate entrepreneurship involves activities that incorporate innovation, new resources, customers, markets or new combination of resources, consumers and markets (Ireland et al., 2009). Includes efforts to innovate, recovery and investment organizations (Zahra, Covin, 1995; Hisrich, Peters, 1998; Sharma, Chrisman, 1999, Mone et al., 1998). Entrepreneurial activity leads to acquiring and retaining competitive advantage regardless of industry and size of the organization (Covin, Miles, 1999; Bhardwaj et al., 2011). It also provides increased profitability, long-term survival, growth and financial stability (Hitt et al., 2001).

Entrepreneurial activities include organizational behavior towards the creation, renewal or innovation (Bhardwaj et al., 2011, p. 188). Important role in promoting entrepreneurial behavior has an organizational culture (Hayton, 2005). Dichotomous categorization of organizational culture on entrepreneurial culture and conservative presented the Miller and Friesen (1982). Entrepreneurial culture accelerates individual creativity, risk-taking and organizational learning, and the basic characteristics of the conservative culture of control, a large number of rules and risk avoidance (Atuahene-Gima, Ko, 2001; Barr, Glynn, 2004; Miller, Friesen, 1982; Quinn, 1988.).

The representation of the dimensions of individualism in the organization has a major impact on corporate entrepreneurship (Morris et al., 1994). Individualism facilitates the non-conformist thinking that supports creativity, while collectivism support cohesion and cooperation necessary for the acceptance of new ideas. The high presence of the dimensions of individualism pointed to the low level of entrepreneurship while moderate presence indicates the high organizational entrepreneurship (Morris et al., 1994; Zahra et al., 2004).

An analysis of the relevant literature in the field of organizational culture and entrepreneurship has shown the importance of stimulating organizational climate influence on the development of the entrepreneurial spirit in organizations (Morris et al., 1994; Zahra et al., 2004; Chandler et al., 2000). Empirically confirmed the impact of the support of management and reward system to develop an organizational culture that supports innovation (Chandler et al., 2000).

Important role in corporate entrepreneurship has its measuring.

At the organization level measurement results can be used as parameters to improve operations in a given period of time. Based on the monitoring of performance of entrepreneurial organization may establish standards within the industry. The instrument, called the index of entrepreneurial performance (EPI)

determining the level and frequency of entrepreneurship in the organization (Morris, 1999). Then Covin and Slevin (1989) created an instrument that they wanted to include entrepreneurial mental schemes focusing on proactive, risk-taking and innovation. Chronological later developed ceai (Hornsby et al., 2002). The measurement is focused on individual perceptions of corporate entrepreneurship which is extremely important given that entrepreneurial behavior are formed by individuals in organizations. Five factors that indicate the existence of corporate entrepreneurship in the organization are:

The management support, which represents the highest level of readiness of managers to facilitate and promote entrepreneurial behavior and includes encouraging ideas and providing resources for entrepreneurial activities. An organization's ability to increase entrepreneurial efforts is conditional on compatibility of managerial experience and their entrepreneurial initiatives.

Preliminary testing ceai included the factor structure and internal reliability. Alpha coefficients for the five factors were 0.89; 0.87; 0.75; 0.77 and 0.64. The only rock organizational boundaries failed to meet Nunnally (1978) recommended the alpha value of at least 0.70.

Since the results of the initial tests were promising instrument has been used by other authors (Adonis 2003; Brizek 2003; Wood 2004; Rhoads 2005; Davis 2006). One result is that the factors should be precisely defined (Davis, 2006).

## **RESEARCH CONTEXT**

Without activities of the public sector mainly establish and sustain legislative, production of public products and services. Term public enterprise includes public companies which are established by Republic of Serbia, Vojvodina Province or local authorities.

Company mainly stated-owned is 1,400 in Serbia, that includes companies in restructuring processes and at some stage in the privatization process.

The main characteristics of the public sector in Serbia are low efficiency and high cost, compared with quality and quantity of provided services. Key problems of public sector are:

1. High costs of state government related to employees' salaries and its participation in GDP,
2. Establishing state agencies before previous assessment of its need,
3. Irrational spending of budget resources through subvention of public companies,
4. Unselective pension system,
5. Inefficient administration.

Level of state spending is 43.49% is Serbia that is closed to developed countries in European Union (IMF, 2015).

Public sector performance is presented in Table 1.

*Table 1: Serbian public sector performance in 2015*

| Administration | Education | Healthcare | Infrastructure | Distribution | Stability | Economic performance | Public sector performance |
|----------------|-----------|------------|----------------|--------------|-----------|----------------------|---------------------------|
| 0.75           | 0.93      | 0.99       | 0.76           | 0.79         | 0.83      | 0.76                 | 0.83                      |

*Source: Public Sector Efficiency Index in Post-Transitional European Countries for 2015*

“Currently bad situation in Serbia suggests that is possible to achieve significant improvements which would amount to decreasing expenses and increasing the quality of public services. Some recommendations for Serbia are:

- to reduce bureaucratic obstacles,
- To reduce corruption.” (Public Efficiency Index, 2015, p. 17).

## **METHODOLOGY**

The study sample consisted of 167 top managers and middle level from four organizations. Two organizations belong to the State administration, is one of the media sector and one organization from the banking sector. The selection of organizations was conditioned willingness of managers to provide the highest level of entry into the organization in which we conducted our research. In order to obtain a greater response by managers we used insiders. The percentage of returned questionnaires varies between organizations and is conditional on the willingness of managers to participate in the study.

We analyzed the following socio-demographic variables of respondents: gender, age, qualifications, work experience and managerial positions. The sample consisted of 76.2% females and 23.8% of male respondents. The highest percentage of respondents, 33.1% belong to the age group of 31-40 years, slightly lower - 30.7% are between 41 and 50 years, followed by the age group 51 years and over (24.7%) and the lowest percentage there are less than 30 years (11.4%).

More than half of respondents have a university degree (55.8%), while 26.3% have secondary education, 9.7% higher and 7.9% have academic title of Master and PhD.

The highest percentage of respondents - 34.1% have more than 20 years of service, followed by 31.7% of respondents have between 11 and 20 years, 20.1% have less than 5 years of work experience, and 14% of respondents were employed from 6 to 10 years.

The largest number of respondents 94.4% of middle management level, and the remaining 5.6% higher level of management.

Research instrument was CEAI consisting of a 48 questions. Respondents were expected to express their level of agreement on a five-point scale where: 1 - strongly disagree, 2 - disagree, 3 - I'm not sure, 4 - agree, 5 - strongly agree. The survey was conducted during the month of May 2015.

Five factors that indicate the existence of corporate entrepreneurship in the organization are:

**Management Support** representing the highest level of readiness of managers to facilitate and promote entrepreneurial behaviour and includes encouraging ideas and providing resources for entrepreneurial activities. An organization's ability to increase entrepreneurial efforts is conditional on compatibility of managerial experience and their entrepreneurial initiatives.

**Work discretion**, which includes tolerance of failure, delegation of authority and responsibility to managers of medium level. It is important that employees are creative in the execution of their tasks. Participation in decisions that affect the business is perceived as challenging and significant.

**Rewards/reinforcement**, which is the development and use of the reward system based on performance and highlighting significant achievements and praise. Reward systems are the main source of individual motivation.

**Time availability** for the initiation of innovation by individuals and groups, as well as the structuring their affairs so as to implement short and long term goals of the organization. To encourage innovation, it is important to provide employees the time to devote to solving long-term problems.

**Organizational boundaries** specify the expected results and developing mechanisms for evaluation, selection and implementation of innovations. Corporate entrepreneurship encourage vertical and lateral communication, multidisciplinary work teams, empowerment of supervisors and the creation of small organizational units.

We got permission by authors to use CEAI for this study. Table 2. Illustrates CEAI instrument.

Table 2: CEAI instrument

| Statements                                                                                           |                                                                         |
|------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| My organization is quick to use improved work methods.                                               | I have the freedom to decide what I do on my job.                       |
| My organization is quick to use improved work methods that are developed by workers.                 | It is basically my own responsibility to decide how my job gets done.   |
| In my organization, developing one's own ideas is encouraged for the improvement of the corporation. | I almost always get to decide what I do on my job.                      |
| Upper management is aware and very receptive to my ideas and suggestions.                            | I have much autonomy on my job and am left on my own to do my own work. |
| A promotion usually follows from the                                                                 | I seldom have to follow the same work                                   |

|                                                                                                                                                            |                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| development of new and innovative ideas.                                                                                                                   | methods or steps for doing my major tasks from day to day.                                                        |
| Those employees who come up with innovative ideas on their own often receive management encouragement for their activities.                                | The rewards I receive are dependent upon my innovation on the job.                                                |
| The “doers on projects” are allowed to make decisions without going through elaborate justification and approval procedures.                               | My supervisor will increase my job responsibilities if I am performing well in my job.                            |
| Senior managers encourage innovators to bend rules and rigid procedures in order to keep promising ideas on track.                                         | My supervisor will give me special recognition if my work performance is especially good.                         |
| Many top managers have been known for their experience with the innovation process.                                                                        | My manager would tell his/her boss if my work was outstanding.                                                    |
| Money is often available to get new project ideas off the ground                                                                                           | There is a lot of challenge in my job.                                                                            |
| Individuals with successful innovative projects receive additional rewards and compensation beyond the standard reward system for their ideas and efforts. | During the past three months, my workload kept me from spending time on developing new ideas.                     |
| There are several options within the organization for individuals to get financial support for their innovative projects and ideas.                        | I always seem to have plenty of time to get everything done.                                                      |
| People are often encouraged to take calculated risks with ideas around here.                                                                               | I have just the right amount of time and workload to do everything well.                                          |
| Individual risk takers are often recognized for their willingness to champion new projects, whether eventually successful or not.                          |                                                                                                                   |
| The term “risk taker” is considered a positive attribute for people in my work area.                                                                       | My job is structured so that I have very little time to think about wider organizational problems.                |
| This organization supports many small and experimental projects, realizing that some will undoubtedly fail.                                                | I feel that I am always working with time constraints on my job.                                                  |
| An employee with a good idea is often given free time to develop that idea.                                                                                | My co-workers and I always find time for long-term problem solving.                                               |
| There is considerable desire among people in the organization for generating new ideas without regard.                                                     | In the past three months, I have always followed standard operating procedures or practices to do my major tasks. |
| People are encouraged to talk to                                                                                                                           | There are many written rules and                                                                                  |

|                                                                                                     |                                                                                                 |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| employees in other departments of this organization about ideas for new projects.                   | procedures that exist for doing my major tasks.                                                 |
| I feel that I am my own boss and do not have to double check all of my decisions with someone else. | On my job I have no doubt of what is expected of me.                                            |
| Harsh criticism and punishment result from mistakes made on the job.                                | There is little uncertainty in my job.                                                          |
| This organization provides the chance to be creative and try my own methods of doing the job.       | During the past year, my immediate supervisor discussed my work performance with me frequently. |
| This organization provides the freedom to use my own judgment. ◇                                    |                                                                                                 |
| This organization provides the chance to do something that makes use of my abilities.               |                                                                                                 |

*Source: Kuratko, Hornsby & Covin (2014), pp. 40-41.*

Data were analyzed using the statistical package SPSS 19.0. Data analysis included frequency analysis, t-test and factor analysis.

## **RESULTS AND DISCUSSION**

Frequency analysis of the four public organizations is presented in Table 3.

*Table 3: Frequency analysis*

| Organization | Frequency ◇ | Valid Percent | Cumulative Percent |
|--------------|-------------|---------------|--------------------|
| Org. 1       | 25          | 15,0          | 15,0               |
| Org. 2       | 43          | 25,7          | 40,7               |
| Org. 3       | 48          | 28,7          | 69,5               |
| Org. 4       | 51          | 30,5          | 100,0              |
| Total        | 167         | 100,0         |                    |

*Source: Authors' calculation*

Analysis of the attitudes of the respondents of different socio-demographic variables shows that there is a different perception of the internal factors of corporate entrepreneurship (see Table 4). Statistically significant differences were identified within a factor of rewarding by the respondents assess much more important for the development of entrepreneurial organizational culture but male respondents (see Table 4).

Table 4: Independent sample test

| Variable | t            | df         | Sig.        | Mean Diff.   | Std. Err. Diff. |
|----------|--------------|------------|-------------|--------------|-----------------|
| Rewards  | <b>-2,88</b> | <b>149</b> | <b>0,00</b> | <b>-2,45</b> | <b>0,85</b>     |

Source: Authors' calculation

Respondents who belong to the age group of 41 to 50 years were significantly more organizational boundaries to assess the significance of the respondents from other age groups (see Table 5).

With regard to education, the respondents who have a college degree consider the awards are important for the development and implementation of new ideas than other respondents.

Respondents who have 5 or less years of service are considered to have significant organizational boundaries to develop corporate entrepreneurship than those who have a longer tenure.

The differences in the assessment of internal factors were recorded within a factor of autonomy of labor between managers middle and senior levels. Higher levels of management to consider that factor significantly accelerates innovation in the analyzed organizations.

Table 5: Post Hoc Tests - Multiple Comparisons

| Dependent variable        |                     |                 |           |       |
|---------------------------|---------------------|-----------------|-----------|-------|
| Organizational boundaries |                     |                 |           |       |
| Age (I)                   | Age (J)             | Mean diff.(I-J) | Stand.err | Sig.  |
| 41-50                     | 21-30               | -2.330(*)       | 1,132     | 0,041 |
|                           | 31-40               | -1.877(*)       | 0,819     | 0,023 |
|                           | Over 51             | -2.267(*)       | 0,884     | 0,011 |
| Rewards                   |                     |                 |           |       |
| Education (I)             | Education (J)       | Mean diff.(I-J) | Stand.err | Sig.  |
| College                   | High school         | 3.301(*)        | 1,303     | 0,012 |
|                           | University          | 3.122(*)        | 1,209     | 0,011 |
| Organizational boundaries |                     |                 |           |       |
| Work experience (I)       | Work experience (J) | Mean diff.(I-J) | Stand.err | Sig.  |
| Less than 5 years         | 6-10                | 3.422(*)        | 1,135     | 0,003 |
|                           | 11-20               | 2.030(*)        | 0,930     | 0,030 |
| Autonomy of labor         |                     |                 |           |       |
| Manager (I)               | Manager (J)         | Mean diff.(I-J) | Stand.err | Sig.  |
| not                       | middle              | -2.746(*)       | 1,251     | 0,030 |
|                           | senior              | -4.857(*)       | 1,972     | 0,015 |

Source: Authors' calculation

Factor analysis showed that 39 items of the questionnaire CEAI describes the subject of research. The items that did not meet the criteria of the factor analysis and principal components are: The time limit for the performance of work tasks and their scope are usually evenly distributed. I do not have time to think about the problems of the whole organization. In the past three months to do their jobs-I used the standard procedure. There are a lot of written rules and procedures in my organization. There is little uncertainty in my work. I have to use the same methods to perform daily tasks. If I make a mistake I will get criticism and punishment. In the last three months-I was overwhelmed-a task assignment. I have a feeling that I pressed timeframes.

Internal reliability measured by Cronbach alpha for the whole questionnaire is 0.927, while the results within the next five subscales: management support - 0.918; Autonomy of work - 0,782; benefits - 0,743; availability of time - 0.465 and organizational boundaries - 0,696.

The study included corporate entrepreneurship and organizational behavior, and pointed to internal factors that encourage entrepreneurial efforts and innovation. In order to provide the answer to the first research question examined the measuring instrument CEAI using factor analysis and evaluation of internal reliability. Factor analysis showed a high degree of reliability of the instrument for accelerating innovation and encouragement of entrepreneurial spirit in the studied organizations. Cronbach alpha entire questionnaire was 0.927. From a management perspective, the results show that CEAI useful tool in the diagnosis of entrepreneurial organizational culture, as it helps in identifying the elements of improvement and development of strategies to initiate and implement innovations in Serbia public sector. However, not all five internal factors met the Nunnally (1978) recommended an alpha value of at least 0.70. Dimension organizational boundaries had slightly lower Cronbach alpha, while the Cronbach alpha factor the availability of time was 0.465.

## **CONCLUSIONS**

The results confirmed that the five internal factors, similar to those proposed in the literature. Component factor analysis with Promax rotation factors and Cronbach alpha coefficients indicate that the following factors provide a more precise Figure of the organizational climate in Serbian organizations: management support, rewards - employee empowerment, accountability and clearly defined job descriptions, autonomy in decision making and time available.

The differences in the factor structure between the original CEAI the results obtained in the Serbian organizations confirm the need for modification of the research instrument in its application in a different cultural environment. The proposed CEAI questionnaire has the potential for future research as well as a diagnostic tool for identifying entrepreneurial organizational culture in Serbian organizations. The potential benefits of modified CEAI are reflected in the determination of disparity between the perceptions of employees and managers, as well as in the development of pro-active entrepreneurial strategies.

The research results have shown different perceptions and internal dimensions with respect to socio-demographic variables of respondents. These findings are preliminary and may be useful when creating training for middle level managers.

From a theoretical perspective, the study represents an important step in understanding the internal factors of entrepreneurship in Serbia. According to the author's knowledge there is no study in Serbia, which is based on the same or similar methodology.

Limitations of the research are reflected in the size of the sample. The sample consisted of 167 managers from four organizations. Examination of a large number of managers from different economic sectors would allow generalization of results on the overall business environment in Serbia. The research results are applicable to the organization of a test can not be applied to different national cultures, nor to other industries. The next survey will cover a larger number of the organizations and individuals of different socio-demographic variables.

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# **IDENTIFICATION OF SUPPORTIVE SOCIAL AND LEGAL ENVIRONMENT FOR SOCIAL ENTREPRENEURSHIP DEVELOPMENT IN THE REPUBLIC OF SERBIA**

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## **ABSTRACT**

*Present innovative movements induce periodic changes, which are obvious to remark and naturally, inevitable to happen. Precisely for these reasons, the paper aims to present social entrepreneurship as an innovative means of resolving social, economic, health, educational and ecological problems in the Republic of Serbia. This is possible to achieve only through unification and use of sustainable business models.*

*The goal of the paper is focused on the synthesis of theoretical facts and assumptions, and seeks to identify opportunities for the development of social entrepreneurship in Serbia through the theoretical development concept, providing ideas on the possible creation of the conditions and environment for successful market performance, by accomplishing social enterprises development, as well as willingness to primarily establish them.*

*The paper's basic mission is to display the potential of social entrepreneurship, as well as to initiate the introductory steps for creating a favorable social and legal environment for the development of social entrepreneurship in Serbia.*

**Key words:** *Social Entrepreneurship, Social Enterprises, Social Environment, Legal Environment, Development*

**JEL Classification:** *M13, Z13*

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## **INTRODUCTION**

Entrepreneurship is the process of creating (planning and creation) of wealth. Engagement of resources (human, material, financial information) is done in order to create return on their engagement. Entrepreneurship is a factor in the development of any society (Andjelic at al., 2015, p. 9). Entrepreneurship includes a wide range of fields like: decision sciences, economics, management, sociology and psychology (Stankovic at al., 2015, p. 65). This is not a new socio-cultural phenomenon that enables the realization of people's capacities in the economic sphere (Andjelic at al., 2015, p. 9) Peter Drucker believes that entrepreneurial competition is the main driver of the development of any economy and society (Andjelic at al., 2015, p. 9).

Social Entrepreneurship is the work of social entrepreneurs. A social entrepreneur recognizes a social problem and uses entrepreneurial principles to organize, create and manage a venture to achieve social change (a social venture). While a business entrepreneur typically measures performance in profit and return, a social entrepreneur focuses on creating social capital. Thus, the main aim of social entrepreneurship is to further social and environmental goals. Social entrepreneurs are most commonly associated with the voluntary and not-for-profit sectors, but this need not preclude making a profit.

The current financial crisis and its global consequences have increased the need to position social questions at the heart of the economy. In that sense, entrepreneurship can be an important way to restore a better balance between economic purposes and social well-being. Indeed, entrepreneurship can be a great source of economic value creation, but it can also be (or at least should be) a means to contribute to greater social justice. This concept seems to be gaining momentum, both in theory and practice, with the emergence of a new field of research: "social entrepreneurship". With a growing number of social assistance beneficiaries, refugees and asylum seekers, it is crucial to provide the support for new models of social entrepreneurship development.

Social entrepreneurship is actually the work of entrepreneurs in the society. A social entrepreneur recognizes a social problem and uses the principles of entrepreneurship to organize, create, and manage the social change achievement venture (a social venture). While a business entrepreneur typically takes profit into account, a social entrepreneur focuses on creating social capital. Thus, the main goal of social entrepreneurship is to improve social and environmental aims. The social entrepreneurs are most often associated with the community and non-profit sectors, but it does not have to stop them from making a profit.

The paper is focused on the synthesis of theoretical facts and assumptions, and seeks to identify opportunities for the development of social entrepreneurship in Serbia through the theoretical development concept, providing ideas on the possible creation of the conditions and environment for successful market performance, by accomplishing social enterprises development, as well as willingness to primarily establish them.

The paper's basic mission is to display the potential of social entrepreneurship, as well as to initiate the introductory steps for creating a favorable social and legal environment for the development of social entrepreneurship in Serbia.

## ***LITERATURE REVIEW***

The terms "social entrepreneur" and "social entrepreneurship" were used first in the literature on social change in the 1960s and 1970s, and came into widespread use in the 1980s and 1990s. The idea of "social entrepreneurship" is well suited to our times. It combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley. The time is certainly ripe for entrepreneurial approaches to social problems. Many governmental and philanthropic efforts have fallen far short of our expectations. Major social sector institutions are often viewed as inefficient, ineffective, and unresponsive. Social entrepreneurs are needed to develop new models for a new century.

In reviewing the various definitions of "social entrepreneurship", "social entrepreneurs", and "social enterprise", a key similarity and a key difference between social entrepreneurship and business, or commercial, entrepreneurship become clear. Both types of entrepreneurship employ the behaviors, skills, processes, tools, and techniques of entrepreneurs: opportunity recognition (adding value by addressing needs), bootstrapping (being creative and efficient when assembling resources), risk tolerance through risk management, innovation, desire for control, network-building capability, and continuous learning (Dees, 1998, Perrini, Vurro, 2004).

The chief difference appears to be the social entrepreneur's focus on social mission achievement as opposed to the commercial entrepreneur's focus on profits for the enterprise's owners. Put another way, the former serves stakeholders; the latter serves shareholders. A slight variation on this is the observation that social entrepreneurs use the pursuit of economic value as a tool for achieving social mission (Perrini, Vurro, 2004).

The terms "social entrepreneurship", "social enterprise" and "social cooperatives" are the key terms in the theory of "social economy" (Report Social Economy Map, 2008, pp. 7-9).

The definition of social entrepreneurship is still one of the main challenges of the sector. The literature continues to combine and connect a set of terms to describe social entrepreneurship including "non-profit ventures, social enterprise, social purpose enterprise, corporate social responsibility, and social innovation" (Raicevic, Glomazic, 2012, p. 13).

Although almost three decades have passed since Edvard Skloot from Surdna Foundation used the term "non-profit enterprise" for the first time, and Bill Drayton of Ashoka Foundation adopted the term "social enterprise", there is still considerable debate about when and where the term is used (Raicevic, Glomazic, 2012, p. 13).

The definition of social entrepreneurship is very diverse in the literature. Both Austin and Stevenson (Austin et al., 2003) relate to social entrepreneurship as a nonprofit initiative, searching for alternative funding strategies and social value management systems. Others, however, observe social entrepreneurship as socially responsible practices of commercial enterprises engaged in cross-sector partnerships (Sagawa and Segal, 2000, pp. 105-122) and Waddock (1988, pp. 17-23). Furthermore, Alvord et al. (2004, pp. 260-282), consider that social entrepreneurship is a means of mitigating social problems and catalyst of the social transformations.

To better understand social entrepreneurship, Nicholls (2006) provides a categorization of institutions based on the extent they engage in social aspects and business activities, ranging from embedded, and integrated, to external enterprise. The typology of Fowler (2000) categorizes entrepreneurial social activities in three main groups: "integrated social entrepreneurship", "re-interpretation", and "complementary social entrepreneurship" (Salamzadeh et al., 2013, p. 19).

Social entrepreneurship represents different models throughout the world. Kerlin (2009) demonstrates, drawing on social origins theory, that a region's history can shape socio economic conditions that influence the emergence and characteristics of social entrepreneurial activity (Hoogendoorn, Hartog, 2010, p.7).

By adding the word "social" in front of the term "entrepreneur", a subset of entrepreneurs with an explicit social mission was created: they continue to innovate in order to create value, but additionally created value must be common. This mission may still contain private wealth creation, but must also include the achievement of social objectives (Raicevic, Glomazic, 2012, p. 15).

The difference between commercial and social entrepreneurs lies in the fact that social entrepreneurs develop business in order to produce social benefits and impact. Solving social challenges is their goal, and the whole business project is built on this basis. For social entrepreneurs, social impact is not only a result of their entrepreneurial activities, as is often the case with commercial entrepreneurs, but is the main goal (Raicevic, Glomazic, 2012, p. 15).

*"Social entrepreneur is an individual, group, network, organization, or alliance of organizations seeking for a high-level sustainable change through the ideas which develop frameworks where governments, non-profit and business sector do not invest significant effort, in order to address the significant social problems"* (Dees, 2004, pp. 3-18).

GEM Study shows the percentage of working age in 49 countries willing to establish a social enterprise, are in the process of social enterprise establishment, or manage social enterprise (Table 1), as well as social entrepreneurial activities of working age in the year 2009 (Study Centre for Social Investment and Innovation Germany, 2013) – Figure 1.

Table 1: Rates of SE Categories by Country and Region

|                   | Country        | Traditional<br>NGO | Not-<br>For-<br>Profit<br>SE | Economically<br>Oriented<br>Hybrid SE | Socially<br>Oriented<br>Hybrid<br>SE | For-<br>Profit<br>SE | Strictly<br>Defines<br>SE | Broadly<br>Defined<br>SE |
|-------------------|----------------|--------------------|------------------------------|---------------------------------------|--------------------------------------|----------------------|---------------------------|--------------------------|
| Western<br>Europe | Belgium        | 0.45               | 1.07                         | 1.06                                  | 0.98                                 | 0.50                 | 3.10                      | 4.05                     |
|                   | Finland        | 0.53               | 1.80                         | 1.53                                  | 2.73                                 | 0.94                 | 6.06                      | 7.54                     |
|                   | France         | 0.14               | 0.63                         | 0.96                                  | 1.13                                 | 0.24                 | 2.73                      | 3.11                     |
|                   | Germany        | 0.27               | 0.31                         | 0.74                                  | 0.35                                 | 0.45                 | 1.41                      | 2.12                     |
|                   | Greece         | 0.29               | 2.04                         | 0.64                                  | 0.50                                 | 1.28                 | 3.18                      | 4.76                     |
|                   | Iceland        | 0.36               | 2.64                         | 1.15                                  | 3.57                                 | 1.89                 | 7.36                      | 9.60                     |
|                   | Italy          | 0.27               | 0.55                         | 1.32                                  | 0.45                                 | 0.69                 | 2.32                      | 3.28                     |
|                   | Netherlands    | 0.24               | 0.71                         | 0.19                                  | 0.81                                 | 1.30                 | 1.71                      | 3.25                     |
|                   | Norway         | 0.11               | 0.80                         | 0.86                                  | 0.70                                 | 2.00                 | 2.36                      | 4.48                     |
|                   | Spain          | 0.09               | 0.28                         | 0.38                                  | 0.19                                 | 0.52                 | 0.85                      | 1.45                     |
|                   | Switzerland    | 0.08               | 0.74                         | 2.27                                  | 1.40                                 | 1.11                 | 4.40                      | 5.59                     |
|                   | Un.<br>Kingdom | 0.37               | 1.76                         | 1.01                                  | 1.44                                 | 1.16                 | 4.22                      | 5.75                     |
|                   |                | Average            | 0.27                         | 1.11                                  | 1.01                                 | 1.19                 | 1.01                      | 3.31                     |
| Eastern<br>Europe | BiH            | 0.00               | 0.50                         | 0.37                                  | 0.21                                 | 0.81                 | 1.08                      | 1.90                     |
|                   | Croatia        | 0.38               | 2.12                         | 2.49                                  | 1.34                                 | 0.66                 | 5.94                      | 6.98                     |
|                   | Hungary        | 0.11               | 0.49                         | 2.17                                  | 0.80                                 | 0.31                 | 3.45                      | 3.87                     |
|                   | Latvia         | 0.63               | 0.87                         | 0.71                                  | 0.69                                 | 1.51                 | 2.27                      | 4.41                     |
|                   | Romania        | 0.27               | 0.20                         | 1.32                                  | 0.37                                 | 0.31                 | 1.89                      | 2.47                     |
|                   | Russia         | 0.15               | 0.18                         | 0.77                                  | 0.05                                 | 0.05                 | 1.00                      | 1.20                     |
|                   | Serbia         | 0.47               | 1.53                         | 0.12                                  | 0.25                                 | 0.49                 | 1.91                      | 2.87                     |
|                   | Slovenia       | 0.47               | 1.27                         | 0.91                                  | 1.52                                 | 1.26                 | 3.71                      | 5.44                     |
|                   | Average        | 0.31               | 0.89                         | 1.11                                  | 0.66                                 | 0.68                 | 2.66                      | 3.64                     |
| Latin<br>America  | Argentina      | 1.15               | 4.02                         | 1.75                                  | 1.73                                 | 1.08                 | 7.50                      | 9.73                     |
|                   | Brazil         | 0.05               | 0.28                         | 0.03                                  | 0.00                                 | 0.29                 | 0.30                      | 0.65                     |
|                   | Chile          | 0.01               | 1.12                         | 1.45                                  | 0.97                                 | 0.91                 | 3.54                      | 4.46                     |
|                   | Colombia       | 0.01               | 0.52                         | 4.05                                  | 1.14                                 | 1.05                 | 5.72                      | 6.78                     |
|                   | Ecuador        | 0.02               | 0.21                         | 0.45                                  | 0.02                                 | 0.14                 | 0.68                      | 0.83                     |
|                   | Guatemala      | 0.04               | 0.05                         | 0.33                                  | 0.06                                 | 0.25                 | 0.45                      | 0.73                     |
|                   | Panama         | 0.07               | 0.00                         | 1.38                                  | 0.25                                 | 0.27                 | 1.63                      | 1.97                     |
|                   | Peru           | 0.07               | 0.32                         | 3.33                                  | 0.48                                 | 0.17                 | 4.13                      | 4.36                     |
|                   | Uruguay        | 0.30               | 1.24                         | 1.53                                  | 0.70                                 | 0.45                 | 3.47                      | 4.21                     |
| Venezuela         | 0.34           | 0.64               | 2.15                         | 0.96                                  | 0.31                                 | 3.75                 | 4.40                      |                          |
|                   | Average        | 0.21               | 0.84                         | 1.64                                  | 0.63                                 | 0.49                 | 3.12                      | 3.81                     |
|                   | China          | 0.56               | 0.83                         | 2.86                                  | 0.61                                 | 1.82                 | 4.30                      | 6.68                     |

Source: The study of the Centre for Social Investment and Innovation in Germany, 2013.

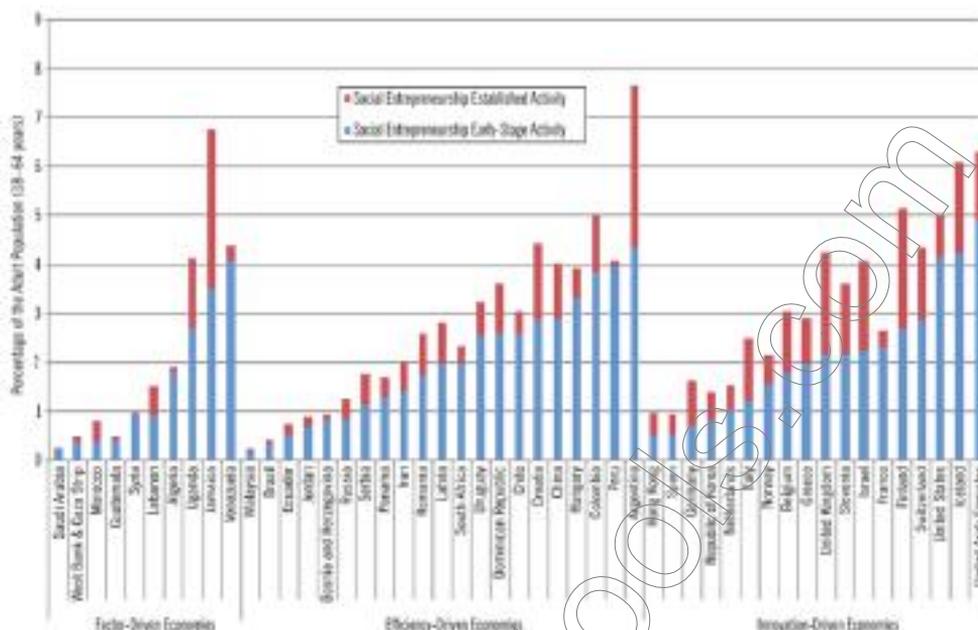


Figure 1: Social entrepreneurial activities of the working age population  
 Source: The study of the Centre for Social Investment and Innovation in Germany, 2013

The language of social entrepreneurship may be new, but the phenomenon is not. We have always had social entrepreneurs, even if we did not call them that. They originally built many of the institutions we now take for granted. However, the new name is important in that it implies a blurring of sector boundaries. In addition to innovative not-for-profit ventures, social entrepreneurship can include social purpose business ventures, such as for-profit community development banks, and hybrid organizations mixing not-for-profit and for-profit elements, such as homeless shelters that start businesses to train and employ their residents. The new language helps to broaden the playing field. Social entrepreneurs look for the most effective methods of serving their social missions.

Entrepreneurship is a multidimensional phenomenon and is shaped by the context in which it operates. The entrepreneurial process, generally defined as "how, by whom and with what effects opportunities to create new goods and services are discovered, evaluated and exploited" (Shane, Venkataraman, 2000), is very much conditioned by the level of economic development and the cultural, political and social contexts in which it appears (Atamer, Torres, 2008). It is common knowledge, for example, that entrepreneurship in developing countries, or countries in transition, is quantitatively and qualitatively different from what we observe in most industrially developed countries.

The main vocation of social entrepreneurship – besides new venture creation with a social purpose – is to meet social and societal needs that have not yet been addressed by the state or the commercial sector (Alvord et al., 2004; Thompson, 2002). Unlike the commercial and capitalistic economy, which is narrowly

concerned with meeting strictly financial objectives, social entrepreneurship promotes a logic of solidarity that favors social cohesion and welfare.

Social entrepreneurship can be comprehended through the concept of social economy, but also defined as the third economy sector – in addition to private and public. It is important to note that social economy includes numerous economic activities with a strong social orientation (Raicevic, Glomazic, 2012, p. 132). In fact, these activities are carried out at a local, national, and international level. They are voluntary and unprofitable, and aim at making profits only for financial sustainability, not primarily for financial gain, because of their social mission. The process of a society re-engineering is significantly influenced by these activities.

When it comes to social enterprises, one of the best definitions is given by the European Research Network EMES (European Research Network): "Social enterprises are private organizations that do not conduct business in order to create profits, but to provide goods or services that are directly related to their explicit goal - to work for the benefit of the community "(EMES, 2006). They rely on a collective dynamics generated by various types of stakeholders in their governing bodies, who highly appreciate their autonomy and bear economic risks associated with social enterprises activity (Gopa Consultants, 2009, p. 12).

Social enterprises emerged as an innovative response to the rising needs for poverty problem solving and contribution to the creation of social cohesion in the society (Corporation for the Development of Social Entrepreneurship, 2014, p. 6).

United States, for example, social entrepreneurship emerges at the crossing of market and civil society against the background of a strong but reluctant state and a long tradition of market reliance. In Latin America, on the other hand, social entrepreneurship and co-operative models of social businesses are more or less positioned at the same crossing as the United States but for different reasons. In the Southern part of the American continent, social entrepreneurship is even more strongly associated with civil society since both the public and the private sectors are less well developed and problems such as poverty and production conditions are poorly addressed. In Europe, in contrast, social entrepreneurship is strongly supported by local government and European Union policy (Hoogendoorn Hartog, 2010, p.7).

This is evident for example at a European level where the European Commission executes a policy towards 'social economy' enterprises aiming to guarantee a "playing field in which they can compete effectively in their markets and on equal terms with other forms of enterprise, without any regulatory discrimination and respecting their particular principles, modus operandi, needs, particular goals, ethos and working style" (Hoogendoorn, Hartog, 2010, p.7).

Social entrepreneurship has already been present in Europe for decades. It has its roots in Italy, which is still the country with the largest number of social enterprises. Simply put, social entrepreneurship supports a business with the idea that the profits earned by selling goods or services, should fulfill their clear social mission. This actually means that the acquired funds do not serve to maximize the assets of an individual, but to invest in the employment of people struggling to find

work, social and medical services, education, environment protection, or cultural activities in the community.

The importance of social entrepreneurship development is reflected in the social protection, employment and labor market activation (where charges of social assistance are reduced, and thus resolving not only the issue of poverty, but also discrimination, human rights and dignity).

### **GOOD PRACTICES IN THE WORLD**

Although rarely used until the mid-1990s, the concepts of "social enterprise", "social entrepreneurship" and "social entrepreneur" are now increasingly discussed in various parts of the world. The bulk of the literature is still being produced in Western Europe and the United States, but these three concepts are attracting much interest in other regions, such Central and Eastern Europe, South- Eastern Asia (especially South Korea, Japan and Taiwan) and Latin America.

If the opportunity space for social entrepreneurship is defined by the local social, economic and political arrangements, then it is not surprising that the social entrepreneurship phenomenon manifests itself differently in different contexts. As a result, researchers, policy makers or businesses have to situate the phenomenon (or the social entrepreneurial actor) in a specific context in order to understand it fully. The vast body of research undertaken on "varieties of capitalism" provides a useful lens to understand entrepreneurship across economic and cultural contexts (Jackson, Deeg, 2008).

Following this research tradition and applying a stylized classification to the contexts where social entrepreneurship takes place conform to three main types:

- 1) The liberal economy, in which the market mechanism is considered the best way to shape and maintain economic and social justice (the US economy is an example);
- 2) The cooperative economy, in which the state plays an important role in redistributing wealth, and markets are conditioned by regulative interventions (for example most European economies); and
- 3) The informal economy, in which neither the state nor the market can create wealth and maintain social justice but instead affiliation to social groups determines the local creation and distribution of wealth and justice (a good example is India, but many countries of Latin America and Asia also conform to this type).

For example social entrepreneurship in India, Bangladesh and Pakistan is very much shaped by the political context or, more specifically, by the political problems in those countries since independence. In India, for example, many social entrepreneurs address the huge gap that exists between formal legislation (which recognizes no discrimination across social strata) and social reality (the prevalence of the caste system). In Bangladesh social entrepreneurial organizations such as BRAC or Grameen have assumed the role and activities of absent or ineffective government. In addition the opportunity space for and activities of social

entrepreneurs in this part of the world is shaped significantly by the natural disasters occurring on a regular basis (flooding and hurricanes in Bangladesh and the Western part of India, as well as earthquakes in Pakistan). Social entrepreneurs have created organizations that complement and substitute for missing action by national and international relief activities.

In many Latin American countries the political heritage of weak and corrupt governments and public sectors has encouraged entrepreneurial solutions to social problems. An additional important factor to understand the entrepreneurial activity in this part of the world is the strong influence of the Church. Traditionally the churches have encouraged entrepreneurial – or informal – approaches to social issues. More recently the entrepreneurial spirit developed under such regimes has independently taken off. However, similar to South Asia, it is the specific political and socio- cultural context that has shaped social entrepreneurship.

In traditional liberal economies such as the US, local social and cultural aspects do affect social entrepreneurship. Specific target groups, such as Native Americans or inner city poor that have been to some extent ignored by public social systems are at the center of social entrepreneurial activities. Another important opportunity space for social entrepreneurs in liberal economy countries such as the US is the weak execution of public responsibilities. For example the public education system is failing in a number of aspects and one of the biggest criticisms is that it fosters educational inequality. Social entrepreneurs such as Wendy Kopp, who set up Teach for America to address this failure, have come up with innovative ways to tackle this specific problem and to make sure that ‘one day, all children in this nation will have the opportunity to attain an excellent education’ (Teach for America, 2009).

Finally, in Europe new socio-demographic trends such as increased immigration from Africa and Eastern Europe pose important challenges to the portfolio of social services offered by the public sector. New needs are also emerging as traditional ways of doing things clash with modern practices and expectations. In Germany, for example, the traditional shared belief that women with children under four should stay at home to look after them clashes with new career models for women. The lack of social infrastructure to take care of babies and young children during working hours thus provides an opportunity space for social entrepreneurs.

In their first study (1996–99), which included the 15 countries composing the European Union at the time, the EMES Network’s researchers had devoted themselves to describing and analyzing social enterprises emerging in one or several of the three following fields: training and reintegration through work, personal services and local development (Borzaga, Defourny, 2001). Some of the national realities surveyed are listed in Table 2, whose main objective is to provide an illustration of the conceptual developments we have described above.

Table 2: Examples social enterprises in EU

| Sectors                           | Countries      | Examples                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Personal services                 | Austria        | Children's groups: childcare services supported by a high level of parental involvement.                                                                                                                                                                                                                                                                                                                               |
|                                   | France         | <i>Crèches parentales</i> (parent- led childcare organizations): childcare services partly led and managed by parents. These organizations have formed a national network.                                                                                                                                                                                                                                             |
|                                   | Denmark        | <i>Opholdssteder</i> (social residences): residential institutions designed as an alternative to conventional institutions for children and adolescents with difficulties. They focus on training and care services.                                                                                                                                                                                                   |
|                                   | United Kingdom | Home care co- ops: cooperatives employing their members, mainly women with dependents at home, on a part- time basis.                                                                                                                                                                                                                                                                                                  |
|                                   | Sweden         | <i>LKUs</i> : cooperative local development agencies organized at the national level (FKU); their objective is to rehabilitate and reintegrate individuals with a mental handicap.                                                                                                                                                                                                                                     |
|                                   | Italy          | <i>Cooperative sociali di tipo A</i> (A- type social cooperatives): cooperatives active in the fields of health, training or personal services, operating within the legal framework adopted by Italy's national parliament in 1991.                                                                                                                                                                                   |
|                                   | Portugal       | <i>CERCIs</i> : cooperatives for the training and rehabilitation of handicapped children; they merged into a national federation in 1985.                                                                                                                                                                                                                                                                              |
| Training integration through work | Belgium        | <i>Entreprises de formation par le travail</i> (EFTs, on- the- job- training enterprises) and <i>entreprises d'insertion</i> (EIs, work- integration enterprises) in the southern part of the country; <i>invoegbedrijven</i> (work- integration enterprises) and <i>sociale werkplaatsen</i> (social workshops) in the northern part of the country.                                                                  |
|                                   | Italy          | <i>Cooperative sociali di tipo B</i> (B- type social cooperatives): co- operatives active in the field of work- integration of individuals in precarious situations (1991 legal framework).                                                                                                                                                                                                                            |
|                                   | Germany        | <i>Soziale Betriebe</i> (social enterprises): these market- oriented social enterprises receive temporary public assistance. Their goal is to create jobs and promote economic development while aiming at the social and development while aiming at the social and occupational integration of the long- term unemployed. The jobs are created either in existing private enterprises or within the framework of the |

|                          |                        |                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                          |                        | starting- up of new enterprises.                                                                                                                                                                                                                                                                                                                                                      |
|                          | <b>Luxembourg</b>      | Associations (and sometimes cooperatives) providing their members with integration through work and economic activities in various fields, including environment, agriculture, construction, recycling of waste etc.; most are pilot projects subsidized by the state.                                                                                                                |
|                          | <b>Spain</b>           | Work- integration enterprises for the handicapped or individuals excluded from the conventional labour market. In both cases, the current trend is to provide access to transitional employment designed to ultimately integrate the target groups into the conventional labour market, rather than providing them with long-term 'sheltered' jobs.                                   |
| <b>Local development</b> | <b>Finland</b>         | Labour co- ops, organized by region into nine Cooperative Development Agencies (CDAs); they constitute an important lever for economic development at the local and regional levels. These cooperatives differ from traditional workers cooperatives in that they subcontract their members services to other enterprises.                                                            |
|                          | <b>The Netherlands</b> | <i>BuurtBeheer Bedrijven</i> (BBB, neighbourhood management enterprises): independent enterprises developing proximity services; they provide the inhabitants of disadvantaged neighbourhoods with the opportunity to perform paid work either in the maintenance/improvement of private residences and shared infrastructure or by providing social services in their neighbourhood. |
|                          | <b>Greece</b>          | Agri- tourism cooperatives: cooperatives set up by women living in rural areas with tourism potential; they provide services in the areas of accommodation, catering and small crafts.                                                                                                                                                                                                |
|                          | <b>Ireland</b>         | Local community development enterprises with various legal forms; they provide a variety of services, including social housing, work integration, credit (credit unions), proximity services etc.                                                                                                                                                                                     |

Source: (Borzaga and Defourny, 2001)

### **SOCIAL ENTREPRENEURSHIP SECTOR IN SWEDEN**

Today the official number of social enterprises in Sweden is approximately three hundred. The actors on the social entrepreneurship arena are all but a homogenous group, independent of being described by the Government, Academia, Institutions, or different support structures. Moreover, there is currently no

overarching legal definition of social entrepreneurship or social enterprises. Nevertheless, social enterprises do have a range of different legal forms including *joint-stock companies* (Aktiebolag), *cooperative economic associations* (Ekonomiska föreningar), *trading companies* (Handelsbolag), *not-for-profit associations* (Ideellaföreningar) and *foundations* (Stiftelser).

Joint-stock companies are owned by shareholders who own a portion of the company in proportion to his or her ownership of the company's shares. Cooperative economic associations, as legal entity, conduct economic activities to the mutual benefit of their members. Trading companies refers to an association of persons or an unincorporated company where the company (together with the individual owners) is co-responsible for any legal liability procured by the company. Not-for-profit associations use surplus revenues to achieve their goals rather than distributing them as profit. Foundations are the legal categorization of not-for-profit organizations sustained by donated funds, which are used to support causes, individuals or other organizations. A new addition is joint-stock companies with a limited distribution of profits. This latest addition has not been very successful and is only applied by a limited amount of social enterprises. At the present time, a majority of the social enterprises are conducted as not-for-profit associations. As such, they do not aim to make a profit and are as a result exempted from paying income tax.

Most of the current social enterprises in Sweden are operating within the service sector with the main objective to integrate marginalized people that for various reasons have not established themselves on the labor market. As a result, empowerment is one of the central outcomes of social enterprises. This is normally achieved through employment and co-ownership.

Social enterprises in Sweden vary considerably in size and activity. The smallest enterprises have only a few employees, whereas the largest accommodates several hundred. Similarly there is a significant difference in yearly revenues, varying from 30.000 to 30 million Swedish kronor.

The social enterprises offer services and products to the private and public, as well as the civic sector. The activities range from cleaning and janitorial services to various welfare services (i.e. healthcare, education and elderly care) and recycling. Given this background *Adviva 100* can be mentioned. The enterprise, which in 2013 won the price for best Swedish social innovation, is only hiring people with disabilities. Other newly established Swedish social enterprises that have gained considerable attention are "*Mattecentrum*" – free after school math teaching for children and adolescents, "*Mitt liv*" – integration of newly arrived immigrants in the labour market through mentoring and education, "*The Fair Tailor*" – production of fair trade textiles, "*European Sign Language Centre*" – making sign language available through a web based computer program and *Yallatrappan* – café and catering, a cleaning and conference service and a sewing and design studio with IKEA as a client (Persson, Hafén, 2014).

## **THE NETHERLANDS – FUND AND DIGITAL PIONEERS ACADEMY**

Since the beginning of the digital revolution, social problems can be approached in a radically different way, especially with the use of the social media. At each level, the citizens can face and deal with social problems through mutual cooperation. Online communication has empowered civil society organizations and ad hoc groups of citizens to influence their communities and to shape them. A small-scale the “Digital Pioneers Fund” was launched in order to help civil society groups leading online projects. It was established by an independent think tank Knowledge land, financed by the Ministry of Education, Culture and Science.

In the past eight years the Digital Pioneers Fund supported more than 175 projects (many of them run by individuals or organizations that have never before had filed a request for funding). The projects are supported by funds from 5,000 to 32,000 Euros, and were related to a series of issues (from the expansion of the network for measuring noise pollution to the online bookstore for children with learning difficulties, to online communities for immigrants). The Fund has also supported a number of significantly different approaches (some developed software put at disposal of others, some produced content to highlight certain social problems, while others provided a platform for social inclusion and inclusion). More than 80% of these projects were successful, and together they have more than two million visits per month (Gopa Consultants, 2009, p. 34).

The Digital Pioneers Fund supported a series of groups from certain communities by helping them to overcome the obstacles they faced in the beginning. The Fund assisted with transforming good ideas into viable projects, because sustainability is the greatest challenge. To induce the transformation of initiatives into sustainable projects, the Fund established the Academy of Digital Pioneers - an intensive four-month course that helps these initiatives to develop a business plan and determine their dependence on project financing (Gopa Consultants, 2009, p. 34).

Since 2007, more than 50 projects successfully graduated from the Academy of digital pioneers. Most still exists in the form of independent organizations. In December 2010, the eighteenth and final round of the Digital Pioneers Fund came to an end. Although the Internet still offers huge potential to civil society initiatives, the organization switched to other types of initiatives to will support and implement. In the last two years, their approach has been designed for initiatives dealing with e-participation, open government, and new forms of citizen journalism (Gopa Consultants, 2009, p. 12).

## **DENMARK – THE COPENHAGEN CITY HONEY COOPERATIVE**

Man's best friend among the insects - a bee - quietly disappears across Europe. New methods in agriculture, exotic bee diseases, and climate change are destroying ecosystems to the point that bees can no longer survive without beekeepers (Gopa Consultants, 2009, p. 34). However, traditional beekeepers are in decline s well.

They're getting older, have a small number of bees, and are facing competition caused by importing honey.

Oliver Maxwell founded the cooperative based on four pillars:

- more bees should be kept in cities,
- new generation of beekeepers should be nurtured,
- easier methods need to be developed in order to attract and help more people in becoming beekeepers,
- to develop strategy for increasing customer interest for traditional, high-quality Danish honey.

Oliver began to meet with beekeepers and biologists to learn about bees. He gathered a group of people who were engaged in the development of housing associations and employment projects, met with businessmen and local authorities. One group knew the bees, the other one had knowledge of social problems and the local labor market, and the third understood business principles. Therefore, Oliver and his team planned the creation of a new urban beekeeping cooperative, which they would own and would be led by the beekeepers themselves. They have launched five new bee farms, out of which each trained 12 new beekeepers and brought 15 new colonies of bees in the city - three million new bees and 60 new beekeepers every year. Furthermore, they have established a honey factory, which provided new jobs in the processing of honey and selling the honey products to Copenhagen residents (Gopa Consultants, 2009, p. 34).

The process required to balance social objectives with the need for financial sustainability and marketability of honey and honey products. The financial crisis caused companies to reduce the number of staff and funding for the project in the context of corporate social responsibility. The project is supported by local and national beekeepers association.

This model has become the template for other Danish social enterprises. Some key companies became interested to provide their additional space in the loft and ground floor for beekeeping. When the project was launched, 30 beekeepers working on development projects gathered to form an association. Five social projects - most popular nationally - approved this trial project. The requests for funding and business plans were written and approved, while the cooperative showed that social entrepreneurship can lead to financially sustainable and socially useful projects.

Understanding what makes some countries or regions more social entrepreneurial than others is particularly relevant as many governments attach high hopes to the potential of social entrepreneurship to solve some of the pressing problems of our times against the background of diminishing budgets. Moreover, the number of social enterprises can be substantial and therefore understanding the drivers of this type of activity is of interest for policy-makers from an employment, investments and service provision perspective. In addition, these insights are relevant for private support organizations and individuals stimulating the strategic development of social entrepreneurship such as promotion and the creation and improvement of sector infrastructure (Hoogendoorn, Hartog, 2010, p. 5).

## ***SOCIAL ENTREPRENEURSHIP IN SERBIA***

Social entrepreneurship in Serbia exists in the form of the individual initiatives where the problems of unemployment and social exclusion are addressed in independent cases. Bearing in mind socioeconomic environment in the country, there are numerous opportunities for new forms of support in all areas of the social protection system.

The actual fact is that the labor market is not developed sufficiently to be the key factor of social integration. On the other hand, the process of economic transition has not been completed, and macroeconomic stability is highly influenced by the global financial crisis, which leads to a conclusion that social entrepreneurship should have a significantly important role in creating new jobs in the market.

Furthermore, a large number of institutional activities for business environment improvement and stronger lobbying through the Serbian Chamber of Commerce and other institutions could contribute to social enterprises becoming the actors in the system of social protection. However, before this idea can be carried out, the profile of a social enterprise in Serbia should become recognizable, which is not simple, because the current legal framework does not identify the organizations that would strictly fit the definition of social enterprise.

The poverty in Serbia has been dramatically increasing since the nineteen-nineties. A growing number of people live just above the poverty line, and a rising number of people are becoming poor. This is due to social exclusions, lack of access to public services and markets, and the lack of equal opportunities for all.

Based on the 2014 survey on incomes and living conditions (SILK) by the Republic Institute for Statistics, it was found that the poverty risk rate is 25%, where the citizens aged up to 18 years are the most exposed to the risk of poverty (30%), the risk rate is the lowest for the population above 65 years of age (20%). The employment rate in the first quarter of 2014 (Republic Institute for Statistics, 2014) was 38.4%, the unemployment rate was 20.8% and the informal employment rate 20.5%.

The survey results showed that most vulnerable groups in the Serbian labor market are the Roma, persons with disabilities, refugees and dislocated persons, while the category of particularly vulnerable groups consists of the groups of specific socio-economic and demographic characteristics (women, young people, older people, and lower educated and rural populations).

The profile of social entrepreneurship in Serbia should become more recognizable, but the problem is that the current legal framework does not distinguish the organizations that would strictly fit the definition of a social enterprise. We identified six types of organizations that closely resemble the concept of a social enterprise and are, therefore, the basis for the mapping. Those are:

- associations of citizens,
- cooperatives,
- professional enterprises for employment of persons with disabilities,
- dependent spin-off companies founded by the associations of citizens (mostly in the form of limited liability and joint stock companies),

- business incubators, and
- agencies for development of small and medium enterprises.

According to the results of a research conducted within the project "Economic Impact of Social Enterprises" (group of authors, 2014, p. 33), the share of social enterprises, which employ 10,326 people in the gross domestic product is 0.2 percent (about 6.8 billion dinars), while similar enterprises in the EU employ 14.6 million people or 6.5 percent of working-age population. This project depicted precisely the criteria for 1,200 social enterprises in Serbia. Social entrepreneurship is a chance to create a healthy economic subject with the support of the government, because the main problem represents the lack of money (no grants).

It was pointed out that social entrepreneurship in our country is less developed than in the EU, despite the fact that the need for this kind of activity is extremely high, and that about 100,000 families (about 250,000 people) live on social assistance. Serbia has 1,196 active social enterprises (EU registered two million), while two thirds are cooperatives (group of authors, 2014, p. 33).

In addition to the overall development of the entrepreneurship sector, it is necessary to focus its development so that it had a better social impact. One example of this is the employment of people from the so-called vulnerable groups, since they make up only 16.8 percent of employees in social enterprises. The greatest potential offers the companies employing people with disabilities, and who were subsidized by the government. Cooperatives, which are the most numerous, don't have a significant social function and citizens associations are not powerful employers, because their main contribution is the transfer of income for social purposes.

### ***OBSTACLES FOR DEVELOPMENT OF SOCIAL ENTREPRENEURSHIP IN SERBIA***

It should be emphasized that social enterprises, as the leaders of social entrepreneurship development, contribute to the achievement of important social objectives such as increased employment, social inclusion, and inclusive development. It is therefore essential that Serbia, looking up to the European policy, adopts a systemic approach for their empowerment.

Social enterprise is a business with the idea to fulfill a clear social mission through the profits earned by selling the products or services. This means that the acquired funds are not maximizing the assets of individuals - but are invested in the employment of people struggling to find work, social and medical services, education, environmental protection or cultural activities in the community (Rakin, 2014, pp.1). Social enterprises are in need of a government incentive, which should adopt a systematic approach to their support, as is the case in European countries where there are special rules and policies aimed at supporting social entrepreneurship. It is necessary to provide a favorable environment for their progress, including promoting social entrepreneurship, improvement of the legal framework, financing, facilitating market access, as well as support training and research in the field of social entrepreneurship.

Social enterprises have a weak social influence in Serbia, which is measured in relation to:

- accomplishment of the mission and purpose of establishment (employment and providing work integration of vulnerable groups, the provision of goods and services the community and individuals who are not able to afford them, encouraging sustainable development of local communities, the impact on the environment),
- percentage of reinvesting profits in the accomplishment of the mission and purpose,
- the percentage of the vulnerable population they employ (Rakin, 2014, p. 3).

The main obstacles to the development of social entrepreneurship (Figure 2):

- insufficient visibility of social enterprises,
- lack of information on social enterprises and ignorance of citizens,
- inadequate legislation,
- absence of a coordinating institution for this sector,
- lack of funding sources,
- low prices of products and services,
- weak internal capacities of social enterprises (Rakin, 2014, pp. 4).

Ideas of social enterprises are in fact, not new in Serbia. In the former Yugoslavia, this segment was also set up and regulated, but was mostly focused on employing people with disabilities. According to the law, it was clearly defined that those were commercial subjects given certain subsidies; they had a commercial capacity, investment possibilities, - and all that other types of assistance social enterprises did not have. In the former Yugoslavia, there were about fifty social enterprises. They were founded strategically, were tied to large industries, and performed certain tasks for the industrial giants. But the problem was that they could not adapt to the market, because they were strictly dependent on the current planned economy.

Today in Serbia, several ministries and strategies that are being implemented to reduce poverty or marginal groups, but also those that refer to the business of small and medium enterprises, treat this subject, and it is especially important that all participants in this process are aligned.

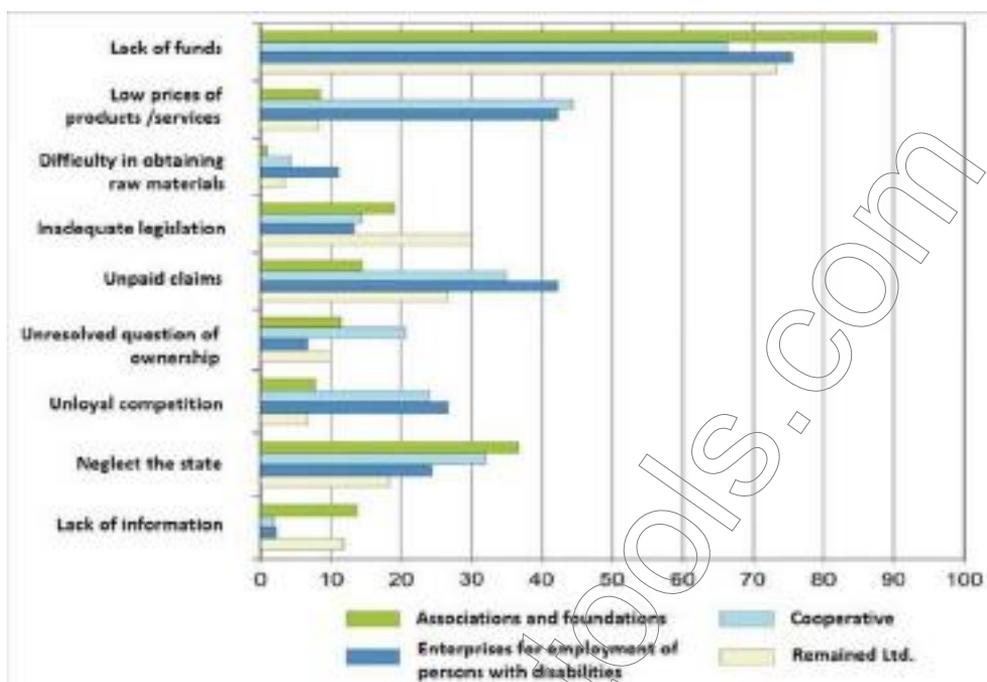


Figure 2: The most common problems faced by social enterprises by types of companies

Source: Statistical Office of the Republic of Serbia, pp. 50

The vitality of social entrepreneurship is reflected in the fact that the actors in this sector (social enterprises, civil society organizations that promote them, the institutions that support them), because of the lack of the institutional support, establish networks and coalitions which facilitate networking, sharing experiences, learning and business. This will be important when new opportunities for financing of social entrepreneurship emerge in the EU accession process (group of authors, 2014, p. 13).

Unfortunately, although the importance and positive effects of the concept of social entrepreneurship are recognized in society, in Serbia it is not well defined and not adequately understood by the authorities and the legal system.

There are no legal regulations that comprehensively regulate this segment. The Republic of Serbia, as has been said, has no adequate laws and regulations for the functioning of social enterprises. However, several laws are striving to define them - primarily the Law on Vocational Rehabilitation and Employment of Persons with Disabilities, which, for the first time, introduces the term "social enterprise", as well as the recently adopted Law on Social Protection and the Law on Cooperatives where, also, for the first time introduces the concept of social cooperatives.

During the last couple of years, there has been a noticeable growth in the number of social enterprises and the expanding interest in this topic. Balkan Community Initiatives Fund (BCIF), the current TRAG Foundation, European

Movement in Serbia (EMiS), Group 484, Initiative for Development and Cooperation (IDC) and Smart team in the year 2011 founded the Coalition for Social Entrepreneurship Development KoRSP (<http://www.sens.rs/korsp>). KoRSP was founded with the aim of being actively engaged in creating a functional framework for the development of social entrepreneurship in Serbia through advocacy, raising public awareness, social companies' capacity building and proposing practical legislation and other measures to the competent institutions.

### ***LEGAL ENVIRONMENT FOR SOCIAL ENTREPRENEURSHIP DEVELOPMENT***

Some of the most critical problems the Republic of Serbia faces today are certainly the increase in poverty as a direct result of the economic crisis, reduced employment, and elevated unemployment and inactivity of the population, with the rising number of various social services users and recipients of social assistance. The number of poor population who cannot satisfy even the basic life necessities has been constantly increasing in recent years, and 700,000 people live below the poverty margin. The absolute poverty rate increased from 6.9% in 2009 to 9.2% in 2010 (The draft law on social entrepreneurship and employment in social enterprises, p. 11).

High unemployment rate and the poor status of certain social groups require an adequate problem solving; that these categories gain employment opportunities and therefore, social inclusion, and contribute to the progress of a society as a whole. In doing so, it should be noted that a significant improvement has been initiated by the existing legislation in the field of social protection, employment and unemployment insurance (particularly the employment of persons with disabilities), cooperatives, associations of citizens, etc. However, we are referring to the specific category of people who, for some reason, are not adequately covered by the activities foreseen by this regulation (draft law on social entrepreneurship and employment in social enterprises, p. 12).

In order to solve these problems, a measure that may affect these negative trends can be applied, and it is the development of social entrepreneurship, or the third sector which is located between the public and private sectors. Although in some European countries this sector emerged as a corrective to the shortcomings of the market economy, which could be valid in the case of our country, it is important to emphasize that the development of social entrepreneurship can greatly alleviate the consequences of those problems in economic development and employment of persons who, for numerous reasons, are not competitive in the labor market (draft law on social entrepreneurship and employment in social enterprises, p. 12).

The Republic of Serbia does not have an adequately built institutional framework to support the operation and development of social enterprises, as well as entrepreneurship itself. One of the main reasons for this is the lack of definition of the legal framework, but also a wide interpretation and understanding of the concepts of social entrepreneurship and social enterprises, both in theory and in practice (Rakin, 2014, p. 20). Thus, the heterogeneity of concepts still exists, but

they all have a common essence - public, social or non-profit entrepreneurship, social (solidarity) economy and entrepreneurship in the service of the community, focused on the acquisition of income intended to satisfy some public interest.

The opportunity for planning the improvement of the legislative and institutional framework lies in developing a strategy for social entrepreneurship development in the Republic of Serbia, which is in progress. According to the definition of social entrepreneurship in the National Strategy, it will be able to determine the real social entrepreneurs and companies. Furthermore, it is relevant to establish the financial instruments for social entrepreneurs, measuring the positive social effects of social entrepreneurial activities, products, and services.

However, there is concern that the concept of social entrepreneurship is approached without sufficient understanding of social economy vs. social entrepreneurship, and that the procedure law preparation is followed by demagoguery for mass employment. One gets the impression that the law addresses the issues of the unemployed and those who will become a part of the same category, which should not be the main reason for the existence of this law.

The Coalition for Social Entrepreneurship Development has been invited to take part in this very law preparation. They find that its development and adoption should be preceded by several steps:

- the development of guidelines which include identifying problems and possible normative and non-normative ways of solving problems that the initiative seeks to solve,
- public consultation through which the guidelines in the (professional) public could be tested,
- based on the outcome of consultations, it should be decided which policy direction to select

Since it is likely that the adoption of this law will not follow any of the above, the Coalition insists on a minimum:

- as broad as possible definition of social entrepreneurship and social enterprise,
- as broad as possible definition of the target groups to which this Act applies,
- clear role of local and national institutions in encouraging the development of the sector,
- financial support in the form of grants and / or customized system of public procurement, etc.

### ***SOCIAL ENVIRONMENT FOR SOCIAL ENTREPRENEURSHIP DEVELOPMENT IN SERBIA***

When the socialist regime collapsed and when during the early 1980s cultural freedoms rose, the number of organizations and movements increased. However, not all NGOs and movements that have emerged in this period led to the raising of civic awareness. In some parts of Serbian society, including a large part of the rural population, as well as the urban populations with a dominant traditional or

authoritarian conscience, the support for nationalism and populism strengthened. During the 1990s, the development of the third sector is significantly marked with the characteristics that prevented their transformation. However, most of the activities of newly established NGOs in the 1990s contributed to the change of the political system and modernization of the institutions - becoming oriented to the development of civil society, anti-war activities, and the development of democratic institutions.

Today, the civil society in Serbia is dominated by NGOs, voluntary associations and charities. According to the Center for Nonprofit Sector Development (CRNPS), NGOs in Serbia employed 3,170 people in 2009 (out of which 690 work in the Red Cross). Although the vast majority of NGOs are still dependent on foreign donations for their projects and activities, they are increasingly working together with local and national authorities. The war and the humanitarian disaster in the mid-1990s brought a number of international humanitarian organizations and donors to Serbia, which had a tendency to make the region dependent on the flow of humanitarian aid, therefore impacting the economic development in this area.

The cooperative sector is going through a slow transformation. In total, there are over 3,000 registered cooperatives, out of which the most numerous are agricultural. However, precise figures are not available. Over the last few years, many cooperatives established during the socialist period were closed. But thanks to the international donor programs, modern agricultural cooperatives are being established. The development of social cooperatives is a new phenomenon and now there are only a few such cooperatives in Serbia (Gopa Consultants, pp. 16).

Foundations and associations have a dominant social-humanitarian aim (44.1%), cooperatives - economic empowerment and employment (88.7%), as well as companies for professional rehabilitation and employment of persons with disabilities (75%), while the other types of social enterprises emphasize that their objectives are: local economic empowerment, local and sustainable development equally. Education, promotion, and informing are fairly present in foundations, associations and other types of social enterprises (18.3% and 14.6%) (Rakin, 2014, pp. 3). A small number of social enterprises in Serbia (20.7%) shares more than 50% of their income for social purposes.

On the other hand, in the UK, between 70% and 82% of social enterprises reinvest most of the profit, while there are clear statutory rules on the use of profits defined for social cooperatives in Italy. The share of vulnerable population among employees in social enterprises is 16.8%. Although higher than the national average, this percentage is lower than expected for social enterprises. Only companies for professional rehabilitation and employment of persons with disabilities have a higher percentage of the vulnerable population among employees (about 75%), which is their obligation under the law governing their business. The last figure is in line with the situation in this type of enterprises in the EU (Rakin, 2014, p. 4).

## ***SOME EXAMPLES OF SOCIAL ENTREPRENEURSHIP POTENTIAL IN RELIGIOUS ORGANIZATIONS***

Using the weakening of communism in Serbia, religious organizations achieve to renew a wider range of activities to approach the population. During the 1990s due to the war, the need for the war victims assisting activities strengthens through sharing of humanitarian aid and care of refugees. After 2000, religious organizations directed towards social services, especially to marginalized groups.

Supported by the international network organization "Caritas", this same network in Serbia is the largest one, followed by "Mercy" humanitarian organization of the Serbian Orthodox Church, as well as active programs ecumenical community, Islamic and other religions, whose work depends largely on the financial resources of international organizations.

In Serbia, mostly in Belgrade and regional centers, 30 to 50 similar organizations are established. Even some of these humanitarian organizations have the status of social organizations, which were established by churches and religious communities (EHO), but there are those that are officially registered as charitable funds.

Although volunteer work in Serbia is still not regulated by law, the work of religious organizations is based mainly on volunteering. Government support, membership fees, commercialization and support by local donors, as well as corporate philanthropy, remain as the preferred options for the future funding of religious organizations.

### ***"Philanthropy"***

A charity Fund of the Serbian Orthodox Church was founded in 1991 was continuously engaged in humanitarian work until 2000, mainly by delivering humanitarian assistance to the population affected by the war, as well as refugees. In 2000, the charity fund switched its focus to the development of various social and economic assistance and support activities.

"Philanthropy" has developed "Mobile medical home service – MoMeks" to improve the health and psycho-social state of the most vulnerable categories of people: old, abandoned, permanently ill, mentally or physically disabled, and prone to diseases. Also, during 2006 in Nis, "Philanthropy" organized winter agro-school for 270 users from 30 agricultural holdings from villages in the vicinity of Nis. That same year, the Fund helped establish two experimental farms for young families repatriated from the city to the village in Zlatibor region. They keep organizing workshops and activities related to helping children with special needs and children in the Children's Village in Sremska Kamenica, people living with HIV, patients with AIDS and other diseases. Today, their strong activity is assisting refugees and migrants from Syria, Afghanistan, Iraq and others who pass through Serbia.

### **„Caritas“**

Caritas operates as a part of a wider international network of organized social services that include day care for the elderly and persons with disabilities, programs, home visits, and home help. The program of this organization is based on medical and social programs for children, people living with HIV, patients with AIDS and other diseases. They are implementing a program called "home care" dedicated to the old, sick and physically handicapped persons. Within the project, the teams are formed to visit the homes of those in need of assistance, and are composed of nurses and caretakers-hostesses. In addition, in cooperation with volunteers, provide aid and psycho-social help as a part of the program.

The day-care center includes recreational activities, literary workshops, cultural events, i.e. socializing and conversation. Club members were provided by basic medical services, such as blood pressure check-out, blood sugar level, giving advice and consultations.

### **„The land of the living“**

The center for psycho-social rehabilitation and re-socialization of drug-addicts - "The Land of the Living", was created under the auspices of the Serbian Orthodox Church in the Monastery of Kovilj. The center was established after many years of working with addicts in the Monastery, in response to the need to create a special atmosphere, which would be arranged for the needs of the drug affected members.

The therapeutic community is organized based on the experience of similar projects existing in the EU, as well as in surrounding countries. Today, there are six therapeutic communities in Cenej, Vilovo, Krcenica, Brajkovac, Vítkovce and Backo Petrovo Selo (currently holding 120 residents) and three offices (Novi Sad, Belgrade, Ruma). So far, over 2,000 people took part in the community program and nearly 300 of them successfully completed it.

The goals of rehabilitation in "The Land of the Living" are global changes in lifestyle and personal identity. Recovery is seen as a developmental learning, including self-help and mutual assistance, motivation for social learning, while work ethic is essential. The aim is learning and developing economic self-awareness through participation in the community. The individuals contribute directly to the activities, daily life in the Community, which provides opportunities for learning by engaging in various social roles, such as a colleague, friend, coordinator, and tutor. Education, training and therapeutic activities are carried out in groups, in meetings, in the context of work commitments, prayer and recreation. They use the same norms and values: the rules, regulations, and social norms of physical and psychological safety in the Community. Users get guidelines for recovery and self-help in the form of a healthy life. The structure and the system of the work organizations used to maintain the daily operation of the Community as a household, which is the main mechanism to continuous self-development and responsible behavior.

Aiming at being successfully re-socialized after the program's completion, the Center organizes fundraising programs that are financed from different levels of government and in partnership with various associations through the year. Therefore, the past two years conducted several trainings on writing biography, motivation letter, business plan, project, social entrepreneurship. A special segment is focused on introduction to basic administration, so-called. 'Functional literacy', within which the participant is presented the application form for the National Employment Agency, explained how to deal with the procedures and forms, purchase of certain documents and the creation of prerequisites for successful resettlement after the program is over, which is of great importance to the full rehabilitation of former addicts. Bearing in mind that former addicts face difficulties when applying for jobs, a licensed teacher in the field of social entrepreneurship works in all therapeutic communities to train them to start up their own businesses, write business plans, learn the performance of the market and improve their employability as the final goal. To this end, in 2014, a series of trainings related to old trades were conducted: coopers, cords, weaving, carving, and laminating icons. A detailed evaluation was conducted with the aim to improve the quality of the Community's certain social and educational services. In this regard, starting in 2015 with the support of the city of Novi Sad, the training in computer skills in 2015, as well as English lessons are planned as regular activities.

### ***SOME EXAMPLES OF INNOVATIVE SOLUTIONS FOR EMPLOYMENT OF VULNERABLE GROUPS***

Briefing for Civil Society ("Introduction to Social Entrepreneurship") presented the work of social enterprises in the EU and Serbia in various business areas (Gopa Consultant, 2009, 00. 33), through the used source for case studies in Serbia EMES (2008) "Social enterprise: A new model for poverty reduction and job creation", and case studies taken from the EU competition called "This is a European Social innovation", launched by Euclid Network in cooperation with the European Commission, the Social innovation exchange (SIX ) and the social innovation Park in Bilbao.

When it comes to social entrepreneurship, theory and practice are two separate and distinct matters. Creating a sustainable and effective social enterprise that can operate for a longer period of time and achieve the desired results is a very complex process (Gopa Consultant, 2009, p. 33). It requires passion, expertise and understanding of own organization, and competitive environment.

It is necessary to provide basic instructions to social entrepreneurs in Serbia on how to properly run and maintain a successful social enterprise. However, socio-economic, historical, and legal context in which the organization works is crucial. Social entrepreneur from Serbia must be aware of this context when managing their organization.

Knowing that legal and political environment is inadequate and the set platform causes the sustainability of social entrepreneurship, one raises the question of whether a social enterprise can survive in Serbia. The following case

studies on examples of Serbian companies will present innovative solutions for self-employment and employment of vulnerable groups by strengthening social awareness, as well as the profession of social entrepreneurship.

Furthermore, typical examples for some countries (such as Sweden, the Netherlands, and Denmark) are listed, where social entrepreneurship has been present for decades and does not present a problem for further development. This shows that conscious organization with the help of the government, non-governmental and academic institutions can produce an efficient and fruitful mechanism which ensures that social entrepreneurship is becoming a driver for new forms of organizations, innovation and achieve socially beneficial results.

### ***SERBIA – TEMERIN TELECOTTAGE***

Telecottages are non-governmental organizations that provide information and communication technologies to support rural development and connect rural communities with a wider society. Telecottage movement started to develop in 2000 in Serbia and today gathers about 70 Telecottages all over the country. These are small information centers open to all members of a local community, providing a variety of information technology services. Telecottages are clustered in Teledom Association of Serbia and combine commercial activities with humanitarian and civilian activities.

Temerin Telecottage was established in 2000. This is an example of an extremely successful telecottage, which has rapidly expanded its technological capacity from 5 to 17 computers. Telecottage is self-sustainable – it provides commercial services, offering prices a bit below the market value, while offering services at very favorable terms to civil societies. It was founded with the help of the local community, which provided the space for its launch.

Temerin Telecottage has three employees and combines commercial activities with humanitarian and civilian operations by providing administrative services, information and communication technologies (the use of internet and computers), information (about the markets, jobs, competitions, loans), organizes English courses at affordable prices, organizes training programs for information and communication technologies for entrepreneurs and collaborates with the National employment Service (Gopa Consultants, 2009, p. 12).

For these activities, the Telecottage engages unemployed people who undergo a training process (and are paid for that by the National Employment Service) during the six-month period. Independently or in cooperation with the Red Cross or the Association of Persons with Disabilities, Temerin Telecottage organizes humanitarian and environmental activities. For example, it compiled records of all 1,030 people with disabilities in Temerin, registering the type and degree of disability.

### ***AGRONETWORK - THE RURAL DEVELOPMENT NETWORK***

Agronetwork was founded in 2002 with a mission is to modernize and develop agricultural production in Serbia and revitalize rural communities. Agronetwork

improves networking and relations among communities in the rural parts of the country. It helps with organizing small farmers through the opening of farmers' clubs; develops agricultural cooperatives by establishing and connecting cooperatives' managers; provides professional logistic support to cooperatives and farmers (Gopa Consultants, 2009, p. 35) by offering consulting services; activates the rural youth through a network of rural youth clubs and helps economic inclusion and organization of rural women (domestic production and rural tourism) through the women clubs.

Agronetwerk constantly monitors agricultural markets and in the absence of trade in agricultural products, informs farmers about new trends and tendencies in these markets through a system of market informing. Moreover, it actively participates in the establishment of the national and European standards in agricultural production. The network has so far established nine centers for rural development, 13 clubs and 24 agricultural activities in cooperation with ADF, as well as eight women clubs, two youth clubs, and about 70 cooperatives (out of which 20 in cooperation with ADF) (Gopa Consultants, 2009, p.35).

Some of the programs are funded by the organization itself. Agronetwerk's members pay an annual membership fee of 60 Euros and receive a package of services which includes education, logistical support to launch cooperatives and clubs and information through the exchange of information.

The other services that require specific professional support are charged additionally and are provided by the clubs' consultants. Agronetwerk is still largely supported by the donors; it has, so far provided only 20 percent of revenues from its own activities.

## **CONCLUSION**

The dominant paradigm used in evaluating entrepreneurship has studied its impact on economic growth and its role in economic prosperity. Only recently a number of scholars have recognized the importance both of social entrepreneurship as a driver of social value creation, and of conducting research on the field. The term "social entrepreneurship" or "social entrepreneur" has appeared in the literature in different contexts such as "social economy", "activist movements", "environmental movements" or "sustainable economy". In all those contexts, the term "social entrepreneurship" has emerged as a new label for describing the work of community, voluntary and public organizations, as well as private firms working for social rather than for-profit objectives'.

This does not imply that social entrepreneurship endeavors occur only in not-for-profit contexts. Not all non-profits are socially entrepreneurial, just as not all for-profit businesses are entrepreneurial. Social entrepreneurship catalyzes social transformation by meeting social needs, whereas economic value creation is simply a necessary condition to guarantee financial viability.

Entrepreneurship presents an important road to the economic, technological, and social growth and development, and entrepreneurs are catalysts of these changes. With the increase in understanding the value of entrepreneurship, its

social role becomes more apparent. Although profit-making remains a central tool for enrichment because it encourages investment in inventions, innovations and creating new jobs, it is not focused enough on social conditions.

Some entrepreneurs focus on starting a company around the possibilities derived from social problems such as poverty, health, energy, private education, and water purification. They differ from the non-profit, social entrepreneurs. The phenomenon of the social entrepreneurship growth around the world testifies to the knowledge that entrepreneurs could be held responsible if they are profitable. Activities of social entrepreneurship are focused on creating social and material wealth. These efforts vary according to the mode of financing, ownership, organizational forms and business models. Although they focus on addressing social needs, such projects vary considerably in their emphasis on the financial and social goals. Many of these efforts are hybrid, with the focus on both sets of objectives. Social ventures are often side by side with non-profit, government agencies, community organizations, and NGOs in the delivery of their products and services. Successful (commercial) entrepreneurs often use their resources to establish ventures directed at solving social issues or the needs of particular interest for them.

Social entrepreneurship can be defined as construction, assessment and demand for transformative social changes carried out by a visionary, passionately devoted individual. These people are motivated to address social needs, as opposed to commercial entrepreneurs which target financial achievements. However, it should be noted that social entrepreneurship is not the same as humanitarian work or charity.

In Serbia, there are about 1,300 social enterprises, although it seems different at first glance, especially because these companies are not easily recognized in terms of form. Among them, the most numerous are associations for people with disabilities and similar craft cooperatives, agricultural farms, non-governmental organizations that have registered for economic activity, companies founded by non-governmental organizations.

However, they carry out allow capital turnover and this is the business segment addressed just in the past few years in Serbia, while social enterprises operate and develop for 40 years in Europe. Unfortunately, in the past six years, such enterprises are often closed because they cannot cope in the market with all changes and instabilities that it carries.

It is not possible to develop social entrepreneurship in Serbia if the concept is not promoted publicly, and in order to be understood better, shaped and presented with all of the possibilities for further development. What to do, directly relates to the institutional and legislative regulation of these types of economic activities, in order to successfully build a comprehensive model of social entrepreneurship and facilitate the establishment and operation of social enterprises.

The development of partnerships between NGOs and social enterprises and co-operation at regional and national level, should not be ignored, in order to approach the relevant political actors and advocate normative recognition of social enterprises. Social entrepreneurship requires a much more serious approach in

developing public-private partnerships, as well as strong partnerships with the business sector.

The fact is that legislation may change in accordance with the proposals and initiatives, but it is significantly important to primarily strengthen social entrepreneurship and find its place in cooperation on a local level - with local authorities and associations.

Ironically, the companies (corporations), especially those that have adopted a codex of corporate social responsibility (Corporate Social Responsibility) have much more understanding for this type of entrepreneurship, even though there is a small number of goods and services that social enterprises can offer them. Actually, such an understanding is a result of the need for a company (corporation) to attain a good public image, which helps with the placement of the goods on the market.

On the other hand, social enterprises arising from a civil society, which is the case in Serbia, are being led by people who do not have a business background, and therefore usually do not understand the market and manage poorly the placement of their products and services.

It remains to be seen whether the Serbian society is going to have the ability to recognize that, during the long period of the economy collapse, social entrepreneurship represents a form of business that can contribute to the local economy. It is clear that the country with an ambition to join the European Union must adapt legislation and understand that economic and social factors must be interconnected into a productive whole, by supporting this kind of entrepreneurship with a variety of exemptions and incentives.

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## **IMPORTANCE OF INCLUSION OF PERSONS WITH DISABILITIES IN AN ENTREPRENEURIAL ENVIRONMENT**

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*Edita Kastratovic<sup>6</sup>*

### **ABSTRACT**

*The maturity of a society is reflected in the implementing of social equality in all aspects of social life, including employment. The aim of this paper is to analyze equality in the employment of persons with disabilities as well as the analysis of social responsibility and the potential opportunities in this regard. The survey was conducted by way of the interviewing technique. The research included a descriptive and comparative statistics statistical analysis of data. This research has enabled insight into the willingness of persons with disabilities to be included in the entrepreneurial environment. It also emphasizes the importance of their socialization, as well as from an ethical as well as economic interests of the company.*

**Key words:** *Employment, Persons with Disabilities, Equality, Social Responsibility*

**JEL Classification:** *L26*

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## INTRODUCTION

Entrepreneurship is the basis of progress of a society and aspires to achieve the well-being of each individual. The basic idea of every entrepreneur is economic development through the acquisition of profits. The secondary interest is the realization of the defined goal in order to achieve self-actualization of Maslow's motives. Furthermore, risk situations and opportunities for entrepreneurs represent a challenge rather than an obstacle.

The development of society in a modern economy depends on the entrepreneurial environment and government readiness to provide adequate conditions to encourage entrepreneurship. In countries with a regulated market and legal system there are no obstacles for the development of entrepreneurship.

Small businesses are the most common model of entrepreneurship, especially in countries undergoing the uncertain process of transition. The founders of small enterprises are generally creative people who build up their idea of starting their own businesses for a certain period of time before a final decision (Kastratović et al., 2015:1).

The development of entrepreneurship in the form of encouraging the founding of micro-firms and small enterprises constitutes the fundamental strategic orientation of the European Union. Economic development was absolutely reliant on the principles of initiation of an adequate entrepreneurial environment as a springboard for potential entrepreneurs (Figure 1) (Grozđanić et al., 2006: 2).

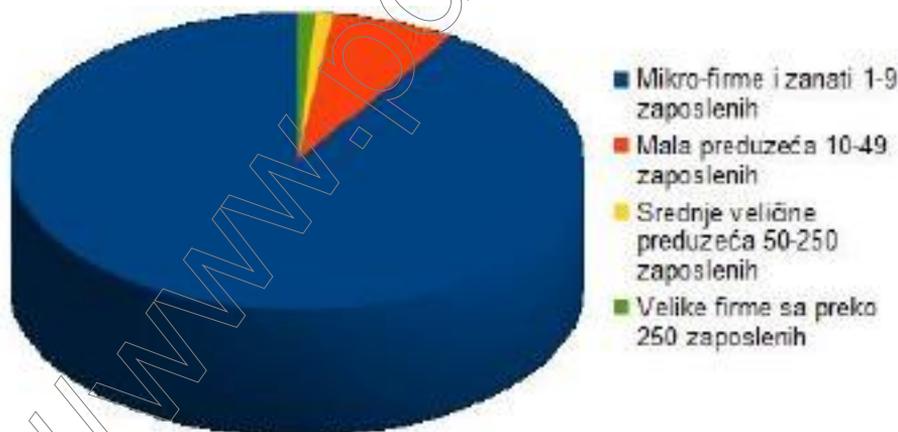


Figure 1: Structure of companies in the EU in 2006

Source: (Grozđanić et al., 2006:2)

Young people (students) are a great entrepreneurial potential. There must be cooperation between the educational system and the government sector in order to promote entrepreneurship and thus enable young people to acquire a market position and bring their own existences into the framework of personal control. Serbia as a transitional country is faced with the problem of the outflow of the

population (or immigration) with the aim of finding an existential oasis. The problem is the positive attitude of young people to the idea of immigrating. One of the possible ways of solving this negative trend is the establishing of a legal and business culture that will be protective for all who choose to start their own business. In fact, it is the procedural requirements and incentives which are the key issues in entrepreneurial terms. Initial funding and stimulating interest rates can help beginners in entrepreneurship to overcome the first four years of operations, which are considered the most critical in the entrepreneurial cycle.

A special problem is employment and stimulating persons with disabilities to enter the business world. The Association of the Disabled is a traditional segment of self-help, and it is mainly focused on different categories of disabled people such as the hard of hearing, the visually challenged, the intellectually disabled, and paraplegic war invalids. Most organizations of this type were founded after 1970 during socialism, when there were additional services provided for the group of the disabled, mainly in the field of recreation, and were funded from the state budget. During the transition, organizations were making an effort to build the capacities in order to empower these organizations to independently request funding for their activities. The most common programs relate to the development of entrepreneurship and programs of employment to help these at-risk groups integrate into active life (Kolin, Petrušić, 2008:3).

### ***THEORETICAL CONSIDERATIONS***

The essence of entrepreneurship is creativity and innovation. Entrepreneurial potential is the ability of an individual to elevate his or her ideas above the existing everyday business solutions and consequently develop the very same into an exceptional business opportunity.

There are many definitions of entrepreneurship in accordance to the perspective of the phenomena investigated. Some authors have observed entrepreneurship as merely a process, while the others explained it through skills that are common to all individuals successful in business.

According to Karavidić and other authors, entrepreneurship means a constant need for change, and the time required for the change is increasingly shorter, which means that innovations and entrepreneurial creativity must be applied if the entrepreneurial mindset is focused and encourages risk-taking and decision-making, a view according to which innovations should be introduced in all spheres of activity as well as a sense of stability in volatile areas (Karavidić et al., 2010: 4).

It is specific for entrepreneurs that they make decisions regarding the choice of ideas, technologies, programs, locations and resources independently. By taking risks and responsibilities they make an impact on improving the efficiency of the management of their own company and its stability. In the game played on the market, the entrepreneur is forced to act as a rational being, or in truth, the entrepreneur is ultimately forced thus by the market itself (Djurić, 2004: 5).

There are significant differences with regard to the importance of innovations in the process of entrepreneurship. By the mid 60s of the 20th century, innovation

was a hostage of science (Figure 1). From the mid 60s to the early 70s of the 20th century, innovation became conditioned by market demand (Figure 2).

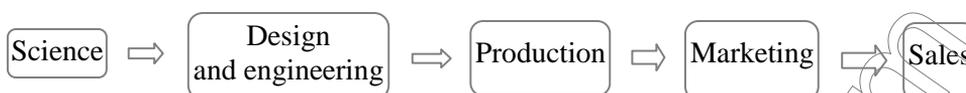


Figure 1: Innovations stimulated by science.

Source: Deakins (2012:6)



Figure 2: Innovation orientated towards offer.

Source: Deakins (2012:6)

Entrepreneurs must subordinate their ideas to market needs because the market imposes certain requirements. As a result, entrepreneurs who successfully respond to market requirements will be rewarded by success. Innovations should be based on the needs expressed on the market. Entrepreneurs listen to customer needs and accordingly, initiate changes in terms of new products, services, methods, access to customers and the like.

### ***SOCIALIZATION AND PROFESSIONAL INTEGRATION OF PERSONS WITH DISABILITIES***

Research in terms of equality of employment opportunities for persons with disabilities is rare in Serbia. Their socialization and social integration is a taboo subject due to the abundance of problems in terms of the unemployment of the other groups of the population. In developed countries where the unemployment rate is very low, persons with disabilities have equal rights which means that according to the degree of disability they are adequately taken care of. Persons with disabilities whose degree of disability allows proper engagement in work have equal rights while applying for jobs. If the given degree of disability does not allow any commercial involvement, then those persons are completely socially protected.

The integration of persons with disabilities can be viewed from two angles. The first concerns the existential support for persons with disabilities through the process of hiring a classic or a stimulation of entrepreneurial activity. Another angle refers to the establishing of social enterprises and highlighting their role in an alternative economic expression. In this sense, it is possible to promote support for the inclusion of persons with disabilities into the profit sector through the promotion of entrepreneurial

activities, as well as the inclusion of the same persons in the work program of social enterprises with a marked social non-profit orientation.

The concept of social economy is linked to the UK and the period of development of capitalism and the industrial revolution in the 18th and 19th centuries, whereupon the economy was based on support in the form of establishing groups and associations with goals expressed in the principles of aid and humanitarian work. The concept of modern social enterprises refers to the appearing of the first companies of its type in the period at the end of the 80s of the 20th century in Italy and later in other European countries.

## RESEARCH RESULTS

The survey was conducted by way of the interviewing technique and included 67 subjects (persons with disabilities) in the period from April 5-May 28, 2016 on the territory of Belgrade, Zrenjanin and Loznica.

The research included a descriptive statistical analysis of data regarding the frequency (N), arithmetic mean (M), standard deviation (SD), minimum and maximum values and their percentage (%), and comparative statistics (in the case of two-category independent variables the t-test was applied, while in the case of independent variables the multiple-category analysis of variances (ANOVA) were applied).

Table 1: Descriptive statistics (independent variables)

|                |         | Statistics |           |         |            |
|----------------|---------|------------|-----------|---------|------------|
|                |         | Age        | Education | Gender  | Disability |
| N              | Valid   | 67         | 67        | 67      | 67         |
|                | Missing | 0          | 0         | 0       | 0          |
| Mean           |         | 2.1194     | 2.1045    | 1.5224  | 1.2239     |
| Std. Deviation |         | 0.91324    | 0.30819   | 0.50327 | 0.54553    |
| Minimum        |         | 1.00       | 2.00      | 1.00    | 1.00       |
| Maximum        |         | 4.00       | 3.00      | 2.00    | 3.00       |

Standard-deviation values indicate a very homogeneous structure in terms of education with a particular heterogeneity in terms of the age of the respondents. This indicates the fact that the interview included subjects of different ages, but in terms of education they mainly included respondents with a secondary education level.

Given that the respondents are persons with disabilities, the results of the educational structure indicate an unfavorable situation in terms of social responsibility and the social inclusion of persons with disabilities in terms of the economic and educational potential of the domestic population.

Table 2: Frequency – the age of the respondents

|       |             | <b>Age</b> |         |               |                    |
|-------|-------------|------------|---------|---------------|--------------------|
|       |             | Frequency  | Percent | Valid Percent | Cumulative Percent |
| Valid | <30 years   | 19         | 28.4    | 28.4          | 28.4               |
|       | 31-40 years | 26         | 38.8    | 38.8          | 67.2               |
|       | 41-50 years | 17         | 25.4    | 25.4          | 92.5               |
|       | > 50 years  | 5          | 7.5     | 7.5           | 100.0              |
|       | Total       | 67         | 100.0   | 100.0         |                    |

The results of descriptive statistics in the area of frequency domain representation in terms of independent variables indicate the structure of respondents in which dominate people were between 31-40 years of age (38.8%). Respondents older than 50 years of age were the least represented in the research, by only 7.5%.

Table 3: Frequency – the education of respondents

|       |             | <b>Education</b> |         |               |                    |
|-------|-------------|------------------|---------|---------------|--------------------|
|       |             | Frequency        | Percent | Valid Percent | Cumulative Percent |
| Valid | High school | 60               | 89.6    | 89.6          | 89.6               |
|       | University  | 7                | 10.4    | 10.4          | 100.0              |
|       | Total       | 67               | 100.0   | 100.0         |                    |

<http://www.ijerph.com>

Table 4: Frequency – degree of disability

|       |          | Disability |         |               | Cumulative |
|-------|----------|------------|---------|---------------|------------|
|       |          | Frequency  | Percent | Valid Percent | Percent    |
| Valid | Degree 1 | 56         | 83.6    | 83.6          | 83.6       |
|       | Degree 2 | 7          | 10.4    | 10.4          | 94.0       |
|       | Degree 3 | 4          | 6.0     | 6.0           | 100.0      |
|       | Total    | 67         | 100.0   | 100.0         |            |

Table 4 presents the frequency of respondents in terms of the degree of disability, whereupon there is a noticeable percentage of dominant representation of respondents with first-degree disability. If we take into account that it is precisely these people which have the greatest potential in terms of the possibilities of work engagement, then the results of the research have a special meaning. Their advantage is reflected in a wider range of potential jobs that can operate as entrepreneurial activities that involve physical work. In entrepreneurial terms, all participants starting a business have equal opportunities in the field of consulting, that is, in certain areas that do not require a high level of motor involvement. In contrast to these areas, entrepreneurial potential in terms of physically demanding work (or work where eyesight and hearing play an important) are more for persons with a lower degree of disability.

Table 5: Descriptive statistics – the gender of the respondents

| Group Statistics              |   |    |        |                |                 |
|-------------------------------|---|----|--------|----------------|-----------------|
| Gender                        |   | N  | Mean   | Std. Deviation | Std. Error Mean |
| Some work experience          | M | 32 | 1.1875 | 0.39656        | 0.07010         |
|                               | F | 35 | 1.2286 | 0.42604        | 0.07201         |
| Employed by the state         | M | 32 | 1.4375 | 0.50402        | 0.08910         |
|                               | F | 35 | 1.2857 | 0.45835        | 0.07748         |
| Employed by a private company | M | 32 | 1.5625 | 0.50402        | 0.08910         |
|                               | F | 35 | 1.2857 | 0.45835        | 0.07748         |
| Simple jobs                   | M | 32 | 1.1563 | 0.36890        | 0.06521         |
|                               | F | 35 | 1.0286 | 0.16903        | 0.02857         |

|                         |   |    |        |                      |         |
|-------------------------|---|----|--------|----------------------|---------|
| Thinking about business | M | 32 | 1.0000 | 0.00000 <sup>a</sup> | 0.00000 |
|                         | F | 35 | 1.0000 | 0.00000 <sup>a</sup> | 0.00000 |
| Own business            | M | 32 | 1.0000 | 0.00000 <sup>a</sup> | 0.00000 |
|                         | F | 35 | 1.0000 | 0.00000 <sup>a</sup> | 0.00000 |

a. t cannot be computed because the standard deviations of both groups are 0.

Table 6: T-test (gender)

|                               | F      | Sig.         | T      | dF     | Sig. (2-tailed) |
|-------------------------------|--------|--------------|--------|--------|-----------------|
| Some work experience          | 0.671  | 0.416        | -0.407 | 65     | 0.685           |
|                               |        |              | -0.409 | 64.976 | 0.684           |
| Employed by the state         | 5.346  | <b>0.024</b> | 1.292  | 65     | 0.201           |
|                               |        |              | 1.286  | 62.844 | 0.203           |
| Employed by a private company | 5.346  | <b>0.024</b> | 2.354  | 65     | 0.022           |
|                               |        |              | 2.344  | 62.844 | 0.022           |
| Simple jobs                   | 16.476 | <b>0.000</b> | 1.847  | 65     | 0.069           |
|                               |        |              | 1.793  | 42.612 | 0.080           |

The t-test enabled the detection of statistically significant differences between respondents of both genders in terms of three test variables (“Employed by the state,” “Employed by a private company,” and “Simple jobs”).

By comparing the arithmetic means (Table 5) it was noted that females were more likely to have the opportunity to be employed by state institutions. A statistically significant difference was also visible in terms of employment by private entrepreneurs. It was noted that in this case females often had the opportunity to be employed by private companies. It is interesting that females expressed a greater willingness for possible work in terms of simple handling tasks in which their disability would not pose an obstacle for adequate job performance.

Table 7: Frequency / “Some work experience”

|       |     | Some work experience |         |               |                    |
|-------|-----|----------------------|---------|---------------|--------------------|
|       |     | Frequency            | Percent | Valid Percent | Cumulative Percent |
| Valid | YES | 53                   | 79.1    | 79.1          | 79.1               |
|       | NO  | 14                   | 20.9    | 20.9          | 100.0              |
| Total |     | 67                   | 100.0   | 100.0         |                    |

Table 7 presents the data which indicate the fact that 79.1% of respondents were employed. Looking at the demographic Figure of Serbia, it would be useful to carry out similar research with a larger number of respondents including those from small towns and villages, namely the areas that are not as economically developed as Belgrade.

*Table 8: Frequency / "Employed by the state"*

|       |       | <b>Employed by the state</b> |         |               |                    |
|-------|-------|------------------------------|---------|---------------|--------------------|
|       |       | Frequency                    | Percent | Valid Percent | Cumulative Percent |
| Valid | YES   | 43                           | 64.2    | 64.2          | 64.2               |
|       | NO    | 24                           | 35.8    | 35.8          | 100.0              |
|       | Total | 67                           | 100.0   | 100.0         |                    |

*Table 9: Frequency / "Employed by a private company"*

|       |       | <b>Employed by a private company</b> |         |               |                    |
|-------|-------|--------------------------------------|---------|---------------|--------------------|
|       |       | Frequency                            | Percent | Valid Percent | Cumulative Percent |
| Valid | YES   | 39                                   | 58.2    | 58.2          | 58.2               |
|       | NO    | 28                                   | 41.8    | 41.8          | 100.0              |
|       | Total | 67                                   | 100.0   | 100.0         |                    |

Tables 8 and 9 present the frequency of the response of respondents in terms of the employment rate by state institutions and private entrepreneurs. A slightly higher percentage of respondents had the opportunity to work in state-owned enterprises (64.2%), while the percentage of respondents engaged by private owners was significant (58.2%). Given that Serbia belongs to the group of transition countries that encourage the shift of population to the private sector, it is expected that this percentage referring to private companies employing persons with disabilities is significantly increased. A requisite for progress is a positive socially responsible campaign that will educate entrepreneurs in terms of benefits for employing persons with disabilities.

Table 10: Frequency / “Simple jobs”

|       |       | Simple jobs |         |               | Cumulative |
|-------|-------|-------------|---------|---------------|------------|
|       |       | Frequency   | Percent | Valid Percent | Percent    |
| Valid | YES   | 61          | 91.0    | 91.0          | 91.0       |
|       | NO    | 6           | 9.0     | 9.0           | 100.0      |
|       | Total | 67          | 100.0   | 100.0         |            |

It is encouraging that Table 10 shows a remarkable willingness of the respondents for working on simple tasks which their degree of disability allows.

Table 11: Frequency / “Thinking about business”

|       |     | Thinking about business |         |               | Cumulative |
|-------|-----|-------------------------|---------|---------------|------------|
|       |     | Frequency               | Percent | Valid Percent | Percent    |
| Valid | YES | 67                      | 100.0   | 100.0         | 100.0      |

Table 12: Frequency / “Own status”

|       |     | Own business |         |               | Cumulative |
|-------|-----|--------------|---------|---------------|------------|
|       |     | Frequency    | Percent | Valid Percent | Percent    |
| Valid | YES | 67           | 100.0   | 100.0         | 100.0      |

All respondents expressed a positive attitude in terms of thinking about starting their own business, as well as about the determination and readiness for entrepreneurial engagement with some financial support from the very beginning. These data show the first significant factor in the direction of entrepreneurial engagement - the desire.

Table 13: ANOVA – Age

|                               |                | ANOVA          |    |             |       |       |
|-------------------------------|----------------|----------------|----|-------------|-------|-------|
|                               |                | Sum of Squares | df | Mean Square | F     | Sig.  |
| Some work experience          | Between Groups | 0.930          | 3  | 0.310       | 1.925 | 0.135 |
|                               | Within Groups  | 10.145         | 63 | 0.161       |       |       |
|                               | Total          | 11.075         | 66 |             |       |       |
| Employed by the state         | Between Groups | 0.925          | 3  | 0.308       | 1.342 | 0.269 |
|                               | Within Groups  | 14.478         | 63 | 0.230       |       |       |
|                               | Total          | 15.403         | 66 |             |       |       |
| Employed by a private company | Between Groups | 1.085          | 3  | 0.362       | 1.498 | 0.224 |
|                               | Within Groups  | 15.213         | 63 | 0.241       |       |       |
|                               | Total          | 16.299         | 66 |             |       |       |
| Simple jobs                   | Between Groups | 0.466          | 3  | 0.155       | 1.957 | 0.129 |
|                               | Within Groups  | 4.997          | 63 | 0.079       |       |       |
|                               | Total          | 5.463          | 66 |             |       |       |
| Thinking about business       | Between Groups | 0.000          | 3  | 0.000       | .     | .     |
|                               | Within Groups  | 0.000          | 63 | 0.000       |       |       |
|                               | Total          | 0.000          | 66 |             |       |       |
| Own business                  | Between Groups | 0.000          | 3  | 0.000       | .     | .     |
|                               | Within Groups  | 0.000          | 63 | 0.000       |       |       |
|                               | Total          | 0.000          | 66 |             |       |       |

By using an analysis of variance (ANOVA), there was no statistically significant difference noted between respondents of different ages in the studied dependent variables. This indicates relatively the same attitude towards the business environment for persons with disabilities. These results also indicate relatively similar views related to business and starting one's own enterprise.

Table 8: ANOVA – Degree of disability

|                            |                | ANOVA          |    |             |       |              |
|----------------------------|----------------|----------------|----|-------------|-------|--------------|
|                            |                | Sum of Squares | df | Mean Square | F     | Sig.         |
| Some work experience       | Between Groups | 1.253          | 2  | 0.627       | 4.083 | <b>0.021</b> |
|                            | Within Groups  | 9.821          | 64 | 0.153       |       |              |
|                            | Total          | 11.075         | 66 |             |       |              |
| Hired by the state         | Between Groups | 1135           | 2  | 0.568       | 2.546 | 0.086        |
|                            | Within Groups  | 14.268         | 64 | 0.223       |       |              |
|                            | Total          | 15.403         | 66 |             |       |              |
| Hired by a private company | Between Groups | 0.156          | 2  | 0.078       | 0.309 | 0.736        |
|                            | Within Groups  | 16.143         | 64 | 0.252       |       |              |
|                            | Total          | 16.299         | 66 |             |       |              |
| Simple jobs                | Between Groups | 0.141          | 2  | 0.071       | 0.849 | 0.432        |
|                            | Within Groups  | 5.321          | 64 | 0.083       |       |              |
|                            | Total          | 5.463          | 66 |             |       |              |
| Thinking about business    | Between Groups | 0.000          | 2  | 0.000       | .     | .            |
|                            | Within Groups  | 0.000          | 64 | 0.000       |       |              |
|                            | Total          | 0.000          | 66 |             |       |              |
| Own business               | Between Groups | 0.000          | 2  | 0.000       | .     | .            |
|                            | Within Groups  | 0.000          | 64 | 0.000       |       |              |
|                            | Total          | 0.000          | 66 |             |       |              |

By using an analysis of variance (ANOVA) statistically significant differences were observed between respondents with different degrees of disability in terms of a dependent variable (“Some work experience”).

In order to determine between which subgroups there is a statistically significant difference, a multiple comparison was applied – the Tukey test (Table 9).

Table 9: The Tukey test of multiple comparisons (degree of education)

| Multiple Comparisons |                |                |                       |            |         |                         |             |        |
|----------------------|----------------|----------------|-----------------------|------------|---------|-------------------------|-------------|--------|
| Dependent Variable   | (I) Disability | (J) Disability | Mean Difference (I-J) | Std. Error | Sig.    | 95% Confidence Interval |             |        |
|                      |                |                |                       |            |         | Lower Bound             | Upper Bound |        |
| Some work experience | Tukey HSD      | Degree 1       | Degree 2              | 0.03571    | 0.15705 | 0.972                   | -0.3411     | 0.4125 |
|                      |                | Degree 3       | -0.57143*             | 0.20274    | 0.017   | -1.0579                 | -0.0850     |        |
|                      |                | Degree 2       | Degree 1              | -0.03571   | 0.15705 | 0.972                   | -0.4125     | 0.3411 |
|                      |                | Degree 3       | -0.60714*             | 0.24554    | 0.042   | -1.1963                 | -0.0180     |        |
|                      |                | Degree 2       | Degree 1              | 0.57143    | 0.20274 | 0.017                   | 0.0850      | 1.0579 |
|                      |                | Degree 2       | Degree 2              | 0.60714*   | 0.24554 | 0.042                   | 0.0180      | 1.1963 |

\*. The mean difference is significant at the 0.05 level.

Data from Table 9 indicate the existence of statistically significant differences between persons with third-degree disability and persons with first and second-degree disability in terms of the dependent variable "Some work experience."

Table 10: Mean / Degree of disability

### Report

Some work experience

| Disability | Mean   | N  | Std. Deviation |
|------------|--------|----|----------------|
| Degree 1   | 1.1786 | 56 | 0.38646        |
| Degree 2   | 1.1429 | 7  | 0.37796        |
| Degree 3   | 1.7500 | 4  | 0.50000        |
| Total      | 1.2090 | 67 | 0.40963        |

Based on the values from Table 10, it can be concluded that persons with third-degree disability were significantly less active in some jobs. In technical terms, these individuals have a significantly lower range of jobs they can be engaged for with regard to the higher degree of disability.

Table 11: T-test (dependent variables)

|                               |                             | Levene's Test for Equality of Variances |       |        |        |                 |
|-------------------------------|-----------------------------|-----------------------------------------|-------|--------|--------|-----------------|
|                               |                             | F                                       | Sig.  | t      | df     | Sig. (2-tailed) |
| Some work experience          | Equal variances assumed     | 4.058                                   | 0.048 | -1.514 | 65     | 0.135           |
|                               | Equal variances not assumed |                                         |       | -1.178 | 6.767  | 0.279           |
| Employed by the state         | Equal variances assumed     | 0.390                                   | 0.534 | -0.409 | 65     | 0.687           |
|                               | Equal variances not assumed |                                         |       | -0.372 | 7.181  | 0.721           |
| Employed by a private company | Equal variances assumed     | 1.644                                   | 0.204 | -1.691 | 65     | 0.096           |
|                               | Equal variances not assumed |                                         |       | -1.697 | 7.486  | 0.131           |
|                               | Equal variances assumed     |                                         |       | .      | .      | .               |
|                               | Equal variances not assumed |                                         |       | 2.560  | 59.000 | 0.013           |

**ANALYSIS OF RESEARCH RESULTS**

The research results indicate that there is certain progress in terms of social acceptance of persons with disabilities, as seen from the perspective of work potential. The respondents pointed out that a large percentage of them had the opportunity to be hired by both state institutions and private companies. It is a positive fact that society is slowly but surely freeing itself from bias in terms of the population that has a certain form of disability. After all, in the 21<sup>st</sup> century, prejudices are an unacceptable obstacle to the development of society. The task of society and the social environment is for younger generations to get rid of prejudices and embrace equal acceptance and diversity.

The respondents' willingness to do simple jobs that tolerate their degree of disability indicates the opportunities that are provided for private entrepreneurs

seeking staff for such tasks. By hiring persons with disabilities they create multiple benefits for the society but also for themselves. The first and very significant advantage lies in the expression of social responsibility of the company/the entrepreneur. Another significant advantage relates to the fact that the employment of these persons is a social relieving of the budget and brings multiple benefits to the entire society. Another advantage relates to the increase in the standard of the family of persons with disabilities and increases their consumer capacity.

The survey results indicate a 100% positive attitude of respondents in terms of starting a particular business. Despite of the fact that they have some degree of disability, the respondents were willing to try to turn their ideas into reality. Financial support in the form of grants, interest-free loans and certain tax exemptions are possibilities of initiating entrepreneurship among persons with disabilities. Given the closeness and understanding of people who have the same or similar problem, the success of individuals would represent a positive signal with respect to the determination of other people with similar problems.

Survey results also indicate that there is no statistically significant difference between respondents of different ages in terms of dependent variables. It is obvious that persons with disabilities have quite similar experiences in terms of work, the opportunities provided by the state and private companies, as well as in terms of their attitude towards starting a business.

The obtained results indicate the existence of statistically significant differences in respondents with third-degree disability and respondents with second and first-degree disability in terms of employment. Those with third-degree disability had significantly fewer opportunities for employment than persons with second and first-degree disability. If we take into account that third-degree disability substantially limits the types of jobs that a person can do, then this information may be considered logical. For this reason, it is necessary to provide an opportunity for people with a higher degree of disability to obtain employment in occupations that allow it, and in this way their full existential, socially and psychologically uplifting would be enabled.

## **CONCLUSION**

Encouraging entrepreneurial affinity with persons with disabilities is a very important mission of any government. There are a number of positive effects that could be initiated by this activity:

- Developing self-esteem, feelings of competence and a sense of usefulness to society,
- Encouraging employment,
- Developing socially responsible policies,
- Multiplying the positive effect of the possibilities of persons with disabilities,
- Budget relief,
- Development of tax potential,
- Creating a favorable entrepreneurial environment, and others.

These are some of the positive effects of incentives for entrepreneurship for persons with disabilities. It is necessary to act in a synchronized manner in this direction, while the government initiative would be supported by the media, the educational system, local governments, the available funds, non-governmental organizations, clusters and others. All the factors enumerated have a vested interest in entrepreneurship development for all citizens. Each individual represents a new entrepreneurial possibility with the potential to spawn a serious company with a wide range of occupations.

An educated society invests important resources in the development of healthy and satisfactory social relations on every level of our community. Only an educated nation can surpass problems and temptations that rule in modern society. Commitment to socially healthy relations presents the basic assignment of an educated nation, because only a healthy social environment can be successful in other segments of society (Dragić et al., 2015:7).

Thus, there are many private entrepreneurs who would hire persons with disabilities and those who would provide the opportunity to cooperate with these persons if they accept entrepreneurial challenges. The option of cooperation and support is an additional potential which should be paid special attention to.

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## **WOMEN'S EMPOWERMENT THROUGH ENTREPRENEURSHIP IN ALGERIA**

*Boufeldja Ghat<sup>7</sup>*

### **ABSTRACT**

*The marginalisation of women in most developing countries, obstruct their social and economic development. The traditional culture is the cause for the spread of illiteracy, unawareness and the lack of material incomes. As a result of this fact, the women suffer from a position of weakness, dependency on men in a males' society. The expansion of education amongst young girls helped an increasing number of them to obtain higher degrees. That allowed them to occupy jobs and to have an income. As result of the unemployment crisis in Algeria, the state applied a strategy of encouraging youth in creating their own enterprises. Algerian educated women became more aware of their situation. That led to an increasing number of them becoming successful entrepreneurs. This strategy helped the empowerment of women, allowed them to defend their interests and occupy senior social and economic positions.*

**Key words:** *Women's entrepreneurship, Women's empowerment, Males' society, Women's work in Algeria*

**JEL Classification:** *I24, L26*

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## **INTRODUCTION**

Algeria knew a French colonialism that lasted for 132 years. That led to the spread of poverty and illiteracy within the Algerian society. The misunderstanding of the real Islam led also to the spread of a culture of passivity, leaving women at home, in backward position.

Algeria inherited, after her independence, a difficult economic, social and cultural situation, with high rate of unemployment and a need for qualified technical staff and managers. She made considerable efforts in training new generations, by building schools, universities and occupational training centres. Starting from scratch, Algeria invested in building an industrial background, taking advantage of her oil revenues. Algeria, tried to build a modern developed society, to face the constraints of globalisation. That cannot be done without the efforts of all her citizens, men and women.

One way of combating unemployment and poverty is entrepreneurship. Men have always created enterprises in different economic and social activities, while women knew a considerable delay. Women entrepreneurship is a recent phenomenon in Algeria. The women empowerment has emerged as an important research issue in developing countries, including Algeria (Ghiat, 2013). The development of women's entrepreneurship is not an easy task, considering the socio-cultural constraints. That is why social scientists, economists and politicians concluded that these ambitious objectives cannot be reached, without the support of women, who are an important constituent of the society.

The status of women reflects the economic et social situation of a nation. Diwivedi and Mishra pointed out: "It is fact that, when there is development of women, family develops, the society develops and the country develops". Women are the catalysts of development and with them we prosper, but without them we are poor" (Diwivedi, Mishra 2013, p. 50).

In order to promote women entrepreneurship, the environmental and cultural constraints should be identified and confronted.

## **FACTORS LEADING TO WOMEN'S INFERIOR STATUS IN DEVELOPING COUNTRIES**

From going through the literature about the living conditions of women and their status in developing countries in general, we find a lot of similarities between these societies.

The cultural constraints of women start from the family. As pointed out by Harender and Kumar, "there has autocratic method of family organisation, with men as decision makers and women obliged to obey them" (Harender, Kumar, 2009).

Men have economic revenues that give them power, while women in these societies have no remunerable jobs, without revenues, then without power. Yakubu pointed out that "Muslim women are frequently perceived as objects of pity often holding marginal and counter-productive statuses in their societies" Yakubu (2001. p. 108). That implies in traditional societies as influenced by local cultures, which

do not go with the ideals of the modern society, where men and women should have equal opportunities.

Shastri and Sinha pointed out that “In India, women who try to play the entrepreneurial role, generally have to face the environmental constraints. They are the chances for having high rate of failure (...). This rate of loss might go even higher in the case of women who have to face the business, family and social problems’ (Shastri, Sinha, 2010, p. 31).

While Bukhari and Ramzan found that “Cultural constraints, social norms, lack of awareness, lack of education and poverty, wherever the circumstances will be same the result will be almost same. It is not particularly affiliated with religion Islam” (Bukhari, Ramzan, 2013 pp. 95-96).

Several cultural factors are behind women obstacles. In his study on ‘promoting of women entrepreneurship’, Harinarayan lists “economic backwardness, lack of familial and community support, ignorance of opportunities, lack of motivation, shyness and inhibition, preference for traditional occupation and preference for secure jobs as the factors that inhibit promotion of entrepreneurship among women.” (Harinarayan, 1991, p. 47).

On his side, Singh Ranbir listed the problems that women entrepreneurs encounter are: Limited mobility, family ties, lack of education, male domination society and low risk-bearing ability (Singh Ranbir, 2012, p. 52).

We can draw a conclusion about the similarity in cultural constraints of women entrepreneurs in several countries, such as Morocco, Tunisia, Pakistan, Bangladesh, India and Algeria. The same socio-cultural and economic situations, lead generally to the same results, concerning performance, success or failure of women entrepreneurs in these countries. The same conclusions are reached also by scholars in other developing countries from Africa (Bizo, 2012) and Asia (Shengliang, Smita, 1995).

The socio-cultural and economic factors are often behind the backward position of women. This phenomenon needs a move from politicians and decision makers, in order to facilitate women’s entrepreneurship.

## ***ENTREPRENEURSHIP AND WOMEN’S EMPOWERMENT***

Most publications on women’s empowerment through entrepreneurship are about researches carried out in developing and emergent countries.

Following Sing, women’s entrepreneurship is “an act of business ownership and business creation that empowers women economically increases their economic strength as well as position in society.” (Singh Ranbir, 2012 p. 48). He added that “Woman entrepreneur is a person who accepts challenging role to meet her personal needs and become economically independent. A strong desire to do something positive is an inbuilt quality of entrepreneurial women, who is capable of contributing values in both family and social life” (Singh Ranbir, 2012 pp. 48-49).

Kamala Singh defined a woman entrepreneur as “confident, innovative, and creative woman capable of achieving self economic independence, individually or, in collaboration, who generates employment opportunities for others through

initiating, establishing and running an enterprise by keeping pace with her personal, family and social life” Singh Kamala, 1992).

While Diwivedi and Mishra concluded that “Now a day, women entrepreneurship becomes an important tool for women empowerment. Women entrepreneurs also enhance living standards of their family which in turn help in development of the country” (Diwivedi, Mishra 2013, p. 52).

Singh Ranbir (2012) “Women entrepreneurs engaged in business due to push and pull factors. Which encourage women to have an independent occupation and stands on their own legs? A sense towards independent decision-making on their life and career is the motivational factor behind this urge (Singh Ranbir, 2012 p. 49).

According Léger-Jarniou the entrepreneurial culture "promotes personal characteristics associated with entrepreneurship is individualism, marginality, the need for personal achievement, risk-taking, self-confidence and social skills; who also value personal success while forgiving failure; and encourages diversity and not uniformity and encourages change and not stability " (Light - Jarniou, 2008, p. 162).

The cultural attitudes and practices concerning genders in developing countries are contrary to the requirements of the modern society, where the difference between genders is reduced to a minimum, as far as jobs and economic activities are concerned.

## **RESEARCH METHODOLOGY**

In order to guide our research, objectives, research questions and research procedures were put down.

## **OBJECTIVES OF THIS RESEARCH**

The objective of this paper is to analyse the constraints and processes of women empowerment through entrepreneurship in Algeria. It tends to clarify the following points:

- Identification of main socio-cultural obstacles of women entrepreneurs.
- The factors helping to catalyse the Algerian women empowerment.
- The identification of good practices of women empowerment through entrepreneurship.
- The psychological aspects and behaviours reflecting women's entrepreneurs' empowerment.
- The proposition of solutions to overcome the barriers of women's empowerment.

## **RESEARCH QUESTIONS**

The following research questions were put for our research:

- What are the factors that weakened the women's position in Algerian society?

- What are the factor helping the improvement of women's position in Algeria?
- How entrepreneurship helped in the empowerment of Algerian women entrepreneurs?
- What are the psychological aspects and behaviours showing empowerment of women entrepreneurs?

## **RESEARCH PROCEDURES**

A research was carried out on women entrepreneurs and self employed women from Oran city in Algeria. Visits to women's enterprises, observations and interviews were carried out, and lessons were drawn about the way of empowering women through entrepreneurship.

## **WOMEN ENTREPRENEURSHIP IN ALGERIA**

From observations and interviews, le following results are drawn about the fact of females' entrepreneurship in Algeria.

During the second half of the 20<sup>th</sup> century, women had a weak presence in managerial positions, and a very limited number of them were entrepreneurs. The main role of women was a house wife, or having craft occupations mainly at home.

The socio-economic changes in Algeria had an impact on the socio-cultural life, attitudes and behaviours of youth from the two genders. As men workers, managers and entrepreneurs, tolerate the work of women in Algerian society, and changed their attitudes them.

Although entrepreneurship is an economic activity open to both sexes, the majority of entrepreneurs are males. Entrepreneurship was related to public works and building, that requires physical force. Consequently, women were not attracted to entrepreneurship professions. The democratization of education and the orientation of women towards scientific and technological fields of study have pushed them to be more and more interested in jobs which are related to their training and scientific background.

Female entrepreneurship has become obvious, and that led to the engagement in dynamic socio-cultural changes. The entrepreneurship is used as a means for helping women to gain more power in their battle for equality between genders and their empowerment.

In spite of accepting the work of women in different sectors and economic, social and political activities, women are still facing cultural constraints while carrying out their occupational duties even as managers and entrepreneurs.

Several factors affected negatively the status of women, their attitudes and behaviours in Algerian society, as shown on table 1.

*Table 1: Factors inhibiting promotion of women's entrepreneurship*

| Economic and educative inhibitors | Attitudes and behavioural inhibitors      |
|-----------------------------------|-------------------------------------------|
| - Economic backwardness           | - Lack of self-confidence                 |
| - Lack of family support          | - Preference for secure jobs              |
| - Lack of community support       | - Limited mobility                        |
| - Lack of education               | - Low risk bearing ability                |
| - Lack of training                | - Priority of marriage on occupation      |
| - Lack of professional experience | - Shyness                                 |
| - Male domination society         | - Ignorance of business opportunities     |
| - Family ties                     | - Lack of motivation in creating business |

Backward environments, full of socio-cultural and economic constraints lead to the development of attitudes, behaviours and psychological characteristics with women, who are characterised by negativity and dependence. They rely up on men to provide them with various material necessities.

In order to combat unemployment, the state encourages youth on entrepreneurship, and women became interested in this profession, traditionally reserved for men. If men in a male's society meet insurmountable difficulties during the process of creating and managing businesses, the case is more complex for women in a traditional and hostile environment.

The support women entrepreneurs receive from their friends and family members is a valuable contribution that helps them to overcome problems and constraints. According to the interviews, women entrepreneurs experiencing success often receive support from their families (father, mother, brother, sisters or husband) and their friends. Supports from males are often necessary.

Results from observations and interviews with women entrepreneurs covered by thus research, are discussed in light of literature survey, from countries where women have similar socio-cultural constraints as Algeria, such as Morocco, India and Pakistan.

## ***DISCUSSIONS***

From our investigation on the Algerian women, results showed that they share the same concerns and face similar problems and constraints in the process of setting up their enterprises, as found in the literature.

The socio-cultural constraints of Algerian women, the socio-cultural changes, the empowerment of women entrepreneurs and the psychological impacts of entrepreneurship on women in Algerian society are discussed.

### ***TRADITIONAL CULTURE AND CONSTRAINTS OF ALGERIAN WOMEN AT WORK***

As a Muslim country, Algerian people respect the cultural traditions in which roles and duties of the two genders are different and well defined. There is a division

of work, men work outside and women work inside homes. It is men's responsibility to provide shelter, food, clothes and all necessary commodities for all the family. While the role of women is limited to household: looking after their children and bringing them up. They are often occupied by agricultural or crafts activities.

### ***SOCIO-CULTURAL MUTATIONS OF ALGERIAN SOCIETY***

Algeria knew tremendous changes since the ninety's of the twentieth century, as a result of the expansion of education and training facilities, and the improvement of the economic standard in general. That is facilitated by the proximity of Europe, as Algeria is a Mediterranean country, with a big minority of Algerian emigrant in France, and that facilitated the mobility of Algerian youth between Algeria and Europe. Beside these factors, we find the expansion of internet and the use of social networks. People's attitudes changed positively towards women's work, and Algerians accept more and more women in managerial positions as leaders and politicians (Ghiat, 2014).

This situation knew tremendous changes, as a result of the socioeconomic development in Algeria, due to several changes such as:

- The improvement of economic conditions of the Algerian society as all.
- The high demand of girls on education, and their entrance by force to the university.
- The crisis of unemployment amongst youth of the two genders.
- The adoption of a strategy of youth employment encouraging them to create their own enterprises.
- The encouragement of women in getting senior managerial and political positions.
- These conditions helped the Algerian women to enter the entrepreneurial activities.

The socio-cultural changes in Algeria and the change of cultural mentality led to the acceptance of women as managers and entrepreneurs. The education of women helped them to have psychological characters, occupational skills and managerial abilities, needed for women entrepreneurs.

### ***IMPACTS OF ENTREPRENEURSHIP ON WOMEN EMPOWERMENT***

The women empowerment refers to the process of improving the economic situation of women through giving them the opportunity to have a job and an income. That can be reached through creating the appropriate environment for the creation and management of their enterprises in a hostile male's environment.

The success of women entrepreneurs allows them to have material incomes. That helped them to shift from a position of weakness and material needs, to a position material self-sufficiency and strength. As a result of these changes, Algerian women became more autonomous and independent from men, and from their parents, therefore more empowered and able to face the requirement of the modern society.

The fact of women's weakness or empowerment is the result of several inter-related factors, as shown on figure 1.

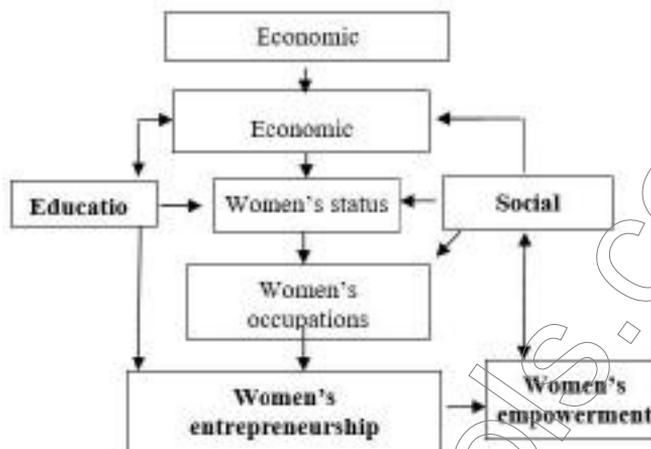


Figure 1: Impacts of education and social changes on women's entrepreneurship and empowerment

This model shows the process of empowering women through entrepreneurship, and helps to explain the complexity of the factors affecting women's empowerment. It applies in other countries, with similar cultures in Africa and Asia.

### **PSYCHOLOGICAL CHARACTERS AND WOMEN'S ENTREPRENEURS' EMPOWERMENT**

To be entrepreneur requires several psychological characteristics, abilities, competences and qualifications.

**Psychological characteristics:** To be entrepreneur requires several psychological and behavioural qualities. That can be summarised in self confidence, autonomy, ability of studying the conditions of setting up one's enterprise, intelligence, creativity, communication and leadership qualities. These characteristics and qualities help women to have more independence and capabilities to face environment constraints.

**Knowledge:** A basic education and knowledge are necessary to engage in the entrepreneurial activity. That is why most entrepreneurs, have university qualifications.

**Occupational qualifications:** To engage in an entrepreneurial activity requires a technical and theoretical background about the entrepreneurial activity in which he or she will be engaged.

These qualifications lead to self confidence in facing the social, environmental and occupational constraints.

The number of women entrepreneurs increased subsequently since the beginning of the 21<sup>st</sup> century, in most occupational activities, and not limited in some crafts and services as before. The success of women entrepreneurs changed the landscape of entrepreneurship in Algeria and it became obvious to deal with women, as clients, as managers or as entrepreneurs. Men adapt widely to the new situation and accept to have women as supervisors and managers. They accept to be employed by women and to receive orders from them. That was unbelievable few years ago in Algerian society.

## **CONCLUSIONS**

The social change and the education help in the empowerment of women in the society, but that is not enough. The entrepreneurship requires psychological characteristics, intelligence creativity, competences, managerial abilities and leadership qualities. All these aspects help women to be autonomous and more confident.

The in-come of women entrepreneur improve their social status and give them more power in confronting the socio-cultural and environmental constraints of underdeveloped societies such as Algeria.

Subsequently, Algerian women became more confident, courageous and autonomous. During the first steps in creating their enterprises, women are generally supported by their families, mainly by men, but with the time they become more independent and manage to solve their problems on their own.

This explains the success of the entrepreneurship strategy in the empowerment of women in Algeria, and helped them to overcome the socio-cultural constraints of a male's society, such Algeria.

The future of business and functions of the gender starts to emerge. The job of "entrepreneur" is more envied, by a significant number of young university graduates. More light should be shed on gender entrepreneurship in Arabian and Muslim societies.

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## **ENTERPRISES: NECESSITY OR OPPORTUNITY TO WOMEN EMPOWERMENT & HAPPINESS: A CASE OF WESTERN NEPAL**

Raghu Bir Bista<sup>8</sup>

### **ABSTRACT**

*Gender Development Index (GDI) of Asia still establishes the development issue of Gender Disparity in the context of Gender Sensitive Development Approach. In Nepal, its extremity supported by GDI rank is reflected by her Western Region, along with their socio economic vulnerability. At some extent, enterprises have been endorsed in the western region of Nepal. This paper analyzes whether enterprise is necessity or opportunity throughout examination of the institution and module of enterprises in agriculture and examination of its forward and backward linkages with household dynamics and happiness based on primary data collected from Surkhet, Western Nepal through applying basic statistical tools. The paper finds mixed scenario in which the high income group used it an opportunity but the low income group used it necessity to self-employment because of availability of resources and means. Its positive impact can be found in women empowerment, vulnerability and household dynamics.*

**Key words:** *Gender Development Index, Gender Disparity, Development Issues, Socio economic vulnerability, Nepal*

**JEL Classification:** *J16, J24, L53*

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## **INTRODUCTION**

Since 1990, Nepal has been giving top priority on enterprises development and entrepreneurship as a major industrial development module and philosophy at grass root level for responding local issues: massive seasonal unemployment, poverty, gender disparity and happiness issue of women. Bista (2011) provides evidence of occurrence of indigenous enterprises developed in ancient and medieval period during which those enterprises were skill based and caste based particularly in Kathmandu Valley. Somehow castes have been promoting skill based enterprises and entrepreneurship as their family occupational business. CBS (2016) shows its large size in the country. Furthermore small scale enterprises development which carried institutional and policy support to entrepreneurs through indigenous knowledge, micro credit and skill development was a major policy objective component of Industrial Development Policy 1992. As complementary as well as supplementary of Industrialization process, small scale entrepreneurship have been initiated but it has been as major instruments of poverty reduction and self-employment generation, particularly of women's. VDCs, NGO, CBOs and Cooperatives have initiated to provide skill of entrepreneurship to women, particularly marginal women, along with Group Collateral based credit. As record and facts, women have activism in skill based enterprises of women more than other service oriented enterprises in Nepal.

It is claimed that micro small enterprises have not achieved as the expected growth and expansion all over the country. It has been supplemented by the growth of the outflow of labor (male and female) and the growth of poverty to make compound problem. It is supplemented by lower HDI in western development region, particularly in Surkhet. In this context, the query whether women poverty and micro small enterprise development relationship is positive or not may be curious. Therefore, this paper focuses on whether HDI and GDI are satisfactory, whether women's status and characters are higher, whether enterprise has forward and backward linkage, whether enterprise has positive impact on living standard and whether entrepreneurship is necessity or opportunity.

## **OBJECTIVES AND METHODS**

This paper basically assesses women's enterprises development and growth in Nepal with the following specific objectives: to analyze socio-culture characters of women, to observe institution and module of women's enterprises and to analyze its forward and backward linkages with household dynamics and happiness.

This is qualitative cum quantitative research design in which descriptive and explorative modules have been initiated to find out primary data and information about women entrepreneurship for in depth analysis. The required primary data and information were collected through household survey and key informant interview. For the household survey, there were 642 households sample selected through random sampling method, although the Surkhet was selected purposively. The data was analyzed by using descriptive statistical tool.

## **RESULTS AND DISCUSSIONS**

### ***Women Status: Role and Characteristics***

Women are an important issue in modern Nepal because Hinduism based social norms, values and system illustrates women as pride and prestige of family having the limited economic role rather than socio-religious role and life partner. It seems to be the limited role inside the house. Individual freedom and liberal norms, values & system of modern society argues it as slavery, exploitation and marginality.

Since 1990, women issue has been observed as critical issue in the course of capacity and economic development of women, when Gender Development Index (GDI) shows ugly Figure of women's socio economic status and capacity with illiteracy, poverty, in access to asset & income, no skill, higher dependency on male, working only unvalued informal activities etc. It was blamed to Patrimonial society for such socio economic discrimination. There was a question how to respond properly on this issue for their socio economic improvement. As supplementary, women poverty has made ugly to overall scenario of development in the country.

As initiation, the government of Nepal established fundamental right in the Democratic Constitution 1990. As individual citizen, women got individual liberty and freedom to decide or chose or state or move or produce or write or organize (MoL, 1990). Furthermore, the constitution established equal right of women on information, resources and property and eliminated any forms of discrimination and discriminatory provisions. In one hand, it ends discriminatory customary laws and family laws based on the national code and conduct (MoF, 1990). Constitutionally, there was expected that fundamental right and equal right will provide sufficient legal grounds to access information, opportunity, resources and asset and to be liberal for thinking individually for socio economic activities.

The fundamental right and equal right have changed attitude, behavior and opinion of the society about women, along with male. Its result was creating opportunity to girl like as boy in education and other facilities, protection on employment opportunities, 33 percent quota system in the parliament, access to employment opportunities etc. In addition, the government in 1991 ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) (MoL, 1991). Thus, access to education has been society towards gender friendly for improving the score of Gender Development Index (GDI) for improving the score of overall development index. As supplementary, the Ninth Plan (1997-2012) had shifted development policy paradigm to Gender Balanced Development from Women Development to eliminate gender inequality and mainstream to women empowerment (NPC, 1997). Thus, women literacy has jumped-up unexpectedly in fact and figures.

Unlikely Urban city, rural city has been struggling for women's development and empowerment because of the illiteracy trapped socio economic culture, norms, values and system. Still, women have been like as valuable ornament of the family. GDI of rural women is found unpleasant in the country, although development

efforts have been initiated for women empowerment. In case of Far western Development region, there has been still traditional patrimonial society. GDI shows unpleasant Figure across caste and creed.

Table 1: Gender Status of Nepal (1981-2015)

| Indicator                            | 1981 | 1991 | 2001  | 2015 | Remarks |
|--------------------------------------|------|------|-------|------|---------|
| <b>HDI</b>                           | 0.32 | 0.41 | 0.499 | 0.54 | low     |
|                                      | 8    | 6    |       | 8    |         |
| <b>GDI</b>                           | -    | 0.31 | 0.479 | 0.52 | low     |
|                                      |      | 2    |       | 7    |         |
| <b>Life Expectancy</b>               |      |      |       |      |         |
| Male                                 | 50.9 | 55.0 | 60.1  | 68.2 |         |
| Female                               | 48.1 | 53.5 | 60.7  | 71.1 |         |
| <b>Adult Literacy(15 years)</b>      |      |      |       |      |         |
| Male                                 | 20.6 | 38   | 62.2  | -    |         |
| Female                               | 9.2  | 13   | 34.6  | -    |         |
| <b>Economically Active(15 years)</b> |      |      |       |      |         |
| Male                                 | 87.7 | 79.8 | 81.7  | -    |         |
| Female                               | 45.7 | 48.7 | 60.4  | -    |         |
| <b>Per Capita PPP(\$)</b>            |      |      |       |      |         |
| Male                                 |      |      | 1734  | 2690 |         |
| Female                               |      |      | 867   | 1956 |         |

Source: Author's collection from CBS from 1981 to 2015

Table 1 shows the results related gender status of Nepal based on six indicators, although there are mainly two: HDI and GDI. In addition, there are four indicators: life expectancy, adult literacy and economically active and per capita PPP (\$). HDI and GDI score measures composite human development and gender development respectively. HDI score in 2015 has reached 0.548 which is higher than in 1981 with 0.328, 1991 with 0.416 & 2001 with 0.499. Thus, impressive progress can be seen in HDI score. Similarly, GDI score in 2015 has reached 0.527 which is higher than in 2001 with 0.479 and in 2001 with 0.312. There is a jump up.

Similarly, life expectancy, adult literacy, economically active and per capita PPP (\$) have been in progress. Above table shows 68.2 years life expectancy of male less than 71.1 years life expectancy of female. Similarly, adult literacy of

male (62.2%) is twice of female (34.6%). In economically active, there is 81.4 percent male and 60.4 percent female. Its reflection can be found in per capita PPP (\$). Male's per capita PPP (\$) is 2690 higher than 1956 female's per capita PPP (\$).

Above result of table 1 can be discussed based on the year 1990 as policy initiative year of fundamental right and women right, along with democratic governance, individual liberty and open society. Of course, HDI score in 2015(0.548) is still lower, like as GDI score (0.527). When we observe HDI in 1981, its score was unexpectedly lower. In case of GDI, the approach was not adopted. What was reason behind such unpleasant results of HDI and GDI, its linkage can be found with unilateral political system, so called Panchyat System with limited fundamental right and individual liberty. In such political structure and system, HDI had not able to catch up acceleration in the absence of international integration, although the country was in the right direction of educational and health institutional development, along with political and socio economic institution. When we observe HDI after the democratic system with individual liberty and open society, the result shows significant growth from 1991 to 2015. Its positive contribution to HDI can be found. In addition, Gender Balanced Development Approach was adopted in 1990. It has been helping to reduce gender disparity and women empowerment.

As supplementary, Nepal had endorsed private property, private investment and economic liberalism as the foundation of economic policy, along with political liberalism. Its reflection can be found in the huge growth of private investment and FDI in industry, business, trade, construction etc., along with the government development expenditure. Its positive contribution can be found in the positive growth of life expectancy, adult literacy, economically active and per capita PPP (\$), although it is relatively lower in SAARC.

Above result illustrates central role of women in GDI. Women's life expectancy was lower than of male before 1990. Since 1990, women's life expectancy has achieved significant progress. In 2015, women's life expectancy is more than of male. In adult literacy, women literacy was negligible in 1981 and 1991. In recent years, its status is 34 percent. Girls are made inclusive in the mainstream development activity. Besides, women economically active are 60.4 percent out of 100. It is higher than before. The result is complemented by individual liberty and open society, along with expansion of private economic activities in the country. It has contributed to improve per capita PPP (\$). Almost results shows positively inclining of women status.

## ***WOMEN AND ENTREPRENEURSHIP***

### ***Entrepreneurship: Types and Status***

It is believed that entrepreneurship emerged in 17<sup>th</sup> century as a person having permission from the government either to perform service or to supply products. Its example is Royal Bank (Durant, Durant, 1960). Later, entrepreneurs were observed as risk takers. In 20<sup>th</sup> century, it was perceived as enterprise runner for personal

gain. Later, it was explained as the entrepreneur producing goods and services by employing innovative technology (Schumpeter, 1949).

The literature on entrepreneurship provides sufficient evidence of entrepreneurship development in ancient Nepal. Bista (2016) mentions the well development of entrepreneurship in Lichhavi (Lichhavi Period is ancient time period (110-880 AD) during which Amsubarma ruled Kathmandu Kingdom for a long. The rule was called Lichhavi. The period is mentioned the golden age of Nepal in terms of development and welfare). Period (110-880 AD). Its evidence can be found in Changuaryan Temple (Changuaryan is name of temple of Goddess Narayan. It was constructed in Changu Area during the Lichhavi Period. Still, it is in Changu in Nepal. It is marvelous evidence of archeology, culture, art, architecture). Further, Bista (2016) explains golden age of entrepreneurship related to skill based. For its promotion, King Jayasthiti Malla (King Jayasthiti Malla is one of great king of Malla period (880-1768AD). Nearly in 15th century, he ruled Kathmandu Kingdom. He was explained as good ruler and reformer. For labor specialization, he introduced Caste System of Nepal based on the occupation. Still, Malla period is remembered as marvelous city development and development of art, culture, religions, architecture, engineering, drinking water system, sewerage system, entrepreneurship etc. Nepal exported handicrafts and handmade goods to Tibet and some province of China and many kingdoms of India. Thus, Kathmandu was a quiet popular for entrepreneurship. Still, its expansion can be found) introduced caste system of Nepal based on their occupation for labor specialization for higher productivity and efficiency. Thus, indigenous skill and technology based enterprises and entrepreneurship have been in operation since ancient Nepal. Over time period, innovative idea and technology based entrepreneurship has been emerging in the country for economic gain and self-employment.

In 1960-1990, unilateral political system and semi command economy had also initiated like as 104 years Rana Regime to protect traditional enterprises and to encourage new and innovative enterprises through training and financial system through Bank and other institutions. As supplementary, enterprises development institutions were established to conduct research and develop industrial state. Its positive implication can be observed in terms of enterprises development and expansion not only in urban areas but also in rural areas. Despite semi command economy, there was entrepreneurship environment through Industrial Act. At first time, enterprises were categorized into two large and medium industries and micro and small industries (MoL, 1980)

The democratic system had adopted economic liberalism under which private investment was opened in all sectors, except security and information (MoF, 1990). Industrial Act 1992 had also similar categories. The policy perceived micro small enterprises as driver of mass employment creation and poverty reduction. Since 1990, micro small enterprises have been playing a significant role in local economy as well as national economy. At present, it has been endorsed as economically empowerment to women in urban and in rural areas for reducing gender inequality and women poverty.

CBS (2015) shows the 0.3 million micro small enterprises. Micro Small Enterprises survey (2002) presented four types of micro small enterprises: manufacturing, trade, service and others. Figure-1 explains composition of micro small enterprise in which manufacturing related enterprises with 53 percent dominates. However, there are trade related enterprises (21%), service related enterprises (17%) and others (9%). In addition, all micro small enterprises have two statuses: full time operation and not full time operation. Figure 4 shows its status. In micro enterprises, full time operation is greater than not full time operation. However, in small enterprises, not full time operation is greater than full time operation.

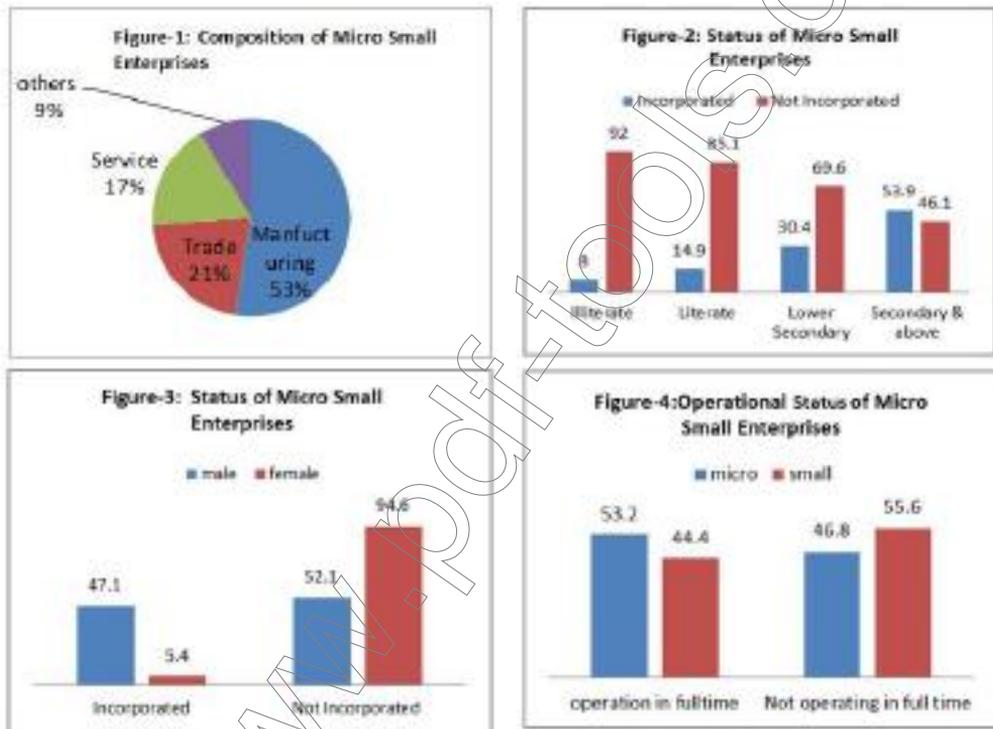
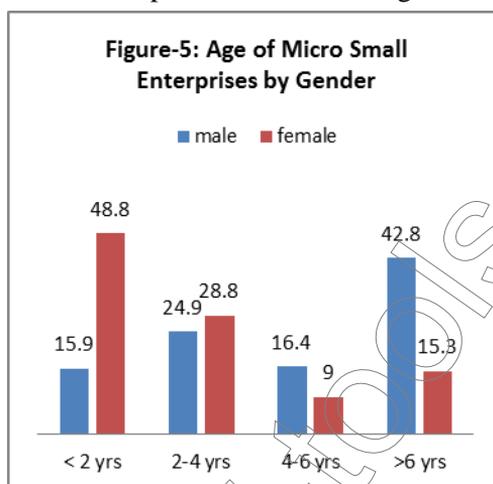


Figure 2 shows legal status of micro small enterprise in which level of education and level of not incorporation has negative correlation. In another, incorporation and education level has positive correlation.

### ***Entrepreneurship and Women Participation***

In entrepreneurship, women participation is found. Figure shows its evidence. Due to lower score of women in HDI and GDI, along with literacy and economically active, women are still marginal. In figure 3, women in incorporation with micro small enterprises are only 5.4 percent but not incorporation with micro small enterprises is 94.6 percent. In case of male, not incorporation is significantly large (52%) but incorporation is also significant (47%).

Figure-4 shows age of micro small enterprises having information about women's participation in entrepreneurship. This result is supplementary evidence. Women's aggressive participation can be found in recent years shown by age of micro small enterprises. In the age from younger to older, male's participation is found in older age micro small enterprise but women's participation is found more in younger age micro small enterprises than in older age micro enterprises.



In Surkhet, there is women's participation in micro small enterprises as engine of poverty reduction and women economic promotion, although there are issues. This is positive impact of enterprises. In figure 10, about 70 percent women opine it as necessity for their empowerment. About 30 percent women opine it as an opportunity, although they have different multiple problems in figure.

### ***Forward and Backward Linkage of Entrepreneurship***

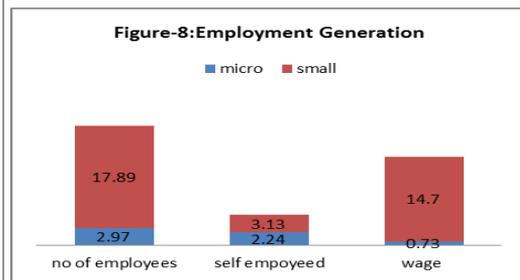
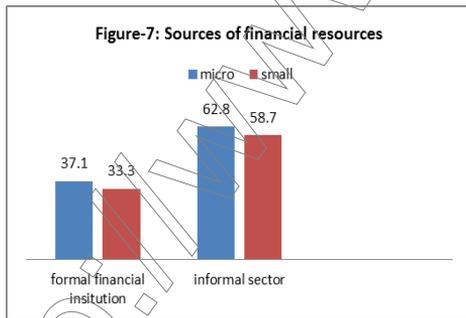
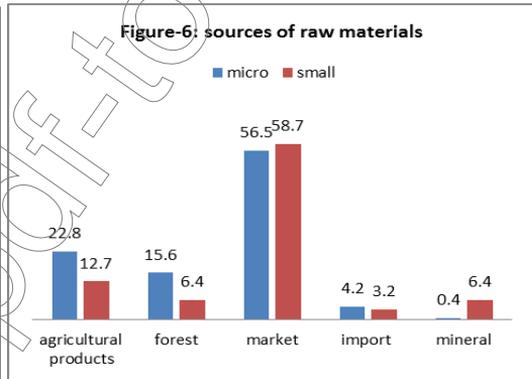
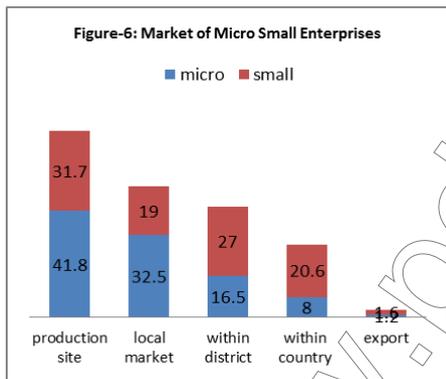
The theoretical literatures of industry show its forward and backward linkages in the supply chain. Further, the literature shows forward linkages in terms of output supplying raw materials to the intermediary linkages with the firms and goods to consumers. Thus, it expands to further industrial development and promotion. Similarly, it employs factors of production through which it establishes backward linkages creating demands of factors of production including labor, capital, raw materials, land, technology, etc. Thus, its effect can promote backward linkages with suppliers or producers. In this way, industry leads to develop no of primary producers and intermediary firms and industries, creating employment opportunities, increasing household income and poverty reduction.

Above discussion on enterprises development provides evidence of theoretical and empirical linkages. At local economy, individual micro small enterprise has small scale forward and backward linkage at household level. In aggregate, it is sufficient to revolutionize local economy and further national economy.

In forward linkage, figure-6 shows multiple areas concerned. They are production site, local market, within district, within country and export. Output of micro small enterprises sells in all these locations. They can be observed into three

groups: local, national and international linkage. Almost output products are consumed by local at 54 percent of micro and 50.7 percent of small and national market at 24.5 percent of micro and 47.6 percent of small enterprises, along with negligible percent of micro and small in international market. Thus, it has expanded its contribution to intermediary firms and households from local to national and further to international. In Surkhet, almost outputs of micro small enterprises have promoted productive and consumption activities in urban areas and mega cities.

The required raw materials establish backward linkage with household and primary producers. Figure 6 shows multiple sources of raw materials: market, agriculture, forest and mineral. About 56 percent Micro depends on market for raw materials. In addition, about 22.8 percent enterprises employ agro products of agricultural firms. About 15.6 percent enterprises demands forest products of forest resources. About 4.2 percent depends on import and 0.4 percent on mineral. Similarly, about 58.7 percent small enterprises depend on market. Then after, about 22.8 percent small enterprises employs agricultural product. About 15.6 small enterprises use forest products.



Credit is another factor of production of enterprises. Figure 7 shows sources of financial resources in which there are multiple sources: formal, informal and others. About 60 percent micro and small enterprises have used informal source for credit finance more than informal sources used by 33 percent micro and small

enterprises. It is evidence of poor financial sector development and distribution and existence of traditional sources with higher interest rate.

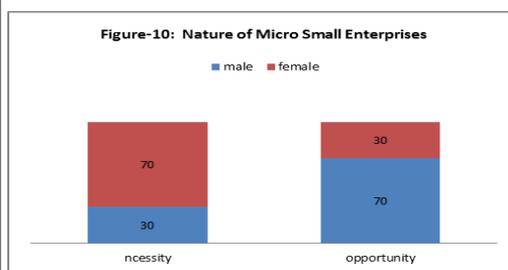
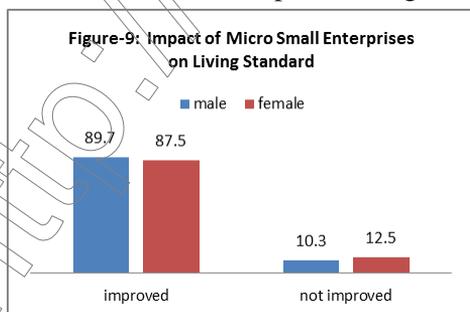
Figure 8 shows employment generation of enterprises in which there are three employees: employees, self-employees and wage employees. Micro small enterprises have created 19 percent employees, 15 percent wage employees and 5 percent self-employee out of which micro enterprises share is nearly 2 percent in all.

Through backward linkages, it motivates the firm’s related agriculture, forest and other mineral sources to develop further because of demand induced incentives. There is evidence that farmers has improved productivity and production of farm land through diversification of cropping pattern and employing technology in accordance with demand growth of micro small enterprises. Naturally, welfare and income of farmer households are found progressive in Surkhet. Its positive impact can be found in consumption and production. Like as agriculture, forest and other mineral resources related consumer groups have been conserving the resources one hand and another extract these resources sustainably. At some extent may be in small scale, it has boosted further productive activities at household and local level.

Above results provide evidence of not facility of formal credit in all VDCs in Surkhet. Its result is excessive use of informal credit. It may be easy access to household but its interest rate is higher than formal credit. It has been a barrier to expand micro small enterprises. In another, illiteracy of women is itself a favorable to informal credit, although it is not business character. However, above result shows evidence of massive employment generation at household and local level. Thus, it has helped to reduce unemployment issue at the point of source from household.

**Impacts of Micro Small Enterprises on Living Standard**

Micro Small Enterprises are policy promoted for reducing poverty and women empowerment in the country where the intensity of women poverty is higher. Since 1990, national plan and poverty reduction policy has been driven it in this regard. This concept is empirically tested. In Surkhet, we found positive impact on the improvement of living standard. Figure 9 shows the impact of micro small enterprises on living standard. The result provides evidence of those micro small enterprises improves 89.7 percent male’s income induced living standard higher than women having 87.5 percent score. Still, there is no impact. The result shows the effectiveness to improve living standard of household.



## **CONCLUSION**

Above results and discussion are evidences of multiple problems in the path of enterprises development and promotion in Surkhet Districts, particularly for women because of their incapacity in terms of literacy, skill and access to resources, although it is their necessity more than their opportunity. The enterprises have positive forward and backward linkage to improve women's living standard and poverty reduction. It is needed not only for economic development of country but also for women poverty reduction. It will be possible when local areas have sufficient environment for micro small enterprises in Surkhet. Therefore, the policy direction should be effective to promote micro small enterprises for massive inclusion of unemployed women of households for income generating productive activities at mass level for massive impact on poverty and inequality reduction and local based sustainable economic growth.

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## **WOMEN IN DEVELOPMENT AND WOMEN EMPOWERMENT: A GENDER ANALYSIS**

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Dijana Jovanovic<sup>10</sup>

### **ABSTRACT**

*The role of women in society has been greatly overseen in the last few decades but now that role is coming to society's perspective. In the early days women were seen as wives who were intended to cook, clean, and take care of the kids. They were not allowed to vote while men were having jobs and they were paying bills that had to be paid. Woman should have a bigger role, because they are responsible for raising children and their socialization. The success and failure of individual family rests on them. By using the method of description, with empirical research and comparative analyze we came to certain conclusions. To this extent, this paper tries to look at the role of women in development and proposed that women need to be empowered if we need a meaningful and purposeful development in our society. It proposed that for any nation to be developed, women must be involved in social, economic, political, religious and educational activities of all countries. It finally proposed that women must not be marginalized due to their gender adding that they have a great role to play in reforming and re-structuring the society for good.*

**Key words:** Development, Women Empowerment, Gender Analysis

**JEL Classification:** J16

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## **INTRODUCTION**

Over a long period of time, one of the main features and trends constant in developed and societies in transition, is the feminization of the workforce, and changes from families with a male breadwinner towards families with two breadwinners. According to EUROSTAT research on a sample of households of the European Union countries, in which both partners are working age, both partners are often employed.

The presence of children in surveyed households did not necessarily mean a smaller employment of women. Moreover, in 6 of the 12 EU member states the percentage of couples where both partners work, was the same or even higher for couples with children. The probability that both partners are working, regardless of whether they have children or not, increases with the level of education of women. Such situations are certainly contributed numerous socio-demographic, socio-economic and cultural changes in the overall situation of women. We will mention just some of them: increasing numbers of girls who continue their education, and now surpass their male counterparts at the level of secondary and higher education; marrying later and later decide for parenting (usually in order to improve their professional chances), and in larger numbers entering the labor market (which, incidentally, brings many changes in the structure and dynamics of the family).

The changes in women's educational and career attainment may have multifaceted characteristics. Women might have increased their enrolment in colleges compared to men, but women may still differ in terms of the types of subjects in which they are enrolled. A study conducted by the World Bank has recently shown that if women in the field of agriculture had the same education as men did, the agricultural yield in developing countries would increase by 6 to 22% (Radović Marković, 2007).

However, despite this positive statistics and positive changes when it comes to the status of women in society, it can be seen that the position of women in the labor market is still worse than the situation of men, both in highly developed and in less developed countries. In fact women still prevalent in the economically inactive population, earn less and work less attractive jobs.

For that reason, many countries give different directives and documents that seek to regulate this issue, emphasizing primarily on:

- The increase in economic activity and women employment
- Reducing pay differences between men and women
- Possibilities to harmonize work and family life

The aim of this paper is to analyze the situation of women in various societies, to highlight the role of women in the economic, social and political development of each country, and ultimately, to highlight the importance of gender discrimination which is present in almost all societies and all social spheres.

## **WOMEN'S ENTREPRENEURSHIP**

One of the possible directions of development which has been recognized in the last decade as an important source of economic growth is the development of the women's entrepreneurship. Women's entrepreneurship is a reality and one of the main factors contributing to economic development in many countries. In the past few years, political and economic changes have created the possibility for women to set up companies and manage them. These possibilities are increasingly used by women and today in developed countries, women control more than 30% of the total number of companies. Women's entrepreneurship is rapidly expanding around the world. The end of the nineteenth and beginning of the twentieth century brought a significant change, and there was a big boom in women's participation in the labor market. In fact, during that period there is a change in the role of women in society. Unlike the earlier jobs women did, which were mostly related to the house, in this period there are women who are willing to start their own business and take managerial roles.

Entrepreneurship has the main potential for growth and development of each country, and is the main driver of a modern and dynamic economy based on knowledge. Subjects and entrepreneurship activities are in the focus of empirical research, as well as the economic policies of the countries (Parker, 2014). In the second half of the twentieth century it was expected for self-employed as an outdated model of organization to disappear under the competitive pressure from the dominant logic of capitalist accumulation and mass production, but research indicates that in developed economies increases the importance of self-employment (Müller and Arum, 2004). Along with the growth rate of total self-employment, there is also an increase in self-employment of women (Devine, 1994). Nevertheless, in Europe, as well as other world continents, entrepreneurial potential of women is largely untapped, underdeveloped and in the shadow of male entrepreneurship.

Both women and men face challenges in setting up their own businesses, but for women the barriers are often greater and harder to overcome. They are often confronted with a lack of government support in terms of policy, laws, and services, and in some countries have only limited access to formal bank accounts, which prevents them from accessing loans or credit (UNIDO, n.d.).

In some regions of the world, women have fewer inheritance rights than men, and in many countries there are legal distinctions between women and men that limit women's economic opportunities. The fact that many women receive limited education, skills training or career guidance only compounds these difficulties, and the lack of technological know-how or access to modern, affordable technology further stops women from reaching their full potential.

Cultural values can also hold women back. There are many countries where entrepreneurship is seen as an inappropriate career choice for women. In societies with rigid views of traditionally male and female roles, frequently reinforced by cultural and religious beliefs, women's opportunities for engaging in paid work or starting up enterprises are often limited. At the same time, perceptions of family responsibility pose a challenge, with patriarchal attitudes restricting women's

responsibilities to domestic and family work, and thus preventing them from acting independently.

According to Radovic Marković (2011), women face obstacles as follows:

- Tradition and patriarchal attitudes;
- Budget restrictions affecting healthcare, educational benefits, right to maternity leave, childcare and retirement benefits;
- Conflict of roles between family and work responsibilities;
- Continued devaluation as women as many companies do not acknowledge that women can perform as well as men;

In relation to the men self-employment, self-employment of women is characterized by certain specifics that relate primarily to the characteristics of the human capital of entrepreneurs, their performance, the dominant activity of self-employment and motivational base.

Thus it can be seen that the self-employed women, unlike men, more engaged in the service and trade sectors, that they are starting business in later years, they are highly educated women and that unlike the men who the principal motive of starting their own business are material nature, women choose self-employment as a flexible work option which allows them to balance business and family life.

It could be said that no matter of initial motives, those women who engage in entrepreneurship are already in some way special and different. They simply have the courage to take action. Women entrepreneurs who are dedicated and successful, can become promoters of a different model of development than the one that is currently dominant. Every state which follows the European and world trends, understand the meaning and contribution to the economic development of women entrepreneurship. More and more countries recognize that active involvement of women in economic life, in decision-making processes at the enterprise level, firms, corporations, and even at the state level brings economic progress and therefore a better life.

### ***POSITION OF WOMEN IN DIFFERENT SOCIETIES***

Women play vital role in nation building most especially in developing country like Nigeria. Their role to social, cultural, religious, economic and political development of our country cannot be over emphasized. Let me start from the pre-colonial era, this era was characterized by barbarism, absence of technology and backwardness. Despite all these negative features of our society at this period, African women were able to make tremendous change in sustaining the heritage and values of Africa. During this period, women uphold their families in high esteem by taking good care of their children, keeping their homes and raising their children with the right value and ethics needed to cope in any changing society. At this period, Africans were known to have great values, ethics and morals. These women taught their children good manners like greetings, honesty, being truthful, courtesy and a host of other good values. Kudos to women of this time who strive tirelessly in ensuring that the cultural heritage of the society is kept and uphold.

Without them, Africans will remain barbaric till date. Today, we still perceive the odour and see the effect of the moral training given to us by our mothers. This training serves as a torchlight that guides the way in the dark.

Similarly, women at the pre-colonial era are not limited to the home. They extended their goodwill to their societies and impact meaningfully in social and political development of our great nation. A typical example is the role played by the Iyalode of the Old Oyo Empire, EfusetanAniwura and Moremi in the ensuring societal and political reformation, sustaining peace and ensuring equality in our community. History will never forget these great women for their effort and hard work. Surprisingly, the coming of colonial leaders put a dash to active women participation in social-political development of their society.

During the regionalization era in Nigeria, there spring up another set of women who led the path of struggle in order to ensure sustainable development and return of our cultural values. Notable among these women are Hajia Gambo Sawaba, late Mrs. Funmilayo Ransome-Kuti and Mrs. Margaret Ekpo from northern, western and eastern regions of the country respectively. They stood for truth, justice and equal treatment of people and died in the path of their struggle. Advocacy by women during the era of regionalization made government of each region to seat up and rise up to their responsibility which in return led to development at this time.

History will not forget the contribution of great Nigeria women who despite their gender difference help to reform and reshape the current struggle and fight against corruption and corrupt practices in Nigeria. Notable among them is the late Professor Dora Akunyili, the former Director-General of National Agency for Food and Drug Administration and Control (NAFDAC). The spirit of reformation in her mind led her to wage war against importation of fake drugs, poison food materials and other things that could endanger lives of poor masses in the country. It must be noted that this women out of her love for this great nation, fought with her own brother-in-law on this matter just to ensure that this great country restore back its heritage. What a wonderful contribution.

Realizing the roles of women in nation building and sustainable development globally, the Secretary General of United Nations (UN), Ban Ki-Moon stressed that "Nations should strive to empower women because if they are empowered, automatically, we will empower and transform our society". Empowering women should be of a great concern to Nigerian government most especially in the era of change.

Empowering women is also an indispensable tool for advancing development and reducing poverty. Empowered women contribute to the health and productivity of whole families and communities and to improved prospects for the next generation. Women empowerment is not a part of development but the core of development. When women are empowered, whole families benefit, and these benefits often have ripple effects to future generations. The roles that men and women play in society are not biologically determined - they are socially determined, changing and changeable "I don't have to be man to do a man's job". Although they may be justified as being required by culture or religion, these roles vary widely by locality and change over time. This presentation aimed to highlight

the broader national and international commitments related to women development and women empowerment and associated institutional arrangements. It sought to highlight critical issues the institution may face in measuring gender mainstreaming and women's empowerment, and to present diverse possibilities for capturing deeper and more nuanced social and structural changes in women's and men's lives.

Around the world, 62 million girls are not in school. Globally, 1 in 3 women will experience gender-based violence in her lifetime. In the developing world, 1 in 7 girls is married before her 15th birthday, with some child brides as young as 8 or 9. Each year more than 287,000 women, 99 percent of them in developing countries, die from pregnancy and childbirth-related complications. While women make up more than 40 percent of the agriculture labor force, only 3 to 20 percent are landholders. In Africa, women-owned enterprises make up as little as 10 percent of all businesses. In South Asia, that number is only 3 percent. Moreover, despite representing half the global population, women comprise less than 20 percent of the world's legislators.

Women account for one-half of the potential human capital in any economy. More than half a billion women have joined the world's work force over the past 30 years, and they make up 40 percent of the agriculture labor force. According to the World Bank, countries with greater gender equality are more prosperous and competitive.

An extra year of secondary school for girls can increase their future earnings by 10-20 percent. Girls with secondary schooling are up to 6 times less likely to marry as children than those with little or no education. Moreover, countries that invest in girls' education have lower maternal and infant deaths, lower rates of HIV and AIDS, and better child nutrition.

When women participate in civil society and politics, governments are more open, democratic and responsive to citizens. When women are at the negotiating table, peace agreements are more inclusive and durable. In addition, simply by empowering women farmers with the same access to land, new technologies and capital as men, we can increase crop yields by as much as 30 percent helping to feed a growing population.

Information below shows the situation of women marginalization and discrimination.

### ***Education***

About two thirds of the illiterate adults in the world are female. Higher levels of women's education are strongly associated with both lower infant mortality and lower fertility, as well as with higher levels of education and economic opportunity for their children. The level of illiteracy among female shows that the gender with the highest world population is not informed. This poses a great threat to the global development. The effect of this situation is that it leads to harassment and discrimination against female in the world most especially in developing countries.

### ***Economically***

More women than men live in poverty. Statistics shows that billions of people live in the world today, and out of which women constitute the greatest percentage and population. Ironically, largest parts of these women are living in abject poverty and a sorry situation. In Nigeria, women population is outrageous today and majority of them are living in unacceptable condition of poverty. Poverty among Nigerian women has become a complex and multidimensional phenomenon which hinders their performance in the society. The effect of this poverty among our women in Nigeria today is that it has led some into prostitution, living their matrimonial homes in search for a means of sustenance which result into sexual assault, harassment and violation of women rights by members of the public. Economic disparities persist partly because much of the unpaid work within families and communities falls on the shoulders of women and because they face discrimination in the economic sphere.

### ***Politically***

Social and legal institutions still do not guarantee women equality in basic legal and human rights, in access to or control of land or other resources, in employment and earning, and social and political participation. Laws against domestic violence are often not enforced on behalf of women. Experience has shown that addressing gender equality and women's empowerment requires strategic interventions at all levels of programming and policy-making.

### ***Hunger***

A hungry man is said to be an angry man. This is the situation of women in developing countries like Nigeria. Women today have changed their status. Everyone is out there looking for a means of survival. Do you ever think of the likely effect of this situation?.If women had the same access to productive resources as men, they could increase yields on their farms by 20 to 30 percent. This could reduce the number of hungry people worldwide by up to 17 percent. (Food and Agriculture Organization)

### ***Health***

Women are among the people suffering from serious health issues and challenges. This occur as a result of poor feeding pattern, poor environmental condition, poor standard of living, poor health care service. What do you think will happen in a situation where those who are suppose to reform the society are tired down in hospitals by ill health?.When women are empowered to have more influence over economic decisions, their families allocate more income to food, health, education, children's clothing and children's nutrition. (Food and Agriculture Organization, 2011)

## ***Stronger Economies***

The World Bank found that states in India with the highest percentage of women in the labor force over the past five years grew the fastest and had the largest reductions in poverty (World Bank). This was made possible as a result of the opportunities given to women to partake in the economic development of India.

## ***GENDER ANALYSIS, MONITORING, EVALUATION, AND LEARNING***

Experts use gender analyses, quantitative and qualitative monitoring, and evaluation methods to assess how projects influence community gender dynamics as well as how existing issues can affect outcomes. Data from these studies were used to shape initial program design as well as to assess progress throughout a program lifecycle. Since 2009 Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) has conducted more than 25 gender analyses in countries including Bangladesh, Burkina Faso, Egypt, Ethiopia, Ghana, Haiti, India, Iraq, Kenya, Kyrgyz Republic, Liberia, Malawi, Sierra Leone, Uganda, and Zimbabwe. It will only be presented a brief findings on Bangladesh and Ghana as a way of understanding the essence of the topic of discussion, learn from their lessons and improve our economy.

### ***Bangladesh***

- Ensure that increased livestock productivity at the household level results in both increased consumption of animal products as well as increased incomes for consumption of nutritious foods.
- Target key institutions to make them more inclusive of women, enabling them to have better and more equitable access to information on animal health, feeding, fattening, and marketing.
- Reduce gap between male and female farmers' access to Community Animal Health Workers and ensure that women are not just recipients of services and market opportunities, but also leaders of change in the livestock value chains.
- Reach 82,000 cattle-owning households across the Feed the Future (FtF) zone, increase dairy cattle milk yields by 300 percent, and reduce the number of days for beef cattle to attain market weight by 60 percent.

A research was conducted on gender impact assessments using a case study as a way to capture good practices and derived lessons for empowering women and promoting gender equity in the society. This study was conducted in Ghana and the result of the findings was presented below:

- To ensure sustainable development, there must be 77 supported input service providers to improve their businesses by using Information and Communication Technology (ICT) for effective message delivery to farmers, aggregators, and industrial buyers. The primary focus of using Information and Communication Technology for outreach was to

- significantly lower the costs of delivering information, reducing risks from investment and facilitating electronic payments to minimize delays.
- Also, about 127 producers, traders, and business associations and 17 radio stations benefitted from the project by either providing or receiving services or being linked to supply chains.
  - Technical and financial support was also provided to Ghana Grains Council to establish a grain warehouse receipt system in the country.
  - Over 320 crop demonstration sites were established by the government to show farmers how to achieve higher productivity through good agricultural and post-harvest handling practices. Due to this, 28,808 smallholders adopted new technologies and adopted new management practices.

Investing in women and using gender analysis and approaches lead to better program results for everyone. To better appreciate the role of women and respond to the issue of women empowerment in a developing country like Nigeria, the following areas must be properly address and taken care of by the government as a way of liberating the women and savage our society.

**Education empowerment:** Women must be given adequate and appropriate education. Education acquired in Nigerian schools must be purposeful and relevant to the needs of the individual learner, society and government of Nigeria. When we educate a girl, we educate and liberate a nation. At the long-run, the girl child will grow up to reform her family, train her children in the right manner which will lead to societal development. The positive effect of girl child education is that it will reduce cases of teenage pregnancy in our society, sexual harassment of girl child, create awareness on the rights of people, create employment for people by translating what they acquired from school into means of livelihood and finally protect a bright and rewarding future for all Nigerian citizens.

**Agricultural empowerment:** Women need to be empowered in the area of agriculture. Government should try to extend their agricultural loans to women farmers, give them lands for farming, fertilizer for planting, train women on how to farm, set up small scale farms for women, employ uneducated women as unskilled workers in Ministry of agriculture, training of women on different aspects of agriculture and agricultural produce, strengthening and mandating school age children to learn Agricultural Science, acquire lands for agricultural purposes and disburse faithfully among people irrespective of gender differences, race or religion.

**Political empowerment:** For Nigerian government to achieve it's striving for a change nation and sustainable development; it should allow women to take part in its political affairs. It must reduce gender discrimination among the people to a barest minimum. Allowing women to partake in political affair does not mean that any woman will just be selected. It must scoot for skilled women who can drive the nation to the promise land must be given change to display their talent and contribute their quota to the development of their fatherland. The federal government must also ensure that the Ministry of Women Affairs isacting its role as expected. Each State Ministry of Women Affairs must see to

the challenges of women in their states and help them objectively in overcoming some of their problems.

**Economic empowerment:** Women should be allowed to own companies, small scale business, partake in international trade and other business as their male counterpart in the country. If women are empowered, they will definitely support their families. It will also reduce the burden on men as they will be supporting their husbands in some areas. Also, if women are empowered, it will create job opportunities for more people as graduates will not depend too much on government for job or employment opportunity.

**Health empowerment:** Nigeria government must strive harder in providing good health care service for people most especially the female population. This will help them to overcome some perennial health cases facing the gender group in our society. More women should be granted admission into Schools of Nursing. Government should allow more female to study Medicine and para-medical courses so as to liberate the female from the societal-imposed challenges and problems. When women are empowered to have more influence over economic decisions, their families allocate more income to food, health, education, children's clothing and children's nutrition. (Food and Agriculture Organization, 2011)

**Protection of fundamental rights and dignity:** This is another area where the government of Nigeria can assist female in the country. Today, female are subject to different forms of assault and perceived as object of mockery and ridicule in the society. Government can do this by strengthening the judiciary and law enforcement agencies with the aim of protecting the rights of individual in the country. Example, female should be free to exercise their religious practices without any fear or assault from anybody or constituted authority.

### ***STATISTICS IN EUROPE***

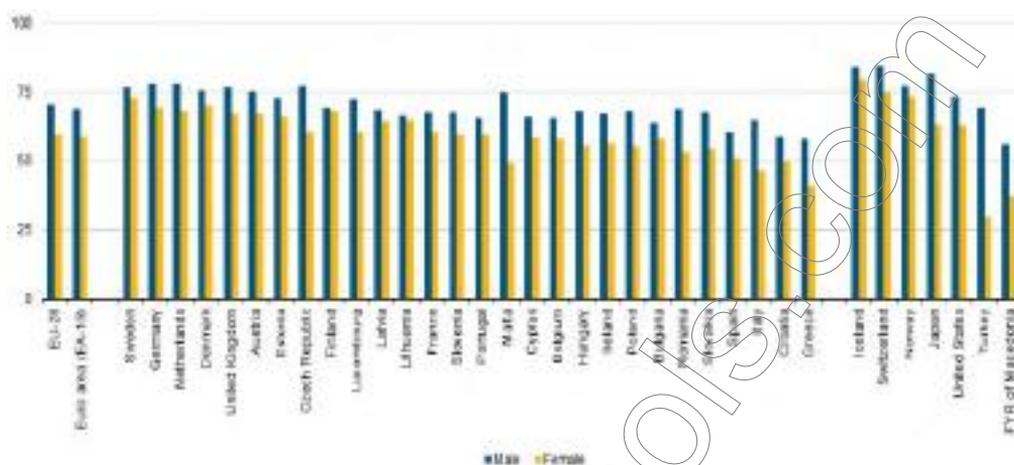
When it comes to the EU, significant progress has been achieved in recent years in terms of the position of women in society. Promoting gender equality is a core activity for the EU.

The Commission's 2010-2015 strategy for equality between women and men prioritised five key areas for action (European Commission, 2015)

- equal economic independence for women and men;
- equal pay for work of equal value;
- equality in decision-making;
- dignity, integrity and ending gender-based violence; and
- promoting gender equality beyond the EU.

During the crisis, unemployment across Europe was high both among men and women. In the years after the crisis, there has been some progress when it comes to this problem. In 2014 women's employment reached the highest level ever recorded 64%. But still, this percentage is significantly lower compared to the percentage of men's employment, which was around 75%.

The differences in employment rates between men and women are shown in the chart below:

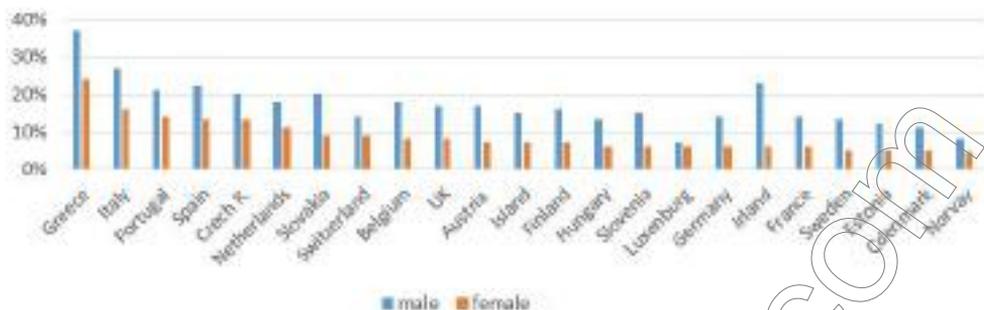


*Chart 1. Employment rates in EU*  
*Source: Eurostat (access: 18.09.2016)*

As we can see from the chart in every country that is covered by analysis there is a gap in employment rates between sexes. When it comes to EU we can see that the biggest gap in employment rates is present in Malta, and when it comes to the lowest female employment rates it is shown in Greece and Italy. In other European countries, such as Switzerland and Norway, there was a smaller gap between these two groups. It is evident that the Scandinavian countries have the smallest gap between the two groups. These are countries that are characterized by a high level of economic development, enabling them to invest much more time and resources to resolving the issue of gender discrimination. The governments of these countries strive to ensure that power and resources are distributed fairly between the sexes, and to create the conditions that give women and men the same power and opportunities.

The influence of religion on the position of women in society is very strong. It can be seen that the biggest gap in Europe is shown in Turkey, and it is obvious that Turkish women are still in subordinate position compared to men. When we talk about religion influence, it is known that in societies where Islam is the dominant religion, more pronounced gender discrimination exists. While Islam clearly establishes that men and women are equal, it does not recognize that they are not identical and in that way threatens the rights of women. In Islamic society, women require their husbands' approval to realize many activities and are limited in their access to certain political, educational and economic goods.

As the main topic of this paper is women empowerment, it should be mentioned the statistics of self-employment of women.



*Chart 2. Female and male self-employment rates in Europe-24 countries  
Source: Eurostat Labour Market Database, 2014 (access: 20.09.2016)*

Contrary to previous statistics, we can see here that the Scandinavian countries are in last place when it comes to self-employment and less developed countries of EU, such as Greece, Italy, Spain have higher rates of self-employed women. This is because these countries have social systems that are less generous than in Scandinavian countries, and women in these countries are forced to search for an alternative ways for additional income.

However, regardless of ethnicity or religion, it is obvious that this gap exists in all European countries, without exception. It is obvious that this is a global problem that must be solved individually, by passing laws that will deal with this issue because there is no single recipe for success. The main role in resolving this issue should have policymakers, international development organizations, investors, private corporations, realizing that the empowerment of women entrepreneurship is in the interest of all of them.

## **CONCLUSION**

In modern society, significant progress have been made in the emancipation of women in all areas and in all world regions. Yet there is more areas where women are in subordinate, oppressed and even in completely inhumane position. A variety of traditional and patriarchal societies and groups continue to realize the eternal desire that the woman should be imprisoned in the private sphere, tied to the house and children, to "serve" her husband and family, to sacrifice herself, to be unnoticeable, far away from the public sphere of society and free civic life. It is a source of constant conflict between man and woman, and from day to day is constantly expanding.

Gender equality in employment today is not only a question of social justice but it is also an economic necessity. In fact, there are strong economic reasons for a greater presence of women in the labor force, but it is, above all, the aging of the working population. Since (the aging population) will not be able to count on the young generation as before, women are expected to play more active role at all levels and in all sectors of the labor market. Therefore, it is necessary to have active policy that would allow more women to participate in the labor market. It

will contribute to such a policy which will go into the families favor, ie. that will help establish a balance between work and family commitments, and facilitating return to work after leaving the labor market.

Women must have access to qualitative and purposeful education, good health care, participate in social-economic activities, actively involved in agricultural projects or programs, and partake in political affairs of our country. They must be allowed to have certain control over some resources, lands, and markets. In addition, they must have equal rights and equal opportunities as breadwinners, peace-builders and leaders. Empowering Women education is the most important thing at this crucial time in every country. This will help reduce any form of violation of woman rights, harassment or discrimination in the society. "Education is one of the most important means of empowering women with the knowledge, skills and self-confidence necessary to participate fully in the development process" (ICPD Program of Action, paragraph 4.2). Gender discrimination must be stopped because it takes us nowhere.

The interventions in the labor market that would enable equal opportunities, can take different forms: they can be legally prescribed, take the form of directives and official instructions, can be in the form of procedural rules which will change the institutional structure that contributes to inequality (eg. Foster the equal access to professional training ), and can take the form of incentives in the labor market, for example. in the form of tax relief to employers, which would stimulate them to offer vocational training or a job for those who do not have easy access to places of higher ranking.

At a time of globalization, this question gets more and more important, so in that sense it is necessary to develop different mechanisms / an institution of gender equality, whose primary purpose is to meet internal needs for promotion of gender equality, but also to meet international legal standards contained in the documents of the United Nations and the European Union.

Also, a very important role in terms of emancipation and the increasing presence of women in all spheres of society, have media, whose main role is that in different ways raise awareness of the importance of this problem and finding ways to overcome them.

Future research should focus on measures that governments take to promote women's entrepreneurship and to analyze the similarities and differences in various systems in order to comprehend the advantages and disadvantages of the system applied in individual countries.

Remember: "Gender is difference that makes no difference" or "Gender is a difference that makes the difference".

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## **ON THE PROBLEM OF GENDER PSYCHOLOGY OF LEADERSHIP**

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### **ABSTRACT**

*The article provides an analysis of the modern theoretical and practical research on gender psychology of leadership, summarizes the results of comparative research of typical leader's qualities among men and women, and reviews types of leader styles and their expression among men and women.*

**Key words:** *Gender, Leadership, Gender Relations, Masculinity, Femininity, Style Of Behaviours*

**JEL Classification:** *J16, M14*

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## **INTRODUCTION**

Gender psychology is one of the youngest branches of psychology that has a host of unanswered questions. One of divisions of gender psychology is the gender psychology of leadership. This area of research is of a meta-subject character, because it is directly related to leadership psychology and labor psychology, on the one hand, and on the other hand, speaking about 'leadership in general nowadays' is pointless, because more and more often the administrative positions are taken by women.

The problem of leadership is closely linked with the psychology of labor with the division of professions into 'feminine' and 'masculine' professions. Some researches focus on the point that occupational segregation has its sources in animal communities. Among primates, females perform the function of caring about the young ones, and the males take up defense against enemies; among people, these functions are appended by some others: women cook the food and men earn the living. Ethnographers explain the differences, firstly, with greater physical strength of men, secondly, the impossibility to combine caring about children with some types of labor activities (I. Kon, 1988).

I. Kon relates occupational segregation not with the biology but with culture (that was demonstrated in a comparative analysis of ethnographical data across 185 societies).

Therefore, the segregation of occupations into 'masculine' and 'feminine' ones are to a greater extent explained by the gender socialization of a community. Besides, administrative functions even in the 'feminine' professions are to be performed by men according to gender stereotypes.

It is considered an axiom that a leader (a manager) — we will be using both terms interchangeably, — needs to have the following personal qualities: a marked need (motivation) to achieve and a high level of ambition, motivation to power (dominant component), internal locus of control and a certain style of behavior determining the efficiency of activities.

In this article we would like to answer the following questions: is there a difference in the expression of these qualities among men and women, are they 'gender', i.e. socially constructed, or are they equally characteristic of male leaders and female leaders? Second question: is there a neutral leadership style or is it related to gender specifics of male and female leaders?

## **REASONS WHY WOMEN SHOULD WANT TO BE LEADERS**

Reasons why women should want to be leaders:

**Need to achieve.** There is an opinion that since childhood men have a bigger need to achieve in the areas related to inanimate objects not related to personality, and that they are motivated for the sake of achievement per se. Women have a smaller need to achieve in the areas related to human interaction, and their efforts are concentrated not on the success itself but on the wish to be liked by others or to avoid judgment (Maccoby, Jacklin, 1978). T.V. Bendas grouped and analyzed the

data from the book of E. Maccoby and C. Jacklin by periods of age and different methodologies. She identifies the following groups of research: a study of level of ambitions, desire for autonomous achievement, fear of success and actual success. We shall quote her reasoning:

“Usually researchers speak about 3 levels of ambitions (low, medium and high), factor in what tasks the subject chooses (easy or difficult) and how the subject reacts to success or failure (decreases level of difficulty, keeps it or increases it). Actually, all three 3 levels may indicate the presence of the motivation to achieve — but on the low level the subject wants to achieve success without special effort. Of importance is the self-assessment of own capabilities: a high level of ambition might reflect inadequate self-assessment. The method to check the level of ambition is also to check the subject’s behavior after the solution of an easy or a difficult task — the subject may or may not reward itself for the said solution, and therein will be its satisfaction or dissatisfaction in its own actions. An indicator of the level of ambition is the standards of success that the subject prefers. Of the six studies of the level of ambition in which the said criteria were used, in five no gender differences were identified (groups of children and adolescents of 3-6, 7-10, and 12-14 years). Therefore, it is possible to conclude that within the period of 3 to 14 years of age the level of ambition of boys and girls does not differ significantly (Bendas, 2006).

**Desire for autonomous achievement.** T.V. Bendas is of the opinion that in this aspect, in the thinking of and following the results of a survey completed by teachers, superiority was not on the side of boys but on the side of girls. It is likely connected with the fact that since the girls develop faster than boys they form this feature of motivation earlier. A most interesting study was performed by Maclelland by using the method of TAT (Topical Apperception Test). The results of the study showed women to display higher motivation to achieve than men.

It is of interest that one of the variants of the test used social stimuli related to the subject’s acceptance by other members of the group — in that case, the results were completely different: both men and women increased their values of achievement motivation, men displaying a minor increase whilst the women showed a rapid growth of that indicator.

However, in the course of getting older another phenomenon began to show which was discovered in 1968 by M. Horner (Horner, 1987). Her method was similar to TAT. The subjects were asked to write a short story the hero/heroine of which was an individual of the subject’s sex. That individual achieved big academic success, and the subjects were asked to imagine the character’s further fate and give an outline of their personal qualities. The situation was presented in such a way that the individual (the character of the story) had a choice: complete the studies with excellent marks and become number one in the group or to give way to a representative of the opposite sex.

In the very first study 90% of male participants anticipated the future success and linked it with positive emotions and pleasant events: the success secured well-being, safety, happiness. 65% of female participants were anxious about the consequences of their professional success, specifically—loss of femininity,

reprimand from friends, worsening of relations with them. They would describe the female character as unhappy, aggressive, not married, ambitious, etc.

What conclusions may we draw from here? In childhood, one cannot see that the boys are superior in various aspects of motivation to achieve: neither in the level of ambition, in the motivation to study, in the desire for autonomous achievement or in actual success. In the process of gender socialization specific gender stereotypes are formed which prescribe women specific roles and behavior models, which do not praise their success in career. It happens therefore so that the gender is the primary reason and the result of everyday interaction controlled by the society.

**Motivation to power (dominancy).** We understand the motivation to power as the will to exercise influence on other people, otherwise that can hardly be called dominant behavior. Traditionally, motivation to power (dominancy) is ascribed to men, and the absence of the same to women. There are following types of dominancy: aggressive, egoistic and Machiavellian. Of them, boys are three times as much as girls. Boys demonstrate superiority in all types of dominancy: aggressive (in relation to both other boys and girls), egoistic (only at the age of 3-6) and Machiavellian accompanied by more rude types of manipulation. They dominate in same-sex pairs and in mixed pairs and groups. Girls are superior in pro-social dominancy (only at the age of 3-6) and Machiavellian dominancy accompanied by finer ways of manipulation. They dominate only in same-sex pairs, whereas in mixed pairs and groups they give way to boys to dominate. Following our study of adolescents of 13-15 years of age (study period: 2010-13), a third of all subjects demonstrated tendency to show aggression in behavior (using one of the scales in the Oryol method).

Should that mean that the female sex is playing a submissive role? E. Maccoby and C. Jacklin introduced a notion of counter-dominancy describing the individual's reluctance to be controlled; they are of the opinion that it is this behavior that is characteristic of girls: they do not dominate the boys yet they do not submit to them.

We would like to mention that our study of 2015 showed that in displaying aggression (following Assinger's questionnaire) men and women aged 25-35 show no difference (no statistical differences were identified).

One of the possible explanations lies in the impact of a certain modern situation on the emotional condition and behavior of a woman which sometimes acquires masculine specifics.

## **PERSONAL TRAITS AND BEHAVIOR**

### ***Locus of control***

The locus of control is the character of a person's responsibility for his/her life. The locus of control may be internal — the individual assumes responsibility for the events in the life and sees their reasons in its own behavior and personal qualities; or external, when the responsibility for all that is happening is ascribed to

external factors — other people, occasion, or fate. It is traditionally assumed that men are internal, to a greater extent, and that women are external. However, a meta-analysis performed by A. Feingold demonstrated lack of differences in the locus of control (Feingold, 1994). The problem was in the method of obtaining the data. If behavior of subjects was analyzed, men were more internal than women; however, on the personality scales the results were contradictory: one set of scales showed greater internality with men and other with women. As a result, one results level the others. Therefore the question about the gender differences in the locus of control remains open. Besides, the differences vary in different cultures.

### ***Style of behavior***

There is active and passive (calm) behavior, instrumental and expressive, active and communicative, competitive and cooperative, and the behavior related to orientation on an objective or on relations.

Until mid-1960s in the Western culture there had dominated the theory of “natural complementarity” of the sexes formulated by T. Parsons and R. Bales: the masculine role was considered instrumental (forager, head of the family, responsible for disciplining the children), and the feminine was considered expressive (keeper of the home, oriented at relations in the family, ensures a warm emotional climate). This type of distribution of family roles was registered in different cultures. Following the data of M. Zeldich, in 56 different societies the maternal role was named expressive in 86% and the paternal was named instrumental in 63% cases (I. Kon, 1988). There were however deviations from the rule: a mixed paternal role was mentioned in 36% and a mixed maternal role in 9% of the cases. The rarest observations were on the roles ‘opposite’ to the sex in question: a paternal expressive and the maternal instrumental role (2% and 5% respectively). The strict designation of the role for a woman is striking: a man can demonstrate both instrumental and expressive behaviors whereas a woman may predominantly demonstrate only expressive. However, exceptions from the rule show that apart from the basic (most frequent) models of behavior there are others.

Despite that, the theory of Parsons and Bales was extrapolated on the whole society; there appeared a common notion that instrumental behavior is characteristic of men and expressive (or socio-emotional) style is characteristic of women. The viewpoint of D. Bacan became especially popular: men were considered active (doing actions, efficient, problem-solvers, assertive) and women communicative (passive, emotional, interested in relations and not in business) individuals.

Experimental research showed the following results. Firstly, it was found that the personality style depends on the age of subjects and the gender mix of the group: during infancy, there are no gender differences in the levels of activity. They appear in the school age, when children begin to get engaged in social games. Since such games reflect the gender roles of adults, the boys demonstrate higher activity than girls, even though there is much data about the equal levels of activity of boys and girls, and it is not quite clear how it is to be measured. Girls often play quieter games but that does not mean they are less active.

It is established that the burst of activity among boys is demonstrated in the presence of other boys, probably, it is out of competition with them. C. Gilligan explained different styles of boys and girls with different conditions of socialization (Gilligan, 1987). From the age of 3 they are growing up in the conditions of gender segregation and communicate with representatives of their sex. Boys' groups adopt one set of behavior norms (competition, rude, scuffle-like games, dominance), and the girls' groups are around close friendship, cooperation and desire to keep social relations. At the same time girls argue more than boys about who is to be the leader in the same-sex pair, and when the roles do get distributed they will not tolerate a submissive role (unlike the boys). Besides, one needs to do a special study of the 'instrumental' nature of the boys' games and of the 'expressive' character of the girls' games.

Adult subjects, when the group consisted only of women, demonstrated socio-emotional behavior. If there were men in the group (with their instrumental style) the women were less expressive than in the former case. Thus, women show flexibility in their reaction to the situation: with expressive colleagues they are more expressive and with instrumental ones they are instrumental. This is not characteristic of men — they tend to show their instrumental style in all situations, probably for the reason that these styles are linked with masculinity and femininity. From childhood, boys face stricter requirements. Masculine behavior of girls would be rather better understood than feminine behavior of a boy. There is data however showing that in the mixed groups women demonstrated expressive and not instrumental behavior. This is especially true for the situations of 'fight for the leadership': in the presence of men women not only were not craving for leadership but emphasized their femininity by rejecting leadership. This, again, proves that there are stereotype models of behavior that both men and women try to follow.

As far as orientation at the task or relations is concerned, it is thought that men will demonstrate orientation at the task and women — on the relations. Sometimes the stereotype is refined: task-oriented behavior will only be demonstrated by masculine men and orientation at people only by feminine women.

In the pre-school age girls demonstrate task-oriented behavior more often (by using adults as the source of help), and boys demonstrate social interaction with their peers.

### ***Leadership style***

The following 6 styles of leader's behavior are considered to be the widely spread ones: task-oriented (businesslike), relations-oriented (interpersonal); authoritative and democratic; structuring (directive) and collaborative (based on cooperation with the employee) (Cann, Siegfried, 1990; Eagly, Johnson, 1990).

T.V. Bendas uses the examples of experiments by C. Bartol and N. Mayer. C. Bartol found that male leaders are perceived by the group as showing the instrumental style, but in their expressive behavior female leaders do not differ from those men (Bartol, 1990). N. Mayer's subjects participated in a role play: the master had to make three of his subordinates change the procedure of doing a job.

In one case the task was a stereotype one (the experimenter himself suggested a solution), in another it was a creative one (the subject had to find a solution). In the former case the men and women acted alike, while in the latter the female leaders demonstrated an expressive style unlike the male leaders (Bartol, Martin, 1986).

The collaborative style is related, in most cases, to a feminine set of qualities (tenderness, sensitivity, sympathy), structuring — to a masculine set (dominancy, aggressions, competition, authority, assertion, etc.), but in general, effective leadership is associated not with masculine qualities (as is believed), but with androgynal ones — with a combination of masculine and feminine qualities. Some qualities of a gender neutral character (competence, reliability) are required to combine the two leadership styles — collaborative and structuring.

Experimental research shows many results which fully or partially disprove the stereotypical concept of the gender nature of leadership style of men and women. It is often found in organizations that women mimic the masculine style oriented at a result, especially if they are on leader positions in the areas that have been traditionally considered masculine, besides, they show other characteristics not typical for their gender: they are more dominant and less caring, i.e. they match the masculine stereotype more (Bartol, Martin, 1986; Eagly, Johnson, 1990; Cox, 1996; Schneier, 1978).

Analyzing the studies of American psychologists G. Dobbins and S. Platz, T.V. Bendas notes the lack of gender differences in the structuring and the collaborative styles (Dobbins, Platz, 1986). An interesting research was performed by E. Eagly and B. Johnson. They were assessing 4 leadership styles: interpersonal; task-oriented; authoritative and democratic. The data was obtained both in the laboratory and the field conditions (i.e. the subjects were both spontaneous and appointed leaders - managers). The authors came up with the following conclusions: on the whole, with the 4 styles in consideration, there were no significant differences among the leaders, but they did show in several styles. Women were superior to men in the interpersonal and the task-oriented style. Besides, women demonstrated greater democracy. The results obtained in the organizations (mostly in the sphere of education) were less gender-stereotypical than in the laboratory experiments (with student subjects). Different data was obtained for managers of various levels of administration: on the lowest level, men were most task-oriented and women were task-oriented on the medium level. Recently, women mimic the leadership style of men less and less often than before.

Thus, in the laboratory conditions female leaders demonstrate the behavior typical for their gender (they resemble female non-leaders), and in the field conditions the atypical behavior (resemblance with male leaders), though the latter tendency is weakening. In the end, if one were to compare the importance of the two factors, the sex and the leadership position, in the question of style the latter would probably be the priority factor. Both male and female leaders do not use one single style but rather use some of them depending on the task and the situation. In contrast to them, ordinary men and women tend to choose the gender-typical style (men choose instrumental and women choose expressive).

## **CONCLUSIONS**

Answering our first question we can say the following: the stereotypes of behavior and personal characteristics of men and women do not get confirmation in childhood. It is in the adult period that one can see how compliance with those stereotypes is developing. It is likely that the society's influence is expressed in the fact that behavior matching the gender stereotype is considered acceptable and deviation from the stereotype may elicit scorn. One may suggest that women react more to the pressure of the society due to their orientation at relations with the people around.

In the answer to our second question we would mention that in becoming a leader or a manager a man will not change his gender style; whereas the woman faces a choice: whether to stay within the frame of her gender role (and hear admonition that she is a bad manager), or change the behavior to a male model (and hear admonition that she is not feminine). In either case the role conflict is inevitable. There is however the third way: find one's own style that will not be any inferior to the masculine style in its efficiency but will also factor in the specifics of a female personality.

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## **CONNECTING TRANSFORMATIONAL LEADERSHIP, EMPOWERMENT AND COMMITMENT TO CHANGE - THEORETICAL REVIEW**

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### **ABSTRACT**

*Organizations need to change in order to survive and prosper. The ability to manage externally and internally generated changes became one of the key capabilities of modern organizations. Relations between transformational leadership, empowerment and organizational advantages are the subject of numerous studies. However, in the context of changes in the relation between empowerment and transformational leadership and empowerment and commitment to change, it has not been considered. This paper attempts to fill the gap in the literature by linking transformational leadership, empowerment and commitment to change in organizational change through the presentation of theoretical research of this topic.*

**Key words:** *Organizational Changes, Commitment to Change, Transformational Leadership, Empowerment*

**JEL Classification:** *D23, L20, O15*

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## **INTRODUCTION**

Organizations tempt frequent, diverse and intensive changes through various change initiatives including the redesign of business processes, downsizing, restructuring, mergers, changes in organizational culture, introduction of new technology or quality programs (Raineri, 2011). However, many organizations fail to successfully implement a change; in the literature it is often stressed that countless companies experience failure in change initiatives (Beer, Nohria, 2000; Higgs, Rowland, 2005; Burnes, Jackson, 2011) although there are no valid and reliable empirical evidence that would confirm with certainty failure rate (Hughes 2011).

While many factors undoubtedly contribute to the failure of efforts of organizational change, researchers and practitioners emphasize importance of human element (Seo et al., 2012). Reis, Peña (2001) point out that the initiative for change is undertaken without understanding how human factors affect their success or failure and management too often ignores the human issues and the need to address them in the implementation plan. Underestimating human side of change is one of the main factors that leads to failure of initiatives change (Clegg, Walsh, 2004). In the literature, there is a consensus that the successful introduction of the changes requires support from employees (Georgiades, 2015). Particularly positive attitudes of employees to the organizational changes are seen as necessary, initial condition for the success of planned changes (Chou, 2013), on the other hand, negative attitudes toward the change have the opposite effect, reducing the probability of adaptation to change (Neiva et al., 2005).

During the last decades, there have been developed various constructs that relate to attitudes toward the change, ranging from negative, such as resistance to change and cynicism about change, to positive including readiness for change, openness to change and commitment to change (Bouckennooghe, 2010). Herscovitch, Meyer (2002) considers that the commitment to change is a powerful predictor of employee's behavioral support for change. High committed employees put forth the effort, initiative and cooperative behaviors that are required for the effective implementation of change, also committed employees demonstrate enthusiasm, engagement, persist in the face of difficulties and personal responsibility to successfully implement changes (Neubert et al., 2001; Georgiades, 2015).

Model of commitment to change that now dominates in the literature and research is constructed by Herscovich, Meyer (2002). This model is based on the older three-component model of organizational commitment (Meyer, Allen, 1991), which explains why including affective, continuance and normative components.

Leadership is considered one of the most important variables which are affecting the attitudinal dimension of organizational life (Jaskyte, 2003). Although there are different paradigms and constructs relating to leadership and leadership styles (eg charismatic, visionary, servant etc.), constructs of transformational and transactional leadership introduced by Burnes (1978) and developed by Bass (1985) attracted the most attention of researchers and practitioners. The paper focuses on transformational leadership which research has found to have positive

effects on organizational commitment in different organizational contexts (Býci et al., 1995; Bučiūnienė, Škudienė, 2008; Joo et al., 2012; Kim, 2014). The literature on leadership argues that the transformational leadership is especially critical in environments where organizational status quo is being challenged (God Ansari, 2009). Studies have found positive relationships between transformational leadership in the context of change and change-related attitudes, including a commitment to change (Herold et al., 2008, Seo et al., 2012).

Empowerment has achieved wide popularity as an essential contributor to organizational success (Baird, Wang, 2010), enabling organizations to be more flexible and responsive (Mathieu et al., 2006), competitive and innovative (Fernandez, Moldogaziev, 2013). Many companies have adopted programs of empowerment for a least some part of their workforce (Lawler et al., 2001). Empowerment plays an important role both in the context of organizational change. Spreitzer, Doneson (2008) rather than pushing or forcing people to change, empowerment provides ways to attract people to want to change because they have ownership of the change process. Over the last thirty years empowerment is an attractive topic for researchers.

### ***CONSTRUCTS OF TRANSFORMATIONAL LEADERSHIP, EMPOWERMENT AND ORGANIZATIONAL COMMITMENT***

Transformational leadership, empowerment and organizational commitment are the focus of researchers from the introduction to the theory and practice in the last decades of the last century. Transformational leadership is one of the most interesting topics for contemporary research into leadership. Judge, Piccolo (2004) reported that since the nineties a number of studies have been devoted to this style of leadership than all other major theories of leadership combined. Within the general management and related disciplines from the eighties empowerment becomes appealing topic for researchers when the growth dynamics of competition, volatility in market condition and other external changes require quick and adequate responses of organization. Quinn, Spreitzer (1997) argue that there is a growing consensus and the empowerment of employees can be a source of competitive advantage. In the face of rapid changes in the operating environment and customer needs empowered employees can more quickly respond and adapt to changing situations and requirements and perform their tasks in a more innovative ways (Kim, 2013). Also, construct of organizational commitment has spawned a large number of studies. Organizational commitment is particularly attracted the attention of organizational scientists, due to changes in employment practices that have emerged from the international marketplace, and increase employment alternatives for skilled employees in the global economy (Sullivan, Arthur, 2006).

### ***THE DIMENSIONS OF TRANSFORMATIONAL LEADERSHIP***

Distinction between transformational and transactional leadership has introduced James Burns (1978). Bernard Bass (1985) has further expanded and developed the theory of defining behaviour exhibited by transformational and

transactional leaders. According to Bass (1985) transactional leaders focus on clarifying the tasks to be accomplished, the expectations they have responsibility of followers and benefits for the self-interest of followers if the task is completed. Transformational leaders motivate followers to perform beyond expectations, by fostering a climate of confidence, activating their higher-order needs, and inducing them to transcend their self-interest for the good of the organization. Bass and Avolio developed **Full Range Leadership model** which consists of four dimensions of transformational leadership, the three dimensions of transactional leadership and non-leadership (laissez-faire leadership). The research instrument based on this model is the Multifactor Leadership Questionnaire for evaluation rank transformational, transactional and non-leadership scales (Bass Avolio, 1994).

According to Bass and Avolio (1994) dimensions of transformational leadership are: (1) idealized influence - leaders act as a strong role model for followers, leaders are admired, respected and trusted, followers want very much to emulate leaders; (2) Inspirational Motivation - Leaders motivate and inspire followers by projecting enthusiasm and optimism and articulate an attractive vision of the future status; (3) intellectual stimulation - leaders express new ideas that challenge the settled organizational thinking, encourage followers to be involved in the process of addressing problems and finding solutions, and promote creativity and innovation, (4) individualized consideration - leaders express concern for the individual needs of followers, acting as coaches and advisers as they try to help followers to become fully actualized.

There were several attempts to create alternative models, but according Antonakis (2012) the only one that has generated substantial research interest is the model that gave Podsakoff et al. (1990) with questionnaire measure - Transformational Leadership Inventory. The model consists of six dimensions: (1) identifying and articulating a vision - a search for new opportunities, developing a future vision, articulate the vision and inspire others; (2) ensuring appropriate model - setting examples to followers consistent with the values that leaders exhibit, being a good role models; (3) encouraging the acceptance of common goals - to promote group collaboration and teamwork towards a common goal, the development of team spirit; (4) high performance expectations - expressing these expectations, leaders enunciate confidence in their followers and therein it will be satisfied; (5) providing individualized support - leaders respect the followers and take care of their personal needs, and (6) intellectual stimulation - inciting followers to think differently rethink their ideas and search for old problems in new ways.

Data of meta analysis (Judge, Piccolo, 2004; Wang et al., 2011) show a positive relationship between transformational leadership and performance. At the individual level there were positive relations of transformational leadership and the satisfaction and motivation of followers (Bass, Riggio, 2006), dedication (Koh et al., 1995) and organizational citizenship (Podsakoff et al., 1990). According to the Judge, Piccolo (2004) transformational leadership shows positive relation to all the criteria that have been explored, individual, team and organizational. Correlations relating to the individual level - job satisfaction, follower leader satisfaction, motivation was stronger in relation to job performance leader, group or organizational performance

and leader effectiveness. On the other hand, Wang et al. (2011) found that transformational leadership has the strongest relations with team performance.

### ***Empowerment***

The concept of empowerment has deep roots in the works of Follett's on the participation of employees, Argyris's analysis of management styles, McGregor's theory Y and leadership studies of Ohio and Michigan (Fernandez, Kim, 2013). This concept includes increased individual motivation to work through the distribution of authority to the lowest level in the organization where they can make informed decisions (Conger, Kanungo, 1988). In the empowerment, workers are given greater autonomy, self-determination, freedom and responsibility to make decisions. According to Fracaro (2006), the essence of empowerment is to liberate, not to ignore or underestimate the experience, initiative, knowledge and wisdom of employees. Empowerment helps employees to strengthen their self-confidence, overcome their sense of helplessness and motivate them to achieve organizational goals.

In theory and practice, the organization singled out the two empowerment perspective: structural and psychological. The structural perspective focuses on the structural and contextual conditions that allow empowerment in the workplace. The essence of this perspective is the sharing of power between subordinates and superiors with the aim of lowering the relevant decision-making power to the lowest level in the organizational hierarchy (Spreitzer, 2008). The structural perspective is developed by Kanter (1993), which argues that the state and situation in the workplace have a direct impact on employees' work behavior. Employees are empowered when they perceive that their work environment provides opportunities for growth and access to the power needed to perform their job demands. If these conditions are missing employees feel helpless.

Kanter (1993) identifies four structural conditions, which are the key factors of empowerment: (1) opportunities for advancement and opportunities to be involved in activities beyond one's job description; (2) access to information on all facets of the organization; (3) access to support for one's job responsibilities and decision-making, and (4) access to resources to achieve organizational goals. Smith et al. (2012) believe that access to these components can empower employees to effectively use practice goals and engage in positive ways to support organizational outcomes.

Psychological empowerment perspective shifts from the traditional study management of practices and instead highlights the perception and cognition of employees (Thomas, Velthouse, 1990). This perspective is more micro in its orientation and focuses on psychological experience. According to Conger and Kanungo (1988) and Thomas, Velthouse (1990) psychological empowerment is intrapersonal sense of empowerment that occurs as a result of cognitive processes within the individual. It is not an organizational intervention or dispositional trait, but a cognitive condition that occurs when individuals perceive that they are empowered (Maynard et al., 2012).

Psychological empowerment is defined as increased intrinsic task motivation manifested in a set of four cognitions that reflect the orientation of the individual to

his or her work role: meaning, competence, self-determination and the impact (Spreitzer, 1995). Meaning is the value of the business objective or purpose, judged in relation to its own ideals or standards of the individual. Competence (identical self-efficacy Conger, Kanungo, 1988) is the individual's belief in his ability to carry out activities with skill. Self-determination is a sense that the individual has a choice in the initiation and regulation of action. The influence is the degree to which an individual can influence the strategic, administrative and operational outcomes at work.

Structural and psychological empowerments are related and can be integrally considered. Structural empowerment allows psychological empowerment. Seibert et al., (2011) point out that the organizational structure and practices are contextual antecedents of psychological empowerment. Menon (2001), believes that organizational environment should be designed in such a way to ease the psychological empowerment of employees through structural empowerment. On the other hand, there is the psychological impact on the structural empowerment. Employees who experience empowerment at work, look and shape their work contexts to further facilitate their empowerment and act to create and maintain a work environment that provide structural empowerment (Spreitzer, 2008).

There are numerous findings in the literature that empowerment of employees' leads to better business results. The researchers noted a direct relationship between empowerment and performance of employees (Spreitzer, 1995; Kirkman, Rosen, 1999), satisfaction in the workplace (Ugboro, Obeng, 2000) and commitment, especially affective commitment (Liu et al., 2007). According to various studies empowerment can lead to improved team (Yang, Choi, 2009) and organizational performance (Dainty et al., 2002). Recognizing the benefits of empowerment, organizations increasingly are introducing initiatives of empowerment for some part of their workforce (Spreitzer, Doneson, 2008).

### ***Organizational commitment***

The construct of organizational commitment began to be built in the sixties and seventies. Since the eighties approach that built Meyer and Allen becomes dominant in the scientific community. The authors first introduce the two-component model distinguishing between affective and continuance commitment (Meyer, Allen, 1984), that through further research and more studies add normative commitment and shaped the three-component model (Meyer, Allen, 1991).

Organizational commitment is defined as an individual's identification with involvement in the organization, which is characterized by a strong belief in the acceptance of the goals and values of the organization, willingness to exert considerable effort on behalf of the organization and a strong desire to remain a member of the organization (Mowday et al., 1982). Meyer and Allen (1991) proposed three components of organizational commitment: affective commitment, continuance commitment and normative commitment. The affective component of commitment is the most important driver in predicting organizational commitment. An individual who is affectively committed to the organization believes in the

goals and values of the organization, working hard for the organization and intends to remain in the organization (Mowday et al, 1982). The result of affective commitment is to the individual, almost naturally becomes linked to the organization and enjoys continuing membership in it.

Continuance commitment is a binding based on accumulation of valued side bets (pension, portability of skills, relocation and self-investment) that vary with organizational membership. This form of commitment implies the awareness of the cost of an individual that arises when leaves the organization. According to Meyer and Allen (1991) individuals whose most important connection with the organization is based on continuance commitment remain with the organization simply because they have no choice. Normative commitment is the employee's attachment based on the motivation to conform social norms with respect to attachment. Normative commitment indicates the degree of feeling that one has, to be loyal to his or her organization. The normative aspect is developing as individuals' perception of their moral obligation to remain with a specific organization, regardless of how much status (improvement or fulfilment organization gives to individual over the years (Marsh, Mannar, 1977).

Empirical research shows that affective organizational commitment is a predictor of performance (Meyer et al, 1989), absenteeism (Sagi, 1998) and organizational citizenship behavior (Lepine et al., 2002). Meyer et al. (2002) suggest that affective commitment has the strongest correlation with the desired organizational outcomes (performance, attendance and organizational citizenship), normative commitment also has a correlation with the desired outcomes but not so strong, and continuance commitment is negatively correlated with performance and unrelated to organizational citizenship. This research indicates that continuance commitment fails to perform consistently.

Some researchers (Bergman 2006; Solinger et al., 2008) argue that Meyer, Allen three-component model incorrectly coupled affective commitment with normative and continuance commitment. Moreover according to Solinger et al., (2008) only affective organizational commitment truly reflects the position towards the organization and the authors recommended a one-dimensional model or eliminating continuance and normative commitment from the model of organizational commitment. According to these authors, affective commitment is a highly reliable and valid construct that is able to gain the employee's emotional attachment and identification with the organization (Solinger et al., 2008).

### ***ORGANIZATIONAL CHANGE, EMPLOYEES' ATTITUDES TOWARD CHANGE AND A COMMITMENT TO CHANGE***

Organizational change is a complex phenomenon and it is natural that studies of organizational changes addressed this complexity from many perspectives (Jacobs et al., 2013). Armenikas, Bedeian (1999), in a ten-year review of theory and research of organizational changes, there are four common themes of research: content, context, process and criterion (outcome variables). Content issues focus on the content of changes, including organizational strategies, structures and systems.

Context issues relating to the forces and conditions which are the internal and external to the organization. Process issues focus on how to implement the changes and stages to move from an organization's current state to a desired future state. Criterion issues referring to the outcomes of change, including research that has assessed the efforts of organizational changes by using affective and behavioural criteria in conjunction with traditional outcomes such as survival and profitability (Armenikas, Bedeian, 1999).

The change affects employees by forcing them to work in a different way, on the other hand the degree to which employees embrace the change or indicate negative responses will have a direct effect on the outcome of the changes. Armenikas, Bedeian (1999) point out that employees enacting behaviours are critical to achieving successful change. In this regard Clegg, Walsh (2004) reported that the underestimation of employee attitudes towards change leads to failure of efforts of change. Attitudes towards change in accordance with Elizur, Guttman (1976) in general consist of a person's cognitions about change, affective reactions to change and behavioural tendencies toward change and can range from strictly positive to strictly negative. Bouckenoghe (2009) investigates change recipients' attitudes toward change are separated into two streams in the literature: negative view emphasizes on overcoming problems, weaknesses and threats and the positive view that focuses on the potential and opportunities that ensue from change.

Before the nineties most of the research on attitudes towards organizational change came from a negative view. The main research topic is the resistance to change, which is still in the late forty attracted the attention of scholars (Coch, French, 1948). Resistance to change is defined as an attitude or behavior, anchored in emotions that frustrate the objectives of the organizational changes proposed by the company (Chawla, Kelloway, 2004). Although resistance to change is proposed as the main reason for the failure of organizational changes (Parker, 1980), some authors emphasize the positive aspects of resistance because it includes processes that foster organizational learning (Ford et al., 2008). Another negative formulated attitude towards a change is cynicism about organizational change. Wanous et al. (2000) cynicism about change is defined as a construct that contains two elements: a pessimistic view of the efforts of the organization to change and achieve success change and placed blame on those responsible for the lack of motivation and / or ability to effect successful change.

Positive attitudes of employees toward change are propounded to be critical predictors for success organizational change initiatives. Willingness to change is introduced by Jacobson (1957) as a construct opposite resistance to change. Armenikas et al. (1993) readiness for change represents employee's beliefs and attitudes regarding the extent to which changes are needed and the ability to successfully complete the planned changes. Openness to change is the second construct on the positive side that can be conceptualized as a willingness to support change and a positive affect on the potential consequences of change (Miller et al., 1994). The high level of openness to change points to increased cooperation and can thwart the change resistance of behaviours (Miller et al , 1994). Commitment to change is another construct that belongs to positively labelled attitudes.

Herscovitch, Meyer (2002) commitment to change, defined as a force (mindset) that binds an individual to a course of action deemed necessary for the successful implementation of change initiatives. Choi (2011) stated that the commitment to change has attracted increasing attention of researchers in relation to readiness for change and openness to change.

In the eighties and nineties more researchers has established the importance of commitment to change as one of the key factors for the success of change initiatives (Conner, Patterson, 1982; Conner, 1992; Klein, Sorra, 1996; Coetsee, 1999). Conner, Patterson (1982) reported that the most common factor that contributes to the failure of change projects is the lack of commitment by the people. Conner (1992) emphasizes that commitment to change is like the glue that brings together people and the goals change. Coetsee (1999) believes that commitment exists when person attitudes toward organizational change are positive. Klein, Sorra (1996) in a model of innovation implementation proposed commitment as a central component of the model, which mediates relations between innovation-fit values and implementation effectiveness.

Seminal study on the commitment to change is the work of Herscovitch and Meyer (2002), which on the basis of organizational commitment as a multidimensional construct develop construct of commitment to organizational change. The authors transform the three dimensions of organizational commitment: affective, continuance, and normative commitment and connect each dimension to the organizational change. Bouckennooghe (2010) in comparison with previous studies that are linking commitment and change (Conner, Patterson, 1982; Klein, Sorra, 1996) model that give Herscovitch, Meyer (2002) offers a robust and more theoretically based alternative to explore the relation between devotion changes and its antecedents and consequences. Herscovitch, Meyer (2002) has developed a commitment to change scale, a research instrument that is specifically designed to measure commitment to organizational change.

Herscovitch and Meyer (2002) suggest three dimensions of commitment to change: affective commitment to change, continuance commitment to change and normative commitment to change. Affective commitment to change refers to a desire to support specific changes based on the belief in its inherent benefits. Continuance commitment to change is to recognize that there are costs associated with failure to provide support for a change. Normative commitment reflects the sense of obligation to provide support for a change. In other words, individuals may feel bound to support the change effort because they want to, have to, and / or ought to (Herscovitch, Meyer 2002).

Herscovitch, Meyer (2002) makes a distinction between three different forms of behaviour support for change: compliance, cooperation and championing behaviours. Compliance behaviour is a passive form of support for change in which the individual performs a minimum of effort and a little reluctant to perform behaviours that are required to directly support the change initiative (Gellatly et al., 2006). On the other hand the active form of support includes discretionary behaviours including cooperation and championing. Cooperation behaviour related to actions that involve going along with the spirit of change that requires modest

sacrifices. Behaviours that require considerable personal sacrifice are intended to promote value changes to others inside or outside the organization are considered to be forms of championing (Herscovitch, Meyer 2002).

From the time when Herscovitch and Meyer published their study commitment to change has received considerable attention of researchers or Bouckennooghe et al., (2015) the total number of studies outside the North American context is still small. The researchers demonstrate that commitment to change is conceptually and empirically distinct from the organizational commitment and a better predictor of support for change in relation to organizational commitment (Herold et al., 2008). According to a meta-analysis conducted by Bouckennooghe et al. (2015) showed a high correlation between affective and normative commitment to change, moderate correlation between the normative and continuance commitment to change and a high but negative correlation between affective and continuance commitment to change. Meta analysis shows that in the case of behavioural support to change affective and normative commitment to change are positively associated with behavioural support while continuance commitment to change has a negative moderate association with behavioural support, something stronger negative with championing compared to cooperative behaviours and small magnitude Compliance Support (Bouckennooghe et al., 2015).

More work addresses the relation antecedents and commitment to change (Parish et al., 2008; Herold et al., 2008; Foster, 2010; Ning Jing, 2012, etc.). Parish et al. (2008) found that changes fit with the vision of the organization is positively associated with all three dimensions of commitment to change; the quality of employee-manager relations is positively associated with affective and normative commitment to change but negative with change to the continuance; job satisfaction was significantly associated only with affective commitment to change and role autonomy is positively related to affective commitment and negatively change the continuance commitment to change. According to research Herold et al. (2008) transformational leadership is significantly positively associated with affective commitment to change (the other two dimensions, the authors did not investigate), also affective organizational commitment was significantly positively associated with affective commitment to change. Foster (2010) reveals that organizational justice is significantly positively associated with affective (somewhat stronger) and normative commitment to change and moderate negative correlation with continuance commitment to change. Ning Jing (2012) reported that the expectations of the outcome of the changes are positively related to affective (somewhat stronger) and normative commitment to change, while there are negatively associated with continuance commitment to change.

Exploring the commitment to change and outcomes Parish et al. (2008) found that affective commitment to change is positively related to improved performance at the organizational level, by the success of the implementation of changes and individual learning. Normative commitment to change is significantly (positively) associated only with individual learning. Parish et al., (2008) continuance commitment to change has no impact on the outcome of the changes. Cunningham (2006) found that affective and normative commitment to change was negatively

associated with turnover intentions, and continuance commitment to change is positively related to turnover intentions. Ning Jing (2012) reveal that affective and normative commitment to change negatively associated with emotional exhaustion, on the other hand continuance commitment to change is positively related to emotional exhaustion.

## **CONCLUSION**

Transformational leadership, empowerment and organizational commitment were imposed as a highly influential approach to leadership and management over the past thirty years and have been the subject of numerous studies. Over time crystallized the models and research instruments accepted by the research community. Research has proven the validity of each construct was determined by their relationship with performance at individual, group and organizational levels. Studies have found positive relationships between transformational leadership and organizational commitment, transformational leadership and empowerment, empowerment and organizational commitment and empowerment mediating role between transformational leadership and organizational commitment.

In the literature on organizational change commitment change stands out as one of the key variables for the success of organizational change. Although the commitment to change as a term used in the literature on organizational change during the eighties and nineties construct has not been sufficiently developed nor has there been adequate research instrument accepted by the research community. In response to the lack of consensus on the definition of the construct, Herscovitch and Meyer introduced three component model consisting of affective commitment to change, continuance commitment to change and normative commitment to change and a research instrument that measures the three components. A review of research studies can be concluded that the researchers accepted Herscovitch, Meyer model, often focusing on one or two components of the model (only affective or affective and normative commitment to change). Research interest in this subject is growing but there are still insufficient studies particularly outside the North American region. Generally in the literature on organizational change are thinking of scholars that in the organizational changes is still insufficient research related to human variables (micro perspective).

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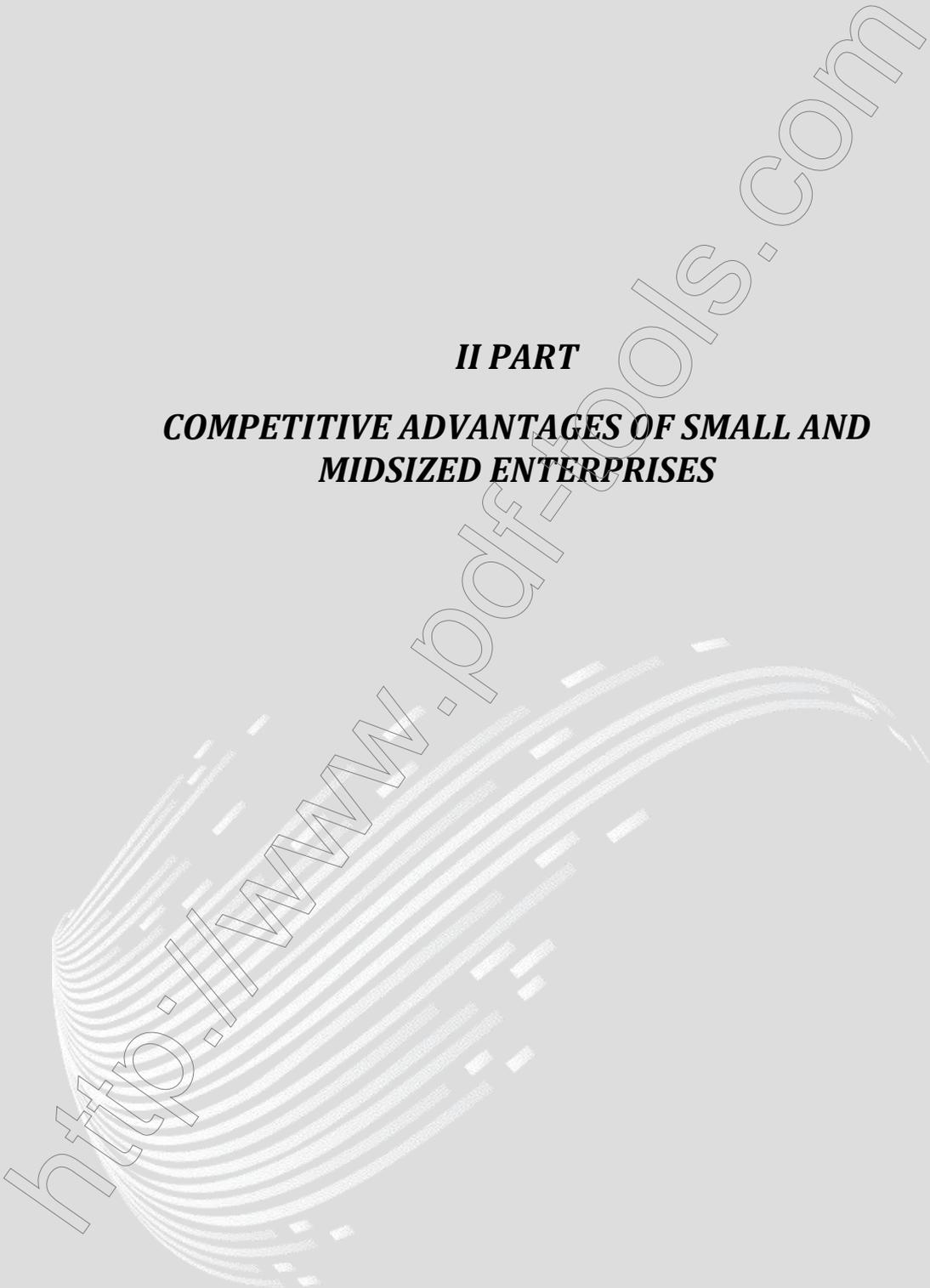
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**II PART**

**COMPETITIVE ADVANTAGES OF SMALL AND  
MIDSIZED ENTERPRISES**



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## **SITUATIONAL ANALYSIS IN THE FUNCTION OF DEVELOPING COMPANY COMPETITIVE ADVANTAGE**

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### **ABSTRACT**

*Competitive advantage is the main goal of a market-oriented company, and the knowledge of environmental factors is the basic condition for its creation. By gaining insight into the structure and development trends of factors of external and internal environment, we create conditions for subsistence, development and creation of competitive advantage. Given the fact that the modern business environment is characterized by a high degree of uncertainty, subsistence and success of the company is primarily determined by the ability of management to create a strategy that, under the given conditions, contribute to achievement of the goals. The information obtained by scanning the external environment and analyses of internal environments are the basis for strategic planning and decision making. The research results in this paper indicate that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. Due to the negative impact of many factors, strategic orientation has been identified as an essential condition for creating a sustainable competitive advantage, companies in Serbia.*

**Key words:** Strategic Management, Business Environment, Situation Analysis, Competitive Advantage, Company

**JEL Classification:** L10, M11

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## **INTRODUCTION**

A situational analysis represents scanning and assessment of the current organizational context, the external environment, and the environment within an organization. It includes assessment of internal resources and processes of a company and its activities in the market, the closest environment including demand and competition and many other factors (social, political and legal) which may influence the company's business. By acquiring information about the structure and tendencies shown by external and internal factors it becomes possible to create an effective strategy for achieving competitiveness.

This paper discusses the role and importance of a situational analysis in building competitive advantage of a company. By taking into account the complexity and dynamism of the modern business environment the objective of this paper is to show that management's proactive attitude towards environmental challenges is the basic requisite of survival and development of companies.

Beginning with the objective and the subject of research, the paper puts forward the following hypothesis:

- a) In modern business, strategic orientation, or rather, strategic thinking and acting have become the basic factor of survival and development of companies.
- b) A situational analysis represents a basis for creating an effective mission, goals and strategy of a company.
- c) Volatility and dynamism of environmental factors, especially in the domain of consumers' wants and needs and ever intense competition, impose the need for continuous reexamination of existing and finding new sources of competitive advantage.
- d) Because of a high degree of uncertainty of the business environment, the survival and success of companies in Serbia more and more depend on the managerial capacities of their managers, or, the ability to timely detect critical factors of success and create adequate strategic orientation.

The research was conducted by using the basic scientific methods appropriate for this type of work such as analysis, comparison and case study approach.

## **THE ELEMENTS AND ANALYSIS OF THE ENVIRONMENT**

Activities relating to the company's business are carried out under the influence of numerous factors of the external and internal nature. Dependence of the company from its external environment may be explained based on its dependence on resources and information necessary for efficient decision-making. The environment is a place where a company finds its resources, which are after the transformation process returned to the environment in the form of finished products or services. The environment represents a source of information required for strategic decision-making. A situational analysis identifies elements that

influence the company's business where future strategic directions are defined based on the results of the analysis.

On the other hand, thanks to high flexibility and innovativeness, it is easier for smaller organizations to change their strategic behavior than for the large ones and they are able to quicker adapt to new market demands.

## **STRATEGIC MANAGEMENT PROCESS**

Strategic management process is a process of analyzing the current situation, formulating appropriate strategies and implementing those strategies, evaluating, modifying or changing them as the need arises. (Brnjas, 2000). Those activities are usually called – situational analysis, strategy formulation, strategy implementation and strategy evaluation.

Given the reasons of its existence, contents and the level it pertains, strategic management may well represent the backbone of a direction that the company will take in a turbulent environment. By including decision-making about the mission, goals, direction and the manner of their achievement, allocation of resources and creating a relevant support system, strategic management represents the main component of the company's vitality.

The main characteristic of strategic management is that it is multidisciplinary. This means that it is not focused on any special area in the organization but includes all its functional areas in their entirety.

Strategic management is the easiest to explain by using the following phases (Coulter, 2010):

- Situational analysis
- Strategy formulation
- Strategy implementation
- Strategy control.

**Situational analysis** represents an analysis of the external and internal environment in which a company is implementing its mission, vision and goals. The results of the internal and external analysis enable the company to get better Figure about itself and its environment and define the best possible strategy.

**Strategy formulation** – represents development and selection of appropriate strategy. Strategy formulation includes three levels:

- Strategy at the level of the company (corporate strategy)
- Business strategy (competitive strategy)
- Functional strategy (operational strategy)

**Strategy implementation** – is a phase when the defined strategies are put in action. It implies allocation of resources in business areas and functions, creating organizational structure and corporate culture, selection of style, motivational mechanisms and performance evaluation, the creation of information system, etc. (Todorović, 2004)

**Control (evaluation/assessment) of the strategy** - is controlling the manner in which the strategies are being implemented and analysis of the results achieved. If the results of the implementation are not matching the defined goals of an organization the defined strategic solutions need to be changed or the process of their implementation needs to change.

### **SITUATIONAL ANALYSIS**

A situational analysis represents an analysis of the environment in which a company is implementing its mission, vision and goals. Different approaches to classification of the environment can be found in the academic literature. The environment is most frequently classified in the following manner (Erić et al., 2007):

- **According to the quality of effects** the environment is classified as stabile (characterized by abundant chances, few threats, and easily predictable changes) and unfavorable (characterized by a few chances, lots of threats and changes that are difficult to predict).
- **According to the dynamism of factors** the environment is classified as stabile, characterized by small and predictable changes, dynamic, with large but predictable changes, and turbulent with frequent, large and unpredictable changes.
- **According to the ability to control and the degree of influence** the environment may be classified as external, competitive-direct environment and internal that includes factors within the company.

For purpose of theoretical consideration of this phenomenon in the paper, the classification of the environment into the three following segments will be used: **general** environment (indirect), **competitive** (industry-wise, direct and targeted) and **internal** environment.

### **EXTERNAL ENVIRONMENT ANALYSIS**

External environment analysis is a process of scanning and evaluation of the external environment of a company. The purpose of the analysis is to identify threats and chances that the company is facing by analyzing factors of its external environment. **Chances** (opportunities) are positive changes that can help an organization to achieve better business performance. **Threats** are negative changes that can downgrade business performance of an organization. A situational analysis implies carrying out an external environment analysis.

Peter Drucker, a father of modern management, wrote the following: “a winning strategy will require information about events and conditions outside the institution: nonconsumers, technologies other than currently used by the company and its present competitors, markets not currently served and so on” (Coulter, 2010).

There are four very important processes through which we become aware of the environment, the so-called inputs of forecasting (Erić et al., 2007):

- **Environment scanning** (implies watching the external environment of a company to anticipate changes in the environment, warn about future events and trends before the competitors notice them).

- **Environment monitoring** (enables a company to estimate how dramatic are the changes that are brought into its environment by changing trends).
- **Awareness of competition** (helps a company understand its industry and be aware of weaknesses and strengths of its competitors).
- **Environmental forecasting** includes forecast of future changes - direction, intensity and speed of expected changes of key environmental parameters. Forecasting is relevant for defining a successful strategy as it is critical in increasing the certainty of achievement of present decisions the results of which will be visible in the future.

There are different approaches to defining the external environment of the company. Some authors argue that the external environment needs to be divided into general environment of the organization (indirect-father-away) and operational environment (more direct, closer). In this paper we will look at two types of the external environment of the company: general and competitive environment.

**Elements of general environment** – The general environment consists of factors that may have dramatic effects on the strategy of a company. A rule of thumb is that one company has little possibility to anticipate trends and events in the general environment and is even less able to control those (Dess, Lumpkin, Eisner, 2007). Usually, a general environment analysis includes analyzing the following elements of the external environment: demographic segment, socio-cultural, political-legal, technological, economic and global segment.

**Elements of the competitive environment** – Managers must take into account not only the general environment but also the competitive one (that is sometimes called industrial environment or task environment), specific groups and organizations that affect the company. The nature of competition in the industry, as well as the profitability of a company, is often in direct correlation with unfolding of changes in the competitive environment.

The competitive environment consists of numerous factors which are relevant for the strategy of the company. Those factors include **competitors** (present or prospective), **consumers and suppliers** (Dess, Lumpkin, Eisner, 2007).

- **Competitors** are companies operating in the same industry, selling similar products or services. What makes the difference between business success and failure is whether a company is more successful in meeting the wants and needs of the buyers than its competitors.
- **Consumers** are natural persons buying goods and services in the market not intended for their business activity. The status of a consumer implies free participation in the goods market and a series of other rights provided by the law regulating consumer protection. The basic consumers rights are as follows: meeting the basic needs, security, awareness, choice, etc.
- **Suppliers** are companies providing material, human, financial and informational resources. Key factor that determines the results of the relationship between companies and their suppliers is a degree of their interdependence.

## **INTERNAL ENVIRONMENT ANALYSIS**

An internal environment analysis offers important information about organizational assets, skills and operations – what is good, what is missing or whether there are any shortages. The most important part of this analysis implies assessment of organizational resources, capacities and key competencies. An internal environment analysis is important because it is the only way to identify strengths and weaknesses of an organization and it is crucial for the adoption of good strategic decisions (Dess, Lumpkin, Eisner, 2007).

In the process of identifying internal strengths and weaknesses numerous techniques may be used: “value chain” concept, portfolio analysis, gap analysis, break-even point, life cycle of the organization, etc.

**Organizational resources** – are assets used by an organization in order to do what it has been established to do. Resources may be financial, physical, human, intangible, and structural-cultural.

- Financial resources include creditworthiness, credit lines, cash reserves and other forms of financial assets.
- Physical resources include material assets like buildings, devices and equipment, raw production materials, office supplies and so on.
- Human resources include experience, knowledge, sound judgment, skills, acquired wisdom, and competence of employees of the organization.
- Structural-cultural resources are corporate history, culture, operating systems, mutual relationships and organizational structure.

Organizational resources are relevant for the capacity building and key competencies of the organization.

**Organizational capacities** –are inputs used to develop organizational capacities, which represent a series of routines and processes by means of which a company turns inputs into outputs. Organizational routines and processes are regular and predictable activities carried out by members of the organization. Organization, per se, is a complex network of these routines and process which includes a series of activities. Organizational capacities are not only created by gathering resources. Capacities are built when mutual relationships exist among people and relationships between people and other resources.

**Key competencies and distinctive changes** – All significant capacities contributing to value generation critical for the business of the organization are called **key competencies**. Organizational capacities are of the primary importance because they represent a cornerstone of key competencies. Every organization nurtures processes and routines thanks to which it does its business. All key competencies of the organization are the product of all routines and processes. If key competencies are developed they can improve organizational capacities and at the same time contribute to development of distinctive abilities.

## **CONCEPTS AND TECHNIQUES USED IN ENVIRONMENTAL ANALYSIS**

Any good situational analysis requires using specific tools, or, concepts and techniques. By using different analytical instruments a company is analyzing the events in the environment and is making sure that there are no unintended surprises coming from the environment it does business in.

### **SWOT ANALYSIS**

SWOT analysis enables recognizing the positive and negative factors and gives the option of having a timely influence on them. It helps the organization determine its present position, its main strengths and weaknesses, its chances and obstacles to achieve the planned goals in the future.

SWOT analysis is an analytical framework providing relevant information about internal strengths and weaknesses of an organization and about business climate in which a company is pursuing its mission. This analysis is based on the assumption that an organization will achieve the greatest possible success by maximizing its own strengths and chances in the environment and at the same time by minimizing threats and weaknesses, or using internal strengths in the best possible way while using opportunities which present themselves in the environment.

SWOT analysis needs to be done by several people because it requires thinking and more people are smarter than one. The approach to this analysis needs to be impartial, it is impossible that an organization has no weaknesses or that there are no threats it should be aware of.

Beside SWOT analysis there is the so-called **PEST** analysis. PEST is an acronym for **political**, **economic**, **social** and **technological** factors that may affect planning and the operations of the organization.

### **PORTER'S FIVE FORCES ANALYSIS**

The Porter's Five Forces tool represents the most frequently used analysis in assessing the competitive environment. The model describes the competitive environment through ten basic factors of competition (Dess, Lumpkin, Eisner, 2007).

- Threat of new entrants
- Bargaining power of buyers
- Bargaining power of suppliers
- Threat of substitute products
- Rivalry among existing competitors in the industry.

The basic assumption of the model is that not all industries are equally attractive and therefore do not provide equal opportunity in terms of earnings or acquiring profits. On the basis of analysis of five forces of the industry, managers can decide whether their company should remain in the certain industry or leave it. The model provides a rational basis for increased or reduced engagement of

resources. The model also enables easier judgment as to how to improve the competitive position of the company given each of the above mentioned forces.

**Threats of new entrants** – Concerns the possibility that profits earned by companies which have already established themselves in the industry are reduced because of the arrival of new competitors. The level of danger depends on existing barriers to new entrants and on combined reactions of the competitors. If the barriers to new entrants are high or if a new entrant may anticipate sharp response that will follow by existing competitors, then, the threat of new entrants is small. Such circumstances discourage new competitors. If a new company may start its business with a little investment and to efficiently operate despite of a small volume of operations, then, it will most probably represent a threat.

**Bargaining power of buyers** – Buyers may threaten the industry by causing the prices to drop, by continuously demanding better quality or better services and by turning the competitors against each other. Such activities reduce profitability.

**Bargaining power of suppliers** – Suppliers may show their power over members of the industry by threatening to raise prices or reduce the quality of the purchased goods or services. Many suppliers may extract profit out of some companies to such an extent that they are unable to even get return on their investments in raw materials. Factors that make suppliers powerful are the reflection of those forces that make buyers powerful.

**Threats of substitute products** – Substitutes limit the potential yield in the industry by limiting the level of prices that enable the producers in the industry to earn profit. The more attractive price index, the less likely is that the products in the industry will earn profit.

**Rivalry among existing competitors in the industry** – Often turns into a race for the best position possible. The companies use tactics – competitive prices, advertising campaigns, introduction of new products, customer services, offering longer warranty periods and so on. Intense rivalry is a result of several intertwined factors: multiple equal competitors, sluggish growth within the industry, high fixed costs or storage costs, undifferentiated products, switching costs, gradual capacity increases, high barriers to exit.

## **VALUE CHAIN CONCEPT**

Through a value chain analysis a company is analyzed as a process of activities undertaken in order to create value. This approach is important for understanding elements which create competitive advantage. In the context of rivalry in the market, value is presented as the amount that buyers are willing to pay for what is offered to them by a company. Value is measured by the total profit which is a reflection of the price that the company's product must be attributed to and the amount of goods or services that the company can sell. A company is profitable if the value it receives exceeds the total costs of creation of a specific product or a service.

Porter described two different categories of activities.

- The first category includes five primary activities: inbound logistics, operations, outbound logistics, marketing and sales and services. All these activities take part in the physical creation of a product or a service as well as in the benefits of the product or the service after the sale.
- The second category includes support activities: procurement, technology development, human resource management and firm infrastructure. Each of them creates added value or take part in creation of value by working together both with the primary and the support activities (Dess, Lumpkin, Eisner, 2007).

In addition to these two techniques there are others that are in use, such as BCG matrix, Ansoff matrix, ADL matrix, etc.

### ***CREATING COMPETITIVE ADVANTAGE***

Strategic management implies implementation of strategies that enable an organization to develop and sustain competitive advantage. Competitive advantage is what sets one organization apart from the others. This means that the organization has something that others lack, or that it is better than other organizations in something or that it does something that others are not able to do (Coulter, 2010).

Competitive advantage is a key concept in strategic management necessary for a long-term success and survival of organizations. It takes a lot of hard work and effort to sustain competitive advantage and is getting harder and harder as the days go by. An organization may be either successful or unsuccessful in this. It usually turns out that failure came as a result of the lack of understanding of significant external factors or inability to earn profit from organizational resources and capacities.

### ***APPROACHES IN CREATING COMPETITIVE ADVANTAGE***

There are three traditional approaches to understanding competitive advantage and they are as follows (Coulter, 2010):

1. The first approach implies that organizations should analyze the influence of external factors and is called industrial organization view (Industrial organization – I/O).
2. The second – called resource based view (Resource Based View- RBV) – emphasizes the importance of exploiting organizational resources in order to develop and sustain competitive advantage.
3. The third approach is called “guerrilla” view of competitive advantage because it advocates the opinion that competitive advantage is temporary and that it may be gained by independent attack on the competitive market by hit-and-run offensives (Coulter, 2010).

**Industrial Organization View - (I/O)** is focused on strengths of the industry, the competitive environment of a company or how these components influence competitive advantage. For most of what we know about I/O approach we may

thank Michael Porter. According to him there are five “industrial forces” that determine average profitability in the industry which, in exchange, influences profitability of companies within the given industry. With this approach he wants to stress the importance of the “right” choice of industrial activities and the most suitable positions within the industry. Supporters of the I/O approach argue that acquiring competitive advantage means analyzing external forces and making strategic decisions based on what is happening in the environment. When it comes to I/O approach strategic analysis is externally oriented. Even though I/O approach greatly helps us understand the requirements of strategic management, according to critics, it does not provide a complete insight into the situation.

**Resource Based View - (RBV – resource-based view)** begins from the assumption that company’s resources are the most important requisite for acquiring competitive advantage. According to RBV strategic management implies developing and using unique organizational resources and competencies. The resources include all financial, physical, human and intangible assets used by an organization to develop, produce or deliver products and services to its buyers. RBV assumes that resources must be unique in order to be a source of potential competitive advantage.

**”Guerrilla” View** – The main idea of “guerrilla” approach is that competitive advantage of an organization is temporary, because the environment is characterized by continuous, radical and revolutionary changes. Disruptions in the sphere of technologies, market instability and other types of unpredictable changes may greatly impede the job of strategic managers who seek to create sustainable competitive advantage.

## ***GENERIC COMPETITIVE STRATEGIES***

Today’s business competitive environment is described as **hypercompetiton**, meaning that the situation in the environment is such that there is fierce competition in the market with continuously increasing level of competition. Competition occurs when organizations are fighting or competing to achieve a desired goal or outcome.

There are three approaches in defining competitors of an organization (Coulter, 2010):

- According to industry perspective, competitors are organizations making or selling the same or very similar goods or services. The most intense form of competition is pure competition– a large number of sellers without differentiated products.
- According to another approach, market perspective, competitors are organizations that satisfy the same customers’ need. Intensity of competition according to market perspective depends on how well were the customers’ needs are understood or defined and how well different organizations are able to meet those needs.
- The third and last approach, strategic group concept, is based on the fact that there are groups of firms competing in the industry with similar

strategies, resources and customers. Intensity of competition depends on how effectively each competitor has developed its competitive advantage.

Porter developed a model of five forces and chain value. These tools provide strategic decision-makers important information to choose appropriate competitive strategies. Porter argues that it is that strategy built on competitive advantage of an organization, which according to him, may stem only from one of the two following sources:

- Having lower costs,
- Possessing significant and desirable differences relative to competitors.

Another important factor is the scope of the product – market in which the organization wishes to compete. The basis of competitive strategy is created by combining these factors together (Coulter, 2010):

- Cost-Leadership Strategy,
- Differentiation Strategy,
- Focus Strategy.

### ***ANALYSIS OF THE BUSINESS ENVIRONMENT IN SERBIA***

Business environment in Serbia is under the influence of numerous factors that limit development of entrepreneurship. Incentives have been used for years to establish economic balance and create business-friendly environment. The positive tendencies achieved between 2001 and 2007 were interrupted by the global financial crisis. Tools and measures and economic policies, applied in the previous period, resulted in a slow economic recovery of the Serbian economy that wasn't able to reach the level of development prior to the financial crisis.

### ***BUSINESS ENVIRONMENT INDICATORS IN SERBIA***

Macroeconomic instability, lack of investments, complicated legislation and other limitations resulted in low productivity, efficiency and competitiveness of enterprises in Serbia.

The research of the World Bank – Doing Business 2016, shows that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. The World Bank monitors the quality of business environment through ten indicators: starting a business, registering property, dealing with construction permits, enforcing contracts, paying taxes, getting electricity, trading across borders, resolving insolvency, getting credit, protecting minority investors.

According to the latest *Doing Business 2016* (A World Bank Group Flagship Report - Doing business 2016) report out of 189 economies that were included in the analysis Serbia ranked 59 based on the quality of its business environment.

Table 1: Business Environment Indicators

|                                   | 2015 | 2016 | Change of ranking |
|-----------------------------------|------|------|-------------------|
| Starting a business               | 62   | 65   | -3                |
| Dealing with construction permits | 178  | 139  | +39               |
| Getting electricity               | 61   | 63   | -2                |
| Registering property              | 72   | 73   | -1                |
| Getting credit                    | 52   | 59   | -7                |
| Protecting minority investors     | 81   | 81   | No change         |
| Paying taxes                      | 165  | 143  | +22               |
| Trading across borders            | 23   | 23   | No change         |
| Enforcing contracts               | 73   | 73   | No change         |
| Resolving insolvency              | 49   | 50   | -1                |

Source: A World Bank Group Flagship Report - *Doing business 2016*,  
<http://www.doingbusiness.org/>

In the latest report the quality of the business environment in Serbia has been viewed more positive than in the previous years but it is still at the low level. The biggest problem, despite the positive tendencies, still exists with dealing with construction permits and paying taxes. In general, the Serbian market is not all too attractive for investors because it takes 272 days and 18 different procedures to obtain a construction permit, and it takes as many as 54 days to register property.

Trends followed by key economic indicators definitely have a negative manifestation on the competitiveness of the Serbian economy. This can be verified by looking at the latest results of the *World Economic Forum (The World Economic Forum – WEF)*.

According to the WEF's latest report (2014/2015) Serbia ranks 94 out of the total of 144 economies that were included in the research. The Global Competitiveness Index is 3.9 (The Global Competitiveness Report 2014/2015, World Economic Forum). Looking at the economies in the neighborhood: Slovenia (70), Macedonia (63), Montenegro (67), Croatia (77) and Greece (81) ranked better.

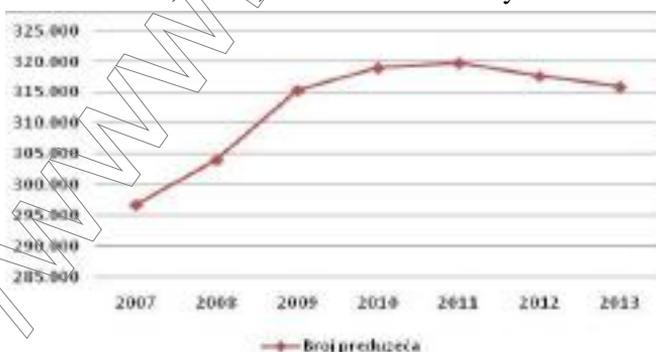
Table 2: Indicators of Competitiveness

| Components of the Global Competitiveness index - pillars of competitiveness |                                 | 2014/2015        |             |
|-----------------------------------------------------------------------------|---------------------------------|------------------|-------------|
|                                                                             |                                 | Rank (up to 144) | Score (1-7) |
| Global Competitiveness Index                                                |                                 | 94               | 3,9         |
| 1                                                                           | Institutions                    | 122              | 3,2         |
| 2                                                                           | Infrastructure                  | 77               | 3,9         |
| 3                                                                           | Macroeconomic Stability         | 129              | 3,5         |
| 4                                                                           | Health and Primary Education    | 68               | 5,8         |
| 5                                                                           | Higher Education and Training   | 74               | 4,3         |
| 6                                                                           | Goods Market Efficiency         | 128              | 3,8         |
| 7                                                                           | Labor Market Efficiency         | 119              | 3,7         |
| 8                                                                           | Financial Market Sophistication | 109              | 3,5         |
| 9                                                                           | Technological Readiness         | 49               | 4,4         |
| 10                                                                          | Market Size                     | 71               | 3,7         |
| 11                                                                          | Business Sophistication         | 132              | 3,2         |
| 12                                                                          | Innovation                      | 108              | 2,9         |

Source: *The Global Competitiveness Report 2014-2015*, World Economic Forum, [www.weforum.org/gcr](http://www.weforum.org/gcr)

According to the report of the World Economic Forum the most problematic four factors for doing business in Serbia are: inefficient state bureaucracy, access to financing, corruption, political instability (The Global Competitiveness Report 2014/2015, World Economic Forum).

The analysis of the business environment can be followed based on the trends in the number of businesses, that is, the number of newly established businesses.

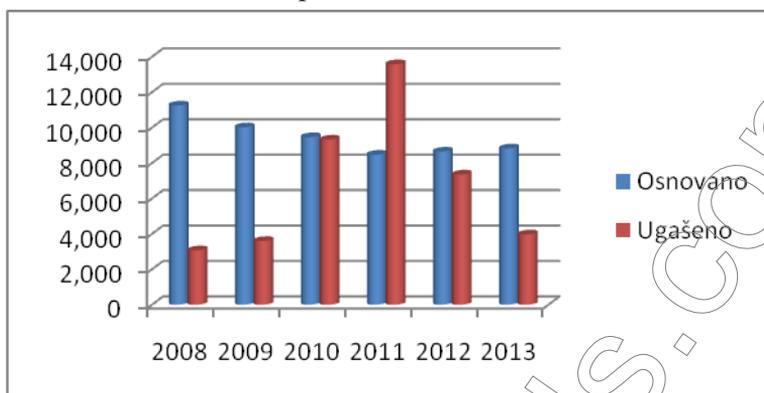


Graph 1: Total Number of Companies in Serbia (2007-2013)

Source: Data of the Report on Small and Medium-Sized Enterprises for 2009 and 2011, <http://narr.gov.rs/>

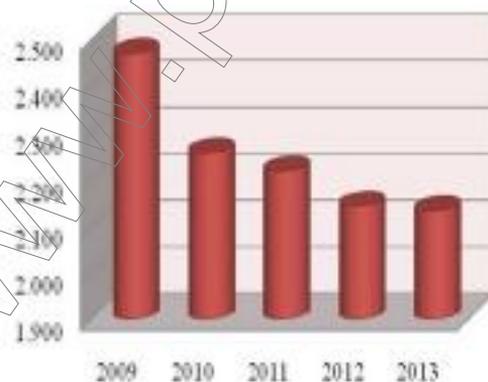
From 2011 onwards, disrupted entrepreneurial climate resulted in the decrease of the total number of enterprises in Serbia. If the focus of the analysis is put on the most important segment of economy, in other words, small and medium enterprises

and entrepreneurs one may find that the ratio between the number of newly established and closed down enterprises (2.2:1) was better than in 2012.



*Graph 2: Number of Newly Established and Closed Down Enterprises*  
 Source: Data from the Report for Small and Medium-Sized Enterprises for 2013, <http://narr.gov.rs/>

Notwithstanding these positive tendencies, the fact that the number of businesses that fall under the category of medium-sized enterprises is dropping year in year out is the reason for concern. Those are the enterprises which should be logical drivers of economic development. Decreasing number of medium enterprises may be explained by adverse influences of the environment, that is, numerous threats that disable development and growth of business, or transformation of small organizations into larger systems.



*Graph 3: Number of Medium-Sized Enterprises in Serbia*  
 Source: Data from the Report on small and Medium-Sized Enterprises for 2009, 2010, 2011., 2013, <http://narr.gov.rs/>

The results of the business survey of “1.000 enterprises” for 2015 point that the business environment between 2011 and 2015 significantly recovered, but only in some areas. Among the areas which performed better in 2015 are: construction permitting, enforcement procedure and business licensing (Survey of 1.000

enterprises, 2015, the Chamber of Commerce of Serbia). This year's survey was conducted by Ipsos Strategic Marketing between September 10, and October 6, 2015. The survey has been implemented through direct interviews with representatives of 1,008 businesses and entrepreneurs (90% small enterprises, 8% medium and 3% large). The key results obtained through the survey are presented in the table below.

Table 3: 2011-2015 Progress in Implementation of Reforms

| Significant progress                                                                                                                                                                                                                                                                                                                                                       | Milder progress                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No progress                                                                                                                                                                                                 | Exacerbation                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Payroll Taxes and benefits</li> <li>• Construction permitting</li> <li>• Business licensing</li> <li>• Inspection control</li> <li>• Enforcement of court decisions</li> <li>• VAT collection procedure</li> <li>• Corruption in the public administration</li> <li>• Inflation</li> <li>• Volatility of Exchange Rate</li> </ul> | <ul style="list-style-type: none"> <li>• Court procedures</li> <li>• Para-fiscal charges</li> <li>• Administrative procedures</li> <li>• Labor related legislation</li> <li>• Payment system</li> <li>• Customs and trade procedures</li> <li>• Openness in public procurements</li> <li>• Volatility of interest rates</li> <li>• Getting credit</li> <li>• Amount of collateral asked by banks</li> <li>• Interest rates and bank fees</li> <li>• Unregistered employment</li> <li>• Awareness about regulatory reforms</li> </ul> | <ul style="list-style-type: none"> <li>• VAT rates</li> <li>• Customs duty</li> <li>• Duration of credit approval procedure</li> <li>• Bank reporting requirements</li> <li>• Tax administration</li> </ul> | <ul style="list-style-type: none"> <li>• Using external sources of finance</li> <li>• Borrowing from banks</li> <li>• Quality of services and bank support</li> <li>• Excise</li> <li>• Volatility of real estate prices</li> </ul> |

Source: Survey of 1,000 enterprises in 2015, the Chamber of Commerce of Serbia

Given the above said, the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship and in the forthcoming period economic policy measures should be used to create more favorable conditions for the development of entrepreneurship. It is necessary to introduce laws which will enable, in the coming period, a smooth start of business, a market-oriented and fair business and incentives for entrepreneurship. Investors need greater legal certainty, more efficient and less costly administration and more efficient communication with the public administration.

## **RECOMMENDATIONS FOR IMPROVEMENT OF THE BUSINESS ENVIRONMENT IN SERBIA**

Business environment is determined by macroeconomic policy, government institutions and infrastructure of the given country. Political stability and the rule of law also influence the quality of the business environment.

In order to improve Serbia's competitiveness it is necessary to create a business environment that stimulates development of entrepreneurship. Addressing macroeconomic problems and those relating to legislation may contribute to significant improvements of the business environment. Establishing market mechanisms and creating a positive business environment are some of the main requirements that our economy needs to fulfill on its path to the European Union.

In addition to macroeconomic stability it is necessary to implement reforms at the macroeconomic level. To that end, competition needs to be strengthened, barriers to entry and exit removed, and property rights protected, etc. To attract investors, procedure for starting a business needs to be streamlined, as well as permitting and property registration.

Streamlining of procedures and cost cutting may have a positive impact on the entrepreneurial initiative in Serbia and may help increase the number of foreign investors.

Tax system reform needs to be put in focus. The reform should not just imply a decrease of tax rates, but also a decrease in the number of procedures and costs relating to tax collection.

As corruption has been identified as one of the basic problems influencing development of business, curbing corruption should be one of the priorities. In order to reduce the level of corruption, there need to be anti-corruption agencies or bodies put in place as well as simplified administrative rules and independent judiciary.

Based on the above presented it may be concluded that a stimulating business environment requires macroeconomic stability, a stable inflation rate, stability of the financial market, production and investments oriented towards exporting activities. Introducing new laws, institutions and tools relevant for doing business, will improve the quality of the business environment and make it more enabling for business development.

## **STRATEGIC MANAGEMENT AS A FACTOR OF CREATING COMPETITIVE ADVANTAGE IN SERBIA**

The business environment in Serbia is not sufficiently encouraging the growth and development of business. Given the dynamism and volatility of the environment, and in particular negative effects coming from the environment, strategic orientations becomes the basic condition of survival and development of enterprises in Serbia.

Strategic management is a concept which includes strategic planning and strategic action. It represents the way to reduce negative influences of the

external and internal environment or rather it represents an attempt to close the gap between the demands of the environment and the capacities of the company.

Every company, regardless of its size and business activity, must be strategically oriented. All owners/managers must make numerous decisions of the strategic character when starting a business. They need to create a vision, a mission, analyze the external and internal environment, identify critical factors of success, analyze competitors, define goals, etc.

Managers are faced with a fundamental challenge to create a strategy and thus secure advantage that can be sustained in the long run. An effective strategy can be created only based on a properly conducted analysis of the external and internal environment. By environmental scanning the main trends are identified and information obtained and they are both used to identify strategic direction.

As the selected strategy needs to be adapted to the situation in which the company finds itself, strategic orientation needs to become practice of the companies in Serbia. In line with that, managers of the companies need to identify critical factors of success based on the analysis of the business environment.

Various analytical tools can be used to obtain a clear insight as to what is going on in the environment. The external environment analysis can be completed by using the following tools/concepts: SWOT analysis, "five forces" concept, strategic group analysis, benchmarking and so on. For the purpose of improvement of the quality of the internal environment analysis the following analytical tools are suggested: value chain concept, portfolio analysis, break-even-point analysis, experience curve, internal audit, and life cycle concept and so on.

In modern conditions of doing business ignoring events from the external environment, more precisely, neglecting customers and competitors, as two key stakeholders, for sure leads to business failure. Therefore, market oriented companies in their environmental analysis are focused on the two elements of the environment – customers and competitors.

- Buyers (customers) are a decisive factor of success or failure of a company. According to marketing concept the goals are achieved based on identifying and meeting the needs of customers better than competitors.
- The level of competition varies from industry to industry. In industries characterized by a high profitability, competitions may be very intense. Being informed about competitors, knowing their strengths and weaknesses is a condition for identifying an adequate competitive strategy. In order to define an adequate competitive strategy the following information about competitors must be gathered (Hanić, H. (2007):
  - Who are the main competitors?
  - How our competitors are trying to win over the market – by lower prices or better quality of their products?

- What are they more superior at?
- What main weaknesses of our competitors can we use to our advantage?

The analysis of competition within an industry deserves special attention. Depending on strengths and weaknesses of the competitors, a company may opt for offensive or defensive moves. Offensive moves represent an attempt of an organization to strengthen its position by attacking the position of its competitors (Coulter, M. 2010). On the other hand, defensive moves represent an attempt of an organization to protect its position from its competitors. The purpose of defensive moves is not to strengthen but to sustain the acquired competitive advantage.

Based on the above said it may be concluded that companies in Serbia may improve their competitive position if they think and act strategically. Strategic orientation implies also a proactive attitude of a company towards events in the environment. Being aware of the events in the environment is the main condition for identifying an adequate competitive strategy.

## **CONCLUSION**

Strategic management implies a continuous process in which the company is adapting to volatile and demanding environment. Business environment is exerting a permanent influence on a company and the company itself also influences the environment in which it exists and to which it adapts.

Strategic management is a process, in which one analyses current situation, formulates appropriate strategies, implements those strategies and evaluates, modifies or changes them as the need arises. These activities are usually called situational analysis, strategy formulation, strategy implementation and strategy evaluation.

Given the reasons of its creation, the content and the level to which it pertains, it may be argued that strategic management represents a backbone of doing business in a turbulent environment, as it includes making decisions about the mission, goals, direction and the manner of their attainment, resource allocation and creating a relevant support system.

The environment of a company consists of numerous elements (individuals and organizations) and factors (economical, demographic, socio-cultural, political-legal and technological). A situational analysis enables identifying elements that influence how a company is doing business and based on the results of the analysis strategic directions of the company are defined.

Beginning with the goals, hypothesis and the subject of the research the following conclusions may be drawn in this paper:

- In modern conditions of doing business every company, regardless of its size or activity, must be strategically oriented. Strategic orientation, amongst other things, implies a proactive attitude of the company towards the events in its environment. Information that the company gathers by scanning the environment and through market research are the basis for identifying the strategy and competitive advantage.

- Situational analysis enables better quality planning and decision-making. As the vision, mission and the goals of the company must be aligned with the potentials of the organization and attainable in the business environment; situational analysis represents the basis for their creation.
- Competitive advantage is the main goal of a market oriented company. Due to turbulent and uncertain conditions of doing business such advantage is difficult to achieve and even more difficult to sustain. There are no universal strategic solutions to creating advantage, that is, the solution acceptable for all companies. A situation in which the company finds itself determines the sources and the ways to create advantage in the market.
- In the research conducted for the purpose of this paper it was concluded that the business environment in Serbia is not sufficiently encouraging for the development of entrepreneurship. Instability of the business environment puts in focus the managerial capacities of the company, or rather, the ability of its managers to timely identify critical factors of business success. In dynamic and very unstable conditions of doing business strategic orientation, or, strategic way of thinking and acting appear as the basic need of the companies in Serbia.

Based on the previous observation it may be concluded that strategic orientation, or, a proactive attitude of a company towards its environment is one of the basic requisites in creating strategic goals and strategies, or, creating sustainable competitive advantage.

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## **THE POSSIBILITY OF APPLYING BUSINESS INTELLIGENCE IN HIGHER EDUCATION**

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### **ABSTRACT**

*It is today necessary for all business systems to apply the concept and modern tools of business intelligence (BI) in knowledge management in order to gain competitive advantage and survive on the market. The subject of this paper is the issue of business intelligence which covers processes, technologies and tools which help us during the transformation of data into information, information into knowledge and knowledge into plans for managing the organization. Key results are insights into relevant, accurate and timely information. The ways of using BI in education from the aspect of promoting planning and control of educational processes, examining and analyzing educational processes, ad hoc reports, trend analysis, planning and prognosis in educational processes. Basic objective of this paper is the application of business intelligence in the promotion of making decisions based on knowledge. Having in mind the field and objective of this research, methods that will be used are: inductive and deductive method as the basic logical method which, during research, enables us to draw certain conclusions about the research subject and the methodology of object-oriented development of business intelligence systems which covers: defining requests, analysis, design and implementation of business processes. Results of this research are reflected in the application of business intelligence in promoting teaching processes, improving their standards, more quality decision-making process and managing in educational processes and applying efficient standardized tools, such as MS Excel and MS Query for more quality and successful business analysis. In this paper, we used exam results as indicators of the efficiency of educational processes by analyzing them according to exam periods, semesters, courses, and grades.*

**Key words:** Business Intelligence, Data Warehouse, Multi-Dimensional Analysis, Data Mining

**JEL Classifications:** D80, I21

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## **INTRODUCTION**

We are living in an information-based society whose development and successful functioning are primarily determined by constant changes and innovations in different spheres of science, technique and communication. We can claim with certainty that owning timely and good-quality information, as well as their rational use, is the key to success in all spheres of human acting. Global trends, quick changes, turbulence and dynamics are forcing business organizations to acquire high level of efficiency, adaptiveness, fast integration and coordinated activity. In that context, we can speak about business intelligence as the realization of the need for additional, undiscovered information, unperceived knowledge and possibilities.

Data which educational institutions are in dispose of are largely unsorted or roughly “accounting-based” which means insufficiently transparent for themanagement and making of decisions. Wrong decisions are often present because they are made based on information for which we believe they are true. But they are not! Most of them are not even sure how poor their information are, and the second problem is they are mostly elementary (Medic, Z., Zivadinovic, J., 2013, p. 112).

Business intelligence is a part of an information system primarily developed to enable management of organizations’ performances and to place overall informational possibilities of organizations in the function of making good-quality decisions so as to achieve the established strategic objectives. Business intelligence as a concept covers different types of technologies, tools and methods and aggregates knowledge from the highest number of scientific areas.

Business intelligence system has been intensively developing ever since organizations first automatized their business process, i.e. implemented different transaction systems which very soon proved to be generators of large quantities of data. From technical point of view, business intelligence has been developing as a process first used for collecting data, then transforming them into usable information. Further development of information systems has enabled the analysis of collected information so as to finally be used by the management in the process of making decisions. Today’s business intelligence system brings together methodologies, technologies and the concept behind Data Warehousing, Online Analytical Processing and Data Mining and it enables the creation of useful managerial information from data about business operations.

Reasons for implementing business intelligence into organizations are numerous. Business intelligence monitors the entire organization, wherein all employees can get the information in the moment necessary for making better, quicker and more relevant decisions. Business intelligence enables an active way of managing the organization which means we can predict future movements, make more scenarios and enable better preparedness to situations. The problem is how to transform information into knowledge. Today, organizations are managed based on information and knowledge about the competition, buyers, suppliers, processes etc. Business intelligence produces timely, complete and precise information which are the basis for making business decisions (Njegus, A, 2008).

Considering the spectrum of business intelligence activities which includes: analyses of the established objectives of organizations, constant comparisons of planned and achieved, coordination of activities of different organizational units in the business system, state assessment, making of decisions, information transfer etc., we can conclude that business intelligence represents means to an efficient achievement of business results.

## **DEFINITIONS**

The concept of business intelligence first occurred in the paper by Hans Peter Luhn in 1958, who defined business intelligence as – the ability to understand mutual relationships with such a display of facts to make actions in the direction of the wanted objective. Likewise, in a paper by Howard Dressner from 1989, business intelligence occurred as a general term. He defined business intelligence as the term “umbrella” so as to define it as “concepts and methods for improving the making of business decisions by using the support system based on facts”.

According to (Kalakota, R. et Robinson, M., 2001) business intelligence represents a collection of new applications shaped in such a way to structure and organize data about business transactions in a way which will enable analysis useful for the support in making decisions and organization’s operative activities. Simply put, business intelligence represents a process of collecting available internal and external data as well as their transformation into useful information which help business users when making decisions.

From the technical point of view, i.e. on the basis of information technologies, business intelligence represents a multi-leveled process used to transform large quantities of data found in organization’s information systems into highly valuable information. Business intelligence system consists of three unities, the first consists of data sources, central point is data warehouse where data from the original system are collected and prepared, and the third component is the analytical tool (Rajkovic, B. et al, 2012).

As we can see, there are numerous and heterogeneous definitions of business intelligence, but among them there are common elements such as (Panian, T. et Klepac, G., 2013):

- The objective of creating business intelligence is the promotion of the decision-making processes within organizations;
- Business intelligence occurs as a result of a well-managed and prepared process of deriving new or hidden knowledge from data;
- Business intelligence can be derived from operative data by applying appropriate logical-calculation methods which demands development and application of appropriate IT means and tools;
- Creation of business intelligence demands the establishment of a connected approach in data management.

## **RESEARCH METHODS**

Setting and elaboration, as well as general research, are based on certain scientific-research methods:

- Modelling method as a systematic research procedure used to build a simulation model capable of replacing the subject in question.
- Observation method which enables us to collect a sufficient number of data from the real system which will be used as entry data for research on simulation models for the sake of making conclusions about the system represented by the model.
- Methodology of object-oriented development of the business intelligence system which covers: defining requests, object-oriented analysis, object-oriented design and implementation,
- Inductive and deductive method as basic logical methods which enable us to, during research, draw certain conclusions about the research subject.
- For the purpose of comparative analysis and forming personal opinions and conclusions, we used comparative method in the process of mutual comparison of gaining information by classical processing and processing by using business intelligence and OLAP technology.

The collected data shall be processed and showed in graphs and tables and by numerical indicators. Data sources are: real data about the educational process in higher education which the authors used in the realization of this paper, books, scientific papers, articles in magazines and the Internet.

## **RESEARCH TOPIC**

Today, business systems are paying more attention to the way of thinking and doing business which are based on information and not on intuition or personal experience. In other words, their decisions are conditioned by data. Needs in terms of data are significantly growing, business systems are demanding more and more good-quality and versatile data in the aim of expanding their analyses and ensuring as wider look on business and decision-making.

The key question every successful company has to ask is what the possibilities of reaching good-quality data which would contribute to the making of optimal decisions in modern business are. With the development of business intelligence system by the methodology of object-oriented approach which covers establishment of requests, analyses, design and implementation of business processes, we can obtain good-quality data which enable optimal usability of data necessary for making business decisions.

When having analyzed data, we used concrete, real data of the educational process of a higher school of economic profile, of academic studies, by the application of standardized tools such as MS Excel and MS Query. We used exam results as indicators of the efficiency of educational processes by analyzing them according to exam periods, semesters, courses and grades.

## **PREVIOUS RESEARCH**

The application of business intelligence systems has today evolved to such extent that they are considered systems which are critical from the aspect of creating company's mission, the so-called mission-critical systems. Mission-critical systems are defined as systems which support business processes and make profit for organizations in a way that in case of inability to use them in certain time according to the company's regulations, they should be replaced with manual procedures so as to prevent possible losses or increase in costs (Donald, F. et Mark, B., 2010). These systems have to be designed in a way that would ensure constant availability and quick recovery.

In modern global economy, effective application of knowledge is becoming the most significant source of sustainable competitive advantage. Competitiveness based on knowledge is increasingly present today. Companies are developing new technologies, methods, processes, products and services based on knowledge (Milicevic, V., 2002). The principle of competitive advantage claims that each organization will be successful if it excels in the area in which it can do business with relatively lower costs and in which it is more efficient than other organizations. Organizations are striving to find that business component which will isolate them from a mass of competitors and make their business operations more superior. In an unstable business environment, where life cycle of a product is becoming shorter and global market is making it easier for competitors to conquer their share of the market, to find that component becomes vitally important for the survival of organizations on the market.

Business intelligence represents a collection of activities concerning one company's data analyses, as well as external data, data of third parties with the aim to make better strategic, operative and tactical decisions and take measures that will result in having better business performances. These activities cover the collection, analysis and management of data about the performances of operative processes in one company, activities of suppliers and clients, market movements, financial business operations, competition, legal regulations and quality control (Vincent, R., 2008).

In reality, business intelligence is the way of business functioning which enables that business decisions at all levels of decision-making process are made thoroughly based on relevant and timely business information and not on a hunch or personal impressions. From the aspect of informatics, business intelligence is a complex information-based concept that uses automatized procedures to collect data from internal and external sources, to transform, integrate and process them so as to enable users to access good-quality information in an intuitive and easily understood way.

The development of IT technologies has changed the way we make decisions which were previously made based on intuition. The new way is conditioned by a lack of necessary technological resources which would enable the analysis of large quantities of data. The development of ICT and automatization of business processes are the reason why more data have become available to organizations.

Integration of these data was for a long time a challenge for business systems because of the lack of technologies and their incompatibilities as well as the lack of infrastructure for information exchange, and the development of technologies and tools for supporting the process of making business decisions in organizations had an acceptable chronology.

The tools are also in the most direct way connected with a detailed and thorough analysis of historical transactional data stored in Data Warehouse or in an online base connected with the server. Business intelligence owns a wide spectrum of business and non-commercial applications whose common task is to help in the process of making decisions. For that reason, it is often placed in the class of applications for the support in decision-making. In Figure 1, we showed the conceptual architecture of business intelligence.

The concept of business intelligence implies a collection of technologies, processes and tools that would ensure the improvement of organization's performances through improving productivity of business operations, sales and service. With the help of business intelligence concept, organization's data are organized and analyzed in a better way and transformed into useful knowledge which ensures the taking of efficient business actions. In business intelligence systems, we use numerous tools for the transformation of a large quantity of data into useful information and for encouraging profitable business activities with the help of knowledge acquired in such a way. The implementation of business intelligence technologies is a long process that demands good-quality analyses and a lot of investments. Business intelligence is a system that includes business models and data models, data sources, special ETL tools for the transformation of data into information, Data Warehousing, OLAP analyses and tools for reporting (Dan, V., 2008).

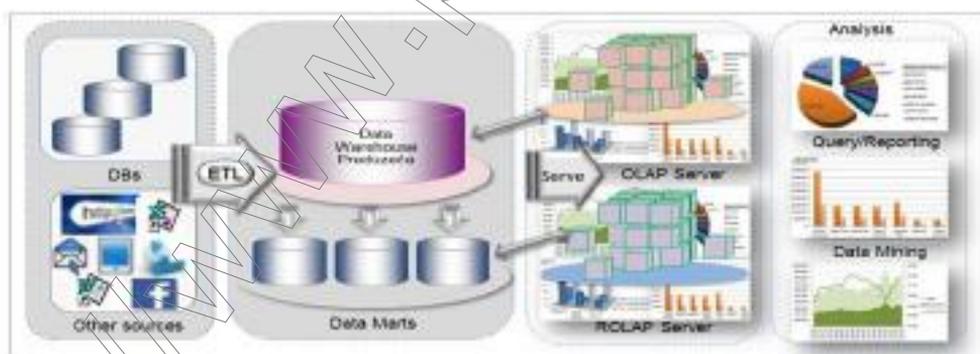


Figure 1: Conceptual architecture of business intelligence

Source: Authors

The development of business intelligence systems doesn't rely only on tools, techniques and processes, it also implies the participation of people who know business processes well and whose obligation is to direct the process of implementation in the right way. What is especially important is to understand requests in business, to set the goals adequately and thoroughly, to define necessary data which will be covered with

the analysis, to define sources of internal and external data and the way of their integration so as to enable the possibility of carrying out the analysis by which business intelligence systems are characterized, and to choose techniques and tools that will be used to achieve these goals. (Dan, V., 2008).

“Business intelligence is a type of a business radar. It warns us about threats, points out to business chances, predicts whether something will happen or not, adequately prepares us for inevitable, broadens the maneuver space of decision-making. In one word, it increases controllability of success that you wish to achieve by your business activities” (Kukrika, 2011).

Lack of support from the management is often present, so the question arises: Is business intelligence a typical problem for one organization? 28% of interviewees said that business intelligence was a problem and the capacity of the company seemed to be one of the key reasons. However, 82% of interviewees sees and opportunity in business intelligence technologies (Phillip, R., 2011).

Statistical data show that 53% of interviewees is using some of the forms of advanced analytics, but not with the help of business intelligence, 36% of interviewees does that with the help of business intelligence, and 22% doesn't own any kind of advanced analytics. When asked a question if they had enough good-quality men for using data they owned, 66% said no, which again emphasizes how important people actually are for the realization of the modern business concept (Harlan Harris et al, 2013).

## ***DATA WAREHOUSE***

Data Warehouse represents a sorted organization of data optimized for searching large quantities of data and making reports on them. It is a fact that today's large companies, which most often use data warehouse, even though smaller companies are starting to accept it, are generating large quantities of data. Data as such don't have any true meaning until somebody puts them in a certain context or compare them with some other data. Then they are starting to make sense and become information. Such information are crucial at all levels of management, but especially the top management, for running successful business operations in companies.

Analytical data base or Data Warehouse is the basis of the decision support system and one of its primary functions is to maintain processes and rules of business activities of the entire organization. As an effective and efficient support to the management, DW cleanses and aggregates data from operative systems and places them in the so-called dimensional data bases which represent a repository of consistent historical data which are available and can be easily and effectively manipulated with. Data organized in this way are used for the assessment of the state of business institutions, trends, projections and alternatives in the purpose of supporting decision-making (Balaban et al, 2006).

## DATA WAREHOUSE ARCHITECTURE

The process of storing data represents a continual process of planning, building and collecting data from different internal and external sources, their use, maintenance, management and constant improvement. Amongst many steps in that complex continual process, it is necessary to emphasize the importance of owning a vision about what we want to accomplish by creating data warehouse. One of important roles of data warehouse is to, for example, develop and use knowledge based on data (data-based knowledge).

When it comes to data warehouse architecture, it is necessary to emphasize that there are two, i.e. three types of data warehouse architectures. These are actually two streams in the field of data warehousing where each has its own advantages and disadvantages.

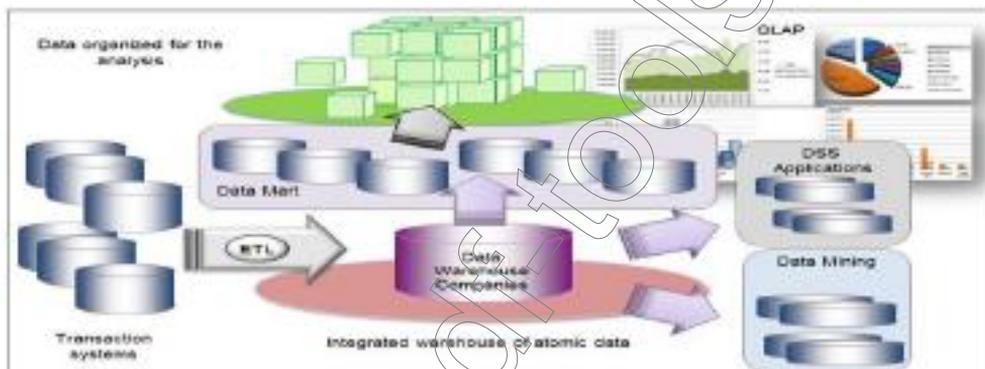


Figure 2: Basic data warehouse architecture

Source: Authors

The first one is Inmon's Corporate Information Factory where data from the entire company are consolidated into the central repository called the Enterprise Data Warehouse, and its characteristic is that data are in the third normal form, which means that it uses relational technology, so queries are not placed directly into that central repository (Figure 2).

It serves only as the basis for Data Marts which we can understand as mini data warehouses specialized for a certain segment of the company which are then connected to the repository, i.e. they use it as a data source, and they use dimensional design. Those data marts are adjusted to certain company's segments (accounting, production, marketing) and queries are performed on them.

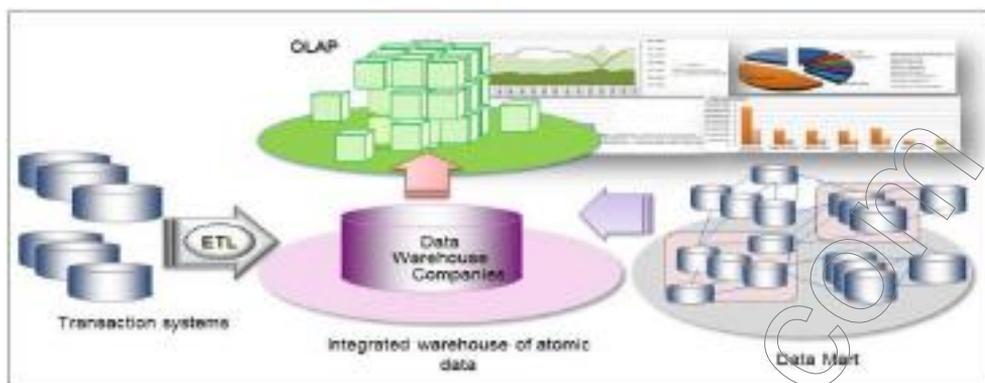


Figure 3: Kimball's Dimensional Data Warehouse architecture  
Source: Authors

The second type of architecture is related to Kimball, and it is called the Dimensional Data Warehouse (Figure 3). From the title, we can see that here we no longer use relational technology, but exclusively dimensional design. This architecture also has a central repository where we can find data from the entire company, but queries are performed directly on it, there is no need for data marts given the fact that the repository is organized on the dimensional design.

The third architecture, even though problematic, that can be seen as data warehouse is the independent Data Mart which is specialized in a narrow field, i.e. only in company's departments, so it doesn't contain data from the entire company and we cannot carry out analyses on that level (Figure 4). It can be realized on the dimensional design, but also on other technologies.

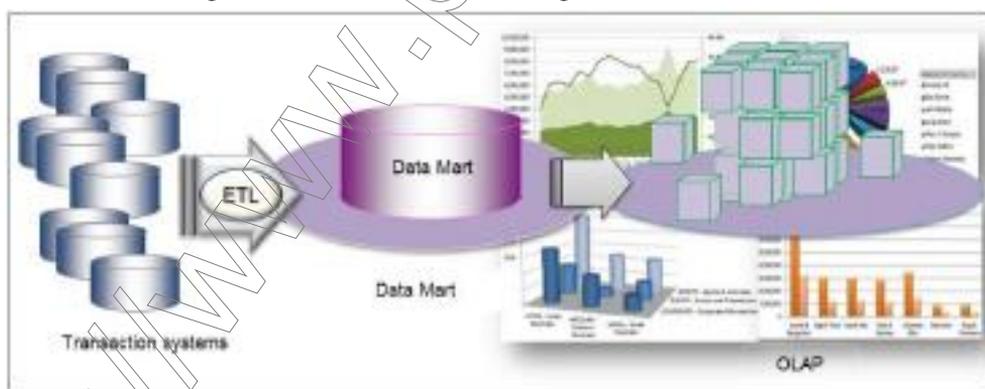


Figure 4: Independent Data Mart  
Source: Authors

No matter what the data warehouse architecture is, they all use, or can use, dimensional design in its entirety or partially. Dimensional design implemented in the relational base is called the Star Schema – (ROLAP), and the same one implemented in the multidimensional base is called the Cube – (MOLAP).

## OLAP

The term OLAP (Online Analytical Processing) refers to the collection of tools for deriving knowledge from a data warehouse. As the title itself says, analysis is in the focus of OLAP and not the transactional processing of data. The key problem is in the connection of data since there is a large number of different systems, especially different data bases. In exactly these fields OLAP techniques can give a large contribution because they can integrate all available data sources regardless of the form of data bases in which they are found (Medic, Z., Zivadinovic, J., 2013, p. 112).

OLAP represents a conceptual and intuitive model that is based on multidimensional data analysis. Data from data warehouses and data marts are visualized and aggregated in a way to ensure a perspective of a multidimensional look on data. For business users, special emphasis is put on the word “multidimensional”, i.e. on the possibility to analyze values according to different dimensions such as time, geographic regions, organizational structure, etc.

The essential idea of the multidimensional modelling is that almost every type of business data can be represented in the form of a Cube where cube cells contain measuring values and cube edges define the natural data dimensions. “Cube” is a metaphor which ensures a new look into how data are organized, Figure 5. More than three dimensions are included in business applications, so the cube can be called a hypercube.

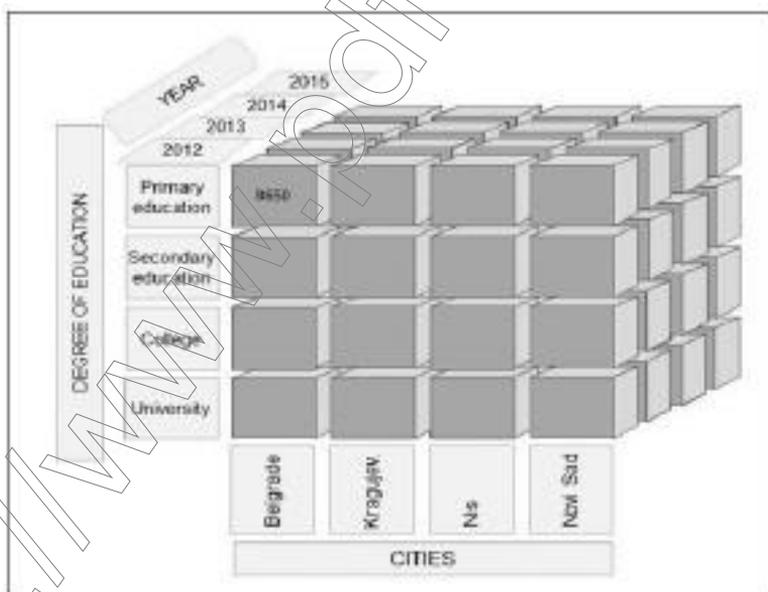


Figure 5: OLAP Cube

Source: Authors

On the given example of the OLAP Cube showed in Figure 4, we can see in what way the value *the number of unemployed* is observed from the three-dimensional perspective, Year, Educational level and City. By analyzing the

observed cube in the cross-section of the presented dimensions, we can see that there were 8650 unemployed individuals with elementary education in Belgrade in 2013. This data is a hypothetical data that was presented for the purposes of showing the OLAP concept and it doesn't correspond to real statistical data.

Depending on the technology applied, we can divide the OLAP structure in two models: Multidimensional OLAP (MOLAP) and Relational (ROLAP). The Hybrid OLAP (HOLAP) implies the abovementioned technology which combines MOLAP and ROLAP.

MOLAP represents a traditional way of OLAP analysis where data are being placed into multidimensional cubes. Data warehousing is not performed in relational data bases, but in formats which are a characteristic of the applied technology and that depends on the specific tool chosen for creating OLAP Cubes.

Advantages of applying MOLAP technology:

- Excellent performances – OLAP Cubes are primarily generated for a very quick access to data and are optimized for the analysis typical for OLAP tools.
- Applicability of complex calculations – when creating the Cube, all calculations are generated. In other words, complex calculations are not only highly applicable but we also obtain results in great speed.

MOLAP disadvantages are:

- Limitations in the number of data which can be processed – because all calculations are done in the moment of creating the Cube, so it is not possible to cover a large number of data. This doesn't mean that data inside the Cube cannot be calculated based on a large quantity of data, rather those data have to be aggregated on a higher level within the Cube.
- It can demand additional investments depending on the chosen technology in the organization.

ROLAP implies a methodology that deals with data in relational bases in such a way that we think we are working with the traditional MOLAP technologies in regards to applicable ways of analysis.

Advantages of applying ROLAP methodology are:

- It is possible to analyze large quantities of data wherein limitations are only guided by the developed technology of the system for data base management;
- The use of relational base functionality – since relational bases already have certain functionalities that can be used.

ROLAP technologies can use them in the purpose of additional enhancement of analyses.

ROLAP disadvantages are:

- It is possible for the performances to be of poor quality because each ROLAP report is in fact an SQL query (or more of them) over the relational base and it affects the time of query realization with large quantities of data.
- Functionality limitations that come from the given limitations of operations which can be performed with the help of classical SQL queries.

HOLAP tools represent some sort of a hybrid product which we can use to simultaneously carry out multidimensional analyses from data stored in the multidimensional cube and from the data management system in the relational data bases. That enabled the combination of MOLAP and ROLAP advantages.

Data organized in a multidimensional structure provide great possibilities for finding a great number of details with the use of different procedures of analytical processing. For example, aggregation, cross-tabulation, cropping, selection, extrication and combination of all types of dimensions, rotation, i.e. emphasizing one dimension while others are in the background, modelling, prognosis, graphical display, statistics of analyses, etc.

What characterizes OLAP structure is that dimensions are organized hierarchically. In that sense, a dimension represents a collection of one or more hierarchies inside the Cube which the user can easily understand and use as the basis for data analysis. For example, the dimension of time can accept that hierarchy in which data are showed as dates, hierarchically organized by respecting the Gregorian calendar or some other alternative hierarchy organized by certain defined periods. The abovementioned hierarchy represents a logical tree structure in which members are organized within the framework of some dimension and in a way that each member has one superior member and not one inferior member or more of them.

In other words, hierarchies are divided into levels according to details, so data are organized into higher and lower levels of details. In a hierarchy, a member is an item that represents one appearance of data or maybe more of them. That member can be unique or non-unique. For example, years 2013 and 2014 represent unique members at the annual level of the time dimension, while “February” represents a non-unique member of the hierarchy on a monthly level. The reason is that there can be more Februaries in the time dimension if it contains data for more years.

Multidimensional Expressions (MDX) represents a query language for OLAP data bases, such as SQL query language for relational data bases. Multidimensional Expressions query language provides a very rich and powerful syntax for the reading and manipulation of all multidimensional data, such as data inside OLAP Cubes. MDX language can be used for a detailed description of multidimensional queries, for defining the cube structure and changes in data. MDX is accepted by most of OLAP suppliers, and it has almost become a standard for OLAP systems. When analyzing OLAP structures by applying some of the mentioned user tools, analysts don't directly use the syntax of MDX language. Ultimate users use data which are visually presented by generating necessary reports of the wanted structure, and each of their activities is followed by automatic generating of queries by an MDX language for data acquisition.

## ***BUSINESS INTELLIGENCE IN EDUCATION***

It is evident that there are more approaches, i.e. methodologies for the development and design of business intelligence technologies. However, it is certain

that there is still no consensus when it comes to choosing the best methodology. That mostly depends on the characteristics of a specific business system.

There is a methodology known as the object-oriented development of the business intelligence systems which was derived from the analysis of standardized:

- Integration DEFinition Function Modeling, (IDEF0);
- Integration DEFinition Information Modeling, (IDEF1X);
- Unified Modeling Language(UML)
- Methods for building data warehouses

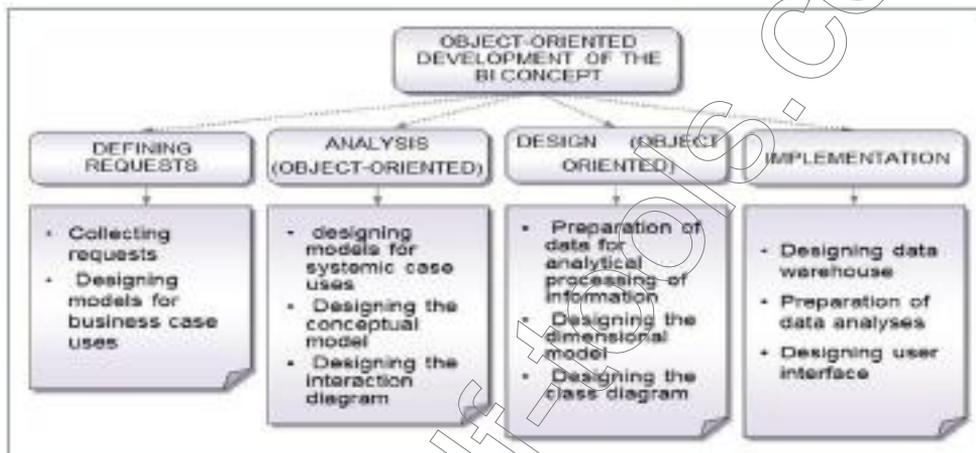


Figure 6: Structure of the methodology of object-oriented development of the business intelligence systems

Source: Authors

The use of the methodology of object-oriented development is a contribution to the development of the business intelligence systems because this concept integrates familiar standards, classical methods of functional (IDEF0) and developed information-based (IDEF1X) modelling with the access to object-oriented language (UML), (Stanojevic, Lj., et Veljovic, A, 2008).

In Figure 6, we showed the structure of the designed methodology of object-oriented development of business intelligence which was applied while writing this paper.

The methodology of object-oriented development consists of four steps:

- Defining requests;
- Object-oriented analysis;
- Object-oriented design and
- Implementation

## DEFINING THE BUSINESS TREE

Based on the defined boundary of the system, we can carry on by defining the business tree in situations when it is necessary to establish vertical (hierarchical) connections between business activities.

The business tree is defined by applying the method of solving problems top-down. It is a procedure in which we break down complex activities into several subordinate ones and then solve those simple subordinate jobs.

Defining the business tree, Figure 7.

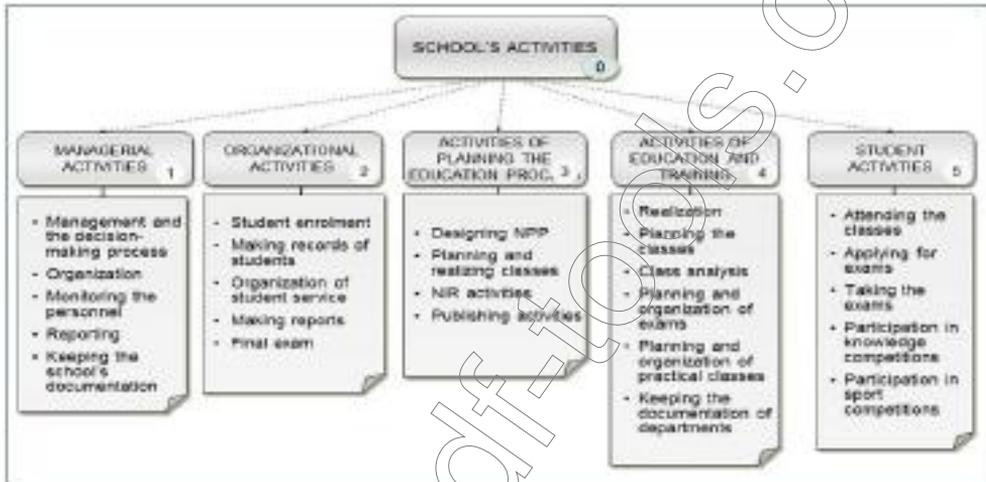


Figure 7: The School's business tree  
Source: Authors

Defining the diagram of decomposition activities of the School.

In Figure 8, we showed the decomposition diagram of the School's activities.

By respecting the accepted standard of the IDEF0 technology, the arrows we showed on the decomposition diagram represent the appropriate sets of documents which we define as necessary information. Each of these pieces of information are divided at the next appropriate level all the way to the level of basic activity where again we define specific documents of the business system.

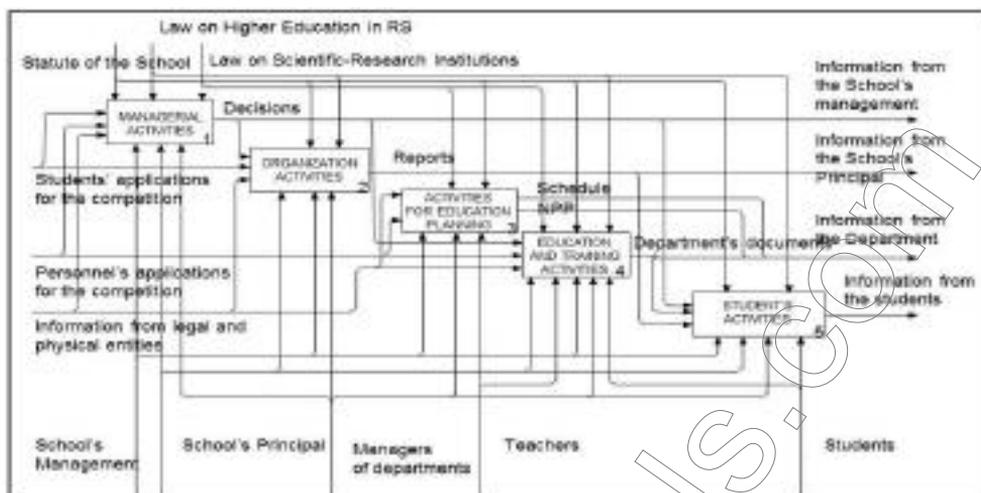


Figure 8: Decomposition diagram of the School's activities

Source: Authors

## **OLAP SYSTEM FOR THE ANALYSIS OF STUDENT SUCCESSFULNESS**

Multidimensional analysis or OLAP technology represents the analytical processing of data which is realized online, interactively. OLAP as a technology of business intelligence enables ultimate users, analysts and management to have an insight into the indicators of their business operations in a quick, interactive and consistent access to data through defined analyses.

This analysis enables them to, from different perspectives of business processes, observe the presented information obtained from operative sources of the business system by data transformation. Successful management of software development and its usage is in an immediate connection with constant assessments of costs and their reduction to minimal amount determined for the efficiency and quality of the software.

OLAP technology of the business intelligence by its consistent and interactive approach enables constant analysis and monitoring of students' success at higher education institutions. By applying this system, we can monitor and control many indicators of success in studying, such as:

- Students who were eligible to apply for the exam;
- Who were the students who applied to take the exam and in what exam period;
- Students who took the exam and in what exam period;
- Who were the students who passed the exam;
- Who were the students who failed and in what exam period etc...

Expressed in percentages according to these parameters as on the example took/passed, at the level of:

- Certain exam period;

- Appropriate semester or more semesters;
- One year or several chosen years;
- Individually for each course or more courses and semesters;
- Cumulatively, by departments or at the level of the entire faculty, university;
- For basic and master academic studies etc.

The quality of studying imposes the need for such reports and analyses at the end of each exam period, semester and year. Without the application of OLAP technology for gaining such reports, it would be necessary to create several dozens of complex queries over large data bases whose characteristic is in their non-flexibility, so even the slightest change in already defined requests for certain reports would cause the creation of new queries.

The additional problem is that data are most often physically stored in different locations and we need them to create those additional queries. The main reason for creating data warehouses is to integrate and extract all data, internal and external, as well as to create automated flows for transfer and integration of data into the warehouse.

In this paper, we showed how we can get the necessary reports with the help of OLAP Cube which, in this paper, was showed with possibilities of a multidimensional analysis over data. *Microsoft Excel*, one of the software tools, was used for reading data from the Cube. If we want to observe only three dimensions by which we can analyze data, the OLAP concept can be showed graphically as a three-dimensional value.

In Figure 9, we showed the report on the most important indicators concerning the number of students who passed a certain course and in a chosen semester. Courses were written by semesters. Figure 9 shows the courses and defined parameters for one semester.

Because of a better transparency, other semester by courses were not showed, but we can get such reports with a simple click on the desired value, semester. In this case, values refer to all students who took the exam and to all exam periods recorded in the OLAP system.

In practice, we often need to analyze the number of students who passed the exam and who enrolled at a certain year for the first time. We can achieve that by activating the *Student* dimension in the defined field for data filtration. If we want to get a report on only some exam periods, then we drag the *Exam period* dimension into the filtration field and choose what period we want.

If we include the *Group* dimension into the report columns, we get a report which shows us how many students passed each course and in each semester, while if we opt for different parameters, when it comes to *Year* and *Exam period* dimensions, we can get different reports for one year or more years or more exam periods. We can conclude from this that it is possible to create a large number of reports which differ in structure as well as in value parameters, and it is not necessary to have some special knowledge in the field of IT technologies.

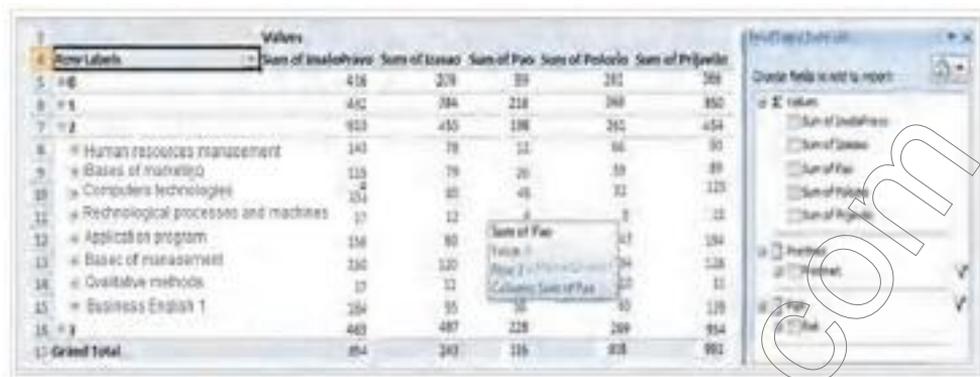


Figure 9: Report on how many students passed the exam according to semesters and courses in one year  
 Source: Authors

One of the great advantages of *Microsoft Excel*, a tool for creating necessary reports from the OLAP Cube, is that it can show the wanted report in the format appropriate for presentation and it enables further formatting of data presentations as well as the necessary calculations of the derived values based on the given data obtained in the report.

We showed some of the pivot tables for the analysis of exams from the courses in first, second and third year of studies, which were created for the purposes of this paper.

In Figure 10, we showed a pivot table which shows average grade from the exam by years of studies for the following course – Computer technologies, Applicative programs first year; Communication technologies, Information systems second year and Internet business third year.

Table 1: Pivot table for showing average grades for the chosen courses

| Year                                                        | (All) |      |      |      |      |
|-------------------------------------------------------------|-------|------|------|------|------|
| Exam term                                                   | (All) |      |      |      |      |
| Student                                                     | (All) |      |      |      |      |
| Courses and average grades according to the year of studies |       | 2012 | 2013 | 2014 | 2015 |
| Computer technologies - (Komp. The)                         |       | 7.52 | 7.63 | 7.72 | 8.07 |
| Applicative programs – (Apl. prog)                          |       | 7.12 | 7.37 | 7.41 | 7.75 |
| Communication technologies - (Komu. the)                    |       | 6.89 | 7.34 | 7.68 | 7.54 |
| Information systems - (Infor. sis.)                         |       | 7.06 | 7.14 | 7.36 | 7.54 |
| Internet business - Inter. pols.                            |       | 7.11 | 7.34 | 7.48 | 7.53 |

Source: Authors

In Figure 10, we showed a graphical display of data from the pivot table, Table 1

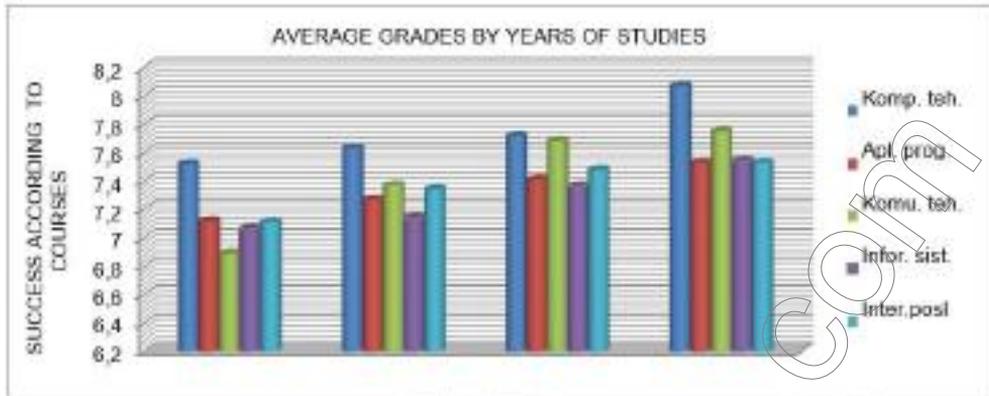


Figure 10: Average grades for the chosen courses – graphic display  
Source: Authors

With the help of OLAP Cube technology it is possible to create a large number of reports which differ in structure, as well as in value parameters, without a special knowledge in the field of IT. The result of this paper is a developed business intelligence concept which contains concepts, Data Warehouse base, OLAP Cubes and the appropriate pivot tables for the analysis of data the user wants. The OLAP Cube technology and pivot tables enable the analysis of all exam periods according to more dimensions and different levels of thoroughness depending on the specific need of analysis in the process of making decisions.

## CONCLUSION

Since knowledge is considered the most important business resource in the new modern economy, business activities of organizations are becoming more dependent on the concept of business intelligence as a process for collecting significant internal and external data, their transformation into information an information into a useful level of knowledge necessary to the management when making business decisions. Business intelligence tools don't represent finished solutions that are as packages applied automatically in each organization and its environment, but rather that they are individually adjusted to each business organization and its business needs.

Today, business intelligence is considered a significant and special discipline that includes elements of strategies, managerial accounting, business analyses, marketing and information technologies. Among the most important components of the business intelligence infrastructure are: data warehouse, data mining or tools for data mining, OLAP tools, etc. Organizations that are applying the business intelligence concept in their business activities are establishing better control of business operations than those companies which are not using its advantages, they have better possibilities when making good-quality business decisions and like that they are creating greater competitive advantage and new forms of income.

In today's time in business world, the support of IT is more significant. Business information systems are creating possibilities for the business world which were, until recently, unimaginable, and it that way they are giving great advantage in market competitions to all participant who are willing and capable of using modern possibilities of information and communication technologies in all business processes.

In that market competition and in the fight for survival on the global market, organizations are using different techniques, methods and tools so as to achieve competitive advantage. One of the most tools is the concept of business intelligence which covers processes of collecting available internal and external resources and their transformation into good-quality information which help managers when making important business decisions.

The only way to successfully implement business intelligence tools in one organization is if we create clear vision about what we want and how we want to develop it. Creators of the project have to know business processes that will be included in the development of the project. It is necessary to ensure enough time for that and of course enough financial resources and primarily complete support of the top management.

It has been proved that the essence of successful managerial process is in good-quality monitoring of business operations, successful analyses of problems, quick decision-making process and in the achievement of common business objectives. In that sense, business intelligence systems affect the very essence of things and very quickly take over the primacy of being best technologies for successful realization and improvement of these business processes. Business intelligence systems are one of the best ways to gain competitive advantage because they provide the possibility of making good and fast business decisions, faster than the competition.

Business intelligence system is primarily intended for the top management which makes crucial decisions in the organization. With the help of business intelligence technologies, management of one organization finds the answers to most important questions in business and I a quick and efficient way which shortens the time for carrying out necessary analyses with significantly reduced costs. Users of these technologies are not able to pay more attention to analyzing data because now there is no need for long preparation procedures and writing of reports. In that way, they are significantly increasing the productivity and efficiency of users. Of course, the real system would have a lot more data, facts and dimensions than the pivot project represented in this paper.

In today's world where speed and quality in making efficient business decisions are of special, essential importance, business intelligence technologies represent one of the basic needs of contemporary business.

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## **IMPROVING BUSINESS BY APPLYING BIG DATA TECHNOLOGIES AND BUSINESS INTELLIGENCE**

Zorica Medic<sup>19</sup>

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### **ABSTRACT**

*The purpose of this paper is to point out to the role of Big Data concept in the improvement of the decision-making process, which is not primarily caused by the size of the data, but also by their diversity and structure, which enables the making of decisions which are based on knowledge hidden in unstructured and structured data. In this paper, we tried to clarify the way in which Big Data technologies enable the analysis of completely new types and sources of data, which have new characteristics (structure, type, generating speed), but also the essential application of knowledge, skills and ways in which data are gathered, processed, analyzed and transformed into information and decisions with the aim to build competitive advantage on their basis. Topic of this paper is the application of the Big Data concept and systems of business intelligence which will enable organizations, which are in the process of building analytical abilities in the digital era, the collection and analysis of data from web environment and the making of decisions based on knowledge, with the aim to improve business. Bearing in mind the area and objective of this research, the methods that will be used in this research are: inductive and deductive method, as well as basic logical method which, during research, enables us to draw certain conclusions about the research topic, and comparative method, in the process of mutual comparison of gaining information by the Big Data concept and processing them by using business intelligence technologies. This paper pays special attention to the advantages of applying Big Data technologies and business intelligence in education, which can contribute to the increase of quality offered in higher education. In the aim of forming a general Figure about students, information were gathered from different sources and for the sake of illustration, in this paper we shall analyze data from the social network – Facebook.*

**Key words:** Big Data, Unstructured Data, Business Intelligence, Big Data Experts

**JEL Classifications:** C80, I21

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## **INTRODUCTION**

For the past few years, fields of information technologies have been more than dynamic. Applications and services are moving towards the global network, the processing of transaction data is expanding with the processing of interactive data from social networks such as: Twitter, Facebook, LinkedIn, and all that is followed by the shift of “data acquisition” to applications and information from desktop computers to mobile communication channels. Global information services based on software are suppressing other types of informing. Generally speaking, it can be expected that the importance of software will continue to grow in the future (Zivadinovic, J., et al, 2015, pp. 51). Various forms of mobile communication devices have been increasingly used for accessing information systems, and not only for establishing communication. Computer paradigm has moved to mobile devices, today anybody can create an application, hence we now have an explosion of applications and information. In the last three years, human society has created and saved more information than in the entire history before that (Zikopoulos, P.C., et al, 2012).

The Big Data concept represents one of the most topical concepts in the field of information technologies. Big Data implies large quantities of data which refer to terabytes (TB) or petabytes (PB). Data are coming from different sources, especially current social networks, Figures, sensors, logs, videos and many other recordings. Aside from the data from the primary business activity and organization’s data bases, here we have numerous data from external sources and which don’t have to be directly related to the processes occurring inside an organization. Data can be structured and unstructured.

Considering the abovementioned, Big Data can be defined as any type of data source which has at least the three following characteristics:

- Extremely large quantities of data;
- Extremely high data rate;
- Extremely wide data diversity;

Managing and analyzing data has always represented the greatest challenge to all organizations in all business fields. Focus of investments in the future shall be on the business areas which are based on knowledge and which spend little energy (Medic, Z., Zivadinovic, J., 2014, pp. 118-140). Companies fought a long battle to find a pragmatic approach to collect information about their products, clients and services.

Talking about problems with data, they are not limited only to the field of business systems. For example, organizations that deal with research and development have most often had problems to get enough computer power in order to launch sophisticated models or process Figures and other sources of scientific data. Some data are structured and, as such, stored in data bases, while other data, including documents, Figures and videos, are unstructured. Organizations are now interested in new sources of data which can be generated by machines, like sensors for example. Other information sources are related to data generated by people, such as data from social media and clock-stream data from different websites. Aside from that,

availability and acceptance of new, more powerful mobile devices, with constant access to global network, will lead to new information sources.

Even though, we can manage and explore every data source independently, at the moment the greatest challenge for companies is finding a meaningful cross-section of all those different types of data. When you have so much information in so many various forms, it is impossible to think about managing data in a traditional way. Although we've always had large quantities of data, the difference is that today all that exists and it varies only in type and the way of processing. Organizations are today finding ways to use all the information more than ever before. Hence, we have to think differently about data management and that is a challenge, and also a chance, for big data.

The importance of Big Data lies in the fact that it enables organizations to gather, store and process large quantities of data in great speed. Big Data is not an independent technology, but rather a combination of the last 40 years of technological evolution.

In this paper, we analyzed the Big Data concept and its influence, i.e. the application of this concept in the existing technologies of business intelligence for the making of business decisions.

## **DEFINITIONS**

The notion of what is today observed as Big Data is wide, and definitions which deal with this concept are vague and some of them even contradictory. The most acceptable definition of the Big Data concept came from the analysis of Meta Group (today's Gartner) which was realized in 2001 and according to that definition the Big Data concept includes information resources of great size, speed and diversity of data which demand new and innovative ways of processing and optimizing the way we gather information, which improves our insight into the content of data and the making of decisions (Doug, L. 2001).

Today, the most common definition is the one which mentions those 3V dimensions of "Big Data".

1. *Volume* – quantity (large quantities of data), where data volume goes up to petabytes. Many factors contribute to the increase of data range. Data based on the transaction of the data stored during years, such as unstructured data from social networks, increase in the size of sensors and "machine-to machine" data which are being collected. In the past, we had a problem with storing data through their size, but with a decrease in warehousing costs, we got some new questions, e.g. how to determine relevant data within a large number of data and how to use analytics to create value from relevant data.
2. *Velocity* – i.e. speed in which new data are accumulated, data flow in an amazing speed and have to be processed in time (from similar data sources, RFID tags, sensors and smart metering, from previously archived data, from data which constantly come from different sources, i.e. streamed data), but also the speed in which it is expected that the data we got are available for

analysis, which lead to the need to carry out data dispersion in almost real time. It is a challenge for many companies to react quickly enough to data rate. Timely, fast and efficient processing of data represent a great challenge for even the greatest companies in the world. (Berman, J. J., 2013)

3. *Variety* – diversity (diverse data types). Nowadays, data come in different formats. Structured, numerical data in traditional data bases, photographs, documents, unstructured text, multimedia, information created from current business applications, e-mails, videos, audios, and data about shares and financial transactions, which are processed in the real time. Managing, merging and sorting out different types of data is something many companies are still struggling with. According to some estimates, 80% of data are not numerical, but it is still necessary to include them in the process of analysis and making of decisions related to them.

It is exactly the existence of all three characteristics that differs the notion Big Data from a lot of data, but that is also the reason why this type of data demands new methods concerning their formation, management and analysis.

Some authors are expanding the Big Data definition to one more dimension – 4V.

4. *Veracity* – validity (truthfulness of data, reliability and predictability), and some even to 6V, where they add dimension of *Viscosity* – effectiveness and *Value*, figure 1.

According to the topic being considered in this paper and as a conclusion to this list of different definitions, in this paper we shall use the following:

“Big Data is a concept which signifies placement and analysis of a large and complex structure of data by using a series of methods and techniques including, but not exclusively, technologies of NoSQL Map Reduce, and also mechanical learning” (Jonathan, S. et al, 2013).

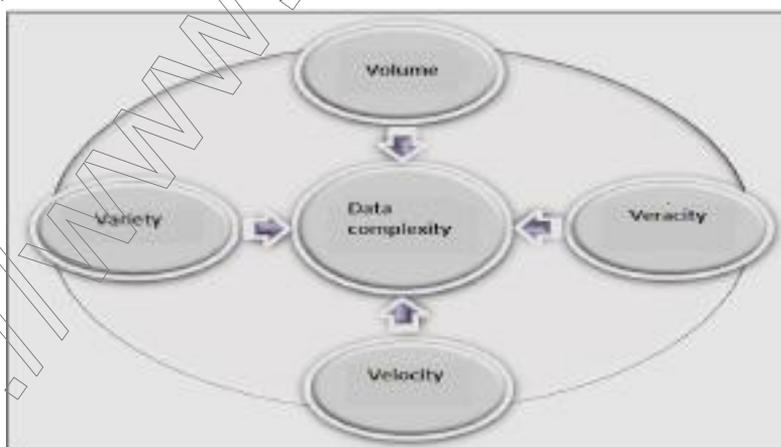


Figure 1: Big Data dimensions

Source: Authors

## **RESEARCH METHODS**

Theoretical part of this paper is based on browsing through modern, expert and scientific literature. It is about the literature which represents secondary information, i.e. the existing data from different sources. We shall use the following methods of scientific-research work which are adjusted according to the theoretical framework:

- *Inductive-deductive method* which refers to the way of making conclusions, it starts from general assumptions and ends with concrete individual conclusions, and making conclusions about general statements based on individual or specific facts,
- *Methods of analysis and synthesis* which are there to simplify complex notions, views and conclusions to more simple constituent parts, hence the studying of each part for itself but also in relation to other parts or elements,
- *Method of abstraction and concretization* is a cognitive procedure used to deliberately separate unimportant, and emphasize important elements and characteristics. Together with abstraction, the most common method is concretization – it is opposite to abstraction,
- *Method of proving and refuting*, used to determine truthfulness of certain knowledge by incorporating almost all methods, but also the opposite,
- *Descriptive method*, i.e. this procedure gives a simple description or the readings of indicators, hence the empirical confirmation of their connections and relations,
- *Comparative method* represent a procedure for forming personal opinions and conclusions, we used comparative method in the process of mutual comparison of gaining information by classical processing and processing with the use of Big Data and business intelligence.

In this paper, we shall use modeling, analytical-deductive and statistical method and methods of business intelligence.

## **PREVIOUS RESEARCHES**

Today, business systems are paying more and more attention to the quality of data, way of thinking and business activities. In other words, their decisions are guided by optimal data and information. Needs for data are growing significantly, companies are demanding more and more data of as good quality and diversity, with the aim to expand their analyses and gain a wider Figure about their customers.

One of the most important factors for enabling organizations to apply Big Data technologies are:

- creating analytical possibilities in organizations – establishing new work approach and
- multidisciplinary knowledge and skills of employees – considering that we are talking about the latest technologies, there is a great lack in personnel trained for working with these technologies, so companies are often forced to improvise.

Big Data represents new technologies, methods and tools for the processing of data, with new characteristics (structure, type, data rate) (Manyika, J., et al, 2011), but also the essential application of knowledge, skills and ways of data collection, their processing, analysis and transformation into information and decisions, with the ultimate goal to build competitive advantage based on them.

There is a question: Is the problem of Big Data a characteristic of one organization? 35% of interviewees said that Big Data technologies were a problem, and they said that one of the key reasons was company's capacity. However, 75% of interviewees see an opportunity in Big Data technologies, and 54% said that Big Data was a strategic goal of their organization (Philip, R. 2011).

Statistical data show that 40% of interviewees are using some forms of advanced analytics, 34% of interviewees are performing it by using Big Data, and 23% don't own any type of advanced analytics. When asked a question if they had enough good-quality people for using the data they had, 63% said no, which again emphasizes how important people actually are for the realization of modern business concept (Harlan Harris et al, 2013).

The Big Data paradigm promises that a larger portion of these "imperfect, complex and unstructured data will be transformed into valuable information". This prediction came from the fact that the ability to transform data into information has grown two to three times faster than the ability to store and transfer information (60-80% against 25-30% annually) (Hilbert et Lopez, 2012). This shows us that we need to fight with the fire of digital information flood, i.e. with the fire of digital calculations of data meaning.

### ***STRUCTURED AND UNSTRUCTURED DATA***

Big Data is a concept which we use to describe data whose range, diversity, structure and generating speed exceed the possibilities of today's data bases and applications for collecting, processing, managing and analyzing data. By applying the open innovation practice, organization are entering partnership relations with manufacturers, suppliers, competitors, educational institutions, consultants and other systems and collecting large quantities of data from different sources with a significantly faster data rate. Open innovation practice is applying techniques and technologies which own the possibility of integrating external and internal data sources, their processing, analysis and transformation into knowledge.

Big Data represents an era in which we will be able to quantify the world and understand it. At the beginning of this era we could say that we've got a new discipline. Even though at first glance this new discipline can be seen as redundant, we have to reconsider that idea by taking into account Dieboldov's (Dieboldov, F. X. 2013) warning that the comprehensiveness of Big Data as a discipline is much greater than the sum of its parts. This discipline opens up some new paths, new discoveries which we were not able to imagine until now.

When we are talking about the quantity of Big Data, we are talking about a new information-based paradigm (Birnhack, M, 2013). The difference between

(unstructured) Big Data and standard structured data was probably best described by Berman (Berman, J.J. 2013):

Objectives:

- Structured data – give an answer to a specific question with the objective established in advance,
- Big Data – have answers to various questions with adjustable objectives,

Locations:

- Structured data – mostly found inside one organization,
- Big Data – can be fragmented on different locations,

Structure and content of data:

- Structured data – structured data with a domain from one area of a unified form,
- Big Data – unstructured data (textual files, Figures, movies, sound recordings, etc), which can come from different domains with additional links to data from other sources,

Data preparation:

- Structured data – mostly prepared by their user,
- Big Data – prepared by many people because data come from many different sources while data users are rarely people who prepared them,

Lifecycle:

- Structured data – have a limited lifecycle – in average 7 years upon completing the project,
- Big Data – contain data without a limited lifecycle because most of them are integrated into new projects which are using Big Data,

Metering:

- Structured data – mostly metered by one protocol,
- Big Data – metered by different protocols – determining data quality in Big Data represents the most demanding work (when entering data into the system, depending on whether they are textual or numerical and depending on their length, between 2 and 30% of data are wrongly displayed),

Reproduction:

- Projects that use structured data can be easily reproduced;
- Projects that use Big Data can rarely be reproduced,

Financial investments:

- Finances invested into projects with structured data are relatively small,
- Unlike finances invested into Big Data projects which can even lead to bankruptcy,

Introspection:

- individual structured data can be identified by their location determined by the row and column inside a table,

- Big Data – procedure for identification is far more complex and it – at least in well-shaped Big Data, - resources, can be achieved only with the use of the introspective technique,

Analysis:

- structured data – analysis can be carried out over all data simultaneously,
- Big Data – analysis is carried out in stages – except in the parallel analysis which is carried out simultaneously on several computers, in a way that data are taken out, reviewed, reduced, normalized, transformed, visualized, interpreted and then reanalyzed with different methods.

An increase in the diversity of data from different sources, from social networks, smart phones, network devices, blogs, to sensors, as well as an increase in their generating speed and collection, enabled development of technologies and Big Data concept (Heisterberg, J. et Verma, A, 2014).

Companies which are successfully applying the Big Data concept for analytics and creation of competitive advantage have some common characteristics (Davenport, T. et Harris, J., 2007) and those are:

- analytics supports strategic abilities of companies,
- analytics is used in the entire organization,
- managers are dedicated to the application of analytics and
- companies are focused on the application of analytics so as to gain competitive advantage.

Companies which are applying Big Data technologies are trying to give answers to the following questions and challenges:

- How can we identify new sources of income?
- How can we control and reduce costs in the process of production, supply chain, supplies, distribution, marketing, sales and other supporting functions?
- How can we successfully manage risks from the operative and financial perspective through the entire chain of value?
- How can we win over new reliable customers and place new products which could bring new sources of profit?

By finding answers to these questions, organizations are striving to develop and create new abilities which will simultaneously enable flexibility, agility and adjustment to changes in environment. In one word, organization are in that way that changing almost all segments of their business through changes in their business philosophy and way of thinking.

### ***SOURCES AND CHARACTERISTICS OF BIG DATA***

Behind the concept of Big Data lie all data which one company or institution owns (figure 2). Large amounts of data still consist of structured sources (databases, recordings, tables), but more and more data are coming from unstructured sources (figure 3). Large increase in the amount of unstructured data

is expected because their sources are significantly increasing. It can be clearly seen in figure 2 that, besides the existing sources of data, we added the Big Data source. Data owned by one company are creating company's value.

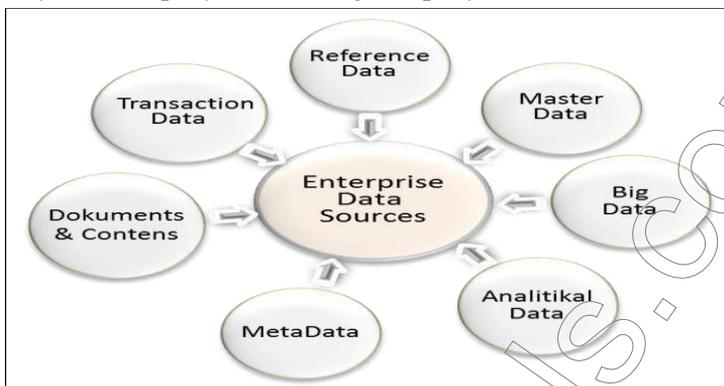


Figure 2: Data sources inside the company

Source: Authors

Value of those data is bigger if they are usable. Data will be used with the use of proper technologies. Companies based on services, such as Facebook collection of data generated by their users, make the company even more valuable. User's movements and their content are stored and then the analysis can be carried out to enable the offering of a good-quality service.

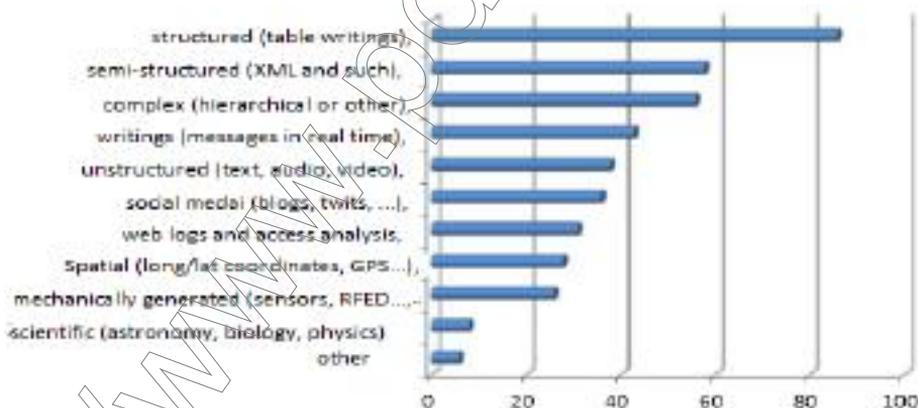


Figure 3: Data sources – structured data are still dominant, but sources of unstructured data are also significantly increasing

Source: Authors

The concept of Big Data refers to a large quantity of data generated by using products, services and applications. Large quantities of data are generated unknowingly by the users. In order to be able to use those data, it is necessary to store them and enable the analysis in some real time. Big Data analytics is one of the major imperatives in industries oriented towards the buyer, such as

telecommunication companies, banks, insurance companies, retail chains. Data from the Big Data concept have four important characteristics:

- large quantities of data,
- high data rate,
- data come from different sources and
- data are most often unstructured.

Sharing Big Data is of great importance for the development of science. In that process, it is good to use the possibility of hiding data about objects, so as to protect the privacy of the person representing those objects. Those data are still objective data which have great scientific value, and the results gained while researching, which would use de-identified data, would help all the people on this planet to great extent.

### **RISKS OF BIG DATA ANALYSIS**

We are still living and thinking in a world of causes and consequences. As a result of that, it is logical to expect some form of misuse. Except “attacks” on our privacy, Big Data can also be used as weapons for dehumanization of society which would disable free decision-making and freedom of choice, and all under a false vale of keeping that same society safe from possible committed criminal acts.

Berman describes several vividly named hypotheses on how society sees Big Data (Berman, J. J. 2013):

- *Gumshoe* or detective hypothesis – collecting information about people in order to carry out an investigation procedure by other private detectives, the police, but also by those eagerly interested in snooping and violating other people’s privacy.
- *The Big Brother hypothesis* – collecting information about all the members of society with the purpose of controlling them,
- *Borg’s hypothesis* – collecting information for the sake of learning everything about our population,
- *George Carlin hypothesis* – Big Data is a place in which we can place all our “things”,
- *Scavenger hunt* – Big Data represents the collection of everything, created with the aim to browse around for personal things and facts – the collection of everything about everything we would ever want to know,
- *Intellectual hypothesis* – collecting information with the aim to make generalized scientific conclusions,
- *Facebook hypothesis* – social archive that makes money (quite the opposite to intellectual hypothesis),
- *Nihilistic hypothesis* – Big Data doesn’t exist as a field which is possible to identify – it simply represents everything we’ve always done, but with a little more information.

Lerman warns us about the risks and injustice which the analyses of Big Data can bring upon billions of people, according to the data by *International*

*Telecommunications Union* we are talking about 61% of the entire population who are still not using the Internet. Ignoring their data can lead to a completely new form of discrimination. How will they be represented in “global” decisions which will be made based on Big Data? Who will take care of their needs? Who will protect them? This is not only about the protection of privacy, but also about the economic, political and social (in) equality (Lerman, J. 2013).

For those whose data are used in scientific purposes, an excerpt taken from the document published by the American National Science Foundation (2012) may serve as some kind of relief.

“Requests of the program / Basic techniques and technologies for the promotion of science and engineering of Big Data – Big Data’s objective is to promote the fundamental scientific and technological ways of managing, analyzing, visualizing and taking useful information from large, versatile, distributed and heterogeneous collections of data:

- in order to quicken the progress of scientific discoveries and innovations,
- in order to reach new research areas which otherwise wouldn’t be possible,
- in order to encourage the development of new data about analytical tools and algorithms,
- in order to enable an adjustable, accessible and sustainable transfer of infrastructure,
- in order to increase the understanding of human and social processes and interactions,
- and in order to promote economic growth and improve the health and quality of life.”

Newly found knowledge, tools, procedures and infrastructures will enable revolutionary discoveries and innovations in science, engineering, medicine, trade, education and state security – which will set the new base for the *American competitiveness* in the decades to come.

## ***BIG DATA TECHNOLOGIES***

All tools used for processing and acquiring large quantities of data are constituent parts of the Big Data technologies. In figure 4, Big Data technologies, we showed technologies which, with at least one of their parts, meet the standards of Big Data concept. Infrastructure contains technologies which have the possibility of storing large quantities of data and retrieval of those same data as well as technologies by which it is possible to perform the analysis of large quantities of data.

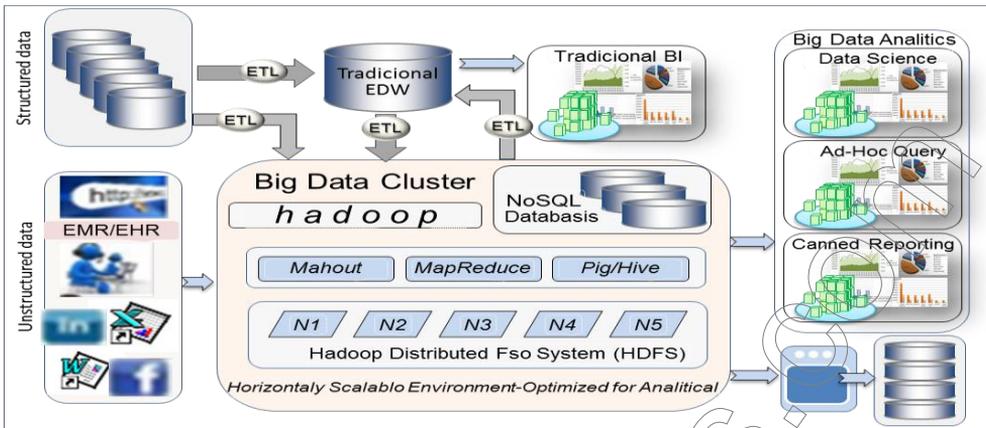


Figure 4: Big Data technologies  
Source: Authors

Technologies contain applications which are created so that the ultimate user could manage all Big Data processes. Process can be managed by an expert who is familiar with each technological category. Management over data becomes a problem for the ultimate user to whom we want to show the possibility of using big data. Special categories of the technology which were underlined are the open code technologies. The credit goes to them because they were the most important for the development of Big Data concept. Those technologies are free, but their implementation demands an expert.

It is necessary to explore each sub-category included in the Big Data technologies (Turck, M., 2012). It is necessary to single out one technology from each category which will be used in the Big Data comprehensive solution.

### **BIG DATA HADOOP TECHNOLOGY**

Hadoop is a framework of an open code for distributed processing and storing of a large quantity of data by using a simple program model MapReduce. Hadoop consists of several modules:

- *Hadoop Common* – contains libraries necessary to access Hadoop modules,
- *Hadoop Distributed File System (HDFS)* – distributed system of files for storing data. It has a large aggregated throughput through clusters.
- *Hadoop MapReduce* – it starts up the completed model for processing large quantities of data.

Hadoop system consists of several nodes. Hadoop system is made as a distributed system which means it is found on several servers. Nodes are servers. It can be used in the local way of working with only one server. During the installation, we determine what the main server is, i.e. master node and slave server. Master nodes are there to supervise, while the slave node is there to process and store data.

There is a series of tools which were created based on Hadoop, and which use Hadoop for processing or storing data. Those tools are said to create Hadoop eco system. All those tools are either using the HDFS module for storing data or MapReduce module for processing by using MapReduce paradigms.

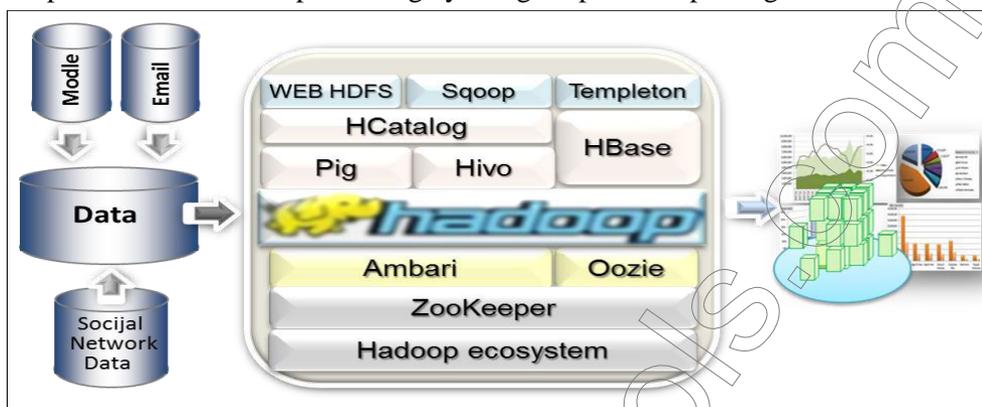


Figure 5: Hadoop eco system for processing or storing data

Source: Authors

If we would install those tools independently, we would come to a problem concerning the compatibility of versions of certain tools. That is why there are distributions of Hadoop systems in which all services from the Hadoop ecosystem are connected. All tools built around the Hadoop are of an open code, like the Hadoop itself. Cloudera distribution has Cloudera manager with a web interface which enables the supervision and configuration of Hadoop.

Zookeeper is a service for the coordination of distributed applications. Zookeeper enables us to always see the same no matter what the server is. It is responsible for preventing system failure. If some work cannot be finished on some server, that job is transferred to another server, it coordinates servers which are attached to it as clients. Zookeeper has nodes that all services owning data can access to.

Hadoop ecosystem is a collection of tools, i.e. projects which can work on the Hadoop platform. It represents additional tools used to speed up data analysis, shorten the time of code encryption in Java and are more intuitive for solving the given problem.

Hadoop is installed on the Linux operative system. Cloudera's distribution has a recommendation of system installation on the CentOS distribution of the Linux operative system.

## **BIG DATA EXPERTS**

It was expected that the beginning of new era, the starting of new revolution and creation of new discipline would open a place for the new expert – scientist, data professional, - the most wanted occupation of the 21<sup>st</sup> century (Simon, P., 2013). According to the report by *McKinsei & Company* from 2011 (Manyika, J. et

al, 2011) by the year 2018 over a million and a half data experts will be wanted on the American market only.

(Berman, J. J., 2013), believes that most of those scientists will be experts who will prepare data for different analysis. His division of data professionals would have two groups of experts:

1. Professions in charge of making Big Data resources,
  - Big Data designers,
  - Experts for Big Data indexing,
  - Metadata experts,
  - Experts in certain fields,
  - Experts for connecting data from various sources,
  - Experts for the classification of data,
  - Programmers,
  - Data conservationists and experts for inherited data,
  - Data managers and
  - Managers of databases,
  - Networks experts and
  - Protection experts.

To all these experts from the field of IT, and who are in charge of making Big Data resources, the greatest challenge they could have is to successfully cooperate with all team members who are working on this job.

2. Professions that will use Big Data resources;
  - Data analysts,
  - Experts for solving generalized problems,
  - People with appropriate program skills,
  - Experts in combinatorics,
  - Experts for data reduction,
  - Data visualizers

These experts (Berman, J. J, 2013) are the most important personnel, who are yet to be trained at universities, and who will solve the problems of Big Data. What characterizes them is their interest in more different fields, they ask questions and are talented to see significant relations where others see nothing. They understand in what ways data from different sources can be put into relation, but also how problems from one area can be generalized into other fields and solved by a combination of data and methods from more areas.

They will have skills by which they will be able to discover all secrets that lie inside the Big Data sources, they will be advisers in institutions and corporations for how to use data they own, but they will also be the ones who will have insight in the possibilities of Big Data sources, and if the answers the users ask for are even possible to answer.

Big Data experts can very much help us in the creation of programs for education of those professions so as not to be faced with such a large deficit predicted for America. Many universities are already offering programs for

education of Big Data scientists (Simon Fraser University in Canada, American universities, Carnegie Mellon University, Columbia University, University California, Stanford University and Villanova University in Spain), and there are online free courses offered by the Big Data University.

Teams of people are involved on the projects concerning Big Data and they are all performing jobs that hadn't existed years before. The link that connects all these new occupations is the Big Data manager.

### ***BUSINESS INTELLIGENCE TOOLS AS PART OF BIG DATA TECHNOLOGY***

Data warehouses as an integral part of the business intelligence system are databases organized in such a way that, through business intelligence tools, they can enable an insight into business activities and enable the making of business decisions based on facts and free from any biased impressions. It is necessary to adapt these systems to changes brought upon by Big Data. To make business decisions some sort of upgrade of the existing business intelligence system is necessary so as to enable the acquisition of new types of data with new data sources and significantly larger quantities of data which are not structured or are semi-structured.

These changes introduced by Big Data technologies should move borders in business and competitiveness by adding new value to products and services and the information it produces, and on which decisions are based, are made in real time. Depending on the business model and place where decisions are made it is necessary to acquire and match the data that are coming in real time with historical data from data warehouses and present those information in a way that business demands.

In researching, statistical data show that around 13% of companies are using predictive analysis, 75% of the existing warehouses cannot support the speed and complexity of data acquisition and 86% of companies cannot display the needed information, right business values in the right time (IDC, 2013). These important disadvantages, which got to the surface with the functioning of business intelligence technologies, can be solved to great extent by the Big Data concept (Figure 6).

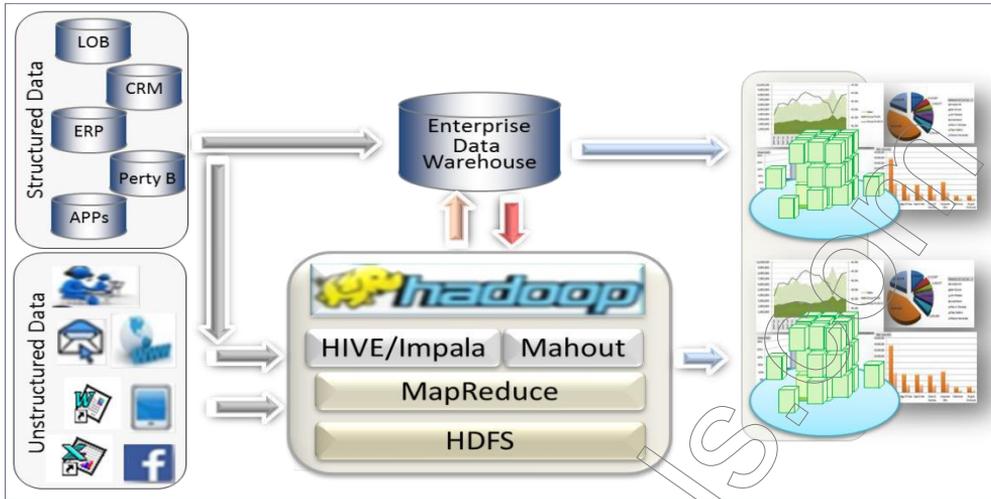


Figure 6: Business intelligence system as a part of Big Data technology

Source: Authors

Business intelligence systems are in constant process of development and improvement which is an opportunity to integrate different technological improvement in them, so the expansion to technologies and concept of Big Data is a natural process of the development of business intelligence systems. There are two areas in the business intelligence system in which Big Data concept could lead to a significant improvement, i.e. the improvement of this technology's performances, Hadoop and vertical database in the preparation field, the so-called scenography area, hence on the presentational level alongside memory bases, where the visualization and analytical applications are adjusted to the ultimate user.

Architecture based on the Apache Hadoop project of an open code enables the processing of a large quantity of data on server's clusters. It has even become recognizable as a basis for next generations of business intelligence systems. For now, what is mostly used is their functionality which is reflected in the possibilities of fast processing of large quantities of unstructured data, intended for filling up the existing data warehouses as some sort of ETL (extraction, transformation, loading) process.

This technology, with its ability to place large amount of data and its processing speed, enables analyses in prices and speeds which couldn't have been accomplished before, which was completely senseless for their processing. There is one more important advantage and that is that technologies of an open code can significantly cut costs regarding licensing, development and maintenance.

It has always been a problem to make good assessment of the retrieval of funds invested when it comes to the development of projects concerning business intelligence systems. The situation is the same for the projects concerning their expansion with the Big Data concept. We don't know if that is the reason why these projects are not moving in speed which would in some way be in proportion with the amounts of information related to Big Data technologies. We have an

impression that this concept was accepted much earlier. Big Data have existed before, but only with the creation of technological conditions and by recognizing values, which are brought by business intelligence systems from big data, did the Big Data concept become applicable.

### ***ANALYSIS OF DATA FROM SOCIAL NETWORKS FOR THE NEEDS OF HIGHER-EDUCATION INSTITUTIONS***

In today's business conditions, education represents a customer area and the most important factor of success is the satisfaction of students in education institutions. Development of information-communication technologies has most certainly been a cause for placing learning on a new and better level. ICT enabled education institutions to reform the existing relations with students by revolving them around experience, interests and expectations of each student. Student satisfaction comes from a harmonized objective to go towards development and sustaining good relations. In the aim of forming a unique Figure about students, it is necessary to collect information from different sources and after that to store them into a unique data base. For the sake of illustration, in this paper we shall analyze data from social media, specifically Facebook.

Social media can be defined as a type of web page by which it is easy to make contact between modern Internet technologies and systems of interaction (DeAndrea, E. et al, 2012). It is necessary to develop tools and methods which enable an integration of different components for:

- *Data collecting* – data that will be used for the analysis of performances and comparison of education institutions have to be objective and of good-quality.
- *Data warehousing* – it is necessary to store the collected data on servers which must meet certain standards when it comes to safety, access speed, redundancy and other parameters. It is necessary to develop infrastructure and procedures for the storing of data collected in real time, with a regular backup and speed which won't be unfavorable for the accessibility of the existing servers.
- *Data analysis* → Key step in the transformation of collected data and information into knowledge is the statistical processing and thorough analysis by using new models which rely on predictive analytics. It is necessary to consolidate, sort out and structure the collected data. Then we can start the process of finding useful patterns which can contribute to the quantification of student and user profiles. With the use of algorithms of mechanical learning and business intelligence, we can get more precise conclusions about business activities with the aim to enhance client and user satisfaction, hence the profit.

## FACEBOOK ANALYSIS – EVALUATION OF OPINIONS

At its very beginning, Facebook was used only by students from Harvard universities who in that way communicated and exchanged information. Later on, other universities, high schools and big companies have joined this network.

Facebook is one of the most popular social networks even in Serbia where it has 4.5 million users, according to the data from “Internetworldstats.com” for 2014. There, we can find and recognize all Big Data as well as problems because there is a severe increase in shared statuses, comments, Figures, etc.

In this paper, we are interested in the textual part of the evaluation of people’s opinions – persons on Facebook (Semantical analysis). Semantical analysis is a computer science which studies people’s opinions, attitudes, emotions about certain entities, individuals, events, topics.

In this paper, educational institution will be considered information user. User can enter PageID in the application or the name of the page from which he wishes to download data and make semantical analysis over those data. We can see at the top of the table that the unique identification is in the first column and its role is differentiation of opinions. The most important part is the text column which represents textual content from Facebook. That content can be a comment, post or something completely else. Their type can be found in column ‘type’. Column PageName tells us which page we downloaded data from, which represents an additional value for this analysis as well as the number of “likes” in the last column. Columns PageID, PostID, UserID help us when detecting who commented, where they commented and thanks to the column ‘time’ when they commented.

*Table 1: Table after entering data from Facebook*

| Key | Text                | Page ID | PageName        | Post ID | Time | Type    | User ID | Likes |
|-----|---------------------|---------|-----------------|---------|------|---------|---------|-------|
| x   | Likedandshared      | x       | PEP             | x       | x    | Comment | x       | 15    |
| x   | I like the teachers | x       | UN Singidunum   | x       | x    | Comment | x       | 5     |
| x   | Justvoted           | x       | UN Metropolitan | x       | x    | Comment | x       | 1     |
| x   | I like              | x       | UN Megatrend    | x       | x    | Comment | x       | 7     |

*Sources: Authors*

The table above represents an example created for the purposes of this paper so as to understand data which can be found in Hbase (Hadoop’s distributed, scalable database) and to get acquainted with data used for the purposes of analysis which means they are not real numbers and values, but the column names are real. Facebook gives us an opportunity to analyze large quantities of data, but great responsibility comes with that concerning the privacy of Facebook users.

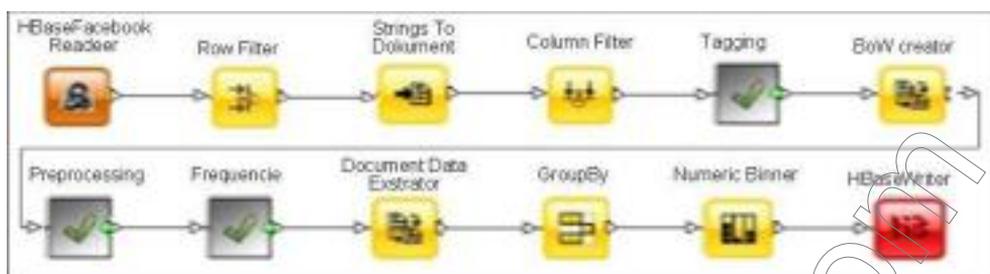


Figure 7: Facebook Model

Source: Authors

Model is showed in Figure 7. The steps are almost identical in this model and in the model for, let's say, Twitter analysis, even though when you look closer you can see the differences. There are not many of these differences because it is about the text and it is less important from what page it comes.

In the tagging part you can connect with dictionaries made exclusively for each domain (VS PEP, UN Singidunum, etc).

### ***BENEFITS FROM ANALYSIS IN THE DECISION-MAKING PROCESS***

This step comes after analyzing the data. You get answers to the question of how users of information that came from semantic model are using those information and reacting to them. It is very important to each educational institution to find as many good-quality data about their students and potential students. When we say good-quality data, we primarily mean data which help us understand students' behavior so that we could use these behavior patterns and react in good time. This can point out to the disadvantages concerning certain services in offer, to get opinions from people about beta versions of services before they reach the market or simply to be able to offer certain discount to potential students based on what we discovered in those data. This type of information also helps potential students make the right decision about what educational institution is good for their future education. On the other side, educational institutions can see their ranking so that they can compare with competition and in that way have an insight into concrete data which they are interested in. It is good to have information about what students say about the quality of classes, teaching personnel, facilities, and possibility of employment after studies, and they can also see how many negative twits about their institution have been generated as well as in what time interval. This gives the possibility of having insight into good-quality data from various sources and when a good semantical model has been created, possibilities are infinite.

## **CONCLUSION**

Changes brought upon by Big Data technologies should move borders in business and competitiveness by adding new value to products and services. Fighting with the competition demands more innovative ways of establishing advantage on the market. Creation of long-term business policy with the possibility of adjusting to unforeseen events demands a large quantity of good-quality information about the situation going on in business system, on the market, trends of state politics, international tendencies etc. It is an enormous amount of different and unstructured, semi-structured and structured data. Big Data concept uses those thorough and aggregated data to single them out and transform them into information in the form most suitable for the user and available in real time.

Big Data concept gives a unique Figure of business reality and ensures the simplicity of the entirety of business systems, and coverage of external and internal data is the basis for defining business strategy. Big Data concept enhances company's business activities by enriching business processes and their participants with information necessary for making business decisions. It forces us to make precise definitions and descriptions of business processes, and as a warehouse of information and knowledge it enables quick recognition of business processes, making choices, what is necessary to give up, introduce or improve.

It is evident that Big Data technologies will show their large influence on organization's operations in the future. In this paper, we pointed out to the fact that organizations that are applying Big Data technologies have to build analytical abilities which, in addition to investing in technologies for working with large quantities of versatile data and necessary infrastructure, demand the introduction of new work duties with employees who own multidisciplinary knowledge and skills.

We also pointed out to the fact that we can observe Big Data technologies as a new element which can be implemented in different technologies of analytical information systems. If we observe it in the context of making decisions, Big Data is an additional constituent in the system of business intelligence which can potentially bring new knowledge followed by new value. Business intelligence is a concept which improves the mechanism of making business decisions and in what way we shall collect and process data, whether this kind or that kind of ETL (extraction, transformation, loading) was carried out is less important. Analogous to data warehouse which is not a business intelligence system, rather its integral part, Big Data and everything else which enhance analytical informing, have become a part of the business intelligence system.

Parts of the data warehousing system are not only used in the business intelligence system. Like that, Big Data concept is not necessarily related to business intelligence, but if it is the essential approach in the making of business decisions, then that is the best possible orientation, including Big Data technologies in the business intelligence system.

It can be concluded that Big Data cannot be a replacement for business intelligence systems and data warehousing, but it can most certainly bring new value through the existing systems. How much knowledge will be withdrawn and

how we decide whether to apply it or not, Big Data is still in the domain of sheer theory, since practice is at its beginning.

It is necessary to integrate the key concepts of big data technologies in the foundation of every organization and they have to gain the ability to use the application of Big Data concept to create new value from data available in our environment. Organizational abilities represent the combination of abilities and skills of employees, technology and of processes which make a company unique. They tell us what some company is recognizable for, what that company performs excellently and in what way it organizes its activities so as to create value. Key characteristics of organizational abilities are: they represent a unique and integrated combination of skills and abilities of human resources and realization of processes which cannot be easily copied, they are created in the framework of a given organization and they stay in it and represent the key factor which defers one organization from other and it represents its crucial basis for its competitive advantage.

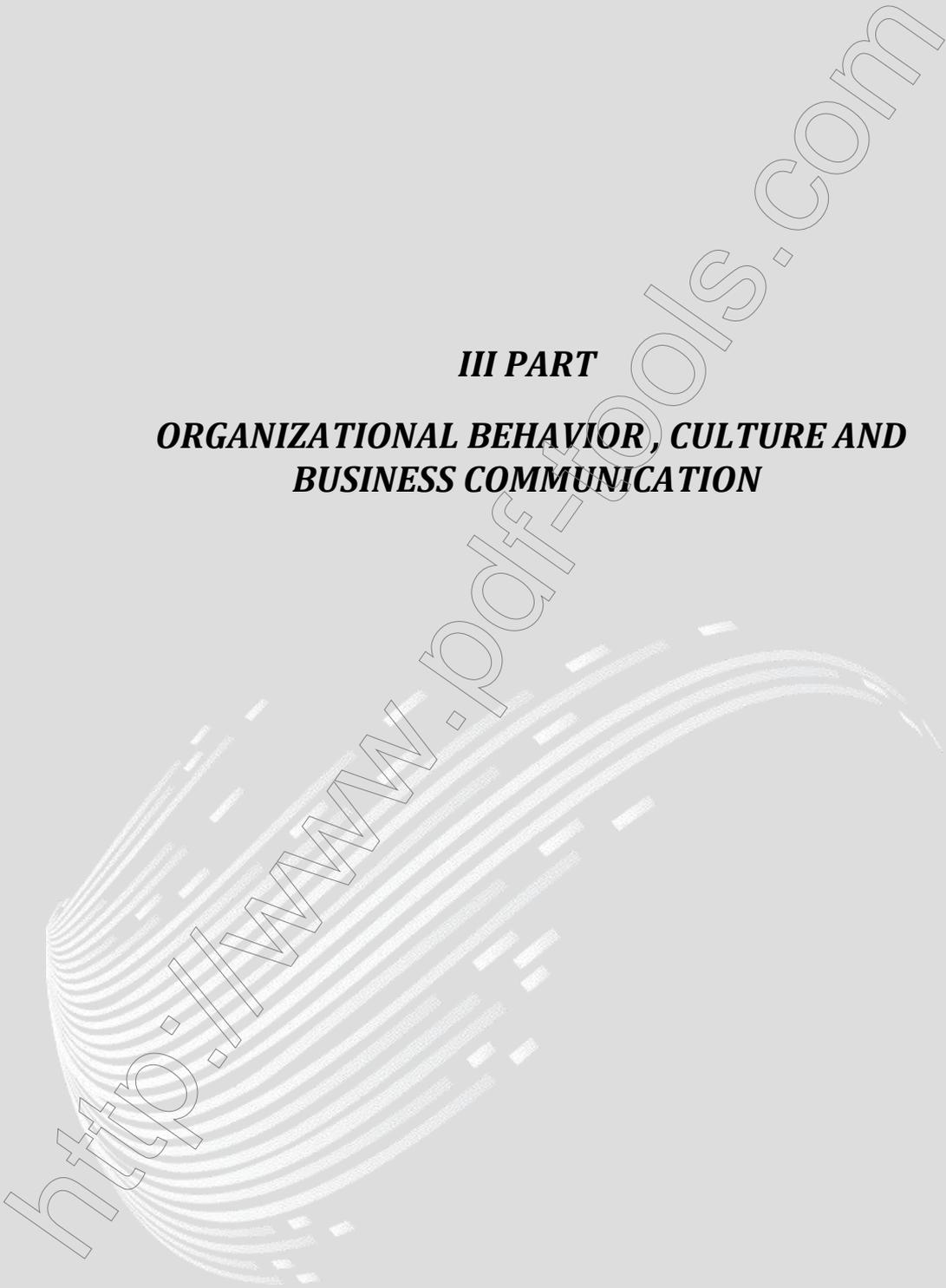
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**III PART**

**ORGANIZATIONAL BEHAVIOR, CULTURE AND  
BUSINESS COMMUNICATION**



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# **MODELING ENTREPRENEURIAL EDUCATION AND ENTREPRENEURIAL SKILLS AS ANTECEDENTS OF INTENTION TOWARDS ENTREPRENEURIAL BEHAVIOUR IN SINGLE MOTHERS: A PLS-SEM APPROACH**

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Mirjana Radovic-Markovic<sup>22</sup>

## **ABSTRACT**

Although entrepreneurial behaviour is considered a key element for economic development; yet very less is known about the determinants of factors leading towards entrepreneurial intention and behaviour in female entrepreneurs, specifically single mothers. In order to bridge this gap, this study is aimed to investigate the role of entrepreneurial education and entrepreneurial skills for determining intention towards entrepreneurial behaviour in single mothers. Developing on the base of theory of planned behaviour this study investigates the relationship between entrepreneurial education, entrepreneurial skills and entrepreneurial intention along with existing constructs of theory of planned behaviour (i.e. attitude, subjective norms and perceived behavioural control). Convenience sampling method was used for collecting data from 550 single mothers in two selected states of Malaysia, i.e. Sabah and Sarawak. In order to assess the proposed model, this study employed variance based partial least square, structural equation modeling (PLS-SEM) approach for analyzing responses from single mothers, who completed a questionnaire designed on the base of Liñán and Chen's (2009) and Farooq's (2016) questionnaire.

Findings of this study have validated the proposed model, which have an explanatory power of 64.8%. Moreover, findings revealed that entrepreneurial education and entrepreneurial skills have a significant impact on entrepreneurial intention of single mothers. However, an un-anticipated and non-significant relation between subjective norms and entrepreneurial intention was also found. Findings of this study are expected to have substantial implications for policy makers, future researchers and academicians. Outcomes of this study can help to better understand the cognitive phenomenon of female entrepreneurs; specifically single mothers' attitude towards entrepreneurship. Hence, these findings are a

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*unique step forward in entrepreneurship body of knowledge and offer new insights towards better understanding of the determinants of entrepreneurial intention in single mothers.*

**Key words:** *Entrepreneurial Education, Entrepreneurial Skills, Entrepreneurial Intention, PLS-SEM, Theory of Planned Behaviour*

**JEL Classification:** *L26, M13, J24*

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## **INTRODUCTION**

In recent past entrepreneurship have emerged as an imperative element for economic growth and development (Farooq, 2016). Despite a high growth in the demand of entrepreneurship education and huge number of resources devoted to develop entrepreneurs; literature is unable to provide empirical evidence to prove that entrepreneurial education and entrepreneurial skills actually help to develop and create new successful entrepreneurs. Although literature review reveals a number of previous studies (Achemfuor, 2014; Athayde, 2009; Bjørnskov and Foss, 2008; Farooq, 2016; Farooq et al., 2016; Fayolle et al., 2006; Gine and Mansuri, 2009) which attempted to examine the outcomes of entrepreneurial education at different level from high school courses to university level courses. It is interesting to note that, review of previous literature reveals that there is no consistency in the findings of these studies. Given the fact, that majority of studies on entrepreneurship education (e.g. Achemfuor, 2014; Athayde, 2009; Bjørnskov and Foss, 2008; Fayolle et al., 2006; Martin et al., 2013; Mroz and Savage, 2006; Vinogradov et al., 2013; Zhao, 2012) reported a positive correlation between entrepreneurial education and entrepreneurial outcomes. On the other hand there are number of studies (e.g. Gine and Mansuri, 2009; Oosterbeek et al., 2010; Shane, 2009; Von Graevenitz et al., 2010) which have reported negative outcomes of entrepreneurial education. Moreover it is pertinent to mention that some studies (e.g. Lee et al., 2005; Souitaris et al., 2007) also reported insignificant effect of entrepreneurial education. However, extent literature on entrepreneurial education reported and confirmed with evidence that entrepreneurship can be taught (Farooq, 2016; Henry et al., 2005). Various scholars (Farooq et al., 2009; e.g. Fretschner and Weber, 2013; Gorman et al., 1997; Katz, 2003; Pittaway and Cope, 2007) also confirmed that entrepreneurial education is positively and significantly related to the outcomes of entrepreneurial traits in students. In further review of literature Farooq (2016) also endorsed this fact, but pointed out that entrepreneurial education assessment literature suffers with notable limitations, wide range of hampers and lack of methodological rigour, which makes it difficult to reach at any definite conclusion.

A detailed meta-analysis on entrepreneurial education by Martin et al. (2013) endorsed that a very little correlation is found when the findings of previous studies are analyzed. Moreover Martin et al. (2013) claim that caution must be taken while interpreting the findings of previous studies, because they suffer with many weaknesses. Such as a very common weakness is inconsistent variable measures, absence of consistency in the theoretical grounding, which makes it difficult to compare the findings of one study with another, hence these inconsistencies become a barrier in drawing a definite conclusion. Further in depth review of literature reveals that there is a lack of methodological rigour and measures, such as omitting pre and post analysis, which could help to compare both outcomes, before attending and after attending the entrepreneurship course. According to Martin et al. (2013) non availability of pre and post analysis is also a reason because of which findings of previous studies are debatable and controversial. As

mentioned earlier, many studies have reported a positive correlation between the entrepreneurial education and its outcome as entrepreneurial traits, such as an increase in participants attitude towards entrepreneurship as a preferable career choice (Liñán, 2004; Mroz and Savage, 2006; Souitaris et al., 2007) increase in the perceived desire to become a successful entrepreneur (Bjørnskov and Foss, 2008; Peterman and Kennedy, 2003) increase in the intention to become a successful entrepreneur (Lee et al., 2005; Zhao, 2012) increased behavioural depiction, for example; making business proposal, writing a business plan and saving funds for investment (Charney and Libecap, 2000; Kent, 1989), increased desire and likelihood of initiating new business (Athayde, 2009; Menzies and Paradi, 2002; Shane, 2000), increased desire to maintain business for long duration and desire for improving the financial performance of business (Achemfuor, 2014; Kolvereid and Moen, 1997; Vinogradov et al., 2013). Majority of these studies have involved university students or high school students as their respondents, however there are no previous studies to inform us about the determinants of entrepreneurial intention in single mothers (Farooq, 2016). Therefore, this study is an effort to bridge this gap by investigating the impact of entrepreneurial education and entrepreneurial skills on entrepreneurial intention of single mothers in Malaysia.

### ***THEORETICAL BACKGROUND***

As discussed in the previous section, entrepreneurship literature lacks theoretical consistency. For assessing entrepreneurial behaviour Ajzen's (1991) theory of planned behaviour has been applied in a number of studies (e.g. Bansal and Taylor, 2002; Heuer and Kolvereid, 2014; Kolvereid, 1996; Krueger et al., 2000; Luthje and Franke, 2003; Souitaris et al., 2007; Van-Gelderen et al., 2008). Theory of planned behaviour is an advanced form of theory of reasoned action and is most widely used in psychology and social sciences to analyze behavioural outcomes. As demonstrated by its name, theory of planned behaviour argues that (planned) attitude leads to intention, and after that intention lead to behavioural outcomes. In this theory attitudes are basically represented by three elements i.e. personal attitude, subjective norms, and perceived behavioural control. Personal attitude towards entrepreneurship, refers to one's personal attitude depends on his/her personality traits, skills, family background, financial situation and social conditions (Blanchflower and Oswald, 1990). Subjective norms towards entrepreneurship is the perception that others (important people around us) have about entrepreneurship (Krueger et al., 2000). Perceived behavioural control towards entrepreneurship is personal perception of individuals, how they perceive their abilities to become an entrepreneur (Kolvereid, 1996).

All these factors, attitude, subjective norms and perceived behavioural control, collectively lead to strong intention for doing something (Farooq, 2016; Farooq et al., 2010). In the entrepreneurship literature, intention is defined as state of the mind which directs someone's attention towards entrepreneurship, and as a result that person prioritizes self-employment over organizational employment (Bird, 1988; Heuer and Kolvereid, 2014; Souitaris et al., 2007). This strong intention to become an entrepreneur leads to the behavioural depictions; these behavioural

developments can be assessed by analyzing someone's actions (Alsos and Kolvereid, 1998). For example in case entrepreneurship, behavioural depiction will be, preparing business feasibility, conducting market survey, saving money to invest in business or even writing a business plan (Alsos and Kolvereid, 1998; Carter et al., 1996; Reynolds and Miller, 1992). Further Kolvereid and Moen (1997) note that in case of entrepreneurship, behavioural depictions include investing money, applying for business loan, or actually starting one's own business. While individually testing each variable Krueger et al. (2000) reported a non-significant relationship between subjective norms and intention to become an entrepreneur. However, many other scholars (e.g. Van-Gelderen et al., 2008) reported a positive relationship, between subjective norms and entrepreneurial intention. Although these studies are not directly comparable, even than most of their findings are very close to the results reported by Armitage and Conner (2001).

Furthermore, Van Gelderen et al. (2010) examined the second stage of theory of planned behaviour, which is relationship of entrepreneurial intention and entrepreneurial behaviour. They conducted a longitudinal analysis of entrepreneurial behaviour, and measured the entrepreneurial intention level of participants at one point and after that measured their entrepreneurial behaviour after three years. Van Gelderen et al. (2010) reported a variance of only 12% between the entrepreneurial intention and the actual entrepreneurial behaviour. According to Cohen (1988), and Cohen and Manion (1989) this variance is a small effect size. In this regard, Conner and Armitage (1998) call for further studies to investigate the role of additional constructs which might be added to enhance the predictive power of theory of planned behaviour. It is a fact that theory of planned behaviour has provided a parsimonious account of major determinants of human behaviour. Hence this study is an effort to provide theoretical description and role of additional variables (i.e. Entrepreneurial Education and Entrepreneurial Skills) in the context of entrepreneurial behaviour of single mothers. Theoretical description elaborated in this section have specified the process and dimensions by which new proposed variables might have influence on entrepreneurial intention, behaviour and on other existing constructs of theory of planned behaviour.

### ***HYPOTHESES DEVELOPMENT AND THEORETICAL FRAMEWORK***

Importance of entrepreneurship education has increased in past few decades and along with a major shift of labour intensive industries to technology intensive industries, today's youth is more interested in getting training and acquiring skills to be self-employed, than ever before (Achemfuor, 2014; Solesvik et al., 2012; Stephen et al., 2005). In this era of knowledge based economy, markets are becoming more competitive and need more entrepreneurs to cope with high growth rate. In this regard Katz (2003), and Lautenschläger and Haase (2011) note that entrepreneurship has become a popular subject in business education at university and college level, moreover it is getting equally popular around the globe. Over a period of last few decades, entrepreneurship has emerged as a widely taught subject to the university graduates. Number of entrepreneurship related courses

offered in universities have grown over time due to mounting popularity of entrepreneurship major in business studies (Charney and Libecap, 2000; Kolvereid and Moen, 1997). In order to assess the significance of entrepreneurial education, this study hypothesises that:

**H1a** *Entrepreneurial Education positively affects Attitude towards Entrepreneurship*

**H1b** *Entrepreneurial Education positively affects Subjective Norms*

**H1c** *Entrepreneurial Education positively affects Perceived Behavioural Control*

**H1d** *Entrepreneurial Education positively affects Entrepreneurial Intention*

Farooq (2016) suggests that having command on certain entrepreneurial skills can enhance the probability of becoming successful entrepreneur at any stage of life. Therefore it is plausible that presence of entrepreneurial skills can encourage entrepreneurial behaviour among single mothers. Moreover, Schwarz et al. (2009) also assert that if entrepreneurial skills are not coupled with favourable social environment, people will have low entrepreneurial behaviour despite having a high entrepreneurial intention. On the base of these logical relations drawn from literature review, this study hypothesizes that:

**H2a** *Entrepreneurial Skills positively affects Attitude towards Entrepreneurship*

**H2b** *Entrepreneurial Skills positively affects Subjective Norms*

**H2c** *Entrepreneurial Skills positively affects Perceived Behavioural Control*

**H2d** *Entrepreneurial Skills positively affects Entrepreneurial Intention*

According to Ajzen (1991) attitude refers to the personal beliefs, which people hold about any given object or behaviour. Further he notes that, beliefs about any object or behaviour are formed by certain attributes which are associated with them. As a result of strong beliefs, people develop their attitude toward a given behaviour. In addition to this a meta-analysis of entrepreneurship literature by Armitage and Conner (2001) revealed that entrepreneurial intention is highly influenced by attitude, subjective norms and perceived behavioural control. Based on this argument we hypothesize that:

**H3a** *Attitude towards Entrepreneurship positively affects Entrepreneurial Intention*

**H3b** *Subjective Norms positively affects Entrepreneurial Intention*

**H3c** *Perceived Behavioural Control positively affects Entrepreneurial Intention*

Developing on the base of aforementioned hypothesized relationships we have proposed a theoretical framework for this study. Proposed theoretical framework of this study comprises of six latent variables (i.e. Entrepreneurial education, Entrepreneurial skills, Attitude towards entrepreneurship, Subjective norms, Perceived behavioural control and Entrepreneurial intention). More precisely our model involves two (i.e. EE and ES) exogenous and four (i.e. ATE, SN, PBC and EI) endogenous constructs. All elements and relationships of proposed framework are presented in Figure 1.

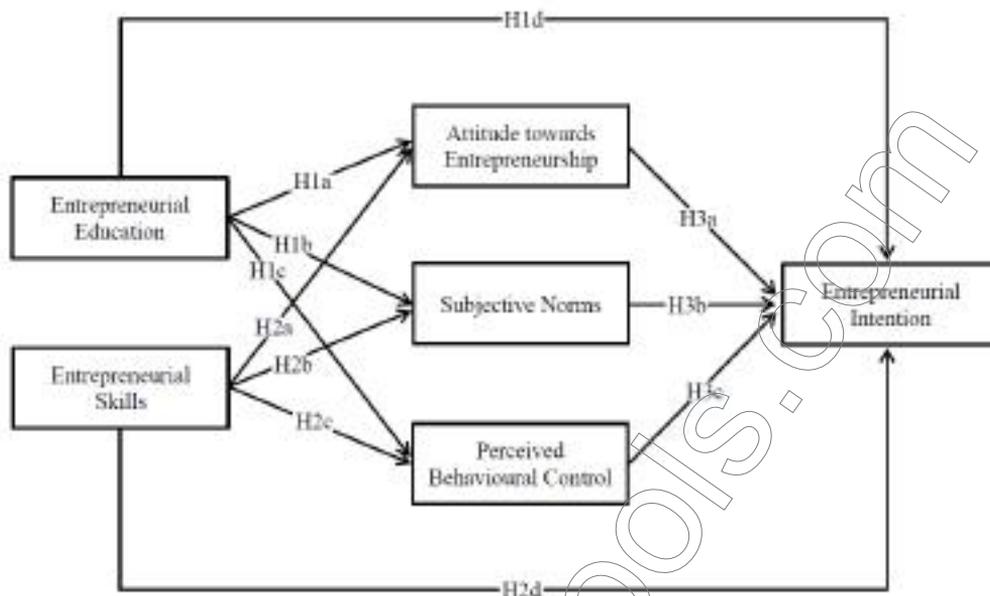


Figure 1. Proposed Conceptual Model

## RESEARCH DESIGN

This study has carried out empirical analysis on a sample of single mothers from Malaysia. Respondents were asked to fill a self-administered questionnaire, which was purposely designed on the base of Liñán and Chen's (2009) and Farooq's (2016) questionnaire for collecting data required for testing proposed theoretical framework. Moreover, a variance based partial least square; structural equation modeling (PLS-SEM) was used for data analysis. Further, this study employs SmartPLS-3.2.4 (Ringle et al., 2016) for all of PLS related calculations in this study. This choice of PLS software was based on the user friendly interface of this application, availability of resources, backup support and nature of study (Hair et al., 2017; Ringle et al., 2016).

## SAMPLE SIZE

Respondents were selected using a convenience sampling method, from twenty community development centres located in two states of Malaysia, i.e. Sabah and Sarawak. Malaysia is characterised by a perfect blend of Asian culture, which represents Chinese, Indian and Malaysian ethnicities. Therefore it is expected that the findings of this study can be generalized to other developing countries, which share similar socio-cultural background and values. It is pertinent to mention that data was collected through informed and prior consent of respondents. Out of 800 questionnaires which were distributed among single mothers enrolled in a skill based entrepreneurial development program, 598 responses were recorded. Out of 598 received responses 48 questionnaires were

discarded due to incomplete information and missing data in various sections. Hence remaining 550 responses yielding 68.75% response rate were used for further data analysis of this study. Moreover, no noticeable differences were observed in the demographic profiles of retained and discarded responses. A detailed overview of descriptive statistics and demographic characteristics of sample respondents is presented in Table 1.

*Table 1: Demographic Characteristics*

|                                    | N   | Mean  | %      | SD   |
|------------------------------------|-----|-------|--------|------|
| <b>Age</b>                         | 550 | 36.58 |        | 8.28 |
| <b>Ethnicity</b>                   |     |       |        |      |
| Malaysian                          | 218 |       | 39.71% |      |
| Chinese                            | 207 |       | 37.57% |      |
| Indian                             | 100 |       | 18.21% |      |
| Others                             | 25  |       | 4.51%  |      |
| <b>Current Employment Status</b>   |     |       |        |      |
| Self-Employed                      | 39  |       | 7.11%  |      |
| Organizational Employed            | 239 |       | 43.48% |      |
| Un-Employed                        | 272 |       | 49.41% |      |
| <b>Highest Qualification</b>       |     |       |        |      |
| Secondary School                   | 239 |       | 43.54% |      |
| High School                        | 217 |       | 39.38% |      |
| Undergraduate                      | 89  |       | 16.27% |      |
| Postgraduate                       | 4   |       | 0.81%  |      |
| <b>Family / Parents Occupation</b> |     |       |        |      |
| Self-Employed                      | 185 |       | 33.67% |      |
| Organizational Employed            | 365 |       | 66.33% |      |
| <b>Monthly Household Income</b>    |     |       |        |      |
| Less than 1000 RM                  | 148 |       | 26.89% |      |
| 1000-2000 RM                       | 323 |       | 58.74% |      |
| 2000-3000 RM                       | 65  |       | 11.73% |      |
| More than 3000 RM                  | 15  |       | 2.64%  |      |

As presented in Table 1, average age of respondents was 36.58 years, with a standard deviation of 8.28 years. Further ethnic background of respondents i.e. 39.71% Malaysian, 37.57% Chinese and 18.21% Indian represents a sizeable and balanced proportion from all ethnicities of Malaysia. Moreover, respondents were asked to provide their current employment status, which is expected to influence

their entrepreneurial intention. Statistics revealed that out of 550 respondents 272 single mothers were un-employed which makes 49.41% of total respondents, 43.48% had some sort of organizational employment, whereas only 7.11% were self-employed and were involved in some sort of entrepreneurial activity. Further, respondents were asked to provide their highest level of education, and findings revealed that 43.54% of respondents had secondary level education, 39.38% of respondents had a high school certificate, 16.27% respondents had undergraduate degree and only 0.81% had a postgraduate degree. Furthermore 66.33% of the respondents reported that their parental occupation was organizational employment, whereas only 33.67% respondents reported self-employment as their parental occupation. Further respondents were asked to provide their monthly household income level. It was found that 26.89% respondents had less than 1000 RM monthly household income, 58.74% respondents had monthly income between 1000 to 2000 RM, 11.73% were between 2000 to 3000 RM and only 2.64% were earning more than 3000 RM. These demographic characteristics demonstrate an un-biased data collection process, which adds to the sanctity and generalizability of the findings of this study.

## **RESEARCH FINDINGS AND RESULTS**

### **EVALUATION OF MEASUREMENT MODEL**

As per the guidelines of Hair et al. (2017) measurement model which is often referred as outer model, was assessed for its reliability and validity of constructs. In order to assess the reliability of constructs Cronbach's alpha and Composite reliability values were assessed. Findings show that Cronbach's alpha values range from 0.722 to 0.884, which is higher than the critical level of 0.7, which suggests that measurement models are reliable. Moreover Composite reliability values range from 0.846 to 0.924, which is also above 0.70. These results demonstrate the reliability of construct, moreover these findings are also at par with the values reported by other studies (Farooq, 2016; e.g. Liñán and Chen, 2009; Miralles et al., 2015). Complete list of reliability and validity results is presented in Table 2.

*Table 2: Reliability, Validity Measures*

| <b>Latent Construct</b>           | <b>Cronbach's Alpha</b> | <b>AVE</b> | <b>Composite Reliability</b> |
|-----------------------------------|-------------------------|------------|------------------------------|
| Entrepreneurial Intention         | 0.7575                  | 0.5864     | 0.8639                       |
| Entrepreneurial Education         | 0.8405                  | 0.6655     | 0.9063                       |
| Entrepreneurial Skills            | 0.7226                  | 0.6253     | 0.8464                       |
| Attitude towards Entrepreneurship | 0.8815                  | 0.6549     | 0.9249                       |
| Perceived Behavioural Control     | 0.8849                  | 0.6058     | 0.9227                       |
| Subjective Norms                  | 0.8197                  | 0.6287     | 0.8980                       |

As a next step, validity of measurement models was assessed with a two steps approach, i.e. convergent validity and discriminant validity. In order to assess convergent validity, average variance extracted (AVE) values were observed. Findings revealed that AVE values for this study range from 0.586 to 0.665, which is higher than the threshold critical level of 0.5. Moreover Fornell-Larcker criterion and cross loadings were assessed for evaluating discriminant validity of measurement models. Fornell-Larcker criterion requires that the square root of AVE values should be higher than the maximum value of construct's correlations with any other construct involved in the theoretical model (Hair et al., 2017). Findings of this study fulfil this criterion and complete calculation of Fornell-Larcker criterion is presented in Table 3. Further cross loadings values were also assessed, and as per the findings all cross loading values are higher than 0.702; moreover these findings show that each item have higher loading with its own underlying construct. Complete list of cross loadings is presented in Table 4.

*Table 3: Fornell-Larcker criterion (Square Root of AVE Compared the To Construct Correlations)*

| Latent Construct | EI            | EE            | ES            | ATE           | PBC           | SN            |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EI               | <b>0.7657</b> |               |               |               |               |               |
| EE               | 0.3378        | <b>0.8157</b> |               |               |               |               |
| ES               | 0.6144        | 0.4965        | <b>0.7907</b> |               |               |               |
| ATE              | 0.5374        | 0.4732        | 0.5920        | <b>0.8092</b> |               |               |
| PBC              | 0.2678        | 0.4261        | 0.3374        | 0.2086        | <b>0.7783</b> |               |
| SN               | 0.4732        | 0.4653        | 0.6431        | 0.4028        | 0.3333        | <b>0.7929</b> |

\* Bold values are square root of AVE

*Table 4: Cross Loadings among Measurement Scale Items*

|      | EI            | EE            | ES            | ATE    | PBC    | SN     |
|------|---------------|---------------|---------------|--------|--------|--------|
| EI_1 | <b>0.7220</b> | 0.3032        | 0.3891        | 0.3241 | 0.2515 | 0.2691 |
| EI_2 | <b>0.8470</b> | 0.3424        | 0.2691        | 0.2624 | 0.4691 | 0.2891 |
| EI_3 | <b>0.7620</b> | 0.3491        | 0.2991        | 0.2301 | 0.4491 | 0.2991 |
| EI_4 | <b>0.7060</b> | 0.3391        | 0.3391        | 0.1896 | 0.4391 | 0.2391 |
| EE_1 | 0.2901        | <b>0.7717</b> | 0.1422        | 0.1508 | 0.4524 | 0.2758 |
| EE_2 | 0.2861        | <b>0.7466</b> | 0.1401        | 0.1490 | 0.4469 | 0.2713 |
| EE_3 | 0.2817        | <b>0.7414</b> | 0.1369        | 0.1487 | 0.4461 | 0.2621 |
| EE_4 | 0.2860        | <b>0.7532</b> | 0.1397        | 0.1495 | 0.4485 | 0.2697 |
| ES_1 | 0.3491        | 0.3604        | <b>0.8331</b> | 0.3191 | 0.2842 | 0.3291 |
| ES_2 | 0.2691        | 0.3592        | <b>0.8631</b> | 0.2791 | 0.3023 | 0.3391 |
| ES_3 | 0.3791        | 0.3617        | <b>0.7520</b> | 0.4291 | 0.3148 | 0.3291 |

|              |        |        |               |               |               |               |
|--------------|--------|--------|---------------|---------------|---------------|---------------|
| <b>ES_4</b>  | 0.3491 | 0.3602 | <b>0.7820</b> | 0.4091        | 0.3268        | 0.3691        |
| <b>ATE_1</b> | 0.4891 | 0.3558 | 0.3991        | <b>0.8731</b> | 0.4191        | 0.2491        |
| <b>ATE_2</b> | 0.3820 | 0.3691 | 0.3991        | <b>0.7020</b> | 0.4491        | 0.2591        |
| <b>ATE_3</b> | 0.3998 | 0.3558 | 0.2691        | <b>0.8321</b> | 0.3491        | 0.4491        |
| <b>PBC_1</b> | 0.4050 | 0.3602 | 0.4623        | 0.3591        | <b>0.7620</b> | 0.2991        |
| <b>PBC_2</b> | 0.4190 | 0.3602 | 0.4891        | 0.4691        | <b>0.8831</b> | 0.3191        |
| <b>PBC_3</b> | 0.4015 | 0.3613 | 0.4049        | 0.3691        | <b>0.8621</b> | 0.3091        |
| <b>PBC_4</b> | 0.4063 | 0.3594 | 0.4064        | 0.3791        | <b>0.7120</b> | 0.3191        |
| <b>PBC_5</b> | 0.4079 | 0.3603 | 0.4407        | 0.4991        | <b>0.8731</b> | 0.3191        |
| <b>SN_1</b>  | 0.3491 | 0.3603 | 0.2891        | 0.2691        | 0.3591        | <b>0.8831</b> |
| <b>SN_2</b>  | 0.2791 | 0.4267 | 0.2891        | 0.2591        | 0.2591        | <b>0.7320</b> |
| <b>SN_6</b>  | 0.2191 | 0.3807 | 0.3891        | 0.3491        | 0.2991        | <b>0.8431</b> |

### ***EVALUATION OF STRUCTURAL MODEL AND RESULT ANALYSIS***

As mentioned earlier, this study involved variance based structural equation modeling (PLS-SEM). For this purpose latest version of Smart-PLS-3.2.4 (Ringle et al., 2016) was used to perform all empirical calculations regarding evaluation of structural model. As a first step for assessment of structural model all hypothesized path relations were assessed for the strength and direction of path coefficient (beta) values followed by analysis of *t*-values for significance of relations. It is pertinent to mention that this study observes the guidelines suggested by Hair et al. (2017) that 'empirical *t*-values' should be larger than the 'critical *t*-values'. According to them, 'critical *t*-values' are 2.57, 1.96 and 1.65 for a significance level of 1%, 5% and 10% respectively. Thus these *t*-values were further used for exploring the proposed hypotheses. A complete demonstration of findings derived from conceptual model is presented in Figure 2.

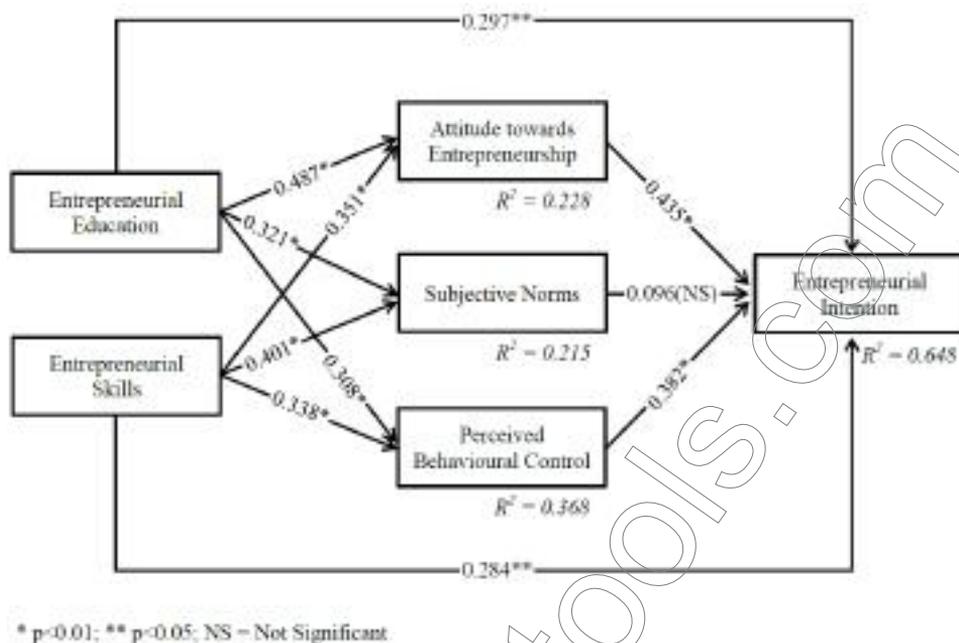


Figure 2: Findings of Proposed Conceptual Model

Results of  $R^2$  values show that proposed model explains 64.8% of total variance in entrepreneurial intention (EI). Moreover it is observed that these results are comparable to previous studies which used similar measurement scales. Therefore the decision of choosing EIQ seems to be righteous for testing theory of planned behaviour based model. Now discussion continues with the assessment of hypothesized propositions followed by assessment of Goodness of Fit (GoF) index for this structural model.

### DISCUSSION OF HYPOTHESIS TESTING

Path coefficient values and  $t$ -values derived from PLS-SEM algorithm, suggested a varying level of significance and support for proposed hypothesized relations involved in the structural model of this study. Except H3b (SN  $\rightarrow$  EI) which was found to be non-significant; all other hypotheses are found to be significant at  $p < 0.01$  and  $p < 0.05$  level. A summarized view of hypotheses testing is presented in Table 5.

Table 5: Hypothesis Testing

| Proposed Hypothesized Path Relations |                                                                           | Standard $\beta$ | t-value    | Decision      |
|--------------------------------------|---------------------------------------------------------------------------|------------------|------------|---------------|
| H1a                                  | Entrepreneurial Education $\rightarrow$ Attitude towards Entrepreneurship | 0.487            | 7.792*     | Supported     |
| H1b                                  | Entrepreneurial Education $\rightarrow$ Subjective Norms                  | 0.321            | 5.136*     | Supported     |
| H1c                                  | Entrepreneurial Education $\rightarrow$ Perceived Behavioural Control     | 0.308            | 4.928*     | Supported     |
| H1d                                  | Entrepreneurial Education $\rightarrow$ Entrepreneurial Intention         | 0.297            | 2.183**    | Supported     |
| H2a                                  | Entrepreneurial Skills $\rightarrow$ Attitude towards Entrepreneurship    | 0.351            | 5.616*     | Supported     |
| H2b                                  | Entrepreneurial Skills $\rightarrow$ Subjective Norms                     | 0.401            | 6.416*     | Supported     |
| H2c                                  | Entrepreneurial Skills $\rightarrow$ Perceived Behavioural Control        | 0.338            | 5.408*     | Supported     |
| H2d                                  | Entrepreneurial Skills $\rightarrow$ Entrepreneurial Intention            | 0.284            | 2.041**    | Supported     |
| H3a                                  | Attitude towards Entrepreneurship $\rightarrow$ Entrepreneurial Intention | 0.431            | 6.96*      | Supported     |
| H3b                                  | Subjective Norms $\rightarrow$ Entrepreneurial Intention                  | 0.096            | 1.536 (NS) | Not Supported |
| H3c                                  | Perceived Behavioural Control $\rightarrow$ Entrepreneurial Intention     | 0.382            | 6.112*     | Supported     |

Note: Critical t-values: \*2.58 ( $P < 0.01$ ); \*\*1.96 ( $P < 0.05$ ); NS = Not Significant

Hypothesized relation between Entrepreneurial Education (EE) and Attitude towards Entrepreneurship (ATE) was found to be adequately strong and positive ( $\beta = 0.487$ ;  $t$ -value = 7.792) which provides support for H1a (EE  $\rightarrow$  ATE) at  $p < 0.01$  significance level. Likewise, a similar level of significance was found for H1b (EE  $\rightarrow$  SN), describing a positive and strong direct relationship ( $\beta = 0.321$ ;  $t$ -value = 5.136) between Entrepreneurial Education (EE) and Subjective Norms (SN). Next hypothesis, H1c (EE  $\rightarrow$  PBC) also displayed a strong and positive relationship ( $\beta = 0.308$ ;  $t$ -value = 4.928) between Entrepreneurial Education (EE) and Perceived Behavioural Control (PBC), which is also significant at  $p < 0.01$  level. However, a relatively weak but positive direct relationship ( $\beta = 0.297$ ;  $t$ -value = 2.183) was found between Entrepreneurial Education (EE) and Entrepreneurial Intention (EI) providing support for H1d (EE  $\rightarrow$  EI) at  $p < 0.05$  significance level. Moreover, findings revealed a strong and positive direct relation ( $\beta = 0.351$ ;  $t$ -value = 5.616) between Entrepreneurial Skills (ES) and Attitude towards Entrepreneurship (ATE) providing support for H2a (ES  $\rightarrow$  ATE) at  $p < 0.01$  significance level. Similar level of support was found for next hypothesis, H2b (ES  $\rightarrow$  SN) revealing a positive and strong relationship ( $\beta = 0.401$ ;  $t$ -value = 6.416) between Entrepreneurial Skills (ES) and Subjective Norms (SN). Further, hypothesized relationship between Entrepreneurial Skills (ES) and Perceived Behavioural Control (PBC) depicted a strong direct relation ( $\beta = 0.338$ ;  $t$ -value = 5.408) providing support for H2c (ES  $\rightarrow$  PBC) at  $p < 0.01$  significance level. However, next hypothesis H2d (ES  $\rightarrow$  EI) was found significant at  $p < 0.05$  level, indicating a positive direct relationship ( $\beta = 0.284$ ;  $t$ -value = 2.041) between Entrepreneurial Skills (ES) and Entrepreneurial Intention (EI). Further, results revealed a direct positive and strong relationship ( $\beta$

= 0.435;  $t$ -value = 6.96) between Attitude towards Entrepreneurship (ATE) and Entrepreneurial Intention (EI) providing support for H3a (ATE  $\rightarrow$  EI) at  $p < 0.01$  significance level. However, an unanticipated and non-significant relationship ( $\beta = 0.096$ ;  $t$ -value = 1.536) was found between Subjective Norms (SN) and Entrepreneurial Intention (EI), therefore no empirical evidence was found to support H3b (SN  $\rightarrow$  EI). Finally results of last hypothesis H3c (PBC  $\rightarrow$  EI) have confirmed a strong positive direct relationship ( $\beta = 0.382$ ;  $t$ -value = 6.112) between Perceived Behavioural Control (PBC) and Entrepreneurial Intention (EI) at a  $p < 0.01$  significance level.

### **GOODNESS OF FIT (GOF) INDEX**

Although, PLS-SEM does not generate overall Goodness of Fit (GoF) indices and  $R^2$  value is considered as the primary way to evaluate the explanatory power of the model (Henseler et al., 2016). However, considering the guidelines of Henseler et al. (2016) we have calculated the Goodness of Fit (GoF) index for the model involved in this study, which is presented in Table 6. As depicted in the said table, conceptual model used in this study yielded a Goodness of Fit (GoF) index value of 0.4785, which indicates a very good (GoF<sub>large</sub>) model fit.

*Table 6: Goodness of Fit (GoF) Index Calculation*

| <b>Latent Constructs</b>                                                                        | <b>AVE</b>    | <b>R<sup>2</sup></b> |
|-------------------------------------------------------------------------------------------------|---------------|----------------------|
| Entrepreneurial Education                                                                       | 0.6655        |                      |
| Entrepreneurial Skills                                                                          | 0.6253        |                      |
| Entrepreneurial Intention                                                                       | 0.5864        | 0.648                |
| Attitude towards Entrepreneurship                                                               | 0.6549        | 0.228                |
| Perceived Behavioural Control                                                                   | 0.6058        | 0.368                |
| Subjective Norms                                                                                | 0.6287        | 0.215                |
| Average Scores                                                                                  | 0.6278        | 0.3648               |
| AVE * R <sup>2</sup>                                                                            | 0.2290        |                      |
| GoF = $\sqrt{(AVE \times R^2)}$                                                                 | <b>0.4785</b> |                      |
| Criteria: GoF <sub>small</sub> = 0.1; GoF <sub>medium</sub> = 0.25; GoF <sub>large</sub> = 0.36 |               |                      |

### **CONCLUSION**

On the base of comprehensive analysis of measurement models and structural model, it is concluded that both models (i.e. measurement model and structural model) are validated. Moreover, these results demonstrate that proposed theoretical model of this study also have significant predictive relevance and explanatory power. This study explored the impact of entrepreneurial education and entrepreneurial skills on entrepreneurial intention of single mothers. Findings of this study are a first step forward to explore the importance of entrepreneurial

education and entrepreneurial skills. It is expected that these findings can serve as a torch bearer for policy makers and researchers in the field of entrepreneurship. Although due to limited resources, this study involved respondents only from Malaysia, but findings of this study can be generalized to other similar developing economies. Further longitudinal studies are required to conduct a cross cultural analysis of entrepreneurial intention.

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## **MANAGING STRATEGY AND ORGANIZATIONAL CULTURE IN A FINANCIAL COMPANY IN BULGARIA**

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### **ABSTRACT**

*This article investigates the characteristics of the organizational culture in a financial company - an international bank institution. The corporate values in all the branches of the bank in Bulgaria were examined by using the Organizational Cultural Assessment Instrument (OCAI). It measures the results on four culture types: Clan culture, Adhocracy culture, Market culture, and Hierarchy culture. Results from the bank show that the perceived current values vary from the desired future ones especially in some of the regions in the country where the company has offices. A comparative analysis is provided in order to suggest a strategy for development of the corporate culture according to the participants' results.*

*This article is part of a project "Organizational Culture as a Factor for Development of Psychological Capital" in Sofia University "St.Kliment Ohridski", Bulgaria.*

**Key words:** *Organizational Culture, Values, Financial Company, Strategy*

**JEL Classification:** *M14*

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## **INTRODUCTION**

The purpose of this study is to reveal how employees in a bank institution perceive the current organizational culture in the Bank on the one hand and on the other, what is the future desired culture for them for the bank.

## **THEORETICAL FRAMEWORK**

Strong organizational culture is the one in which employees share common values, use specific symbols, ways of working and ultimately build stronger shared identity. The definitions of organizational culture vary from "the way things were done here" (Deal, Kennedy, 1982) to "collective programming of the mind" (Hofstede, 1980). Pettigrew argues that organizational culture is a "system of general and collectively accepted meanings applied to a group at a given moment" and "the source of symbols, language, ideology, beliefs, rituals and myths" in the organization (Pettigrew, 1979, p. 574 -576). The definition of Schein for culture is like a set of behaviors that ensure survival of the group (Schein, 2004). The interest in organizational culture is attributed to the fact that "it is like a prerequisite and a key factor for efficiency, along with the strategy and structure of the organization" (Ilieva, 2006, p. 143). Organizational culture is in close interaction and interconnection with organizational strategy and organizational structure. According to Ilieva (2006) when an organizational change is in process, these are the three components that will determine the success or not of the change - "change will be successful if it takes place in parallel between strategy, structure and culture" (Ilieva 2006, p. 98). Organizational culture itself cannot be a sufficient condition for efficiency. It contributes to organizational success only when acting simultaneously and synchronized with the peculiarities of external environment – external resources, legislation, economic climate, human capital, and internal environment such as strategy, company structure, a system for managing human resources, history and stage of development of the organization (Ilieva, 2006, p. 129).

There are different models of organizational culture. The Competing values framework developed by Cameron and Quinn describes four cultural orientations (Cameron, Quinn, 2012). Organizations can fall in one, some or none of the types of culture. The Competing values framework is seen as one of the fifty most influential in the history of business (Cameron, Quinn, 2012). Initially, it emerged from empirical studies on what makes the organization effective, what are the key indicators of success and effective performance (Quinn, Rohrbaugh, 1983). The framework helps managers in different companies to manage internal relations, differences and similarities, to take into account not only internal parameters but also their relationship with the external environment. Essentially the Competing values framework differentiates four types of culture through two main value orientations:

- orientation toward the external environment or the internal environment
- orientation toward flexibility and freedom of action and stability and control (Cameron, Quinn, 2012).

The four types of culture are clan, adhocracy, hierarchy and market. Clan culture is oriented toward support for the company members and it encourages participation and cooperation as attitude. The focus is on people, there is mutual trust, team spirit and support, also the individual development is encouraged. The decision-making is in an informal environment (Van Muijen et al., 1999). Organizations with clan culture are like large families where motivational programs are often applied and teamwork is strongly encouraged. The purpose of the management is to ensure good conditions for the employees and clients are seen as a partner (Cameron Quinn, 2012). Specific things for the adhocracy culture are search of new information, creativity, openness to change, experimentation. Managers expect employees to be dedicated and involved actively in the work. The dynamic, entrepreneurial and creative work environment is typical for this type of culture. The hierarchy culture emphasizes on authority, rationality, procedures and division of work. Rules are important and respected and they ensure order and predictability. The structure of organizations with such orientation is hierarchical and communication is usually top-down. Companies with market culture are oriented towards achieving the objectives. Tasks have to be accomplished, the focus is on rationality, performance indicators, accountability and salaries (Van Muijen et al., 1999).

The Competing values framework 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). Bank institutions are usually a workplace that is characterized by efficiency and stability. Reliability is important, as well as rules and policies. Survey made by Belias and Koustelios of organizational culture in the banking sector in Greece shows that the prevailing current organizational culture is hierarchy, followed by the market, clan and adhocracy while the desired future culture is the clan followed by adhocracy, market and hierarchical (Belias, Koustelios, 2014, p. 86). In a research of Bremer it is stated that in US banks the prevailing current culture is market, followed by hierarchical and clan. The desired future culture is adhocracy, followed by clan, market and hierarchy. Most preferred is adhocracy (Bremer, 2010). In this study both managers and employees vote for more innovation and entrepreneurship. Like all higher-educated professionals, they prefer the flexibility and dynamic of adhocracy culture that values initiatives, professional freedom, experimenting, and so on. It's the culture that encourages you to work the way you like it, not unnecessarily hindered by formalities, positions, procedures, or performance targets. It results that as long as you innovate and deliver quality, it is good (Bremer, 2010). Results from a research in Bulgarian bank show a balance between the four types of current organizational culture. However, the tendency is to prefer more the market culture followed by hierarchy, adhocracy and clan (Stancheva, Ilieva, 2014). Regarding the desired culture, the trend is to prefer the adhocracy culture, than market, clan and the least preferred one is the hierarchy.

The relationship between organizational culture and strategy is of interest among the researchers in academic field and in practice very soon after the emergence of the concept of organizational culture. Research on organizational

culture shows that there is a link with productivity and efficiency (Fey and Denison, 2003), commitment and job satisfaction (Zain., 2009; Meijen, 2007), organizational change (Carnall, 1990), training and innovation (Naranjo-Valencia, 2011). Organizational culture, according to various authors, has a significant impact on the organization's strategy. Bates (1995) suggests that business strategy and organizational culture are essentially synonymous. Green (1988) introduced the strategy as a product of culture. Ahmadi, Daraei, Akbari (2012) provide empirical evidence that there is a positive link between culture and strategy of the organization. According to the results obtained in a banking institution with Organizational Culture Assessment Instrument, clan and adhocracy culture favor the implementation of the strategy. The results show that market and hierarchy culture also encourage the implementation of a new strategy. In addition, culture influences the organizational structure by forming explanatory schemes in top management, which selects the model of organizational structure (James, James, Ashe, 1990). The culture directs the interpretations of the behavior of the organizational members, regardless of their level in the hierarchy. Organizational culture sets the reference frame in which the organizational structure is designed. Therefore, the structure must be in alignment with the prevailing cultural assumptions, values and norms. As an example of the alignment, Janičijević (2013) establishes causal links between specific types of organizational cultures and specific models of organizational structure. Combining the models of Mintzberg (1979) and Trompenaars (1991), the results show that the role culture ("Eiffel Tower") implies introduction of bureaucratic model of organization. Tasks oriented culture corresponds to the professional model, family type culture involves a simple model structure, culture that is people-oriented (type "Incubator") corresponds to adhocracy model structure.

## **METHOD**

To determine the current culture in the Bank and to define what is the desired future one a questionnaire for the study of organizational culture was applied - Organizational Culture Assessment Instrument (OCAI). It was fulfilled in 2015 by the Bank's employees. The questionnaire is based on the Competing values framework of K. Cameron and R. Quinn. It provides opportunity to define what is the current culture and what is the desired future one. The questionnaire is standardized for Bulgaria and it shows good psychometric characteristics: Cronbach's alpha  $\alpha = 0,731$  for current culture, Cronbach's alpha  $\alpha = 0,813$  for future desired culture (Ilieva, 2006). The questionnaire was completed on-line twice by the participants by using the platform Survey Monkey. The first link with questionnaire refers to the evaluation of the current organizational culture. The second link with the same questionnaire refers to defining the desired organizational culture. The areas of discrepancy between current and desired culture in the Bank may be used to prepare an action plan to improve the culture.

## **PARTICIPANTS**

In the study are invited to participate all Bank employees - 562 people. Links were sent with the questionnaire to all employees. A Demographics section was added to indicate the city and country region where the person works. The first questionnaire that relates to the current organization was completed by 300 participants, all of which employees of the Bank in all regions of the country. The desired future culture was completed by 224 people. The sample is statistically significant ( $N > 100$ ) and allows us to acquire a statistically significant analysis of the organizational culture of the Bank. The difference in the number of participants who completed the first questionnaire and the second one is significant - 76 people less answered the second questionnaire. This is probably due to the fact that both questionnaires contain the same items and probably they did not pay attention to the instructions above each of the questionnaires. The first instruction was to evaluate the culture in their organization as they see it in the present. The second instruction was to evaluate the organizational culture in the Bank as they want it to be in the future.

34.3% of the participants who completed test work in the headquarters of the Bank - 103 people. 19.3% of them or 58 people work in Sofia area, 12.3% or 37 people work in Pleven area, 12.3 % (37 people) in Varna, 9.7% (29 people) in Bourgas and 12% or 36 people from the region of Plovdiv. Table 1 illustrates the distribution.

*Table 1: Frequency Distribution According to the Workplace – Current Culture Data*

| <b>Working place</b> |                     | <b>Frequency</b> | <b>Percent</b> | <b>Valid Percent</b> | <b>Cumulative Percent</b> |
|----------------------|---------------------|------------------|----------------|----------------------|---------------------------|
| Valid                | Sofia, Headquarters | 103              | 34.3           | 34.3                 | 34.3                      |
|                      | Sofia area          | 58               | 19.3           | 19.3                 | 53.7                      |
|                      | Pleven area         | 37               | 12.3           | 12.3                 | 66.0                      |
|                      | Varna area          | 37               | 12.3           | 12.3                 | 78.3                      |
|                      | Bourgas area        | 29               | 9.7            | 9.7                  | 88.0                      |
|                      | Plovdiv area        | 36               | 12.0           | 12.0                 | 100.0                     |
|                      | Total               | 300              | 100.0          | 100.0                |                           |

*Source: Author's analysis in SPSS Statistics 22*

## **RESULTS**

### **CURRENT ORGANIZATIONAL CULTURE**

The expectation that one type of culture will prevail in the Bank found only partial confirmation. However, the breakdown of the results shows a trend that there is a balance between the four types of culture in the Bank (Figure 1).

The results reveal the specifics of the Bank and are partially in line with the results from a study of financial institutions. According to a research done with the OCAI questionnaire (Cameron, Quinn, 2012, p. 99) the Market and the Clan Culture are the predominant ones in the financial institutions, and are followed by the Hierarchy and respectively Adhocracy Culture. The discrepancy of the present Bank with the profile of other banks is in the area of the Adhocracy Culture which is ahead of the Hierarchy Culture in terms of results in this study. According to the assessment of the participants the current dominant culture is market oriented ( $\bar{x}=15.07$ ). Most prominent in the Bank are such values as the positioning in the external environment, dynamics, competition, achievement of results, customer orientation. Productivity and profitability are of importance. The leaders are ambitious, dominant and insist on fast performance and competitiveness. The average value of Adhocracy Culture is 14.93 and this result makes it second among the participants. According to this type of culture there is a dynamic environment that encourages entrepreneurship and creativity in the bank. The things that matter for this culture are the risk, flexibility, experimentation, individual initiatives and modern thinking.



Figure 1: Current Type of Organizational Culture

Lower results when compared to the first two types of culture are observed in the case of Hierarchy Culture ( $\bar{x}=13.97$ ) where the values are as follows: compliance with rules and procedures, work requirements and job assignments. While reviewing the results we find out that the existence of control, structure, careful planning, operations, standard rules and stability is not so much present in the strategy of the Bank. In the Hierarchy Culture success goes hand in hand with the rules, the completion of the tasks according to the deadlines and with good quality while the leaders are in the role of coordinators – they monitor the work process. Based on the average values such characteristics are not so prominent in the organization.

The Clan Culture with average value  $x=13.38$  is the least perceived one. In the case of the Clan Culture the loyalty, ethics, traditions and the feeling that the employees are part of a whole are the predominant values, however these are not very much present in the Bank. Also in the case of Clan Culture the team work and consensus are of importance. One of the characteristics of the Clan Culture is that the managers act as mentors and sometimes are perceived as protector figure but based on the result for this type of culture which is not so prominent here the described image of the managers is not manifested in the Bank. When comparing the average values of the dependent variable "Culture Type" and the independent variable "Workplace" the results show that the most prominent type of culture according to the workplace is the market one for all regions separately:

- Sofia where the HQs is located with 103 participants stands for the market culture (average value equal to 15,3592);
- Sofia region with 58 participants – the market culture ( $X=16,3103$ );
- Pleven with 37 participants – the market culture ( $X=15,5135$ );
- Varna with 37 participants – the market culture ( $X=16.2973$ );
- Bourgas with 29 participants – the market culture ( $X=15.0345$ );
- Plovdiv with 36 participants – the market culture ( $X=15.8056$ ).

Table 2 presents the data from the analysis of the average values. In all 6 regions the topical culture is the market one. It should be noted that in all regions except Plovdiv the clan culture is the least represented one. Only those who work in Plovdiv region believe that the rules and procedures that are typical for the hierarchical culture are not introduced in the bank in a sufficient way.

Table 2: Analysis of the Average Values Depending on the Workplace

| Workplace                     |                | Clan Culture | Adhocracy Culture | Hierarchy Culture | Market Culture |
|-------------------------------|----------------|--------------|-------------------|-------------------|----------------|
| Sofia – Average Values<br>HQs | Average Values | 12.8447      | 14.7184           | 13.5922           | 15.3592        |
|                               | Number         | 103          | 103               | 103               | 103            |
|                               | Stand. Dev.    | 3.68025      | 2.55304           | 2.91190           | 2.39220        |
| Sofia Region                  | Average Values | 13.6897      | 15.0345           | 14.4138           | 16.3103        |
|                               | Number         | 58           | 58                | 58                | 58             |
|                               | Stand. Dev.    | 3.11874      | 2.90170           | 2.32481           | 2.21008        |
| Pleven Region                 | Average Values | 13.2973      | 15.0000           | 13.3514           | 15.5135        |
|                               | Number         | 37           | 37                | 37                | 37             |
|                               | Stand. Dev.    | 3.23062      | 3.22318           | 3.65313           | 2.84431        |
| Varna Region                  | Average Values | 13.8919      | 15.2973           | 14.7838           | 16.2973        |
|                               | Number         | 37           | 37                | 37                | 37             |
|                               | Stand. Dev.    | 2.36624      | 2.18409           | 2.20019           | 2.52614        |
| Burgas Region                 | Average Values | 12.3793      | 14.4138           | 13.6897           | 15.0345        |
|                               | Number         | 29           | 29                | 29                | 29             |
|                               | Stand. Dev.    | 3.77410      | 3.44878           | 3.28529           | 2.90913        |

|                |                |         |         |         |         |
|----------------|----------------|---------|---------|---------|---------|
| Plovdiv Region | Average Values | 14.8056 | 15.3333 | 14.4167 | 15.8056 |
|                | Number         | 36      | 36      | 36      | 36      |
|                | Stand. Dev.    | 2.48216 | 2.57460 | 2.73992 | 2.25286 |
| Total          | Average Values | 13.3833 | 14.9300 | 13.9767 | 15.7000 |
|                | Number         | 300     | 300     | 300     | 300     |
|                | Stand. Dev.    | 3.30952 | 2.76113 | 2.87233 | 2.49347 |

Source: Author's analysis in SPSS Statistics 22

Summary of the culture which is perceived as the current one in the Bank: the market oriented culture finds its priority in the positioning in the external environment, dynamics, the achievement of results and customer orientation. The leading values for the Adhocracy Culture are the innovation and development while the compliance with rules and procedures, work requirements and job assignments are the values which prevail in the Hierarchy Culture. The Clan Culture featuring such basic values as loyalty, ethics, traditions and the feeling that the employees are part of a whole is the least perceived one. In general according to the results shown by the participants the Bank keeps on positioning in the external market in cases when the need of stability and control is required. A likely explanation is that the company operates in a highly competitive environment featuring dynamics and need for customers.

### **DESIRED FUTURE ORGANIZATIONAL CULTURE**

The questionnaire is filled-in by 224 participants in order to define the desired future culture. The number of participants ( $N > 100$ ) is a sign for the good psychometric qualities of the questionnaire results. In the demographics section are included options to indicate the department and location of workplace according to areas.

Depending on the workplace 6 categories can be defined: Sofia - HQs, Sofia Region, Pleven, Varna, Bourgas and Plovdiv. Table 3 and Figure 2 represent the frequency distribution according to the parameter workplace. From a total of 224 participants, 88 participants or 39 % of those who had filled-in the questionnaire work in the HQs of the Bank in Sofia, 37 participants or 16,5% of those who had filled-in the questionnaire are from Sofia Region, 30 participants or 13,4% are from Varna, 28 participants or 12,5% are from Pleven, 23 participants or 10,3% are from Plovdiv and 18 participants or 8% are from Bourgas.

Table 3: Frequency Distribution According to the Workplace – Desired Culture Data

|       |              | Frequency | Percent | Valid Percent | Cumulative percentage |
|-------|--------------|-----------|---------|---------------|-----------------------|
| Valid | Sofia – HQs  | 88        | 39,3    | 39,3          | 39,3                  |
|       | Sofia Region | 37        | 16,5    | 16,5          | 55,8                  |

|  |         |     |       |       |       |
|--|---------|-----|-------|-------|-------|
|  | Pleven  | 28  | 12,5  | 12,5  | 68,3  |
|  | Varna   | 30  | 13,4  | 13,4  | 81,7  |
|  | Burgas  | 18  | 8,0   | 8,0   | 89,7  |
|  | Plovdiv | 23  | 10,3  | 10,3  | 100,0 |
|  | Total   | 224 | 100,0 | 100,0 |       |

Source: Author's analysis in SPSS Statistics 22

Distribution of the participants according to workplace (in percent)

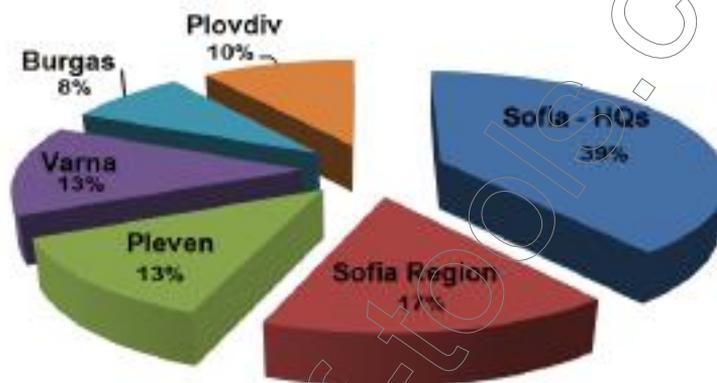


Figure 2: Distribution of the participants according to workplace (in percent)

## RESULTS FROM THE QUESTIONNAIRE FOR DESIRED FUTURE CULTURE

The results for the desired future culture are obtained using Descriptive statistics in SPSS and show that the most preferred future culture is the Adhocracy one ( $X=16,6429$ ). Therefore, the preferred values are the dynamics and creativity, the search for new information, openness to changes and experimentation. The next one in terms of preference is the Market Culture ( $X=16,4821$ ) for which are typical the achievement of goals and tasks, and the attention to the requirements and dynamics of the market in which the organization operates. The Clan Culture comes third with average values equal to 16,2813. The expression of ideas, provision of assistance, encouragement of participation and cooperation in the bank are placed second to last in the preference of the employees. The last in terms of preference comes the Hierarchy Culture ( $X=15,2991$ ) for which are typical the compliance with the rules, procedures and division of work as well as the manifestation of authority and rationality. It is important to note that the differences in the values of the four types of culture are very small and it is difficult to recognize the most preferred culture. Instead it is correct to speak about the balance of the four types with a small advantage in the preference of the Adhocracy Culture. Most clearly we can see the difference in the values between the Hierarchy Culture which is the least preferred one, and the remaining three types of culture.

Table 4 presents the values according to the four types of culture while Figure 3 provides us with the opportunity to display the results with graphics.

Table 4: Descriptive Statistics for the Desired Future Culture

| Culture Type      | Number of Participants | Min. | Max.  | Average Value | Standard Deviation |
|-------------------|------------------------|------|-------|---------------|--------------------|
| Clan Culture      | 224                    | 4,00 | 20,00 | 16,2813       | 2,59465            |
| Adhocracy Culture | 224                    | 4,00 | 20,00 | 16,6429       | 2,50688            |
| Hierarchy Culture | 224                    | 5,00 | 20,00 | 15,2991       | 2,81648            |
| Market Culture    | 224                    | 8,00 | 20,00 | 16,4821       | 2,37318            |
| Valid N           | 224                    |      |       |               |                    |

Source: Author’s analysis in SPSS Statistics 22



Figure 3: Average Values of the Desired Future Organizational Culture

When comparing the average values of the dependent variable “Culture Type” and the independent variable “Workplace” the results show that the most preferred types of culture according to the workplace are the following ones:

- Sofia HQs with 88 participants stands for the Adhocracy culture (average value equal to 16,7273);
- Sofia Region with 37 participants – the Adhocracy culture (X=16,9730);
- Pleven with 28 participants – the market culture (X=16,8929);
- Varna with 30 participants – the Adhocracy culture (X=16,6667);
- Burgas with 18 participants – the Adhocracy culture (X=15,8889);
- Plovdiv with 23 participants – the Clan culture (X=17,1304).

Table 5 presents the data from the analysis of the average values. In 4 of the 6 regions the preferred culture is the Adhocracy one. It should be noted that Plovdiv

and Pleven have different preference when compared to the remaining ones and the data should be interpreted in a careful way because of the small number of participants from those regions. A trend in the preference of the employees is observed in the following direction:

- For those working in Plovdiv it is important that the future culture will bear the signs of a large family, to have team spirit and cooperation in the organization. The preferred target for the management will be the building of development programs and the attitude towards customers is preferably a partnership. The leaders will be expected to have a mentoring attitude, to facilitate the work process and to encourage the teamwork;
- The participants from Pleven wish that the future culture will be focused on achieving objectives and profit as well as on the competitiveness. They will expect from the leaders to be strict and with high expectations, to set clear criteria and have specific expectations.

Table 5: Analysis of the Average Values Depending on the Workplace

| Workplace    |                | Clan Culture | Adhocracy Culture | Hierarchy Culture | Market Culture |
|--------------|----------------|--------------|-------------------|-------------------|----------------|
| Sofia - HQs  | Average Values | 16,3750      | 16,7273           | 14,7727           | 16,4318        |
|              | № participants | 88           | 88                | 88                | 88             |
|              | Stand. Dev.    | 2,30598      | 2,08843           | 2,65108           | 2,15916        |
| Sofia Region | Average Values | 16,2703      | 16,9730           | 16,0000           | 16,7297        |
|              | № participants | 37           | 37                | 37                | 37             |
|              | Stand. Dev.    | 2,63153      | 2,40932           | 2,63523           | 2,24411        |
| Pleven       | Average Values | 15,9286      | 16,3571           | 15,4286           | 16,8929        |
|              | № participants | 28           | 28                | 28                | 28             |
|              | Stand. Dev.    | 2,40260      | 2,81812           | 2,86005           | 1,96901        |
| Varna        | Average Values | 16,1000      | 16,6667           | 15,9667           | 16,4000        |
|              | № participants | 30           | 30                | 30                | 30             |
|              | Stand. Dev.    | 2,66975      | 2,42591           | 2,80988           | 2,94314        |
| Burgas       | Average Values | 15,6111      | 15,8889           | 15,2778           | 15,8333        |
|              | № participants | 18           | 18                | 18                | 18             |
|              | Stand. Dev.    | 4,31330      | 3,80230           | 3,28643           | 3,39983        |
| Plovdiv      | Average Values | 17,1304      | 16,6957           | 15,1739           | 16,3913        |
|              | № participants | 23           | 23                | 23                | 23             |
|              | Stand. Dev.    | 1,91417      | 2,73753           | 3,14284           | 2,14771        |
| Total        | Average Values | 16,2813      | 16,6429           | 15,2991           | 16,4821        |
|              | № participants | 224          | 224               | 224               | 224            |
|              | Stand. Dev.    | 2,59465      | 2,50688           | 2,81648           | 2,37318        |

Source: Author's analysis in SPSS Statistics 22

## **CONCLUSION FOR THE DESIRED ORGANIZATIONAL CULTURE ACCORDING TO THE RESULTS**

Considering the fact that the Adhocracy Culture shows the highest values, the working environment which is preferred by the employees of the Bank is the dynamic and creative one. The employees will be expected to take risks while the leaders will be expected to be innovative and to take risks as well. The long term objective for the desired type of culture will be growth and utilization of new resources. The capability to offer new products and services will be viewed as an achievement. The qualities that are expected to be encouraged by the organization are resourcefulness, inventiveness and freedom. The type of leader who meets the preferences for Adhocracy Culture is a visionary, innovator and entrepreneur. The management will be expected to make constant improvements, setting of new standards, finding creative solutions, abilities to anticipate the needs of customers and employees. Fast performance and subtlety will be among the preferred moving values. Considering the fact that the market culture shows a result which is very close we can say that the orientation to results and the focus on the completion of work are also preferred and expected as a direction for development of the Bank. The striving for success which brings people together, entering new markets or expanding the market share, the competitive spirit and attention to clients are also expected. To the expected characteristics for the leaders that were already mentioned above we can add competitiveness and high productivity as well as care for the team and the customers according to the Clan Culture which comes third in preference. The occurrence of structured working environment and formalized processes that are typical for the Hierarchy Culture are the least preferred ones.

The degree of expectation that the leader of the organization will exercise control, organize or coordinate activities is not high; there is a risk that in the long term plan these may bring to the occurrence of chaos, loss of information and lack or impossibility to trace the processes.

The outward direction aimed at the customers, the compliance with the external environment, and the expectation for flexibility respond to the dynamic situation in social and economic terms. At the same time the ability of the organization to maintain a good inside climate, to keep its employees in the long term, to prevent them from the stress of dynamics, and to take care of their satisfaction is challenged. In general the close results for the desired future culture indicate the search for "the golden mean" and the balance in the functioning of a given organization. Balance between care and attention to the individual, personal and organizational productivity, coincidence between individual, team and organizational goals and values is expected.

To summarize the results, the future profile of the organizational culture of the Bank is based on the one hand on the current profile of stability and control, and on the other the focus can be on the internal integration, the care for the human capital and improvement of the customer service. The increase in autonomy and freedom in the work processes would focus on interpersonal

relations, on the support and loyalty to the bank from its employees. Thus, the job satisfaction can be improved as well as the motivation of the employees. These two factors are in direct relation to the image of the Bank as an employer and as a partner to its customers.

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## **CRITICAL ASPECTS IN BUSINESS COMMUNICATION**

*Carmine D'Arconte*<sup>24</sup>

### **ABSTRACT**

*What's the role of communication in business and how do companies tackle this fundamental issue? While there is little doubt that business communication is a critical driver for success, especially nowadays in a high competitive and unstable environment plagued by a persistent economic and financial crisis, companies seem to make some recurrent mistakes that not only set a serious limit to the possible benefits they could have from their investments in advertising but that may also cause a substantial detriment to their image in the market.*

*In this respect, apart from examining some of the relevant literature on this topic, we carried out a research to highlight the approach that generally entrepreneurs show in business communication and the possible impact on organizations' outcomes.*

*We stress how in communication the focus should not only be on words (promises in advertising) but also on deeds (actual behaviour) capitalizing and deepening the fundamental contribution of Robert Norman and his "moments of truths".*

*We finally indicate the route that in our opinion should be followed to avoid recurrent mistakes and have higher redemptions from investments in advertising and promotional activities.*

**Key words:** *Entrepreneurs approach to business communication, Recurring mistakes in Business communication, Advertising principles and guidelines*

**JEL Classification:** *M30*

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## **INTRODUCTION AND THEORETICAL REVIEW**

It is quite obvious that companies have to communicate effectively and efficiently with the market, since being able to produce products or provide high quality services at a reasonable price is not enough, especially in a highly competitive environment which implies the existence of several alternatives for customers. It is therefore necessary to communicate well, but above all to be able to “communicate” products and services in the appropriate way, otherwise companies may have several problems and run the risk to invest considerable amounts of money without adequate financial return or even have a negative impact on their image.

In this regard, to understand what the actual situation may be in terms of communication, we have first analysed the contributions from literature and then we have carried out a research to see how entrepreneurs approach this fundamental topic.

We have to say that in the relevant literature, apart from a few remarkable but nevertheless incomplete exceptions (Kotler, 1997, Belch, 2007), we were not able to find significant contributions and this especially in the Anglo-Saxon world, where we have the impression that an excess of specialization may prevent from achieving a unitary representation and also lead to make some confusion as far as terms and definitions are concerned.

Just to make an example, Direct Marketing was developed in the United States (Stone, 2001, Tapp 2005) and it was a huge contribution to bring communication into the practical and down to earth realm of business, avoiding or at least limiting the recurrent trend to pay excessive attention to creativeness in itself, as we can often see in many advertising agencies. Direct Marketing provides general indications and detailed directions for most of the available communication channels and, in this specific field, we can find excellent contributions (Tapp, 2005).

Nevertheless, Direct Marketing remains just a part of the whole issue and it should be considered and used in the frame of a general theory of communication because otherwise we run the risk to consider Business Communication only how to write a letter or an email, how to organize a meeting or to write a report, as we have seen in some texts on Business Communication (Young, 2006; Flatley, 2010; Locker 2009) that, though extremely well done, are only focusing on these topics.

Another problem in the literature regards a lack of directions on how much to invest in communication or, as someone defines it (Peter, 2007), the expenditure question; some authors (Lambin, 2000, Collese, 2004) start with the right though very generic recommendation to consider in this regard the marginal analysis, that is that companies should invest until the point that a further increase in investment won't produce a proportional increase in profit; anyway, they also add that this may be extremely difficult in practice and that therefore other more general methods should be applied considering the marginal analysis only as a reference point. The problem is that not only they don't give practical indications on how companies should proceed but, what is even worse (Peter, 2007), they end up listing what methods companies normally use such as:

- Percent of sales: the firm simply sets a percentage figure and add it to either past or future sales
- Per-unit expenditure: a fixed monetary amount is spent on advertising for each unit of the product expected to be sold
- "All you can afford": The availability of current revenues sets the limit of the advertisement budget
- Competitive parity: advertising budgets are based on those of competitors.
- The research approach: the budget is calculated on research findings
- The task approach: first are defined the advertising goals and then the tasks to accomplish these goals

Now it's easy to see how the first four methods are rule-of-thumb ones (as the same Peter defines them) and we believe that they should be mentioned only to show the recurrent mistakes made by companies rather than be considered managerial methods; the last two represent a more reliable and serious approach but, apart from the fact that they should be considered separately from the first four, they are not explained and developed in a way that may be of practical use for companies.

Another critical aspect always in the Anglo-Saxon literature, regards Corporate Communication; in fact we believe that the few contributions we were able to find on the topic (Harvard Business School Press, 2006, Argenti, 2009) were rather disappointing, too much theoretic and far from offering a complete representation. In this particular situation we have to say that we found better contributions in the Italian literature (Pastore, 2008, Collese 2005) where details about the most important communication channels are rather well integrated in a complete theoretic approach to communication.

Always in terms of Corporate Communication, we wish to add that the term "Corporate", may be somewhat misleading and confusing as it generally conveys the idea of a big organization, and therefore may induce to believe that Corporate Communication does not regard the huge quantities of individual and very little companies that we normally have in most European countries (in Italy, in 2012, individual companies totalled 59,4 % and very little companies with an average of 3,6 employees each, 35,1%, Sorsoli, 2013). On the contrary, we believe that every company, irrespectively of its size, though with some different characteristics, has to take care of Corporate Communication, that is how to communicate in the best way with all its stakeholders.

Finally, apart from literature and scholars, we have asked ourselves what is actually happening in the real world of business and therefore we decided to investigate the entrepreneurs' approach to communication considering that they actually are the key fundamental players, the people and the companies that make communication in practice, investing quite often considerable amount of money, in the hope to have and appropriate return.

## ***PRELIMINARY REMARKS, RESEARCH OBJECTIVES AND METHODOLOGY***

### ***Preliminary remarks***

In communication we must first of all distinguish between external and internal communication (Caggiano, 2008); the external one may be divided in Marketing Communication, addressed to customers and primary external stakeholders, and Public Relations where is taken care of the other external stakeholders, while Internal Communication, related to Internal Marketing (Berry, 1981, Grönroos, 1985), is addressed to the company's personnel.

Here we will focus only on Marketing communication and we will call it Business Communication, meaning by that any communication used by an organization to promote a product or service, to increase its awareness and stimulate the sales; we have limited ourselves to investigate the general approach to communication irrespectively of the specific tools chosen to communicate with the target, first because of space limits and secondly because in this respect well done contributions, though incomplete, can be found in the specialized literature (Tapp, 2005). So our analysis will not cover all topics of communication and in particular we will not consider Public Relations and Internal Communication but, on the other hand, we will go in depth into Business Communication considering some aspects that are quite often completely overlooked.

### ***Research questions***

- How entrepreneurs in organizations approach the main issue of communication?
- How do they make their choices when investing in communication?
- How do they behave in relation to their customers in advertising and in after-sales?

### ***Methodology***

To depict a faithful Figure, we made expressly a research with a questionnaire on entrepreneurial and managerial competences with many questions (approximately 50); out of these, 6 were focused on different aspects in communication.

The questionnaire was distributed to 30 entrepreneurs, most of them members of CNA, Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa di Roma, owners of little Italian companies and they were asked to fill it alone, without reciprocal consultation. After this, with most of them, there was a long public discussion on every single item.

## **RESULTS**

The results confirmed what we had been observing in our experience teaching several courses on business administration to approximately 200 entrepreneurs, members of the already mentioned organization (CNA).

Entrepreneurs, as a general rule, seem to be very poor as far as managerial skills are concerned mainly because most of them did not receive any managerial preparation; as far as communication is concerned, they seem to be less unprepared than in other aspects such as accountancy, preparing estimates, fixing a price and adapt it appropriately but, nevertheless, they do not seem to perform well in this field, too.

In fact, they do not seem to appreciate the importance of interpersonal communication in business, they still tend to consider communication as a kind of aggressive way to sell, while for many of them, advertising seems to be something not so useful, but definitely expensive, that should be avoided as much as possible. They also seem too much submissive to advertising agencies and they give excessive importance to competitors when making their choices in advertising; in fact, for the main question of how much to invest in their advertising budget the recurrent answer, in line with what Peter (2007) pointed out, is:

- it depends on the funds available
- we invest x% of revenues in advertising
- we do the same as competitors do

As far as choosing the communication channels the answers are:

- it depends on what our agency proposes
- it depends on how much we can spend
- it depends on what we have done in the past
- it depends on what competitors are doing

We have to add that always according to the findings of the same general research, 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; the customer is still someone to whom to try and sell what the company has rather than what he needs and this automatically involves an aggressive approach in sales, promising a lot of benefits in order to sell, with little or no support in after sale.

## **CONSIDERATIONS ON COMMUNICATION**

What are the main problems with communication?

We believe that the right approach to communication should be first of all to understand all the different aspects that are involved and immediately after to try to integrate the single items in a common theoretical framework; the impression is that in practice we can see a fragmented approach with sometimes an excess of specialization in literature. Strictly related to this, is another fundamental problem, that is "*to consider the communication budget as an expense rather than an investment. Instead of viewing the dollars spent as contributing to additional sales and market share, they (managers)*

*see budget expenses as cutting into profits. As a result, when times get tough, the advertising and promotional budget is the first to be cut even if there is strong evidence that exactly the opposite should occur* (Belch, 2007).

Apart from these general considerations, let's analyze some of the most recurring problems.

A first critical aspect is that generally it's not understood the importance of interpersonal communication in business as though this was important only in interpersonal relationships in private life and had nothing to do in business relations; the main point to have clear in mind is that companies are made of people and, apart from that, that important decisions are in most cases taken by individuals in a process where interpersonal communication plays a fundamental role. So interpersonal communication should be studied and learned and then it may be applied perfectly well in companies though taking into consideration the different nature of relationships; we suggest the reader to refer to the relevant literature (Watzlawick, 1983).

Another main problem is an excessive self reference in advertising. In fact, we have to say that generally in advertising we can find, technically speaking, a good "quality" in the sense that many communication campaigns are creative and enjoyable, the scenario and the players are good and so on. However they generally have a serious defect, which is that the company and the experts who create the campaigns like them more than the target audience does. In other words most advertising campaigns are, so to say, "self-referential", arranged by companies without being well aimed at the target audience, and, in such a case, the communication most likely will not generate appreciable benefits compared with the investments.

Companies invest a lot of money first on segmentation, that is they subdivide the market into clearly identifiable segments having similar needs, wants or demand and then they choose among the possible alternatives the most suitable segments (generally the most profitable), process that in marketing is defined as "Targeting" (Peter, 2013). After all this, it's more than obvious that the communication activities must absolutely be in line with the characteristics of the selected target, paying special attention to the message that should be tailored on the specific target so to be more easily accepted and positively appreciated.

We have to add, anyway, that together with well done campaigns, at least from a technical point of view, we also find many terrible, often incomprehensible campaigns that are totally lacking in appeal, as well as being tiresomely repetitive. Actually, sometimes, the situation may even be worse; for instance in Italy many apartment buildings have a special external post box for advertising which is regularly filled up with a huge quantity of leaflets that nobody reads and that from the post box go directly into the rubbish bin. The same goes for the uninterrupted telephone calls received at home, at all times of the day, to try to sell whatever kind of products. The point is that a lot of money is spent for carrying out these activities but, under these conditions, we believe that the only result that may be achieved is to irritate if not dissuade potential customers from buying the advertised product.

We have also to consider how bad or poor results for advertising campaigns can also lead to other types of negative consequences, in the sense that if companies do not have the capacity to understand their mistakes with a sound self-criticism, there is a risk to foster the wrong belief that investing in communication gives no return.

The problem is actually a different one, which is that companies should change their approach and stop thinking that in order to create a communication campaign it is enough to have funds to invest, to find an advertising agency and ask them to take care of everything. On the contrary they need to understand the communication process well and then define, set, direct, and follow it and continue to do so over time, taking into account the target to be reached rather than only their own point of view.

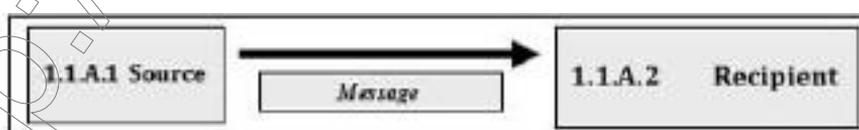
Anyway, apart from all this, we believe that in order to be successful in communication, it's necessary to set oneself a precise route to be divided in six main points as follows:

1. Understand the real essence of the communication process
2. Understand that Communication is not only “talking” but also “acting”
3. “Listen” to the target’s needs, create suitable products and continue to “listen” in after-sales
4. Understand and evaluate the “promise” made in communication
5. Understand the critical role of the “moments of truth”
6. Being able to think of the best campaign for the target (best communication tool, best budget to invest)

### ***UNDERSTAND THE REAL ESSENCE OF THE COMMUNICATION PROCESS***

The term communication comes from the Latin “communis” which means “common, to share”. This meaning contains the key for understanding the basis of “communication”: it is a mechanism that involves sharing and interaction between two or more interlocutors. However, many people confuse “communicate” with “transmit”; “transmit” comes from the Latin “trans” (crossing, passage) and “mittere” (to send); it is immediately clear therefore that there may be a “naïve” representation of the concept of communication linked to the one-way transmission of a message from one person to another as shown in figure 1.

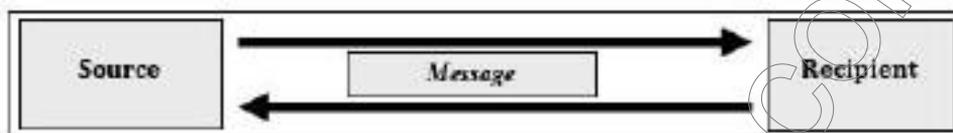
*Figure 1: The information/transmission flow*



This kind of message transmission is typical of television, journalistic or general advertising communication; it is a one-way communication which is a simple “transmission of information”.

In reality the simple transmission of a message is only the first step in the complex process of communication which also involves interaction between the source and the recipient in a much more complex dynamics of a two-way communication process as it is shown in the figure 2.

Figure 2: The interactive communication flow



The recipient receives the message and sends feedbacks to the sender thus starting a continual relationship of answers. This is a real sharing of codes and meanings and the feedback means that there is a circular process of exchange. Real communication is always two-way and always involves this type of interaction.

We perfectly know how these diagrams, are known to everybody but, despite of their extreme simplicity, the problem is that not everyone seems to have really understood them, at least in their real implications and consequences, and, above all, very few seem to put them into practice.

In fact, the second diagram shows how communication is not and how it cannot be a one-way act; on the contrary companies and customers “build” the communication process together and what is fundamental for the purposes of business communication, is not the message in itself but much more how it is received and perceived by present and potential customers; this and only this makes the difference!

After such considerations, we may now ask ourselves: "How may it happen that we often have large-scale and very expensive advertising campaigns with a transmission of identical messages repeated over time with no regard for the reactions of the target"? It's not difficult to understand how the continuous repetition of the same message in the long run may only vex potential customers and, rather than increase awareness and sales, may have the opposite effect; it should be much more logic and reasonable to change or adapt the messages according to the market's response.

Unfortunately we often find really absurd situations of this kind as tough it had been forgotten that the primary objective of advertising is to support the “selling” process, of products or services and of a company’s image. In fact, how customers perceive an advertising message is of vital importance since it will be the basis for their subsequent “reaction” and behavioural “response”, that is to say whether they will buy the product or not .

What we are basically trying to say is that communication and especially business communication should always have the objective of "convincing" and “persuading” in order to “sell” something, so it should be a "persuasive communication"; it is clear therefore how self-referencing communication that does not take into due consideration the “response” and “reaction” of customers

may not only be ineffective but also ends up in a self-defeating waste of resources. For instance, sometimes the only concern seems to be to measure the GRP (Gross Rating Point, an indicator of the advertising pressure obtained multiplying the “reach”, the number of potentials reached, for the “frequency” of exposure); on the contrary, in case of unprofessional or not well done advertising, GRP may in extreme cases only measure a high level of irritation in customers.

We cannot go in-depth into the topic of "persuasive communication" (the reader may refer to specialized literature, Verderber, 1995, Nanetti, 1996, Perrone, 2000, Palmarini, 1995), but what we have already said, albeit briefly, helps to understand how effective communication must be:

- Highly focused (and never self-referencing) on a specific target
- Interactive
- Appropriate and personalized as far as possible with the audience response in mind
- Ongoing over time (but not necessarily identical and tiresome)
- Aimed at a precise objective, the achievement of which decides the success or failure of the process

### ***UNDERSTAND THAT COMMUNICATION IS NOT ONLY “TALKING” BUT ALSO “ACTING”***

A fundamental point, quite often completely overlooked, is that communication may not be made only of words! By far more important are actions and concrete facts; when we make a judgment about people, we do not focus on what they say or what they promise but *on facts*, that is how they behave; in particular we consider carefully whether they act consistently with what they say. We all know people who speak well, make promises, declaim, stimulate and urge others into action, but when it's their turn to act and put in practice their declared principles it's completely another story. With regard to this, we can add that the smaller the gap between “promises” and real facts, the higher will be the consideration that we may have of a person while, in the contrary situation, he will appear to us absolutely unreliable.

The same thing happens in the world of business but with some important aggravating circumstances. From the private world where behaviour is supposed to be in line with unaffected spontaneity in a non-professional field without any economic transaction, we find ourselves in the business world where companies offer professional solutions to problems or needs, and they ask to be paid for this.

To give an example, if someone borrows from a friend a hammer, promises to give it back tomorrow and he forgets, it is one thing, but if the same person is a professional accountant, is paid to prepare for someone the income-tax return, he makes a mistake and the customer finds himself in trouble, it is definitely an entirely different situation, even more so if he convinced his customer to trust him claiming to be competent, clever, efficient and precise.

How can we apply this in business communication? It is very simple: in this case too it is necessary to focus on behaviour, actions and facts; in our opinion it is

surprising how if we analyse texts on business communication, we may find very good operating manuals on how to create advertising campaigns using various media, how to make a TV commercial, a direct mail campaign, how to do telemarketing, an exhibition, a fair and so on but, as a general rule, but we do not find even a mention to companies' behaviour and its fundamental importance in the communication process.

### ***“LISTEN” TO THE TARGET’S NEEDS, CREATE SUITABLE PRODUCTS AND CONTINUE TO “LISTEN” IN AFTER-SALES***

In theory, it's evident to anyone that the success in business lies in the fact that the product or service that a company is going to offer to a particular target corresponds to what the same target actually needs. This is a fundamental point and companies should not produce what they want or what they are able to do in the best way and try to sell whatever they have at all costs; on the contrary they should sell what customers really need.

Anyway companies generally do not seem to behave in this way and sometimes this is due to the fact that they started in the wrong way, that is that they did not “listen” to customers a long time before launching a product in the market, investing initially in research to identify and define customers’ needs and then create a specific, tailored product or service.

Unfortunately for companies, if the product or service is not able to satisfy the needs of potential customers in an appropriate way, no communication, though excellent technically speaking, will compensate for that.

Once companies have the right product, they may think of the best communication approach to promote it bearing in mind that any activity in communication has to be viewed, conceived and managed in an ancillary way in respect to company's objectives.

Finally we wish to remember how it is vital to continue listening to customers after the product has been launched and sold, in order to make promptly any necessary adjustments and optimizations so to be able to meet always in the best way the customers demand; therefore all the communication channels that nowadays are available should not be used only to send messages but also to receive them so to collect systematically information and make it possible a continuous monitoring of the market.

### ***UNDERSTAND AND EVALUATE THE COMPANY’S “PROMISE” MADE IN COMMUNICATION***

Another fundamental point, which may sound banal and obvious but that unfortunately continues to be a serious problem, is that while it is understandable that companies tend to overrate in advertising the benefits of their products and services, it is important not to exaggerate too much, because this may have a deleterious boomerang effect.

To make an example let us think of some advertising slogans, such as those for learning languages. for instance “learn Japanese in a month” or for the piano, “play straightaway with method x” and so on; for an expert in the field such “promises” not only are impossible but they sound ridiculous and to a certain extent offensive for those who after many years of studying are still far from a good level in languages or in the piano.

In this regard we have to consider that the increasing competition, the throng of communication tools and the increased level of culture in the population, caused an increasing distrust in advertisement promises; nowadays when a consumer has to buy a product or service, especially if it's something important, rather than being impressed and convinced by advertisement, he will much more listen to close people, relatives, friends or acquaintances who already bought and tried the same product or service.

We are referring basically to *word of mouth*, that is when information passes from person to person originally by oral communication and nowadays also via the Internet with the possibility to reach in an extremely reduce time a huge quantity of persons; positive or negative impressions about a product or service may be easily extended not only to close friends but may be reported to the people belonging to our same “class” or social group.

If we focus on this and we think how easy is for instance in Facebook to get in touch with friends and of our friends, it is not difficult to understand how nowadays companies should be very careful and avoid promising too much compared to what they know that can actually provide. If they do so, they will be considered more reliable by their customers and this will also be a favourable factor to increase the redemption of advertising activities.

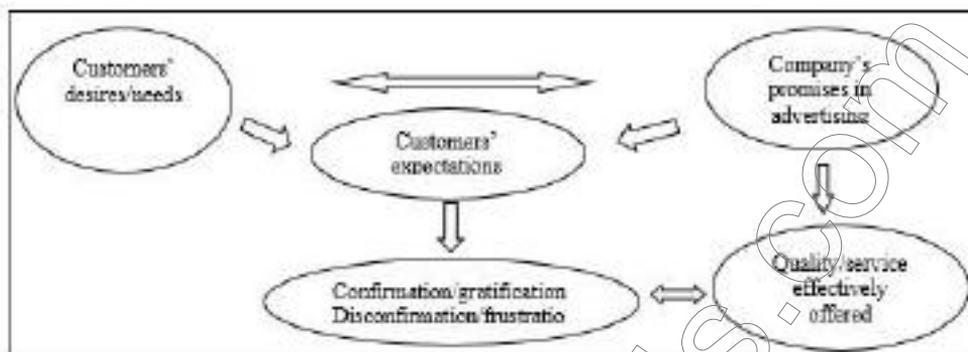
## ***UNDERSTAND THE CRITICAL ROLE OF THE “MOMENTS OF TRUTH”***

In line with the previous points we can now focus on something extremely important referring to the fundamental, but not yet fully appreciated contribution by Robert Norman with his "moment of truths" (Grönroos, 1990).

In the case of products, and especially of services, it is not always easy to understand immediately if companies are promising something realistic or sheer “miracles” and for this reason it is possible that even customers with a long experience may end up believing to a company’s promises and buy its product.

It is exactly at this stage that for many companies a real “tragedy” may occur; R. Norman (Grönroos, 1990), coined in this regard the expression “moments of truth” which perfectly describes this highly critical point, that is when a customer after an “act of faith” in company's promises begins to use the product/service he has purchased and, in so doing, ascertains whether the company's promises were true or not.

*Figure 3: Individual perception and the service provided – post-purchase impressions*



The result, in terms of impressions and feelings, may vary from an enthusiastic satisfaction to total dissatisfaction with all the various levels in-between; obviously reactions will inevitably be rather subjective but, what is important to underline is the psychological reaction since, if customers are satisfied then they feel gratified by their choice, while if they are dissatisfied they may feel frustration as though they had been “tricked”; all this is in line with what is defined as the confirmation, disconfirmation paradigm, as it is shown in figure 3.

What can companies do about this situation? Apart from avoiding to cheat on their customers, they should take care of safeguarding the relationship both by making available efficient communication channels for customers and, even better, by proactively contacting new customers to ask their opinion and see whether they have any problems or inconveniences and, in case, offer quick and real solutions. This last "moment" may be the most important critical one for a successful relationship because even a partial disappointment in the initial phase may be forgotten as long as companies are ready to help customers in their moments of need and find quickly solutions to their problems.

On the other hand, in these situations, it is not just a question of psychological aspects; if the product/service does not work well and the supplier is not cooperating, the only way out is to find alternative solutions with more reliable suppliers. This is always so, also in case of final consumers, but obviously this aspect becomes even more important, in business to business relationships, because companies have to work with their products or services and they cannot afford to lose their customers. It can therefore be understood that a company's general attitude and behaviour towards the customer plays a key role and that the companies able to find solutions for their customers in trouble, succeed in keeping them for a long time, despite some inefficiency, not excellent quality or not competitive prices.

To sum up, after credible and not excessive “promises” made by a company in the promotion phase, the product or service must definitely meet customer's requirements in an appropriate way and, finally, the relationship with customers should be adequately managed especially in moments of crisis.

On this subject it should be pointed out that in the last 50 years companies have really made great progress in order to make all kinds of communication channels available to customers to guarantee the possibility of constant and easy interaction; so we have for example websites, toll-free numbers, contact centres, helpdesks for citizens in the case of the Public Administration and so on. The problem anyway is that it is not enough to just “hear”; it's necessary to “listen” and then to act consequently being able to offer real and practical solutions.

Furthermore, instead of considering customers' complaints as a “nuisance”, companies should learn to “capitalize” as much as possible on these moments of contact; if customers have problems, it is not only necessary to solve them but also to bear in mind these complaints, so to prevent similar problems for other customers and, above all, be in line with customers expectations.

### ***BEING ABLE TO THINK OF THE BEST CAMPAIGN (BEST COMMUNICATION TOOL, BEST BUDGET)***

To think of the best campaign means first of all to follow all the recommendations we have done until now, but there are still two other main aspects to be considered, that is how much to invest in communication and what communication tool to choose among the many that are available nowadays.

As for the first point "How much to invest in communication?" we have to say that the question is this way it's not at all well formulated; a much better way may be "How much to invest in communication in relation to the company's objectives"? This correction is fundamental and let us understand how it is fundamental to avoid a fragmented approach and consider on the contrary all the different items involved in communication in an integrated way.

In fact, the starting point in advertising is to have in mind the company's objectives in terms of revenues, costs and profit; in this regard the communication activity, in the final end, must aim at the acquisition of  $n$  new customers and at keeping  $k$  customers already in the portfolio so that the sum of  $n+k$  allows the company to achieve its objectives. If companies consider communication in this way, that is in an ancillary way compared to objectives, this will allow them to understand what a serious mistake it may be to fix the budget for advertising according to what competitors do or as a percentage on the revenues or other wrong approaches; we do not fix the budget and then decide what to do, we do not choose the tool according to the money we have; we start from objectives, we consider what kind of promotional activity would be the most effective in relation to the target, we estimate the costs and the redemption (that is basically how many orders can be expected both immediately and in the medium and long term) and then we make a decision. If we do not do like this we run the risk to waste money and in some cases also to have a negative boomerang effect.

Figure 4: The most important modern communication tools. Source: Carmine D'Arconte. *Il CRM e il valore del cliente*



As for the second point, that is how to choose the communication tool, we give in the Figure 4 a representation of the most important modern tools that a company may use to communicate with its customers (D'Arconte, 2013); as we can see a huge variety where, especially non-experienced entrepreneurs, may feel confused and helpless. In fact every one of them has different characteristics, different costs, different redemption and so on; so all of them should be used in certain situations and not in others.

As we said, we cannot go in-depth into this for every tool and the reader, for further detail in this regard, may refer to the specialized literature (Tapp, 2005). Here we will repeat first of all the general principle, that is to avoid "self-referenced" activities; companies must define and know very well the target that they are going to address, asking themselves what channel may best match the same target's characteristics and expectations; for example if the target is a segment of young people it is highly likely that social networks will be suitable, while for high-level managers a specialized magazine in management might be the best tool and so on.

Apart from that, at a more practical level, in Direct Marketing it's used a general model that helps choosing the tool to be used considering many other elements in an integrated way; the model is called AIMIRITE (Tapp, 2005) where the expression stays for:

- Audience = the selected tool is able to reach the target audience?
- Impact = Is the tool effective?
- Message = does the tool allow to communicate clearly the message?
- Response: does the tool allow an easy interactivity?

- **Internal Management** = the tool allows an efficient campaign management?
- **End Result** = What are the redemption of the campaign in terms of expected orders, what are the costs and the profit a company may attain?

So, as we can see, also at this practical level, all the listed items should be considered in their relations, when choosing a tool, having in mind the End Result, the redemption of the campaign.

We believe that all promotion activities should be organized, carried out and managed in line with this general model, without any distinction between above and below the line; as we know the first refer to communication in the independent media e.g. advertising on TV or in the newspapers and the main aims are to inform customers, raise awareness and build brand positioning. Above-the-line tends to have a higher cost since the promotional methods used are less precise.

Below the line promotion concerns promotional activities where the business has direct control over the target or intended audience and there are many methods, including sales promotions, direct marketing, telemarketing, personal selling and sponsorship.

Now this distinction may be useful just to individuate two classes of promotional activities but we should get rid of the two main mistakes that are normally associated with it; the first is that above the line promotions are to be found at the top, in an elite circle of noble creative activities while the others should be considered at the bottom, a kind of second hand plebeian promotion.

The second mistake, strictly associated with the first one, is that because of this alleged superiority it should go without saying that in above the line activities no limit should be set to copyrighters lest their inspiration might be compromised.

Companies should get rid of both these mistakes and have always in mind, as we already said, that advertisement must always be strictly ancillary to the company's objectives and never ever the other way round.

## ***CONCLUSIONS AND FUTURE PERSPECTIVES***

So to sum up, we investigated a fundamental issue such as communication and in literature as well examining entrepreneurs' competences we found a rather critical situation.

The situation seems to be rather serious for entrepreneurs because, as we showed, not only they do not have as a general rule an appropriate return from their investments in communication but sometimes they also make some mistakes that may have a serious negative boomerang effect.

Apart from them, we believe that, in terms of sustainability, this may also be the cause of very high social costs as poor results in advertisement means less success, lower profits and inevitably less work with a higher unemployment rate.

Anyway the situation is heavy but not hopeless and it might be considerably improved without huge efforts and investments and, in this regard, aware as we are

of a substantial lack in theoretic contributions on the topic, we believe we have indicated a good route to be followed to avoid recurrent serious mistakes and have better results in communication.

We basically need a new approach referring to the general principles of communication we already illustrated, choosing and carrying out promotional activities having in mind the company's objectives, having more respect for customers and their needs, offering good useful products and services, guaranteeing interactivity, listening to customers, avoiding excessive promises and so on.

Finally the AIMRITE model may be a real support for companies when deciding what to do in advertising even if we believe that it would be highly advisable an in-depth study of all the communication tools in line with the same model.

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## **HOW A COMMUNICATOR'S EMOTIONAL INTELLIGENCE CAN IMPROVE THE PROCESS OF KNOWLEDGE SHARING**

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Radoslav Baltezarevic<sup>26</sup>

### **ABSTRACT**

*The main objective of this paper is to explore the importance of good communication competence and the emotional intelligence capacity of managers underpinning the employee motivation processes.*

*Those most responsible for promoting business communication, managers, should be able to provide fast and efficient use of all available data and information, both to the external and the internal environments. The skills of a good communicator involve the ability to hear the speaker and to adjust the method of dissemination to the communication style of the interlocutor. Hence, managers with emotional intelligence uses communication to maintain relationships, share tacit and explicit knowledge, and exchange information about emotions, values and motivations. Emotional intelligence has a positive effect on work group cohesion. The paper presents and discusses the results of a practical research on the topic the quality of business communication in Serbia.*

**Key words:** Organization, Communication, Knowledge, Emotional Intelligence, Tacit And Explicit Knowledge

**JEL classification:** D21, J24, M54

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## **INTRODUCTION**

In order to transform knowledge into intellectual property, employees have to be willing to share their experience and knowledge with other members of the organization. Knowledge is the power that enables organizations to improve productivity and to provide value to the group and individuals. Intellectual capital is the competitive value of any business system. The appeal of an organization or of belonging to a certain group depends upon the satisfaction of each group member. A manager, who wants a team comprised of satisfied, motivated and productive members, must have the capacity for understanding the human nature, individual differences, along with the efficient communication and adaptation skills. Such a leader also needs an ability to identify key individual competences that are crucial for the optimization of the overall team productivity.

The organization seeking quality must ensure that management focuses on people and relationships, in short the importance of human resources in achieving its objectives. Team members need to be informed and involved in the entire framework of a team task.

If group members believe that other group members, and the manager, respect them, they will be ready to share the same vision and knowledge, to establish mutual trust. Moreover, trust between business partners is a central premise of organizations based on knowledge and can be achieved only through the good communication's channels.

## **THE IMPORTANCE OF KNOWLEDGE**

The knowledge organization lives on the free and open exchange of information. Social capital influences the development of intellectual capital and thereby impacts the economic performance of organizations. Consequently, social capital can impact not only economic transactions, but also production, loyalty and risk taking (Nahapiet and Ghoshal, 2000).

The importance of knowledge, as a vital resource, for the world's economies has long been underlined in science and politics (European Council, 2000). The process of knowledge management is based on the ability of all members of the organization to add value to the basic business processes through the creation, communication, codification, and coordination of both explicit and tacit knowledge stores (Nonaka and Takeuchi, 1995).

The entire process of transformation from classical to knowledge organization has been a crucial step in improving and achieving a learning team. The idea of a learning organization is based on team-building, in which the organization's capacity for innovation and growth is constantly being enhanced, leading to continuous growth and transformation (Watkins and Marsick, 1993). Davenport and Prusak (1998, p.5) defined knowledge as a fluid of framed experience, values, contextual information, and expert insights that provides a framework for evaluating and incorporating new experiences and information. It originates in and

is applied in the minds of knower's. Subsequently, knowledge is often situated within the context of other cognitive elements (Clark and Rollo, 2001).

In creating a knowledge environment, it must be known that there are differences among: the possession of knowledge and the creation of knowledge. As Gregory (1981) noted, the possession of knowledge provides a pool that can be called upon to solve problems and facilitate understanding.

Organizations have to create successful knowledge strategies for generating greater value through knowledge via products, people and processes. Knowledge organization is a learning organization that is skilled at creating, acquiring and transferring knowledge and „at modifying its behavior to reflect the new knowledge and insights” (Garvin, 1993, p.80).

Knowledge can be seen as “a dynamic human process of justifying personal belief toward the truth” (Nonaka and Takeuchi, 1995, p.58), or we can conclude that “knowledge is not a Figure or representation of reality; it is much more a map of those actions that reality permits. It is a repertoire of concepts, semantic relationships and actions or operations that have proven to be viable for the attainment of our goals” (Glaserfeld, 1997, p. 202).

Individual learning is a central element in organizational learning (Argyris and Schön, 1999). Individual knowledge, also known as tacit knowledge, is stored in human memory. Knowledge management activities have to be oriented to targeting that kind of knowledge. The ‘weapons’ which would be used to capture such secret knowledge are manager’s cognitive components like good communication skills and emotional intelligence.

## **EMOTIONAL INTELLIGENCE**

Effective communication within the organization is defined as a tool for coordination and control of teamwork, individual socialization and group integration. Communication involves engaging people in the process of communication. Efficient communication skills are predicated upon the higher levels of emotional intelligence, reflecting on both personal and social competencies of the employees.

The term ‘emotional intelligence’ was first used in Wayne Payne’s doctoral thesis, *A Study of Emotion: Developing Emotional Intelligence* in 1985., then by Salovey and Mayer in 1990. They described emotional intelligence as „a form of social intelligence that involves the ability to monitor one’s own and others’ feelings and emotions, to discriminate among them, and to use this information to guide one’s thinking and action” (Salovey and Mayer 1990, p.189).

However, the term became widely known with the publication of Goleman’s *Emotional Intelligence – Why it can matter more than IQ* in 1995.

Emotional intelligence is 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. This means that we need motivated, educated members of the organization's team. To create such a team, good communication is an imperative.

Emotional 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).

Leaders with higher levels of emotional intelligence, often possess highly developed ability to tap into and partake in the emotions of others. The capacity for empathy is the strongest among similar people and people who share similar experiences, such as people in the same profession (Ickes, 1997). Through contact with other people we fulfill both our individual and collective needs (Walters, 2000) and this is why 'relationship management' represents an important aspect of work in the organizations.

Work satisfaction of team members is a prerequisite for their commitment to a common goal. 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. Full recognition of communicators, informed by empathy, is a good starting point for the introduction of the system for the exchange of ideas and knowledge.

Within the organizations lacking the empathy based communication, employees manifest dissatisfaction with their working environment, management and interpersonal relations. An individual, regardless of personal endowment, also understands him or herself as a member of a social group, wants to feel accepted by a collective and has a constant desire to appeal to the collective. The fact is that the social capital is equally important for knowledge organization.

Individuals continue to be social beings when placed in a formal workplace and basic psychological reactions cannot be disregarded in interaction with others (Haslam, 2001). Through establishing social relations and communication with other people, our feelings, needs and knowledge are shared. The need for members of social groups to feel satisfied and to freely engage in a deeper interaction, are met when they are feeling safe and accepted in the organizational system they have joined.

Emotional intelligence is about being more aware of our emotions and what they are signaling to us. Understanding your own emotions is half of emotional intelligence; the other half is the understanding emotions of others (Handel, 2013).

First of all, we have to be in control of ourselves and to protect ourselves from the control and influence of others, so that we can make the best, most objective, and most life-advancing decisions and take the best actions (Familaro, 2013).

## ***HUMAN INTELIGENCE***

People who have common intelligence have a powerful combination of self-management skills as well as the ability to work with others and to lead them. In this paper the authors focus on analysis of emotional intelligence, because emotional

intelligence involves manager's perception of others: when they understand their own feeling, this allows them to manage relationships more effectively.



Figure 1: Different types of human intelligence  
Source: Avadhoot, 2015.

Figure 1. shows the three different types of human intelligence. Intellectual intelligence (IQ) is human ratio. It measures the mathematical and logical powers of an individual. Emotional intelligence (EQ) measures the emotional human potential. Spiritual intelligence (SQ) depends on the various skills and abilities of human to live in harmony with high values and vision.

Salovey and Mayer proposed a model that identified four different factors of emotional intelligence: the perception of emotion, the ability reason using emotions, the ability to understand emotion and the ability to manage emotions.

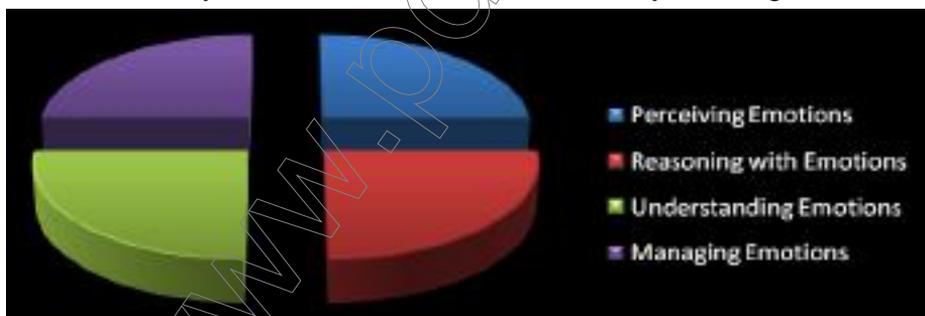


Figure 2: The Four Branches of Emotional Intelligence, Salovey and Mayer Ability Model

Source: Authors

Ability model is based on the four branches which are needed for expression of emotional intelligence. These capabilities are:

- **Perceiving Emotions:** understanding emotions, including understanding nonverbal signals such as body language and facial expressions and accurately perceive them.
- **Reasoning with Emotions:** using emotions to promote thinking and cognitive activity and prioritize what we pay attention and react to; we respond emotionally to things that garner our attention.

- Understanding Emotions: The emotions that we perceive can carry a wide variety of meanings. The observer must interpret the cause of their emotions and what it might mean.
- Managing Emotions: The ability to manage emotions effectively is a key part of emotional intelligence. Regulating emotions, responding appropriately and responding to the emotions of others are all important aspect of emotional management (Mayer, and Salovey, 1997)

Goleman (1998) suggested that being in tune with one's self and being able to understand and use emotions is more important than intellect. He noted that IQ contributes just 20 per cent to success in life – the rest comes from emotional intelligence. Great leaders who possess emotional intelligence influence people because they know how to work through human emotion. The importance of emotional intelligence is gauged by the fact that there are certain situations, specifically in the areas of leadership where EI could be more effective than IQ in terms of personal communication, motivation, self-control and empathetic behavior (Goleman 1998). Emotional intelligence represents an upgrade of the rational intelligence, for it involves the ability to recognize the emotions of others, thus directly contributing to the better efficiency of communication as well as employee satisfaction.

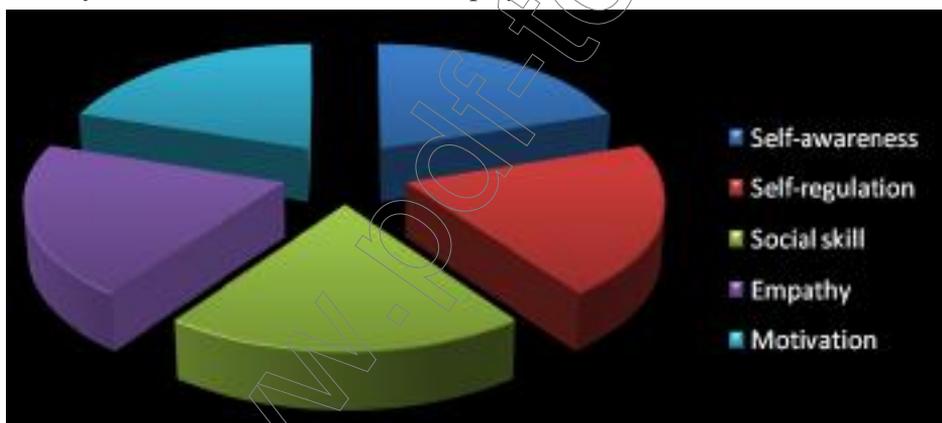


Figure 3: Daniel Goleman Mixed model of Emotional intelligence competencies  
Source: Authors

The Mixed model introduced by Daniel Goleman focuses on EI as a wide array of competencies and skills that drive leadership performance. Goleman's model outlines five main EI constructs:

- Self-awareness – the ability to know one's emotions, strengths, weaknesses, drives values and goals and recognizes their impact on others while using gut feelings to guide decisions.
- Self-regulation/Self-management – involves controlling or redirecting one's disruptive emotions and impulses and adapting to changing circumstances.
- Social skill – managing relationships to move people in the desired direction

- Empathy – considering other people’s feelings, especially when making decision
- Motivation – being driven to achieve for the sake of achievement. (Goleman, 1998).

Goleman pointed out that emotional competencies are learned capabilities that must be worked on and can be developed to achieve outstanding performance. Goleman posits that individuals are born with a general emotional intelligence that determines their potential for learning emotional competencies.

Emotional competence refers to one’s ability to express or release one’s inner feelings (emotions). Emotional capital is the set of personal and social emotional competencies which constitute a resource inherent to the person, useful for the personal, professional and organizational development and takes part in social cohesion, to personal, social and economic success. Furthermore, because of its impact on performance (as at work), on well-being (life satisfaction, health etc) and on social cohesion and citizenship, emotional capital should be taken into account seriously by the public and educational policy-makers and practitioners and companies (Goleman, 1998).

To be an effective communicator, one has become the part of the environment or adapt the environment quickly (Schlenker, 1980) and never forget that “we become the most powerful when we give our own power away” (Kouzes and Posner, 1997, p.185).

Emotional intelligence can give developing leaders a competitive edge (Childs, 2004). EI is not in opposition to IQ; instead, it is an extension of the human’s potential to succeed in a people-orientated environment (Stein and Book, 2001). Emotional intelligence is an array of non-cognitive capabilities, competencies, and skills that influence one’s ability to succeed in coping with environmental demands and pressures (Merkowitz and Earnest, 2006) and it is a skill vital to survive in the organization (Salovey and Mayer, 1990).

### ***THE PROCESS OF KNOWLEDGE SHARING***

“Communication is a way of exchanging ideas, attitudes, values, opinions and facts, a process that requires the sender which initiates the process and the recipient, which completes the communication link” (Baltezarevic, and Baltezarevic, 2013, p.433).

Communication represents the process of creating and exchange of information within the organizational network of people, with the purpose of finding the best communication modality within the single organizational context. Successful management is reflected in the ability for creating knowledge management systems to harness intellectual capital and create value. Know-how is stored in personnel, organizational manufacturing processes, and relationships. Accumulation, delivery and management of knowledge (and innovation based on them) have long become an imperative for economic growth and development.

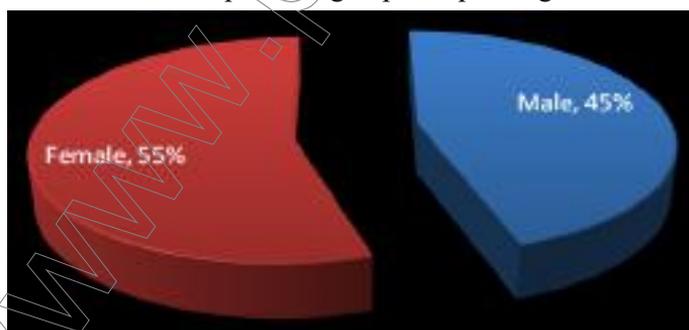
Positive mental state of employees is a prerequisite for their sense of belonging, both to the collective and the business idea. When we feel good, we are more likely to be in touch with our values, find a purpose in our work, and have intrinsic goals in harmony with our purpose and values. We are glad 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).

The main instrument for acquiring knowledge and its transformation in organizational capital is communication. Communication and organizational cultures together are important for achieving the projected goals of the organization and adapting to change organizational culture, as they encourage adequate participation of workers and the achievement of organizational goals. Good communications stimulate ideas and creativity of employees. However, this can be achieved only in those collectives in whom the management is knowledgeable and applies communication skills that are necessary to establish a two-way communication (Baltezarevic et. al., 2014. p.42). However, if an organization fails to create a favorable environment for the development of this segment, it will not be able to use the benefits it provides.

### ***THE QUALITY OF BUSINESS COMMUNICATION IN SERBIA***

Research which was undertaken in April and May in 2014. by authors collected data from 150 subjects, highly-educated people between the ages of 20-40 from Belgrade, Serbia.

The study we divide into three sections: research question, research hypothesis and research objectives. The questionnaire was anonymous, with a few requested pieces of personal information pertaining to participants' gender.



*Figure 4: Distribution of subjects by gender*  
*Source: Authors*

### ***RESEARCH QUESTIONS***

Questionnaires were filled out by participants in face-to-face contact. For each question, they were provided with two possible answers:

1. Yes - I agree with the statement (I think that is correct)
2. No - I do not agree with the statement (I think it is incorrect)

## RESEARCH HYPOTHESIS

Two hypotheses were constructed based on the literature and were tested in perspective of the previous studies and literature.

**H1:** Managers in Serbia know enough about the skills of emotional communication, and it reflects positively on creativity and knowledge sharing in the organization.

**H2:** Employees who are not satisfied with the quality of organizational communication are looking for alternative social networks.

## RESEARCH OBJECTIVES

The purpose of this study was to describe and recognize the importance of good communication in motivating employees to share their knowledge with other team members and to improve organizational knowledge base.

## KEY FINDINGS

The results obtained by the research compared the satisfaction of subjects' organizational communication, and the ability to develop creativity and knowledge share in such circumstances. We confirmed the first hypothesis, since 52 males and 41 females out of 150 expressed negative perspective of this issue, ( $n = 93$  or 62%) compared to positive answers male 30 and female 27 ( $n = 57$  or 38%).

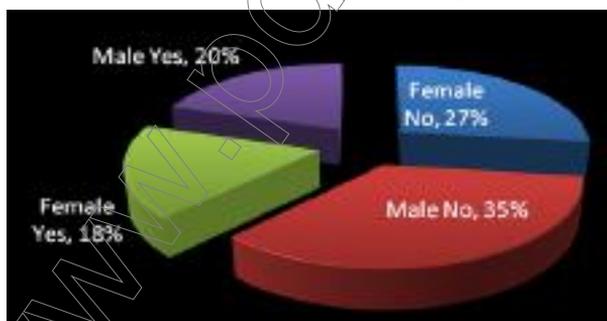


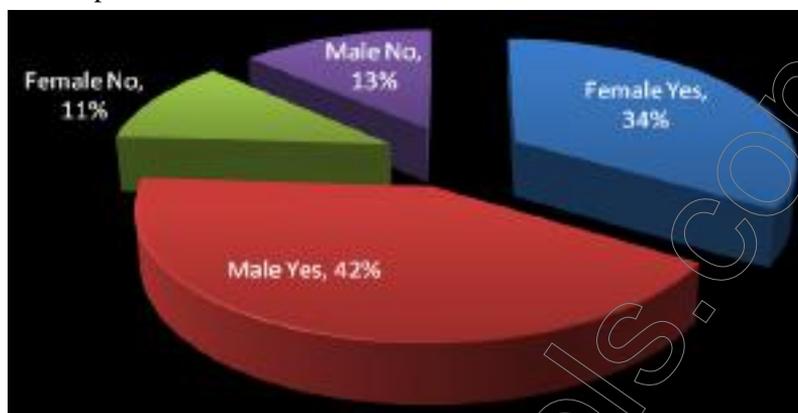
Figure 5: Satisfaction with communication in the organization

Source: Authors

As we previously noted, to be satisfied within the organization, people need to be included in communication process and feel allegiance to their social connections.

We can see from Figure 5. that 62% respondents do not have such a feeling. More than half organizations in Serbia are faced with communication-deficient managers. In such circumstances, people do not share the same vision. They are usually unsatisfied and not interested in the organization's goals and success. There is no willingness to share knowledge and creative ideas.

For the confirmation of the second hypothesis we asked respondents the reasons for going to social networks regarding an organization's communication and level of respect at work.



*Figure 6: Using social networks because of dissatisfaction with organizational communication*

*Source: Authors*

We can see from Figure 6. that 62 males and 51 females ( $n = 113$  or 76%) out of 150 expressed positively about this issue, compared to negative answers: males 20 and females 17 ( $n = 37$  or 24%). Social anxiety is the biggest real-life obstacle for establishing relations and contacts with other people. In the online world, one is spared such an obstacle: we can be anyone. Acceptance for socially isolated people, can mean a great deal, can invigorate their lives and bring personal satisfaction.

Regrettably, in the Republic of Serbia, drastically small numbers of organizations have established quality communication without stress and conflict. Confusion arises in communicating meaning, defined norms and rules of conduct. When an effective communication is lacking, no mutual recognition of common goal is achieved, leading to the substantial discrepancies in the understanding of the value system and the working context, between the leader and the rest of the collective. Such identity crisis within a collective most often is accompanied by the lack of the sense of belonging.

## **CONCLUSION**

Good communication is based on a sincere relationship, intimacy and confidence, body language, signals and so on. Traditional communication is under the pressure by new technology, crises, alienation and managers without the necessary managerial skills. Many organizations do not recognize the importance of the use of emotions in the communication process. Hence, this lack of managerial empathy can lead to dissatisfaction among employees.

Human capital combines different knowledge, skills, abilities and experiences of employee's through performing certain business processes, their competencies,

relationships and values. Such values, the result of the networking collective knowledge, are deeply rooted in the system of organizational culture. Human behavior is driven by different motives, and managers should pay attention to the diversity of people and their individual needs.

According to the situation in Serbia, we have shown through this paper that in Belgrade, Serbia 62% of respondents claimed that they are not satisfied with the communication model in their organizations. In such circumstances, there are no motivational incentives, for the exchange of experience and knowledge. However, with such real-life environment, 76% of respondents believe that the virtual world can bring new friendships and communication satisfaction.

Unfortunately, we must conclude that a many managers can't provide the environment supportive of interpersonal relationships. In the absence of such connections, the attraction of the Internet becomes new phenomenon.

Tacit aspects of knowledge can be transmitted via training or gained through personal experience and only through well-placed communications channel. Lack of educated management result in the fact that the concept of knowledge-based organizations is still at the beginning.

Good communication can be achieved only in those collectives in where the management is knowledgeable and applies communication skills that are necessary to establish a two-way communication. We need modern managers who are committed to the job and to the people. It implies that managers must learn how to be leaders, capable to apply both emotional intelligence and empathy within the organizational systems they are in charge of. Only through an application of the given competences, we can enable the formation of the working teams sharing the common vision, committed to the defined mutual goal.

The competitive strategy - a step ahead of the others, is no longer sufficient because competition is multiplied. A company itself must first establish the same kind of positive relationship with its employees. They are a part of the collective and its promoters. Emotional experience begins with them. Internal communication must have the potential to engage employees and make them passionately tied to the organization.. Disinterested staff does not encourage brand positioning as passionate.

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## **SECURE COMMUNICATION ARCHITECTURE OF INTERNET OF EVERYTHING (IOE) IN DEVELOPING COUNTRIES**

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*Funke Banigo*<sup>29</sup>,

*Carla Clarke*<sup>30</sup>

### **ABSTRACT**

*Various global development opportunities have been escalated through the Internet of Everything (IoE) with the potential of progressing Sustainable Development goals - dramatically accelerating and improving lives of millions. The emerging economies of developing countries with minimal investments have crafted a huge array of IoE technologies strongly demanding interoperability and interconnectivity that are affordable, scalable and available, significantly improving people's quality of life. Growing number of devices requiring interconnectivity referring to the concept of IoE headed beyond sensors, chips, computers and smartphones. The modern replete technology has enabled both synchronous and asynchronous communication without human interaction in many industrial processes, fleet management, stock exchanges, inventory systems and environment monitoring regardless of their extensive deployment. Information Communication Technology (ICT) is a fast evolving industry in developing countries, offering IoE's huge potential of transformation and disruption. The global development challenges have emphasised the need for communication and due to IoE advancements, long-standing issues (health care, stock, management, cross-border, technology diffusion etc.) would be surmounted in an affordable and quick manner. The developing countries would turn-around with the help of a long-awaited IoE technology aiming at improving their economies and lives of millions of people.*

*The key to increased usage is the interconnectedness of diverse range of devices which formerly were incompatible with each other. The interoperability*

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*between devices has rendered IoE both practical and possible and in accordance with the international communication standards. Research and industrial organisations have stipulated the formation of a hyper-connected society where tens of billions daily life objects and devices would communicate, forming a global network of smart devices. The successful provision of intelligent and smart devices through IoE services leads to challenging security concerns especially in developing countries where communication and devices are cheap but there is a lack of secure IoE infrastructures. The current paper would envisage a secure architecture for diversely connected objects within developing countries. A secure configuration methodology of the bootstrapping scheme is proposed as a solution in this paper. The bootstrapping scheme is activated as soon as a new object gets connected to an operational network. This method is feasible to secure the devices and avoid data exploitation within developing countries where communication across devices is still lacking protected infrastructures. A review of the Internet of Everything IoE is represented beneath, along with a brief portrayal of the applications and difficulties confronted by IoE.*

**Key words:** Internet, Everything, Communication, Secure, Architecture, Developing, Countries

**JEL Classification:** D83

## **INTRODUCTION**

A remarkable communication and networking infrastructure is replete in the modern society through Internet of the Everything (IoE) facilitating a significant impact on the economy (Biddlecombe, 2009). The World Wide Web (WWW) has been an integral driving factor in media sharing and global information exchange without constraints (Chorost, 2008). The Internet of Everything (IoE) imagines a future in which computerised and physical (e.g., cell phones, TVs, autos) can be associated with a method for reasonable data and correspondence advances, to empower a scope of users and administrations (Kang et al., 2014). The IoE's qualities, including an ultra-expansive scale system of things, gadget and system level heterogeneity, and vast quantities of occasions developed suddenly by these things, will make the advancement of the various applications and administrations an exceptionally difficult undertaking (Keoh et al., 2014, pp. 265-275). As a rule, middleware can facilitate an advancement procedure by coordinating heterogeneous objects and specialised gadgets, and support interoperability inside the various applications and administrations (Hersent et al., 2011; Garcia-Morchon et al., 2013). As of late, there have been various propositions for IoE middleware. These recommendations generally tended to remote sensor systems (WSNs), a key part of IoE, however, don't consider RF recognisable proof (RFID), machine-to-machine (M2M) correspondences, and supervisory control and information securing (SCADA), other three centre components in the IoE vision (Kwon et al., 2016, pp. 269-280). In this paper, we plot an arrangement of prerequisites for IoE middleware and present a complete audit of the current middleware arrangements against those necessities. Furthermore, open exploration issues, difficulties, and future examination headings are highlighted.

The web continues to increase in stability, with the landing of remote broadband availability easily achieved (Kortuem et al., 2010, pp. 44-51). Progression in innovation identified with information gathering, for example, implanted gadgets and RFID innovation had prompted increment in a number of gadgets that are associated with the net and transmit the information consistently (Ning, Hu 2012, pp. 1230-1241). The continuation of this pattern is ready to advance as an Internet of Everything where the web will give a medium to items to wind up intelligent. Albeit a significant part of the work has already been done today on the Internet of Everything, it has still been confronting numerous difficulties in the constant environment (Aggarwal, Lal Das, 2012, pp. 51-56). The usage of IoE is key for the developing nations. The procedures for the utilisation of IoE should be produced quickly.

## **IOE AND DEVELOPING COUNTRIES**

As the globe draws links nearer to being 100% associated, IoE could be a key driver in both developing and developed markets (Lombreglia 2010). As indicated by the ITU's 2015 Measuring the Information Society Report, the financial estimation of the IoE is still subject to numerous variables however the developing

scene speaks of a sound venture (Perera et al., 2013, pp. 1660-1679). The report referred to look into by McKinsey that said 40% of overall IoE market quality would be developed from developing nations by 2020, a hefty portion of which would fabricate new data innovation framework as a component of the United Nation's expressed supportability objectives (Reinhardt 2004). Utilising the associated needs of nations to make the IoE a key portion of continuous advancement bodes well (Goldman Sachs, 2014). Contingent upon which expert's information is taken, there could be any place between 26 billion and 100 billion gadgets associated with the IoE by 2020, the report said (Kang et al., 2015, pp. 1-11).

For the developed world, the IoE is regularly considered as simply Web-associated gadget-savvy homes, autos, keen iceboxes, indoor regulators, toasters and so forth (Gubbi et al., 2013, pp. 1645–1660). In any case, individual-to-machine and machine-to-machine correspondence are considerably more than that. The ITU Telecommunication Standardization Sector characterises the IoE as "a worldwide base for the data society, empowering propelled administrations by interconnecting (physical and virtual) things taking into account existing and advancing interoperable data and correspondence innovations" (Shelby et al., 2014). This makes the IoE verging on ideal for any nation that is building a framework without any preparation (Dodson, 2008). For instance, half of all current IoE movement is focused in assembling, the report said. Organisations are trying different things with better approaches to mine information and enhance work process while expanding operational effectiveness ... all of which could be of awesome use in nations that need to end up greater players on a world stage (Karimi, 2016).

More developed nations see the utilisation of the IoE as a key driver of running maintainable urban communities through brilliant lattices and information administration (Parametric Technology Corporation, 2014). Utilities realise that they can screen water frameworks, check air quality and oversee waste or sewage with IoE associated gadgets. The ITU report cites that reaction times to philanthropic catastrophes can be snappier because of the IoE, with associated gadgets ready to record and influence the information that can be useful in managing the result (Keoh et al., 2014, pp. 265-275). Automotons can be utilised as a part of farming, remote sensors can track crop development and unmanned vehicles can lessen physical work.

### ***WHAT THE INTERNET OF EVERYTHING CAN DO?***

China has a long history of air contamination and is making a genuine endeavour to diminish its carbon discharges. Africa is in critical need of clean water innovation and vitality proficient answers, for mitigating the effect of low-tech power lattices. India has a populace of 1.2 billion that is turning out to be always drawn in with versatile and has a potential application economy that could make 600,000 employments by 2016, ZDNet reports (Evans, 2014). The build up around the IoE has been operational for quite a while, so it is of little surprise that

developing and developed markets would need a share of any profits (Mirzadeh et al., 2014, pp. 17-40).

Numerous individuals view IoE as methods for producers and administration suppliers to enhance operational efficiencies, for instance, through better resource use (Evans, 2014). Diverse disciplines and routes are discussed in which IoE together with corresponding advancements, for example, cloud and enormous information, can empower new business systems that drive separated client esteem. For instance, GE can help carriers enhance their administration quality by expanding the accessibility of its plane motors through better pre-empt support, by, for instance, extricating derivations taking into account sensors that distinguish, say, varieties in motor turn speed or oil weight (Park et al., 2016, pp. 1-12). IoE applications are not confined to organisations, obviously; purchasers can profit by an extensive variety of associated things running from action trackers to insightful indoor regulators to associated vehicles (Graham, Haarstad, 2011).

Be that as it may, in the creating scene, as the Cisco/ITU report clarifies, IoE can drastically affect human welfare, on the grounds that the things we frequently underestimate in the developed world—nourishment, clean water, power, access to social insurance, and opportune and satisfactory reactions to human catastrophes—might be distressfully deficient. Basic arrangements, for example, organised temperature sensors on coolers containing antibodies or medications truly can have a crucial effect. Besides, as the late Flint, Michigan water emergency appears, even created economies can profit by such IoE arrangements. Likewise, in today's borderless world, enhancements in one district can profit others, such as through practical angling, administration of pandemics, or renewable vitality use.

For instance, in social insurance, the advantages of remotely checking icebox temperatures to expand the wellbeing and viability of medications are clear, yet one could contend that a much less difficult arrangement could likewise work, say, a name that progressions shading if presented to too high a temperature. Nonetheless, through remote checking, not only can the process duration for issue determination for a given fridge be quickened, yet wide-scale examples of issues in the supposed "cool chain" of conveyance logistics, for example, power misfortune or gear disappointments may be investigated and the whole store network for all time moved forward.

### ***THE PERFECT PLACE TO INNOVATE IN THE IOE***

For the IoE to completely recognise its potential, it needs to adjust to different perspectives. In developed countries, these are underestimated. The same can't be said of developing and developing nations (Bormann et al., 2015). "IoE units and requires the collaboration of different partners in the ICT area: from purchase gadgets-makers to telecom administration suppliers and application engineers," the report said "likewise, for IoE to satisfy the exclusive standards made, different partners outside the ICT division should be locked in, including auto producers, utilities, home apparatus makers, open organizations and numerous others" (Gershenfeld et al., 2004). The key perspective here is the foundation, particularly

regarding information transfers. As a component of its Connect 2020 Agenda, the ITU has made expanded access to the Internet a need and that could connect a developing computerised partition (Kang et al., 2014).

The IoE depends on availability and information-handling to work effectively. Developing countries are still in the early phases of developing proficient systems. For instance, broadband associations both high and low speed are a huge factor of how developed nations are connecting with the IoE (Jayavardhana et al., 2013). The ITU report hailed this as a worry in its audit of developing and less developed nations (Kang et al., 2014).

Once in a while, such connectedness can empower new plans of action. For instance, in the creating scene, utility power is either occupied or inconsistent. While solar based boards are turning out to be savvier, the capital expense required to convey them can be restrictive in low-salary regions. In any case, remotely observed solar powered boards can be offered to clients with practically no front-end capital use, with resulting instalments then taking into account genuine use. The Cisco/ITU report digs into different applications, for example, savvy hand-pumps to enhance access to water in towns where youngsters may stroll for 60 minutes or more to get water from a well, sensors to screen water virtue, labelled animals to lessen foot-and-mouth ailment, tidal wave cautioning frameworks, sewage checking, out of control fire hazard administration, and regular catastrophe administration. The creating scene offers a flawless tempest of these convincing human needs with a novel group of stars of empowering influences. What's more, the work power of these areas can profit significantly from the utilisation of data to advance procedures for productivity and quality.

To achieve this, requires minimal effort, pervasive availability. The most recent decade has seen rising economies jump abroad an innovative era of wireline systems by conveying the most recent remote advancements. Truth be told, 95% of the world's populace now has admittance to remote systems, making such systems a great deal more broad than power or water. All the more unpretentiously, the way that range has not been so completely dispensed to, say, legacy TV broadcasting, implies there is more white-space range accessible for IoE applications. Also, an assortment of systems can empower gathering and conglomeration of information from sensors and remote control of actuators.

### ***INCREASING ACCESS TO BROADBAND NETWORKS***

The report said that while 95% of the world has entry to a portable system, Internet access is meagre in the developing and raising world. Around 34.1% of families have an entry in the developing scene (Kang et al., 2014). The circumstance is more regrettable in the 48 nations assigned by the United Nations as just 6.7% of family units have Internet access (Kang et al., 2014). Also, it is this absence of availability that could keep the IoE flourishing in Africa, India and even a few regions of China. Developing and rising countries are trapped in a Catch-22 circumstance ... they are the areas that could most profit by IoE applications and developments, yet they don't have the correspondence structure to do as such

(Arampatzis et al. 2005, pp. 719-724; Bicknell, 2009). The same may be said of any IoE apparatuses that can screen agribusiness, water quality or even foresee the impacts of compelling climate (Bormann et al., 2015). The worth got from the IoE originates from its availability and information administration capacities, two components that won't be the highest priority on the rundown for an agriculturist in Chad (Grieco et al., 1989, pp. 99-111). So by what means can emerging and less developed nations take care of the issue? The answer is direct ... local speculation into the framework that backs the IoE (Bergmann et al., 2012). That speculation does not need to originate from the nations themselves, rather it will require a worldwide push to ensure that specific parts of the world are not left trailing behind others (Chen et al., 2012, pp. 561-566). The IoE can possibly reform the world and it appears to be consistent that the regions that can gain advantage most from that potential ought to have the capacity to do as such (Graham, Haarstad, 2011). At the point when that happens, the IoE will race towards a level of profitability.

### ***IOE IN DEVELOPING COUNTRIES AND SECURE COMMUNICATION***

The Internet of Everything represents a rapid increase in our growing needs after numerous years of our needs remaining the same (Butler, 2012). We are wishing to be an insecure way and entertained, have the ability to bolster our general public and assume an essential part of the bigger plan of things (Han et al., 2014). The Internet of Everything is a system of things each inserted with sensors which are associated with the web. This idea is essentially interfacing any gadget with an on/off switch to the Internet. This incorporates everything from mobiles, coffee blenders, ventilation systems, earphones, wearable gadgets and just about anything (Jennings, 2012). This additionally applies to segments of machines, for instance, a motor of an aeroplane. A element in the Internet of Everything can be a person or a creature with a lung screen embed, a major creature with a chip, an engine vehicle implanted with sensors to caution the driver when the apparatus bar is not working legitimately or some other common or man-made device that can be allocated an IP address and furnished with the capacity to exchange information over a system (National Institute of Standards and Technology, 2001). Joining with the Internet suggests that gadgets will use an IP address as an interesting identifier (Bersani, Tschofenig, 2007). Because of less location space in IPv4, objects in the IoE will need to utilise IPv6 (Pahlavan et al., 2007, pp. 43-47). Things in the IoE won't just be gadgets with detecting capacities, additionally give activity abilities. The fate of the Internet of Everything won't be conceivable without the backing of IPv6 and subsequently, the worldwide appropriation of IPv6 in coming years will assume a noteworthy part for the effective advancement of the IoE later on (Kranz et al., 2010, pp. 46-53).

Nowadays, the Internet of Everything has gotten expanding consideration, where a quickly developing number of devices and gadgets around us, which are called ordinary devices, are proposed to interface with the Internet (Chorost, 2008). In actuality, a considerable measure of gadgets has, as of now, been interconnected with different gadgets on account of both cost proficient access organising

advances, for example, Wi-Fi, Bluetooth, and ZigBee and the ubiquity of utilising different keen administrations and gadgets, for example, PDA, shrewd auto and brilliant TV (Park et al., 2016, pp. 1-12). Further, keen and savvy IoE world can be acknowledged sooner rather than later, where interconnected different things consequently find an objective administration for people and brilliantly bolster the administration by coordinating with near-by different things without human intercession (Pahlavan et al., 2007, pp. 43-47). In this way, the IoE may be utilised as a part of wide industry fields, for example, mechanical control, keen home and building administrations, medicinal services administrations and a few different commercial ventures (Graham, Haarstad, 2011).

Security and protection are essential to give benefit effectively on the Internet (Butler, 2012). Under the same viewpoint, IoE administrations must consider not just broad security administrations, for example, secrecy, uprightness, accessibility, information access control, and confirmation, additionally, a proficient approach to ensure against different dangers and attacks that can happen (Han et al., 2014). Case in point, a medical service which transmits delicate individual data should precisely consider security and protection (Jennings, 2012); Goldman Sachs 2014); Kwon et al., 2016, pp. 269-280). The creator notes here that the initial move towards a safe IoE is the underlying setup of devices (i.e., devices and gadgets) and systems in a safe style (Karimi, 2016). This paper presents an effective and secure plan to design an asset obliged IoE gadget. Particularly, the author concentrates on secure key design. Most IoE gadgets are implanted in objects of the day-to-day life and work with negligible assets (i.e., 8-bit preparing microcontrollers with constrained measures of memory), (Hersent et al., 2011). The system is likewise compelled (e.g., 6LoWPAN having high parcel mistake rates and a run of the mill throughput of 10s of Kbit/s). The paper accepted that interchanges of IoE devices depend on TCP/IP protocols and the devices utilise the obliged application convention (CoAP) more than 6LoWPAN system (Kranz et al., 2010, pp. 46-53).

Pre-shared key (PSK) based secure plans are surely understood and broadly utilized for different security administrations as a part of Internet (Bersani, Tschofenig, 2007). Specifically, asset compelled things prefer to utilise PSK based secure plan since it is figuring proficient (Reinhardt, A. 2004). Every such plan entirely expects that PSK is just known not to correspondence substances required in current security administration. Accordingly, security of the plans is bargained if the presumption is broken (Kang et al., 2015, pp. 1-11). In any case, it is still not clear how PSK of asset compelled things can be at first designed in a safe way. As a calculated arrangement, this paper presents an underlying setup strategy that may be a piece of the secure bootstrapping plan (Arampatzis et al., 2005, pp. 719-724). Straightforward and default secret key, for example, "0000" or "1234" is the underlying setup on a lock of the bag when sold (Jayavardhana et al., 2013). The proprietor can change the secret key subsequent to buying it. In this paper, likewise, the introductory key of devices is arranged (or engraved) by the installer (or producer) amid the enlistment stage. From that point, when the devices join to a current system, the key (i.e., PSK) can be safely reconfigured.

The proposed plan does not cover all operations of secure bootstrapping for IoE systems, however, it is expected to safely bolster self-reconfiguration of the pre-introduced interim key of joined devices. Contingent upon administration, either a controller or an executive arranges the devices by utilising the recently designed key (Ning, Hu, 2012, pp. 1230-1241). The setups incorporate application setting and system layer settings, for example, space name, default portal, and intermediary. The setting data ought to be conveyed safely to make further administration secure (Hersent et al., 2011; Garcia-Morchon et al., 2013).

This paper proposes an approach to arranging and reconfigure PSK using out-of-band (OOB) channel of devices and gadgets (Dodson, 2008). Sound sign, light (LED or showed visual code) and NFC can be a legitimate contender for the OOB channel (Gubbi et al., 2013, pp. 1645–1660). For instance, an item which contains speaker and mouse, can utilise a remote correspondence innovation, for example, Bluetooth or ZigBee keeping in mind the end goal to associate with the internet. In such a case, Bluetooth is utilised via its in-band channel, though sound channel can be utilised as an OOB channel (Kwon et al., 2016, pp. 269-280).

### ***DEVISING SECURE COMMUNICATION ARCHITECTURE IN DEVELOPING COUNTRIES***

In secure bootstrapping and validation framework in Internet, PSK based primitive is broadly utilized (Shelby et al., 2014). This is basically due to the way PSK based secure plans are considerably more proficient than open key based plans. As we depict in Section 1, in any case, it is faulty how PSK of asset compelled things can be safely designed.

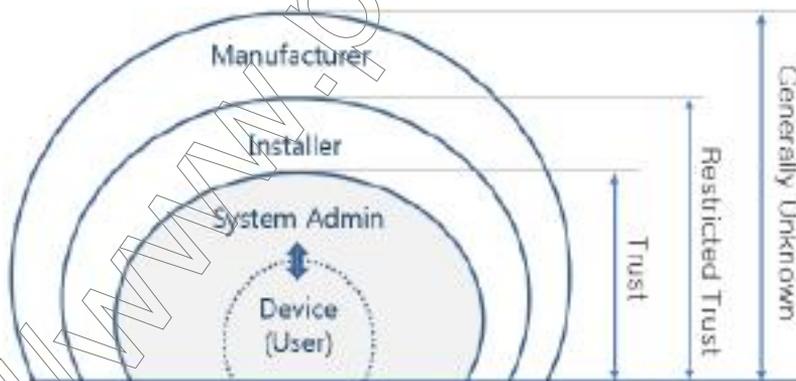


Figure 1: “Adapted from (Kang et al., 2014)”

Ordinarily, appliances utilised for IoE might be produced and introduced by various subjects (i.e., basic people) (Chorost, 2008). That is, as a rule circumstance, a framework chairman may make requests to a few diverse installers. After that, each of the installers buys one or more distinctive arrangement of things from one or more diverse producers. It is likewise impossible that a solitary subject introduces all hubs utilised for a huge application space (e.g., all hubs in immense

building), (Parametric Technology Corporation, 2014). That is, numerous installers and producers might be included relying upon conveyed application administration. In such case, it is a matter for thought whether all installers and producers can be trusted or not (at the end of the day, a matter of trust relationship). Figure 2 demonstrates the trust relationship among members.

**DEVELOPING TRUST OF PARTICIPANTS**

This paper considers a situation, where hubs are at first arranged by an installer (or a maker) amid enrolment stage (or assembling/manufacturing plant setup stage) as appeared in Figure 2. In the event that protected accreditation including PSK is required to be designed in this stage, the trust between installer (or producer) and framework chairman is critical. Notwithstanding, this is not a simple procedure since producer, installer and administration supplier don't share a tight and trust connections as a rule cases (Perera et al., 2013, pp. 1660-1679). Regardless of the fact that the case is appropriately settled, there may be a few secure dangers and vulnerabilities to be taken care of.

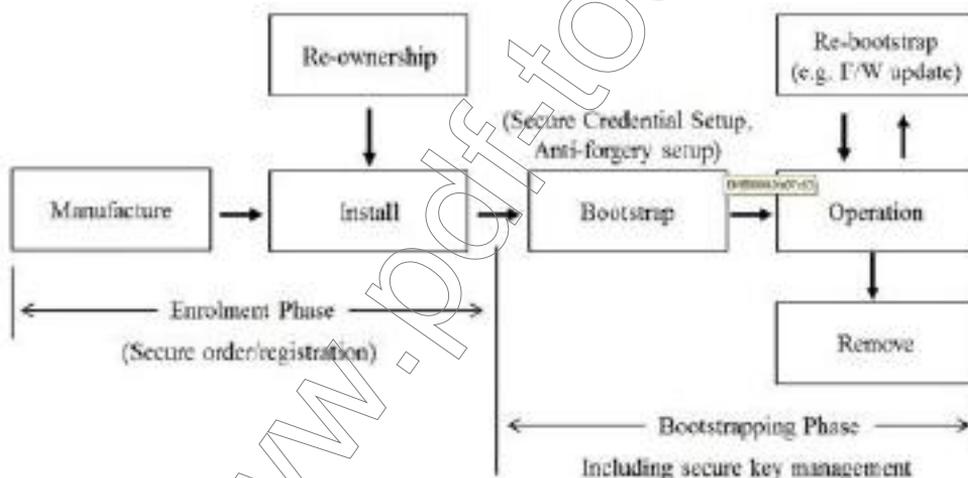


Figure 2: “Adapted from (Goldman Sachs 2014)”

Secure bootstrapping is viewed as a troublesome issue in IoE situations (Kortuem et al., 2010, pp. 44-51). This is basically in light of the fact that a great deal of day-to-day life things that have a tendency to interface with the internet are asset obliged. IETF arranged compelled gadgets with thought of information size and code size.

**SECURITY ANALYSIS**

With a specific end goal to investigate the security of the proposed plan, the security examination on replay attack, mimic attack and central location attack are given in this area [28]. This paper expects that information in flight 1, 4 and 5 is

transmitted over OOB channel which is viewed as a solid OOB talked about in (Chen et al., 2012, pp. 561-566). Along these lines, an attacker can just listen stealthily, block, and alter information in flight 2 and 3.

Regardless of the possibility that an attacker captures an information transmitted in flight 2 and 3, and tends to make a replay attack after a specific timeframe, it can't expect and alter the RNC, which is a piece of figuring PSK. Likewise, there is a period stamp in the scrambled part of the information. Accordingly, the proposed plan ensures against replay attack (Mirzadeh et al., 2014, pp. 17-40). In the proposed plan, mimically is troublesome. As expressed in the presentation, it is hard to make an attack on solid OOB channel without an extraordinary gadget (Park et al., 2016, pp. 1-12). For instance, on the off chance that we utilise NFC as the OOB, it has a short correspondence span inside 10 cm. Two gadgets are found intently so that these gadgets can check the entrance of an attacker. Likewise, regardless of the fact that an attacker mimics as a controller, the intruder can't know the symmetric key which the controller and the validation server have partaken ahead of time, so the attacker can't transmit a right esteem encoded in flight 2 and 3.

An intruder may exist between the controller and the verification server. In any case, the controller and the verification server do encryption and unscrambling utilising the mutual symmetric key as a part of development in both flights 2 and 3, so it is conceivable to secure against a central location attack. The proposed plan can be actualized by utilising just a solitary cryptographic primitive AES (Bersani, Tschofenig, 2007) which is utilised for secure bootstrapping as a part of the PSK reconfiguration stage. Single cryptographic primitive usage is objectively suited for the situation where applications or administrations require a safe session (classification and trustworthiness of information) in IoE. Since gadgets constrained with low figuring force and little stockpiling are real substances in IoE. As indicated by a full bootstrapping approach, the PSK can be utilised for instruments of session key inference and/or substance confirmation. As talked about in ESP-PSK (Kortuem et al., 2010, pp. 44-51), it's implied that a solitary cryptographic primitive may not bolster extensible security administrations, for example, character assurance, immaculate forward mystery and others. Notwithstanding, little gadgets comprising of IoE won't bolster all of the security administrations innately. Administration engineers ought to, in this way, characterise an extent of his administration entirely and consider a trade off between ability and security.

## **CONCLUSION**

The PSK based strategy is fitting for the IoE situations comprising of lightweight gadgets since this technique utilises less figuring time and vitality than the technique to set the session key, taking into account general society key calculation. A fundamental essential for the PSK-based technique is that PSK ought to have been designed by the principle specialists of correspondence securely ahead of time. To accomplish the essential, this paper proposes a safe key setup

technique that is a piece of the secure bootstrapping plan. As of now, the creator is planning and executing the proposed plan by utilising different sorts of OOB channel. Specifically, the creator trusts that NFC and sound are the best answer for asset compelled IoE gadgets. That is essentially in light of the fact that the two interfaces are generally utilized for a considerable measure of day-to-day objects and nodes and subsequently the expense is low.

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## **VIRTUAL COMMUNICATION'S SKILLS - VIEW THROUGH THE SOCIAL MEDIA AND SITUATION IN SERBIA**

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### **ABSTRACT**

*The modern era, although characterized by high productive technological discoveries, demands a shift towards a genuine human being. Creativity, emotions and empathy are still attributes associated only with human beings, regardless of whether the people are involved in face-to-face communication, or communicate via social networks.*

*Modern technologies have significantly contributed to the redefining of communication with the support of IT network which increases both the risk and the value systems conditioning. New communication's skills are demanded by the new age. Modern organizations are turning their windows to the outside world, but trust among business partners is a central premise of modern organizations, because success is preconditioned by the mutual cooperation. The traditional form of communication the Internet has drastically changed.*

*This paper analyzes redefined human communication and the potential in Serbia for employees adapt to working with new technologies. Authors research the possibilities for the population in Serbia to adjust to new forms, known as virtual forms of communications and business. Research included the level of education and presence in a virtual network in order to determine whether there is potential for transition to new forms of business.*

*Methods used in this research were theoretical considerations and the comparison with existing statistical data.*

*The expected contribution of this paper is to show that it is necessary to raise the educational level of the population in Serbia and acquire specific knowledge and skills, in order to achieve a successful position in a market that is increasingly directed towards the use of modern technologies.*

**Key words:** *Communication, Modern Organizations, The Internet, Virtual Network, Educational Level*

**JEL Classification:** *A13, C71, D21*

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## **INTRODUCTION**

The Internet becomes new phenomena of the human community. The modern economy is directed more towards the latest technologies. The impact of new technologies suggests that our understanding of what makes up a primary human group needs to be radically changed. Organizational communication has to be adaptable and possess the ability to flexibly respond to the dynamics of changes in the environment and to make a positive response to the requirements posed by the environment demands.

Contemporary man is, in every life role, faced with numerous communications challenges. Achieving good communication is a difficult task. Communication methods, as well as the position of man in a social setting, have been simultaneously changing with the development of human society and its technological advancement. But, new technology still cannot affect the human need to interact with other people, because a person has a constant need to communicate with other people.

Various stages of development of human society reacted differently to the changes that have transformed their way of life and their habits. The Internet lays the foundations of a new, parallel virtual world with the ambition to move the business into the virtual sphere.

The reason for the inclusion into groups stems from the sociability of man, and people need for companionship and social relationships. Each organization (regardless of whether it is a traditional or virtual organization) can be seen as a system of communications (Monge, Contractor, 2001). One of the primary characteristics of the informal structures in organizations is their communication network.

## **THE MODERN ERA REDEFINED HUMAN COMMUNICATION**

Cyber society is a society created by the modern technology, mainly computer technology. It is an imaginary space behind the screen which is possible by means of computer communications and contacts without time and space limitations.

Online communication can be seen as “cultural aggregations that emerge when enough people bump into each other often enough in cyberspace”. “Online people do almost everything that people do when they get together, but they do it with words on screens, leaving their bodies behind, independently of the local time or location” (Rheingold, 1994, p. 57).

Globalization and advances in technology have created a space for communication outside defined geographic boundaries. Limited, ‘fenced’ space no longer exists. The whole planet has become a ‘communicative village’, and geographical distance is no longer an insurmountable obstacle to the launch and implementation of the “business without borders”. A new form of association and form of business is relying on people. No matter how is advanced the technology, the center of business success has always been a man.

In a situation where an individual is not satisfied with the expression of one's own personality within a social setting, because the degree of realizing social integration did not bring the expected recognition, the person begins his/her search for a new social framework. One of the alternatives is the use of the Internet, which can significantly contribute to the alleviating of the feelings of loneliness (McKenna, Bargh, 2000). Internet and Facebook (and similar social networks) allow individuals to be involved in these virtual creations. It does sound nice, but we need to ask ourselves whether such communications actually result in alienation.

The electronic world is an authentic community and it is comparable to the real lives of its participants, as they “use words on screens to exchange pleasantries and argue, engage in intellectual discourse, conduct commerce, exchange knowledge, share emotional support, make plans, brainstorm, gossip, feud, fall in love, find friends and lose them, play games, flirt, create a little high art and a lot of idle talk” (Rheingold, 1996).

However, creativity, emotions and empathy are still attributes associated only with human beings. The future belongs to people with the creative and innovative thinking, which is something that computers cannot do for us and which creates the biggest developments of the future. Even if a computer, machine, or cheaper labor force can eventually take over the task they will still need someone to dream it up and develop it (Pink, 2014).

The channel of communication may have implications, for not only, how accurately users can interpret the content of a message but, also, how accurately users can interpret emotions within a message (Byron, 2008).

Interpersonal communication is communication between two persons, or among a small group of persons. Computer-mediated communication means all forms of people communication through some computer, electronic, or the Internet connection.

The Internet is not only a new information structure, or a new communication channel but, the key factor that affects the development of the economy and society and constantly puts new services available, and provides (Kamps, 2011, pp. 278)

Information communication media allow new forms of social relations and the capability to communicate. “Will it be used for interpersonal dialogue as a forum for discussion, as a medium for mass distribution or downloading of different contents, depends on the willingness of users, as well as decisions about the purpose of sharing content”(Hagen, 1998, p. 8).

With the increased of familiarity with the Internet, users can adapt to the channel to a degree of proficiency that allows them to communicate in a manner similar to that of face to face communications.

Thus, the modern era redefined human communication. The traditional form of communication the Internet has drastically changed. Customizing the circumstances require, above all, is computer literacy.

Existing social patterns are shifted from the real world into the virtual world. Facebook increasingly becomes the defacto platform for all online social networking. The communication stage has got a new type of communicators. Avatars are what people use to represent themselves in virtual worlds. In the

cyberspace communicators had the chance to remake the world and society in any way they wished. That helps people who struggle with real-life relationships, initiate and establish social interactions with others (Forest, Wood, 2012). In the case of social networks, such as Facebook, the perception of building and maintaining relationships with people is fundamental as is a justification for their existence.

Table 1: Differences between face to face and computer mediated communication

Throughout this text face-to-face and computer mediated communication are discussed, compared, and contrasted. Here is a brief summary of just some communication concepts and some of the ways in which these two forms of communication are similar and different.

| Human Communication Element                                                                                                                                                | Face-to-Face Communication                                                                                                                                                                                                                                                                                                                                                                                           | Computer-Mediated Communication                                                                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Sender</b> <ul style="list-style-type: none"> <li>■ Presentation of self and impression management</li> <li>■ Speaking turn</li> </ul>                                  | <ul style="list-style-type: none"> <li>■ Personal characteristics (sex, approximate age, race, etc.) are open to visual inspection; receiver controls the order of what is attended to; disguise is difficult.</li> <li>■ You compete for the speaker's turn and time with the other person(s); you can be interrupted.</li> </ul>                                                                                   | <ul style="list-style-type: none"> <li>■ Personal characteristics are hidden and are revealed when you want to reveal them; anonymity is easy.</li> <li>■ It's always your turn; speaker time is unlimited; you can't be interrupted.</li> </ul>                                      |
| <b>Receiver</b> <ul style="list-style-type: none"> <li>■ Number</li> <li>■ Opportunity for interaction</li> <li>■ Third parties</li> <li>■ Impression formation</li> </ul> | <ul style="list-style-type: none"> <li>■ One or a few who are in your visual field.</li> <li>■ Limited to those who have the opportunity to meet; often difficult to find people who share your interests.</li> <li>■ Messages can be overheard by or repeated to third parties but not with complete accuracy.</li> <li>■ Impressions are based on the verbal and nonverbal cues the receiver perceives.</li> </ul> | <ul style="list-style-type: none"> <li>■ Virtually unlimited.</li> <li>■ Unlimited.</li> <li>■ Messages can be retrieved by others or forwarded verbatim to a third party or to thousands.</li> <li>■ Impressions are based on text messages and posted photos and videos.</li> </ul> |

Source: Soperedi com 2014.

From the table 1. we can see differences between face-to-face and computer mediated communication. In the virtual word sender can be anonymous or fictional characters thanks for using of avatars. So, we can never be sure who our communicator is. People who receive messages from the virtual space form their impressions based on text messages and posted photos and videos.

New technologies are represented not only in private life, but, also in the sphere of business. For a new form of business it is important to understand how virtual and face-to-face teams are different. While having this peculiarity of communication, virtual teams still share the characteristics of their face-to-face counterparts. This familiarity could be erasing the distinctions between face-to-face

and computer-mediated communication; however, in some respects, virtual communication may still require special allowances, or be a better suited environment for some people than others. A more systematic exploration of these questions and others is needed (Bell, Kozlowski, 2002).

There are two main characteristics that differentiate the virtual from traditional teams: 1) virtual teams are geographically or organizationally distributed, and 2) virtual teams use IT as a significant medium of communication.

The research indicates that the imperfection of verbal cues in the virtual setting might result in more misunderstandings than face-to-face communications (Shin, 2005, p. 334).

Virtual teams are different than conventional, face-to-face teams, primarily due to their lack of physical proximity. Leading virtual teams must be adapted to different circumstance. It is the distance between members and relies on technological communication that impedes two primary leadership functions – performance management and team development (Bell, Kozlowski, 2002).

### ***THE TECHNOLOGIES OF THE VIRTUAL WORKPLACE ARE CHANGING THE NATURE OF LEADERSHIP***

Face to face interaction is especially important early in a team's life, particularly when the team is comprised of people who don't already know each other (Mortensen, O'Leary, 2012). Within the group goal, organizations recognize the opportunity to reach their individual goals. Team members should be informed and included in the entire framework of a team task. Trust is a prerequisite for their commitment to a common goal. Trust can be defined as: the expectation that arises within a community of regular, honest and cooperative behavior, based on commonly shared norms, on the part of the members of the community (Fukuyama, 1995).

However, trust is not gained without creating a solid system of communication channels. Virtual teams, unlike traditional ones, however, must accomplish this by working across distance, time, and/or organizational boundaries and by using the technology to facilitate communication and collaboration (Duarte, Snyder, 2001, p. 5). Virtual teams, offers many advantages, but, also pose a number of challenges.

People consciously and unconsciously seek social ties with people like themselves to form personal relationships. Trust and social capital are causally related. Trust, cooperation, friendship and community are based on contacts in the sensual world. You communicate through networks, but you don't live in them (Weinreich, 1997). Persons who have problems with social adaptation, who are burdened with a sense of low self-esteem and rejected by other members of the group, are looking for alternative methods that can help them fill these gaps and „to escape the problems and issues of the real world“ (Barlow et al., 1995, p. 43).

Modern consumers demand a special treat, as unique human beings. Power no longer belongs to the company. It is positioned within the mass of consumers who are asking to be recognized and “adopted”.

The technologies of the virtual workplace are changing the nature of leadership. According to Bell and Kozlowski (2002) there are four criteria that could be used for the formation of successful virtual teams:

1. Temporal distribution: distributed versus real time
2. Despite the prototypical Figure of a virtual team, some virtual teams may communicate synchronously, either because they operate in the same city or because the nature of their task requires them to be online at the same time (e.g. air traffic ground controllers)
3. Boundaries: singular (a team within the same division/unit) versus multiple boundaries (e.g. cross-organizational, cross-cultural, cross-functional teams)
4. Lifecycle: discrete versus continuous. While many virtual team are created for the purpose of fulfilling a task and disband at the end of it (e.g. product development teams), increasingly teams exist virtually on a continuous basis.
5. Member roles: multiple versus singular. Prototypically, virtual team members hold multiple roles (since teams are often cross-functional) but it is important to note that singular roles are also possible (Bell, Kozlowski, 2002, p. 22).

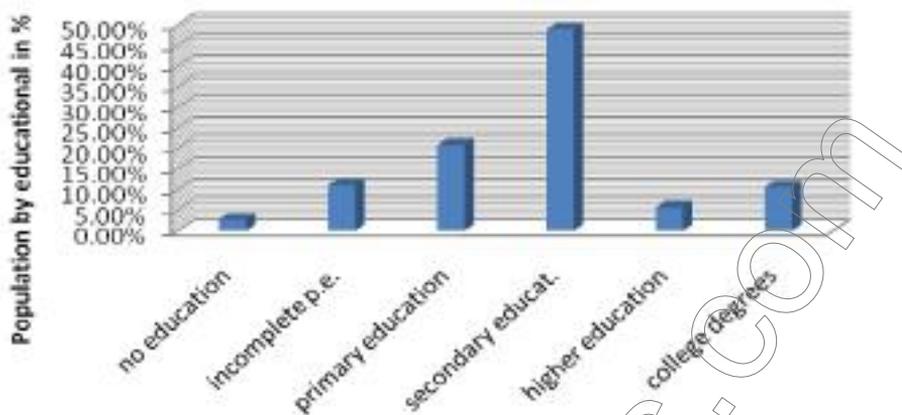
Good leadership is situational. This means that the virtual context and its attendant situations in the virtual domain necessitate leadership that is uniquely qualified for the challenges of virtual reality (Bolman and Deal, 2003). It means that leadership has to be redefined in the transition from traditional teams to virtual teams, including all leader's skills like: signaling roles, communicating vision, modeling behavior, influencing opinion, communicating norms, motivating, mentoring, building trust, evaluating and rewarding behavior (Zigurs, 2003).

### ***POSITION OF SERBIA IN THE FIELD OF USING NEW TECHNOLOGIES***

Serbian society has many economic problems which affected the possibility of using new technologies. Employers who are faced with poor business and financial results are not interested in employee education, including the training for online business. Another reason is, without doubt, present and poor management structure thanks to the presence of politicization in this area.

Management that does not invest in the education of employees is the 'enemy' of the organization that manages the. Serbia is faced every day with scandals and abuses that are embroidered with the state and the private sector.

The number of illiterate people in Serbia is 165 000, including more than 80% are women. Incomplete primary education has about 677 000 (11%) inhabitants in Serbia; primary education has 1 279 111 (20.76%); secondary education has 3.015 092 (48.93%); higher education 348 355 (5.65%); college education has 652 234 (10.59%) and there is no data for 24 424 (0.40%) of the residents. (Republic Institute for Statistics, 2012).

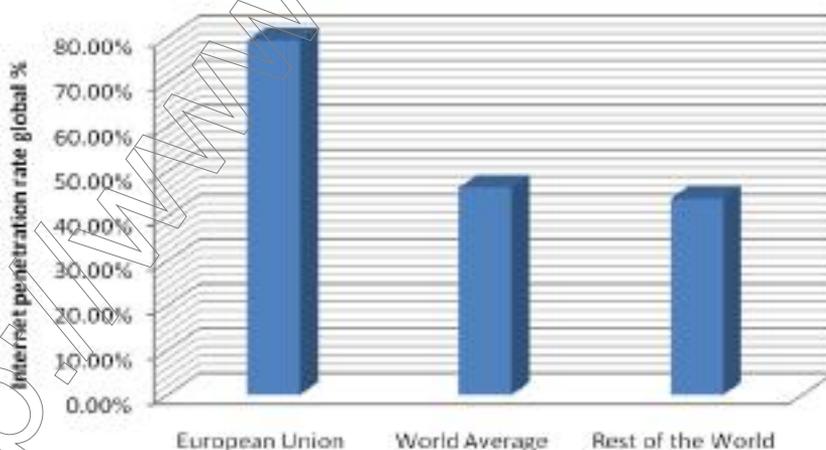


*Figure 1: Educational structure of the population in Serbia  
Source: Adapted from Republic Institute for Statistics (2012).*

With a college degree in Serbia are more than 650 000 people, which are almost 11%, as opposed to the 2002 when it was 6,52%. However, connection of higher education with the economy is weak. Graduates with college education do not know the new technologies and they have a lack of competence seeking by enterprises.

At a Serbian labor market there is not enough persons with appropriate knowledge and skills, but on the other hand, there is a large number of people with occupations for which there are no need to the labor market.

Education and training for certain skills have become one of the key agenda of the European Union, and Serbia has to follow such demands. Creating systems and knowledge-based training often involve the use of technology, business skills and the integration of telecommunications (McFarlane, 2008, p. 2).



*Figure 2: European Union Internet Penetration in November 2015.  
Source: Internet World Stats, 2015.*

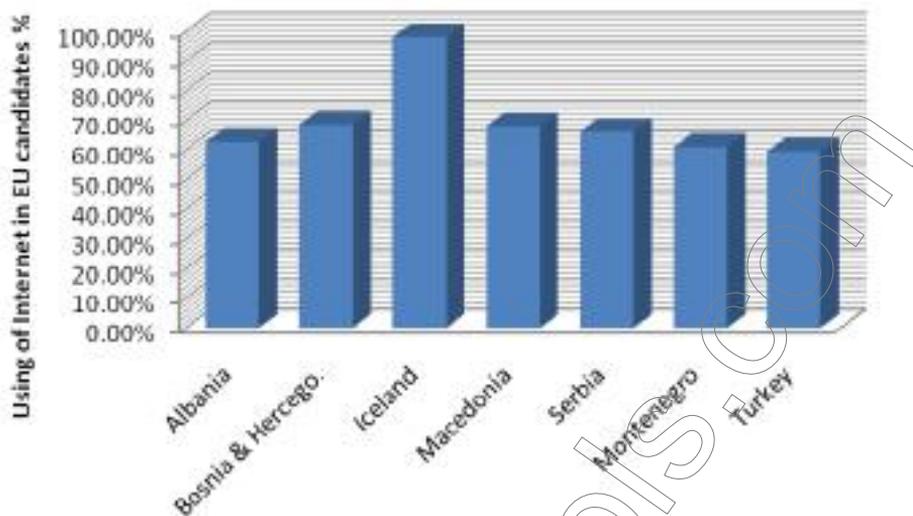


Figure 3: Internet penetration EU candidates, November 2015.  
 Source: Internet World Stats, 2015.

Data for 2015 show an increase in Internet users from 55.8% in 2013, to 66.2% at the end of 2015. But, the computer illiterate, are still 33.8% of the population in Serbia.

The plurality of users of the Internet in Serbia hits online content and websites (browsing), especially music and film content, or “chatting”. Online shopping is much less common than the other actions - only one in five Internet users in Serbia uses this feature (Medium Gallup, 2010).

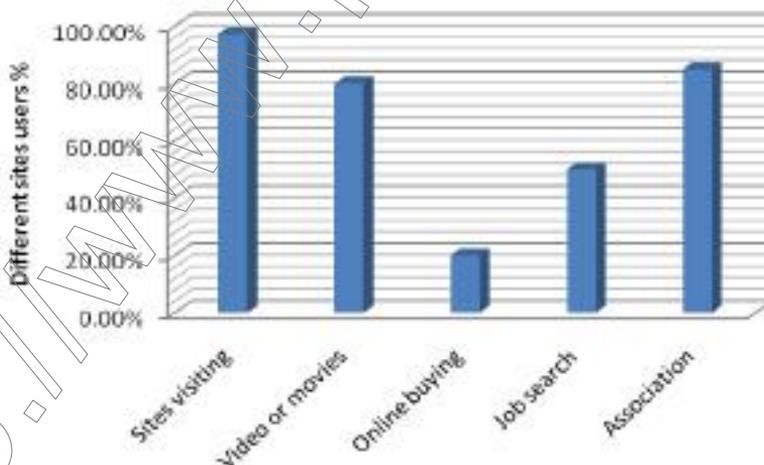


Figure 4: Using of different Internet sites in Serbia  
 Source: Adapted from Republic Institute for Statistics (2012).

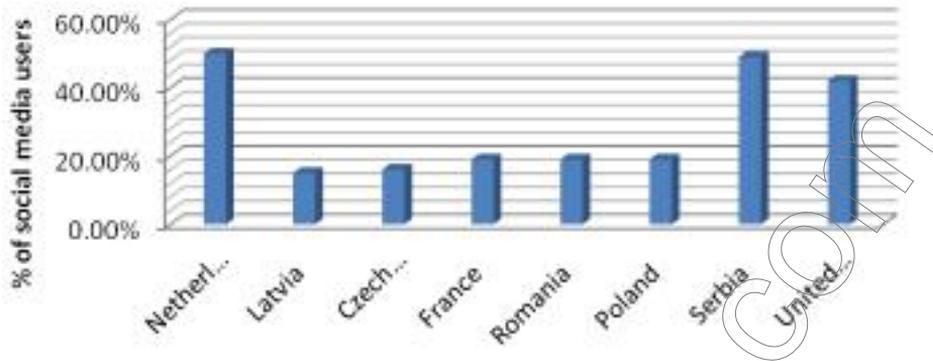


Figure 5: Using at least one type of social media  
Source: Adapted from Eurostat (2013, p.1.)

The difference between Member States is also large concerning the use of social media. The share of enterprises using at least one type of social media ranged from 15% in Latvia, 16% the Czech Republic and 19% in France, Poland and Romania to 55% in Malta, 50% in the Netherlands, 48% in Ireland, 45% in Sweden and 42% in the United Kingdom (Eurostat, 2013, p. 1).

Facebook's latest data show that, from the Balkan countries, the largest percentage of users of the social network registered in Serbia. Specifically, in Serbia there are 3.5 million users of the social network, which is almost 49% of the total population. Immediately after Serbia coming Macedonia (48%) and Montenegro (46%).

Account for social networks Facebook and Twitter in Serbia have 93.4% of the Internet population aged 16 to 24 years.

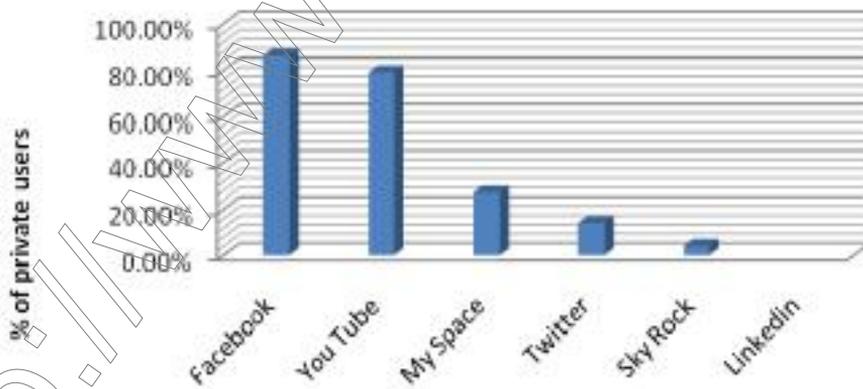


Figure 6: Using social media for private purposes  
Source: Adapted from Republic Institute for Statistics (2012).

The analysis of using social media for private purposes shows that users of social networks most used *Facebook* (86%), and least used *Sky Rock*, which has a very small percentage of users (4%).

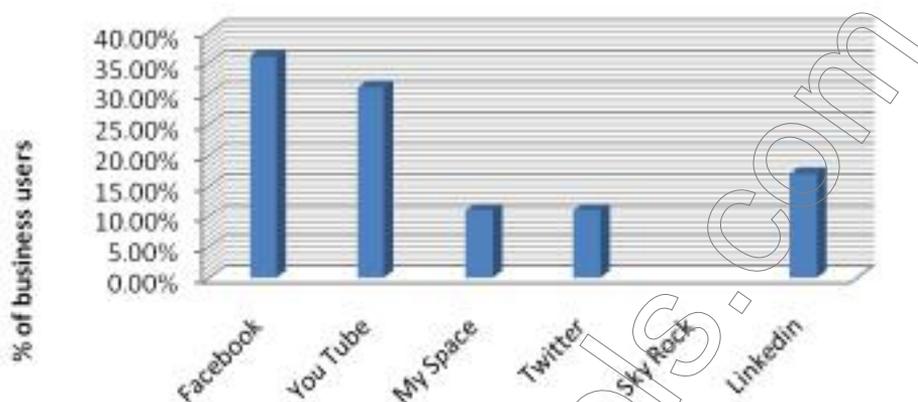


Figure 7: Using social media for business purposes

Source: Adapted from Republic Institute for Statistics (2012).

Regarding the use of social networks for business purposes, *Facebook* is the first one with 36% of users preferred over other networks. *LinkedIn* as a professional social networking records the accession of 17% of social network users in Serbia.

## CONCLUSION

The virtual space brings the initial enthusiasm about the opportunity for communication this technology enables. But, also brings a lot of difficult challenges for communicators.

Even though the new technological age has begun, people still needs interactions with other people. It is a vital factor in human development. The ultimate goal for managers is to put together their employees and clients and give them enough emotions.

However, for members of social groups to feel satisfied and to freely engage in a deeper interaction, there is need to feel safe and accepted in the organizational system they have joined. For the creation of such business environment, the managers are most responsible.

The social interactions of millions of people around the world, along with the creation of their virtual identities, social relationships and communities, lead to the scenario in which the computer technology and virtual communication are actually forming the parallel society and the new virtual cultural and business space.

The human-technology partnership manifested in the virtual forms of business, despite all the shortcomings of the virtual space, is identified as an imperative way of doing business.

Serbian business environment, as a whole, is in need of “big” cleaning and reorganization. A business entity must become a recognizable brand, not of a specific product or services, but as a concept based on the process of emotional acceptance of employees and customers. Team members need to feel that they belong to such a team. A leader, who wants such a team must understand people and all their differences, must know how to communicate with and adapt to them, all of which must be quickly consolidated and implemented. People consciously and unconsciously seek social ties with people like themselves to form personal and business relationships.

The Republic of Serbia is faced with the precarious situation because of the disproportion between supply and demand in the labor market and the between qualifications systems and vocational education with the EU, are the challenges that will face Serbia in the future.

The competitive strategy - a step ahead of the others, is not enough. New manager's skills are demanded. Individuals, who belong to the establishment and further development of business organizations, must have a positive attitude toward a group goal. This means that within the group goal, people can recognize that they should reach their individual goals.

Consideration of the structure of employees and the needs of the labor market, in Serbia, is crucial for the design change proposals related to the educational programs that will be tailored to the needs of the labor market and employment creation programs.

Technological advances and the growing complexity of the tasks that need to perform the job, it is necessary to raise the educational level of the population in Serbia and acquire specific knowledge and skills, but also possess broader competences and personal characteristics. This is an inevitable and knowledge of information communication technology.

As always happens, a new phenomenon causes various controversies conditioned by the different attitudes. In contrast to denial of success of virtual contacts, we have the theorists who argue in favor of the merit recognition of virtual communities for the improvement of human communication. The lack of visual and audio cues in many of these communication channels creates possible barriers to effective communication, making the manager's job more difficult than it might be in the face-to-face environment.

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# **INFORMATION AND COMMUNICATION TECHNOLOGIES AND SOCIO-ECONOMIC DEVELOPMENT**

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Milan Krstic<sup>34</sup>

## **ABSTRACT**

*Modern information and communication technologies (ICT) are recognized as a major factor affecting the economic growth and innovation. Transforming society to information society, ICTs have provided the environment for the growth of productivity, efficient way to connect people and societies, and to create new opportunities for improving living standards and also proved that they are a key prerequisite for economic and social development. Although ICTs are becoming more universally available, there is still a pronounced digital divide between the economically and technologically developed countries and developing countries. Given that today the difference in the development of the countries, social groups or individuals is in direct relation to the level of application of modern technologies, countries or their governments must actively work towards reducing the differences in technological development (in relation to the world and Europe). Therefore, it is necessary to create a good national strategy for the development of telecommunications infrastructure and information society, good legal and institutional base, as well as ongoing activities to improve knowledge and raise awareness about information society. For this reason, this paper points out some of the ways of measuring the development and the impact of ICT on the socio-economic development. Special attention is paid to indicators that indicate the level of development of information society in Serbia, such as The Network Readiness Index (NRI) developed by the World Economic Forum and the ICT Development Index (IDI) developed by the International Telecommunication Union. These indicators show that the Republic of Serbia in the development of the information society still has to overcome many obstacles, from infrastructure development through greater availability of hardware and software resources to the necessary education.*

**Key words:** *ICT, Socio-Economic Development, Indicators, Serbia*

**JEL Classification:** *O10, O44*

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## **INTRODUCTION**

Thanks to the rapid development of information and communication technologies (ICT), the capitalist social model exceeded its industrial era and entered the new information age, in which hierarchical forms of enterprises have disappeared, different forms of work have been developed, and innovations in technology transfer and information processing are becoming the major driving force of economic and social development. After the transition of the agricultural era into industrial, greater progress has been made with the transition from industrial to information age. The transition to the information age is characterized by a paradigm shift - from the time in which the key resources (physical and financial) were limited, now key resources (knowledge and information) are unlimited. Today synonyms for the information age are the terms "digital economy", "post-industrial society", "knowledge economy" and "new economy". This epoch is often called the "age of uncertainty". Uncertainty in the context of business occurs as a result of the rapid development of new technologies, competition, globalization etc. The basis of the so-called "new economy" is the Internet, which together with its technological, institutional and cultural environment, changed the world and the way people communicate. Internet has also added the "old world" completely new economic dimension.

The rapid development and acceptance of new ICT not only transformed the industrial age into the information age, but also transformed human society into information society. Information society is the result of the so-called digital revolution, which changed the method of production of goods and provision of services, transforming almost all industries, created a wide range of new products, services and operations, as well as completely new living environment based on the use of ICT (Đorđević, 2012, pp. 1).

Although ICTs are becoming more universally available, there is still a pronounced digital divide between the economically and technologically developed countries and developing countries. Given that today the difference in the level of development of countries, social groups or individuals is in direct relation to the difference of the level of application of modern technologies, states or their governments must actively and quickly work towards reducing the differences in technological development (in relation to the world and Europe). That is why the good national strategy is required for the development of telecommunications infrastructure and information society, good legal and institutional base, as well as ongoing activities to improve knowledge and raise awareness that the world is entering a new era of development and doing business. In accordance with this, this paper points out some of the ways of measuring the level of development and the impact of ICT on socio-economic development. Special attention is paid to indicators that point to the level of development of information society in Serbia, such as the Network Readiness Index (NRI) developed by the World Economic Forum and the ICT Development Index (IDI) developed by the International Telecommunication Union.

## **RESEARCH METHODOLOGY**

**Methodology of the research** of development of information society and the impact of ICT on socio-economic development is based on desktop study, and the study of available literature sources. The aforementioned theoretical research covers initially gathering of relevant data from specified domains, processing of the obtained data, and finally analyzing the results.

**The research subject** is to examine the possibility of determining (measuring) the impact of ICT on socio-economic development. Special attention is devoted to determining the level of development of the information society and the impact of ICT on socio-economic development in the Republic of Serbia.

**The aim of the research** is to determine the current state of development of the information society and the impact of ICT on socio-economic development in the Republic of Serbia. The study starts from the premise that ICTs are the main carriers of economic development and modernization of society in general, but also have significant potential for further development of economic activities in Serbia. The survey was conducted by the authors of this paper in the period March - July 2016. This paper briefly presents the results of that research.

The paper first clarifies the relationship between ICT and socio-economic development, where the current era of digitalization and intensive application of modern technology is regarded as one of the society revolutions - the Internet revolution or the technological revolution. Furthermore, special attention is paid to the possible effects of the technological revolution in developing countries, and the possibilities of economic growth and development using modern ICT. The focus of theoretical research is placed on finding answers to the question: Can modern technology and the Internet be carriers of economic development of developing countries, one of which is the Republic of Serbia? The remainder of this paper points to the measurement results of development of the information society and the impact of ICT on socio-economic development in the Republic of Serbia, primarily the state of the information society in terms of legal and institutional framework, and then through the indicators of the Statistical Office of the Republic of Serbia and aforementioned international indicators NRI and IDI. At the end, the research results are discussed and the main barriers further development of information society in Serbia have been noted, as well as suggestions for overcoming them.

## **ICT AND SOCIO-ECONOMIC DEVELOPMENT**

The discussion about ICT and socio-economic development falls into a broader school of thought that proposes to use technology for development. The theoretical foundation can be found in the Schumpeterian notion of socio-economic evolution, which consists of an incessant process of creative destruction that modernizes the modus operandi of society as a whole, including its economic, social, cultural, and political organization (ICT4D, 2016). The motor of this incessant force of creative destruction is **technological change**. The key carrier

technology of the first industrial revolution was based on water-powered mechanization, the second was enabled by steam-powered technology, the third was characterized by the electrification of social and productive organization, the fourth by motorization and the automated mobilization of society, and the most recent one by the digitization of social systems. Each one of those so-called „revolutions“ has been characterized by a sustained period of social modernization, most notably by sustained periods of increasing economic productivity. Modern information and communication technologies therefore represent general purpose technologies that can transform entire economy, leading to a modern, and more developed form of socio-economic and political organization often referred to as the post-industrial society, Information society, digital age, and network society, among others.

Lately, the use of information and communication technologies (ICTs) in the fields of socioeconomic development, international development, and human rights is called **Information and communication technologies for development (ICT4D)** (ICT4D, 2016). Other terms can also be used, such as "ICT4Dev" ("ICT for development"), or ICTD ("ICT and development) and development informatics. ICT4D is aimed at bridging the digital divide and assisting economic development by fostering equitable access to modern communications technologies, as it is a powerful tool for economic and social development. ICT4D can refer to assisting disadvantaged populations anywhere in the world, but it is usually associated with applications in developing countries.[5] It is concerned with directly applying information technology approaches to poverty reduction. ICTs can be applied directly, benefiting the disadvantaged population, or indirectly, by assisting aid organizations, non-governmental organizations, governments, and/or businesses, to improve socio-economic conditions.

Internet in the future will be a field of the struggle for higher productivity and better living standard. Internet revolution creates an opportunity to accelerate development in each country. Some authors believe that not all countries will be able to seize this opportunity fully, because adequate infrastructure and appropriate institutions are necessary. Creative use of the Internet in the context of the development strategies of developing countries requires a planned support. So, in the XXI century of critical importance will be the fourth sector - Web economy (Internet economy) and modern digital technologies that will interweave all areas of economic activity.

Internet has a similar impact on economic development in the current phase of our civilization as much as the discovery of America had 500 years ago. This is a historic change that accelerates a constant process of globalization. Huge quantity of inventiveness and entrepreneurship, as well as significant human and financial resources, are moving to the virtual space, where they find very favorable conditions for expansion.

However, the technological revolution by itself is not sufficient to bring the socio-economic development that goes into the era of globalization. Today, from the viewpoint of the technology, the regions where it would not be possible to invest, produce, buy or sell do not exist. However, there are other obstacles -

political and social, cultural and mental differences, trade and tariff barriers. Overcoming these obstacles requires adequate policies, given that technological progress alone is not able to overcome them all. Old problems should be faced not only with the means of new technologies, but also with new policy - shaped by the demands of the "new economy" and the paths of globalization. Such a policy should include the new coordination mechanisms, especially on a global scale, and to form a new international order, because the existing is inadequate to the demands of the modern global economy.

Internet revolution and the expansion of computer networks – are present in most developed countries, but reduced to a marginal position in the less developed countries, which will have far wider implications than are currently anticipated.

However, while the "new economy" for the time being has insignificant macroeconomic effects in developing countries, it seems that the microeconomic effects are significant and very positive in certain industries (such as retail, financial services, transport). "New economy" has already brought some positive effects for developing countries - the rapid development of e-banking, e-commerce, e-government, etc., which are the examples of the potential use of modern technology (Medić, Đikanović, 2015). However, the macroeconomic impact of electronic business in developing countries is still insignificant. The rapid progress in the adoption of innovation in information technology suggests potential **technological revolution** in developing countries. Still, it will take a long time until the micro-economic progress created in terms of the "new economy" does not begin to significantly affect the living standard (in the positive sense). Improvements in productivity at the company or branches level formed by applying information technology will lead to the acceleration of economic growth only in the medium or long term. In addition, speaking in the long term, in order to converge developing to developed countries it is necessary, besides the adoption of new information technologies to also adopt knowledge in the field of management and organization, as well as to attract investments from developed countries. The benefits resulting from the convergence and application of information technology depend on the quality of national policies, the level of development of institutional infrastructure and management capability.

"New Economy" offers several options for developing countries to achieve faster economic growth and development. But also, it creates certain risks. Developing countries can achieve rapid economic development thanks to the low opportunity costs of replacing old technologies with new ones, also to younger population which adopts innovation faster, as well as thanks to the high level of education, which has a very high value in terms of the "new economy". In addition, the benefits of the Internet revolution are based on the use of the Internet in the knowledge-based society, which is the result of the "new economy" and which allows faster diffusion and adoption of innovations. Such chances and opportunities provided to developing countries may be reduced or completely invalidated in case of occurrence of the digital divide and the technological pitfalls.

Despite aforementioned dangers and challenges posed by the "new economy" for developing countries, the economic potential of technological innovation is very

important, as seen in the long term. However, in the short term perspective, the traditional accumulation of physical and human capital is more important than technological progress. Empirical studies show that from 1991 to 1995 in developed countries of Western Europe, technological progress accounted for 60% of the annual rate of growth of GDP, which is much higher than in developing countries. This suggests that in developing countries the accumulation of traditional factors of production, ie investment in physical capital and to a lesser extent in human capital have a much greater importance than in developed countries. Therefore, the traditional factors of production will for a long time remain the main carriers of economic growth in developing countries, bearing in mind the requirements of the "new economy". This stems from the fact that developing countries must first develop physical infrastructure, invest in the education of the workforce and the development of new institutions, all of which enhances the effects of technological progress, if they want to take advantage of its positive effects. The significance of the "new economy" will be gradually increased, as the time rate of return on investment in physical and human capital to decline. Therefore, in the long run, the ultimate success of the process of catching up with developed countries in developing countries will depend on the "new economy".

So, the key to accelerated development of underdeveloped countries is not a specific country's ability to produce information technology, but the ability to use them in a creative way.

### ***MEASURING THE LEVEL OF INFORMATION SOCIETY DEVELOPMENT AND ICT IMPACT ON SOCIO-ECONOMIC DEVELOPMENT IN SERBIA***

Hereinafter, the results of measurement of the level of development of the information society and the impact of ICT on socio-economic development in the Republic of Serbia are given. Primarily we will be dealing with the state of the information society in terms of legal and institutional framework, and then through the indicators of the Statistical Office of the Republic of Serbia and aforementioned international indicators NRI and IDI.

### ***STATE OF THE INFORMATION SOCIETY IN SERBIA***

#### ***The legal framework***

The Government of the Republic of Serbia in 2006 adopted the **Strategy of information society development**, which comprehensively regulates the area of information society. By signing the eSEE Agenda + for the development of information society in South East Europe, the Government has accepted the i2010 initiative as a general framework for the development of the information society.

After that, the government adopted an action plan for implementation of priorities from "eSEE Agenda + for the development of information society in South East Europe for the period 2007-2012".

Later, in 2010 the Government of the Republic of Serbia adopted the Strategy of information society development in the Republic of Serbia until 2020.

Strategy of information society development in the Republic of Serbia until 2020 (hereinafter: Strategy) is the act of the Government of the Republic of Serbia which in a comprehensive manner defines the main objectives, principles and priorities of information society development and determines the actions to be taken in the period covered by this strategy.

Activities to be undertaken in order to develop the information society should be directed following the priorities defined by the Strategy of information society development in Serbia (Table 1).

Table 1: Areas and priorities of information society development in the Republic of Serbia

| <b>STRATEGY OF INFORMATION SOCIETY DEVELOPMENT IN SERBIA</b> |                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Areas of information society development</b>              | <b>Priorities of information society development</b>                                                                                                                                                                                                                                                                                   |
| Electronic communications                                    | <ol style="list-style-type: none"> <li>1. Open broadband access</li> <li>2. The digital broadcasting of television and radio programs and digital dividend</li> <li>3. Communication infrastructure of the public sector</li> </ol>                                                                                                    |
| E-Government, E-Health and E-Justice                         | <ol style="list-style-type: none"> <li>1. Electronic identity in the services of the public sector</li> <li>2. The application of ICT in administration bodies and holders of public powers</li> <li>3. The application of ICT in the health care system</li> <li>4. The application of ICT in the judiciary</li> </ol>                |
| ICT in education, science and culture                        | <ol style="list-style-type: none"> <li>1. Academic Computer Network</li> <li>2. ICT in education</li> <li>3. The research and innovation in ICT</li> <li>4. Digital Content</li> </ol>                                                                                                                                                 |
| E-commerce                                                   | <ol style="list-style-type: none"> <li>1. Removing regulatory barriers to the development of e-commerce</li> <li>2. Electronic invoicing and electronic payment</li> <li>3. Encourage the development of e-commerce</li> <li>4. Consumer protection in e-commerce</li> <li>5. Coordination of the development of e-commerce</li> </ol> |
| Business ICT sector                                          | <ol style="list-style-type: none"> <li>1. Development of human resources</li> <li>2. The development of start-ups and innovative companies</li> <li>3. Export and cross-border Outsourcing</li> </ol>                                                                                                                                  |

|                      |                                                                                                                                                                                                                                                                                                                 |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                      | 4. Protection of intellectual property rights of software and digital content                                                                                                                                                                                                                                   |
| Information Security | <ol style="list-style-type: none"> <li>1. Improving the legal and institutional framework for information security</li> <li>2. Critical Infrastructure Protection</li> <li>3. The fight against cybercrime</li> <li>4. Scientific research and development work in the field of information security</li> </ol> |

*Source: Authors, adapted from (SRID, 2016)*

The most important strategic documents that regulate certain areas of information society development in Serbia are:

- Action Plan (2013-2014) for the implementation of the strategy of information society development in Serbia until 2020,
- Strategy for development of telecommunications in the Republic of Serbia from 2006 to 2010,
- Strategy for broadband development in the Republic of Serbia until 2012,
- The development strategy of broadband networks and services in the Republic of Serbia until 2016,
- Strategy for development of electronic communications in the Republic of Serbia from 2010 to 2020,
- Development Strategy of electronic government for the period from 2009 to 2013, together with the Action Plan,
- Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2010 to 2015,
- Regulation on the Work Programme, the development and organization of integrated health information system "e-Health".

The most important laws that regulate the area of information society in the Republic of Serbia are:

- The Law on Electronic Signature, which implements EU regulations concerning electronic signature.
- The Law on Electronic Document, which regulates the use of electronic document and the time stamp.
- The Law on Electronic Communications,
- The Law on Telecommunications Act,
- The Law on Electronic Commerce,
- The Law on Protection of Personal Data,
- The Law on Ratification of the Convention on Cybercrime.

### ***The institutional framework***

The application of ICT and information society development in Serbia are accompanied by the formation of state structures and institutions in charge to

promote the use of ICT, to monitor and take necessary action for the development of the information society and to coordinate projects basing on ICT. So in May 2007, the **Ministry of Telecommunications and Information Society** of the Republic of Serbia was established, which has created a national strategy for the development of the information society and the activities undertaken to develop an appropriate legal framework, proposing relevant laws and regulations.

Establishing the policy and strategy of building the information society today is the responsibility of the **Ministry of Trade, Tourism and Telecommunications** of the Republic of Serbia. Competences in the field of application of information and communication technologies in public administration also has the Ministry of Public Administration and Local Self-Government, which is responsible for the system of state administration, Directorate for E-Government, and the Administration for Joint Services of Republic Bodies.

Besides the aforementioned bodies, other state bodies and organizations are also responsible for the development and implementation of information systems from their scope of activities (information system of The Ministry of Interior, information system of the Ministry of Defense and the Army of Serbia, the information system of the Tax Administration, Customs Administration, the Treasury Department, Geodesy information system, etc.), and for the implementation of information and communication technologies in the field for which they are competent.

## ***INDICATORS OF ICT USE AND ICT IMPACT ON SOCIO-ECONOMIC DEVELOPMENT IN SERBIA***

### ***Data of the Statistical Office of the Republic of Serbia***

The level of development of the information society, in addition to relevant laws and strategies, can also be described with the number of computers and the Internet users - individuals, the business sector and public administration. According to the Statistical Office of the Republic of Serbia (SORS) in the last few years (from 2010 to present) significant progress in the use of ICT in Serbia is recorded.

According to SORS (NSO, 2016) in 2015, 64.4% of households owned a computer (an increase of 14% compared to 2010), while 63.8% owned Internet connection (which is as much as 25% more compared to 2010). Of the total number of respondents who used a computer, 65.8% had used a computer in the last three months (an increase of about 15% compared to 2010), and Internet 65.3% of respondents (an increase of approximately 25% compared to 2010). About 28.7% of respondents never used the computer (improvement compared to 2010 by as much as 15%).

The business sector in Serbia has also realized the importance of ICT in business, and so according to SORS all companies use computers and the Internet in their business in Serbia. In 2015, 75.2% of the companies had their own website (about 8% more than in 2010). Approximately 94.5% of companies in 2015 used

Internet services of the public administration (e-Government) to interact with public authorities (even 24% more than in 2010).

### ***The Networked Readiness Index***

The Network Readiness Index (NRI) is an indicator developed by the World Economic Forum, which indicates a measure of the country's readiness to seize the opportunities offered by ICT, opportunities for the development of ICT, the readiness to undertake appropriate actions in this direction, the degree of development of the digital economy of a country, or indicate whether the company is developing towards companies with high digital culture. World Economic Forum uses this index the each year to rank countries, enabling governments of these countries to review national competitiveness. This index can in the same time be a good instrument for the government, which on the basis of their own rank needs to evaluate the effects of strategic action in the development of the information society and to notice the examples of good practice (steps undertaken in countries that have had similar problems, and resulted in an improved situation). In addition to the government, the index provides good guidance for the business sector, but also for practical policy-makers for the development of ICT sector.

The networked readiness framework rests on six principles:

1. a high-quality regulatory and business environment is critical in order to fully leverage ICTs and generate impact;
2. ICT readiness - as measured by ICT affordability, skills, and infrastructure - is a pre-condition to generating impact;
3. fully leveraging ICTs requires a society-wide effort: the government, the business sector, and the population at large each have a critical role to play;
4. ICT use should not be an end in itself. The impact that ICTs actually have on the economy and society is what ultimately matters;
5. the set of drivers - the environment, readiness, and usage - interact, coevolve, and reinforce each other to form a virtuous cycle; and
6. the networked readiness framework should provide clear policy guidance.

The framework translates into the NRI, a composite indicator made up of four main categories (subindexes):

- **Environment subindex** - The success of a country in leveraging ICTs depends in part on the quality of the overall operating environment. The Environment subindex therefore assesses the extent to which a country's market conditions and regulatory framework support entrepreneurship, innovation, and ICT development.
- **Readiness subindex** - The Readiness subindex measures the extent to which a country has in place the infrastructure and other factors supporting the uptake of ICTs.
- **Usage subindex** - The Usage subindex assesses the extent of ICT adoption by a society's main stakeholders: government, businesses, and individuals.
- **Impact subindex** - The Impact subindex gauges the broad economic and social impacts accruing from ICTs.

These subindexes further include 10 subcategories (pillars) and 53 individual indicators distributed across the different pillars.

The top ten in the 2015 NRI report are dominated by Western European economies and Asian advanced economies. According to NRI for 2015, Serbia is on the 77th position out of 143 countries. It is 10 positions better rank than Serbia had in 2013 (Table 2).

Table 2: The Network Readiness Index of the Republic of Serbia

|                                                    | Rank<br>(out of 143<br>countries) | Value<br>(1-7) |
|----------------------------------------------------|-----------------------------------|----------------|
| <b>Networked Readiness Index 2015</b>              | <b>77</b>                         | <b>4.0</b>     |
| <i>Networked Readiness Index 2014 (out of 148)</i> | 80                                | 3.9            |
| <i>Networked Readiness Index 2013 (out of 144)</i> | 87                                | 3.7            |
| <b>A. Environment subindex</b>                     | <b>100</b>                        | <b>3.6</b>     |
| 1st pillar: Political and regulatory environment   | 110                               | 3.1            |
| 2nd pillar: Business and innovation environment    | 84                                | 4.1            |
| <b>B. Readiness subindex</b>                       | <b>48</b>                         | <b>5.2</b>     |
| 3rd pillar: Infrastructure                         | 42                                | 4.8            |
| 4th pillar: Affordability                          | 61                                | 5.5            |
| 5th pillar: Skills                                 | 66                                | 5.1            |
| <b>C. Usage subindex</b>                           | <b>80</b>                         | <b>3.7</b>     |
| 6th pillar: Individual usage                       | 55                                | 4.6            |
| 7th pillar: Business usage                         | 126                               | 3.0            |
| 8th pillar: Government usage                       | 111                               | 3.3            |
| <b>D. Impact subindex</b>                          | <b>89</b>                         | <b>3.4</b>     |
| 9th pillar: Economic impacts                       | 80                                | 3.1            |
| 10th pillar: Social impacts                        | 90                                | 3.7            |

Source: Authors, adapted from (WEF, 2015)

By analyzing the rank Serbia had by individual subindexes, the lowest rank is estimated when it comes to the Environment subindex, which refers to Political and regulatory environment and Business and innovation environment. The best ranked is Readiness subindex which refers to technology infrastructure and affordability, skills and education. Figure 1 shows values of 10 NRI pillars compared to average values for countries from upper-middle-income group, where Serbia is classified.

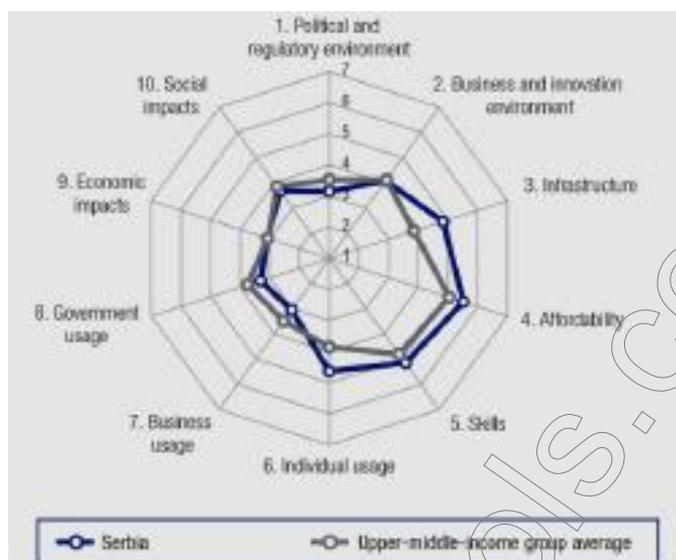


Figure 1: NRI index (Serbia compared to upper-middle-income group average)

Source: WEF, 2015

### **The ICT Development Index**

The ICT Development Index (IDI), which has been published annually since 2009 by the International Telecommunication Union, is a composite index that combines 11 indicators into one benchmark measure. It is used to monitor and compare developments in information and communication technology (ICT) between countries and over time. The main objectives of the IDI are to measure:

- the level and evolution over time of ICT developments within countries and the experience of those countries relative to others;
- progress in ICT development in both developed and developing countries;
- the digital divide, i.e. differences between countries in terms of their levels of ICT development; and
- the development potential of ICTs and the extent to which countries can make use of them to enhance growth and development in the context of available capabilities and skills. (ITU, 2015)

The Index is designed to be global and reflect changes taking place in countries at different levels of ICT development. It therefore relies on a limited set of data which can be established with reasonable confidence in countries at all levels of development. Recognizing that ICTs can be development enablers is central to the IDI's conceptual framework. The ICT development process, and a country's evolution towards becoming an information society, can be depicted using the three-stage model:

- Stage 1: ICT readiness – reflecting the level of networked infrastructure and access to ICTs;
- Stage 2: ICT intensity – reflecting the level of use of ICTs in the society; and

- Stage 3: ICT impact – reflecting the results/outcomes of more efficient and effective ICT use (ITU, 2015).

Based on this conceptual framework, the IDI is divided into the following three subindexes, and a total of 11 indicators:

- **Access subindex:** This subindex captures ICT readiness, and includes five infrastructure and access indicators (fixed-telephone subscriptions, mobile-cellular telephone subscriptions, international Internet bandwidth per Internet user, households with a computer, and households with Internet access).
- **Use subindex:** This subindex captures ICT intensity, and includes three intensity and usage indicators (individuals using the Internet, fixed broadband subscriptions, and mobile-broadband subscriptions).
- **Skills subindex:** This subindex seeks to capture capabilities or skills which are important for ICTs. It includes three proxy indicators (adult literacy, gross secondary enrolment, and gross tertiary enrolment) (ITU, 2015).

As these are proxy indicators, rather than indicators directly measuring ICT-related skills, the skills sub-index is given less weight in the computation of the IDI than the other two sub-indices.

Table 3: Serbia IDI rank and values

|                                                             |             |
|-------------------------------------------------------------|-------------|
| <b>IDI 2015 world rank (out of 167 countries)</b>           | <b>51</b>   |
| <b>IDI 2015 value</b>                                       | <b>6,45</b> |
| <b>IDI access subindex</b>                                  | <b>7.28</b> |
| Fixed-telephone subscriptions per 100 inhabitants           | 37.33       |
| Mobile-cellular telephone subscriptions per 100 inhabitants | 122.13      |
| International internet bandwidth per Internet user (Bit/s)  | 112,372     |
| Percentage of households with computer                      | 65.62       |
| Percentage of households with Internet access               | 51.75       |
| <b>IDI use subindex</b>                                     | <b>4.69</b> |
| Percentage of individuals using the Internet                | 53.50       |
| Fixed (wired)-broadband subscriptions per 100 inhabitants   | 15.57       |
| Active mobile-broadband subscriptions per 100 inhabitants   | 61.12       |
| <b>IDI skills subindex</b>                                  | <b>8.30</b> |
| Adult literacy rate                                         | 98.11       |
| Secondary gross enrolment ratio                             | 94.41       |
| Tertiary gross enrolment ratio                              | 56.38       |

Source: (ITU, 2015)

By analyzing the rank Serbia had by individual subindexes, the lowest rank is estimated when it comes to the use subindex, which refers to percentage of individuals using the Internet, fixed (wired)-broadband subscriptions and active mobile-broadband subscriptions. The best ranked is the skills subindex which refers to adult literacy rate and secondary and tertiary gross enrolment ratio. Figure 2 shows values of 11 IDI pillars for Serbia for year 2015 compared to year 2010.

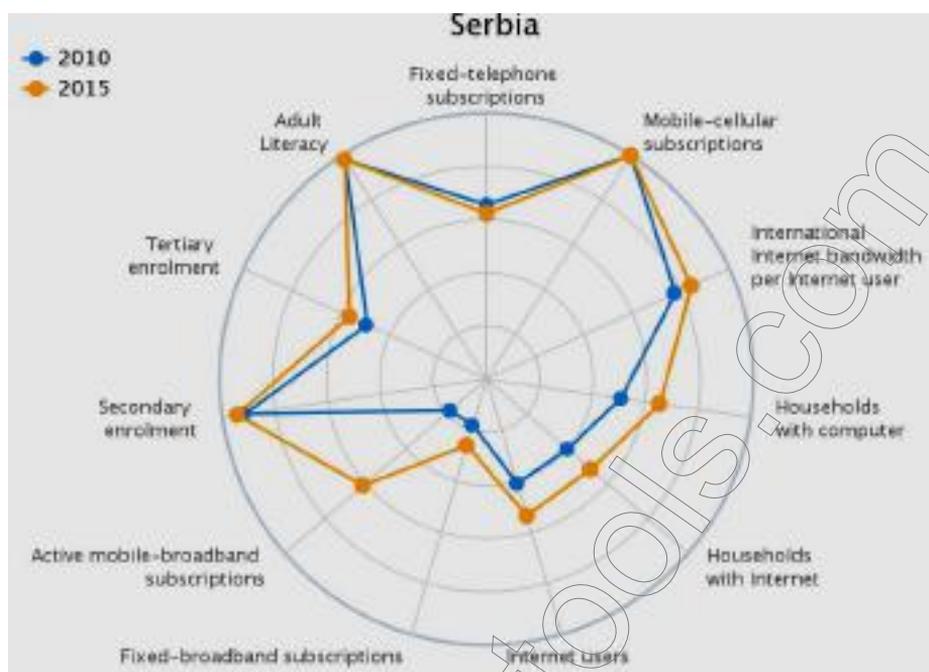


Figure 2: IDI index (Values for Serbia - year 2015 compared to 2010)

Source: (ITU, 2015)

## DISCUSSION OF RESULTS

By analyzing the results of measurement of the level of the information society development and the impact of ICT on socio-economic development in the Republic of Serbia, the following conclusions can be drawn:

- Serbia is on a good way of defining the legal and institutional framework for the development of the information society, since it adopted a Strategy of information society development and has established appropriate ministries and other formal bodies and adopted appropriate laws and strategic documents concerning information society,
- According to the Statistical Office of the Republic of Serbia (SORS) in the last few years (from 2010 to present) significant progress in the use of ICT in Serbia is recorded, especially when it comes to the number of computers and Internet users - individuals or business sector, and also the use of e-government services,
- World Economic Forum through the Network Readiness Index (NRI) has ranked Serbia on the 77th place out of 143 countries. The lowest rank is estimated when it comes to the political and regulatory environment and business and innovation environment in Serbia. The best ranked are technology infrastructure and affordability, skills and education. It is important to notice that there was a rise in the NRI index value for the last two years.

- International Telecommunication Union through the ICT Development Index (IDI) assessed the development of ICT and information society in Serbia with the rank 51 out of 167 surveyed countries. The lowest rank is estimated when it comes to the use subindex, which refers to percentage of individuals using the Internet, fixed (wired)-broadband subscriptions and active mobile-broadband subscriptions. The best ranked is the skills subindex which refers to adult literacy rate and secondary and tertiary gross enrolment ratio.

Serbia must recognize that information society development is the key to rapid economic development., to reduce the development gap between Serbia, the region and the EU, as well as the differences in development of regions within the national economy.

Considering all of the above, the authors of this paper created a matrix - **ICT as a solution to the problems of the Serbian economy**, which provides an overview of problems that national economy of the Republic of Serbia is facing, defines the key barriers to their solving and the proposed directions of ICT use in order to eliminate the aforementioned problems.

*Table 4: ICT as a solution to the problems of the Serbian economy*

| <b>Definition of a problem of Serbian economy</b>             | <b>Key barriers</b>                                                                                                    | <b>Proposed directions of ICT use</b>                                                            |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Serbia needs a new source of economic growth.                 | Insufficient political awareness and action in the field of information society and application of ICT.                | ICT as a key priority for government and development policies.                                   |
| Serbia has significantly reduced productivity of the economy. | Businesses insufficiently apply appropriate ICT and information systems.                                               | Create a supportive business environment for appropriate use of ICT and information systems.     |
| Serbia has an inadequate level of innovation.                 | Low level of awareness of importance of innovation management.                                                         | ICT as a tool for innovation management.                                                         |
| Serbia has a high rate of unemployment.                       | Lost jobs in the privatization process are not reimbursed through the process of business innovation supported by ICT. | ICT as a creator of new jobs.                                                                    |
| The insufficient level of competition in many industries.     | Monopolies, corruption, closed markets.                                                                                | Global environment and application of ICT support competition and the growing role of consumers. |

|                                                                               |                                      |                                                                                                             |
|-------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Serbia is lagging behind in the transformation towards the knowledge society. | Infrastructure, education, awareness | Implementation of the strategies adopted and higher expenditure for the development of information society. |
|-------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------|

*Source: Authors*

## **CONCLUSION**

The subject of this paper was to examine the possibility of determining (measuring) the impact of ICT on socio-economic development, with a special attention devoted to determining the level of development of the information society and the impact of ICT on socio-economic development in the Republic of Serbia.

The research was based on descriptive method, which implied the study of available literature sources from the aforementioned fields.

The results of the theoretical study confirmed the premise that ICTs are the main carriers of economic development and modernization of society in general. The quantitative research data confirmed that the level of development of information society in Serbia is not satisfactory, and there is a significant potential for further development of economic activities in Serbia hidden in ICT.

The paper provides a theoretical and practical contribution to the further development of information society in the Republic of Serbia. The theoretical contribution of the paper is reflected in an effort to illuminate and define the impact of ICT on socio-economic development. On the other hand, practical contribution of the paper is reflected in an effort to highlight problems of Serbian economy and suggest the possible solutions based on ICT use.

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## **FEATURES OF GOOD MANAGEMENT INFORMATION**

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### **ABSTRACT**

*There are principal reasons why the concepts of information systems and information management (MIS) have become subjects of great concern today to individuals and corporate entities. The major reasons include the fact that modern organizations have grown to unprecedented complex levels and information plays a vital role in holding together and co-ordinating organizations even at the global level. In order to identify benefits of MIS influence on business performance, it is analysed scientific literature and have been made research synthesis. Authors pointed out that the high value is attached to information that explains why modern business organizations are very willing to invest to enhance their information sector. In other words, they concluded that information has become such a vital resource in industry and business that modern managers are prepared to accord as much importance to it as they do to such other cardinal components of their organizations as raw materials, machines, physical facilities and people.*

**Key words:** *Information, Management, Decision-Making Process, Business Performance*

**JEL Classification:** *L86, M15*

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## **INTRODUCTION**

The ultimate aim of nearly every economic undertaking is to be profitable, grow and survive. To do this optimally or to fulfil any other defined purpose whatsoever involve making effective and efficient decisions. That is, decisions that anticipate and prepare for problems and opportunities alike. According to some researchers (Jahangir, 2005) the principles, strategies and modes of operation in MIS can be intellectually used by macroeconomists to sieve between good and bad decisions. An information system, which was integrated into business processes of an enterprise, is one of the major factors that increase business performance (Pabedinskaitė 2009; Merkurjev, Tambovcevs 2009; Omolaja, Radović Marković 2010).

“Consequentially, a good management of information systems leads to good decision making in business just in the same way poor management leads to poor decision making. It is based on this foundational concept that this paper is going to circumspectly analyse the roles of management systems in decision making” (Nowduri, 2010. P.3). Namely, there is a general misconception that acquisition of a computer-based MIS will always improve management and administrative decision making (Omolaja, Radović Marković 2010).

After making the decision, it is necessary for contemporary managers or administrators to monitor it and control its implementation. Finally, the business of the enterprise must as well be operated routinely on a day-to-day basis. All these tasks of decision-making, monitoring or control and operation are only made possible through good management information. However, it is not every data item or piece of information that is of particular relevance or importance to decision-making process. For information to be useful for management purposes, it must possess the following characteristics or qualities: Relevance, Completeness, Accuracy, Clarity, Reliability.

## **RELEVANCE**

Information must be relevant to the purposes for which a manager or an administrator wants to use it. This is true of a administrative or management information whether in the private or in the public sector organizations. This is the over-riding quality. Information must be relevant to the problem being considered. Too often reports, messages, tabulations and so on contain irrelevant parts which make understanding more difficult and cause frustration to the user.

Relevance is, of course, much affected by many of the qualities to be considered. In practice, far too many reports fail to keep to the point and contain pointless, purposeless and irritating pages and paragraphs, which only serve to vex or annoy the managers or administrators reading them. The main consequence of irrelevant data and information is that managers might be confused by the data and this might waste their precious time.

By implication, information should contain the least amount of detail consistent with effective decision making. The level of detail however should vary

with the management level in the organization. Sometimes, information at the lower level, has to be very detailed to be useful, but the general rule of “as little as possible consistent with effective use”, must always apply. Exception reporting is a system of reporting which focuses attention on those items where performance differs significantly from standard or budget. Hence, when considering the worthwhileness of providing a piece of information, the following points should be taken into accounts; too much details can result in the overlooking of vital facts. Each recipient of information should therefore be provided with his needs and little or no more than that.

### **COMPLETENESS**

Ideally all the information required for a decision should be available. In real life situation this never happen. What is required is that information is complete in respect of the key elements of the problem. This means that there must be close liasion between information providers and users to ensure that the key factors are identified. Consequently, an information user should have all the information he needs to do his job properly. If he does not hace a complete Figure of the situation, he might well make bad or wrong decisions.

Now, suppose that an important piece of information had been kept from the debt collection section, for instance, that the debt had already been paid or that the customer had negotiated special credit terms of six months. In these circumstances, sending a strongly worded demand for payment would be a mistake and likely to create bad-will that might harm the prospects of future sales to the customer.

For further illustration, a supermarket in making a strategic decision whether on or not to place a new supermarket on the outskirts of a town would consider such factors as population density, road access, presence of competitors and so on in the decision and would not try to include every detail about the town in their initial analysis.

### **ACCURACY**

Information should obviouly the accurate because using incorrect information could have serious and damaging consequences on corporate performance. However, information should only be accurate enough for its purpose and there is no need to go into unnnecessary detail of pointless accuracy. In other words, information should be sufficiently accurate for it to be relied upon by the manager for the purpose for which it is intended. There is no such thing as absolute accuracy. Raising the level of accuracy increases cost but does not necessarily increase the value of information. Consequently, the level of accuracy must be related to the decision level involved.

For instance at operational level, information may need to be accurate to the nearest kobo, naira, kilogramme or minute. Hence, the degree of accuracy of information relates to irs usage. There is no point in striving for great accuracy if this is of no significance positive consequence. For instance, the sales manager is

not interested in the value of sales, being accurate to or within a kobo. The accountant is however interested in these details.

### ***CLARITY***

Information must be crystal clear to the user. If the user does not understand the information properly, he cannot use it properly. Lack of adequate clarity is one of the causes of breakdowns in communication which is referred to in information theory as "Noise". It is therefore important to choose the most appropriate presentation medium or channel of communication.

### ***RELIABILITY***

For information to have value it must be used. For it to be used, managers must have confidence in the source. That is the source of the information must be reliable. User's confidence is enhanced when the source has been considered reliable in the past and when there is good communication between the information producer and the manager. For example, when a manager has been consulted over the content, format and timing of reports and there is frank discussion over possible uncertainties and inaccuracies, confidence will be increased. Especially at strategic levels, management will crosscheck information from various sources to increase confidence in the message.

By implication information for management purposes must be trusted by the managers who are expected to use it. However, not all information is certain. An important problem is, therefore, how much uncertain analysis should be incorporated into reporting systems in order to make the information realistic and reliable. Some management information has to be certain, especially operational information, for instance, relating to a production process.

### ***COMMUNICATED TO THE RIGHT PERSON***

This is actually the issue of relevance. That is information should be received by the right person who will value it, and find it useful by implication. Each manager has a defined sphere of activity and responsibility, and should receive information to help him carry out his designated tasks. In practice, this is not always as easy as it sounds. It is quite common for information to be supplied to the wrong level in the organization. A superior may not pass it on to the person who needs it while a subordinate may hold on to information in an attempt to make himself indispensable.

Information suppliers need to analyse the key decision points in an organization in order to direct information exactly to where it is required.

An office manager might be made responsible for controlling expenditure in his office, and given a budget expenditure limit for the year. As the year progresses, he might try to keep expenditure in check but unless he is told throughout the year what is his current total expenditure to date, he will find it

difficult to judge whether he is keeping within budget or not. Information that is needed might be communicated to the wrong person. In other words, it might be communicated to a person who does not have the authority to act on it, or who is not responsible for the matter; and so does not see any need to act on it.

### **VOLUME**

This relates to accuracy, adequacy, relevance and precision in communication. There are physical and mental limitations to what a person can read, absorb, digest and understand properly before taking action. An enormous mountain of information, even if it is all relevant, cannot be efficiently and effectively handled by some people perhaps for certain personal traits. Reports to management must therefore be clear and concrete; and in many systems, control action works basically on the exception principle. This is especially true of tactical information for information management and administrative control.

### **TIMING**

Information should be as timely and up to date as is necessary for the use to be made of it. Speed in creating information increases its cost although it is unwise to prepare it unnecessarily quickly. On the other hand, information that arrives too late or is out of date is entirely useless and so the time, effort and cost involved amounts to wastage. In other words, good information is that which is communicated in time to be used. To an extent, the need for speed can conflict with the need for accuracy although modern processing methods can produce at a frequency which is related to the type of decision or activity involved i.e. real time processing.

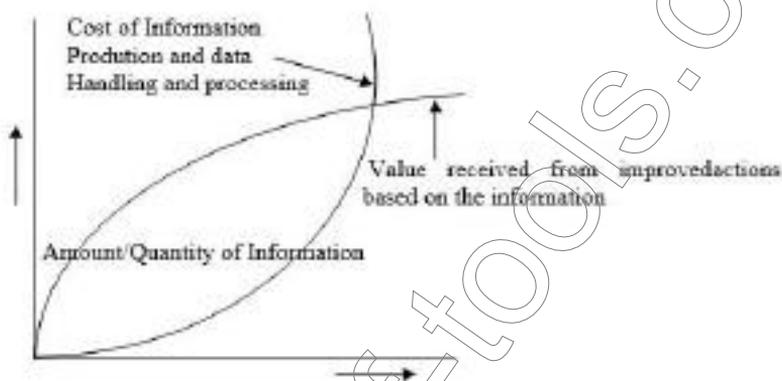
### **COST**

Information should have some value. Otherwise, it would not be worth the cost of collecting and filing it. The benefits obtainable from the information must also exceed the costs of acquiring it. Information which is provided and not used has no actual value. A decision taken other than on the basis of information received also has no actual value. It is only the action taken as a result of a decision, which realises actual value for a company. The cost of collecting information bears no relation with its value. From all indications, information call for action that must be directed to the person(s) who can initiate the appropriate action. It should comprise sufficient facts and figures to enable effective and immediate action to be taken. For instance, an out-of-stock report must contain the data needed to enable a reorder to be rushed through. To sum up, Information for management purposes must be complete in all ramifications. Otherwise, a missing vital piece of information may lead to a wrong decision being made and this may be disastrous to the company as a whole.

Information has no value in itself. Its value is derived from the value of the change in decision behaviour caused by the information being available minus the cost of producing the information. It is only when data are communicated and

understood by the recipient, and are therefore transformed into information is used to improve decision making. A typical relationship between costs and values of information can be illustrated using the diagram in *Fig 1*.

It should, however, be apparent that the primary objective of the sender of a message is to achieve understanding to produce alterations in decision behaviour in order to create a value. To do this, the sender of a message must consider the characteristics, which make information relevant, the way information is communicated, and how the manager or administrator perceives and understands the information.



*Figure 1: Information- Cost and Value*

*Source: Omolaja, M., Radović Marković, M. (2010).*

## **CONCLUSION**

The growing need for information in today's business world requires the development of information systems and information management. The unique feature of computer technology on management scene and its development has reduced the cost of information processing in the private and public organizations where they have been installed. Namely, technological environment provides a challenge to management and administration in both the public and the private sectors.

Traditionally, it is management's responsibility to manage their major resources; money, materials machines, methods and time (5Ms + T) but these would not be enough to run an organization effectively without including information as a crucial resource. Meanwhile, some researchers in management have gone so far as to define a manager as "a transducer that transforms information into decision". Another important factor which affects the tasks a manager has to perform and in-turn his information requirements is the extent of functional authority within his organization. Information gathering from the environment, whether internal or external, goes on all the time consciously or unconsciously because both the employees and the employer of an organization learn about what is going on in the world around them; perhaps from company Journals, employees' manuals, newspapers as well as radio and television reports. It is natural for company managers especially in the public sector to seek, to give or

to generate the type of information that meets their expectations, and rejects or frown at such other information that threatens or frustrates them (Omolaja, Marković, Vučeković, 2012, p.22).

Conclusively, information is derived in many areas related to one body. This is because of the fact that there are various parts that have information that have to be collated together for one purpose. A typical example might be information relating to University management. In this case, there will be necessary information needed for bursary aspect of the management and necessary Students' information in the students Affairs Office. Also, Staff record for staff information as well as information on development programmes, policies, strategies, plans and goals are needed to be adequately catered for. As a fundamental point, a good number of managers can perform multiple tasks all at the same time. This potential to multitask increases efficiency in a company since several business operations can be conducted simultaneously (Nowduri, 2010, p.2).

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## **HOW TO SUCCESSFULLY NEGOTIATE PRICES IN BUSINESS TRANSACTIONS**

Ioana Andrievici<sup>38</sup>

### **ABSTRACT**

*You can't do business without negotiation. Knowing your goals and the goals of the other party, a "win-win" negotiation is ideal in any business, especially in the long term partnerships. The companies can gain more if they know how to create value. One of the most important parts in business negotiation is price negotiation. The focus though, should not be on the price negotiation only: concentrating on a single issue, the negotiation becomes distributive or "win-lose" type, and the business partners might fail in creating value for both of them. This is why the price negotiation should be integrated in the negotiation strategy as a whole, but the main issue is: how to obtain the best prices you can get in any deal? Whether it is a simple car price negotiation or a million dollar deal, we are all looking for the best prices and usually tend to confuse the whole negotiation process with the price negotiation. This article points out the best strategies in business negotiation regarding prices, based on real life business negotiation, cases and experiences of entrepreneurs, salespeople, managers and negotiators in any field.*

**Key words:** Negotiation, Business, Price, Deal, Value, Entrepreneurs

**JEL Classification:** D23

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## **INTRODUCTION**

When they think about "negotiation", people usually think about price negotiation. This also happens in the business field, especially in terms of commercial transactions, such as buying or selling or acquisitions.

Certain the price is an important issue in obtaining a good deal, but negotiating a good price must be considered in regard of the context of the deal and can be efficiently negotiated if the parties take into consideration other aspects beside the price (like delivery, quantity, cash payment, and so on) and are willing to trade-off. They also have to consider the relationship between them and the long run business partnership, if necessary.

Do people buy the cheapest? Of course they do. According to Richard Denny, the author of "Winning New Business - Essential selling skills for non-sales people", up until the mid-1990s approximately 18 per cent of people, in both business to business and business to consumer markets, bought the cheapest. This number has now risen to approximately 25 per cent. At the other extreme, do people buy the most expensive? Yes, they do – approximately 4 per cent of them. If we now return to the statistic that 25 per cent of people buy the cheapest and 4 per cent buy the most expensive, what do the remaining 71 per cent buy? They buy perceived value for money.

The secret to a successful negotiation is to create value on the item that is being negotiated and to make the other party feel that you are a trustworthy person and that he or she will make a good deal.

In any case, we have to keep in mind that the people are those who negotiate and not the companies, so we have to concentrate on these two things: the negotiators and the transaction.

A negotiation is viewed differently by the seller and the buyer, but their goal is the same: to make the best deal possible. Negotiators tend to lose negotiations if their ego is too high, if they concentrate too much on the "fixed pie" or they focus on the price only.

## **LITERATURE REVIEW**

The subject of price negotiation is covered broadly not only by literature on negotiation, but also by literature on marketing, sales, business, communication and even psychology. The authors are interested in how people interact one with each other, how they persuade each other, how they make decisions, how they express their wishes and manage to come to a final deal.

The subject of price negotiation can be found almost in every book about negotiation, most of the authors being negotiation consultants, trainers, public speakers and sales specialists. In these negotiation books the subject is treated from many perspectives: from the seller's or the supplier's perspective, from the perspective of the buyer, or both, in the business or personal context. Authors like Herb Cohen in "You can negotiate anything" (1995), Michael Schatzki with

Wayne R. Coffey in “Negotiation – The Art of Getting What You Want” (2009), Alan Fowler in “Negotiation Skills and Strategies” (1996), John Mattock & Jons Ehrenborg in “How to be a better negotiator” (1996), Eric Evans in “Mastering Negotiations - Key skills in ensuring profitable and successful negotiations” (1998), Leigh Thompson, in “The Mind and Heart of the Negotiator” (1997) and many others, speak about the process of negotiation in general, also giving useful real life examples, and of course, the price negotiation being one of the most relevant example of all. Some of them, like Leigh Thompson, speak about the negotiation as a process and some, like Herb Cohen or Chester Karras, view it as a game (e.g Chester L. Karras “The Negotiating Game” (1994)).

Another interesting and useful analysis of real life negotiation cases, is “Negotiation Analysis – the science and art of collaborative decision making” by Howard Raiffa with John Richardson (2002) which explains the process of making decisions.

The subject of negotiation and thus, price negotiation, is also covered in most of the sales and business literature, from which I name just a few: “Breakthrough Business Negotiation”: A Toolbox for Managers (2002), by Michael Watkins, “Write Your Own Business Contracts” (1991), by E. Thorpe Barret, “Winning New Business” - Essential selling skills for non-sales people (2007) by Richard Denny.

The topic of the price negotiation is also examined in many books of communication skills, like “The Language of Negotiation” (2002) (by the author Joan Mulholland).

The vast psychological literature also covers the subject, especially regarding the art of persuasion, which is a very important skill in negotiation. Some examples are “Soft Selling in a Hard World” – Plain talk of the art of persuasion (1993), by Jerry Vass, “Influence – The Psychology of Persuasion” (1984) by Robert B. Cialdini, “The Power of Persuasion” - How we’re Bought and Sold, by Robert Levine (2006), just to name a few.

Significant articles on the subject are to be found in Journals and scientific publications like: Harvard business review, PON (Program on Negotiation) Special Reports from Harvard Law School, “Theory and Decision” - Statistical analysis for negotiation support, “The Journal of Personality and Social Psychology” and others.

## ***METHODOLOGY***

Being a negotiator, a negotiation consultant and a trainer myself, this article is based not only on literature but also on my own experiences in negotiation and on the real life case analysis and interviews of some of my clients and friends working in different fields like: sales people, entrepreneurs, managers, all of them being involved in various kinds of price negotiation.

I also took into consideration some of my trainee reactions while training role-play price negotiation, the analysis of negotiation research in literature, scientific articles on the subject and even online forums regarding debates between buyers and sellers on the subject of price negotiation in different fields.

My purpose is to concretize the main aspects that one has to consider in order to negotiate better prices, especially in business and sales.

## ***EMPIRICAL FINDINGS***

Price negotiation in business transactions occurs in different contexts, such as price negotiation in business to business transactions (acquisitions, mergers or other manager to manager deals), sales (price negotiation from the point of view of the sellers or suppliers and from the point of view of the buyers) or simply buying and selling individual goods for business purposes like real estates, machines, cars or renting places.

From each of these perspectives the price negotiation can have some particularities, but there are some general issues to price negotiation as a whole. These issues I want to refer to in this article concern: how do actually the people involved in negotiation look at the process, which are the most common mistakes they make, which are the most important aspects to take into consideration for negotiating a good price, and getting the best deal.

I will generally refer to the “negotiator” as the person involved in negotiation (entrepreneur, manager, seller or buyer).

Over 80% of the negotiators I interviewed or observed:

- said that negotiations have become increasingly more complex in the latest five years;
- reported that they had to face more professional buyers in the marketplace;
- reported that customer relationships are becoming increasingly long term rather than short term.

Analysing the specialist literature, scientific articles and other case-studies, I found out that these reports were true for the most part.

Here are the ten most common issues all negotiators stated they had faced and the best solutions they had found:

1. Every negotiator wants to make a good deal.

Most of the negotiators I have interviewed said that their main purpose in a negotiation is to get a good deal. In most of the cases people can get a good deal if they consider trading off, if they know their goals, if they enter the negotiation well prepared and don't let their ego stand in their way.

Emotions play a very important role in negotiation. If you cannot enjoy a normal healthy level of pressure in your negotiation, you need to work on willpower and a realistic sense of appropriateness. A general rule in negotiating is to avoid becoming emotionally involved. It is difficult to exercise the necessary imagination and flexibility if one has developed a strong personal or emotional commitment.

When sellers quote a price, they are actively looking for a response to see if buyers are willing to pay that price. Buyers who show no negative reaction at all aren't handing the seller usable information and, in fact, might be giving misinformation. The seller might assume that the person's lack of response

means he or she is willing to pay the full price and then the seller will not go down with the price.

In search for the best deal the negotiators often make assumptions. One of the most destructive assumption negotiators sometimes have is the assumption that "the pie" of resources is fixed. Another one is assuming that the price is the only issue important for the other party.

Finding tradeoffs can be easy when negotiators know to look for them, yet their assumptions about the other party's interests often keep them from this search.

2. One of the reasons most of the negotiators don't get a good deal, or don't get a deal at all is lack of communication.

As a negotiator and consultant I have found that the people who succeed consistently are skillful in verbal communication and understand the game dynamics of the transaction.

Being a good negotiator implies being a good communicator. This means that knowing how to listen, how to ask questions and to give arguments, how to use "the language" of the other party makes you keeping the communication line open.

When we are interested in reaching our opponent we must ask ourselves what sort of an argument might influence him. Some experimenters have advised bargainers that adding even a weak justification to a request can dramatically increase the odds that their counterpart will accept it.

Talk to different providers and learn their jargon so you sound like you know what you're talking about (or actually do!) and the vendors will treat you with respect.

3. The negotiators feel better when they reach an agreement after negotiating it.

People are more willing to discuss and negotiate to get the best value for money, if they can't simply get something by just asking. In most of the cases, the parties expect to negotiate.

When people reach an agreement too quickly, both parties might feel that they could have got a better deal. If you appear too anxious to negotiate your price or terms downward, the buyer will perceive the item as worth less.

If you do lower your price, be sure you made your buyer earn the concession. Don't give in right away. Ask for concessions in return, such as additional business.

Don't be afraid to talk about money: it is what makes the world go round.

4. Negotiators feel more powerful in negotiating the price when they have other options, too.

If you must make the deal and you don't have other options, you tend to make big concessions.

The willingness to walk away from a sale comes from having other options. It is crucial to have other potential sales in the line-up. A good tip for negotiating with a supplier is to always get the service quoted by at least three other suppliers.

5. If people are proud of their prices, the other party feels that it is getting better value for money.

You must defend your price. Don't give in to pressure for a discount unless you are exchanging it for quantity or faster payment.

Focus on the value of your product or service, not on the price. Buyers will pay for value. Sell features and benefits. Show them that you'd like to help them out, but you can't, because you can't lower your price for one customer without lowering your price for everybody.

6. The negotiation works out better when negotiators are rather well prepared than when they just give it a try.

Most of the time 80% of your chances of success lie in good preparation. As Benjamin Franklin said "By failing to prepare, you are preparing to fail".

In my opinion, the best clients are those who understand the basics of business field they activate in, are open to learn them and therefore can become their own best advocate.

Commercial negotiators are often advised to define three possible settlement levels:

- 1) The ideal or best possible deal;
- 2) The expected settlement level;
- 3) The worst or the still acceptable deal (often known as "the walk away price").

Being clear about the bottom line is a necessary protection against being persuaded, in the heat of negotiations, to accept outcomes that inflict real damage, and that are worse in their effect than a possible breakdown in negotiations.

So, stationary supplier negotiating the next year's supply contract with a major customer, might set a figure of 150.000 Euro as the ideal objective, 140.000 Euro as a more realistic expected outcome and 120.000 Euro as the bottom line.

Meanwhile, the buyer might be setting 100.000 Euro as the ideal price, 115.000 Euro as the expected outcome, and 130.000 Euro as the outside limit.

Assuming no other factors intrude, the logic of these figures is that the final settlement will fall between 120.000 Euro and 130.000 Euro – the overlap between the two parties ranges of objectives.

This for example provides a starting point for considering objectives, but it is much too simplistic for many negotiations. In real life, things are rarely as clear cut, with factors other than just price influencing the outcome, and with both parties aware of alternatives.

Anyway, having in mind these three numbers helps you a lot in good negotiation! Go in knowing your target price and your walkaway terms exactly!

Being prepared also means gaining lots of information about the other party, planning your concessions ahead and being prepared with multiple offers or with response to multiple these.

7. Always consider the context and the information you have before making the first offer

There is the myth in negotiation that “the one who makes the first offer, loses”. The truth is, there isn’t a rule regarding the first offer. It depends much of the context of negotiation.

The first offer acts like an anchor. As a general rule, if you are well prepared, go ahead and make the first offer. If you don’t have much information about the other side and you are not very well prepared, let the other party make the first move. By allowing the other side to name its price first, you may get a chance to counter with a number that is lower than what you would have offered initially – even if you do relinquish the opportunity to set the “price anchor,” which is the starting price point from which it can be hard to move. Of course, the initial price named by the seller may anchor you at a higher price, and this is where doing your homework can help. By knowing the competing prices, you may be able to significantly lower your anchor before negotiations start.

Don’t avoid the challenge. Making the initial offer poses clear risks. Yet research suggests that in many contexts, those who drop the first anchor do better than those who must try to overcome it.

8. Those who concentrate on negotiating the price only, tend to enter a win-lose negotiation and therefore aren’t always getting the best deal

The skilled negotiator always has something to trade in addition that is not the price.

For instance, if price is the only issue on the table, your gains come at the expense of the other side’s and vice versa. Haggling over a piece of jewelry in a bazaar is one type of distributive negotiation. Finding tradeoffs can be easy when negotiators know to look for them, yet our assumptions about the other party’s interests often keep us from this search.

Besides price, there must be others issues to negotiate on, like delivery, quantity, payment, terms, and so on.

9. You have to be prepared to make concessions wisely and don’t see them as a weakness

Compromise should be seen as constructive, not as a weakness.

Because of the differences between you and your opponent, you and your opponent attach different values to different items. Then you trade off: you yield on matters which are painless for you to concede, but which matter greatly to your opponent while he offers you goodies which mean a lot to you but cost him little to provide. Here you have a win-win situation.

When considering concessions, introduce the condition first and do not give details of the concession until the other party shows some willingness to negotiate on the condition.

10. People tend to buy and do business with those whom they can trust

In any event some flexibility needs to be maintained, particularly during the joint exploration of possible outcomes. If credibility is to be sustained, final must mean final. Companies have often undermined their own negotiating position by ill-prepared, overhasty or too frequent declarations that the bottom line has been

reached, only to be forced by circumstances to waive this limit and agree to further concessions. Statements about limits being reached or about items being non-negotiable should be made with care and only in circumstances where the line can actually be held.

Business must be honest and ethical. Under no circumstances should you mislead your client or customer. It is despicable when customers are given the impression they are buying at a given price, and when the invoice arrives it is at a higher rate.

## **CONCLUSION**

Price negotiation will always be an important issue in business negotiations and business transactions, but a good price negotiation can't be done without taking into consideration other aspects to trade off.

The marketplace is all about people. People negotiate not the companies. A good communication and a trusting relationship between the parties are very important for a win-win negotiation and a long term business.

Although some people are better natural negotiators than others, negotiating skills can be acquired or improved by practice, coaching and training. Planning to improve one's negotiating skills should be an element in most personal development plans.

As people involved in business we should remember what the author Richard Denny said "Don't be afraid to talk money. It is not a dirty subject. It is what makes the world go round".

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## **AN ATTEMPT OF GROUP DECISION MAKING PROCESS OPTIMIZATION: THE PROPOSAL OF SINGLE-PEAKEDNESS**

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### **ABRSTACT**

*Very often it happens that business actors are participants in the process of group decision-making, so it is justified that the researchers devote considerable attention to the problem of decision-making. It is important that the decision-making process is reliable, and that means that we can reach the best of the available options in a given business situation. This goal is difficult to achieve, and that is why the social choice theory has clearly identified problems concerning social decision process, namely the arbitrariness of decision rules and vulnerability to strategic voting. If we follow the conclusion that Arrow has made, we'll have to claim that there is no decision rule that meets logic consistency and ethical conditions as well. The aim of this paper is to show what is the suggestion that deliberative democracy has made in order to avoid problems that social choice theory has identified, and what are the results that such a suggestion could reach. We are specially interested in single-peakedness of preferences because of the well-known finding that voting cycles can be avoided if voters' rank orderings are single-peaked.*

**Key words:** Preferences, Group Decision-Making, Decision-Making Procedures, Deliberative Democracy, Single-Peakedness

**JEL Classification:** M14, D23

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## ***INTRODUCTION: Arrow`s pessimism***

There is a conclusion which is the result of demonstration in the research of American Nobel laureate Kenneth Arrow., that result has become a commonplace in the theory of rational choice. Nevertheless, it seems that his conclusion is not less shocking today. In fact, it is the assertion that it is not possible to show what would be the democratic choice of the society (collective), if it is based on the preferences of the members of that society (collective). General theorem of (im) possibility, attached to Arrow`s work (Arrow, 1963). argues that it is not possible to simultaneously satisfy the requirements of rationality (completeness and transitivity) and ethical requirements (U, P, I, D). Arrow started to study with the motive to deal with two, already well-known problems of the voting system: Condorcet paradox and manipulateness. If the conclusion to which Arrow came was presented with pretensions only to freely express the position in colloquial exchange, even in this environment, it would be able to draw the attention of boldness. Such a man who would expose the conclusion must substantiate his claim by arguments, to explain what he meant, and how far-reaching was his aim. It is because the experience of the world in which we live makes that attitude intuitively unacceptable. If it were otherwise, we would have to accept either tyranny or anarchy.

Yet we are talking about the context of the theory of social choice, where we are particularly intriguing the part that refers to the group decision-making. Such a statement, expressed sharply, precisely and systematically, is the result of a mathematical proof. Euclidean proposition of Arrow, in the field of rational choice theory items, defeats us and leaves us wanting to find a place where mathematics is suppressed. Certainly, it is simply the domain of desire. That leaves us only the possibility to try to reconcile Arrow with the reality of the political sphere. But how? What is the space for democracy, as ubiquitous political system, which is compared to its alternatives historically raised on a pedestal, to be decently acceptable in the environment of strong theory, which argues its failure?

We are not concerned by Arrow`s basic attitudes and intellectual propriety, but what to do with them. In this situation, rational choice theorists have tried to add, weaken or eliminate some of Arrow`s axioms. What aim could they achieve that way? It seems that that way they could gain the theoretical significance of democracy to the extent that is approaching the meaningfulness that democracy already has in practice, based on the fact that democracy is the pure represent of the world`s political scene. Thus, the most famous among these types of ventures are related to:

- an attempt to make fund of ethical and conditions of rationality, carried out by alternative determination of the conditions of rationality and by introducing an additional ethical condition - Amartya Sen (Sen, 1987).
- weakening or rejection of the U condition- Russell Hardin (Hardin, 1993) is the example of this kind of argumentation

- explanation of the set of problems related to the I condition and its abandonment. The most typical in this set is certainly a problem of interpersonal comparisons of utility, which affects the utilitarian reaction to the problem of social choice (one of the most famous utilitarian view regarding this issue is certainly the one that made J.Harsanyi (Harsanyi, 1982).
- tracing the concept of democracy towards its deliberative conception, which is designed to ensure finding the authentic will of the voters and the arrival to the general public good, which should bring more durable, more stable results., that should be achieved by reliance on the ideal of justice and the concept of the public mind.

The tracing of the concept of democracy towards its deliberative conception is the item that will occupy our attention in this paper. Our aim is to show where does the motivation for deliberation come from, and why the aggregative approach is not acceptable. On the way to answer these questions, we will present the attempt of defeating the Arrow's pessimism. We felt it was very instructive to rely mainly on the remarkable Miller's text (Miller, 1992). Our next step will be to show how J. Fishkin, within the deliberative approach, follows the basic Miller's idea. Finally, we will point out the achievements of Fishkin's vision of deliberation, and it would be clear what are the consequences of these insights in every group decision making process, and also the one within the business environment.

### **WHY DELIBERATION?**

If we want to answer the question about the origin of deliberation, in terms of its importance for the "survival" after Arrow's pessimism, it seems to be the best to look for the answer in the article by David Miller, named *Deliberative Democracy and Social Choice*. That does not mean diminishing the importance of others who were engaged in deliberation inquiry, especially not "classics" among them, such as D.Held, J.Cohen, A. Gutman, D.Thompson etc.

Birthplace of deliberation in this respect is the challenge that the social choice theory puts to the liberal conception of democracy, in the classic version of J.Dahl and J.Schumpeter, and later at H.W.Riker. For the sake of terminological clarification, we will mention that Miller claims (Miller, 1992, p. 57) that these authors advocate a liberal democracy. Even populism (democracy understood as an expression of will of the people) that Riker confronts to liberal democracy is, according to Miller, in fact a variant of the concept of liberal democracy, because the essence of the liberal approach Miller sees as a performance of the social choice by aggregation of personal preferences, as fair as possible. The emphasis is on making the personal preferences freely formed and that each was given the equal weight. The only preferences that need additional attention are the ones that could directly harm the ideal of equal valuation, what could be, for example, racial preferences. This understood, democracy has its base in Rousseau (which, as Miller says, is a combination of epistemic beliefs and deliberative democracy), or Aristotle's understanding of democracy. The element that occurs in both

conceptions is the fact that starting point concerns the assumption that there is a common good to which community needs to come to. The public option is more successful if there is more people and if they have the relevant knowledge. The true relevance of information promises compliance. If we, even in the minimal extent, follow the view that Dahl has presented very rich and systematically, we will come to the conclusion that democracy is the aggregation which is carried out using the help of certain procedures, so that we take into account personal interests with equal respect. Riker's version is a bit more modest in ambition, because the ultimate goal of a procedure which performs aggregation (voting, for example) is to remove a leader who has lost credibility, which presents democracy only as a guardian which will not allow to become a tyranny, if it is possible in a moment. Riker's modesty is supported by the pessimism regarding two key vulnerabilities of democracy (the arbitrariness in the selection procedure and the risk of manipulation, which endangers the fulfillment of conditions D), that pessimism is repeated by G.Mackie (Mackie, 2004). Riker and Dahl are not familiar with democracy as a procedure to arrive at the items on which we already have agreement. Miller believes that deliberation is fundamentally different from the liberal solution because it advocates more active approach: democracy as understood in the deliberative approach, the goal is to create the preference, and not simply the expression of existing ones.

The liberal conception is challenged by the conclusions of the theory of social choice, because the decision making approach it advocates could not meet the minimal requirements of rationality and ethics, at the same time. As the very concept of democracy, minimalist understood, could not be without these conditions, something had to be changed. A direct consequence of this inner paradox is clear visibility of specific issues: the arbitrariness in the selection procedure of adopting decisions and strategic behavior. None aggregation rule is not superior to the other because it has largely met the requirements of fairness and rationality. Also, there is no rule-making that is not vulnerable to strategic behavior that is the instrument of manipulation (this conclusion is presented by Gibbard-Satterthwaite theorem (Gibbard, 1973; Satterthwaite, 1975)). If we compare the Condorcet criterion and the Bord's method, we will see that their results do not always coincide, but our decision on the application of one of them (which makes things easier) again depends on the specific case and certainly looks, at least in one segment, arbitrarily.

Beside the mentioned attempts to mitigate or reformulate ethical and conditions of rationality, intuitively speaking, another different approach seems quite natural. It is the conception of democracy, in terms of public election, that is directed to otherwise., that is just what concerns deliberation which sees the problem differently, and therefore offers a new solution, which is appropriate to that view. The central example of Miller's argumentation is about the choice of sources of energy in England- whether it will be an integrated steelworks, oil installations, gas or nuclear power plants. After examining the decision-making process in this case, Miller (Miller, 1992, pp. 60) raises the question whether the deliberation, by introducing the new ideals of democracy, can overcome the

challenge of social choice theory. It would be unrealistic to expect the achievement of complete, unanimous, agreement. What should be the task of deliberation is that the number of preferences to be considered when making the final decision comes down to as small as possible or optimal (so that they reflect the diversity of preferences of voters, but they are well designed) and lead to a conclusion on how knowledge of the structure of preferences may influence the choice of decision rules. Miller comes to the clear insight that deliberation plays a key role in preparing the final list of preferences. Candidates from the final list may gain voices of voters in the postdeliberative voting process. In fact, not all preferences are options that we can vote for. It is very important that Miller believes that any external constraints that could determine in advance the preferences that can get into this game, are unacceptable. What can help us in that sense is the purification of preferences based on moralizing effect of public dialogue and the moment of rationality. Thus, the test to undergo the preferences should determine whether they are based on erroneous empirical beliefs and whether the interest that preferences incorporate can also be a public interest (whether that interest can be the basis of a code of conduct that everybody would accept to follow?). Preference representing the postdeliberative voting option can't be based on empirical beliefs that are false (such preference is considered to be irrational), and thus must have the moralizing potential to express the deliberative process (public discussion leads us to change the emphasis from the individual, self-interest driven, attitude, towards the general norm that could be useful for the public). Both mechanisms of deliberation, designed to overcome the problems of the theory of social choice, have resulted in the transformation of the sum of individuals with their personal preferences into a group of associates who tied a joint effort of the initial treatment preferences, and created a favorable ground for overcoming personal interest in the name of achieving the interest of all.

If this moment in Miller's argument we want to locate in relation to Arrow's insights, it would look like an implicit call to reject the condition U (condition of unrestricted domain, which supports the democratic ideal of equal treatment). How to justify Miller's implicit abandonment of Arrow's U condition? In what way it would be legitimate that in decision-making process we take into account only preferences that deliberation has laundered? Strong argument refers to the irrationality of the individual ranking lists, which are formed with false empirical beliefs (in the case that states Miller, it would mean that about the energy source we decide only on the basis of ecological desirability, and the other dimensions of the problem we do not take into account). The second argument relates to the preferences which can never have public support, because they are opposed to the moral of the society, i.e these that can't be generalized (on logical and practical level) without contradiction (racist etc.) What do we for now have as a conclusion about deliberation? Deliberation affirms the public good (in this sense, has Rousseau's background as also the liberal competitor does), but uses the ethical terms to legitimize the laundering of preferences. In this sense, Miller introduces Goodin's remark (Goodin, 1986) that when we become aware of the responsibility for the public, when we accept the role of choice for all, we need to "purify" our preferences so that only those oriented to the common good remain significant. The

ultimate aim of these considerations related to the goal of the process of deliberation is the transformation of the original preferences (which may be based on personal interest or bias) in ethical judgments. Arrow himself, who has favored Kantian minded voters in relation to that which is egotistical (Arrow, 1984, pp. 87), realized that the potential for circularity of voting is smaller if the decisions are made impartially and not on the basis of personal interest. Here the appeal to put democracy on a sound basis is clear, and that will not happen at any cost streaming at the unanimity which is unrealistic ideal, but by ensuring the fulfillment of the logical minimum for realistic disagreement. In fact, it is very important that before we come to voting, we have completely clear preferences. In order to give our voice properly, the choice before us must be quite clear, and we must be sure to understand the essence on which options are opposing, i.e. which is the same as to understand why they are different options. The clear knowledge will protect us from cyclicity. If we are able to discern the options that define the field of possibilities in one dimension, the next thing we should do is to evaluate them. Different evaluation precedes a clear understanding of elections ahead of us, so we can say that this clear understanding is the logical minimum, which has to be outreached before the evaluation. If we overlook the fact that set of features belonging to one dimension also defines some options from other dimensions, then defining is a failure, and we do not know what are the options for our choice or what does choosing mean., if the problem that is at stake is complex and hiding multiple dimensions of disagreement, the more complex will be the decision-making procedure. But complexity should not disturb the clarity: decisions must be carried out in relation to each dimension (in which we always have clearly defined options), and then evaluating the dimensions must set priorities. In this way, we have not smuggled, hide or mystify. Options have become transparent and we have a sound basis to express our evaluation of certain options. Before that, our evaluation would have no such weight, and would seem that our decision build the common good, because confusing options seem to nullify the voting and make it a nonsense.

At first glance, it may seem that what is deliberation to be entrusted to do and what provides the basis for it's appreciation, depends on psychological fact about human nature, namely that it is unlikely that we will prove the correctness of a particular election, and yet vote for some other option. Even if this remark was established, it can't have the status of universal truth. However, please note that we do not aim to examine its merits.

We should determine the space that deliberation opens for possible manipulations, because this item is the part of a broader theme and represents another key objection to the theory of social choice. Namely, the publicity of carefully organized and guided discussion that precedes the choice of the option from the list of laundered preferences, is what separates deliberation from different models of voting. On the one hand, it seems that the deliberation is protected from strategic behavior by the way that deliberative process is organized, and we will discuss that later. The succes of strategic voting behavior depends on knowledge that strategist have about the interests of other voters. In order to take his own moves, strategist must include not only the preferences of others, but their tendency

to honestly express their preferences, e.t. whether they would behave themselves strategically. A very ambitious work would be necessary if we want to inquire basic problems of such situation, even if we would like to analyze only the well-known prisoner's dilemma. But it seems that at this point is more necessary to point out that if the knowledge of the preferences of others, which is the subject of secret strategist's efforts, become publicly available, we reduce the chance of strategic behavior, because its success and possibility at all depend on the ability of a person to be in privileged position when it comes to that knowledge. If knowledge is public (which deliberation aims to be), there is no privileged position. Thus, we close the door to manipulation, even from one direction. It remains the second direction concerning the certainty of a sincere expression of preferences of others. To the extent that the second direction is in direct correlation with the fact that the knowledge of the preferences of others is publicly available, we can say that we have weakened it. Along with Miller, we could insist on the more established moralizing effect of deliberation and enhanced cooperation within the group, at the expense of personal interest. In a situation of public debate the tendency of hypocritical behavior reduces, at least from what we have known about human nature, but it does not mean that hypocrisy is off. In extreme cases, there are many professions that are defined by bluffing. However, it seems that this weakening is provided in the extent to which public attitudes limit us otherwise in our actions and to the extent that the moral norms of society are able to be the priority in respect to personal interest. However, despite the perfidy in finding a shortcut to our own interest, it seems that public discussion within the idea of deliberation, rather narrows the space for manipulation.

All this prepared the Miller's appealing to the argument of the singlepeaked preferences, initiated by D.Black, the author of the well-known middle voter theorem (Black, 1948). We can see the problematic nature of this initiative to the values that basically determine democracy at first glance: it asks deciding which involves preferences from a subset of singlepeaked, not from the whole collection of preferences. It was decided that all preferences do not have the same weight, but this decision was made on the basis of logic but not contents discrimination, because singlepeakedness requires that any option is not set above the one that is dominant (there is an option that is mostly prefer). Perhaps it is premature to say that it was simply a formal filter, which had to be a barrier to the universal domain that we did so that we could have preferences at all. That is the way this "discrimination" could loose value connotations, or at least could substantially weaken it. But this Miller's reference to singlepeakedness seems really plausible, if we take into account all that we have so far said about his argumentation. It seems that the theoretical framework of the deliberative process and it's elegant features that we recognized have brought the need for the requirement of the singlepeaked preferences.

It seems that at this point it is instructive to show a direct thematic motivation for which Miller could introduce the singlepeakedness. What could Miller get from introducing Blek's conclusions? By introducing the requirement for singlepeaked preferences Miller could directly point to another aspect of the failure of group

decision making: failure due to multi-dimensionality. We have already seen this failure but here's how it looks under scrutiny of singlepeaked preferences: a bad circuit in the sense of ignoring the transitivity can be created due to the requirement to decide among the various rankings which are the result from the evaluation of alternatives from the point of one of the dimensions. To be able to access decision-making, first we have to get these alternatives at the same ground. If there are differently valued priorities that define the rankings, and if this mess is supplemented by disagreement on defining key priorities then deciding is luxury that we can't afford, since there is no singlepeakedness. Deliberation is what we essentially need to prepare the decision making process and to get clear preferences. If we clearly distinguish relevant dimensions of the problem, we conceive decision making in a different way. The part of knowledge that should be available to all should be clearly set out to meet with different dimensions within the initial selection, and then search for the optimum through these dimensions. At this point, due to the new clarifications and progress in the argumentation, we can, without much ambition and caution, rely on the aforementioned hard-psychological fact that in the exhaustive process of public exchange of arguments one who advocates optimum (for all) do that strategically, i.e. in order to indirectly win points for the second option. Not only because we are in a position to suddenly change the status of empirical indications, however, and to claim her universal truthfulness, but because of the support that has provided a framework of deliberative process. Deliberation is largely immune to manipulation because of the way the deliberative process itself is designed, in comparison with any rule for decision making.

So deliberation has the task to formulate an attitude, not just freely choose among the existing. The ideal of democracy as deliberation sees it is not uniformity, unanimity, but pluralism. To stay healthy, and yet led to the decision (or there can be no effectiveness, no practice), pluralism need to deal with preference must be free of illogic moments, and minimum of that is their singlepeakedness. Only those preferences can be selected as an expression of the general interest, whose focus is not just to freely, now and here express a personal interest as it is. Preference should be trimmed in accordance with the request of singlepeakedness, so they could participate in the election game. Deliberation is the activity that clarifies the dimensions of such candidates and the public comes to the optimal choice, after weighing the relevant priorities. Those who participate in the process need to know that they are talking about the same thing and have to stand on the same ground when it comes to understanding the structure of preferences. If people talk about different things, they will, through the process of deliberation, become aware of this and will be able to see the value which is crucial, but also the one that could be sacrifice due to the current general interest, which is our common goal. Miller has made an invaluable insight into the reason for the failure of the decision making process: the overlook of the more fundamental disagreement because of the incoherence of ranking lists, because they concern different domains. Deliberation is then considered to be a natural solution, because we can't start from such confused and defined preferences. The process of deliberation purifies preferences by making them cross to the same domain, and only this can be a good start for the decision.

## **FISHKIN: DELIBERATIVE DEMOCRACY CONCEPTION**

The spirit of Miller's conclusions moved Fishkin and his associates (Fishkin, 2006; 2009.) who have made the advantage for deliberative democracy in comparison to the liberal alternative through mechanism of singlepeaked preferences. The deliberation bring us closer to singlepeakedness. These authors emphasize that we can't leave the classical paradoxes, which underline the absurdity of democracy, behind by resorting to naivety or pure desire for absolute unanimity, but by approaching singlepeaked preferences. It is the task of deliberation. The text that we talk about presents the results of the first empirical test of this hypothesis, but the end result of deliberative poll (DP) practice is a significant convergence to singlepeakedness. Let's look the details.

Singlepeakedness is a binary property- preferences are or are not singlepeaked. The authors define the degree of convergence to singlepeakedness, or so-called proximity to sinle-peakedness, further pts, and propose its measurement, because it is expected that its growth and the possibility for the appearance of bad circularity are indirectly proportional. We need to measure this degree before and after the process of deliberation, in order to demonstrate that this change is a direct consequence of deliberation. How does a deliberation process happen?

The basic idea for designing process of deliberation can be found in the work of George Gallup, who was the first to systematically develop exchange of public opinion. The idea was that politicians deliver information to the public and after a while citizens should express their opinion. This public declaration of the politicians for them was the feedback on what they have achieved. The effect of such a process would be as if the entire nation was in a large room (Gallup, 1939). Later on, inspired by this pioneering attempt, Fishkin will name his project of experimental democracy "Europe in one room." Motif is getting to the will of the voters, not in its original form, but purified after deliberation.

In a public declaration, the basic problem is the fact that most of the participants were not well informed and didn't consider the case properly. The result of such assessment may be preferences guided by self-interest, but they can't have the status of attitudes. Deliberative pools (DP) are designed with the aim to demonstrate that the public would really thought about the topic if they were sufficient and right on time informed that there is a habit of exchanging opinions. DP creates a hypothetical public that is more concerned and better informed about politics than regular citizens, in their natural environment. The basic scenario which should bring to the implementation of the idea of deliberation is to do their initial interviews with the participants of the DP (sample of the voting population), then to be given a carefully balanced, appropriate material that will direct them to the problem they should decide upon; the next step are the plenary sessions in small groups led by experts, ideologues and politicians, where a discussion in which the face of thought (takes into account the fact that everyone participates and that no one obviously do not control discussion), clarifies attitudes. This face to face communication is very important, because the audience wants us to come up with a good argument, since it would survive among others only if it is convincing.

After this process, the students were interviewed again using the same instruments (questionnaires, tests) and the results are compared with the initial. Some DPs are designed to have a control group. Analysis of the results of DP has shown that there is significant progress on engagement, reflection and awareness (both at the individual level, for the formation of personal preference, and the level of public decision-making).

What is the scientific status of the DP? DP is a quasi-experiment in social sciences. "Quasi" because there is no accurate, complete measurability of experimental parameters as there is no real control group. As such, it contains the following elements: anticipation (before the second interview participants pay much more attention to issues related to the topic problems, exchange their thoughts with others), the impact of the information which the experts carefully exhibited in the material (so random and uncertain referral, inherent to the natural environment, is avoided), discussions in small groups led by professional staff (groups of 10-20 participants, and experts that help in clarifying of conflicting arguments to a level that is unknown in real life), the opportunity to hear the views and ask questions to politicians, without silencing those who are angry opponents, the resumption of talks behind the scenes, naturally, during the accompanying social gatherings- bars, restaurants.

If it was not just about the hypothetical voters, we would have many difficulties. In fact, it is very difficult to effectively motivate citizens to be informed. The motive for the present, often deliberately chosen ignorance, is rational- my voice, one in a million, could not make any visible change. Also, just few people would actually say that they are not aware of the problem, they would rather randomly choose. If we talk about politics and the natural environment, we talk with those who are similar to us, with others it is better to talk about the weather and less demanding topics. Then, it is easier to manipulate people in the real society, especially if they are passive and uninformed. Technological progress has its bad sides i.e. there is no focusing, no real choice in a sea of readily available candidates for "information," something that would be necessary as a criterion and a guide is forgotten. The public, as it is in reality, not as the sample participating in the DP, is uninformed and without deliberation. How to reconcile political equality with deliberation (Fishkin thinks that deliberative democracy succeeds to do that), how to ensure that decisions are made by the people, not that some decide instead of them? How to ensure that the representatives actually represent those who placed trust in them and that attitudes really represent the interests of the majority?

Fishkin insists that deliberative democracy is a term that is used for a combination of political equality and deliberation. Within this concept, the attitude of everyone we appreciate alike, along with optimal conditions under which the participants will be able to come to their positions. Deliberation ensures a fruitful discussion with mutual respect (Fishkin, 2009, pp. 11). Is such a high evaluation of our voice enough to motivate our efforts and define us to become engaged and well informed voters? Will the fact of reinforced cooperation that occurs in a public exchange, persuade us to give up the indolence, at the mass level?

Now let's look at the way of comparing the levels for approaching singlepeakedness before and after a deliberative process (Fishkin, 2006, pp. 5). It is important that we talk about singlepeakedness on the individual level (preferences of each individual), and at the group level, because it is crucial for the social choice. Collectively, the profile comprising all individual rankings is singlepeaked if there is an order from left to right in relation to which every individual ranking list is singlepeaked. The order that is thus established is called structural dimensions. The singlepeakedness of a profile constitutes a sufficient condition for avoiding circularity, and thus managing to bust out Condorcet paradox. Speaking in Blek's famous theorem terms, a favorite among alternatives would be the middle voter's preference in relation to the existing structural dimension, and it is also Condorcet winner.

However, the singlepeakedness of a profile does not have to be a necessary condition to ensure transitivity on a group level. Satisfactory convergence to singlepeakedness (pts) may be sufficient. This means that a subset of singlepeakedness ranking lists is big enough. If we want numbers speaking,  $pts = M / N$ , where  $M$  is the number of ranking lists that are singlepeaked compared to the structural dimension, and  $N$  is the total number of ranking list in the profile. The probability that there is a Condorcet winner is greater if pts is closer to 1, because when  $pts = 1$  the profile is singlepeaked, and therefore circularity is less likely to occur.

Here we will make only one step in order to find out the origin of Fishkin's attitudes in Miller's argumentation that we have presented already. Miller's insight that of deliberation can be expected to enable the convergence to singlepeaked mechanism through meta-approval (meta-agreement), which actually represents assigning different values to different dimensions, within which are clearly defined options, is crucial. Miller made it clear that the failure in the decision making process is due to the fact that the problem of layering structure is hidden (it can be briefly defined as the problem of delamination). Discussion leads us to meta-agreement on two levels: at the level of semantics (basic agreement on what constitutes the nature of the object) and when it comes to the order of priority (in order from left to right). After that, anyone can accurately determine its ranking. Otherwise, without meta-agreement, individuals can freely adopt a ranking list of a political elite and the like. It is important that only in the first case deliberation is fundamentally dependent on learning and reflection, and only if so, it can have normative weight.

Fishkin and his co-authors tested the central hypothesis that tends to increase pts. They insist on the fact that the biggest increase in deliberations that encourage learning and reflection. To test used data from nine large DPs. Relevant data were: number of participants ( $n$ ), the number of alternatives ( $k$ ), the most sizeable structural dimension ( $D$ ), Condorcet winner ( $C$ ) pts for T1 (pre deliberation) and pts for T2 (after deliberation). The key fact is the change in pts:  $pts_2 - pts_1$  (or delta pts). We will briefly state the results obtained by researchers arrived, referring to the relevant source.

Before the deliberation pts is in direct correlation with the importance (salience) of cases: for the least significant,  $pts_1$  was 0,421, for those of average significance 0,441, for a very significant 0,751. The median value of  $pts_2 - pts_1$  is

0.101. Here we can see the inverse correlation between the pts growth and importance of the case, for one very important pts even crashes (-0,006), for those in the middle-pts increase is 0.107, and for those whose importance is the smallest, 0.173. The general conclusion confirms the initial hypothesis, at least when it does not work on cases that are extremely prominent. It was also noted that the more differences come to the surface in the process of deliberation (the more we are going away from unrealistic ideal of unanimity), the greater pts is. That means that people are more alike to know what is the subject of their disagreement (meta-coordination). The new information and reflection have a direct impact on the growth of pts. However, the authors assume that the nature of the problem and learning are some of the most important factors studied the process by which we approach singlepeakedness. Much depends on the quality of deliberation- it should be more focused, serious and be carried out with consideration. Riker is pessimistic, and thought that the election result would guarantee satisfy transitivity if we achieve singlepeakedness, but that he expects that only when it comes to problems of minor importance (Riker, 1982, pp. 129). The results obtained by Fishkin and his co-authors are applicable, however, to a much wider range of cases.

## CONCLUSION

We tried to show that there is an approach that would overcome Arrow's pessimism, i.e. pessimism which is succinctly expressed by binding to the general impossibility theorem. The aim was to avoid vulnerabilities that aggregative model of democracy has in relation to the problems of social choice. We dealt with most authors that seemed to most persistently advocate the idea that we will get rid of this pessimism and vulnerabilities if we find a way that will include that individual and group preferences come closer to singlepeakedness. It turns out, in the versions of Miller's and Fishkin's argumentation, that this is the way of deliberation. Deliberation should bring our preferences closer to singlepeakedness, and the results of many DPs, which we illustrated, confirms that deliberation really managed to do so. Our gain is great: we have saved democracy, as a form of group decision making, and also as deliberative. The question is whether we are giving up the concept of liberal democracy, forced to renounce the values of the inviolability of the individual. The deliberation moved our preferences through learning and reflection. Preferences that are not laundered are just the starting point, but explicit goal for democracy is not to remain on it. We can recall the Fishkin analogy of mirrors and filters (Fishkin, 2009, pp. 25). It starts from the *mirror*, and it should be the result of genuine will of the people. In this notion of authenticity, which is not empty, nor is it unrealistic ideal of some kind of entity beyond, mechanisms of deliberation is essentially involved, which is the *filter* for our initial preferences. In other words, the material of which we may decide should be prepared, awakened. There can't be a mirror without filters. The mirror is the goal, not the starting point. This turn in the perception that brought the idea of deliberation also changes the concept of inviolability, so that it isn't sacrificed. In fact, in a situation where the decision making process resembles the decision-making in the "prisoner's dilemma", to decide so you do not hurt your freedom and interest, means to involve

cooperation, necessarily. Personal inviolability means then to review the starting point for the sake of the personal best, the best for me and the best for others, for the sake of optimum solution. Otherwise, it is a form of irrationality. We have not given up on the ideals that make a minimum of democracy, we have just showed them concretized and in operational manner in which they can be approached. Deliberation warned of a problem before the decision, and a proposal for its solution. The course to solve this was: to reach harmonization at the level of semantics, prioritize which are measured, and then form the individual rankings. Deliberation requires, first, a meta-harmonizing prior to decision-making and that is for the process of decision-making essential, because its validity depends on the success of this preceding, meta-compliance.

To conclude, deliberative democracy is trying to achieve political equality through a process of deliberation. Political life is a direct field for application, but it also can be the business sphere. Although our first aim was to show that deliberative democracy is slipping weaknesses inherent in its aggregative competitor, we will not fail to mention the weaknesses that the deliberative model, however, has. The results of DPs yet illustrate a quasi-experiment. The question is in what way we could successfully motivate citizens globally, to participate in such a process, and keep that such motivation is constant? Technological progress is helpful in this sense, but is it enough for successful organization of all the segments that make up the deliberative process? The question of the extent to which it is possible to apply deliberation at the level of global society makes discussion of the price of such implementation more appropriate. Rousseau's ideal of democracy means that there is a common good, and it is natural that we will do it easier and safer if we get more to participate in decision-making process. But also more expensive. It is difficult assume that the results of quasi-experiment can be used for the whole society. Deliberation conducted on a sample certainly has discrepancies that are not simply technical or methodological, but substantial when we talk about the macro-level deliberation, which reality seeks. These shortcomings are the result of the logic of "sample". Furthermore, the problematic status of those who ménage the deliberation process- who they are, how they choose to whom they answer? How does the quality of the process depend on how we define the answers to previous questions about their status? These difficulties could make another type of vulnerability for the deliberative model along with the price of success with which it has overcome the vulnerability of aggregative models. Is the severity of these problems so important to reach the need to compare these different vulnerabilities, and in what way it is possible to determine more resilient model? The answer to these questions will provide a more detailed study.

This few topics from the social choice theory warn us about the complexity of a decision making process. How are alternatives do be defined, who will take responsibility and manage the decision making process- are only some questions that enables us to inquire more detail the same processes in business relationships., thus, it will help us to see the challenges that were hidden, and analyze more dimensions in relations between business actors. Business is the field where we need laundered preferences and assurance of the proper choice, because it brings out serious

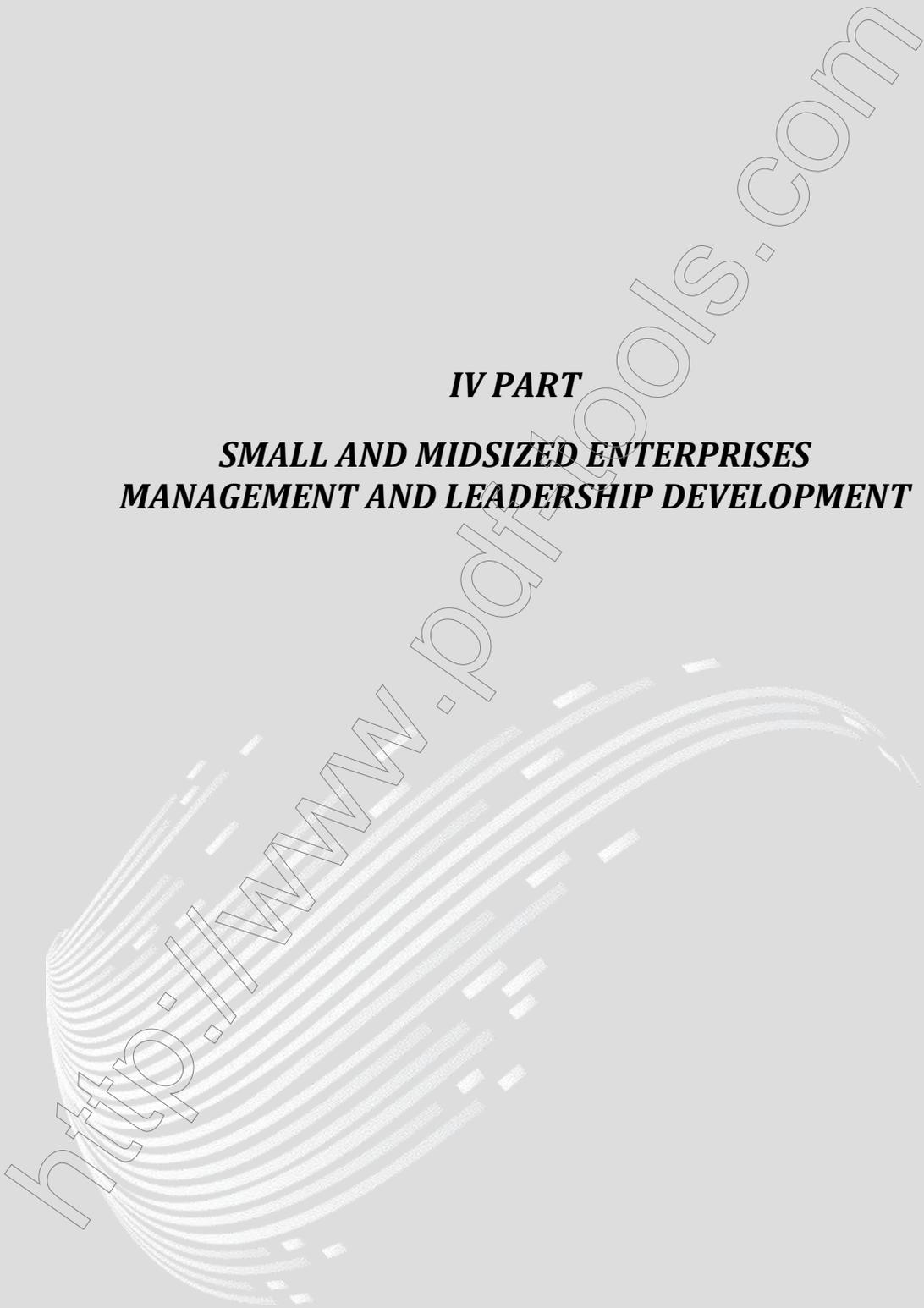
material, social and human consequences. We should try to improve the theoretical scope of social choice theory, so that we could enjoy the practical results.

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**IV PART**  
**SMALL AND MIDSIZED ENTERPRISES**  
**MANAGEMENT AND LEADERSHIP DEVELOPMENT**



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# **THE IMPACT OF LEADERSHIP STYLES ON ORGANISATIONAL PERFORMANCE WITHIN MULTI-NATIONAL COMPANIES BASED IN THE UNITED KINGDOM**

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## **ABSTRACT**

*A number of studies on leadership and management have been centred on the concept of how leaders can directly influence the success and effectiveness of an organisation; however, it is unclear currently whether this claim is supported by qualitative evidences. The aim of this paper is, therefore, to identify and evaluate the possible implications that leadership styles, especially in Multi-National Corporations in the United Kingdom, have on the overall performance of organisations.*

*We seek to explore and address these issues using interview data conducted with key organisational actors in strategic decision-making positions within MNCs. A number of themes have emerged from the data including; Self-declared leadership style; Relationship with subordinates; Relationship between leadership style and performance; Linking transformational leadership and performance. It was observed that whilst leaders who, through inherent characteristics or life experience have the requisite skills for successful leadership, the role of further development and coaching cannot be underestimated. A strong correlation between the transformational leadership style and organisational success was established. There is also a recognition that different situations and contexts would make it necessary for different leadership styles to be employed for task success. The attributes that managers should adopt for developing their leadership styles effectively, should be those based around flexibility and the ability to recognise the type of leadership style that is most likely to lead to a successful result for the task in hand. Future research could employ a larger and more representative sample of case studies from*

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*multinational organisations to fully establish the actual impact of the leadership style and the performance of such organisations.*

**Key words:** *Leadership, Leadership Style, United Kingdom*

**JEL Classification:** *M12, M14, D22*

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## **INTRODUCTION**

A number of studies on leadership and management have been centred on the concept of how leaders can directly influence the success and effectiveness of an organisation (Bass, 2010; Yukl, 1989; Northouse, 2007). Leaders play a vital role in the attainment of organisational goals by creating an environment that would influence employees' attitudes, motivation, and behaviour. However, House and Aditya (2007) argue that there are many unanswered questions pertaining to leadership's role and relevancy in modern-day organisations. That is, in spite of the extensive research on the construct of leadership in the fields of management and business, a "strong scholarly discourse on leadership" is lacking (Aldoory and Toth, 2004, p.157).

Therefore, to enable managers the successful use of an evidence-based management approach, it is essential that there is good quality evidence for managers to draw upon. Scholars have emphasised that leadership and performance are two important and interrelated variables contributing to organisational effectiveness (Aioanei, 2006; Diskienė, Marčinkas, and Stankevičienė, 2010). Thus, there is a need to critically examine this relationship and adequately analyse the effects successful leadership can have and, the conditions, situations and correlations under which leadership is effective.

A lack of explicit research that examine the correlation between leadership style and a company's effectiveness has been reported. More research is therefore required to explore the extent to which the managers' leadership styles and the organisations' effectiveness are correlated. In case of a positive correlation, the question is then, to what extent does all these lead to an improved organisational performance.

The paper addresses these issues using a qualitative research approach to identify and evaluate the possible implications that leadership styles have, particularly, within MNCs in the United Kingdom.

This paper is divided into three main sections; firstly the key theories and definitions relating to leadership will be provided; then the next section will offer insights into organisational performance and key leadership strategies that can affect organisational success in multi-national companies. The final section will aim to establish a link between these two concepts and assess how they impact each other.

## **THE CONCEPT OF LEADERSHIP**

There have been conflicting definitions over what leadership is, and it can be argued that there are as many definitions of leadership as there are people who have attempted to define it (Northouse, 2007; Packard, 2009). The concept of leadership within organisations is one of the most researched themes worldwide (Masood et al, 2006) and has therefore, gained itself a vast variety of definitions depending on interpretations, but with no general agreement (Bryman, 1986). These interpretations are diverse. For instance, Fleishman (1973) considers what a leader actually does (roles or tasks) while Hersey and Blanchard (1984) defined

leadership based on the ‘influences’ leaders exert over subordinates. Bryman (1992) on the other hand, argue that a leader is the person who guides a group of individuals or followers to a shared and pre-defined goal. Daft (2000) had concluded this view by suggesting that the attainment of goals and subsequently leads to and facilitates organisational effectiveness.

It has been argued that the distinction between the classification of the role of manager within an organisation and the role of leader also needs to be considered (Kotter, 1990). Key functions such as; planning, organising, budgeting and staffing in order to create and maintain consistency, whereas a true leader will demonstrate focus on creating vision, the future and regularly challenge the current circumstance (Rodsutti and Swierczek, 2002). Packard (2009) attempted to make sense of this variety of leadership definitions, and summarised leadership as thus:

*“... visioning, change management, strategy development, organisation design, culture management, and community collaboration.” (Packard, 2009, p.144)*

The above definition aims to combine a number of domains which incorporates themes and ideas from the numerous definition described in the literature - this is the definition of leadership which will be used in this dissertation.

Packard (2009) provided a useful overview of the factors affecting organisational performance via his heuristic model (see Figure 1, below).

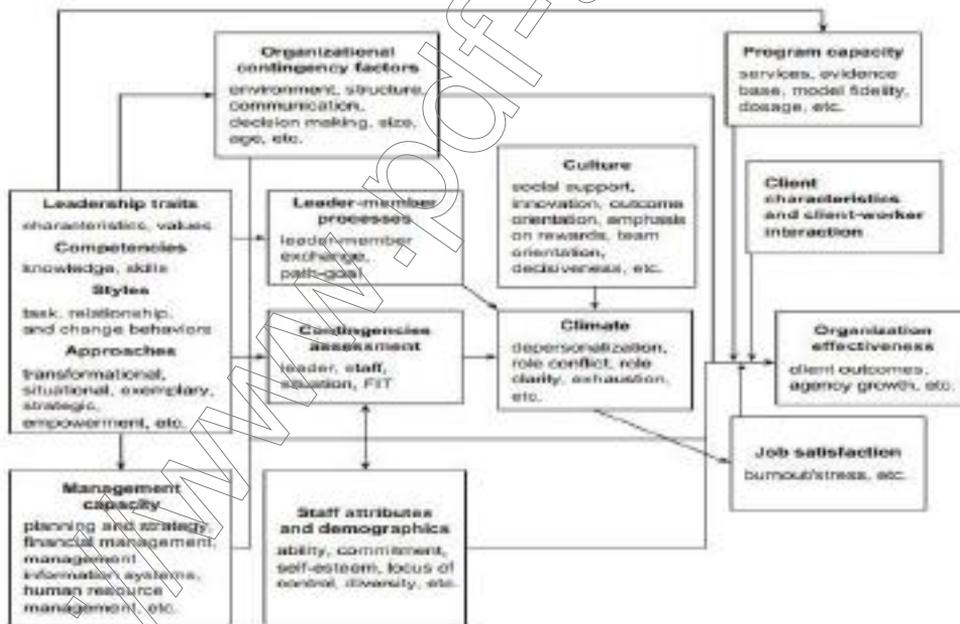


Figure 1: Factors affecting organisational performance: a heuristic model  
Source: Packard (2009, p. 145)

Packard (2009) views leadership as the starting point of the chain of variables that can ultimately affect organisational performance; for example, leadership can

directly impact the design of the organisation, and thus the management capacity, which then in turn can affect the organisational contingency factors.

## ***LEADERSHIP STYLES***

Studies on leadership and existing theories of leadership have taken numerous shifts, but two main approaches have dominated the literature within this area. The first approach considers the characteristics required of a leader and the fundamental behaviours demonstrated, whereas, the second approach focuses on the development of differing leadership styles demonstrated under the necessitating circumstances. The leadership styles discussed below have been developed via research and exploration over the past 25 years, and are used extensively throughout the world in both practice and research (Bass and Avolio, 2004; Amirul and Daud, 2012).

## ***TRAIT THEORY OF LEADERSHIP***

This theory argues that there is one best way of exercising leadership, the argument is whether leaders are born rather than made. These earlier studies on leadership identify the key personality traits considered to be necessary to become a successful leader (Bryman, 1999). There is a suggestion that some people hold innate personal leadership qualities, thus making them born to lead (Bryman, 1999). These innate qualities, such as, physical and personal characteristics, skills and abilities are what distinguishes a recognisable leader from a non-leader (Stodgill, 1948).

Previously, the trait theory approach to leadership was deemed the most conventional allowing for leadership characteristics to be categorised and recognised in individuals within organisations. Leadership in this context was not accessible to everyone, Torrington et al. (2005) state that leadership, therefore, is predominantly an innate ability, and it is not something that can be learnt or achieved through desire, training or education.

This approach has, however, been subject to widespread criticism following research into the lack of clarity and consistency in categorising and validating the pre-determined leadership traits. For instance Yukl (1981) explains that there is very little evidence that links the personal and physical traits sought after as certain indicators of leadership success. This criticism has led to the development of style and behavioural and situational approaches to leadership (Stodgill, 1948), and therefore a focus on the style and behaviour adopted by a leader in different situations (Likert, 1961).

## ***SITUATIONAL THEORY OF LEADERSHIP***

Situational and Contingency theories of leadership challenge the concept of trait theory with the suggestion that a leader does not hold one leadership style but instead is capable of adaptation, reflection and development to apply a variety of

approaches dependent on the situation and what it requires. For instance, Fiedler and Garcia's (1987) contingency theory explains how leadership styles can be tailored to suit both particular situations or enhance organisational effectiveness dependent on the defined objective and indicator of performance success. However, Hersey and Blanchard (1984) took this perception one step further and argued that a leader is capable of both adaptation of leadership style and approach within an organisational context to achieve performance success. Criticism surrounding situational leadership as a model has developed from the notion that a manager instead of adjusting leadership style to suit situation may instead attempt to adjust the conditions of the situation to their leadership style in order to achieve organisational performance success at all costs. (Hosking, 1981).

Furthermore, Robbins and Judge (2007) also provided criticism of the situational model by emphasising the need to develop the theory further, due to other relevant situational variables affecting the leadership style, such as; task structure, situational stress, support, manager's intelligence and experience, employees' characteristics and ability and manager ability to motivate, showing that situational theory may not be enough to explain leadership styles and other factors should be considered.

### ***AUTOCRATIC STYLE OF LEADERSHIP***

Within an autocratic leadership style, which was first described by Lewin and colleagues in 1939, authority is important, and the focus is task accomplishment rather than the person completing the task (Lewin et al, 1939; Hamilton, 2011; Mars, 2012). An autocratic leader maintains a distance from his or her subordinates, and seeks to maintain results via fear of punishment, rather than anticipation of reward. High levels of supervision are also seen in the autocratic style, as originally described by Taylor (1909), who recommended high levels of supervision of subordinates to improve performance and efficiency. The autocratic style is most successful within larger teams, when there are large numbers of inexperienced employees, or when a decision needs to be made quickly.

However, whilst successful in a limited number of situations, the autocratic style is less successful in creative organisations, as it may stifle creativity. Further, when used inappropriately, the autocratic style can undermine the morale of subordinates (Hamilton, 2011; Mars, 2012). Further, some academics have reported that the autocratic style, when used in inappropriate situations, can lead to hostility within the group (Robbins and De Cenzo, 1997).

### ***DEMOCRATIC STYLE OF LEADERSHIP***

Tannenbaum and Schmidt (1958) describe democratic leadership as one where decision-making is decentralized and shared by subordinates. Leaders who employ the democratic style of leadership encourage their subordinates to be part of the decision-making process (Hamilton, 2011; Mars, 2012). Responsibility and tasks are distributed throughout the team. The democratic style of leadership is

most successful when working with experienced teams, who are able to utilise the higher level of trust and responsibility they are given to engage in creative problem solving. Democratic styles of leadership can be especially effective where the leader is unable to closely supervise their subordinates, as research has found that such a style encourages subordinates to work well even when the leader is not present (Daft, 1999). Democratic leadership is less successful in situations where a decision needs to be made quickly (Hamilton, 2011; Mars, 2012).

### ***LAISSEZ-FAIRE STYLE OF LEADERSHIP***

Finally, Lewin et al also described the laissez-faire style, which is a style with high subordinate autonomy and responsibility, as the leader takes a 'hands-off' approach (Lewin et al, 1939; Hamilton, 2011; Mars, 2012). There is little communication between the leader and subordinates, and sometimes little communication between the subordinates themselves. This style of leadership can produce successful results in experienced and motivated teams. However, where subordinates were less experienced and unmotivated, poor productivity may occur (Hamilton, 2011; Mars, 2012), leading some to think that it is not just a 'hands-off' leadership approach, but a destructive approach which can reduce productivity and increase conflict amongst subordinates, and subordinates and leaders (Skogstad, Einarsen and Torsheim et al, 2007).

### ***TRANSFORMATIONAL AND TRANSACTIONAL THEORIES OF LEADERSHIP***

Recent studies have focussed on transformational and transactional leadership in an apparent return to the 'one best way of leadership' (Ogbonna, Harris, 2000). A transformational leader's style originates from their own set of personal values and beliefs. The role of a transformational leader is to use these personal characteristics to motivate individuals to do more than originally expected (Bass, 1985). Burns (1978) identified transformational leadership as a process in which a leader is able to engage with individuals to raise their motivation and achievement.

According to Bass (1990), there are four mechanisms of successful transformational leadership; charisma, inspiration, intellect and individual consideration. A transformational leader pushes individuals forward past the required expectation and towards increased performance and in turn additional success. Transformational leadership is concerned with developing each individuals understanding and awareness of the importance of the task in which they are to complete, developing a level of trust and loyalty that links the individuals' self-interest to the overall success of the organisation and engaging with their higher order motivational needs (Bass and Avolio, 1994).

In comparison, a transactional leader seeks to achieve organisational performance and success through the exchange of leader request and individual compliance. The main focus of a transactional leader is to ensure that an individual's awareness of the path that needs to be taken to achieve the objective,

that any barriers are removed and there is a set system to ensure that this path is followed (House and Aditya, 1997). In the context of organisational performance, transactional leadership will work towards performance success through a series of constructive and corrective behaviours, or reward and punishment (Bass, 1985), whereas transformational leadership will seek to extend and exceed the performance objective whilst instilling a series of values and beliefs in individuals that ensure continued quality and efficiency in performance.

### ***LEADERSHIP STYLE AND ORGANISATIONAL PERFORMANCE***

The correlation between leadership and performance is natural and viewed through literature as one of the key driving forces in company success. It is believed that channelling effective leadership style suited to both the organisation and industry is a potent source of competitive advantage for organisational performance improvement (Avolio, 1999). Studies such as that performed by Mehra et al. (2006) explain that when an organisation is looking to enhance efficiency in order to gain competitive advantage, the first variable often considered and focussed upon is leadership and the leadership styles of the management team within the organisation.

Some of the research literature has attempted to correlate leadership style with organisational performance, and much of the literature associates the transformational style with success. For example, Amirul and Duad (2012) found that a transformational and transactional leadership styles were correlated with effectiveness, as measured by “extra effort, effectiveness, and satisfaction”, particularly for the Transformational style (Amirul and Duad, 2012, p.195). In a study of educational leaders, Onorato (2013) (who argued that educational leaders within schools are no different leaders from other organisations – Marzano, et al., 2005; Onorato, 2013) discovered that the majority of the sample (n=45) relied upon the Transformation style of leadership, with a view to collaborating with followers and subordinates to improve performance. However, these studies (like others of a similar nature) lacked the explicit exploration and linking of leadership style to performance variables.

Kotter and Heskett (1992) were among the first to demonstrate that the single most important factor in a successful organisation’s performance is competent leadership, however this relationship has not been fully explored. This was first identified in a review conducted by House and Aditya’s in 1997 (House and Aditya). Previous leadership studies have focussed excessively on the relationship between leader (manager) and their subordinate, to the exclusion of several other fundamental functions that leaders perform (as the research above describes), and also to the exclusion of organisational and environmental variables that are crucial to mediate the leadership-performance relationship. For example, with regards to the literature linking leadership style and job or subordinate job performance, leadership style can play an important role in maintaining the level of interest of subordinates within the organisation as found by Obiwuru, Okwu, Akpa and Nwankwere, (2011).

Further research also supports the relationship between leadership style and individual or subordinate performance. Shakhoseni, Silong, Ismail (2013) explored the relationship between transactional and transformational leadership styles and job performance (as measured by the employee's line manager) within the banking sector in Iran, and found that a transformational leadership style is positively correlated with individual job performance. This was in line with previous findings by other researchers (e.g. Bass, 1985), and they agreed with Bass that:

*"...People who use transformational leadership style show high performance. This is because development-oriented leaders have a great role in rapid changes and excite staff under their supervision, and use motivational techniques to lead their staff. It is this kind of managers who have higher and better job performance that will guide the future path of the organisations."* (Shakhoseni et al. 2013, p.19).

However, despite linking the manager's job performance (which resulted from the use of a transformational leadership style) to organisational performance in the dissertation (as illustrated by the previous quote), correlation does not always equal causation, and it would be fruitful to examine more directly the relationship between organisational (rather than individual) performance and leadership style.

Obiwuru et al. (2011) also argued that since House and Aditya's review in 1997, the relationship between leadership and organisational effectiveness and performance has still not been well studied, and there is a lack of macro-level research, that is research which focuses on the organisation as a whole, rather than smaller divisions and teams within the organisation. In addition to this, Obiwuru et al (2011) attempted to make the relationship between performance and leadership style more explicit. The researchers sought to explore the relationship by looking at the correlation between leadership style and organisational performance in small scale enterprises in developing countries such as Nigeria, and found that transformational and transactional leadership styles had significant positive effects on performance, as measured by effectiveness, effort and satisfaction.

Cherian and Farouq (2013) were more explicit in their exploration of leadership style and its effects on the financial performance of banks in the United Arab Emirates. They found evidence (following a survey with 18 banks), that there was indeed a direct correlation between leadership style and financial performance, with those using a democratic style or transformational style of management were likely to have better financial performance than those adopted a more laissez-faire approach. However, as the authors themselves argued, the findings from this study are not necessarily generalisable to cultures outside of the United Arab Emirates. That this was a quantitative survey was also a limitation, and the authors argued that further qualitative research should be conducted, to examine the relationship between leadership styles and performance in-depth – complex relationships cannot only be explored and described via quantitative methods (Cherian and Farouq, 2013).

## ***THE GAPS WITHIN THE EXISTING LITERATURE***

Although there has been some research exploring the links between leadership style and organisational performance, the findings of researchers are mixed, and some of the studies are poor quality. This has been identified by other authors (e.g. Fenwick and Gayle, 2008; Obiwuru et al., 2011). The evidence that does exist is small scale, and focuses on smaller organisations, so there are also questions as to whether or not the findings can be generalised to larger or multinational organisations. Much of the literature is quantitative in nature, and it is lacking in-depth exploratory research into the area. So whilst some academics and business leaders are arguing that leadership style can mediate organisational performance, there is much work to do before this theory is supported by a solid body of evidence.

Based on the above analysis of the literature pertaining to leadership theory, leadership style and organisational performance it is evident that although considered, the distinct links between leadership style and organisational performance as an area could be further developed and evaluated using a series of specific companies. Scholars have emphasised that leadership and performance are two important and interrelated variables contributing to organisational effectiveness and thus there is a critical need to examine this relationship, and that to adequately analyse the effects successful leadership can have, we need to know the conditions, situations and correlations under which leadership is effective (Aioanei, 2006; Diskienė, Marčinkas, and Stankevičienė, 2010).

## ***METHODOLOGY***

Based on the above analysis of the literature pertaining to leadership theory, leadership style and organisational performance it is evident that although considered, the distinct links between leadership style and organisational performance as an area could be further developed and evaluated using a series of specific companies. Scholars have emphasised that leadership and performance are two important and interrelated variables contributing to organisational effectiveness and thus there is a critical need to examine this relationship (Mullins, 2006). Therefore, the following research questions have been created to understand and evaluate the impact that leadership and managerial styles may have on organisational performance within the context of multi-national UK based companies. The study is guided by the following questions;

- To what extent are a manager's leadership style and the organisation's effectiveness correlated?
- What are the most effective leadership styles of managers to bring about performance success?
- What are the most effective leadership styles of managers when dealing with challenging organisational situations?
- Which attributes should managers adopt for developing their leadership styles to effectively and efficiently manage within the organisation?

## **RESEARCH APPROACH**

This research focussed on qualitative approaches in order to provide richer data with the intention of gaining opinion from the managerial respondents. The data is subjective in nature and will include subjective evidence, values, meanings and experiences. Qualitative data uses an inductive reasoning to generate ideas from data as opposed to the quantitative approach which employs deductive reasoning and needs to confirm a hypothesis (Naoum, 1999). As there is much to be explored in the current area of examining the links between leadership style and effectiveness, a qualitative approach will allow exploration of the area, prior to any quantitative work confirming hypotheses.

## **DATA COLLECTION**

### **SEMI-STRUCTURED INTERVIEWS**

Semi-structured interviews were chosen as the data collection approach, as they are often used to collect a series of qualitative data through an interview process that allows time for respondents to talk about their perspectives on a particular subject (Saunders et al, 2007). Although a focus group could be used, in the business setting, respondents may be uncomfortable disclosing their thoughts in front of respondents working for other companies (Bryman and Bell, 2007), therefore one to one interviews were considered more appropriate.

### **THE SAMPLE**

Semi- structured interviews were conducted with six senior managers across three Multinational organisations within the United Kingdom, two managers from each institute. Each manager was asked to discuss their own interpretation of their personal leadership and its links to organisational performance through a series of semi-structured interview questions.

The senior managers were selected using a theoretical sampling approach, which aims to select respondents based on their suitability and possible contribution to the research and theory being developed (Auerbach and Silverstein, 2003). Therefore, selection of respondents was based on the following inclusions criteria;

- That they have worked within the organisation for more than a two year period
- That they participate in management activities at a senior strategic level
- That their role is actively responsible for achieving key performance objectives linked to the overall success of the organisation as a whole
- That each respondent is from a different company to avoid repetition of results which may only be appropriate to one particular company.

Sample size was not pre-determined prior to the data collection, but continued until the point of theoretical saturation (Bloor and Wood, 2006).

## **DATA ANALYSIS**

As this research project was exploratory in nature, Thematic Content Analysis was used to analyse the data. This approach seeks to describe the data as is, and develops themes from codes which are derived directly from the data itself. A descriptive summary of the themes found within the data can then be developed, and these themes used to describe the respondents' views on the subject, and provide a springboard for discussion, further research and theoretical development (Braun and Clarke, 2006). Although the Content Analysis has been criticised for its simplicity, for example, it cannot be subjected to detailed quantitative, it is a useful method for

*“making replicable and valid inferences from data to their context, with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action” (Krippendorff, 1980, quote in Elo and Kyngäs, 2007, p.108).*

Thus, Content Analysis is entirely suitable to this exploration of knowledge regarding leadership style and organisational effectiveness.

## **KEY FINDINGS AND DISCUSSIONS**

The characteristics of the respondents recruited to the study, using the process described above, are detailed in the table below. A Respondent Code (Respondent A, Respondent B, etc) were assigned to each respondent to protect their anonymity. Any details which may reveal the respondent's or their organisation's identity were also redacted.

The first two themes relate to the respondent's perceptions of their own leadership styles and relationships with their subordinates, and provides a background to their experiences and thoughts regarding leadership and performance, whilst the remaining themes relate directly to the relationship between leadership style and organisational performance.

### **SELF-DECLARED LEADERSHIP STYLE**

From the choices presented in the semi-structured interview (autocratic, democratic, laissez faire), the majority of respondents identified themselves as democratic, at least in most situations, and they described how they liked their employees or subordinates to be motivated and involved in the decision making process (Daft 1999). Majority of the respondents described their leadership approach as democratic style, as originally described by Lewin et al (1939):

*“On the whole I would describe myself as a democratic leader. I like to gauge the opinion of the team before making a decision.” (Respondent B)*

*“The democratic side of my management can be seen through planned weekly meetings in which I take time to encourage participation from team members and discuss upcoming events and targets that need to be met. I use the team as a sound*

board for ideas and provide them with the opportunity to share what they have been doing.” (Respondent D)

“My approach is mainly democratic as a team will not stay productive or loyal for long if they are removed from all decisions, it also acknowledges the truth that ideas and solutions will come from anywhere within the team and not just the manager.” (Respondent F)

However, whilst Respondent E felt she was a democratic leader, she also alluded to a style that may be more in keeping with the autocratic style, again, as originally described by Lewin et al (1939), particularly where employees are beginning to learn the processes and procedures which enable them to carry out their job.

“I believe I am a democratic leader, I believe in guiding members of the team to make the right decisions and to allow them to perform well but that starts with learning the correct process and procedures to do their job well and this must be taught by a leader.” (Respondent E)

Other respondents went further than Respondent E and explicitly identified that their style would change depending upon the situation, utilising a more autocratic approach (as described by Lewin et al, 1939), if a decision needed to be reached quickly. This reflects findings described in the literature review above, that there is no single style of leadership which is best for all situations, therefore a flexible, situational approach can be an advantage (e.g. William et al 1993).

“I would agree that the autocratic style represents me when an issue occurs. This would not be my usual leadership style, however there are times when clear leadership is required to direct the team and ensure that issues and risk can be managed.” (Respondent C)

In line with research and descriptions of the autocratic style that suggest an autocratic leader must maintain a distance from their subordinates (e.g. Hamilton, 2011), Respondent C describes the difficulties with this, and that they would like to take a more autocratic approach, particularly with problematic situations:

“...At times I feel that I should take a more autocratic approach, especially when dealing with problematic employees. I pride myself in building strong work relationships with my team and others, and build both business and social relationships from this. Although I would never want my “friendliness” to be seen as a sign of weakness, there are instances in my working career when staff members have exploited my good nature” (Respondent C)

## **SWITCHING LEADERSHIP STYLES**

Are leadership styles adaptable? Other participants were more comfortable switching between the two different styles, depending on the employee, situation, and context, and were comfortable doing this if it meant pushing their employees to successfully achieve workplace goals:

“I know I am a mixture between autocratic and democratic depending on the situation and the task in hand. For instance more naturally due to my background

*in performance driven management with specific targets and set procedures to be followed I tend to fall into a more autocratic style of management in order to move things along as quickly as possible...” (Respondent D)*

*“However, during times of increased pressure a short term autocratic approach may prove more effective.” (Respondent F)*

One respondent made clear the distinction between the type of style they are in some situations (in this case, laissez faire), and the style they would prefer to be. This Respondent described how the structure and type of organisation she worked in affected this laissez faire approach to leadership:

*“I would like to say I am a democratic leader, I’m not sure why but there is just something that makes me feel this is the best style of leadership to take in most situations as it allows you to develop relationships within the team and also maintain control so that as a leader you are assured that the team is still working towards its end goal and objectives. However is I am being honest I embody the laissez faire approach to leadership”*

Making reference to the diverse nature of her subordinates expertise and background, the respondent added:

*“...I am unable to take a hands on approach in a detailed sense to their management in terms of their subject delivery. Instead what has been established is a set or processes that allow these individuals to step into and independently shape their roles with little guidance form myself apart from organised checks in relation to rules and regulations. This set up means that I can often go a number of days even weeks without individually checking in with the employees.” (Respondent A)*

Although the respondent states that she would prefer to be a democratic leader, research has shown that a laissez-faire approach can be successful in situations where the team are very experienced and motivated (Hamilton, 2011; Mars, 2012), therefore, the choice of a leadership style not in keeping with one’s own personal preferences may be a more effective choice, bearing in mind the situation this leader finds himself/herself in (Williams et al, 1993).

## **RELATIONSHIP WITH SUBORDINATES**

Overall, the respondents’ relationships with their subordinates was influenced by their self-declared leadership style (as described in the theme above) and the situation in which they find themselves. Overall, respondents felt that more junior members of staff required close supervision, however, they were happy to allow more experienced staff to work unsupervised, and this is in line with the research conducted by Hersey and Blanchard (1984), who described how successful leaders would adapt their leadership style based upon the subordinates experience:

*“I think this does depend on the individual but my belief is that if you have the right people within you team and that they know, understand and want to do their job they should be able to coordinate themselves to produce results.” (Respondent A)*

One participant had a very autocratic approach, and even when they were not in the office there was a level of supervision, as necessitated by the subordinates

having to detail what work they had and had not completed in the leaders absence. In terms of leadership style, this is most similar to the style favoured by Taylor (1909), who recommended the monitoring of subordinates to maximise efficiency and performance:

*“I think that depends on the individual and their leader. For example if I am out of the office or working from another office my team know to send me a task list first thing in the morning and will then send me an update of what they have completed by the end of the day.” (Respondent E)*

Related to this, the leaders would adapt the amount of time they spent with subordinates whilst completing their work. For example, for more junior members of staff, the leaders felt that it was appropriate to be present whilst they were working, and would coach them through tasks. Again, such levels of supervision are in line with Taylor’s approach to monitor and coach subordinates to improve productivity (Taylor, 1909):

*“No, I think a strong management presence motivates and leads by example. Employees want to feel that they are part of something worthwhile and being actively involved in the work the department does strengthens this impression.” (Respondent D)*

Following this, most respondents wanted and allowed subordinates to participate in decision making, engaging a democratic leadership style (Lewin, 1939). However in some situations, for example, when a strategic decision needed to be made quickly, the leaders would take a more autocratic style (Lewin, 1939; Hamilton, 2011), and make a decision without recourse to their subordinates, taking a more situational approach by adapting their leadership style to the situation (Fiedler and Garcia, 1987):

*“Yes and no dependent on the situation and level of the decision. I like to provide opportunities for my employees to share their thoughts and ideas with me and other members of the team however i do believe that there are some decisions that should be made swiftly and implemented with little debate.” (Respondent D)*

In terms of communicating with their subordinates, all respondents felt that frequent and supportive communication was important, to both highlight issues in the work flow or the task at hand, and to let employees know how they are doing on a task or in their role in general. Increased communication would also enable their employees to engage in the decision making process (Hamilton, 2011; Mars, 2012) Respondent A however, also highlighted the importance for subordinates to be able to self-reflect, or seek advice and feedback from people other than their leader, e.g. their peers:

*“I know the answer to this should be yes but I don’t always think this is the case as it depends on how the individual works. If self-reflection is working well employees should be able to provide themselves with feedback and supportive information on a regular basis. This can also come from peers and members of other departments. Obviously as a leader communication is important but the level of frequency does not always need to be a high as people think.” (Respondent A)*

Finally, as suggested by Respondent F (“By having a rigid, well monitored appraisal process...”), the appraisal process was seen as an important part of the relationship between the leader and the subordinate. All respondents agreed that self-appraisal had an important role to play in the appraisal process, however some respondents argued that in some cases the manager should the final appraisal and say in the evaluation:

*“Yes, very much so as people are often their harshest critics. I do think it depends on the skill of the individual but I really do not agree with some things I have seen over the time where a senior managers is giving a very negative appraisal of something that another manager has done when it is clearly apparent the other manager is already aware of the problem and issues and is working on rectifying it. In my business self-reflection is vital.” (Respondent A)*

### **RELATIONSHIP BETWEEN LEADERSHIP STYLE AND PERFORMANCE**

Some respondents felt that it was difficult to measure performance, and found it hard to quantify the link between their leadership style and their individual or their team’s performance:

*“This is a tricky one for me because the management style in which I adopt certainly suits my team and its academic objectives however sometimes causes concern for the organisation as a whole that takes into account not just academic targets but also commercial ones. My leadership style does not produce the detailed statistical data that some areas of my organisation would prefer to analyses in an easy way to judge the achievement of performance. Instead there is often a difficulty in communication as a senior level between the qualitative approach and results that go into my reporting from the quantitative style of many other managers. I’m not sure whether this necessarily hinders performance but it can make it difficult to demonstrate performance numerically.” (Respondent A)*

The implication of this might be that it could be difficult to conduct future research exploring the quantitative correlation between leadership style and performance. Not only will it be difficult to compare data between organisations, as different types of organisations (and indeed the different teams and departments within them) will have different ways of measuring performance. As Respondent A describes above, for some teams it is difficult to provide quantitative data regarding performance, and whilst performance is measured in a qualitative manner, this can sometimes be difficult to express or communicate.

Some respondents however, were able to make explicit links between their personal leadership style and the performance of their organisation. For example, Respondent B described how they felt their personal style had led to improved morale and employee retention, which improved performance, and increased market share, and

*“I would like to think that my personal style has affected all of those in some way. My team has a good morale causing good employee retention. This continuity has led to an increased knowledge of their role culminating in increased*

performance and in turn, market share. Taking ownership has led to a reduction in complaints.” (Respondent B)

Respondent D linked her leadership style to an increase in client base, and improvements in repeat business:

*“I think the autocratic action centred management approach has found me personal success and promotion as I have been recognised as someone who can achieve and move things forward... My management style has benefited my organisation as it has increased out client base from three partners to thirty seven in the last five years and this looks set to continue to grow. I have successfully maintained our departments’ reputation through my attention to detail in relation to regulation and believe that my team brings about repeat business due to their professionalism and attention to the task in hand.” (Respondent D)*

Like the respondents described above, Respondent E also linked their style to improvements in financial performance:

*“Profit has increased with last year’s figures being 43% higher than the previous financial year and employee retention has also increased, a consistent and clear approach have been key.” (Respondent F)*

Respondent E went further in describing how her leadership style motivated herself, and her subordinates to lead in improvements in team and organisational performance. This reflects findings in the literature that the democratic style can indeed bring about improvements in performance via the motivation of the team (Daft 1999):

*“I believe that having a strong team who are motivated and always bringing fresh ideas to the table and enhances my personal performance as not only does it motivate me and ensure me that they are enthusiastic and willing to give an opinion it also reflects well on the team as a whole as well as myself. I believe that the enthusiasm and motivation of the team members increases my performance as I strive to take their ideas on board and to push for changes to aid them in their everyday roles... (Respondent E)*

Interesting future research could look to quantify such relationships, to explore in finer detail how the effects of leadership style cascade through team performance and individual performance, to ultimately affecting a highly tangible measure of organisational performance such as market share.

As described above, respondents spoke of how they altered their leadership style depending on the situation:

*“...I would agree that the autocratic style represents me when an issue occurs. This would not be my usual leadership style, however there are times when clear leadership is required to direct the team and ensure that issues and risk can be managed... The democratic style would represent my usual management style, as it is vital to empower the team who work for me, as for their own development they should be involved in decision making processes. This enables me to identify talented individuals within the team who I can help develop into leaders of tomorrow.” (Respondent C)*

Some respondents identified that leadership style can often be detrimental to performance:

*“Sometimes it can harm a relationship if you disregard a team member’s suggestion or idea. Also trying to incorporate the teams ideas can add a lot of time to the decision making process” (Respondent B)*

Indeed, many of the respondents had a recognition of areas of their leadership style which they wanted to improve, to result in an increase in performance within their team. For example, Respondent B spoke of how he wanted to develop a more autocratic style, particularly when working with junior subordinates to improve their work ethic. This reflects research findings discussed in the literature review that an autocratic style can be effective when working with inexperienced team members (Williams et al, 1993). Respondent F felt that it was also important to educate subordinates on leadership theory, so they could gain a greater understanding of their role within the company, and why particular leadership styles are deployed when and where they are. Again, it seems that the respondents are aware that adapting their leadership style depending on the situation and type of person they are working in has the potential to improve performance further, than would be if they were to rely on one style alone:

*“...I would like to have more authority with my team. Sometimes being over friendly can lead to dips in work-ethic from certain junior team members who do not fear the consequence of poor performance.” (Respondent B)*

*“I would like the opportunity for my employees to learn more of a management theory in order for them to have an even greater idea of how they fit into the wider company.” (Respondent F)*

There was also recognition from Respondent C that your personal leadership style can be at odds with the overall leadership style of the organisation. Interestingly, in the case of Respondent C, they adopted a leadership style which some of the employees felt more comfortable with, which lead to a number of employees approaching him for advice. Whether this is detrimental to the performance of the organisation as a whole was not explored, and could be an interesting line of further research:

*“I feel that the democratic management style that I demonstrate is at odds with other leaders in the business who adopt an autocratic style as a norm. I feel that this is demotivating to staff within the business, and many staff will come to me to discuss directives that they have received to identify possible actions that can be taken.” (Respondent C)*

Related to the above, Respondent D also felt that a particular leadership style can be at odds with the subordinates style or pace of work. She has found that the autocratic approach in particular, whilst having found her success as a leader, has lead to a delay in the forming of relationships with particular subordinates, as they were not used to her style of management:

*“I think the autocratic action centred management approach has found me personal success and promotion as I have been recognised as someone who can achieve and move things forward. How the success from this has also be counter*

*balanced in some instances as the forming of relationships between myself and certain teams members has taken long to develop as they have not been used to my style of management before and are used to doing things at a slower place.”* (Respondent D)

Interestingly, Respondent D still felt that the autocratic process brought her and the wider organisation success. It would be an interesting line of future exploration to tease out further the implications what happens when the leadership style clashes with the working style of the subordinate, and what implications this has for the organisation.

## **TRANSFORMATIONAL LEADERSHIP AND PERFORMANCE**

As described in the literature review, theories of transformational leadership are becoming increasingly important because recent studies have focussed on transformational leadership in an apparent return to the ‘one best way of leadership’ (Ogbonna, Harris, 2000). Further, there is a body of research building which suggests that the transformational leadership style and organisational performance may be correlated (e.g. Amirul, Duad, 2012; Onorato, 2013; Shahhosseni, Silong, Ismaill, 2013).

The respondents in this study were very enthusiastic about the use of transformational leadership as a leadership style, as they were keen to inspire and improve the motivations and morale of their subordinates. They felt that the transformational leadership style has great potential to improve both relationships within organisations, and outside organisations by improving relationships with clients, by reducing complaints, thus leading to increased market share and performance. In this sense, the respondents directly correlated the transformational leadership style with their performance as a manager, and their organisation’s performance overall.

*“This is something that is really important to me due to my leadership style as leading my example, creating inspiration and morale that develops independent employees that are proactive and self-efficient is my end goal. Through this new ideas are formed new things are tried and to be completely honest the more experienced, independent and skilled my team is the better it make me look.”* (Respondent A)

*“I think my own personal leadership style has enhanced relationships within the team and therefore increased a combination of loyalty, work ethic and trust that in turn has helped to achieve organisational aims such as increased profit and employee retention.”* (Respondent A)

However, despite the enthusiasm for the transformational leadership style, it was still acknowledged, as described above, that a leader needs to be flexible in their style to ensure success, and that different leadership styles are appropriate for different organisational and situational contexts. For example, a key theme that came through repeatedly in the interviews, and mirrors research described in the literature review (Hamilton, 2011; Mars, 2012; Robbins and De Cenzo, 1997) that

in situations where a strategic decision needs to be made quickly, the autocratic style of leadership is more suitable.

*“I would like to have more authority with my team. Sometimes being over friendly can lead to dips in work-ethic from certain junior team members who do not fear the consequence of poor performance.” (Respondent B)*

*“I think that transformational leadership is a strong tool for aiding a business development and success. As noted above motivation of staff is key as a happy and motivated workforce will work better and harder and generate stronger results. Having team members then emulating these behaviours will then further reinforce the positive message and help ensure that individuals’ actions are aligned to business objectives.” (Respondent C)*

### **CONCLUDING REMARKS: ANALYSIS AND DISCUSSION**

Overall, it was found that the respondents utilised a democratic style in the majority of situations, with the intentions of improving the motivation of their staff and engaging them in the decision making process. This reflects findings from the literature that the democratic style of leadership is effective and may be correlated with performance when used in situations where subordinates are able to be trusted and left to work unsupervised (Daft, 1999). Respondents were also able to be flexible in their approach, adapting their style to the particular context, for example, by using a more autocratic style in situations where a decision needs to be made quickly, or where a democratic style is not working with a problematic employee (Williams, 1993; Hamilton, 2011).

Despite respondents considering it difficult to explicitly link leadership style to performance, there was a recognition that style was indeed a moderator of organisational performance, although the relationship could also work in the opposite direction, where an incorrect choice of leadership style could be detrimental to performance. The case studies were very enthusiastic about the use of transformational leadership as a style, as they were keen to inspire and improve the motivations of their subordinates, and felt that the transformational style had the potential to improve relationships with and external to the organisation, thus improving performance.

### **CONCLUSION**

In conclusion, this study achieved its objectives to identify and evaluate the possible implications that leadership styles, especially in Multi-National Corporations in the United Kingdom, could have on the overall performance of the organisation, by using six case studies.

#### **Study Respondents and Preferred Leadership Styles**

Overall, the respondents interviewed for this study identified their own personal leadership style as democratic, at least in the majority of situation, as they liked their subordinates to be involved in the decision making process. Some respondents felt that their style would change depending upon the task or

organisation situation, using a more autocratic approach if a decision needs to be reached quickly. Such findings reflect the results of the literature review, that there is no single style of leadership which is best for all situations, therefore a flexible, situational approach can be an advantage. There were also distinctions made between the type of leadership style adopted, and the respondent's preferred style of leadership – these did not always match, reflecting the respondent's awareness of adapting their style to the situation in hand. Indeed, the respondent's relationship with their subordinates were influenced by their self-declared leadership style, and the particular context of their team. Specifically, respondents felt that more junior members of staff required closer supervision, however, they were happy to allow more experienced staff to work unsupervised. Related to this, the leaders would adapt the amount of time they spent with subordinates whilst completing their work. For example, for more junior members of staff, the leaders felt that it was appropriate to be present whilst they were working, and would coach them through tasks.

In terms of communicating with their subordinates, all respondents felt that frequent and supportive communication was important, to both highlight issues in the work flow, or the task at hand, and to let employees know how they were doing on a task, or in their role on a project in general. With regards to motivating their subordinates, the leaders interviewed were mixed in their views as to whether they felt reward and/or punishment were appropriate. Some respondents were very much in favour of rewards, whereas others that that punishments were appropriate in situations where consistently poor performance needs to be addressed. Finally, respondents agreed that self-appraisal by the subordinates had an important part to play in the appraisal process, however, some argued that in many cases the leader should still have the final appraisal and say in the performance evaluation.

#### Leadership Style and Performance

Respondents were directly asked to consider the relationship between leadership style and performance. Some respondents felt that it was difficult to measure performance, and found it difficult to quantify the link between their leadership style and their individual or organisational performance. The implication of this is that it could be difficult to conduct further and future research exploring quantitative, measureable correlations between leadership style and organisational performance in multi-national organisations. Different organisations will have different ways of measuring performance. In large, multi-national organisations, complex quantitative analyses will be required to with confidence, make links between leadership style and performance metrics. As one of the respondents in this study (Respondent A) described, some teams within large organisation already have difficulty proving quantitative performance metrics, as they tended to measure their performance in a more qualitative manner. However, it would still be a worthwhile research exercise to attempt to quantify the relationship between performance style and organisational performance. The participants in this study did indeed correlate leadership style with organisation performance, therefore it would be interesting to explore this correlation further, with larger numbers of respondents across a larger range of multi-national organisations.

Despite participants finding it difficult to establish the link between performance and their leadership style, there were indeed those respondents who were able to make confident, explicit links between their personal leadership style and their and their organisations performance. Some quantified performance by employee morale, employee retention, increased market share and increase in client base. Each of these metrics would be a useful starting point explore further the relationship between these factors and how they are influenced by particular leadership styles. However, such future research could be complex – and the relationship between leadership style and performance many not be an easy one. That many of the respondents altered their performance style based upon context and situation would make it difficult to quantify the links between specific styles and overall organisational performance, however, the research could be simplified by examining the links between particular leadership style and performance on individual tasks.

Respondents also recognised that personal leadership style can be at odds with the overall leadership style of the organisation, or the leader's subordinates. This could also be an area for recommended further research, to explore further the tensions between differing leadership styles, and how the mechanics of such tensions affect organisational or team performance.

The leaders interviewed for this study were very enthusiastic about the use of transformational leadership as a leadership style, as they were keen to inspire and improve the motivations and morale of their subordinates. They felt that the transformational leadership style has great potential to improve both relationships within organisations, and outside organisations, by improving relationships with clients, reducing complaints, thus leading to an increased market share and overall organisational performance. In this sense, the respondents directly correlated the transformational leadership style with their performance as a manager, and their organisations performance overall. However, despite the enthusiasm for the transformational leadership style, it was still acknowledged, as described previously, that a leader needs to be flexible in their style and approach to ensure success, and that different leadership styles are appropriate for different organisational and situational contexts. For example, recurring theme from the data and from the literature review was that the autocratic style is possibly more appropriate in difficult situations, or in situation where a strategic decision needs to be made quickly.

In conclusion, based on the qualitative research discussed in this study, it seems that whilst leaders who, through inherent characteristics or life experience have the requisite skills for successful leadership, the role of further development and coaching cannot be underestimated. Whilst the leaders interviewed felt there was a strong correlation between the transformational leadership style and organisational success, there was also recognition that different situations and contexts would call for different leadership styles to be employed for task success. For example, in difficult time-pressured situations which require a quick decision, it may be that the autocratic style is the most likely style to bring about a successful outcome. The attributes that managers should adopt for developing their leadership

styles effectively, should be attributes based around flexibility, and the ability to recognise which leadership style is most likely to lead to a successful result for the task in hand. Future research could employ a larger and more representative sample of case studies from multinational organisations to fully establish the actual impact of leadership style and the performance of such organisations.

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## **ONBOARDING AND MENTORING PROCESS – EXAMPLES FROM BUSINESS ORGANIZATION IN BULGARIA**

Vihra Naydenova<sup>44</sup>

### **ABSTRACT**

*In the paper the importance of including onboarding and mentoring process for new employees in business organizations is discussed. Examples of empirical research of successfully implemented onboarding process in international organizations in Bulgaria are presented. In the paper the empirical results and feedback from participants in implemented onboarding programs in a business organization in Bulgaria are given. Qualitative and quantitative data and statements from newcomers related to onboarding, mentoring and recruitment processes are shown.*

**Key words:** *Onboarding, Mentoring Programs, Organizations, Examples from Business*

**JEL Classification:** *D70*

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## **INTRODUCTION**

The paper discusses the importance of having a structured onboarding process and mentorship program in business organizations. First the characteristics of a very good onboarding process and after that the importance of including a mentorship program as part of it is shown. The article presents quantitative results and analysis from an empirical survey in an international organization in Bulgaria.

### **ONBOARDING IN ORGANIZATIONAL CONTEXT - INTRODUCTION AND IMPORTANCE OF THE TOPIC**

Onboarding is one of the most important processes connected for new hires' integration in organizational context. How the new employee is welcomed, how he/she is treated in the first days and weeks, is there a structured onboarding and mentoring program, what is the initial training, is there someone whom he/she can rely on – the answers of these questions give the value of how he or she feels, what is the perception of the organization, what would be the integration and the future performance.

Onboarding which includes Mentorship program and well organized initial training with permanent feedback are the most important keys for successful welcoming and integration of a new employee in organizational context. We, as human beings, spend a lot of our time in the organization - around 8 hour per day at work and that is why the way we feel, how we are accepted reflects on how we behave and perform. The organization, the team, the job are important parts of our life and that is why we choose organizations and job, which fit us, in which we experience positive emotions and where we find meaning and purpose. Why is a Mentorship program of strategic importance for the successful Onboarding process?

Having a Mentor, a person whom to rely on is very important for the successful integration in the team and in the organization. The Mentor is a key expert, a professional, who can not only show you how to perform the important tasks and to guide you in the professional issues, but also can be somebody who helps you in getting to know the colleagues, getting to know the organization, the visible and the hidden values, rules, important contacts etc.

### **EXCELLENT ONBOARDING PROCESS – THEORETICAL BACKGROUND**

The organizational statistics regarding employee turnover show that the greatest risk of losing new employees is in the first twelve to eighteen months (Emelo, 2014, Grillo&Kim, 2015). That is why how the organization welcomes and organizes having the new employee „on board“ is essential for his retention, engagement and performance.

The scientific literature reveals and the business practice shows, that the general HR Onboarding best practices include:

- The Onboarding program should focus on overall experience of the employee (Kaiser Associates, 2007, Grillo, Kim, 2015). It means that it is important to support the newcomer to adapt to the company culture, to the processes and procedures, to the colleagues, that are important for his or her job, to provide networking, to meet administrative needs, to bring understanding of responsibilities, role and communication channels;
- The Onboarding process should also provide early career-planning/development/learning support – to show the employee the learning and career path opportunities (vertical and horizontal), that the company offers.
- The Onboarding process is critical for retention. That is why it should last more than 1 year. This means that HR, the Mentor and the line manager should provide regular observation on needs, integration and performance of the newcomer;
- For the successful Onboarding, the role of leadership support is very important, which should make the process essential for the organization and to follow up its results;
- Ensure a special experience and pay special attention to the most valuable and wanted on the market talent. It is important to invest more time and resources in onboarding and experiences of the talents;
- To establish a good Onboarding process the training of the line managers is essential (Nishii, Mayer, 2009). Managers should invest time in orientation of new employees, provide them support and advice to whom should they rely on, what is important as goals and job specifics, what are the expectations in the first months and in long term. What is also important is to provide the newcomer with a view of learning and development opportunities within the organization. It is also essential to get to know the corporate values, competencies and culture;
- Include a good structured and observed Mentorship program – assign to every newcomer a motivated and experienced Mentor, who may take care for showing the organization, responsibilities, important other things;
- Regular feedback from the new comers, line managers and mentor –how is the new employee feeling, performing and integrating.

The regular feedback questionnaires and HR conversations with the employee in the first week, after the first month and after that, ensure that there is interest in every newcomer and if there is a need regarding integration, competencies, training or other, it can be reacted properly and on time.

### ***MENTORSHIP PROGRAMS AND EMPLOYEE INTEGRATION***

For successful onboarding process is very important to assign a Mentor for the new employee. Mentorship is a relationship. It is a relationship between a new and an experienced employee in which they voluntarily share time for support, experience sharing, encouraging each other. The word Mentor has its grounds in Greek mythology, from Odyssey times. In this history the mentor has supported the

child to become an adult. The concept of successful Mentorship is connected with emotional support, competencies and expertise sharing and helping the new employee in his integration to the new environment and the new role.

Mentorship program are excellent in organizational context not only for new employees, but also when there are job change, new responsibilities, when there is a need for support from a senior expert/Mentor (Bell, 2000, Inzer, Crawford, 2005).

According to Zachary (2002) Mentorship has different periods related to improving competencies and skills, personality growth, career planning and continuous learning with the support of the Mentor.

Mentorship is a partnership process in which both sides can learn. It is very important that the Mentor is voluntarily chosen as such and is internally motivated to be part of a Mentorship program and to support the new employee.

As part of the important role of the Mentor could be:

- To identify and support the goals of the Mentee
- To assure learning and career are advised
- To share own experience, information and pieces of advice in the concrete organizational context
- To recommend activities and development, which are important for the Mentee's role
- To show and to communicate to the Mentee the important for the organization and for his work - processes, procedures, competencies, organizational values, colleagues and objectives.

There are also some specific roles of the Mentor in supporting the continuous learning of the mentee, which can include also coaching, role modeling, counseling etc. It is beneficial also sharing of examples of mistakes which took place in the past and learning from them. Learning from mistakes can provide fruitful discussions and support the mentee in the analysis of different behaviors and situations. The Mentor and the Mentee are partners in the onboarding process, in the successful integration and in the training planning and coaching. Mentorship is a process from which both parties can win and learn a lot and which is benefit for them, for the management and for the organization.

## ***METHODOLOGY***

Introduced are the results from quantitative empirical research in an international business organization in Bulgaria. The sample consists of 101 new employees, whose opinion is researched by quantitative survey which contains closed and open questions. The sample was built by all new employees in 2016. The empirical results are summarized and visualized through statistical program SPSS and Excel.

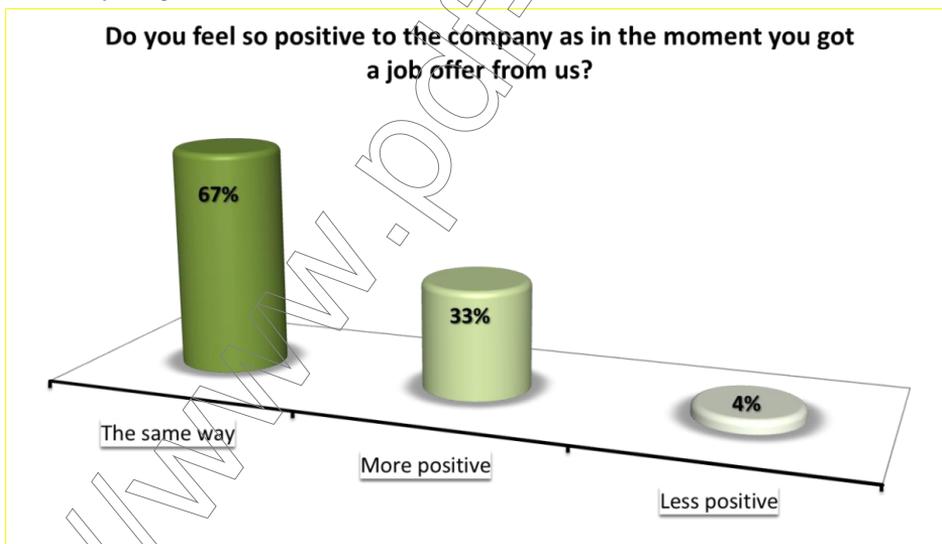
## **ONBOARDING AND MENTORING PROCESS IN INTERNATIONAL ORGANIZATIONS IN BULGARIA – EXAMPLES FROM THE BUSINESS PRACTICE**

In the paper are shown results from an implemented new onboarding and mentoring process in an international organization in Bulgaria with more than 2100 employees. The Onboarding concept is developed in cooperation between HR department and management with the goals of better integration, performance and retention of the new employees.

The onboarding processes started with the specifics of job offering, communication with the employee, welcoming with prepared in advance Welcome letter and book, including the newcomer in Mentorship program, regular feedback, organizing of initial training and support by HR department, Mentor and line manager.

In this part of the article are shown the results of the feedback given to a quantitative questionnaire, which was given to 101 new employees after their first month in the organization.

In the first graph are shown the results related to the opinion of the new employees regarding the organization compared to the period when they have received the job offer from the company and how they feel after a month in the new reality (Figure 1).



*Figure 1: Feedback from new employees on „Do you feel so positive to the company as in the moment you got a job offer from us“*

There is a summary also of the open statements and examples from new employee's feedback after one month:

- „I am glad that I have the opportunity to be part of the company's team“

- „It is pleasure to work in organization that is interested in the view and opinion of its employees.”
- „After the first month of my work at the company my expectations were exceeded, and the benefits that I managed to derive will be a valuable start for my future career development.“

The analysis of the results show that more than one third of the asked newcomers feel more positive than one month ago, around 70% of them feel the same way and only 4% of the asked employees are feeling less positive. These results show the prevalence of positive opinion and emotions of the newcomers after the first weeks which are connected also with new challenges, responsibilities, team and stress related to the new place.

In the next graph are shown the results related to the opinion of the new employees regarding the organization compared to other organization after one month experience (Figure 2).

How would you rate the company as an employer compared to the other organizations after your first month here?

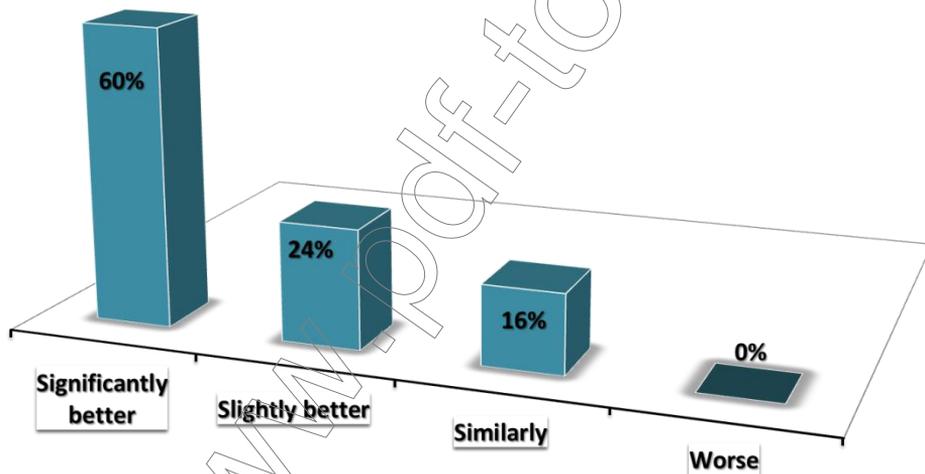


Figure2: Feedback from new employees on the item „How would you rate the company as an employer compared to the other organizations after your first month here?“

The analysis of the results show that more than one third of the asked newcomers feel more positive than one month ago, around 70% of them feel the same way and only 4% of the asked employees are feeling less positive. These results show the prevalence of positive opinion and emotions of the newcomers after the first weeks which are connected also with new challenges, responsibilities, team and stress related to the new place.

In the next question the newcomers are asked about their opinion regarding the Mentorship program and how satisfied they are with it. In the research participated

101 employees which were asked with 5-point Likert scale how satisfied they are with the effectiveness of the Mentorship program.

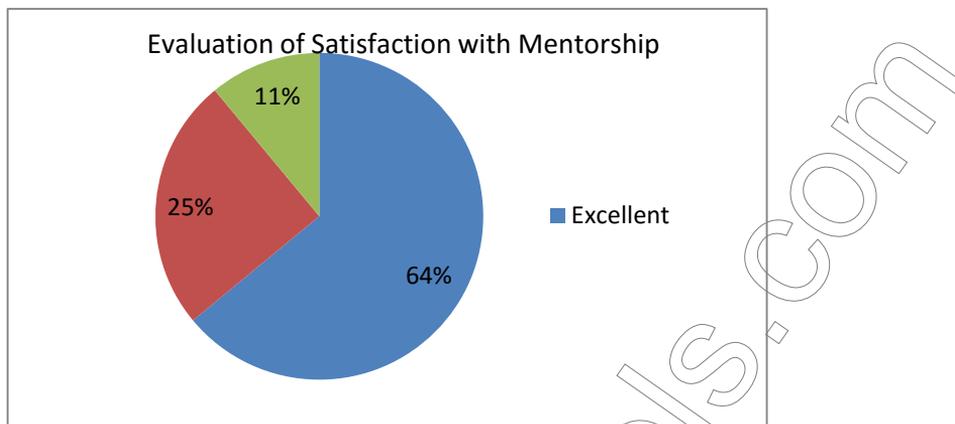


Figure 3: Feedback from new employees regarding the Mentorship program in the organization

The analysis of the results show that sixty four percent of the asked new employees rate the Mentorship program effectiveness as excellent, twenty five percent rate the program as very good and only eleven present as good. A very positive result is that no one from the asked new employees has a negative opinion regarding the Mentorship program and its effectiveness. Below are shown some of the open statements of the new employees related to the structured Mentorship program:

- „Mentorship program helped me to adapt easily to the workflow and daily tasks.“
- „The mentorship program is a very effective approach for introducing new employees in the workflow and for their guidance and encouragement in the learning process.“

What did you like and what could be improved in the Mentorship program?

- „The Mentorship program is a very useful tool that helps new employees to enter more quickly in the workflow, to become part of the team and to gain confidence that they will manage successfully with their daily work tasks.“
- „In the first steps of each new employee it is important to get help and support from more experienced colleagues. I appreciate the help and attention which I receive from my Mentor.“

The quantitative and qualitative data show the satisfaction of the new employees with the existing Mentorship program and its effectiveness regarding better integration, better managing with the tasks at work and also attention by more experienced colleague – Mentor.

A very important part of the implemented Onboarding process is the Induction training for new employees (Graph 4). The training is organized by Human Resources department with participation of internal trainers from different department in order to show to the new employees the most important procedures, organizational structure, rules and organizational values.

Questions related to Induction training for the new employees

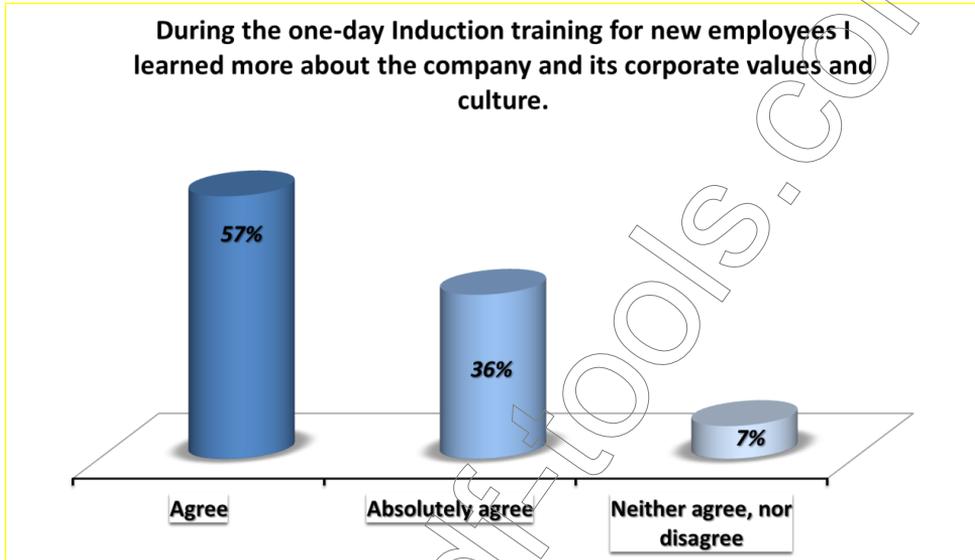


Figure 4: Feedback from new employees regarding the Induction training

The analysis of the results show that fifty seven percent of the asked new employees agree that during the Induction training program they have learned more about the corporate values and culture, 36 percent absolutely agree with this statement and only seven present neither agree, nor disagree. Below are shown some of the open statements of the new employees related to the Induction training program:

- „The Induction training gave me the opportunity to understand better the history, purpose and structure of the company, the most important internal regulations and procedures. It helped me to adapt more quickly to the organization and its workflow. I am glad that I received instructions, advice and practical cases from experienced colleagues who successfully perform their jobs. “
- „From the Induction training I learned a lot about the structure of the organization and some additional initiatives. “
- „The training is well-organized. The lecturers are well prepared and present the information in an understandable way for new employees. “

The results of the implemented Onboarding and Mentorship process in the researched international organization in Bulgaria show very positive trend. The quantitative and qualitative results showed successful onboarding process after first

month, employees' satisfaction with the company and the mentoring process, high value of induction training and its goals.

## **DISCUSSION AND SUMMARY**

### ***Compare findings with existing literature***

The data from empirical survey in a business organization in Bulgaria show that the efforts invested in structured onboarding and mentoring programs result in positive opinion about the company, satisfaction with the effectiveness of mentorship programs and success of induction training, which brings more knowledge in organizational values and culture. Successful onboarding is a very important part of human resources and talent management strategy of the organization. The key of the success is to make new employees, managers and mentors communicate regarding company, job role and team, coordinated and supported by HR department. Only through good relations the new employee can feel as a part of company's culture and goals. The faster new hires feel welcome and prepared for their jobs, the faster they would be able to perform and contribute to team's and company's success.

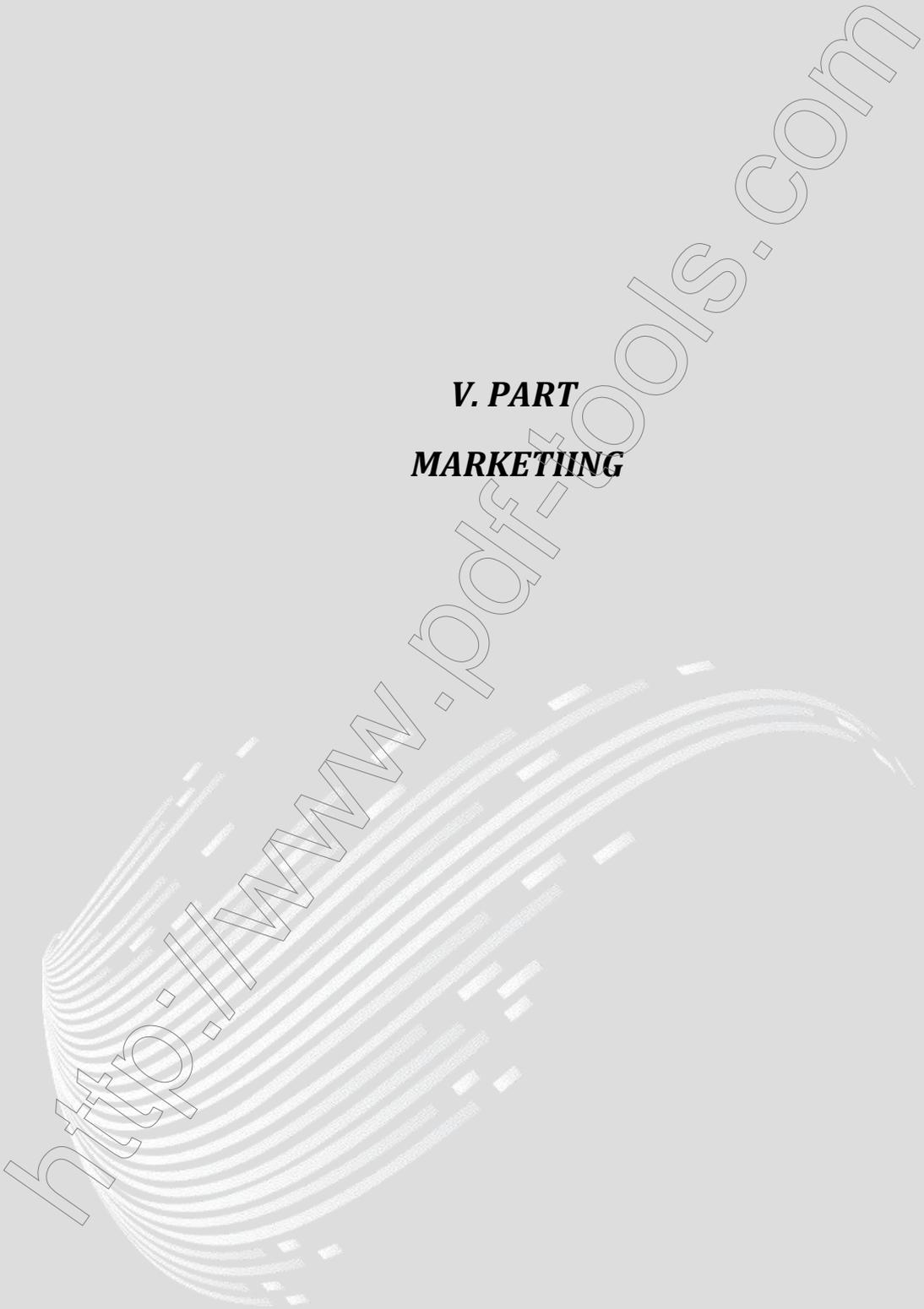
As contemporary literature shows, both big things in onboarding practices – like using a formal orientation program and written plan – and the little things – like greeting a new employee warmly, taking him or her to lunch – matter in the onboarding program (Bauer, 2014, Grillo&Kim, 2015) . Since research shows that period of a new hire's success is set as early as the first two weeks, it is important to make the first day a special one. For successful onboarding program the following best practices need to be considered in business companies (Kim, Cable, Kim, 2005, Bauer, 2014)– implement the basics prior to the first day on the job; make the first day on the job special; use formal orientation programs; develop a written onboarding plan; make onboarding participatory; be sure the program is consistently implemented; ensure that the program is monitored; use milestones, such as 30, 60, 90 days on the job – and up to one year post-organizational entry – to check the employee progress; include key stakeholder meetings as part of the program; be clear with the new employee in terms of roles, objectives, etc.; engage stakeholder in planning of the program. These best practices were considered and implemented in the business example shown in the paper.

The onboarding process is critical for successful employee performance and retention. Organizations that have effective strategies in onboarding and mentoring are better in preventing turnover, low effectiveness and engagement and bad performance results. The research provided on onboarding and Mentoring process in international organizations in Bulgaria show excellent results related to employees 'satisfaction and excellent feedback on program's effectiveness and usefulness.

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## **RELATIONSHIP BETWEEN INNOVATIVENESS AND TIME ORIENTATION OF THE CONSUMER**

Tatyana Yordanova<sup>45</sup>

### **ABSTRACT**

*This report examines the issue of consumer innovativeness and its link to the time orientation of the individual. Various research approaches are analysed to determine the essence of consumer innovativeness as personal characteristics and its manifestation into the innovative behaviour of the consumer. Attention is paid to the construct of time orientation and its basic dimensions. Results of an empirical study are presented, held in a sample of 369 Bulgarian respondents, that prove the existence of a relationship between the constructs discussed herein. More specifically that the present and the future dimensions of time orientation are both positively linked to consumer innovativeness, while past time orientation is in a negative correlation. The report also examines the influence of demographic factors on time orientation in terms of its relationship with consumer innovativeness.*

**Key words:** *Consumer Innovativeness, Present Time Orientation, Future Time Orientation, Past Time Orientation, Consumer*

**JEL Classification:** *M31*

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## **INTRODUCTION**

In recent decades consumer innovativeness drew the attention of both researchers and practitioners from various scientific fields. But this is completely logical, given the growing importance of innovations as an important prerequisite for the success of companies and a measure of their competitiveness. The consumer's innovation lies at the heart of the innovative behaviour and plays an important role in the process of adoption and diffusion of the innovative product (Im et al., 2003, 2007; Midgley, Dowling, 1978; Rogers, 2003; Goldsmith, Hofacker, 1991). Different approaches to defining the essence of consumer innovativeness are used in scientific literature – it is seen through the prism of behavioural psychology, defined as a global personal feature or as a manifestation in a domain specific activity. It is associated with a number of demographic factors – income, education, social status (Hirschman, 1980), as well as personality traits – risk taking propensity, leader's opinion, need for uniqueness, need for stimulation, etc. (Roehrich, 2004; Goldsmith, Foxall, 2003; Rogers, 2003). An important, although less studied, determinant regarding consumer innovativeness is time orientation of the individual. This paper attempts to give answers to various questions related to this construct, including the following: what it actually is, what are its dimensions, in what way it affects the consumer's innovativeness.

## **CONSUMER INNOVATIVENESS – BASIC THEORETICAL APPROACHES**

The diverse manifestations of consumer innovativeness make its definition a very difficult one, even impossible. Therefore, different definitions emphasize one or some of the aspects of its complex nature. In scientific literature, there are three major research approaches to its conceptualization – global, behavioural and domain specific.

From the position of the **global approach** consumer innovativeness is seen as a global personality trait, innate to each individual, but manifested at a different extent. Various authors describe it either as “innate consumer innovativeness” (Hirschman, 1980) or “innovative predisposition” (Midgley, Dowling, 1993) of the individual.

Manning, Bearden and Madden connect the construct with so called “consumer novelty seeking”, expressed in the desire to seek out information about new and different products. Presented that way, innovativeness is an expression of the consumer's motivation to be actively informed regarding new products on the market by using various accessible sources – mass media, direct exposure of the product and different forms of commercial communication (Manning, Bearden, Madden, 1995).

In the theoretical concept of Midgley and Dowling consumer innovativeness is based on the communication independence of the individual. It is represented as the extent to which an individual decides to adopt an innovative product, service or

idea, regardless of the shared experiences of others (Midgley, Dowling, 1978). Communicated experience refers to information based on personal experiences and experiences with the product – and this information is a subject of interpersonal communication. The authors assume that consumers differ in terms of the extent to which they rely on assistance from others when deciding to adopt an innovative product. It is considered that individuals, who are reluctant to seek information and support from the social environment, will accept innovation sooner (Ibid). In other words, the high degree of willingness to adopt the innovative product is associated with lower dependence on the opinion of the social environment.

On the grounds of empirical researches, Manning, Bearden and Madden found that “consumer novelty seeking” is associated with the early stages of adopting an innovative product, namely the stage of knowledge or awareness of innovation, while “consumer independent decision making” is associated with later stages (the stage of experience) (Manning, Bearden, Madden, 1995).

Based on the above, it may be concluded that the innate consumer innovativeness is expressed in the predisposition of the individual to accept new and different products instead of remaining with their previous choices and consumption patterns (Steenkamp, Hofstede, Wedel, 1999).

The **behavioural approach** links innovativeness to the diffusion of innovation theory and more specifically to the adoption of the innovative product by the consumer. This approach examines the so called “actualized innovativeness” or the manifestation of the innate innovativeness, which is a global personality trait, in an actual innovative behaviour. Actualized innovativeness is defined as the degree to which an individual is relatively earlier in adopting new ideas than other members of a social system (Rogers, 2003). Linking consumer innovativeness to the time of adoption of an innovative product (the actual use of innovation), Rogers classifies the potential consumers of innovations in five categories – innovators, early adopters, early majority, late majority and conservatives (or laggards). Each of those categories includes individuals with common traits and values in terms of innovation (Moore, 1999; Rogers, 2003).

In the field of marketing innovativeness is seen as a **domain specific feature**. From the perspective of this research approach, the construct expresses the tendency of the consumer to adopt innovations in a specific area of interest or product category, which means that consumers may be thought of as more or less innovative within a specific product category. The domain specific approach reflects the idea that innovativeness should be identified according to a certain area of interest as in various product categories it does not overlap unless these categories are closely interlinked (Goldsmith, 1996). In other words, a consumer might be an innovator in one product category and a conservative or a laggard in another one, which is not connected to the first category. It is considered that domain specific innovativeness plays the role of mediator in the link between the innate and the actualized innovativeness of the consumer (Goldsmith, Hofacker, 1995).

The effort to operationalize the concept “consumer innovativeness” in view of its measurement and research has led to differentiation of cognitive and sensory innovativeness (Venkatraman, Price, 1990). Cognitive innovativeness characterizes

individuals who seek new, mind stimulating experiences, and they are called “cognitive innovators”. Sensory innovativeness is inherent in individuals who prefer exciting sensory experiences, which is why they are referred to as “sensory innovators” (Ibid). Cognitive innovators put all their mental energy to reach the essence of the problem and explain the facts (Pearson, 1970), while sensory innovators enjoy the new without engaging in thorough mental activity (Zuckerman, 1979). The need for mental stimulation and emotional experiences that cognitive and sensory innovators experience increases their willingness to try different innovative products. Sensory innovators turn to innovation, driven by the need to experience something new, to experience sensory pleasure and to deliver activating emotions, while subsequently rationalizing the utilitarian benefits of the product. In contrast, cognitive innovators turn to innovation, driven by need for new knowledge and pleasure of the intellectual effort invested. Their emotion is the result of the intellectual pleasure experienced, due to the fact that they learn something new and improve their cognitive level. Therefore, sensory innovators will be attracted by hedonistic product attributes and will be directed to innovations that give them emotional experiences and stimulate their senses while cognitive innovators will be drawn by the utilitarian attributes and will prefer a product that provides them functional benefits.

Summarising the foregoing theoretical concepts on consumer innovativeness, we can conclude that it is part of a global, or general, innovativeness of the individual that reflects the person’s willingness to change and his or her desire to try out new and different things; and it can occur in any area of human life (Hurt, Joseph, Cook, 1977). In contrast, consumer innovativeness has a manifestation only in the area of consumption – it guides the individual’s assessment when making a decision to purchase an innovative product (Midgley, Dowling, 1978). The concept of consumer innovativeness, therefore, is less general and more limited than the global one.

When regarded as a major determinant of innovative consumer behaviour, innovativeness is the subject of numerous studies. It is associated with a number of demographic factors and personality traits such as income, education, social status, risk-taking propensity, involvement, need for uniqueness, need for stimulation, etc. In recent years, researches in consumer behaviour discovered the existence of a link between consumer innovativeness and time orientation of the individual (Karande, Merchant, Sivakumar, 2011; Merchant, Rose, Rose, 2014).

### ***TIME ORIENTATION OF THE CONSUMER – ESSENCE AND DIMENSIONS***

Kurt Lewin defines time orientation (perspective) as a set of viewpoints of the individual in terms of his or her psychological past and future, existing at a given moment (Lewin, 1942). The author assumes that in the psychological field of each individual in the present his or her notions on past and future intersect (Lewin, 2002 [reference in Cyrillic: Левин, 2002]). This means that our actions do not depend only on the specific situation in certain present moment, but also on our

experiences in the past, as well as on our concepts and the expectations we have for the future (Fraisie, 1963). In other words, we experience the present by linking it with memories of the past and expectations for the future (Lewin, 2002 [reference in Cyrillic: Левин, 2002]). Depicted this way, time orientation is a multidimensional construct, which combines the temporal frameworks of the past, present and future in the minds and behaviour of the individuals (Frank, 1939). According to Zimbardo, man is a carrier of all the three timelines and they each are combined in a unique way, but only one of them is dominant (Zimbardo, Boyd, 1999). Thus some consumers are mostly oriented to the future – their decisions and actions in the present moment are strongly influenced by their expectations for the future, while others are totally immersed in the present, without being interested in their past and future. There is a third group of consumers in which the dominant influence comes from the past. Decisions taken by them are totally dependent on their experiences in similar past situations, i.e. their behaviour in the present is influenced by memories of the past.

Based on the foregoing, it can be said that the time orientation reflects the relative importance which the individual gives to his or her past, present and future (Cotte, Ratneshwar, Mick, 2004).

The time orientation of the consumer affects every aspect of his life. It affects their attitudes, beliefs, emotions and motives, i.e. affects the way a person thinks, feels and acts (Bergadaa, 1990; Gonzalez, Zimbardo, 1985). Time orientation is not innate; it is acquired and developed in the course of human life. Family and the values system apprehended by that person are of great importance for its formation (Frank, 1939). According to some researchers, it may be a consequence of the problems of the individual in the past, fear of the future or the pleasure of planning for the future (Ibid). On an empirical level, it was found that the construct is affected by a number of demographic factors such as age, education, social status, income, religion, culture, etc. (see i.e. Zimbardo, 2002; Gonzalez, Zimbardo, 1985).

Based on the dominant time dimension (past, present or future) consumers are classified into three categories: past-oriented or with past time orientation; present-oriented or with present time orientation, and future-oriented or with future time orientation (Zimbardo, Boyd, 1999; Bergadaa, 1990). Each of those categories includes individuals with similar attitudes to life, priorities, risk tolerance, level of self-control, confidence, etc. (Ibid).

### ***Past time orientation***

In consumers with past time orientation a sentimental attitude to the past is observed (Zimbardo, Boyd, 1999). They have established habits to which they adhere strictly and feel comfortable in the routine of their daily lives. They exhibit extreme caution in terms of the new and are not willing to take risks and act impulsively (Baumeister, 2002; Baumeister et al. 1998). Past time orientation is also associated with a low level of demand for stimulation and arousal, which correlates negatively with innovativeness and is observed in less innovative consumers (Raju, 1980). Based on empirical research Holbrook notes that this

category of individuals are highly nostalgic and have a preference for products they know well (i.e. already have experience with them) and for those, which somehow remind them of the past, causing their sense of nostalgia (Holbrook, 1993). Thus by their consumption these persons recreate and re-experience their past (Braun-La Tour, Latour, Zinkhan, 2007). Given the characteristics of consumers with past time orientation and the fact that innovative products are associated with risk and uncertainty and suggest changes in current consumption patterns, it may be expected of such consumers to show a lower level of innovativeness (Steenkamp, Hofstede, Wedel, 1999).

### ***Present time orientation***

Consumers with present time orientation are with a hedonistic attitude, i.e. they are driven by the pleasure principle, and live for the moment, here and now. They see the present as the only true reality that they can exist in. They are focused on short-term pleasures and give themselves fully to the emotions and experiences that the moment gives them (Murrell, Mingrone, 1994). They do not think about the possible consequences of decisions made and actions taken (Zimbardo, Keough, Boyd, 1997). Unlike the consumers with past time orientation, this category of individuals exhibits a high level of demand for stimulation and arousal (Raju, 1980), which makes them open to the new and unknown (Cotte, Ratneshwar, Mick, 2004). Those characteristics of consumers oriented to the present, along with their inherent risk-taking propensity (Murrell, Mingrone, 1994; Bergadaa, 1990), provoked by the desire to experience instant delight and pleasure, increase the possibility of them showing a higher level of innovativeness and of being among the first to adopt the innovative product.

### ***Future time orientation***

Planning for the future, setting short- and long-term goals, as well as the orientation towards achievements are typical of individuals with a future time orientation. They are driven by their targets, carefully assess the potential risks and the potential benefits of actions taken in the long run (Strathman et al., 1994). They do not hesitate to postpone the delight and the pleasure that this moment offers them in the name of greater future benefits (Gonzalez, Zimbardo, 1985). In other words, they are able to make short-term sacrifices for long-term profits (Murrell, Mingrone, 1994; Strathman et al., 1994). The established on an empirical level for this category of consumers low level of a need for stimulation and arousal (Raju, 1980), high self-control (Baumeister, 2002) and low risk tolerance (Lennings, Burns, 1998; Zimbardo, Keough, Boyd, 1997) reduce the probability that they act impulsively. Given the mentioned characteristics and the fact that these people are highly organised, conscientious and consistent in their actions (Zimbardo, Boyd, 1999), it can be assumed that they will appear as reasonable and engaged consumers, aiming towards the decision that is best for them, by minimising the risks and maximising the benefits of the product. They would be interested in

innovation, only if they link it to future benefits or see it as a means to achieve the desired goals.

## **CONSUMER INNOVATIVENESS AND TIME ORIENTATION**

### **Methodology of the study**

A study on innovativeness among 369 respondents, including 182 men and 187 women aged 20 to 64 years, divided into two age groups (up to 40 years old and above 40 years old), confirmed the results of previous studies, demonstrating the existence of a link between time orientation of the consumer and their innovativeness. For the purpose of the study a set of two methods was used.

The first method is based on Zimbardo's scale, measuring time orientation of the individual (Zimbardo Time Perspective Inventory – ZTPI) (Zimbardo, Boyd, 1999). From the original scale we used three of the subscales for time orientation (perspective) – future, past positive and present hedonistic. The subscale measuring the future orientation shows in what degree the individual's behaviour is dominated from his striving to future goals and benefits. The second subscale is aimed at past positive orientation and refers to nostalgic affection or sentimental attitude towards the past. The final, third subscale measures the current hedonistic orientation and is associated with hedonism (from Greek: *ἡδονισμός hēdonismos* from *ἡδονή hēdonē* "pleasure") and the tendency of the individual to take risks (Ibid). The Likert 5-point rating scale is used, ranging from 1 "very unusual" to 5 "very typical".

The second method is aimed at consumer innovativeness (innate consumer innovativeness, or innovative predisposition), defined as the beliefs of the consumer that he or she will be among the first to try innovative products when they become available in the marketplace. Innovativeness expresses the consumers' desire for change and stands in contrast to their previous product selection. The scale used is by Steenkamp and Gielens (Steenkamp, Gielens, 2003). Respondents express the extent of their agreement with these items using a 5-point Likert scale where 1 is "strongly agree" and 5 – "strongly disagree".

The tools used for the purposes of the study showed very good psychometric properties when applied in Bulgarian conditions, as the coefficient of internal consistency of Cronbach's alpha for each of the scales is above 0.76 (Cronbach's alpha > 0.76).

### **Results and Discussion**

The results of the applied regression analysis demonstrated a statistically significant relationship between innovativeness and the three dimensions of time orientation to the consumer – future, present and past.

The identified correlation between future time orientation and consumer innovativeness is straight in direction and weak in strength, with a regression coefficient  $r = 0.224$  at  $p < 0.05$ . Thus, the result obtained shows that more strongly expressed orientation toward the future is associated with a higher level of

innovativeness, while the opposite is also true. Features such as focus, organisation, consistency of actions, and careful consideration of the possible consequences and risks turn the individuals who are dominated by future time frame, into sensible and engaged consumers. They would devote sufficient time to seek product information using different sources. Their high cognitive level will enable them to see the benefits of innovation and at the same time will reduce the existing perception of risk and uncertainty associated with its use, which in turn will contribute to its adoption. These consumers will aim at the innovative product, if to some extent they take it as a means for achieving their desired goals or as a source of future benefits.

Items of scientific interest are the results of the applied analysis of variance (one-way ANOVA) for checking of the influence of demographic factors on future time orientation, in terms of relationship with the consumer innovativeness.

It was found that only the factor of age influences the future time orientation. It is more strongly expressed in respondents in the age group below 40 years old ( $M = 37.67$ ) compared with those in the group over 40 years old ( $M = 35.15$ ). Younger consumers still lack the established mental and behavioural stereotypes. They are open to novelty and tend to a greater degree of risk taking. The fact young people are those who are more often influenced by fashion trends and have desire to be "trendy" should also be taken into consideration. Innovative products can rightly be considered as fashion products embodying the notion of modernity on the persona.

A statistically significant link was also found between the present time orientation and consumer innovativeness. It is weak in strength and straight in direction, with a regression coefficient  $r = 0.108$  at  $p < 0.05$ . The result shows that the more expressly stated the present time orientation is on respondents, the higher their level of innovativeness is, while the opposite also applies. Identified correlation is expected, given that numerous studies prove the existence of a relationship between hedonistic orientation and consumer innovativeness (see i.e. Hirschman, 1980; Noh, Runyan, Mosier, 2014, etc.). The desire of the individual to satisfy their need for stimulation and the search for arousal and restore their inherent optimal level of stimulation, creates a striving towards new experiences and stimuli, which is one of the main motivators for the individual concerning risk taking. Consequently, the consumer is more receptive to the new and, therefore, to innovative products that can satisfy their hedonistic needs. Perceived as modern, upscale or luxury, innovations attract with their hedonistic attributes, regardless of utilitarian benefits that they bring. The subject is driven by sensory pleasure and emotional value with that links their consumption (Vigneron, Johnson, 1999). In other words, these individuals are manifested as sensory innovators in the market field.

With regard to the demographic factors the analysis of variance (one-way ANOVA) showed that only gender influences the present time orientation – women showed higher values ( $M = 22.25$ ) compared to males ( $M = 18.50$ ). The results obtained partially explain the relationship between innovativeness and the present time orientation. It is proven on an empirical level that women are more hedonistically oriented than men and emotional components are of greater significance to them (Brusdal, Lavik, 2005; Chang, 2001).

The statistically significant correlation found between innovativeness and past time orientation is weak in strength and opposite in direction ( $r = -0.118$ ,  $p < 0.05$ ). The negative correlation between the two constructs shows that the increase in one leads to a decrease in the other. More strongly expressed past time orientation is associated with a lower level of innovativeness and *vice versa*. The obtained result confirms existing empirical evidence in that direction (Merchant, Rose, Rose, 2014). The individuals dominated by the past timeframe have already formed their stereotypes and established their habits to which they adhere, as they provide them comfort. These consumers are not willing to take risks and avoid the new and the changes in their life. As a result, they are turning to products and activities they know well, and avoid new and unfamiliar products, such as innovative products, intrinsically linked to risk and requiring a change in the existing consumption patterns.

Of the demographic factors only “age” affects the past time orientation of the individual. At respondents in the age group over 40 years old past time orientation is more clearly expressed ( $M = 38.72$ ), compared to those in the age group under 40 years old ( $M = 36.64$ ). This result partially helps explain the link between the construct in consideration and consumer innovativeness. Formed stereotypes and preferences to brands and products, lower risk-taking propensity, the presence of consumer loyalty or trust, typical for older consumers, make them more resistant to innovative products.

The summary results of the study show a statistically significant link between consumer innovativeness and time orientation of the individual.

The present and future dimension of time orientation correlate positively consumer innovativeness, while the past dimension has a negative correlation. In other words, the more strongly expressed present and future time orientation of respondents is associated with a higher level of innovativeness, while the strongly expressed past time orientation is associated with a lower degree of innovativeness.

Thus, the results support the empirical evidence of previous studies that prove the existence of a relationship between the constructs discussed herein. Differences are observed only in relation to the direction of the established correlation between the three dimensions of time orientation and consumer innovativeness (see i.e. Karande, Merchant, Sivakumar, 2011; Merchant, Rose, Rose, 2014).

The analysis of variance (one-way ANOVA) conducted gave the age and sex of respondents as a main demographic factors affecting the time orientation in terms of its relationship with consumer innovativeness.

## **CONCLUSION**

With the growing importance of innovations worldwide, the issue of consumer innovativeness is a major topic of interest in recent years. A large scale of research studies are devoted to the construct and its link to a number of demographic factors and personality traits such as age, education, income, risk tolerance, need for stimulation, need for uniqueness, involvement, and so on. In the scientific literature, however, the question of the influence of time orientation on consumer innovativeness has not yet been sufficiently studied, and in the context of

Bulgarian reality no research in this direction are ongoing to date. The time orientation inherent to each consumer affects his behaviour towards innovative products. The different dimensions of time orientation (present, past and future) determine various attitudes towards life, different priorities, different level of willingness to take risks, different level of self-control and so on, which in turn affect the level of innovativeness of the individual.

The summary results of the survey confirmed the existing empirical evidence on the relationship between consumer innovativeness and time orientation. In particular, the present and future dimensions of time orientation are positively related to consumer innovativeness, while the correlation with the past dimension is negative. Consumers in which the dominant influence comes from the future and present time framework are more innovative and receptive to innovative products, and those that are more influenced by the past timeframe tend to have a lower level of innovativeness and accordingly have a more resistant behaviour to innovations. The study that was conducted, although limited in scope, discloses existing links and dependencies between the phenomena in question. It contributes to a better understanding of the Bulgarian consumer and the factors that determine his innovative behaviour. This, in turn, is a step towards increasing the effectiveness of marketing communication strategies and better positioning of the innovative products on the market.

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## CRM AND CUSTOMER RETENTION STRATEGY

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### ABSTRACT

Today, more than ever, is a lot more expensive to attract new customers than to retain the existing ones. Therefore, successful companies are paying a lot of attention to build and develop long-term relationships with buyers. Companies should hear out and analyze wishes of their users and see the buyers as partners with whom companies are striving to build a mutually satisfying business relationship. Philosophy defined in such a way can result in profit and long-term cooperation with loyal customers.

An earlier attitude that the company was only creating a product or service value thanks to its experiential data is now replaced with the attitude that value is formed by buyers, because value is not only some product's quality, but also the overall impression buyers have while using the product or service. For that reason, a new approach has been created whose objective is a long-term satisfaction of buyers, i.e. ambition to attract and retain each buyer in addition to making a profit through discovering their needs, creating adjusted offer and meeting those needs.

CRM (Customer Relationship Management) implies managing relationships with customers, wherein customers are seen as equal cooperatives and participants in the creation of business strategies. Namely, each organization that wishes to stay on the market for a long time and gain competitive advantage, needs to place customers, buyers, users of their products and services in the center of their business. Business endeavor starts and ends with the buyer. That is why the topic of this paper is Customer Relationship Management and ways to, through its application, influence the retention of buyers, as well as the increase in organization's competitiveness.

**Key words:** CRM, Competitiveness, Customer, Business Success, Customer Behavior

**JEL Classification:** M39

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## **INTRODUCTION**

In their business activities, market-oriented organizations are constantly adjusting to new conditions on the market and focusing their business and resources so as to ensure long-term survival on the market and achieve competitive advantage. In today's conditions, organizations are fighting with different challenges such as global competition, intense turbulence, high level of uncertainty and risk in business, quick technological improvement and high quality in meeting the needs of buyers, customers and users of products and services. The organizations have to manage the changes by continually identifying and coordinating all the parts of organizations and functions of their companies according to increasing new requirements of the business environment that would facilitate sustainable change (Vukosavljevic et. al., 2015). In conditions of tough competition only those who are constantly feeling the pulse of the market and pulse of each individual buyer can survive.

Customers today are not only a homogenous gathering of people who makes profit. They are really well informed, they know exactly what they want and their expectations are big. They are asking not only that their needs and wishes are fulfilled, but also for companies to surpass their expectations. Their attention will be gained only by those organizations which succeed in surpassing their expectations with their offer. Therefore, each business system, in order to achieve that, has to find the best possible way to combine its material, financial and human resources and use them in the best possible way and focus them towards customers.

It has been proven in time that products that are adjusted to everybody actually suit a small number of customers, and each user is an individual with their specific collection of needs and expectations. Users' requests are increasing in parallel with changes in the market, and awareness about the customer, as the most important link in the chain, should be constantly kept at the highest level. That is why organizations today are more oriented towards customers in a way that they have significantly expanded their product and service lines so as to meet their needs in the most satisfactory way. Companies that are capable of generating information about customers and expanding them inside a company as basis for the performance of each and every activity, own that ability and the base for creating a sustainable advantage on the market. Good relationships with customers represent business imperative of every company, hence it is necessary to ensure a system which will cover and, on a daily base, enhance all elements of that relationship.

## **LITERATURE OVERVIEW**

Customer Relationship Management can be observed as a special business philosophy, a business concept, as well as a collection of strategies, tactics and programs which are focused on identifying and building good relationships with customers and keeping loyal customers in the aim of achieving business benefits and profits. CRM is an irreplaceable segment of modern business which places the customer in the center of everything.

Basically, CRM strategy is very simple, customers and their needs, wishes and requests are put in the first place. Or as a sentence uttered a long time ago says “customer is always right” and that has led many companies to the top of the scale of the most successful companies. When each process and activity inside a company are observed through the eye of the customer, the result will be a greater benefit for the customer which will make him more loyal to the company. CRM implies the collecting of important data about customers and acting upon those data in the purpose of building long-term profitable relationships. CRM can be defined as a business strategy used to make profit in the best possible way on one hand, and on the other to meet the needs of customers. Introducing and implementing CRM strategy in one company is the key factor for increasing loyalty and satisfaction of users.



Figure 1: Client/Customer Relationship Management  
Source: <http://www.zoho.com/crm/how-crm-works.html>

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value (Parvatiyar, Sheth, 2002)

Table 1: Comparing companies which have and have not implemented CRM

| <i>Companies that don't have CRM</i>                                                    | <i>Companies with CRM</i>                                                                                                     |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| In average, it loses 50% of its buyers every five years                                 | They are growing almost 60% faster than the competition than doesn't have a developed CRM                                     |
| Around 65% of all lost buyers goes away due to bad service and communication            | They are expanding the market for 6% each year, achieving a 12% investment retrieval and charging 10% more for their products |
| Costs of attracting new buyer are five times bigger than costs of retaining the old one | Increase of 5% in customer loyalty can result in the increase in profitability of 25-85%                                      |

Source: Vojinović, 2013, p. 186

CRM can also be identified as a business process and communication with customers whose objective is to collect data about the customer, place them, analyze and transform into information, which are used to build long-term and good-quality relationships. It is an on-going business process at all organizational levels inside institutions, focused on conquering and retaining customers. The notion of CRM is somewhat matched with information technologies, marketing activities, processes of managing values and profitability of clients, processes of giving power to clients, with increasing experience of clients in institution's services and managing relationships through all channels. There is no unique definition of CRM, but most of theoreticians present it as a system of managing relationships with customers. CRM integrates people, processes and technology so as to maximize relationships with all customers (Vojinovic, 2013, pp. 179-181).

In the basis of this concept is a unique and adjustable treatment of customers, which takes care of their different needs and values they have for the company. Highly valuable customers and building long-term relationship with them, as the most efficient way of retaining customers and making bigger profit, are in the focus of CRM. Integration of traditional and modern channels of direct marketing and marketing based on databases makes CRM possible and efficient because they enable the formation and improvement of databases about customers in which we can monitor and register transactions and contacts with individual buyers. The basis of the CRM concept consists of collections of relevant information about customers which are necessary for making decisions. That kind of base enables us to establish good-quality and two-way relationships with clients, to carefully establish and develop personal communication, to anticipate problems and if needed, to carry out corrective measures (Dimitrijevic, Cogoljevic, 2016, p. 33).

CRM enables us to know about our clients what our competition doesn't know and it gives us an opportunity to use that.

## **STAGES IN CUSTOMER RELATIONSHIP MANAGEMENT**

Business people have always known how to organize business so that they meet the customer's needs in the best way, hence CRM is not a new concept, it has only become popular again with the application of technologies which enable and support it. Basic idea of CRM is to redirect its focus from products and services of companies to buyers and their specificities. Instead of trying to persuade customers to buy products the company has already produced, they are offering only those products for which previous research has proven that customers want them. CRM is an excellent tool used for planning, organizing and supervising all business processes as well as transactions with clients, customers and buyers.

Being a complex process, CRM goes through several stages. First, we start with gaining knowledge about customers, then we create and take actions based on that knowledge and, in the end, we collect results of those actions and combine them with the already existing knowledge so as to create new one. When making decisions on the creation and deliverance of values to customers, company needs to have information about how a customer perceives value of certain products/services, how big the relative significance of certain elements that form value is, if the company is capable of delivering superior value in comparison with their competitors, etc. Companies gain these information by researching.

The process of CRM starts with researching and collecting data about buyers, clients, customers and then harmonizing and combining them with the existing data within the company. For a customer research to be complete, it is necessary to focus it on the collection of information about the process of buying, customers' characteristics and way of using products, customer loyalty, market segments, level of customer satisfaction and other information. In its core, researching customers represents an inseparable part of market research. In the framework of market research, we are examining attitudes and behavior of customers, competition and internal public (managers and employees).

The next step which supplements researching is planning. In this stage, we decide what the best way is and how to speak to customers defined in the interviewing phase. In this stage, we define strategies and tactics that companies will be guided by in order to achieve the goals set. Certainly, objectives are a long-term survival on the market with the achievement of competitive advantage and profit which is made based on the fulfillment of customers' needs.

The next step is realization. Within this stage, the company is focused on the unique value of its services, on the thing which makes them different in comparison to other companies offering the same product/service because it is that uniqueness that creates satisfaction of customers, buyers and users. What makes a company different from others and what differentiates it from others, whether it is timely delivery, accuracy of delivery or such, the company has to find out by itself and pay special attention to it because that uniqueness leads it to the top. All business areas are potential leverages of customer satisfaction, so the monitoring and management of that satisfaction is the mission of all sectors in the company. Everybody in the company has to communicate with the users and constantly offers

and emphasize exactly that unique value. Continual innovation and unique values offered to customers are also an integral part of CRM.

Therefore, by implementing CRM what is accomplished is the increase in customer satisfaction, decrease in costs, increased sales, and preparation of more successful marketing activities which affect the increase in efficiency. Beside the increase in customer satisfaction and efficiency enhancement, CRM has the following important goals: to get the attention of new customers, to reduce service prices, to enhance customer service and productivity, to enter new markets and analyse the competition (Nikitovic, Novakovic, 2015, p. 84).

### ***ELEMENTS OF CRM***

The presence of all CRM elements is necessary for a successful usage of CRM, starting from operative, through analytical to collaborative element (Figure 2).

Operative CRM deals with the creation of information and upload of data about interaction with users through various databases and applications for monitoring customers' activities. Each contact with the customer is an opportunity to sell a product/service and gain information about customer's perception. Collecting information from buyers, customers or users of products and services can be carried out through questionnaires, surveys on selling places or via the Internet and such, through direct contact, as well as through the reporting of problems directly or via the Internet. Each contact with the customer is through surveying and conversation used for gaining information about the customer, their complaints and suggestions and those data are entered into the base. The most important thing is that the entire company benefits from these information. From an operations perspective, Bose (Bose, 2002., pp. 89-97) pointed out that CRM is an integration of technologies and business processes that are adopted to satisfy the needs of a customer during any given interaction (Mishra, Mishra, 2009, pp 83). This element of CRM system places data into database without analysis.

Collaborative CRM is in charge of establishing contact with users via all available media, by the traditional personal contact, over the phone, e-mail and Internet. Collaborative CRM concentrates on customer integration using a coordinated mix of interaction channels (multi-channel management), e.g. online shops, and call centers. Approximately 60% of the companies surveyed use internet portals in their customer communication for selected or suitable activities (Alt, Puschmann, 2004., pp. 1-9). Through collaborative CRM, all communication, announcements, offers and such are directed towards the users, while their answers are returned to the base through the operative part of CRM. In their communication with the company, customers can only "see" the collaborative part of CRM, while operative and analytical CRM represent the internal organizational ability of the company to meet the needs of customers.

Analytical CRM is not in direct contact with clients. It processes all data collected from the operative and collaborative CRM and based on that generates decisions and strategies. Data processing results in making a pattern about customer's behavior based on which we can personalize the offer. Analytical CRM

information on customer segments, behavior and value using statistical methods. It is useful for management and evaluation purposes, the operational customer data are integrated with a centralized data warehouse which is consolidated data based on certain criteria (e.g. sales, profits). Here the data mining tool analyses defined dimensions, e.g. compares the characteristics of one customer with another, leading to the determination of a customer segment and thus providing the basis for a targeted marketing campaigns (Alt, Puschmann, 2004., pp. 1-9).

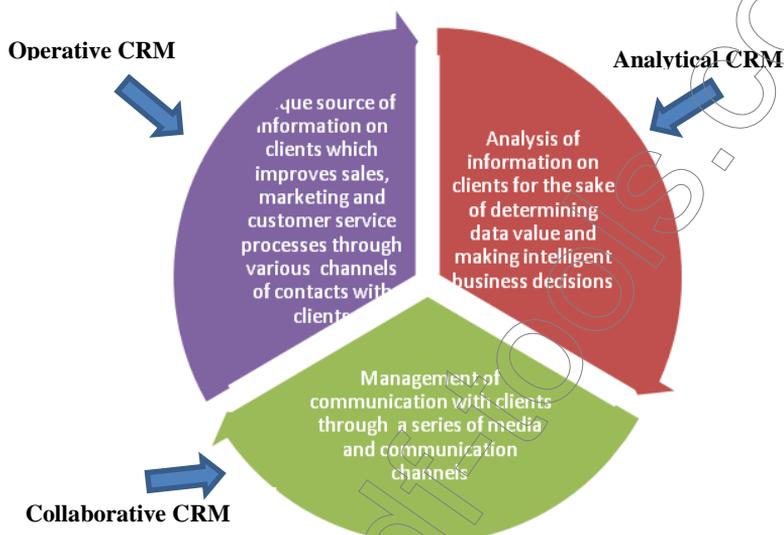


Figure 2: CRM components

Source: Internet

From technological aspect, CRM represents an integrated information-based system focused on the users of services. Since the making of information-based system, which would cover the entire CRM, is very demanding, experts are suggesting gradual adoption of CRM. They first suggest supporting a part of analytical CRM in combination with operative components, and then by joining analytical and operative components to gradually develop organizational CRM. In that way, companies will, through gradual development of CRM system, collect data on users which will enable them to use their competitive advantage and adjust to new market conditions.

### **DEVELOPMENT OF CUSTOMER RETENTION STRATEGY**

Imperative of modern companies' business is to create such a concept in which all company's activities are focused and directed towards the user. If the company wishes long-term achievement of competitive advantage and making of profit, it has to adopt such a strategy that will build solid, stable and long-term relationships with its customers. Among other things, it was adopted long ago the opinion that retention of existing customers costs less than winning over new ones. In that

sense, basic objective of customer retention strategy is to reduce the rate of customers fleeing to competitors. Good-quality data bases, obtained by market research and customer behavior research, are the basis for determining the right strategy. Information which are the output of these bases are guidelines for discovering customers' needs, corrective measures and innovation in products and services which companies are offering to customers. Proper segmentation of users and respecting values customers are requiring, leads to an increase in loyalty, i.e. they strengthen mutual trust and positive business experiences. The most important reason for investing into retention of profitable customers is the comparison of costs of attracting new users and costs of retaining the existing ones. The basis of customer retention strategy should be the nurturing of long-term relationships with users through trust, fast reaction to customers' demands, high level of services and reliability. In the long run, that leads to mutual benefits: profit increase for companies, meeting the needs and increase in customers' satisfaction through the reduction of costs and increase in value.

Taking care of the customers has become one of the most important assignments companies have in the aim of ensuring customers' satisfaction and building new and good relationships with buyers. When customers are considering whether to stay loyal to the company or to change it, they are considering the quality of products/services, price, reaction to reclamations, readiness to solve the problem, how ready the company is to hear out customers' requests and problems, accuracy and reliability of information and timely delivery...

Customers are the principle idea of each company. Information on their behavior in different situations when buying products or services represent the real basis for planning business strategies. Every market-oriented organization puts the needs of their customers and their fulfillment in the center of their business because that is the key for achieving objectives and company's development. That is why it is important that each company identifies not only its competitors, but also to explore the attitudes of their target customers, so as to be able to respond to market demands through an adequate combination of available resources. In the past, companies mostly competed with their products and services, i.e. product orientation was dominant. Today, competitive advantage is in the hands of user-oriented companies. Company builds up and promotes its positions based on how well they serve their customers.

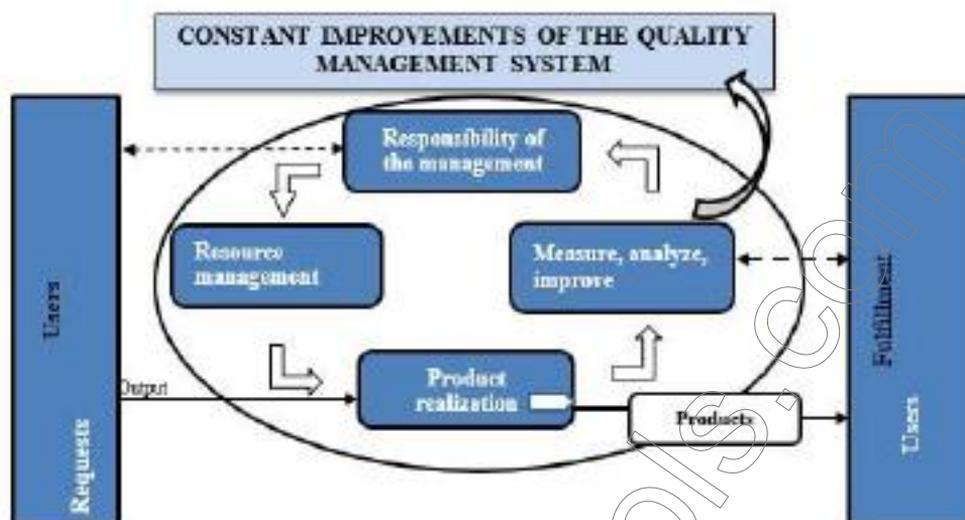


Figure 3: Model of processual access to business

Source: Jugoslovenski standard JUS ISO 9001:2001 Sistem menadžmenta kvalitetom SZS, Beograd, 2001, str 8.

Researching customer behavior is in fact a research on how people make decisions to spend their available resources (money or credit), time and effort for buying products and services for which they believe they will meet their needs and wishes and make them happier (Maricic, 1994, p. 8). Customer needs should primarily be identified, studied, based on them determine target markets, and according to them plan the product and sales program, marketing and other activities. In addition, we have to find ways and methods which will enable efficient usage of available resources in order to gain competitive advantage on the market. If, in its mission, company doesn't find ways to attract and retain buyers and customers, it won't last long.

That is why companies are more often in the situation to think how to use their offer to surpass and not meet the expectations of their customers. Products and services have to own market value in order to completely fulfill requests and wishes of customers. Since there is a tough and fierce competition on the market, that means that only those companies that have in the best way understood needs of customers and buyers will conduct successful business. In order to achieve customer satisfaction and positive business result, it is necessary to first determine what the customers want (Marinkovic, 2008, p 115). According to the adopted marketing approach, with the orientation towards buyers, i.e. customers, business starts where the buyers are, and not where the company's center of operation and production are. Each product is created on demand to align each individual service with the overall experience of the consumer. Each business system must be adjusted to the consumers' needs by directing its operations and resources and creating such products/services that will meet their needs more and allow business system to realize their goals and make profit (Djuricic et al, 2012).

Today, consumers, customers or service users, give much more importance to quality and value while making their purchasing decisions than before. Therefore, market is constantly "pushing" new challenges which companies must respond to in order to ensure the survival of the market and achieve competitive advantage. Every company is trying to build its reputation on customer satisfaction, and the quality of service is crucial here, of course (Djuricic, Vujicic, 2012.).

Basic requests of buyers refer to the quality of products and services. When defining quality, it is necessary to take into consideration its parameters and characteristics which depend on the product type. Therefore, if the product meets buyer's expectations, the buyer will be satisfied and think that the product is acceptable and of good quality., if the expectations are not met, the user will think that the product is of bad quality. That means that the quality of product can be defined as "the ability of a product to fulfill the needs and expectations of buyers".

Quality and building quality of products and services (Figure 4) the company acts on the market with, is the result of harmonized togetherness and organization of all functionally connected processes. Product quality assessment largely depends on the customers' expectations which are determined by the company's Figure, promotional activities, "word of mouth" propaganda, and price of the service. High quality of products directly affects high loyalty to products and creates an extremely favorable "word of mouth" propaganda.

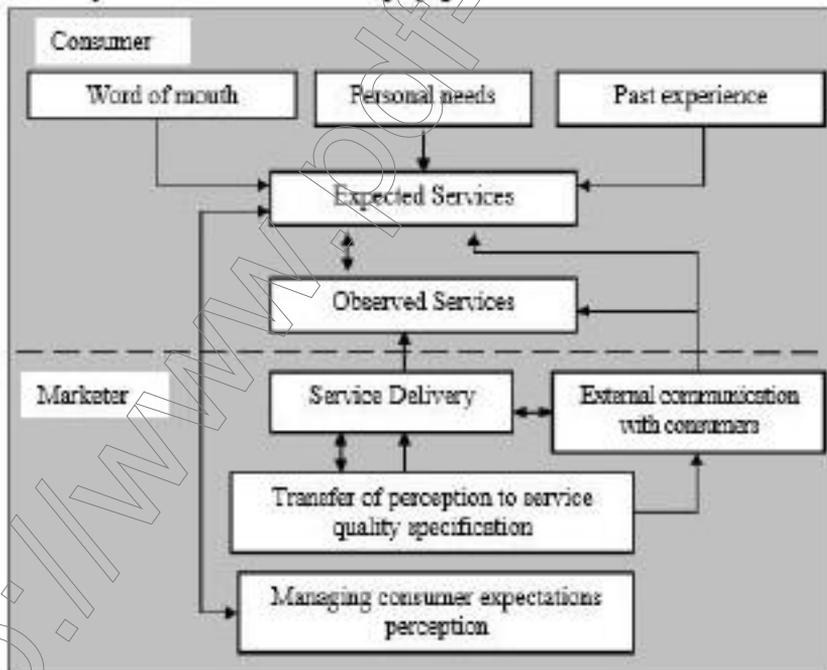


Table 4: Conceptual model quality of service

Source: Djuricic et al., 2012, p. 53

Today's consumers are more informed and less ready to forgive certain errors, and the competition is very strong. Quality products have become the condition of survival on the market. Research indicates that if the consumer has a significant objection to product or service quality, as many as 91% of the consumers will not be users of these products or services again, but if the reaction to their complaints is immediate and the reasons of the complaints are taken away, some 82% of them will be consumers once more. When a consumer complaint appears, the reaction to it must be immediate. The longer the time of problem-solving, the bigger is the possibility for the business system to lose a potentially loyal consumer. The problem is that often it is the case that many consumers have no formal complaints, they just stop using some services. Thus, managers have to find a way to encourage consumers to indicate the reasons of their dissatisfaction, as then the business system is in a situation to be acquainted with the problem and thereby to resolve it (Djuricic et al., 2012, p. 537).

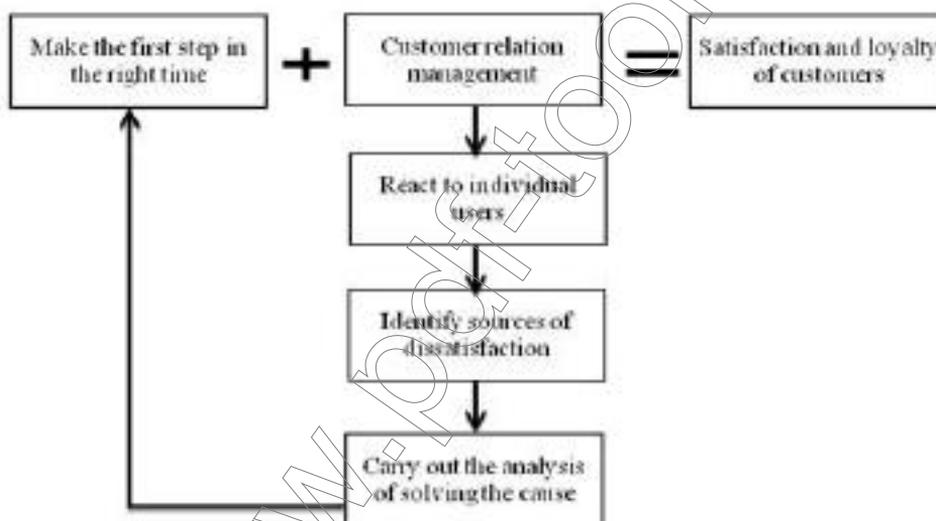


Figure 5: Satisfaction and loyalty of customers

Source: White Paper, Costumer Relationship Management,  
[http://www.atoserigin.es/crm\\_wp.pdf](http://www.atoserigin.es/crm_wp.pdf)

Loyal customer is a precondition for successful business. Loyalty can be observed as the trust buyer has towards the company which delivers the product/service the buyer thinks it's the best. That offer, certain product/service, meets the buyer's need, wish, request in the best possible way. The aim is that the buyer opts for that offer every time he makes a decision about a purchase.

Loyal customers believe that, when they are having a problem, their chosen company will invest efforts and do everything to overcome that problem. That also means that these customers are willing to spend time and effort to communicate with the organization so as to solve all problems. Loyalty can be measured and monitored. Loyal buyers believe that products and services bought from their

supplier are superior that the ones competition is offering. They believe that their relationship with the company is more important than the product or service they are buying. Assessing loyalty implies assessing the strength of this relationship between the buyer and the seller, between the organization and its client.

Types of loyalty can be placed into four categories (adjusted Kotler, 1997, p. 12):

1. Stable or absolute loyalty – customer is buying only one specific brand of product/service during a longer period and in that case, he doesn't have any ambitions to transfer to the competitors' side or to buy competitors' products. The aim of each company is to have as many users from this group.
2. Relative or latent loyalty – customer prefers certain brand or company in comparison with competitors, but that doesn't reflect on his purchase.
3. Changeable or false loyalty – customer has a large number of repeated purchases of the same brand, but in the long run he is buying different product brands. The most common reason for this are special discounts, influence of other persons or inertia – laziness for shopping.
4. Disloyalty – customer doesn't prefer any certain brand and cannot see the difference between the alternatives, so he most often purchases things without any rule, i.e. by a method of random choice.

It is very important for each company to implement its strategy of establishing long-term relationships with customers in such a way that a large number of customers belongs to the category of absolutely loyal. Only that type of customers will be loyal to the company in the long run.

There are four stages in the process through which customers go when building loyal relationship (Milisavljevic, 2004, p. 50):

1. Cognitive stage in which the customer, based on available information from internal and external sources, estimates that he prefers one brand over the alternatives.
2. Affective stage in which the customer expresses his emotional attitude towards the specific brand of products or services, most often based on the experience in using that product or service.
3. Stage of clear orientation in customer behavior is the one in which the customer carries out repeated purchases or use of products or services and
4. Loyalty manifestation stage, i.e. preferences of customers, is the one in which the customer always buys the same product or service brand in every situation.

Objective of implementing the CRM concept is the optimization of customer lifecycle management, influence on the increase in profit and profitability of the company, as well as meeting the needs of customers for the sake of reaching the highest level of loyalty.

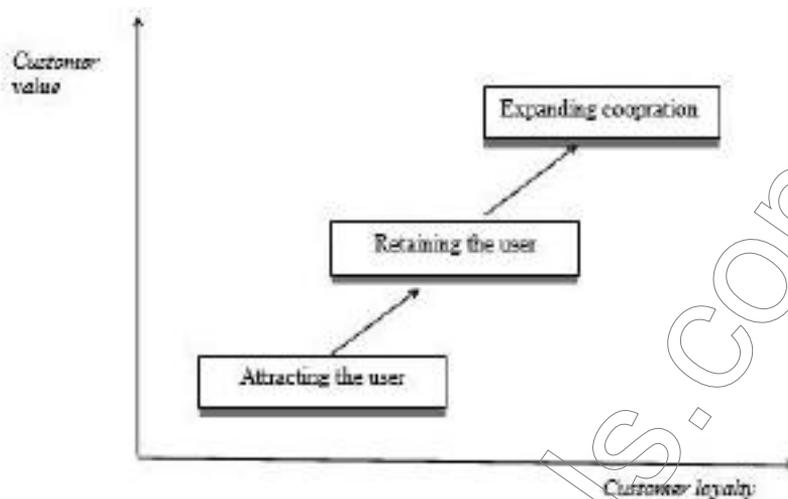


Figure 6: Relation between customer value and loyalty in their lifecycle

Source: (Peppers, Rogerson, 2001)

Customer value for the company can be described with the help of customer life value concept. That is the sum of life values of all their individual buyers. Wherein, life value of the buyer is defined as net current (discounted) value of all future profits expected from the buyer's purchases during his lifecycle (as the buyer of company's products/services). In order to calculate lifelong customer value it is necessary to estimate gross life value (e.g. with the model: average annual value of a purchase times the expected number of years of loyalty times average annual profit rate of an organization), minus the sum of expected costs of attracting customers, costs of customer retention, costs of sales/including the production costs/and costs of attending to the customer, with the application of a certain discount rate (whose amount depends on the price of the capital). Hence, emphasis is put on the long-term profit expected from long-term purchases, and not on the profit made from one transaction (Internet).

Customer lifecycle represents the dynamics of relationship with customers in different stages in time and by that it gives the possibility of analyzing that relationship and offers the basis for performing certain strategies and tactics which correspond with the intensity of relations between certain phases. Figure 7 shows the sequence of certain CRM assignments with the help of relationship lifecycle concept.

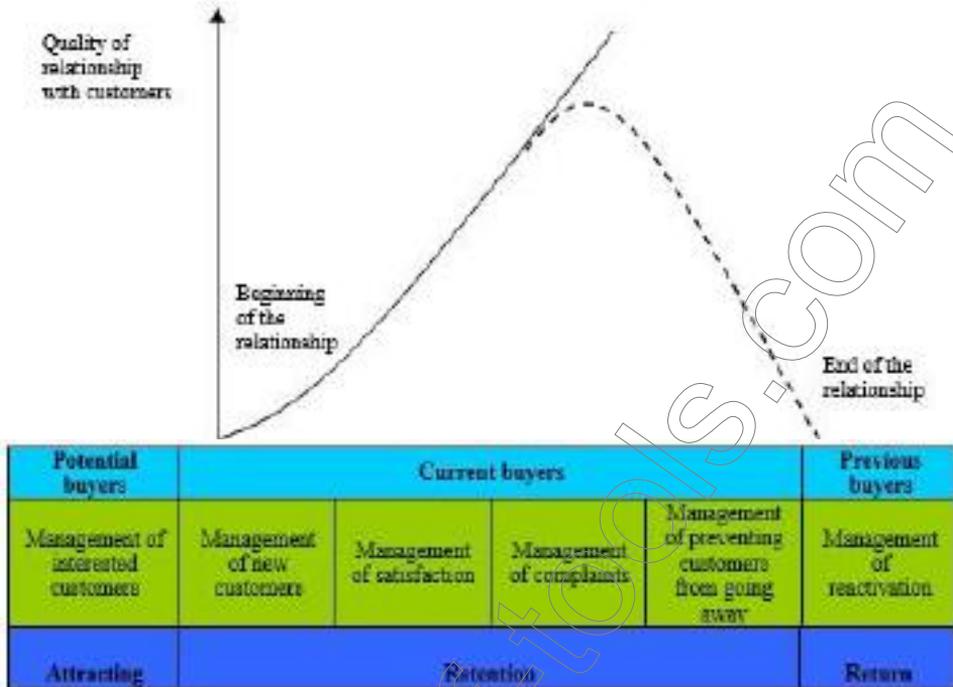


Figure 7: Sequence of CRM assignments in relationship lifecycle

Source: <http://www.sema.rs/repository/download/marketing-vol-44-no-4.pdf>

By considering customer lifecycle, we are focusing on the participation of individual buyers instead on market share, on the retention of existing buyers instead on attracting new ones, we are concentrating on repeated purchases which help increase the profit. In all stages of customer lifecycle, it is necessary to hear out customer's needs and react to them in order to build trust and loyal relationship. The more loyal and satisfied customers company has, the greater the chances to successfully survive and to gradually and in the long run increase its value.

## CONCLUSION

CRM is not a short-term endeavor, but rather a process which is constantly repeated and improved. When focused on customers, company gains competitive advantage, long-term survival on the market and greater profit. If they get exactly what they want, in a way they want, customers are satisfied and loyal. Each company's objective is to have as many loyal customers and to maximize the profit they bring them. CRM has become the most important business activity, especially in forming databases about their customers, their needs and habits. By implementing CRM, our customers are more satisfied, we reduce costs, increase sales, prepare more successful business activities and increase profit. With the help of CRM and through processes of increasing the number of users and their satisfaction with a better service and faster user service, the company is actually

gaining bigger income. By getting to know their customers and by the automatization of processes, the company is reducing costs and increasing incomes. Creation of strong database enables companies to gain competitive advantage on the market.

The objective of CRM strategy is to win over new customers and establish trust and loyalty. Significant field of customer research is the analysis of customers' loyalty for the company. It is important to develop an adequate strategy of providing post-sales services so as to reduce possible dissatisfaction of certain customers and to inform all buyers of products/services that the company is actively thinking about them. An important source or basis for gaining relatively permanent competitive advantage in today's time is the delivery of superior value to customers. Therefore, the most important advantages of CRM are increase in the rate of loyalty and customer retention, customers are more loyal to the company, they buy more and more often, increase in the long-term customer value and company value, increase in customer profitability because of larger purchases and lower costs of retaining the existing than the costs of attracting new customers.

Therefore, by implementing CRM what is accomplished is the increase in customer satisfaction, decrease in costs, increased sales, and preparation of more successful marketing activities which affect the increase in efficiency. Beside the increase in customer satisfaction and efficiency enhancement, CRM has the following important goals: to get the attention of new customers, to reduce service prices, to enhance customer service and productivity, to enter new markets and analyze the competition.

We emphasized that only a satisfied customer makes profit for the company. Therefore, companies are striving to retain each customer. The basis of customer retention strategy should be the nurturing of relationships with customers through trust, fast reaction to customer requests, high level of service and reliability, innovations, trend monitoring and adjusting to new conditions imposed by modern business conditions. In the long run, that leads to mutual benefits: increase in profits for the companies and fulfillment of needs and increase in customer satisfaction through cost reduction and increase in value.

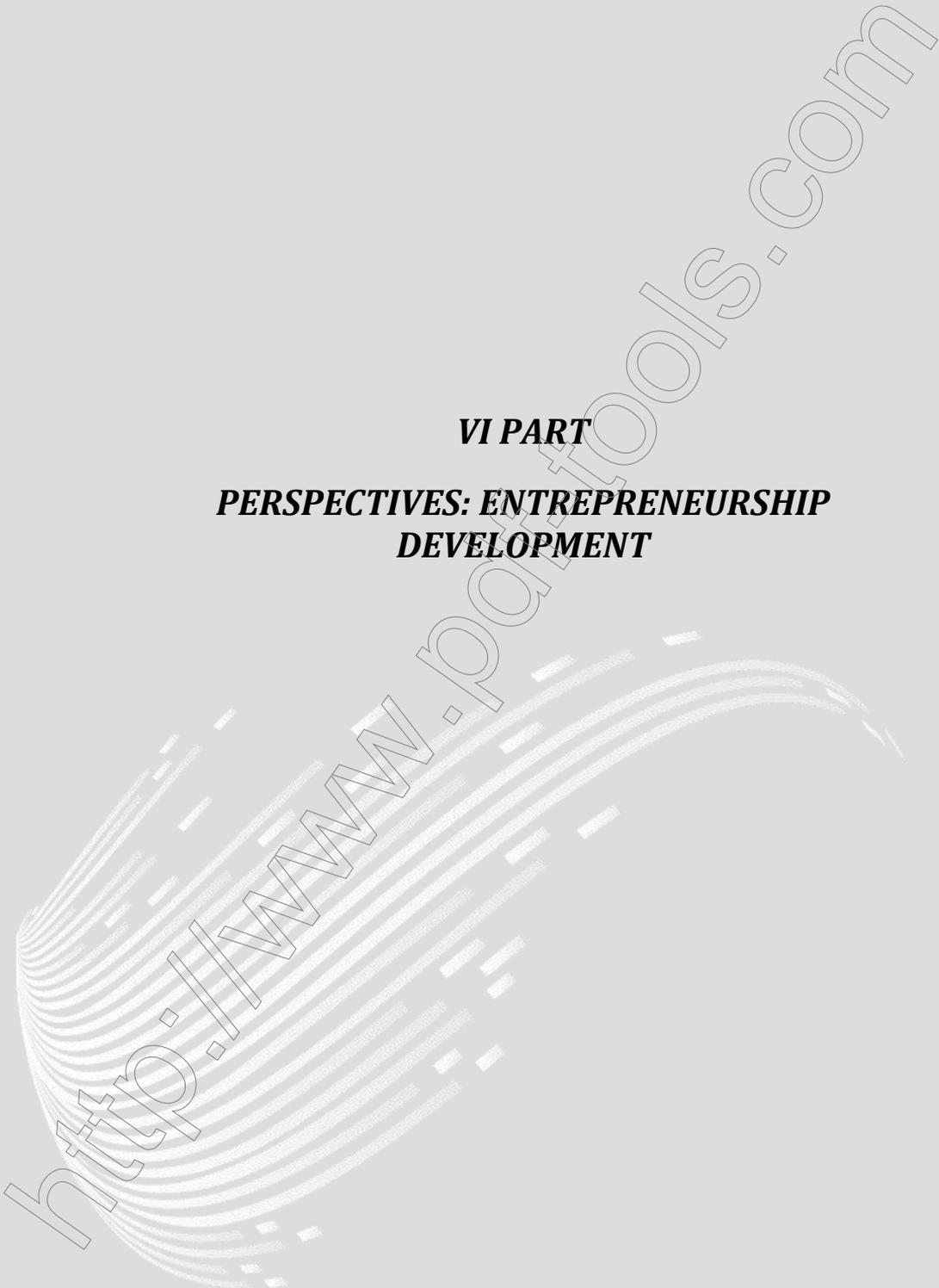
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**VI PART**

***PERSPECTIVES: ENTREPRENEURSHIP  
DEVELOPMENT***



<http://www.pdf-tools.com>

## **THE ROLE OF STRATEGIC PLANNING IN GOOD ENTREPRENEURSHIP DEVELOPMENT**

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*Dejan Radulovic<sup>49</sup>*

### **ABSTRACT**

*This paper discussed process of developing strategic plan for entrepreneurs. Also, the article explores the characteristics of a good strategic plan. We therefore argue for a synthesis of the disciplines- entrepreneurship, marketing and organizational management, considering forces and trends in the broader community, political, social and technological forces; consider opportunities and challenges related to resources and funders; look at actual and potential collaborators and competitors which may serve the same neighborhood or target population. Research is based on primary and secondary sources of information.*

**Key words:** *Strategic Planning, Strategy, Entrepreneurship, SME, Development*

**JEL Classification:** *L26*

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## **INTRODUCTION**

The word strategy was derived from ancient Greek word which means the art and science of the general deploying forces for battle. Strategy and goals are often misunderstanding and misuse by people in modern day entrepreneurial education. According to business dictionary (2015), the word strategic planning refers to a systematic process of ensuring a desired future for a business, translating this vision into broadly defined goals or objectives and ensuring sequential steps in achieve the goals and objectives set. Volberda (2010) maintained that strategic planning is based on long term forecast which helps the company to anticipate future challenges and opportunities. Namely, when we analyze future tendencies in the development of organizational phenomena, we need to trace the past and to build our concepts and beliefs on this basis (Radovic Markovic, 2014.p.35.). According to Kotler and Koller (2007) strategic planning should express the basic idea of which way the organization goals will be achieved. It provides comparative advantage to business enterprise (Powell, 1992; Jonson et al,2006). In the same vein, Strategy Management Group (2016) defines strategic planning as an activity of organizational management used in setting focus, priorities, strengthening operations energy and resources, ensure that employees and other stakeholders are working toward common goals, establish agreement around intended outcomes or results, and assess and adjust the organization's direction in response to a changing environment. It is a disciplined effort that produces fundamental decisions and actions that shape and guide what an organization is, who it serves, what it does, and why it does it, with a focus on the future. Based on these, many authors have commented on the importance of strategic planning in business and organizational development (Skokan et al. 2011; Arasa, K'Obonyo,2012; David, 2013). Effective strategic planning articulates not only where an organization is going and the actions needed to make progress, but also how it will know if it is successful and its decision making process (Dutton &Duncan,1987). Researcher Price (2014) tries to shed light to these two often misunderstood words by various actors in the field of entrepreneurial education. The word goal simply refers to what the business organization wants to achieve at the short or long term while strategy refers to the measures through which the goals will be achieved. The aim of a business organization helps the organization in defining its intent whereas strategy is a plan of action which describes in a clear term various activities that will be taken in addressing and interacting with various forces in the business environment in order to achieve the set goals.

### **CHARACTERISTICS OF A GOOD STRATEGIC PLAN FOR ENTREPRENEURIAL DEVELOPMENT**

“The world is going to be too tough and competitors too ingenious as companies are shaken loose from traditional ways of conducting business” (Radovic-Markovic,2007, p.121.). Because that, a good strategic plan for entrepreneurial development must cover an appropriate time frame usually between

1 to 2 years. Furthermore, the period of 1 to 2 years will help business enterprise to improve on its developmental plan. At times some big organizations stretch theirs more than this. Further, a good strategic plan is usually informed by the past antecedents and projects into the future: Basically, strategic plan of a business organization is a forward looking document which states in a clear term where the organization is going (Elbanna, 2009). However, it takes lesson from the past experience of the business organization. Past experience and performance are good predictors of the future success or otherwise of an organization. Using historical comparisons, growth rates for similar markets or products, and implementation timelines from prior projects will add realism to the plan and increase confidence in its outcomes. Also, a good strategic plan should incorporate market trends, external forces and competitive landscape. It looks inward into the organization. So, a good strategic plan recognizes the unfolding events which are currently happening within the organization. As a result, entrepreneurs are expected to incorporate broad market trends and macroeconomic factors into the plan as a way of influencing the rate of growth of their business. The good strategic plan also considers what is happening with your competitors and partners, and where your strategic plan will position in order to compete favorably.

Strategic planning cycle includes goals, results, measures, desired outcomes and strategies (Figure 1).



Figure 1: Strategic Planning Cycle

Source: KVR Webtech (2012). <https://www.kvrwebtech.com/strategic-planning-and-business-development-defining-role-of-a-strategic-planner/>

## **PROCESS OF DEVELOPING STRATEGIC PLAN FOR ENTREPRENEURS**

There is various framework of strategic planning but the pre-planning, planning and post planning process will be adopted for easy understanding of the process of developing a good strategic plan. Each of these stages will be discussed in the succeeding paragraph.

Stage 1: Pre-planning stage involves three different steps which include: agreeing on a strategic planning process; carrying out an environmental scan; and identify key issues, questions and choices to be addressed as part of the strategic planning effort.

Agreeing on a strategic planning process: This is the first step in the first stage of the strategic planning process. This may be done at a Board meeting with key staff present, or may require a special meeting or retreat, including Board, key staff, and some external stakeholders. At the session, the convener should:

- Ensure that he or she provides an understanding of what strategic planning is and how it is done;
- Analyze its importance or potential value to the organization, in terms of providing a common vision and focus, with agreed-upon goals and strategies;
- Discuss the costs of doing strategic planning, in terms of staff and Board time and other resources and what might need to be given up in order to develop a plan; if the organization is in crisis or is financially or organizationally unstable, it may be difficult or unwise to enter into a strategic planning process until the immediate problems and needs have been successfully addressed; consider whether the organization is "ready" for a long-range plan or whether it may best focus on a short-term plan, perhaps doing a one-year plan and then undertaking longer-term planning at the end of that year; If strategic planning seems appropriate, the head must therefore consider what procedures or steps can be used to establish and implement a strategic plan;
- Agree upon a process and establish responsibilities for the various steps in the process, including at least one-day (or several half-days or evenings) devoted to a Board and (all or senior) staff planning retreat or a series of planning meetings.

The second step in the first phase is to carry out an environmental observation. This helps provide an understanding of how the organization relates to its external environment. The scan usually includes an external component; identifying and assessing opportunities and threats in the external environment -- and an internal component; - assessing organizational strengths and weaknesses. This process is often referred to as "SWOT" analysis.

It is worthy to point out that the external component of the environmental scan must include a review of the target or service community and the broader environment in which the organization operates, to identify the opportunities and

threats facing the organization. The third step in this phase is to identify key issues, questions, and choices to be addressed as part of the strategic planning effort. This implies postulating strategic issues or questions that the business should address and setting imports in terms of time or significance (Elbanna, 2008). At times there can be disagreement among members of the team about priorities, concise effort must be put in place to possibly move immediately to the organizational vision and then goals. If there is no agreement on general directions and organizational goals, it may be vital to explore issue priorities and identify critical choices. Example the staff and Board might be asked to ascertain strategic issues from the environmental scan, with individuals identifying a specified number of such issues and indicating why each is strategic, including the benefits of addressing it and the negative consequences of not addressing it. To be able to do these, there is need to involve or incorporate a wide range of programmes .

The second phase is the process phase. It also consists of four steps namely: Define and review the organization's values, community vision, and mission; develop a shared vision for the organization; develop a series of goals or organizational status statements which describe the organization in a specified number of years; and agree upon key strategies to reach the goals and address key issues identified through the environmental scan

When defining and reviewing the organization's value and community vision, the team must ensure there is agreement on why the organization exists, what goals or outcomes it seeks to achieve, what it stands for, and whom it serves (Ugboro et al, 2011). Organizational core values or operating principles here refer to those beliefs or principles that guide the organization. These values are shared by Board and staff, strongly held, and not easily changed. Community Vision on the other hand implies the business organization's vision for the community where it operates. This can be viewed as organizational Figure of what the community service would be like provided the values were shared and practiced by everyone. Finally, the mission here refers to the stated purpose for the business organization and its existence. This can also be viewed in term of the organization's public statement of the contribution it promises to make to help accomplish the community vision. Agreeing on values, vision, and mission

The next step in this phase is to develop a shared vision for the organization. This involves sharing the vision of the society with the business organization in a manner that will promote business-community harmony and enhance attainment of both vision and mission. At times, when planning strategic plan for a business enterprise, the planner ensures that the vision for the organization is developed after a vision for the community has been discussed. This becomes imperative because the business organization cannot stand in isolation without the society. It therefore implies that the shared vision of the organization depends on the shred vision of the society where it operates. To be able to do this, it is important to agree on where the organization wants to be in the next future.

In addition, the entrepreneur needs to develop a series of goals or organizational status statements which describe the organization in a specified number of years. The goals must cover a variety of categories of programs which

the business enterprise or organization will do ; status of the organization; resources available to the organization; institutional development; relationship with internal and external bodies and governance of the business organization(Mankins, Steel,2005). The goals will serve as a guide to the progress of the organization (Sarason, Tegarden,2003).

Finally, the last step in this phase is to agree upon key strategies to be adopted in attaining or reaching the set organizational goals and address key issues identified through the environmental scan. The major emphasis here is on broad strategies, including current and new program, advocacy, collaborative, or other approaches (Dibrell et al, 2014). In doing these, the entrepreneur must make sure that the proposed strategies are related to specific goals of the organization and address several goals. This process requires a critical look at where the organization is now and where its vision and goals indicate it wants to be; and identifying strategies to get there. In choosing the specific approach to be adopted, certain criteria must be fulfilled. These criterions include: timing, cost-benefit, acceptability of the strategy, feasibility of the strategy, appropriateness of the strategy and value of the strategy to be adopted.

The third phase, which is also the output phase has three steps. The steps involved in this stage are: developing action plan that addresses goals, specific objectives and work plan of the organization on an annual basis; finalize a written strategic plan that summarizes the results and decisions of the strategic planning process; and ensure build in procedures for monitoring, and modifying strategies based on changes in the external environment or the organization. These three components of the third stage shall be discussed in the next paragraph.

Develop an action plan that addresses goals and specifies objectives and work plans on an annual basis. Once the longer-term elements of a strategic plan have been developed, it is time to ensure a specific work plan to begin implementation. Strategic planning recognizes that strategies must reflect current conditions within the organization and its environment. Thus it is rare to attempt to develop detailed annual objectives except for the first or perhaps the first and second year covered by the strategic plan. However, annual action plans are needed. Annual program objectives should be time based and measurable. The annual plan may be a part of the strategic plan or may be an annual addendum to it. Objectives and work plans for the Board and for the institution as a whole are as important as program-related ones. Most projects have specified annual objectives and work plans because of funder requirements, while only a strategic plan is likely to require a Board to think about its desired composition, skills, and involvement, or about organizational structure and administrative systems. Developing objectives and annual work plans requires both Board and staff input, with staff often taking major responsibility for program-related goals and objectives once the Board has defined organizational goals, and the Board developing goals and objectives related to government objective, then, the staff will input their contributions and strive towards attaining the goals.

Finalize a written strategic plan that summarizes the results and decisions of the strategic planning process. There is no set format, but be sure to include the

outputs of each major step. The box at the end of this document provides one possibility.

Build in procedures for monitoring, and for modifying strategies based on changes in the external environment or the organization. Be sure progress towards goals and objectives and use of strategies is monitored regularly, with strategies revised and annual objectives developed yearly, based on the progress made, obstacles encountered, and the changing environment. Have procedures for taking advantage of unexpected changes such as more sympathetic elected or appointed officials, improvements in the economy, changes in local funder priorities, or changes in the target population. Define annual objectives at the start of each year. Look back to see what progress has been made in critical success factors. Use the plan as a compass, but not an inflexible.

| <b>SAMPLE FORMAT FOR A STRATEGIC PLAN</b>                                          |
|------------------------------------------------------------------------------------|
| <b>I. INTRODUCTION</b>                                                             |
| A. Need for a Strategic Plan                                                       |
| B. How the Plan was Developed                                                      |
| <b>II. THE ENVIRONMENTAL SCAN</b>                                                  |
| A. Organizational History and Structure                                            |
| B. The External Environment                                                        |
| 1. National Situation and Trends                                                   |
| 2. Local Situation and Trends                                                      |
| 3. Summary of Opportunities and Threats                                            |
| C. The Organization                                                                |
| 1. Scope of Activities                                                             |
| 2. Program Operating Model                                                         |
| 3. Management                                                                      |
| 4. Governance                                                                      |
| 5. Summary of Strengths and Weaknesses                                             |
| <b>III. ORGANIZATIONAL VALUES, VISION, AND MISSION</b>                             |
| A. Values or Operating Principles                                                  |
| B. Community Vision                                                                |
| C. Organizational Mission                                                          |
| <b>IV. GOALS, PLANNED ACCOMPLISHMENTS, AND STRATEGIES</b>                          |
| A. Organizational Visions and Planned Accomplishments: The Organization in X Years |
| B. Goals and Priorities                                                            |
| C. Strategies                                                                      |
| <b>V. MONITORING AND REVIEW</b>                                                    |
| A. Monitoring Progress                                                             |
| B. Plans for Reviewing and Refining the Plan                                       |
| <b>VI. ANNUAL PLAN (may be prepared separately)</b>                                |
| A. Program                                                                         |
| B. Management Institutional Development                                            |
| C. Governance                                                                      |
| D. Monitoring and Evaluation                                                       |
| <b>ATTACHMENTS</b>                                                                 |
| A. Environmental Scan Data                                                         |
| B. Other Supporting Information                                                    |

Table 1: Sample format for a strategic plan

Source: Gantz,(2001)

## **CONCLUSION**

The paper reviews the theoretical studies of strategic planning in SMEs and discusses their implications for entrepreneurship development. Our research confirmed that “entrepreneurial orientation is considered not only as a permanent effort towards production enlargement and company’s profitability, but also the development of creative vision regarding innovations and production process changing products and business strategy. (Radovic-Markovic and Salamazdeh,2012 p.19). For entrepreneurs is of key importance to make strategic planning how could reduce risk, particularly in periods of economic uncertainty and crisis. In this context, one of the crucial task for entrepreneurs is how to prepare for activities that will help them develop their competitive businesses. “The fact is that entrepreneurial activity must include strategic questions because the scope of entrepreneurial activity and strategic activity overlap at the following common activities: innovation, networks, internationalization, organizational learning, team work add growth and development” (Pendev, Jakimovski, Tasevska,2011. p.11). In line with this, entrepreneur should have a holistic approach and provide a complete insight in all the companies` needs and scope, accordingly, to determine parameters for their strategy planning. Namely, for a company to be successful their entrepreneurs and managers need to have a business vision and be able to forecast events.

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## **OPPORTUNITIES FOR SMALL BUSINESS GROWTH IN GREEN ECONOMY AND SUSTAINABLE DEVELOPMENT IN SERBIA**

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### **ABSTRACT**

*The green economy can help economic diversification and job creation. It is also a fundamental factor for improving the competitiveness of SMEs. In this context, every country must improve the business climate, protect the environment, green its industries as a part of a national strategy to promote the green economy with a preference for sustainable development. Transitioning to a green economy requires a new mindset of doing business. The objective of this paper is to identify further strategies for SMEs development in green economy and activities on sustainable development in Serbia. The study takes a specific look at a range of different possibilities to develop green business in the country. The main results of the research pointed that actions are needed to achieve the investment promotion and entrepreneurship development in rural areas. In line with this are proposed measures that should be better articulated within the framework of a national strategy for promoting a green economy and sustainable development.*

**Key words:** SMEs, Green Economy, Sustainable Development, Entrepreneurship, Strategy

**JEL Classification:** Q01, Q57, Q14

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## **INTRODUCTION**

In the last decade Serbia has recognised that the SME sector is of key importance for economic development (Radovic-Markovic, 2014). In this context, the macroeconomic framework for the 2012-2016 period was focused upon a radical improvement of the business milieu in Serbia. Despite certain improvements, however, the SME development has not had such a favourable trend nor has it resulted in improving entrepreneurship activities in a desired manner, due to the recession that hit the national economy (beginning with 2008) (Radovic-Markovic, et.al 2014a). Namely, the effects of recession have delayed the work on finding solutions to the major problems in the SME development. Furthermore, no satisfactory results have been achieved in view of development of green business in Serbia. In line with this, the aim of our paper is to discuss and emphasize the importance of natural resources and their value for the Serbian green business development.

The definition of green economy given by the UNEP (United Nations Environment Programme) reads as follows: "Economy whose results lead to improvements in human well-being and social equity, while significantly reducing environmental risks." Green Economy in the Republic of Serbia in the early stage of development, but they are very large development opportunities. They relate primarily to the development of organic agricultural production, development of bio and eco-rural tourism in rural areas and the like.

Aim of the paper is to present the possibilities for the development of SMEs in the field of green economy and sustainable development in the Republic of Serbia. For this purpose the authors used empirical methods and methods of analysis and synthesis.

## **LITERATURE OVERVIEW**

Different schools of thought on sustainability and green economy have emerged (Radovic-Markovic, 2014). According to Radovic-Markovic (2014), many researchers in this area started from common premises, however, they came to strongly disagree as regards the effects of greening the economy upon economic growth. Furthermore, it has been shown that it is necessary that economic research should be linked with the research in the fields of ecology and environmental protection in order to anticipate and mitigate the effects of climate change, soil degradation, greenhouse gas emissions and anything that is a threat to the future and survival of the global population.

The new concept of economic development and sustainability has emerged in recent years as necessary in the conditions of the economic crisis, when the prevailing model of economic growth failed to meet the increasing demand for consumption of limited resources and also as a result of a limited capacity of the ecosystem. Since this is a genuinely new approach to economic development, it is not surprising that there is not enough literature in this area yet (Radovic-Markovic, 2014, p.2). Consequently, there is no unique and generally accepted

definition of green economy nor of the strategy of sustainable growth. The essence of this is the need to constantly maintain preserves of natural capital over time (Draskovic&Minovic, 2014, p.168). Evidence suggests that economic growth is inversely correlated with environmental sustainability, as many sectors, especially manufacturing, processing, and transportation, rarely account for environmental impacts in their business models.

Critical objectives for environment and development policies that follow from concept of sustainable development include (Ecimovic, 2013):

1. Reviving growth;
2. Changing the quality of growth;
3. Meeting the essential needs for jobs, food, energy, water, and sanitation;
4. Ensuring a sustainable level of population;
5. Conserving and enhancing the resource base;
6. Reorienting technology and managing risk; and
7. Merging environment and economics in decision making”.

In line with the concept of sustainable development, the green economy policies should be designed to reflect long-term social, economic and environmental public interests (Radovic-Markovic, 2014, p.5).

Bearing in mind that each country has its own challenges, opportunities and priorities for change, resources available for implementation will vary by country. Hence the results achieved will also be different. Namely, starting and running a business vary according to national and geopolitical, to industrial, governmental and cultural factors. These differences may be considered when we explain difficulties, which encounter those who create policies for favoring development of new businesses and entrepreneurial activities.

### ***AN OVERVIEW OF SMEs IN SERBIA***

According to a large number of experts, private sector in Serbia and the method of its financing reveal numerous specificities. Primarily, the sources of financing in this sector are limited to a significant degree. Possible financial sources in the Republic of Serbia are loans granted by commercial banks, leasing companies, factoring, microcredit organizations and capital market corporate bonds, share issuing.

The main concern of small and medium-sized enterprises (SMEs) in Serbia at the moment is financing their survival, and not investing in development, as they mainly worry how to provide salaries to employees and settle obligations to the state. Most new companies are closed within three years from foundation (Grozdanic,R., Radovic-Markovic,M., Jevtic,B.,2016).

***Micro, Small and Medium-Sized Businesses (Including individual Entrepreneurs)*** in 2013 present the majority of the economic structure by size, so that there are (2015 SBA Fact Sheet):

- 105,000 registered companies + 218,000 individual entrepreneurs;
- over 95% of these are micro-businesses with less than 10 employees;

- most are situated in Belgrade and Vojvodina;
- 7,355 companies and 32,853 entrepreneurs have been closed in 2012;
- 8,648 new companies and 30,200 new entrepreneurs have been registered in 2012;
- 36,909 companies and 43,900 entrepreneurs are active loan users;
- 20% of all business loans are NPLs.

Agriculture has long been the mainstay of the Serbian economy. Traditional family-owned small farms and private estates prevail, with the average commercial farm occupying 500-700 ha. Family farms consist of small plots and are based on subsistence production, being turned over to commercial use to a smaller degree than European farms. According to the *Organic Agriculture in Serbia* report the total arable land covered with organic production in Serbia were around 8,500-9,000 ha. Authorized certification organizations certified 1,610 ha used for perennial organic plants and their products (apples, raspberries, blackberries, plums, sour cherries), while around 800 ha of such orchards in the process of conversion (Stosic and Brnjas, 2014, p.89).

**Small Agro Producers (Agricultural Households)** there are in 2013 (Grozdanic et al., (2016):

- farmland comprises 70% of the total surface area of Serbia;
- 631,000 registered agro households;
- 99.6% are family households while rest are legal entities/registered entrepreneurs;
- 48% have less than 2 hectares of land;
- 17.3% of the total population comprise agricultural labor force (rapidly aging population);
- 39,513 agricultural households have active loans
- 26% of all agricultural loan users are in default over 90 days, Further strengthening of stability of the banking sector and financial system;
- the share of agriculture from 10.6% of GDP was recorded in 2013 while the share of the food industry in the same year was 6.4% (Republic Institute for Statistics, 2014).

## ***BUSINESS OPPORTUNITIES IN GREEN ECONOMY AND SUSTAINABLE DEVELOPMENT IN SERBIA***

Entrepreneurship has the potential to be a catalyst for positive change in both the economic and environmental spheres (Shahidullah and Haque,2014). Green Economy includes all businesses which help in preservation of the eco-systems, biodiversity, improving energy efficiency and decreasing of all kind of waste creation and pollutions (Brnjas and Stosic,2014). Greening the economy refers to “the process of reconfiguring businesses and infrastructure to deliver better returns on natural, human and economic capital investments, while at the same time reducing greenhouse gas emissions, extracting and using less natural resources,

creating less waste and reducing social disparities”(Maclean, Akoh and Egede-Nissen, 2011).

In the literature, several of terms are used when describing “green” enterprises - “environmental enterprise”, “eco-enterprise”, “conservation enterprise”, “organic enterprise”, and “nature enterprise”(Schaper, 2010). Due to increased environmental awareness over the past decades, many economic sectors are recognizing the desperate need for more sustainable business practices (Allen, Mallin, 2008, p.322). We shall consider the possibilities to develop green business in Serbia as follow:

- **Rehabilitation large open pit mining-hotspots and preparation sites for development of small businesses** - Mining activities has typically been degraded land to such an extent that it is unsuitable for any alternate use. Progress towards sustainability is made when value is added in terms of the ecological, social and economic well-being of the community and country as a whole. In keeping with the principles of sustainable development, the innovative use of large open pits as commercial, recreational or fish farms should be considered in some locations, as it could make a significant contribution to the economic vitality and environmental integrity of mining communities. Therefore it is required remediation and clean-up of open pit mining areas in Serbia. In order to explore opportunities for rehabilitation of open pit mining areas in Serbia, we shall consider only large and deep open pit mines occurring in exploiting of non ferrous metals (Bor, Velliki Krivelj and Majdanpek). Among other benefits, rehabilitation of open pit mining areas in Serbia may provide a much-needed source of SMEs development and new employment as following:
- **The rural tourism** - economic development through tourism is a suitable instrument for using natural resources while contributing to the protection of the environment at the same time. Rural tourism is mainly developed in areas that have limited financial or extraordinary natural resources that could be a platform of economic development (Jing, 2006). According to the position of the World Tourism Organization highest economic importance of rural tourism in the fact that this activity helps the Elimination of Poverty („*tourism helps poverty elimination*“). Rural tourism is one of the most labor-intensive industry, which represents a potential contribution to job creation and economic development of rural areas, which is often the most important element in rural development strategies (Mitchell, Hall, 2005).
- **Multifunctional agriculture** - traditional agriculture which is characterized by subsistence production with no specialization, low productivity, decreasing and intense aging of population, must be replace with multifunctional farming. More significant agricultural production in this area would be supported by additional technical and technological measures as well as infrastructure improvement. Multifunctional agriculture encompasses a set of activities and actions that can be

implemented in the context of agricultural holdings. Those are: (1) tourism; (2) trade in agricultural and food products (3) trade in souvenir, handicrafts, etc.; (4) old crafts and sale of their products; (5) processing of agricultural products within the mini farms in industrial plants; (6) beekeeping, cultivation of small animals; (7) educational, cultural and artistic activities; (8) medical and therapeutic activities (for rehabilitation and recovery of different patients); (9) activities aimed at preserving the environment. The purpose of this activity is to provide additional income to farmers. For example, connecting agritourism existing agricultural activities, improving the quality of life on farms (Ciani, 2003). All of these activities in the context of multifunctional agriculture can pose a potential activity of SMEs.

- **Timber production** – timber should be produced as raw material for industry of mechanical and chemical processing as well as energy sources.
- **Green business development in rural areas** – The position of the farmers was the decades-long negative. Only individuals were able to boast good material well-being, but most of them were on the verge of poverty. The low level of literacy and education of the population in rural areas, migration from rural to urban areas in search for better living conditions and a lack of funding resulted in lagging of Serbian farmers compared to those in the European Union. Radovic-Markovic (2010) defined rural entrepreneurship as the creation of entrepreneurial associations, which aims to ensure the improvement of crucial economic, social, and other changes in rural regions through individuals creating innovations and governmental systems devising a rural development policy based on investing in rural entrepreneurship. For new start up businesses there is a great opportunity in flower and decorative plant production. Namely, areas covered with flowers and decorative plants in the last six years have been between 1,000 and 1,360 hectares in Serbia. The ownership structure is dominated by individual producers with around 90% of land, while the public sector has only 10% of such land (Stosic, Brnjas, 2014, p.90). But demand is much higher than production, which opens space for the creation of new firms and jobs.

The development of rural entrepreneurship in this manner as offered by Radovic-Markovic (2012) would bring major benefits, not only to the local community but to the entire society in several of its domains, such as:

1. Improvement the quality of rural areas;
  2. A larger number of entrepreneurs-an increased number of new businesses;
  3. More competent entrepreneurs-entrepreneurs who have the knowledge and skills needed in their businesses;
  4. Growth and expansion of businesses- businesses boost production and sales, as well as create new jobs that absorb the local labor force;
  5. Economic benefits for the local community-by way of tax payments.
- **Green enterprise development in service sector-** SMEs can participate actively in the sectors such as renewable energy production, smart

metering, building refurbishment, cleaner cars, wind and solar installations.

- **Socially oriented enterprises** -There is a perception that social entrepreneurship is a good solution to the management of climate change. These socially oriented enterprises have attempted to address social problems such as community development (Radovic-Markovic,2010). In line with Radovic-Markovic opinion, the examples of social entrepreneurship show that it is possible to simultaneously successfully run a business and manage climate change. In this context, it is necessary that social economy enterprises and their role in tackling climate change should be promoted (Radovic-Markovic 2014, p.10).

### ***STRATEGIES FOR SMEs DEVELOPMENT IN GREEN ECONOMY IN SERBIA***

Examining strategies for starting small-scale enterprises can reveal how such communities can harness the initiative of local entrepreneurs to create businesses that are at the same time environmentally sustainable and economically profitable (Shahidullah, Haque, 2014). From the viewpoint of green growth, all countries include several types of strategies. The Serbian strategy is based on: (1) Knowledge-based sustainability;(2) Socio-economic conditions and perspectives and (3) Environment and natural resources.

According to some researchers (Jovicic, Brankovic, 2014, p.87), the most relevant are those that directly aim to lead economy along the pathway of green (or sustainable) development, and they are often entitled as sustainable development strategies. One number of researchers share the same opinion that improving the waste management system is one of the main components of initiating the Green Economy in Serbia (Stosic, Brnjas, 2014, p.86). The main goal of the *Waste management strategy* is to reduce pollution and degradation of the environment. In that regard, activities envisaged by the strategy are highly relevant for achieving green growth.

However, there are a number of obstacles in implementation of these strategies - the lack of financial funds and inadequate administrative capacity, and also the lack of awareness and insufficient public participation. Moreover, the problem is the fact that some of these activities are not focused in a unique way or are insufficient and request further coordination and cooperation, as well as long-term vision (Piljan, Cogoljevic, 2014, p.128). Also, sometimes certain activities are overlapping.

### ***OPTIONS FINANCING OF DEVELOPMENT SMEs IN GREEN ECONOMY IN SERBIA***

In order to develop SMEs in Serbia, in addition to the strategy, it is necessary to provide adequate financing modalities. We consider that, in addition to existing funding sources, which are mostly insufficient and unfavorable, must in domicile financial system to implement the new financial institutions.

Potential financing modalities SMEs and green economy:

- **Microcredit organizations** – These financial institutions would be able to be actively involved in financing the development of SMEs and green economy in Serbia due to the fact that they have an important role in supporting the development of entrepreneurship and self-employment category of the population that have no access to conventional banking market. In addition to activating the unemployed, investments microcredit organizations, are important for ensuring the necessary sources of financing to farmers who do not have a continuous source of income, necessary to their commercial bank lending, and have a vision of the development of SMEs in agribusiness. „*Microloans primarily means providing financial services to individuals with lower incomes .... to start his own business and be economically independent and stronger*” (Erić et al.,2012). There are great opportunities and needs investments of microcredit organizations in order to develop SMEs in the field of rural tourism. This applies primarily to the development of the tourist offer, in the construction of accommodation facilities, the development of restaurants and tourist attractions (Vujić,2007). Basic characteristics of the business of microcredit organizations are: (a) provide access to loans without administering large; (b) provide customers with loans to education and training; (c) have a high degree of social responsibility; (d) loans are intended for entrepreneurs and micro-enterprises and approved in the amount of 100 to 2,000 euros; (e) loans are granted without a currency clause; (f) high collectibility of loans (over 95%) as a result of developing strong relationships with customers and continuous care and support the development of their business activities (Erić et al.,2012). The limiting factor for the application of lending by microcredit organizations in the Republic of Serbia, in the present moment is the lack of legal framework for their operation. Therefore, micro-credit organizations have to sell their loans through commercial banks, which significantly increases the price of this way of financing (Radović,2015). An example of the existence of things in rural areas to offer microcredit organization is an illustration that in 2013 there were over 16,000 users of these loans in rural areas in Serbia. (<http://www.kamatica.com>)
- **Specialized agricultural bank** – In order to finance SMEs in the field of agricultural and rural entrepreneurship, a significant source of funding could be a specialized agricultural bank. Forming Specialized Agricultural Bank of the Republic of Serbia is necessary bearing in mind the importance of agriculture to economic development and employment of the population, the current level of its underdevelopment, the need to develop agricultural processing sector based on entrepreneurship (mini oil factories, slaughterhouses, dairies, etc.), as well as the development of non-agricultural whose activities in the diversification of rural economies. The need to establish Specialised agriculture bank initiates the fact that the financial "uncovered" SMEs in the agribusiness sector, bearing in mind that large companies are beneficiaries of loans EBRD, IFC and other international financial institutions. Also, looking at the genesis of the

foreign, but also domestic banking sector, it can be concluded that many of today successful commercial bank, established as a specialized agricultural bank. Addition to specialized agricultural banks, financing of agrarian and rural entrepreneurship deal with the development banks, for example, the Croatian Bank for Reconstruction and Development – HBOR. Specialized agricultural bank requires providing specific structure of sources of funds, which can only be provided with the support of the state, and the state should have a crucial role in policy of placements funds, which would be in line with economic, social, and strategic objectives related to this economic activity. The establishment and operation of Specialized agricultural bank (SPB) it is necessary to arrange a special law, which should be defined: (1) initial capital and funding sources; (2) functioning, and goals of the business, in line with them and lending conditions. It is necessary to prevent the centralization of resources and decision-making, and political influence on the management of the bank. The initial capital of Specialized agricultural bank could be provided from the following sources: (a) funds from the state budget, or part of funds of the agricultural budget and funds from the budgets of local governments that have been allocated in the current period for lending to agriculture; (b) current funds of specialized state financial institutions that lend to agriculture; (c) funds that will be charged on the basis of leasing of state agricultural land (Radović, 2014).

- **Savings and credit cooperatives** - Savings and credit cooperatives are „economic entities that raise funds of citizens, provide loans to citizens and performing payment transactions on behalf of the citizens“ (Kukoleča,1990). They can operate as financial cooperatives, or financial institution owned and controlled by their members (cooperative), of which collect deposits and place them loans under favorable conditions for the development of production (economic interest) which unites them. Savings and credit cooperatives...„loans are granted at lower interest rates than a bank and a lower commission... competitive interest rates contribute to the tax incentives that are often prescribed for this type of financial institution“ (Stefanović, 2013). Savings and credit cooperatives are potentially significant, so far unused method of financing SMEs and green economy in Serbia. The essence of financing through savings and credit cooperatives tantamount to financing (loans) in deposits from its members, under favorable conditions. The realization of this modality of financing is linked to the union, which is underdeveloped in rural areas, and could be developed through the establishment of SMEs in the field of multifunctional agriculture. For example, this modality of financing could be used to finance the development of tourism (accommodation facilities, restaurants and tourist attractions), for the development of tourism promotion and development of staff and leaders of rural tourism in Serbia (Radović, 2015, p.56). The limiting factor for the application of funding through savings and credit cooperatives in the Republic of Serbia, in the present moment is the lack of a normative framework.

- **Joint ventures** – Joint ventures are potential modalities of financing SMEs and green economy in Serbia. Joint ventures are „a specific form of direct investment with the owner of the capital is not acting independently, but in cooperation with local partner“ (Andrić et al., 2005). Joint ventures are based on the principles of economic efficiency, communion in the profits and risks, long life and stability, fair economic relations, transfer and retransfer, inclusion in the international division of labor, as well as the principle of profitability and liquidity (Vunjak, 1999). The importance of financing through joint ventures is that the funds obtained from foreign partners without the cost of financing a material and immaterial goods without shopping, which is positive for micro, and macro aspect for a favorable effect on the balance of payments. Domestic partners acquire new knowledge and technologies that can bring them a better market position, and thus more revenue. Through joint ventures reduces dependence on external sources of financing, which contributes to the realization of the principle of financial strength. Funds that foreign and domestic partners are investing need not be only financial, but also in the form of of tangible and intangible assets (patents). The essence of the joint ventures is that partners share profits, but also the risks and losses of joint job in proportion invested funds. Obligations are defined by contract, whose period of validity may be linked to the time when the non-refundable invested funds from profit of joint work, but also in the longer term. Joint ventures can be between only domestic partners, but they are less frequent in practice due to the fact that the aim of joint ventures, adoption of new technologies, patents, and ensuring access to foreign markets. Foreign partners see their interest in this form of cooperation and the realization of "get extended" due to the fact that it can create permanent dependence of domestic partners from the technology, raw materials, and patents placed through the joint venture. The legal basis for the conclusion of a joint venture in the Republic of Serbia is the Law on Obligations. In accordance with this Law may be established SMEs and green economy, „in order to achieve different economic effects of the contractual joint venture may be concluded in the form of a large number of contracts: contract on franchising, contract on a long-term business cooperation, contract on technical and technological cooperation, license agreement, contract on joint production, procurement, marketing, distribution, contract on product development, contract on research and development, contract on joint services, contract on engineering, contract on joint export, Contract on joint venture in the construction, etc.“(Stefanović,2013a). Joint ventures can be realized with representatives of the diaspora, as well as with local entrepreneurs, and the aim of the establishment of SMEs and green economy in Serbia.
- **Business angels** – Financing SMEs and green economy in Serbia can be achieved through „business angels“ as a kind of non-institutional private investors who invest in entrepreneurial companies in the initial phase of their development. These investors usually have substantial professional experience, and have a free financial resources and the necessary contacts and

- want their „professional wisdom of investing in start-ups in order of their successful business and development, but also to verify their business reputation“ (Erić et al.,2012). In most cases, money is not returned more replaces for co-ownership and precisely this characteristic distinguishes „business angels“ of micro-credit organizations. Financing through „business angels“ can be implemented for the development SMEs in the field of rural tourism in Serbia. This method of financing is especially suitable for newly established micro-enterprises, which do not possess the „credit history“. Adequate financing for all segments of the rural tourism offers: the construction or reconstruction of accommodation facilities, restaurants and tourist development facilities, education and development of staff and leaders, as well as for financing promotion. The advantage is that this way of financing and consulting services free of charge, and profit-oriented, which synergistically may be a generator of development of rural tourism. This modality of financing could be especially interesting to people from the diaspora, who would in this way be able to sell their free capital, and implement their experience and business contacts, and take an active role in the development of rural tourism in the Republic of Serbia (Radović, 2015).
- **Loans of commercial banks** - The loan is current modality of financing SMEs and green economy in Serbia due to the fact that the insolvency of a common feature of these business entities. The essence of the credit relationship that it maintains with liquidity in the economy, that is, fragmented resources mobilized and transferred to a production process. When determining the amount of the credit worthiness of the debtor commercial banks controlled by its characteristics, which in the literature is often referred to as „5 Cs of credit“ (*Character, Capacity, Capital, Collateral, Conditions*). More specifically, when approving loans analyzes the characteristics of of the loan applicant, the amount its capital, the conditions loan collateral, as well as the operating conditions of the potential borrower (Vunjak,1999a). The significance of loans is based on its relatively quick availability. The height of the real interest rate, in addition to the inflation rate, depends on: the amount of the reference interest rates, the supply and demand in the credit market (Mishkin, 2006). According to some findings in the literature „a perennial problem of the largest commercial banks are quite expensive sources of financing“ (Pilbeam, 2005). High cost of credit financing represent its biggest disadvantage. Besides the basic cost (principal and interest) the borrower is burdened with the costs of guarantees, loan application processing, bank provision, which contributes to the effective interest rate is significantly higher than the nominal interest rate. In addition, it is common for banks in the grace period calculated intercalary interest, which further increases the price of credit. Borrowing, if continuous and irrational, threatens the principle of financial independence of the business entity (Radović, 2015).

## **CONCLUSION**

The development of SMEs and green economy in Serbia is the possibility or the need, bearing in mind the available resources, underdevelopment of the rural economy and unemployment of the population. Possibilities for development of SMEs sector are multiple, but it is necessary to respect in their functioning principles of sustainable rural development, looking at the ecological, economic and social aspects. The development of the green economy can contribute diversification of the rural economy, which is very important given that currently only 12% of companies in rural areas engaged in non-agricultural activities. Be sure to contribute to the development of SMEs and employment growth of the rural population. Options for the establishment and development of SMEs exist in organic agriculture, bearing in mind that, according to current data, certified organic agricultural production is realized on only 1,610 ha.

In addition to the development strategy of SMEs and green economy in Serbia, which are necessary and appropriate financing modalities, as seen from the quantitative, but also qualitative aspects. Quality financial resources, among other production resources, a very important factor for achieving competitiveness of SMEs in the domestic and international market. To this end it is necessary that the Republic of Serbia set up a new financial institutions, as well as to innovate the existing legal framework. To this end, it should be in the Republic of Serbia adopt the Law on Microcredit Organizations, which would have allowed the development of this financing modalities in order to develop of small and medium enterprises in the green economy.

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## **A STRUCTURED APPROACH OF RISK MANAGEMENT IS CRUCIAL FOR SURVIVAL AND SUSTAINABLE GROWTH OF A BUSINESS ENTERPRISE**

Reena Agrawal<sup>52</sup>

### **ABSTRACT**

*The current research was taken up to explore whether a structured approach to manage risk was critical for survival and sustainable growth of business enterprises. The objective of the research was to (1) understand the meaning of the term 'risk', (2) explore the various types of 'risks' which are usually confronted by business enterprises, (3) understand how business enterprises manage their risk, (4) comprehend the concept of 'Enterprise Risk Management' and (5) explore the growing relevance of 'Enterprise Risk Management' for the survival and sustainable development of business enterprises. The study revealed that in today's complex interrelated global business environment the aim of risk management should not be limited to avoiding or proscribing risk, rather the existence of business enterprises is contingent on their abilities to anticipate risks and their preparedness and readiness for imminent transformations. Today the business enterprises need to reconsider, renovate and rewrite their ongoing planning mechanism and integrate the facets of risk management in their day to day business operations. This would not only enhance their ability to foresee the imminent threats, take informed decisions and mitigate the risks, but would also ensure survival and sustainable development of the business enterprise in this era of globalization and global melt down.*

**Key words:** Risk, Types of Risk, Risk Management, Risk Management Process, Enterprise Risk Management

**JEL Classification:** G32, L53

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## **INTRODUCTION**

Every business decision and entrepreneurial endeavor involves uncertainty and risk. In broad perspective, Mitroft and Alpaslan (2003) categorize dangers and emergencies in three classes, natural disasters, malicious activities and systematic failures. Nature often does things that disrupts the best plans and unties human endeavors. Malicious acts are intimation on the part of fellow beings who are either strong business rival or who suffer from wicked intentions. The third category, is the unforeseen and unpredicted consequences arising from ever changing economic, business and political environment. As a consequence, in the last few decades it has been witnessed that, corporate risk management, is longer limited to fetching insurance cover and arranging hedging tools, but has it has radically changed in to embrace a variety of risks such as operative risk, reputation risks and most recently strategic risk. With the continuous increase in the uncertainty of global economic environment, risk management has received worldwide recognition universally.

## **OBJECTIVE OF THE STUDY**

The current research was taken up to explore whether a structured approach to manage risk was critical for survival and sustainable growth of business enterprises. The objective of the research was to (1) understand the meaning of the term risk, (2) explore the various types of risk which are usually confronted by business enterprises, (3) understand how business enterprises manage their risk, (4) comprehend the concept of 'Enterprise Risk Management' and (5) explore the growing relevance of 'Enterprise Risk Management' for the survival and sustainable development of business enterprises in this era of globalization and global melt down.

## **MEANING OF RISK**

Generally, risk is likelihood of peril or unexpected negative event to occur (Oxford English Dictionary, 2013). In maximum economic publications, risk is referred to as an undesirable deviation from the set plan (Maylor 2010). It is essential to comprehend that 'uncertainty' is a much comprehensive term, while 'risk' is a part of 'uncertainty'. Risks and uncertainties are often differentiated in terms of 'statistical probability' (B. Ritholtz, 2012). According to Frank Knight (2006), 'risk' represent cases in which the probability can be estimated, whereas the case of 'uncertainty' it is difficult to evaluate the probability or make future prediction. Irrespective of the dissimilar scope of the two terms, both risk and uncertainty may result in either positive or negative impact in business operations and need appropriate management. Risks may arise from uncertainties related to management, natural calamity, political activities, regulatory reforms, economic issues and cultural factors. (Köster, 2009). In business terminology, risk is the possibility that an event, either anticipated or unanticipated, may create an

unfavorable effect on the organization. Risk is a mixture of probability that some (hazardous) event may occur and the after effect of it, if it really occurs (Labodova, 2004). The two variables that are involved include: the probability of the event, which tells about the frequency of the occurrence of the risk event, and the magnitude of the event, that is the consequences that can result if the event happens. Wideman, (1992) in his study stated that to form a risk management strategy it is essential that risks are classified.

### ***TYPES OF RISKS***

Traditionally, risks have been categorized as static risk and dynamic risks. Static risks are those that cause damages but does not offer any opportunity to generate additional income. They are usually unanticipated and are determined by accidental events and are always negative repercussions. Dynamic risks are the ones which cause either damages or earning opportunities. They usually are the entrepreneurial risks (Mowbray and Blanchard, 1979). Another classification is based on environment in which the business operates. Operational risks, financial risks and organizational risks and management risk are internal risks as they source from within the firm (Henschel, 2008). External risks occur due to ups and downs and changes in the economic environment, technology, demography, politics, law and culture (Scheve, 2006). (Crouhy et. al., 2006) Muhammad and Amber (2011) suggested two inherent risks: systematic risks are independent of business decisions and usually are uncontrollable by the manager for example recession. Whereas unsystematic risks are the result of managerial decision-making, are controllable and can either have a negative or a positive outcome (Douglas, 2009). Henschel (2008) in his study stated that the most relevant risk categories were internal risk, strategic risk and business process risk.

### ***RISK MANAGEMENT***

The roots of risk management can be traced back to evolution of the insurance sector. The procurement of insurance secures business from systematic risks. Currently risk management has stretched its scope and handles systematic as well as unsystematic risk. Engle (2009) defined risk management as a process of thinking methodically about probable dangers, difficulties or adversities before they occur and developing processes that will help in avoiding the risk, minimizing it or coping with its impact. According to Watt (2010) the process of identification, analysis and acceptance or mitigation of uncertainty in the course of business is called risk management. In the words of (Halman and Weiden, 1997) risk management is a constant, monitored, integrated, formal process to define aims, recognize causes that lead to ambiguity, evaluate uncertainties and use managerial resources to produce a suitable balance between risk and opportunity. Similarly, risk management can be defined as an ongoing process that helps to improve operations, priorities and resources, ensure regulatory compliance, achieve performance targets, improve financial stability and eventually prevents loss and damage to the business entity (Dickinsons, 2001). The general consensus is that

risk management process comprises of four interconnected steps: identification of risk, evaluation and quantification of risk, management and control of risks and continuous reporting of risks (Vaughan and Vaughan, 2001; Smallman, 1996). (Halman and Weiden, 1997) argued that a holistic risk management is characterized by three main aspects risk assessment, risk analysis and risk handling. Risk assessment helps to identify, qualify, quantify and prioritize; risk analysis deals with the consequences, options and decision making and risk handling identifies the actions that need to be taken to reduce, accept, avoid or transfer risks. The Global Risk Alliance (GRA) and the State of New South Wales (NSW) (2005), stated that “Risk management is the way in which adverse effects from risk are managed and potential opportunities are realized. It is a process that helps to minimize the events that may have adverse impact on business, identify and harness those that will help to achieve the aims and objectives of business”.

### ***RISK MANAGEMENT PROCESS***

According to Valsamakis et al., (2000) the risk management process comprises of the following:

**Step 1: Risk Identification:** It involves the comprehensive identification of risks that can create an impact on the sub-processes of the business organization.

**Step 2: Risk Evaluation:** It quantifies the level of risk in term of the frequency of occurrence and its impact.

**Step 3: Risk Control:** It includes risk transfer, risk reduction and risk acceptance.

**Step 4: Risk Monitoring:** Due to the changing business environment, the process of risk management needs to be reviewed and adapted continuously to safeguard the organization’s interest and comply with the defined risk strategy.

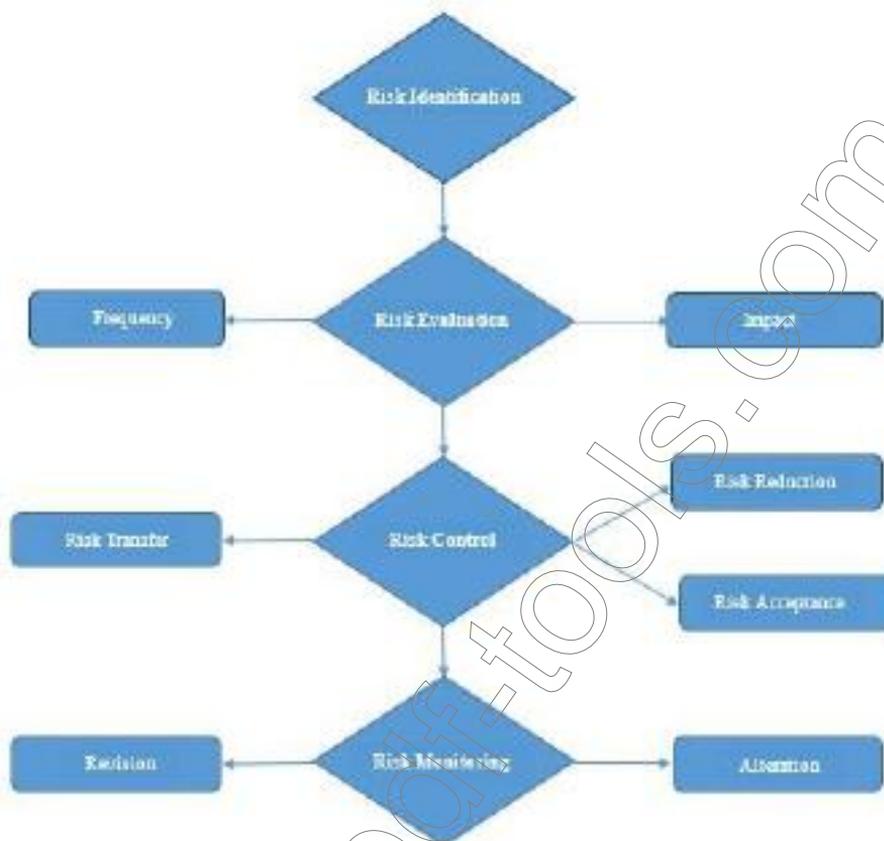


Figure 1: Risk Management Process

## TYPES OF RISK MANAGEMENT

Watt (2010) categorized risk management into five areas namely:

1. **Operational Risk Management:** It deals with technical failures, human errors like mistakes in implementation, system failures, policy violations, legal infringements etc.
2. **Financial Risk Management:** It deals with the risks related to foreign exchange changes, liquidity, inflation, increase in interest rates etc.
3. **Market Risk Management:** It deals with interest rate risk, equity risk, commodity risk, and currency risk.
4. **Credit Risk Management:** It deals with the risk related to the probability of non-payment from the debtors.
5. **Enterprise Risk Management:** It involves the handling of risks faced by enterprises in accomplishing their goals. According to Saeidi et al. (2013), there has been a paradigm shift in the viewpoint of business organizations towards risk management, rather than dealing individual risk in silos, companies prefer to adopt holistic and structured approach of risk management. He suggested that in the current context the most relevant style

of risk management is 'Enterprise Risk Management'. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004) "Enterprise risk management is a process, where top management integrate fundamentals of risk management in business strategy and its regular operations to identify and mitigate the potential risk and to ensure the attainment of organization's mission and objectives".

As proposed by COSO, (2004) the 'Enterprise Risk Management' comprises of eight interrelated components which must be incorporated with the administration process. The interrelated elements are explained below:

1. **Internal Environment:** Internal environment comprises of institution's risk management beliefs; it's risk appetite; responsibility of the board of directors; the integrity, ethical values, capability of its workforce; the way management allocates duties, authorities, responsibilities and nurtures its people.
2. **Objective Setting:** The objectives need to be set at strategic level, encompassing the goals and objectives earmarked for operations, reporting, and compliance. Objectives should be brought in line with the risk appetite of the organization, which determines the risk tolerance in the organization.
3. **Event Identification:** Events with adverse impact epitomize risks, which necessitate management's assessment and response. Events with positive impact epitomize opportunities, which management needs to channelize into its strategy and objective-setting procedures.
4. **Risk Assessment:** Management evaluates events from two viewpoints - probability of occurrence and the effect it will create. It normally uses a combination of qualitative and quantitative methods for evaluation.
5. **Risk Response:** Responses may consist of risk evasion, risk minimization, risk sharing, and risk acceptance. Before finalizing its response, management evaluates the consequences of the response in terms of: probability and impact, costs-benefits analysis, possibility of potential gain or residual risk.
6. **Control Activities:** Control activities include a wide range of activities as varied as - approvals, sanctions, authentications, settlements, appraisals of operating performance, security of assets, and classification and allocation of duties and responsibilities.
7. **Information and Communication:** Information system procures data both from the internal and external sources, makes available necessary information for managing risks and making informed decisions. It is necessary that all personnel understand their own role in enterprise risk management, and also how their individual activity relates to the work of others.
8. **Monitoring:** Ongoing monitoring must transpires in the regular administration activities. The scope and frequency of discrete evaluations is principally governed by the assessment of risks and the effectiveness of ongoing monitoring processes and techniques.

## **DISCUSSION**

Ntlhane (1995) asserts that entrepreneurs and management should pay attention on the fundamentals of risk management: identify potential risk, deliberate on hazards, probable consequence and impact, and formulate plans to address these risks and reduce or eliminate its potential impact on the enterprise. Risk management is an ongoing process targeted to increase operation, prioritize resources, ensure regulatory compliances, achieve goals and objectives, improve financial prosperity and avoid damage to business organization. It aims to secure the well-being of the company and its employees (Raghavan, 2005).

Available literature indicates that business organizations whether small, medium and large face some kind of risk in their operations (Azende, 2012; Meulbroek, 2002; Muhammad and Amber, 2011; Aruwa, 2004). Business risk is pervasive at all levels be it start up, growth and exit. According to Plourd (2009), the significance of risk management is much the beyond issues like short-term and long-term financing constrains etc. As acute turbulence is being witnessed in the global economic scenario, it is essential for a business enterprises, to adopt a structured and holistic approach of risk management to address the convergence of variety of risks such as credit crisis, fluctuating commodity prices, rising unemployment and declining consumer spending, impacting individually and jointly, on enterprises. Enterprise Risk Management which involves continuous, holistic view of risks and risk management has been internationally recommended by international agencies such as Sarbanes Oxley Act of 2002 and Basel Capital Accord II as a tool for ensuring superior performance in difficult and challenging times (Buchanan, 2004). Enterprise Risk Management is viewed as a business competence which enables managers to optimize opportunities associated with risks (Hofmann, 2009). It is a process which applies basic risk management techniques, across the entire scope of an enterprise such as strategy, business operations, finance and regulatory compliance (Engle, 2009), and is not a process merely based on risk formulas (Bradford, 2009).

## **CONCLUSION**

Risk Management, a term often linked to large-scale corporations, is equally relevant for business enterprises of all sizes, as a useful process to improve their chances of sustained and successful longevity. The study revealed that in today's complex interrelated global business environment the aim of risk management should not be limited to avoiding or proscribing risk, rather the existence of business enterprises is contingent on their abilities to anticipate risks and their preparedness and readiness for imminent transformations. Today all the business enterprises need to reconsider, renovate and rewrite their ongoing planning mechanism. They should try to integrate the facets of risk management in their day to day business operations. This would enhance their ability to foresee the imminent threats, take informed decisions and mitigate the risks, thus ensuring survival and sustainable development in this era of globalization and global melt down.

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## CLUSTER SUPPLY CHAIN: THE CASE OF SERBIAN AUTOMOTIVE INDUSTRY

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### ABSTRACT

*The cluster supply chain concept is widely used in automotive industry as an effective instrument for the development of local SMEs. As a combination of industrial clusters and supply chain management, cluster supply chain can be referred to as the set of networks comprising of horizontal links between enterprises within a certain industrial cluster, while those networks are sequentially determined by vertical linkages between enterprises. Both clusters and supply chains are based on cooperation, interdependence, mutual learning, knowledge sharing and exchange of ideas. Horizontal cooperation enables SMEs to achieve economies of scale beyond the reach of an individual enterprise, while vertical cooperation enables SMEs to specialize in their core businesses. Closer cooperation between enterprises within the cluster supply chain provides the possibilities for SMEs to overcome the barriers arising from their size, isolation, and the lack of competitiveness. The subject of the research is the implementation of cluster supply chain concept in the Serbian automotive industry. Due to the Fiat investment, the automotive industry when measured in terms of income, employment and export generation is one of the most significant sectors in the Serbian economy. Integration in the Fiat supply chain is a highly promising chance for fostering development of local SMEs. The aim of the research is to analyze the potential positive effects of cluster supply chain creation on the development of local SMEs in the Serbian automotive industry, as well as to provide recommendations for policy makers on necessary measures in order to create such cluster. The methodology used in this paper comprises of analysis as a basic research method and content analysis as a data collection method.*

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**Key words:** Supply Chain, Cluster, Small And Medium-Sized Enterprises, Development, Serbian Automotive Industry

**JEL Classification:** C38, L62, P42

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## **INTRODUCTION**

New business opportunities have emerged from the growing importance of the role of suppliers in automotive industry value chain. Integrating into global supply chains through subcontracting arrangements is associated with mutual benefits for local SMEs such as expansion of operations and access to global markets at lower costs, acquiring missing resources, knowledge transfer and development of technological capacity, adoption of managerial skills, increase in sales, and possibilities for achieving economies of scale. However, the possibility to become a lower tier supplier of multinational companies has imposed new challenges on SMEs. Providing products and services in global supply chains is rather demanding, particularly in terms of quality, price and delivery. Isolated local SMEs are usually unable to take advantage of such an opportunity since it requires significant financial, technical and human resources, competitive quality, cost, service and delivery, large production quantities, achieving economies of scale, and adoption of international standards.

The cluster supply chain concept is commonly used in automotive industry as an effective instrument for encouraging local SMEs to become lower tier suppliers in global value chains. The concept is a combination of industrial clusters and supply chain management and is based on the idea of developing cooperative relations between participants in the same or different parts of the value chain. Sharing business interests within the cluster supply chain enables SMEs to overcome the constraints arising from their size and isolation. Clusters, as geographic concentrations of interdependent enterprises and supporting institutions which are connected by strong linkages, and supply chains as networks of vertically organized and integrated participants in the successive stages of the value chain, are complementary concepts. For local SMEs, cluster supply chain fosters the development of necessary skills and acquirement of missing resources in a way that takes less time and minimizes costs.

In Serbia, the automotive industry is one of the most prominent sectors in the economy. The joint venture between Fiat Automobiles and the Government of the Republic of Serbia marked a turning point in the development of automotive industry and created business opportunities for local SMEs. Integration in the Fiat supply chain is a highly promising chance for fostering development of local SMEs. The subject of the paper is the implementation of cluster supply chain concept in the Serbian automotive industry. The aim of the paper is to analyze the potential positive effects of cluster supply chain creation on the development of local SMEs in the Serbian automotive industry, as well as to provide recommendations for policy makers on necessary measures in order to create such cluster. The methodology used in this paper comprises of analysis as a basic research method and content analysis as a data collection method. Analysis method is used when considering component parts, features, connections, relationships and characteristics of the research subject. The descriptive analysis is used to describe the facts and qualities, while explicative analysis enables a deeper understanding of the research problems. Content analysis is used to systematically evaluate the

relevant documents, reports and surveys in order to collect, interpret and analyze data associated with the subject and the objective of the paper.

### ***INTEGRATING SMALL AND MEDIUM-SIZED ENTERPRISES INTO GLOBAL SUPPLY CHAINS***

The globalization of the world economy along with increasingly intense competition, shortened product life cycle and more demanding consumers, have forced companies to constantly search for new ways to improve business efficiency and for new sources of competitive advantage. A competitive advantage can be obtained by creating better value for customers through innovation (Đuričin and Beraha, 2013, p. 44; Đuričin et al., 2013, p. 143) and continuous improvement of products and processes. Incremental and radical innovations and continuous improvements have become the only sources of sustainable competitive advantage. In other words, higher customer value can only be created by introducing new products or significantly improving the existing ones, by developing new or improved methods of production and delivery, by using new sources of raw materials and semi-finished products and new methods of organization. Consequently, creating an environment that encourages collaboration and mutual learning, in which the networks of vertical and horizontal linkages enable the exchange of information, knowledge and experience and the achievement of synergy effects, as well as in which participants in various stages of the value chain complement each other, has become more important to business than ever before.

Due to dynamism and unpredictability of the business environment, competition in the global market place no longer takes place between individual competitors but rather between supply chains. As a result of that, the role of supply chain management in gaining competitive advantage becomes increasingly important. The globalization of value chains has led to changes in the organization of production and in the nature of relationship between the parties. In an effort to gain competitive advantage over their rivals, companies focus on high value-added activities which are most often out of the production (design, branding and marketing, etc.). Continuous pressure to reduce costs, to shorten production lead times and to focus on core competences has brought the need to assign part of production activities and develop long-term relationships with the suppliers. Outsourcing implementation has led to a shift in the role of suppliers in the value chain. An increased importance of proximity in the supply chain have influenced the formation of large bases of suppliers particularly in developing countries thus creating significant developing opportunities for local small and medium-sized enterprises (SME). By providing materials, sub-assemblies and services to large companies and by delivering products to final consumers, SMEs have become significant participants in the supply chain of global manufacturers.

For SMEs, globalization followed by a dynamic development of information and communication technologies, transportation infrastructure improvement and customs duties and taxes reduction caused their changing role in the global value chains (UN 2010). Long-term cooperation with global companies through

subcontracting creates a significant business opportunity for SMEs. Integration in global supply chains positively impacts the business performance of local SMEs in many ways. Firstly, SMEs can expand their businesses and gain access to global markets at a lower cost. Secondly, it is easier for SMEs to obtain missing resources and technologies. Thirdly, integration into global value chains enables internationalization, increases production, sales, growth and competitiveness. Also, it opens up the possibility of scale economies, development of skills and capacity, and adoption of international standards and modern business practices. Furthermore, SMEs diversify risk through long-term relationship with global companies. SMEs sector is positively linked with economic growth and job creation (Đuricin, 2011, p. 312). Integrating local SMEs into global supply chains benefit global companies and SMEs as well as national economies in which they are based.

However, local SMEs are generally not prepared and do not have necessary resources and competencies in order to meet the strict requirements of global companies. The presence of MNCs always increases the competitive pressure. When on their own, SMEs usually lack the technical, human and financial resources necessary for integrating into global value chains. According to OECD and WTO (2013), the most important requirements on SME suppliers refer to product specifications, production costs, market size, terms of delivery and transportation, ability to harmonize, and human resources training. The supplier selection is a complex process in which capabilities and capacities of suppliers are being assessed. The cooperation within the supply chain must be arranged in a way that ensures the realization of benefits of all participants.

For SMEs, a cluster is an efficient instrument for overcoming constraints arising from their size and for improving their performance especially in the field of innovation and growth. The concept of cluster is based on the idea of cooperation between one or more sectors within the same region and it emphasizes networking between enterprises and supporting institutions (Beraha, 2012, p. 59). For several decades, clusters have been in the focus of attention of policy makers because they significantly contribute to economic growth at local, regional and national levels. Clusters have become the key elements of national and regional strategies for promoting innovation, competitiveness and development of SMEs.

A cluster is a very common form of connecting participants in various stages of the value chain in the automotive industry and in related and supporting industries. This is mainly due to the complexity of the final product, i.e. the fact that the average car is made up of about two thousand separate parts and components which need to be delivered to the final assembly in line with the previously determined quality and delivery standards. The automotive supply chain comprises of a large number of firms particularly in the lower tiers. This implies the need to implement efficient concepts and practices of a supply chain management. The combination of clusters and supply chain management is an effective method for improving business performance of all participants.

## **THE CONCEPT OF CLUSTER SUPPLY CHAIN**

The search for new ways to improve the business performance of SMEs has enabled the development of new management paradigm in economic theory and practice known as "Cluster Supply Chain", which is a combination of industrial clusters and supply chain management. The industrial clusters and supply chain management acting as a platform of effective regional economic cooperation and the paradigm of organizational management are becoming the key points of survival and development of SMEs (Xue *et al.* 2011, p. 2146). Both the concept of clusters and the concept of supply chain management emphasize the importance of developing relations and cooperation between different participants in the same or different parts of the value chain as a source of competitive advantage. The analogy with Porter's value chain is characteristic for both concepts. The essence of a cluster-based approach refers to the idea that geographic proximity, networking and specialization lead to increasing productivity, innovativeness and competitiveness of SMEs (Aćimović and Beraha, 2010, p. 291).

Supply chains as networks of vertically organized and integrated participants in the successive stages of the value chain and clusters as geographical concentrations of interdependent manufacturers, suppliers, service providers and educational and scientific institutions and agencies of support in which the focus is less on successive and more on horizontal established connections and relationships actually represent two equally important ways of improving the competitiveness of enterprises, industries and regions. There is a complementarity and symbiosis between the concept of supply chain management and the concept of industrial clusters, i.e. their combination can effectively improve the competitive advantage of industries and consequently regional economic competitiveness (Han, 2009, p. 127).

Based on the understanding of cluster supply chain as a combination of industrial clusters and supply chain management it can be defined as a set of networks that consist of horizontal connections between companies in a particular industrial cluster, while these networks are repeatedly arranged on the basis of vertical linkages between enterprises (Xue *et al.* 2011, p. 2146). The authors (Ibid) further point out that horizontal cooperation with other SMEs at the same positions in the value chain allows enterprises to mutually realize economies of scale that exceed individual capacities, while vertical cooperation with SMEs which are located at different positions in the value chain allows companies to specialize in their core activities and establish external division of labor. Also, cooperation between enterprises promotes mutual learning, eliminates or reduces problems that occur as a result of their size and improves competitiveness.

The cluster supply chain concept is widely used in automotive industry as an effective instrument for the development of local SMEs. As a combination of industrial clusters and supply chain management, cluster supply chain can be referred to as the set of networks comprising of horizontal links between enterprises within a certain industrial cluster, while those networks are sequentially determined by vertical linkages between enterprises. Both clusters and supply chains are based on cooperation, interdependence, mutual learning, knowledge

sharing and exchange of ideas. Horizontal cooperation enables SMEs to achieve economies of scale beyond the reach of an individual enterprise, while vertical cooperation enables SMEs to specialize in their core businesses. Closer cooperation between enterprises within the cluster supply chain provides the possibilities for SMEs to overcome the barriers arising from their size, isolation, and the lack of competitiveness.

Clusters and supply chain management basically belong to different fields of research. Although clusters are often referred to as a macroeconomic and supply chain management as a microeconomic category, both are based on the concept of value chain. The idea of the value chain is based on integration and cooperation in order to improve competitiveness of enterprises, industries, regional and national economies. Both concepts enable the improvement of business performance of all participants in the system. In the study of the supply chain management, the focus has been shifted from the "chain" to the "supply networks". The supply chain refers to the entire chain of functional networks that link producers, suppliers, distributors, retailers and final consumers wherein it begins with raw material procurement, then comes the production of semi-finished and final products on the basis of core competence and the control of information flow, logistics and the flow of capital, ending with a delivery of finished products to final consumers through sales networks (Han 2009).

Supply chains are networks of successive (sequential) organizations in the value chain that are linked by upstream (towards suppliers) and downstream (towards consumers) linkages and relationships and which develop mutual interactions and cooperation by realizing processes and activities with an aim to add and deliver value to customers. Companies in the value chain can be referred to as a multidimensional network of entities that make up the system within which they cooperate and interact.

As a concentration of interdependent companies and supportive institutions which are located in close geographical proximity, connected by strong linkages and engaged in numerous forms of cooperation, Han (2009) points out that industrial cluster is a geographic concentration of the supply chain. Since a supply chain may geographically extend to one or more locations, a conclusion can be drawn that the industrial cluster is actually a local concentration of one or more chains or parts of the supply chain.

Supply chain clusters include companies that are directly involved in the upstream and downstream flows of goods, services, capital and information through the value chain, expand further to consumers, then over side to manufacturers of complementary products and companies from industries related by skills, technologies or common inputs, as well as to supporting institutions and agencies (Cognizant, 2015, p. 1). Due to geographic concentration and proximity of participants, cluster supply chain allows the development of necessary skills and eases the lack of resources in a way that takes less time and minimizes costs.

The key features of clusters refer to as physical proximity, complementarity in basic competences, mutual growth potential, competitive position and mechanisms of industrial organization and coordination provide significant benefits for

companies in the supply chain. The most important benefits presented in Figure 1. include the following (Ibidem): (i) concentration of resources rationalizes and shortens the supply chain; (ii) geographic proximity significantly reduces the complexity of the supply chain; (iii) the interdependence, trust and cooperation between companies within a supply chain contribute to a long-term orientation and improvement of the performance of enterprises; (iv) an increase in productivity as a result of faster access to consumers and suppliers, better access to specialized information and better support network; (v) it is easier to motivate and measure the performance of all partners in the supply chain; (vi) greater visibility due to better communication; (vii) greater flexibility when partners in the supply chain belong to the same cluster; (viii) significantly reduced risk of failure as all partners in the supply chain are focused; (ix) faster and more efficient exchange of information regarding new business opportunities; (x) faster identification of shortage of products and services; (xi) faster feedback allows rapid supply chain modification which reduces costs.

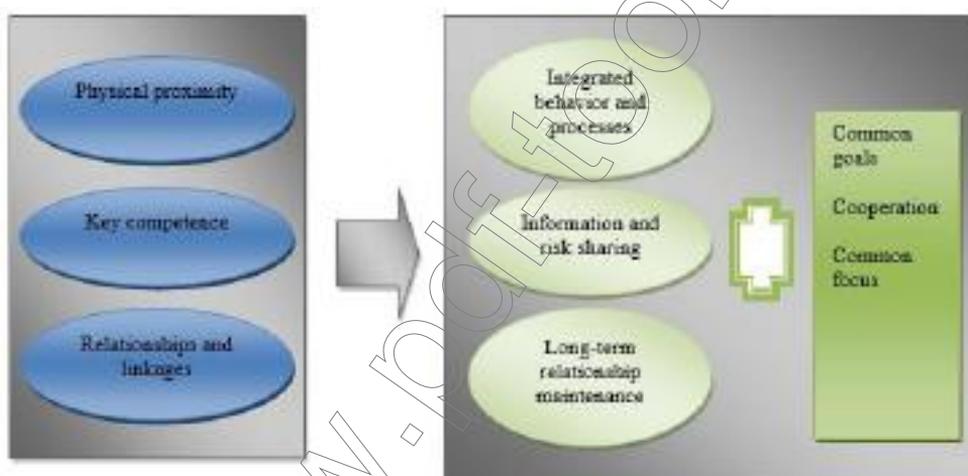


Figure 1: Cluster characteristics that contribute to the improvement of supply chain

Source: *Cluster Manufacturing: A Supply Chain Perspective*

Geographic concentration of large enterprises, SMEs and supportive institutions fosters the cooperation in the field of logistics, information and capital flow. The joint use of industrial infrastructure, human resources, intellectual property rights and managerial capacity significantly contributes to a favourable operating environment for the functioning of the supply chain. Industrial clusters contribute to improving the environment for the development of supply chains in the following ways (Ibid, p. 129): (i) by developing strong cooperative relationships and platforms for sharing and joint use of resources; (ii) by lowering the costs of intercompany transactions and by increasing the operational efficiency of the supply chain; (iii) the supply chain development contributes to improvement of the industrial cluster.

The characteristics and potential positive effects of cluster supply chain indicate that it is a very promising business model for SMEs. When operating in such an environment SMEs are able to obtain the missing resources, develop necessary competencies and find appropriate partners.

### ***POSITIVE EFFECTS OF CLUSTER SUPPLY CHAIN ON THE DEVELOPMENT OF SMES: THE CASE OF SERBIAN AUTOMOTIVE INDUSTRY***

The automotive industry is one of the most important sectors of the Serbian economy in terms of income, employment and export generating potentials. After the breakup of the former Yugoslavia, economic sanctions imposed by the international community, economic downturn, deindustrialization of the country and the failure of the privatization and restructuring processes, the industry found itself in a very difficult position facing numerous problems such as low level of capacity utilization, insufficient competitiveness, low productivity and exports, reduced number of employees, as well as the lack of investments and consequently technology lagging. Significant developing potentials embodied in qualified and experienced labor, low cost of production factors, long tradition and experience, existing capacity and infrastructure, lower tax rates and favorable geographical positioning prompted the need to revitalize the industry by attracting foreign investors. The Fiat's arrival i.e. the joint venture between Fiat Automobiles and the Government of the Republic of Serbia marked a turning point in the development of the Serbian automotive industry. The Fiat investment and the revitalization of the industry was perhaps the biggest development opportunity for local SME suppliers of automotive parts and components.

The most significant aspect of the Fiat investment refers to its technological intensity, respectively to reconstruction of existing factory plants, construction of new buildings and installation of the most modern production equipment which enabled an increase in the level of product quality and production efficiency thus improving competitiveness of the industry and the entire economy. The arrival of Fiat has caused the need for local suppliers to manufacture under strict, high-quality production standards which encouraged the greater adoption and implementation of international standards. Also, the extension of production capacity has led to the increase in production volume and consequently to the industry's greater contribution to the national economy and particularly to export, employment and gross value added in manufacturing. According to the Ministry of finance, in 2014 the Fiat Chrysler Automobiles Serbia's total export amounted to 1.36 billion euro which made company the major exporter in the Serbian economy. The Fiat investment also contributed to improving the Figure of Serbia as an attractive investment location. According to SIEPA the automotive industry was the most attractive sector for foreign investors in the previous period.

The arrival of Fiat was followed by its largest suppliers i.e. first-tier suppliers which is a common practice known as follow sourcing. Tier one companies are direct suppliers to automotive manufacturers. They follow automakers to new

locations and locate in close proximity to their plants. By conceding the former Zastava facilities, forming the industrial zone and introducing tax incentives the Serbian government provided favorable conditions for the operation of Fiat's first-tier suppliers. The arrival of major Fiat suppliers including Magneti Marelli, Johnson Controls Automotive, Sigit, PMC and HTL in Serbia was realized in form of green field and brown field investments. Unlike first-tier suppliers who provide their products directly to the manufacturer, second and lower tier suppliers provide their products and services to the tier one suppliers. In global value chains local SMEs act as lower tier suppliers. Integrating local suppliers into Fiat supply chain was supposed to be the biggest opportunity for growth and development of Serbian SMEs. However, the expected positive impact of the Fiat investment on the development of local supplier network is almost entirely absent. Only two local suppliers have managed to become suppliers of Fiat Group factory in Kragujevac. All other suppliers are foreign companies which made direct investments in the Serbian automotive industry.

According to the SIEPA database, there are 133 suppliers in the automotive sector in Serbia out of which 74.4% or 99 suppliers belong to the SME sector. However, only two local suppliers managed to integrate into Fiat supply chain. The Gomma Line produces rubber profiles for the Italian company Sigit which is a tier one supplier to Fiat, while Promoter Irya is the only Serbian direct supplier for Fiat Group with car jack for Fiat Punto Classic model. The factors influencing the failure of Serbian SMEs to integrate in the automotive supplier network are numerous. The most significant barriers for SMEs in becoming suppliers for the Fiat Group refer to the following: (i) insufficient competitiveness as a result of high costs, low quality, lack of investments, low capacity for innovation, and outdated technical equipment; (ii) financial performance and limited access to finance for SMEs; (iii) difficulties during the implementation of ISO/TS 16949 standards; (iv) low level of cooperation and information and knowledge sharing between other enterprises, research and scientific and relevant supporting institutions; (v) lower relative economic power of individual SMEs comparing to large enterprises and particularly MNCs; (vi) unfavorable business environment; (vii) ineffective institutional support framework for SMEs.

Since individual SMEs experience difficulties in improving competitiveness, achieving economies of scale and meeting requirements of large enterprises and particularly of MNCs in the supply chain, strong institutional support aimed at developing cluster supply chain in the automotive industry in Serbia is necessary. Cluster, as a geographic concentration of interconnected companies of different sizes and supporting institutions that share physical infrastructure, human and technical resources, logistics, and flow of information and capital, provides favorable environment for the development of SMEs. Through clustering, individual SMEs can improve productivity and innovativeness by increased access to finance and international markets, open exchange of knowledge, skills and ideas and technology transfer (Đuričin and Beraha, 2016, p. 219 ) Also, cluster contributes to the development of supply chain through strong cooperation, joint use of resources and reduction of transaction costs between enterprises in the chain.

The creation of cluster supply chain as a virtual entity comprising of multidimensional network of linkages and relationships between different participants in the value chain would improve the performance and the possibility of SMEs to integrate in the supply chain of Fiat. Successful collaboration provides benefits and profits to all participants in a supply chain and particularly to SMEs which due to limited access to resources and geographical isolation often face developing constraints and significant difficulties in gaining competitive advantage. Strong relationships within a supply chain helps SMEs find suitable partners and develop long-term commitment.

According to the available data, there are 58 registered clusters in the Serbian economy. The largest number of clusters is detected in tourism, agriculture and food industry. Long tradition of car making in Serbia along with close geographic proximity of enterprises specialized in producing automotive parts and components, country's favorable geographic positioning, cheap labor, existing infrastructure and significant institutional support contributed to the creation of two automotive clusters – The Automotive Cluster of Serbia and The Regional Automotive Cluster of Central Serbia. The two clusters together contain 40 SMEs i.e. 34 SMEs since 6 enterprises belong to both clusters at the same time. The general level of development of the Serbian clusters according to the World Economic Forum Global Competitiveness Index for the period 2013-2014 is rather low. In terms of cluster development Serbia is ranked 115th place, in terms of quality and quantity of local suppliers it is ranked 110th and 98th place respectively, while in terms of cooperation between universities and business Serbia is ranked 95th place. According to the Global Innovation Index 2014, the level of economic clustering is unsatisfactory and Serbia scores 122 out of 143 countries. Comparing to other countries of the Black Sea Economic Cooperation Region (BSEC), Serbia holds better position only relative to Ukraine, Albania and Moldova.

In order to evaluate the current state, the level of development and the role of clusters in the economic development of Serbia, a survey covering 35% of the total number of existing clusters was conducted (Đuričin and Beraha, 2016, p. 220). The survey was based on the clusters' contribution to the key macroeconomic indicators in the Serbian economy. The findings of the survey showed that The Automotive cluster of Serbia is the most developed cluster in the national economy generating the largest share of employment and significant share of turnover (37% and 22% respectively). Clusters in the field of tourism account for 25% of the total number of surveyed clusters, but generate only 6% of employment and 3% of total turnover. The survey findings are rather similar regarding clusters in the field of agriculture and food industry. Their significant share in the total number of clusters is not followed by an appropriate share in employment and turnover.

Clusters in the Serbian economy are small by size, poorly visible and their significance remains modest on both national and international level. Advantages associated with clusters do not emerge by the simple existence of a cluster but the impact that clusters have on SME performance and innovation is determined by the level of cluster development (Đuričin and Beraha, 2016, p. 219). Since the quality of relations and linkages within a cluster is highly determined by its size, the level of specialization and the level of adaptability of the region to the production within

that cluster, the Serbian clusters lack the critical mass necessary for achieving positive cooperative relationships. Unlike developed countries, in Serbia there is a lack of awareness of the relevance of clusters on the SME performance. The number of enterprises and institutions involved in clusters is small. According to the Report on SMEE 2013, every 6th entrepreneur is a member of some business association, while only every 5th is a cluster member. Also, the lack of managerial skills has a restrictive effect on the development potential of domestic clusters and they often operate without clearly defined vision, mission and long-term objectives. Because they face difficulties in obtaining finance, clusters are highly dependent on governmental support which also restricts their developing opportunities.

The inclusion of local SMEs in the supply chain of the Fiat Group would lead to improvement of their technical capacity by acquiring new methods of production, management skills and new technologies from other participants in the value chain. Through the supply chain SMEs easily gain access to technology and best practice, as well as information and knowledge on domestic and international markets. Close cooperation within supply chain helps SMEs build business skills and operational capabilities. Also, it would affect the demand for products and services thus increasing the level of capacity utilization and production efficiency, as well as to the dispersion of risk which is particularly relevant in times of crisis. The cooperation with other enterprises upstream and downstream the supply chain helps improve the Figure and credibility of SMEs thus improving their access to favorable finance, and enabling easier attraction of capital and skilled human resources. Financial stability is usually positively associated with investments in new plants and facilities, RD activities, and promising business projects that add value for the customers. Becoming suppliers of Fiat Group would help the Serbian SMEs lower the risk and assure successful internationalization activities.

Considering the importance and role of clusters in promoting competitiveness and innovativeness of SMEs, job creation and economic growth, as well as their current stage of development, policy makers should focus their attention towards providing more efficient support to clusters and clustering in the Serbian economy (Đuričin and Beraha, 2016, p. 223). The development of cluster supply chain in the automotive industry in Serbia require joint effort of governmental institutions and agencies, existing automotive clusters, business associations and research and educational institutions aimed at strengthening the existing automotive clusters, create positive environment for cooperation between SMEs and larger companies in the supply chain and develop more intense cooperation between research and scientific institutions and enterprises. For highly flexible and adaptable enterprises which contribute significantly to economic growth and development, institutional support is important for it provides the possibility to access lacking resources in a much favorable manner, as well as to engage in specialized business arrangements financial institutions are often reluctant for (Erić, Beraha, Đuričin et al. 2012, p. 147). In order to strengthen the existing clusters it is necessary to promote the concept of cluster among SME suppliers. The evidence on the role and impact of clusters on economic development suggests the need for designing specific policies to promote clusters (Beraha, 2012, p.74). The cluster promotion program is to be based on mapping the potential suppliers in the Serbian automotive sector which

are not members of the existing clusters, identifying their available and missing resources, and specific needs and priorities, as well as determining fields of institutional support where improvements are necessary. Economic benefits from clustering should be addressed and common trust should be established through an interactive dialogue between SMEs and cluster management. The government should take more active role in strengthening vertical cooperation between large enterprises and SMEs by encouraging MNCs to source locally. SMEs are usually not visible enough for MNCs which often prefer to source from foreign suppliers. That is mainly due to the lack of confidence in the capability of local SMEs to meet necessary requirements in terms of product quality, price and delivery. However, sourcing locally is associated with a number of positive implications for large multinational enterprises such as shorter delivery times, lower transportation costs, better customer service responsiveness, and a like. Consequently, specifically designed programs aimed at establishing vertical linkages between large and small scale enterprises are necessary. Also, developing communication channels between all participants in the automotive cluster supply chain including governmental and supporting institutions would increase the possibilities for joint RD projects and share of resources, knowledge and competences.

## **CONCLUSION**

For local SMEs, integrating into global supply chains through subcontracting arrangements provides access to missing resources, international markets and new technologies, and leads to the improvement of business performance. Due to the complexity of final product, the automotive supply chain is comprised of a large number of enterprises of various sizes. Consequently, clusters are common forms of cooperation and integration in automotive supply chain. For SMEs, a cluster is an efficient instrument for overcoming constraints arising from their size and isolation. The cluster supply chain is a new management paradigm combining the concept of cluster with the concept of supply chain management. It is a very promising concept based on the idea of developing cooperative relations and linkages between participants in the value chain on both vertical and horizontal level.

The revitalization of the Serbian automotive industry associated with the joint venture between the Italian Fiat and the government of the Republic of Serbia was perhaps the biggest development opportunity for local SME suppliers. However, the expected development of local supplier network did not occur since only two local SMEs managed to become suppliers of the Fiat Group factory. This is mainly due to numerous constraints faced by SMEs related to competitiveness, financial performance and limited access to finance, implementation of ISO/TS 16949 standards, information and knowledge sharing, cooperation along the supply chain, low visibility and negotiating power, unfavorable business environment and institutional support framework for SMEs. Developing cluster supply chain as a multidimensional network of linkages and relationships between different participants in the Serbian automotive value chain would improve the performance and the possibility of local SMEs to integrate in the supply chain of the Fiat Group.

In order to develop the cluster supply chain in the automotive industry in Serbia, the governmental institutions and agencies, existing automotive clusters, business associations and research and educational institutions need to put more emphasis on their joint efforts to strengthen the existing clusters, initiate cooperation between SMEs and large scale enterprises in the supply chain and develop more intense cooperation between research, scientific and supporting institutions and enterprises. Specifically designed programs aimed at promoting benefits of clustering are needed as well as initiatives with an aim to establish vertical linkages between large and small scale enterprises in the automotive supply chain.

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## **PROVIDING OF STABILITY FUNDING AS A PREREQUISITE FOR THE DEVELOPMENT OF SMALL AND MIDDLE ENTERPRISES**

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### **ABSTRACT**

*Small and middle enterprises sector is a vehicle and driving force of the development of modern economies within European Union countries. Competitive advantage of small and middle enterprises lies on their dominant characteristics impersonated in business flexibility and quick adjustment to variable conditions, as well as, in existence of high level of innovations. The development of small and middle enterprises implies the significant institutional support in all segments. Emerging economies faced with transformation process and turning point toward market economy did not succeed to develop the sector of small and middle enterprises in satisfactory manner, in order that small and middle enterprises become the main body of future development. Additionally, large companies in emerging countries collapsed, so the recovery of those countries and their economies was slow down. In that sense, due to necessity for encouragement of small and middle enterprises development, a lot of countries (Serbia, also) created long-term strategies toward economy development based on incentives and stimulations in the segment of small and middle enterprises. In order to emphasize competitive advantages of small and middle enterprises, it is necessary to provide stability and continuity of their operations, namely, there should exist the stable sources of financing. Small and middle enterprises are mostly relied on traditional funding, i.e. bank's loans, but nowadays there are some other tendencies. As European Union recognized the development of small and middle enterprises as very important, in European Union are formed some funds primarily focused on stimulation of small and middle enterprises sector. Paper accents the importance of providing of stability funding for small and middle enterprises sector, as well as, their role as a key vehicle of "innovative wave" on which is the competitiveness of modern economies based on.*

**Key word:** *Small and Middle Enterprises, Funding, The Role Of Banks, Innovations, Serbia*

**JEL Classification:** G32

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## **INTRODUCTION**

There are general attitude among economists that small and middle enterprises (hereinafter: SMEs) generate new ideas, new products, new working places etc. (Mirković, 2013, pp. 693) SMEs are also driving force of economic development for each country and the main source of entrepreneurship's ideas and innovations. Innovations are necessary element in the assessment of achieved level of development of SMEs, due to the well-known fact that innovations are bearer of new ideas, new solutions and new growth opportunities. (Mirković, 2012, pp. 310)

Reached level of development of SMEs is often used as the parameter for the evaluation of the competitiveness level of certain country. Their role of economic development generator, SMEs justify through their characteristics, such as: flexibility, vitality and specialization. Flexibility of SMEs means that SMEs are capable to fill in attractive market segments and abandon matured markets. Also, SMEs show great capacity for transformation of good ideas into quality and payable projects. SMEs are less encumbered with bureaucratization compared to large companies, which is a huge advantage in the process of innovation and discarding with previously established practice (Besanko et al, 2010, pp. 447).

Key factors for growing flexibility of SMEs are impersonated into relatively simple organizational structure and competency of their owners, which are usually acting as leaders. Vitality of SMEs manifests in crisis situations, when large companies conduct the strategy of massive dismissing of working force. In that period SMEs survive better than large companies due to quicker adjustability on changeable market conditions and possessing adequate solutions based on efficient decision making process, redeemed from bureaucratization and problems inherent for large companies. (Mirković, 2012, pp. 314) One of the main sources of increasing competitiveness of SMEs is their agility, meaning that SMEs are agents of changes, generators of new ideas and innovative activities (OECD, 2000, pp. 73) Specialization as characteristic of SMEs is impersonated into possession of high quality and specialized technology which is basis for competitive advantage of SMEs in comparison with large companies.

Other specifics of SMEs, which result in high level of their efficiency, are also as following: possibility of their foundation with relatively lower amount of capital, rational business (interest of all employees is connected with success of the company), faster orientation on profitable markets, user-friendly organizational structure, absorption of significant part of unemployed and mobilization of unused resources, as well as banishing of structural disproportions in the economy. The focus on growth and development of SMEs represents the crucial assumption in the process of economic growth of each country, because SME sector impacting the each economy through: influence on the life standard of citizens, decreasing differences in the level of GDP per capita, steady regional development, successful solution of unemployment, development of new forms of business cooperation etc. Mentioned implications of SME sector on the economies are mainly expressed if we observe emerging countries, in other words, countries that are more severe hit by internal inefficiencies as well as those that are seriously injured after global financial crisis.

Although SMEs were very important in pre-crisis period, their importance grew rapidly in post-crisis period, after evidenced distortion in many industries and when was obvious that recovery is imperative. The active role of the government in terms of determination of strategy for prospective development and support of SMEs in crisis situation is necessary and represent the key element of exit from recession followed by normalization of economy state. In that sense, the government could apply several tools for economic recovery emphasizing SMEs and their crucial role. As SMEs development is recognized from the government's point of view as very significant for the future, there is also necessity that there exist stable funding (source of financing). The main subject of this paper is related to providing of stable funding of SMEs and the role of various institutions involved in the process of financing and supporting SMEs on local and global level.

### ***SMEs: DEFINITION, ROLE AND IMPLICATION FOR ECONOMIES***

As SMEs are also recognized within EU as the bearer of economic development, it is from great importance to define SME sector on a proper manner. The definition of SMEs is provided by EU recommendation 2003/361 and the main criteria for classification into SMEs are chosen: staff headcount and either turnover or balance sheet total. Consequently, according to abovementioned criteria, the valid classification considers following:

1. *micro companies (including entrepreneurs)* are those that have less than 10 staff headcount and less than 2 million EUR of turnover or balance sheet total;
2. *small companies* are those that have minimum 10 and maximum 50 staff headcount and between 2 million EUR and 10 million EUR of turnover or balance sheet total;
3. *middle-sized companies* have minimum 50 and maximum 250 staff headcount and turnover between 10 million EUR and 50 million EUR; or balance sheet total between 10 million EUR and 43 million EUR. (European Commission, 2016)

In order to have a clear Figure of SMEs significance on global level, we emphasizing the result of study conducted by EIM Business & Policy Research (2011), which showed that SMEs are growing force of economies in EU which "makes 99.8% of total non-financial companies in EU in 2010 and which totalled for 2/3 of employees in non-financial sector in EU." (EIM Business & Policy Research, 2011, pp. 5) Observing locally, the importance of SMEs is impersonated in creation of new working places especially for low-qualified labour, women and youth, which are dominantly presence in the structure of unemployed workforce. SMEs have also very important role on national level, because they contribute to economic development and diminishing of poverty in national borders, simultaneously representing the significant factor in global business. It is also necessary to emphasize the significance of connection and relation between SMEs and large companies. Namely, as partners and active members in value chain creation, SMEs offer products, services and possibilities for development of new customer base, which is not available through traditional channels of distribution.

Involvement of SMEs into value chains of large business systems is a source of improvement of economic productivity and efficiency and prerequisite for reaching objective of value creation on local level. By focusing on specialized market segments and following the strategy of competitiveness upgrade, SMEs are more oriented on innovations contributing to development of new or upgraded products and services, new sales and distribution techniques and also new markets, especially in emerging markets as potentially very profitable markets.

In Serbia, in 2013 SME sector makes 99.8% of total number of registered entities, generating about 67% of turnover and employment, 54.1% of gross added value and participation of 43.2% in total export of non-financial sector. Additionally, it was assessed that SMEs share in creation of GDP in Republic of Serbia in 2013 is approximately 34%. (Ministry of Economy, 2013) Observing by size of companies, in the structure of SMEs are dominant micro companies and entrepreneurs with stake at 96.3% in total number. As it is clear that SME sector is too fragmented, it should be noted that only 2.4 employees comes per one registered company showing poor basis for improving of competitiveness, reaching economy of scale and entrance on new markets. Among all SMEs in Serbia, just 4.37% of them, were evidenced like those that achieved revenues from exporting activities. The biggest exporters are large companies, which participate with 57% in total export in 2013.

Until 2009, the growth of employment in SME sector offset the unemployment growth emerged due to restructuring of large companies. Nevertheless, in crisis period the number of employees was reduced in the SME segment, concretely in 2013 it was decreased by 11.9% vs. 2009. While during 2012 SMEs reached better financial and business performance than large companies and non-financial sector average, in 2013 SMEs performed below-averaged results as a consequence of successful realization of foreign direct investments in automotive industry (FAS). Furthermore, it should consider that number of companies which operates as a part of "grey economy" makes around 30% of GDP. SMEs have the lowest profitability among all segments: namely profitability rate in 2013 is 34.5% (the smallest rate since 2010), while the respective rate is 44.8% in large companies and 39.2% in non-financial sector.

Survey presented through the report of Ministry of Economy in Republic of Serbia, showed that approximately 84% of SMEs have never used any support program, introduced by government. Within SMEs which used any kind of support, the largest stake has those that used financial support (85%). The most expressed need for financial support is inherent for small enterprises (74%), while the most desirable form of support are government subsidies (63%) and loans with favourable interest rates (47%).

Obviously, one of the major issues for SME sector development, together with the strategy and aspect of their realization, is providing the adequate and stable source for financing of SMEs. Through its life cycle, companies are faced with some dilemmas such as: whether financing should be conduct through own funds or using borrowed funds, how much funds is necessary to borrow from other market participants, whether banks are the proper address for their needs or to

focus on financial markets etc. The number of available source for financing is limited for SMEs and they had much more difficulties in obtaining of necessary funds than large business systems. Considering mentioned constraints for SMEs, it is very important that SMEs possess adequate knowledge regarding all available alternatives of funding and their advantages and disadvantages.

### **AVAILABLE SOURCES FOR SMEs FUNDING ON NATIONAL LEVEL**

Generally, SMEs could obtain necessary funding from several sources, but the most common are following:

- loan disbursement from commercial banks;
- leasing companies;
- factoring;
- business “angels”;
- microfinance credit institutions; and
- capital markets – corporate bonds or issuing of stocks.

As end of 2015, Serbia has 30 commercial banks with over 3,047 billion RSD of total assets, which have the license for loans disbursement approved by National bank of Serbia (Table 1). The majority of Serbia banks are in ownership of foreign legal entities (76% of them), while the others are in the ownership either state or domestic private entities. Apart from procedures for loan disbursement for SMEs, which will not be the subject of this paper, it should be noted that purpose of this loans could be very heterogeneous. Namely, according to the purpose of loans (or intention of using funds), there are several types of loans for SMEs, such as: working capital loans, loans for financing the export, loans for short-term liquidity needs, refinancing loans, overdrafts and investment loans (purchasing: equipment, machines, vehicles, business premises etc.). Independently from the fact that bank’s loans are the most frequent mean of financing SMEs business, this kind of funding is also burdened with some obstacles. SMEs have not possess enough knowledge regarding all important details regarding bank’s loans (for example, they are not aware the huge difference between fixed and variable interest rate embedded in loan contracts) and disregard main postulates of their business abandoning some principles. Concretely, in decision making whether to take loan in local or foreign currency, SMEs do not take care about the currency in which they reach their revenues. So if revenues of SMEs are expressed in local currency, while the company is obliged to bank in foreign currency, then observed company has additional risk related to foreign exchange movements. In final stage, those loans with foreign exchange clause could be additional burden for the company and their business could be faced with serious threat if something goes wrong on the market.

Table 1: Overview of Serbian banks per total assets as of 31.12.2015

| Name of the bank:            | Total assets in 000 RSD | Share in % (by total assets) |
|------------------------------|-------------------------|------------------------------|
| Banca Intesa                 | 487,799,169             | 16.00%                       |
| Komercijalna banka           | 391,856,849             | 12.86%                       |
| Unicredit Bank               | 308,283,811             | 10.11%                       |
| Raiffeisen banka             | 234,426,451             | 7.69%                        |
| Société Générale banka       | 230,537,473             | 7.56%                        |
| AIK banka                    | 179,078,758             | 5.88%                        |
| Eurobank                     | 140,582,600             | 4.61%                        |
| Banka Poštanska štedionica   | 129,865,797             | 4.26%                        |
| Vojvođanska banka            | 120,328,157             | 3.95%                        |
| Erste Bank                   | 117,487,765             | 3.85%                        |
| Sberbank                     | 106,835,530             | 3.51%                        |
| Hypo Alpe-Adria-Bank         | 101,513,200             | 3.33%                        |
| ProCredit Bank               | 82,080,131              | 2.69%                        |
| Alpha Bank                   | 81,175,267              | 2.66%                        |
| Crédit Agricole banka        | 71,548,880              | 2.35%                        |
| Piraeus Bank                 | 52,546,969              | 1.72%                        |
| OTP banka                    | 45,144,291              | 1.48%                        |
| Halkbank                     | 31,934,812              | 1.05%                        |
| NLB banka                    | 28,705,134              | 0.94%                        |
| Marfin Bank                  | 22,432,206              | 0.74%                        |
| Findomestic banka            | 13,895,005              | 0.46%                        |
| Opportunity banka            | 11,744,477              | 0.39%                        |
| VTB banka                    | 11,216,121              | 0.37%                        |
| JUBMES banka                 | 10,416,109              | 0.34%                        |
| Srpska banka                 | 8,897,173               | 0.29%                        |
| KBM Banka                    | 8,893,341               | 0.29%                        |
| Telenor banka                | 7,876,172               | 0.26%                        |
| mts banka                    | 7,132,723               | 0.23%                        |
| MIRABANK                     | 2,248,727               | 0.07%                        |
| Jugobanka Jugbanka           | 1,341,378               | 0.04%                        |
| <b>Total banking sector:</b> | <b>3,047,824,476</b>    | <b>100%</b>                  |

Source: authors based on data from [www.nbs.rs](http://www.nbs.rs)

Significant role in financial support of SMEs is also assigned to other financial institutions such as: Development Fund of the Republic of Serbia, Development Fund of the Autonomous Province of Vojvodina and Serbian Export Credit and Insurance Agency (abbreviation: AOFI). *Development Fund of the Republic of Serbia* is founded by Law on Fund Republic of Serbia and it is 100% in state ownership. The main objective of Development Fund foundation is related to: loan

disbursements, issuing of guarantees, purchasing of securities (including conversion of claims) etc. Development Fund operates based on Government programme and programme that is realized from Funds resources. Development Fund of the Republic of Serbia offers to SMEs:

1. *Subsidised interest for loans for liquidity and permanent working capital* - aimed for entrepreneurs, micro-, small-, medium- and large enterprises for loans for liquidity and permanent working capital, as well as for refinancing loans taken from the same bank.
2. *Investment loans for legal entities* - for new investments, as well as those placed at least 6 months before the date when the request is submitted, in equipment and business unit construction/adaptation.
3. *Loans for permanent working capital* – for SMEs that have operated at a loss in the previous 2 years. (Vojvodina Investment Promotion, 2016)

*Development Fund of the Autonomous Province of Vojvodina* has several opportunities intended for SMEs, such as:

- Long-term financing of export-oriented production – for the purpose of purchasing land for construction, building of new production facilities, as well as the purchase and reconstruction/redevelopment of existing facilities.
- Long-term loans for permanent working capital – for the purpose of providing the continuity of company's business processes.
- Pre-financing the activities related to the Instrument for Pre-accession Assistance (IPA) projects of the European Union IPA - Local self-governments, public companies, as well as non-governmental organisations from the territory of the Autonomous Province of Vojvodina are eligible for certain funds, which would assist the realisation of projects granted within the scope of the "IPA" programme of the European Union, where pre-financing is a means of financing the project implementation.
- Short-term loans for financing export – for the purpose of production and export of domestic goods and services, which provide support the preparation and implementation of export arrangements.
- Short-term loans for working capital - for the purpose of maintaining liquidity and continuity of the company's business operations. (Vojvodina Investment Promotion, 2016)

*Serbian Export Credit and Insurance Agency (AOFI)* offers short-term export financing, loan refinancing through the exporter's commercial bank and co-financing with the exporter's commercial bank for domestic legal entities primarily dealing with export, as well as for foreign buyers, through their commercial banks, for export arrangements made with domestic exporters. (Vojvodina Investment Promotion, 2016) AOFI is founded in accordance with Law on Serbian Export Credit and Insurance Agency and represents specialized financial institution, i.e. official export credit agency which operates in the area of financing and insurance for Serbian companies primarily focused on export. The main purpose of AOFI is impersonated in incitement and improvement of export in Republic of Serbia. For realization of abovementioned objective, AOFI conduct activities which contribute to improvement of exporting structure and business conditions. Supporting of

national export AOFI provides by using several mechanisms of financial support, but the most significant are following: issuing of guarantees, lending activities, factoring and export insurance.

### ***FUNDING OPPORTUNITIES FOR SMEs ON INTERNATIONAL LEVEL***

European Union has a great variety of programmes which are primarily intended to SME sector. As the total volume of this funds in Serbia is not sufficient and present in full manner, in this paper will be mention just the most important programmes for the point of view of Serbia. The spectrum of available funds on international level encompass following institutions and their programmes:

- *A loan from the European Fund for Southeast Europe (EFSE) credit line* - The European Fund for Southeast Europe was established in 2005 with an aim to enhance the economic development and prosperity in the region. This micro-credit fund based on the partnership between donors from public sector and private investors. The list of donors and investors includes: European Commission (EC), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) etc. The funds are aimed for: financing working capital, export, stocks, recovery of outstanding debts, refinancing loans granted by other banks and other purposes.
- *Credit line from the Government of the Republic of Italy* - The funds in the new credit line from the Republic of Italy in the amount of 30 million EUR are available for eligible micro enterprises, SMEs and public service companies. The individual loan amounts are ranging from EUR 5,000 to EUR 1 million for micro enterprises, EUR 50,000 to EUR 1 million for SMEs, and EUR 150,000 to EUR 2 million for public utility companies.
- *Credit line from the European Agency for Reconstruction (EAR) – Brussels* - In 2001 and 2002, the European Union, through the European Agency for Reconstruction, granted 15 million EUR to Serbia for financing SMEs and entrepreneurs. In less than two years, the donation was completely realized, while installments for the loans and interest paid in a timely manner helped to create the Revolving Credit Fund. In late 2005, as a result of successful donation, the European Agency for Reconstruction transferred the ownership of the Revolving Credit Fund onto the Republic of Serbia, under the condition that until the end of 2015 the funds be still used for purchase of equipment and facilities for production and/or service provision, as well as for building production facilities. (Vojvodina Investment Promotion, 2016)
- *Credit line from the European Investment Bank (EIB) – APEX credit line for small and medium enterprises and midcaps* – “As part of its ongoing cooperation with our country, since mid-2002 the European Investment Bank (EIB) approved to the Republic of Serbia five Apex loans for SMEs, midcaps, priority projects, entrepreneurs and local governments in the total amount of EUR 1,065 million. The first four loans, totaling EUR 565

million, were fully disbursed through 630 loans, which are expected to lead to the opening of 6,920 jobs. During June 2016 is signed a new, fifth loan for SMEs and other priorities in the amount of EUR 500 million. The first tranche in the amount of EUR 150 million was regulated by the signing of the Financial Agreement “Apex Loan for SMEs and other Priorities III/A” on 30 December 2013, ratified by the National Assembly on 30 May 2014. By end-March 2016, 172 loans were approved to SMEs, entrepreneurs and local governments in total amount of EUR 147.8 million. The loan will be channeled through local financial institutions, with the National Bank of Serbia acting as the agent to the loan facility.” (National bank of Serbia, 2016)

- *Credit line from the European Bank for Reconstruction and Development (EBRD)* - The EBRD credit line is reserved for SMEs and local self-governments for financing working capital, export, stocks, recovery of outstanding debts, purchase of equipment, machines, vehicles, purchase and construction of business premises and other purposes, as well as for refinancing their own investments placed within past 12 months.
- *Credit line from the Netherlands Development Finance Company FMO for SMEs in Serbia* - aimed for financing working capital, export, stocks, recovery of outstanding debts, investments, purchase of equipment, machines, vehicles, purchase and construction of business premises, as well as refinancing their own investments placed within last 12 months.
- *Credit line from KfW, German development bank* – in the amount of 100 million EUR for financing agriculture, energy efficiency, renewable sources of energy and municipal infrastructure - The credit line from the German development bank KfW is aimed for: financing projects related to energy efficiency and renewable sources of energy, building municipal infrastructure, primary agricultural production and food industry, investments in the development of organic production and other purposes. (Vojvodina Investment Promotion, 2016)

Bearing in mind actual trends in the area of energy efficiency and focus of SME sector (not primarily those which are specialized in industry of energy and mining) in this very attractive area, there are also several credit lines on international level which covers it, such as:

1. *Credit line for financing projects related to sustainable energy in West Balkans - WeBSEFF II* - aimed for all private companies, public service companies and local self-governments for financing projects which lower energy consumption by at least 20% or lower CO<sub>2</sub> emission by 20%, for purchase, reconstruction or widening the scope of capital assets with an aim to increase energy efficiency, employ small-scale renewable sources of energy and other purposes.
2. *Credit line for energy efficiency and renewable sources of energy – German development bank KfW and Banca Intesa* - aimed for SMEs with a balance under 20 million EUR according to the latest quarterly financial report for purchase, reconstruction or widening the scope of capital assets with an

aim to increase energy efficiency of the company/utilise renewable sources of energy, financing working capital necessary for realization of the investment project, as well as for investments in intangible assets.

3. *Loans for improving energy efficiency – German development bank KfW and ProCredit Bank* - aimed enterprises for: financing energy efficient production machines, heating and cooling equipment, non-specific technologies and those using renewable sources of energy, non-standard technology, transport and energy efficient agricultural machinery.

4. *Hit energy loans – German development bank KfW and Halkbank (former Čačanska Bank)* - aimed for financing projects related to saving energy and utilisation of renewable sources of energy.

The list of available credit lines assigned to SME sector represents just a part of possible sources for their financing. Developed countries usually use all benefits from financial markets (for example – corporate bonds, stocks – common and preferred shares etc.), but transition economies has a lack of financial instruments and institutional investors on their still undeveloped financial markets. In that sense, possibilities for SMEs financing through financial markets in economies such as Serbia, are limited. Simultaneously with developing of financial markets in emerging countries it should be made effort for increasing awareness of all market participants (mostly SMEs) regarding necessity of possession special knowledge in the field of financing via financial markets and all advantages that stemming from such decision.

### ***OTHER REMARKS ON SMEs FUNDING RELIED ON BANK'S SUPPORT***

The key segment of each modern society, which intends to reach economic growth accompanied with macroeconomic stability maintenance, is providing of long-term funding. As SMEs are very important segment in each economy, they should have an adequate position in order to become a bearer of future development. For the purpose of ensuring long-term funding for SMEs, the emphasis should be on creation of institutional conditions, where the role of banks and financial institutions is from utmost importance and almost irreplaceable. Comparing with financial markets of developed countries, financial market of Republic of Serbia could be assessed as less developed. It is characterized with the absence of institutional investors and existence of fewer financial instruments, i.e. tighter options among several investment alternatives. Although not so complex, in the sense of existence of traditional loan – deposit transactions, banking system in Republic of Serbia is stable, adequately capitalized and highly liquid. The major contribution to abovementioned is assigned to consolidation of Serbian banking industry in XXI century, while banks in majority ownership of foreign entities which totaled for 3/4 of total assets, were main vehicles for abovementioned changes. Presence of foreign bank on banking market provided the stable funding for Serbian economy as whole, as well as restoring safety and confidence in Serbian banking system.

Apart from the fact that financing through banks is the most common source there should be considered to rely on other possible sources. Development of financial markets is the crucial if economy of transition countries (as Serbia is) intends to make progress toward the group of developed countries. Financial markets offer a lot of opportunities for companies and chances for growth are better if the focus of SMEs is on financial markets, their instruments, and if they possess specialized knowledge about available products on markets and their usefulness for prospective development of companies. Also, we are living in the very changeable environment, where technological progress dominantly influences on present phase of banking industry deployment. Technological progress and innovations became strategically important functions of banks, influencing not solely current bank's business model, already impersonate basis for bank's prospective development. From crucial importance for the future of banking industry is discovering of proper relation between positive effects of innovative solutions, on the one side and efficient establishment of risk management system, on the other side.

Modern phase of banking industry is characterized by focusing on clients of banks, while relationship between client and banks currently has new form. In certain segments of banking business, traditional form of banking kept its position, but nowadays, due to impact of modern information-communication technology, there are a lot of innovations in banking industry. In that sense, in digital age that we are witnessing, it comes to strong development of mobile banking. Mobile banking becomes a new tool of competitive contest between banks and the source of creating of new competitive advantages. The role of digital economy in the area of banking is mostly recognized by regulatory bodies, so within EU countries there has been established a set of several measures, which regulates the scope of digital banking and possible repercussions on banking industry at whole. Currently, in Serbia one bank ("Telenor bank") is operating solely as digital bank, while there are some announcements that two other banks will realize their strategic plans in direction of digital banking development soon. In such new and challenging environment, the role of SMEs and their relying on bank's support certainly will get new outlook. It will be a very interesting to follow new relationship forms between SMEs and banks in the aspect of funding bearing in mind modern development in banking and large steps toward digital banking and consequently digital economy.

## **CONCLUSION**

It is generally accepted attitude that SMEs are treated as one of the main segments of the economy worldwide and that they are recognized as a crucial for future economic perspective and development. Their importance is very present in transition economies and emerging countries, due to a lot of changes that those countries are faced with. In challenging environment, SMEs maintain their role of driving force of new ideas, innovations and technologies which in final instance result in prosperity of whole society. In order to be the "driving force" of each economy, it is very important that there exists not only strategy for SMEs on state-

level, but all market participants should recognize their role and should participate in strengthening of SMEs role. One of the optimal ways to support SMEs is providing financing of this very important segment of each economy.

Financial support for SMEs in emerging countries and transition economies usually means strict dependence on bank's loans., the most of funding sources is realized on the line between SMEs and banks. This paper presents a lot of available sources for financing SMEs, which are applicable on national level, as well as, internationally. Furthermore, in paper are recommended the other sources of funding, which are not developed in Serbia as it is desirable, primarily in the segment of financial markets and its instruments. Prospective development of SMEs in Serbia should stress the use of other sources of funding in wide extent (different from traditional sources, such as bank's loans) as a precondition for increasing competitiveness of SMEs and Serbian economy as whole. As nowadays banking industry passes through the new phase of the development, emphasizing digital period of its operations, it is necessary to adjust needs of SMEs for funding with modern banking operations. Certainly, the number of available sources for financing of SMEs is quiet smaller than it is the case for large companies, which generally do not have the problem of obtaining necessary capital for its operations. Due to abovementioned, it is from outmost importance that SMEs are familiar with all available alternatives for funding and their single characteristics, in order to make an optimal decision. Possessing a necessary knowledge about funding opportunities is one of the most significant preconditions for future growth of each economy based on SMEs as a "pillar" of that development.

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## **INFLUENCE OF PRIVATE EQUITY AND VENTURE CAPITAL ON THE DEVELOPMENT OF SMEs**

Marija Djekic<sup>57</sup>,

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### **ABSTRACT**

*SMEs enterprises are often financed by bank loans and the traditional sources of financing due to insufficient familiarity of newer alternative funding sources. Banks and other financial institutions are often reluctant to finance such risky investments, and when they do, financing conditions are very unfavorable.*

*The aim of the paper is to identify the possibilities for improving the functioning of small and medium-sized enterprises, from the point of financing. The paper deals with the impact of private investors, ie alternative and new sources of funding on development and performance improvement of entrepreneurial, small and medium enterprises. This paper describes the advantages and disadvantages of private equity investment, venture capital funds and Business Angels. I analyzed the scope and importance of these investments in the world and in our country, as well as the opportunities and perspectives of investment in enterprises in Serbia. Also the assessment of the benefits that would bring to economic development of Serbia and development of small and medium enterprises in the country.*

**Key words:** *Financial Institutions, Economic Development, Smes, Private Equity Investment, Venture Capital Funds*

**JEL Classification:** *G23*

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## **INTRODUCTION**

Entrepreneurial ventures, small and medium enterprises are the most important factor of economic development of each economy, as developed countries, as well developing countries. These companies constitute the largest number of the total number of enterprises, and therefore employ a large part of the total workforce.

One of the most important decisions which company brings and the largest challenge they are facing is the aspect of financing. This is particularly important for small and medium-sized enterprises, which are facing with the problem of shortage of funds, especially in the early stages of development. These enterprises are often financed by bank loans and the traditional sources of financing, due to insufficient familiarity of with the newer alternative funding sources. Banks and other financial institutions are often reluctant to finance such risky investments, and when they do, financing conditions are very unfavorable, enterprises can even lead to bankruptcy.

Private Investment Funds, Venture Capital investors and business angels are investors who finance risky projects and enterprises in the development, which is hard to obtain capital. They in return usually get share of the ownership the company. These investors often offer consulting services and professional management, because it is in their interest that a firm receives more yields and increase its value for the shortest possible time. Usually after some time, a certain number of years, when enterprises get on their feet, they come out of the ownership in different ways, and the company often be offered through an initial public offering of to new investors. In Serbia, these methods of financing are only in the beginning of their emergence and development. In this region, investors are increasingly see the potential for their investments, because the developing countries in recent years recorded high growth rates, and in addition have a constant need for additional financial investments. There are already some examples of such investment, but it is necessary to pay more attention to this way of financing, especially because there is no sufficient familiarity of companies about new alternative sources of financing.

The hypothesis:

H1. Alternative sources of financing, and private investors have great significance on development of entrepreneurship, small and medium businesses.

In the paper are used theoretical and empirical research, within which will be applied the following methods: Deductive - which ranges from general starting points and come up with the narrowest individual elements; The description - which describes all the elements of relevance for the consideration of the topic; Classification - which points to significant classifications and their explanations; Comparative - with which makes the comparison of previously performed classifications and comparison of different forms of an element, which points to the differences that separate one element from another. In the collection of data was applied method of content analysis of documents. The analysis of the relevant literature subject of paper is disaggregated into its constituent parts individually

investigated, then the method of synthesis or merging of certain elements of the object of research is carried out to check the hypotheses.

## ***ALTERNATIVE SOURCES OF FINANCING SMALL AND MEDIUM ENTERPRISES***

### ***DEFINITION OF VENTURE RISK CAPITAL***

Private equity and venture capital are included in a single concept: risk capital. It is noticeable that the main word, the risk, has a negative connotation, while venture capital and private equity generate more positive feelings. Private equity is a broad term that includes all types of illiquid transactions, private property. According to this definition, venture capital (VC) is a type of private equity. We define venture capital as capital transactions in new or early stage of growth by providing funding, advice and strategy through partial control of the company.

In this document, the term private equity (PE) will be used in a narrow sense, taking into account all the PE transactions except those who relating to the start-up (venture capital). Private equity transactions can be divided into two main groups: first, growth equity, which includes investments in companies with high growth opportunities, typically taking a minority stake in the company while retaining management and funding expansion; second, buyouts, the most traditional form of private equity generally use financial power, taking full control of the company and perform replacement of management.

Both PE and PVC investments must be kept for a limited period of time with the expectation that there will be significant growth in capital value and then sell.

### ***PRIVATE PLACEMENT AND RISK CAPITAL***

Company in needs for financing can sell the entire emission to one buyer (a financial institution or rich individuals) or a small group of customers, rather than the sale of securities to the public. Whenever a company makes a public offer of securities, it must be notified to the Commission for Securities. Method of financing, in which the company bypasses a public offering of securities to the public, is called private or direct placement of securities. In this case, the company negotiates directly with the investor or more of them about the terms of sale.

There is no completely certain definitions for the private placement of securities, but the Commission (SEC) remains on the fact that securities in this case, should be sell a maximum of twelve investors. Usually this kind of financing provides funds to small and medium-sized companies. However, there are big companies that had private placements as a source of funding. For example, in 2005 Berkshire Hathaway, the investment company controlled by Warren Buffett, has borrowed 3.75 billions of dollars by private placement. (Brealey et al., 2007, p.383) The greatest advantage of the private placement is to avoid the cost of registration of securities at the Commission and in the establishment of a direct relationship with the creditor or creditors.

Risk capital represents funds invested in a new company with growth potential. Under this term are considered capital investments in small and medium-sized enterprises which are deemed to be promising, but are not quoted on the stock exchange and do not represent a desirable customers for banks. Often banks do not want to finance such forms of high-risk investment, or if they agree on the financing, conditions offered by banks are not acceptable for companies that have yet to find their position in the market. The main investors in this type of capital are financial institutions and wealthy individuals. Investors are not liquid for a while because a certain period must remain the owners of capital, because the securities that are in the possessions they can immediately be resold, ie are nontradables. They place their hopes on the fact that the company will grow and after a certain time to be profitable and sufficiently large to be able to register and sell their shares on the market, and so bring high profits to initial investors.

When a company becomes successful, the owners will most likely his company made public through the sale of common shares to other investors. Investors in this way want to restore their investment and make profit. Nevertheless, they can sometimes only want to establish the price of shares of the company, which has now become profitable and higher than before the initial investment, so it does not change the ownership structure and owners not to sell their shares to the public. For example, Bechtel Corporation is one of the most successful and largest companies in the field of construction and engineering, but its shares remained an ordinary private shares. (Van Horne, Wachowicz, 2005 p.515)

### ***PRIVATE EQUITY INVESTMENTS***

Private equity industry in recent years has witnessed a constant expansion. This is confirmed by the fact that the five largest investments of private investment funds in 2008 was greater than the combined annual budgets of all countries in the world (except the 16 largest). Also, the five largest of these investments was greater than the annual budgets of Russia and India. In addition, twenty largest private investment funds controlled by companies employing over 4 million people. (Stefanović, 2009, p. 22)

Private equity investments relates to investments into companies that are not listed on the stock exchange, or which ceasing to be listed on the stock exchange. Investment funds must be very careful when investing, because of the high risk that these investments carry with them, so that they after extensive analysis and selection of companies invest less than 1% of the companies that were initially contacted.

Procedure of investments by private investment funds, in principle, include the following steps:

1. Analysis of the company (preliminary and detailed analysis);
2. Structuring investments (negotiations on the structure and terms of cooperation, preparation of documents, signing agreements on cooperation, preparing a business plan and budget, etc.);

3. Obtaining the consent of the Board of Directors of the Investment Fund (preparation of investment memorandum, defense investment in the target company, etc.);
4. The conclusion of the investment agreement and the signing of the legal documentation;
5. Re-registration of companies (registration ownership share of private investment fund);
6. Transfer of financial resources from private investment fund;
7. Implementation of cooperation (the longest invest in a period of 7 to 10 years);
8. Exit from the investment by the Investment Fund.

Private investment funds does not invest in all small and medium enterprises, which is bad in terms of those companies that are not sufficiently attractive in order to obtain resources of funds. The selection process and the discovery of small and medium-sized enterprises, in which funds want to invest, is a very comprehensive and detailed. They invest in companies that operate in attractive areas and industries with growth potential.

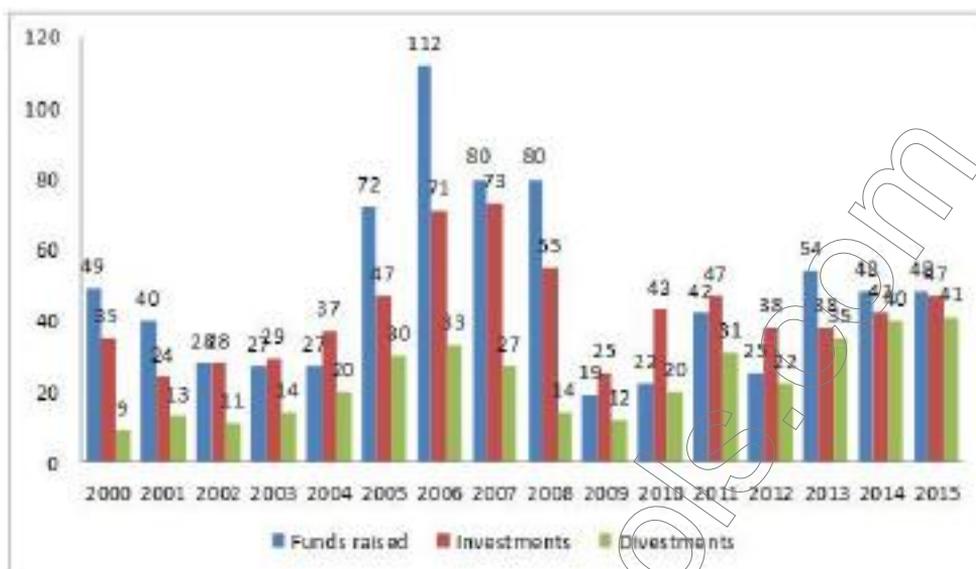
Overall, private investment funds usually do not stay long in property of the a particular company. That period may be short and varies from case to case, but almost never lasts longer than ten years. A successful exit from investments is of crucial importance for investors.

There are several ways to exit from the investment:

1. The sale (to founders or initiators of the business, to other internal group of companies, or to stakeholders, strategic partners, financial investors)
2. Emission of shares and their sale on the stock exchange through an initial public offering process.

The most prominent exit routes in Europe, by amount were trade sale (29%), sale to another private equity firm (27%) and public offering (23%). Over 40% of all the divested companies followed these exit routes. (Invest Europe, 2016)

In 2013, private equity funds worldwide amounted to 501.4 and in 2015. 489.6 billion U.S. dollars and the value of U.S. private equity funds raised increased from approximately 180.59 billion U.S. dollars in 2000 to approximately 144.52 billion U.S. dollars in 2015. (Statista, n.d.)



*Graph 1: All Private Equity in Europa - Fundraising, Investments and Divestments, 2000–2015. (€ billion)*

*Source: (Invest Europe, 2016)*

In 2015 total fundraising reached €47.6bn, nearly matching the level of 2014. The number of funds raised (274) reduced by 15% compared to 2014, but is still above the level of 2012 and 2013. European private equity and venture capital raised in the past three years (2013-2015) was 70% more than in the years 2010-2012. The total amount of equity investments in European companies increased by 14% to €47.4bn. The related number of companies reduced by 11% to almost 5,000. 86% of them are SMEs. Almost 2,500 European companies were exited in 2015, representing former equity investments (divestments at cost) of €40.5bn. This amount matches the level of 2014, which was until then the highest reported exit volume to date for European private equity. Public markets supported again sale of quoted equity on flotation (IPO) for 50 companies. Exits from already listed companies in the form of sale of quoted equity increased by almost 80% to €6.7bn, by amount divested at cost.

### **VENTURE CAPITAL FUNDS**

Venture capital funds are a form of private funds that invest in companies in the early stage of development, who offer expert advice and consulting. Of course, this makes the potential risk very large, but it brings a nice profit if the young company manages to stand on its feet. (Savić, Kvrđić, 2014, p. 96)

The operations of these funds is very risky and brings profit only for longer periods. Typically, investors in the first years of financing making large losses, but if the company back on its feet, they can compensate for their investments and achieve high profits in subsequent years of economic life of the investment.

Most often, these high yields ranging from 25% to 30% annually. (Brzaković, 2007, p. 137)

These funds also known as funds of entrepreneurial capital, participate in the management of capital, allowing the company to use their human resources. They carry out diversification by investing in a few young companies, thus creating a unique entrepreneurial fund. Sometimes it can be more of these funds invest in the same project. For example, Apple and Microsoft have used this form of financing, and also many other companies which are now very successful. Venture Capital investors do not invest into companies their own capital, but as well as private investment funds invest the funds collected from individual and institutional investors. When investing in small and medium-sized enterprises, this way of investment is being developed proprietary relationship instead of debtor-creditor, as is the case with most of the traditional methods of financing. Most often, these remain minority owners, but shares are not publicly traded on the organized market, except in cases where owners want in the later stages to carry out a public issue of shares. Venture Capital actually represents a financial mediation, because it usually collects funds from individual investors, and so the money collected is invested in one or more small and medium-sized enterprises. This type of investors invest only in private companies, which excludes investment in other forms of ownership, such as, for example, state-owned enterprises.

High-risk investments, ie the young companies at the beginning of their development typically attract venture capital fund because its promising potential for yields is between 15-30% per project which is being financed. Of course, due to the high risks and opportunities that the investment fails completely, these rates are high compared to other less risky ventures. These funds still do not manage to take their place in Serbia, as well as in other transition countries. However, even certain developed countries do not use enough this way of financing companies. So Germany has not this form of capital sufficient prevalent, but in 2009, this type of capital reached the figure of 260 million euros, compared with other countries is not enough. For example, the capital of that year in North America has reached the figure of 15 billion dollars, and in France the figure of 730 million euros. (Merck Serono, 2010).

Venture capital injects economic dynamism: An increase in VC investments of 0.1% of GDP is statistically associated with an increase in real GDP growth of 0.30 pp. Early-stage investments have an even bigger impact of 0.96 pp. (Meyer, 2010)

*Table 1: Venture capital investments as a percentage of GDP*

|                      | <b>Seed/start-up<br/>/early stage</b> | <b>Later stage<br/>venture</b> | <b>Total</b>   |
|----------------------|---------------------------------------|--------------------------------|----------------|
| <b>Israel</b>        | <b>0.26954</b>                        | <b>0.11340</b>                 | <b>0.38294</b> |
| <b>United States</b> | <b>0.09512</b>                        | <b>0.18924</b>                 | <b>0.28436</b> |
| <b>Canada</b>        | <b>0.04605</b>                        | <b>0.03594</b>                 | <b>0.66730</b> |
| Sweden               | 0.03060                               | 0.03546                        | 0.06605        |
| Korea                |                                       |                                | 0.06137        |

|                       |                |                |                |
|-----------------------|----------------|----------------|----------------|
| Finland               | 0.04197        | 0.01852        | 0.06137        |
| South Africa          |                |                | 0.05686        |
| Ireland               | 0.02483        | 0.02371        | 0.05686        |
| <b>Japan</b>          | <b>0.03230</b> | <b>0.00557</b> | <b>0.03786</b> |
| <b>United Kingdom</b> | <b>0.01798</b> | <b>0.01984</b> | <b>0.03782</b> |
| <b>Switzerland</b>    | <b>0.01782</b> | <b>0.01386</b> | <b>0.07568</b> |
| Norway                | 0.01488        | 0.01655        | 0.03143        |
| Hungary               | 0.02290        | 0.00820        | 0.03111        |
| <b>France</b>         | <b>0.01395</b> | <b>0.01546</b> | <b>0.06254</b> |
| Portugal              | 0.02627        | 0.00244        | 0.02871        |
| Belgium               | 0.01544        | 0.01289        | 0.02832        |
| <b>Netherlands</b>    | <b>0.01899</b> | <b>0.00684</b> | <b>0.05703</b> |
| Denmark               | 0.02157        | 0.00402        | 0.02559        |
| New Zealand           |                |                | 0.02306        |
| Germany               | 0.01439        | 0.00847        | 0.02306        |
| Estonia               | 0.00596        | 0.01659        | 0.02254        |
| Austria               | 0.01103        | 0.00770        | 0.01873        |
| <b>Australia</b>      | <b>0.00711</b> | <b>0.01097</b> | <b>0.04128</b> |
| Russian Federation    |                |                | 0.01347        |
| Spain                 | 0.00475        | 0.00468        | 0.01347        |
| Luxembourg            | 0.00679        | 0.00262        | 0.00941        |
| Slovenia              | 0.00618        | 0.00054        | 0.00671        |
| Slovak Republic       | 0.00226        | 0.00399        | 0.01612        |
| Czech Republic        | 0.00189        | 0.00396        | 0.00585        |
| Poland                | 0.00280        | 0.00254        | 0.00534        |
| Italy                 | 0.00158        | 0.00051        | 0.01120        |
| Greece                | 0.00011        | 0.00000        | 0.00011        |

Source: (OECD, 2015)

Financing through venture capital funds (Venture Capital Funds) in Serbia and the region is very rare. One of the main problems of this situation is that there is no formally established mode of formation of these funds. According to statistical estimates of the Statistical Office of the Republic of Serbia the main source of financing for small and medium enterprises have their own funds. One-third of the total number of SMEs financed by external sources of financing, mostly by borrowing from banks (40% of the number of enterprises that are externally financed), and also there is also borrowing from friends or family members. (OECD, 2016)

## ***BUSINESS ANGELS AS A SOURCE OF FINANCING FOR THE DEVELOPMENT OF ENTREPRENEURSHIP IN SERBIA***

One of the significant ways of financing small businesses and entrepreneurship is financing which includes business angels. Business angels are private investors (often wealthy individuals or more of them). They invest money in new companies or enterprises in the growth phase in exchange for getting their shares or participation in the capital in companies. Considering, that often in addition to financial resources, enterprises provide professional counseling, mentoring, business contacts and experience, the money these investors invest is often called "smart money".

In the Anglo-Saxon economies, business angels are considered to be the sole investors in the early stages of business. These investors usually invest capital on an informal basis and into projects that are similar to previous projects in which they have invested, ie in those for which already have enough experience. In the US, investment by business angels are usually in amounts from 50 000 to 500 000 dollars. According to World Bank estimates, based on comparisons of GDP per capita, these financial institutions would be in Serbia able to invest between 6, 000 and 60 000 dollars per project. (Vemić and Stamatović, 2010) On the importance of business angels in the market of America indicates research of University of New Hampshire according to which in the United States at the end of 2006 was over 234 000 active business angels who are in that year invested in about 51 000 private companies . (Worrell n.d.)

Although the financing of business angel usually associated with the early stages of doing business, this may not always be the case. Entering business angels in the financing of enterprises depends on the anticipated yield rate and level of risk at this stage. They can be a source of co-financing when the company or entrepreneur has already managed to secure bank financing and then the investments of business angels are called hybrid financing. In this way ensures the optimization of capital structure and diversification of risk. (Vemić, Stamatović, 2010)

As noted, the business angels are very important for entrepreneurs beginners and emerging businesses that are not able to otherwise provide capital to finance the business. However, this method of financing is still in Serbia is partly unknown. According to research by Serbian Chamber of Commerce, in our country, with the concept of business angels is not at all aware of many as 39% of respondents, mostly not familiar 24%, was partly aware of 20%, while only 15% of the mainly familiar and 2% fully aware. (Eric et al., 2012, pp. 131-132)

Business angels usually invest individually, but it is possible to invest with several other investors in the group. This investment group is usually present in the case of financing high-risk projects with new technologies. By individual investments in company business angels tend to earn tax breaks. Potential sources of financing from business angels are: grants, income from a job well done, membership fees, fees from training, as well as assist state and local authorities. The largest number of business angels receives some form of financial assistance.

Business angels usually invest in the company in exchange for a ownership stake in the company, mostly minority, so that they, together with other owners bear the risk of the company. Sometimes the investment of business angels is based on the loan, which can not be returned unless the fulfillment of certain conditions, but the loan turns into a ownership stake in the company.

Business Angels are usually successful entrepreneurs, people who are already long in management positions, as well as owners of successful companies who have the knowledge and skills in their field, which allows them to use this to invest in other companies, where the expertise and capital in the same time is necessary.

Business Angels as an alternative, the newer method of financing focus on small businesses in developing stage. The development of the company through capital of business angels can significantly improve its reputation, attractiveness and rating for easy finding future investors. The usual private funds are focused on larger projects ie companies in mature later stages of development. The problem of financing is especially present in stages until the company reaches a sufficient size, in order to be attractive to private investment funds. Considering the above said, the business angels can be the bridge between the initial investment in the new company and achieving sufficient size enterprises when it becomes attractive for investments of other investors, such as private funds. (Miletic, Milošević, 2009)

The government of each country has a big role in attracting investors, so it should be promoted more business angel as investors, particularly in the region, given that their capital is needed, but yet do not appear in this region or insufficiently appear. In fact, in the region does not exist yet a well-developed practice of investing of business angels, except for some networks of these investors are acting on Croatian territory and Turkey.

Network of business angels in Serbia was founded in 2010. It enables entrepreneurs to via web portals present their ideas to potential investors. Network of investors provides a wide variety of available projects and to entrepreneurs contact with larger number of potential investors. (Eric et al., 2012, p.134)

Private property is gradually developing thanks to the participation of a small group of foreign private funds. However, the number of market participants and the amount of capital transactions remains at very low levels. On the institutional side, Serbian compliance with the OECD Principles of Corporate Governance (OECD Principles of Corporate Governance) is low. Network of business angels in Serbia becomes active since 2010. IPA 2010 Integrated Innovation Support Programme (IPA 2010 The Integrated Innovation Support Programme) is allocated the 3 million budget for the period 2011-2013, which was focused on developing a network of business angels. (European Commission, 2014)

### ***VENTURE CAPITAL VS. BUSINESS ANGELS***

According to the study, the authors who have studied the financing of high-tech jobs by business angels and their subtypes, there are differences in the types of investors that are based primarily on the origin of the funds that are financed operations, as well as the phase when investors enter the investment business.

|              |                                              |                                    |
|--------------|----------------------------------------------|------------------------------------|
| Foreignmoney | <b>Pre-seed<br/>Venture Capital<br/>(VC)</b> | <b>Venture Capital<br/>(VC)</b>    |
| Ownmoney     | <b>Founding<br/>Angel<br/>(FA)</b>           | <b>Business<br/>Angel<br/>(BA)</b> |
|              | <b>Beforefoundation</b>                      | <b>Afterfoundation</b>             |

Figure 1: Categories of investors towards investing time and sources of investment  
 Source: (Festel, De Cleyn, 2013)

The term "Funding angel" first appeared in the works of Fostel and Boutellier-a (2008). Funding angels are private individual investors, may be regarded as a category of Business Angel. They were created as a type of investors that support the development of companies in the earliest stages of development. They are usually designed as individual investors participating in investment even before the establishment, which would then be developed in two directions: take part as active founders, and provide all the resources (financial, human, capital and temporal). The purpose of investing is to achieve commercialization of new technologies, ensuring for themselves shares (rather than consultants' fees).

Unlike BA and VC investors, Founding angels are willing to bear the risks in conjunction with the establishment, while retaining a certain time on a project before abandoning investment. So these investors act earlier than others. (Festel, De Cleyn, 2013)

We need to pay much more attention to business angels than before, due to the fact that those investments greatly exceed the scope of Venture Capital funds. Business Angels invest in the early stages of enterprise development, by influencing governance, management and operations. In fact, these investors represent a link between the company and the investments made by Venture Capital Funds, ie Venture Capital Funds perform later than the angels. Business angels invest their own funds, while the Venture Capital funds invest money provided by its partners.

Business Angels invest in companies and industries, where sometimes Venture Capital investors are reluctant to invest, and this is another difference of these investors. Given that the angels have a high degree of competence for managing and consulting companies in which they invest, they thus provide much more than financial resources, as is the case with Venture Capital investors. Considering that business angels invest their own funds, not funds collected from many investors as is the case with the Venture Capital Investor, the process of investing is much easier, financing can be done immediately after the agreement between entrepreneurs and investors. Due to this simplified procedure business angels are called informal investors and their investments informal investments.

According to research by University of New Hampshire based on companies that are in the initial public offering in the territory of the United States, the total percentage of companies with support from business angels of 2001-2007 was 5.8%. Also, research shows that market timing is generally better carried out in the case of financing by Venture Capital Funds. The reason for this is probably the increased pressure of partners of Venture investors in order to maximize return of money, or fact that Venture Capital investors have high expectations of the investment, and will not go through an initial public offering until it estimates that the value of the company has reached a high enough level. (Johnson, Sohl, 2012)

According to the same survey, investments of business angels and venture investors are different in various fields. For example, venture investors mainly invest in high technology and health care industries, while significantly less than in other areas. However, in all other areas larger investments are from venture investors, except in the case of consumer durable goods industry where greater investments are by business angel investors. When taking into account the performance of the company after the initial public offering, it can be concluded that the support of venture capital investors is a good sign for the quality and potential of the company. In contrast, in companies that are financed by business angels, this is often not the case. All this points to the differences that exist between the companies financed by venture investors and those financed by business angels. (Johnson, Sohl, 2012)

### ***THE IMPACT OF PRIVATE INVESTMENT FUNDS ON SMALL AND MEDIUM-SIZED ENTERPRISES***

According to the Law on Accounting and Auditing from 2006, small and medium-sized enterprises in Serbia are companies that meet at least two of the following three conditions:

1. Less than 250 employees;
2. The annual income of up to EUR 10 million;
3. The average operating assets to 5 million. (Law on Accounting and Auditing, 2006)

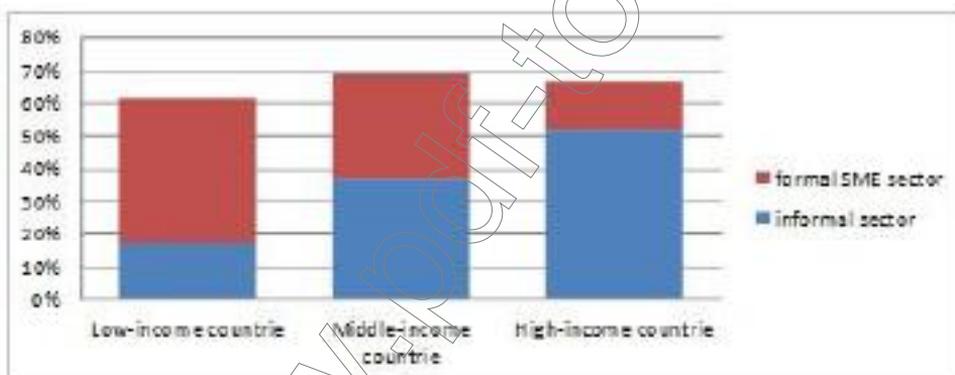
Small and medium-enterprises have an especially important role in transition countries that are faced with problems of high unemployment. These companies represent a pillar of the economy and the main carrier of increasing economic growth. In the process of transition in Serbia, which has not yet been completed, special attention should be paid to the development of small and medium-sized enterprises, so 2016 was proclaimed as a key to the reform process and the year of entrepreneurship. On the importance of this sector indicates the fact that the bank of the European Union from 2011 until now financed over 20 investment projects in Serbia, for which they give loans of the total value of 1.6 billion euros.

SMEs are important because of the flexibility of organizational forms, rapid adaptation to changes in the business environment, the rapid adoption of new ideas, generating new business in a bigger scope than large companies, as well as the rapid implementation of new methods and ways of working.

The importance of small and medium enterprises can be viewed from the perspective of their number. Thus, in 2012 in Serbia, the total number of enterprises was 83 631, of which the micro companies accounted for even 86.2%, 10.7% small, the medium-sized enterprises accounted for 2.5% and large companies only 0, 6% of this figure. This means that more than 99% of enterprises in Serbia are micro, small and medium enterprises (Vukosavljević, Vukosavljević, 2015, pp. 35), and it provides about 67% of total jobs. (Trbovich et al., 2014). In 2013 the total number of enterprises in Serbia even 98.8% made up of small and medium enterprises, which employ 65% of the total workforce.

Small and Medium Enterprises (SMEs) by number dominate the world business stage. Estimates suggest that more than 95% of enterprises across the world are SMEs. This translates to over 60% of private sector employment. (Ayyagari et al., 2011)

The largest number of small and medium-sized enterprises is engaged in trade (30%), followed by manufacturing (15.9%), professional, scientific and innovative activities (11.7%) and services in the field of transport and storage (10.2%). (OECD, 2016)



Graph 2: Contribution of SMEs to GDP (median values)

Source: (Edinburgh Group, 2013)

One of the most important decisions that businesses face in different stages of existence is the way of business financing. In our country is often mentioned that the financing of small and medium enterprises is one of the biggest problems. Sources of financing small and medium enterprises may vary depending on the stage of development and country. The definitions used by the European Venture Capital Association identify the following stages in a company's development. Possible sources of funding for each phase of are shown in the table.

Financing sources of SMEs by stage of development:

1. Seed stage (Informal: Personal savings, Friends/Family, Angel investors, Seed-stage VC firms Grants, Bank loan if available and needed);
2. Start-up stage (Informal/Formal: Angel investors, Microcredit, VC firms (seed/series A investor) Bank loan if available. Leasing for equipment);

3. Expansion stage (Equity from original sources, plus trade investments or venture capital, loans from bank. Other sources of finance including leasing and factoring)
4. Replacement Capital (Trade investment, venture capital or IPO)

In Serbia, the primacy still have the traditional sources of funding such as long-term and short-term financing through bank loans and financing through companies that have the ability to grant loans. Newer forms of financing, or "alternative" sources of financing, such as private equity funds, business angels or venture capital funds in Serbia still do not have a role that belongs to them.

Positive relationship between Venture capital and entrepreneurship confirm some empirical research, which confirmed that the growth in the supply of venture capital to SMEs stimulate the production of new firms as well as expanded offer of venture capital seems to raise employment and total income. (Samila, Sorenson, 2011) High-risk projects in the field of innovation and research leave no room for any other mechanism, the funds from the bank or find some other non-venture investments, creating a specific niche for venture investment. (Kolmakov et al., 2015) Increasing employment and income effects probably derives from the fact that the investment of capital to entrepreneurs to create value and implement ideas that they could not otherwise, which proves the initial hypothesis that alternative sources of financing, and private investors have great significance on development of entrepreneurship, small and medium businesses.

The first private investment fund, which was aimed to invest in small and medium-sized enterprises, was founded in the US in 1946 under the name American Research and Development - ARD. Over time, Venture Capital and private investment funds developed and expanded first in developed countries and then throughout the world. Special importance achieved during the 70's, early 80's and late twentieth century. During the year 2000 achieved a record amount of investments in the amount of 120 billion dollars in the United States. Overall, the average annual amount of investment of these investors amounts to between 40 and 50 billion dollars. (Eric et al., 2012, p. 72)

By investing in the small and medium enterprises, private investment funds affect the economic growth and development of countries in whose companies invest, given that both raise economic potential, effectiveness of management, business competitiveness, technological development, product quality and service, as well as influence on the development of the entrepreneurial spirit and the creation of new ideas.

Small and medium sized enterprises that have a problem to adapt to the market often have a problem with financing due to limited capacity and its size. This is particularly evident in countries in transition, which have to cross a long way to transition for the shortest possible time, or have a need for rapid transition from a controlled economy to a free closed market, regulated system of open operation of supply and demand.

Developing countries have shown a significant improvement in the sector of small and medium enterprises. However, research shows that in the transition economies,

where there is a lack of capital markets, there is a high degree of discrimination of some kind of entrepreneurial, small and medium enterprises. The ultimate cost of capital for small and medium enterprises is much higher than for large companies. For this reason, the development of small and medium enterprises need the loans and the investment of private capital. Financial companies in this case give the high interest rates on loans due to high risk, which in turn, will only accept entrepreneurs who have a high risk appetite. All difficulties with this kind of financing of small and medium enterprises can look for the cause in the lack of development of capital markets and the absence (or lack) of government intervention and support to the development of these enterprises through specific financial incentives. The state should, through a special government agencies to encourage the development of entrepreneurship and small and medium enterprises. (Stevanović, Petrović, 2015, pp. 89) In addition, private investment funds can overcome the shortcomings of the market and engage in financing of these companies, they often connect local companies with foreign companies, customers and strategic partners, which is also in the interest of the development of the existing market.

Many studies show that companies in Serbia are not sufficiently informed about the possibilities of financing through funds. For example, research by USAID from 2011 showed that 70% of small and medium-sized enterprises in Serbia are financed by its own funds, and 80% of companies that survive after the initial funding does not plan to use borrowed funds over the next year. This points to the fact that taking loans for small and medium enterprises is very expensive and complicated. (Trbovich et al., 2014)

Any form of financing has its advantages and disadvantages, including the financing via Venture Capital funds and private investment funds. Since the decisions by these investors in terms of selection of companies in which to invest does not yield easily so, the companies must be aware of the benefits and disadvantages of such providing of additional capital.

The most important thing in the process financing of small and medium enterprises in the case of financing by the Venture Capital and Private Equity Funds is that companies get easy funding sources, and thereby there is no risk of bankruptcy because financiers are becoming owners of capital, not creditors, as in the case of debtor - creditor relations. Enterprises in this way receive the consulting services of professional investors, and thus are focused on business growth and improving financial performance. Enterprises in this way more easily accept innovation and new organizational culture.

However, this form of financing has its drawbacks. As mentioned, each company can not receive funds from these investors. In addition, these investors are looking for high rates of return, so companies often feel fear of not being able to achieve the expectations of investors. Companies that come to the capital in this way are enterprises which have a high potential and are potentially highly profitable enterprises. Also, perhaps the biggest drawback is the loss of control of the existing owners of the enterprise, ie the fear of taking of the current owners, and the reason for this is probably the possibility of disagreements with current and future potential owners and managers.

## ***THE ATTRACTIVENESS OF SERBIA FOR INVESTMENTS***

Eastern European countries, including countries in the former Yugoslavia in recent years have pursued economic growth rates even much higher than developed countries. The main reasons for this growth are achieved foreign funds, which are invested through donations, foreign direct investment, loans to foreign banks. However, for the further development of the economy, and thereby development of small and medium enterprises, it is necessary to increase domestic sources of savings, and therefore volume of investments.

The effectiveness of the functioning of the sector of private investment funds depends on the overall state of the economy of a country. Perspectives of these funds should be seen in the context of overall economic reforms, the business environment and institutional framework of the country.

According to a survey by the World Economic Forum among 144 countries in 2014 to 2015., Serbia, according to the international competitiveness of its economy, took 94th place in the rankings with a score of 3.90. According to the same survey Serbia in the period 2013.-2014 ranked 101 place in the ranking among 148 countries, ie 93 place if the analysis counted only those countries that have entered the evaluation for the period 2014 to 2015. (Schwab, 2014) If these data are compared with data of the World Economic Forum for 2009, where 139 countries, Serbia occupies 96th place in an international competition with a score of 3.84 it can be seen that Serbia has made a slight improvement. This forward shift was not enough for Serbia to move slightly higher in the ranking by international competitiveness, and it is most likely because other countries have made a lot more progress. (Grk, 2011)

During 2013 in Serbia has increased the number of new jobs created by 18% compared to 2012, despite a reduction in foreign direct investment of 19%. However, Serbia is ranked fifth largest recipients of foreign direct investment in Europe in 2013. (Ernst, Young, 2014, pp. 17-18)

Results of this year's research about the attractiveness of Europe as a destination for foreign direct investment showed that Serbia in 2015 had a growth of 108% in the number of jobs created from of 5 104 in 2014 to 10 631. All of this speaks to the fact that the Serbia is more attractive for investment, which could be transferred to the investment from angel investors, Venture investors and other private investors.

### ***SEAF – SOUTH BALKAN FUND***

SEAF (Small Enterprise Assistance Funds) is an American global investment company with headquarters in Washington, which specializes in investing in small private enterprises in developing countries. SEAF investment company manages funds that carry out investments in the restructuring of debt and equity in locally owned companies that have great potential for growth. SEAF since its inception has invested in 25 emerging markets around the world through an international network of funds in Central and Eastern Europe, Latin America, Africa and Asia.

SEAF investment company has been active for more than twenty-five years. It was founded in 1989 as CARE Small Business Assistance Corporation (CARESBAC), ie property of CARE, an international organization for Reconstruction and Development. In this period, in most transition countries, large companies were state-owned and in need of privatization. This situation leads to high unemployment, and is necessary to strengthen the small and medium enterprises in order to give impetus to employment. The first fund of this group was founded in Poland in 1992. CARESBAC be separated from CARE in 1995 and became the Small Enterprise Assistance Funds (SEAF). SEAF was expanded in 2005 by establishing the Center for Entrepreneurship and Executive Development (CEED). By the end of 2015 SEAF has invested in more than 400 risky companies around the world . (Small Enterprise Assistance Funds, 2016)

SEAF South Balkan Fund is investment fund, which is part of the global investment company SEAF, which invest capital in private companies in Serbia, Montenegro and Macedonia. SEAF South Balkan Fund is a fund for assistance to small entrepreneurs that provides growth capital and operational support, which provides:

1. Cash funds for financing accelerated development (300,000 to 1,600,000);
2. Access to experts in finance, marketing, strategic and operational management;
3. Identification and access to additional sources of funding;
4. Connect with reputable strategic partners;
5. Improvement of professional skills (management, sales, marketing, finance);
6. Access to resources of global SEAF network. (Privredna komora Beograda, 2009)

SEAF fund is present in Serbia since 2006 and through its first fund in Serbia has invested over 10 million euros in local companies via recapitalization. In the period from the beginning of its operations in Serbia by the end of 2014, the Fund had invested in the following companies:

1. PC Centar (2007.godine);
2. Gomex (2007.godine);
3. Logo Holding (2008.godine);
4. A2B Exspress Delivery (2009.godine);
5. Finera Factoring (2010.godine);
6. Adore Chocolat (2010.godine).

By August 2013, the fund has invested 6,261,000 euros in these six companies. By that time it was estimated more than 1,000 companies, and established cooperation with more than 150 governmental and non-governmental institutions, and in addition is provided training for over 550 employees. Companies had an average 89% increase in the number of employees since SEAF investment, and created the possibilities of sustainable employment. (United States Agency for International Development, 2013)

SEAF fund does not invest in startups, and does not support the production of tobacco, alcoholic beverages (except if the percentage of alcohol below 15%), nor

weapons, gambling and all the activities that are harmful for human health or that harm the environment. The fund invests mainly through recapitalization, so called mezzanine loans (convertible loans). Recapitalization of are made only through a minority investment, a maximum 49% ownership. The idea is that companies with the help of training and management support achieve growth and in the next step to be ready for sale to a strategic investor or financial partner, or to the company as the majority owner subsequently redeem the holdings of its stake. (eKapija, 2014).

## **CONCLUSION**

Small and medium enterprises are the backbone of every economy, because of their numbers, the number of workers they employ and the impact they have on the development of innovation. The key to the survival of these companies, especially in the first stages of existence is the ability to finance new operations, growth and development. Traditional financing can have a devastating impact on the survival of these companies, which due to their size are often unable to withstand the bad conditions that creditors placed in front of them. That's why more and more in the world, and in our companies resort to alternative new ways of funding.

Business Angels, Venture Capital investors and private equity funds are usually the best alternative for financing new businesses in the early stages of development. In this case, are developed proprietary relations between companies and investors, rather than debtor-creditor, as is the case with, for example, bank financing. Of course, this way of investing has its drawbacks, but they often compensate for the advantages of this financing and are far greater than those of its bad side. There are differences in the functioning of these investors, and are based primarily on time as a criterion for entry into the investment, the level of risk that take, and the area which is the most common subject of interest for funding.

Enterprises in most countries in the world, both developed and undeveloped, are still not sufficiently aware of the possibilities of financing from these investors. In Serbia companies are poorly informed on the subject, a general and in the region companies still do not obtain additional capital in this way. It is necessary to improve the awareness of SMEs about alternative sources of funding and involvement of governments and other institutions in the convergence of these issues and presenting these opportunities to private enterprises.

Serbia represents more and more attractive place to invest, and that indicate evaluation of various researches, how individual authors, as well as domestic and foreign institutions. Due to the improvement of the competitiveness of the state and increasing growth rates, it is expected greater progress of small and medium-sized enterprises, and the growing offer of capital by investors such as business angels, Venture investors and private investment funds. In the future, for country's economic development and improvement of the business environment of the country for the success of companies and investors is very important support of the state and all other institutions of importance. For now, the state showing willingness to support the development of SMEs, but it is necessary to take a much larger role than ever in achieving this task.

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## **SANCTIONS WARS AS A FACTOR IN THE DEVELOPMENT OF AGRICULTURE IN FHERUSSIAN FEDERATION**

*Ekaterina Darda*<sup>59</sup>

### **ABSTRACT**

*In 2014, a ban was imposed on the import of food products of several countries, as a response to sanctions imposed against Russia, which led to a significant reduction in the volume of import to Russia agricultural products and that has resulted in a powerful impetus for the development of domestic agricultural production. All of the above-mentioned leads to the relevance research study carried out by the government from the standpoint of determining the main trends and to assess the impact of the food embargo on the development of domestic agricultural production. The methodological basis of research carried out in the article are the statistical methods of analysis of the main indicators of the development of agriculture, which allow to obtain a quantitative assessment of the industry.*

**Key words:** *Agriculture, Food Embargo, Peasant (Farmer) Households, Employment In Agriculture*

**JEL Classification:** *Q18*

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## **INTRODUCTION**

In response to the imposed by a number of Western countries sanctions against Russia on August 6 2014 the President of Russia banned the import of agricultural products by his special Decree which touched the European Union, USA, Canada, Australia, Norway, Iceland, Albania, Montenegro and Liechtenstein. The list of prohibited imports of agricultural products includes the following: meat and dairy products, fish, vegetables, fruits and nuts.

As a result, in the first year embargo imports to Russia from the countries of fresh and chilled fish decreased by 66%, poultry – by 44%, butter – by 38%, cheese and cottage cheese – by 37%, frozen beef – on 37%. Along with this, for a number of goods was revealed an increase in imports due to the redistribution of exports from other countries.

Adoption of the food embargo was the catalyst for the development and so intensively developing domestic agriculture.

## **RESULTS**

### **FORMATION OF A NEW CLASS OF ENTREPRENEURS IN AGRICULTURE**

Historically, the development of agricultural production in the post-Soviet period can be distinguished into two stages: first one comes to the 90s of the last century and was characterized by crises with a significant reduction in the volume of agricultural production.

However, during the same period in the agricultural sector a new class of entrepreneur - the peasant (farmer) households begins to form. During the administrative-command system, only two producers existed in the country: large agricultural enterprises and private farms or households. Formation of market relations contribute to the creation and development of this type of business. By the beginning of 2011 the number of private (peasant) farms was more than 200 thousand households.

It should be noted that, compared with 1990, the increase was more than 50 times. In the early 90-ies of XX century, the share of private (peasant) households accounted for less than 1% of total agricultural production, and the beginning of 2000 there occurs a redistribution of agricultural products market structure and the share of private (peasant) households already accounts 3%.

During the early years of the transition period (1990 and 1998), the volume of agricultural production decreased by almost 50%, including a reduction in the volume of crop production was 41%, livestock – 50,7%.

A similar pattern was traced dynamics and for certain types of agricultural production (Fig. 1).

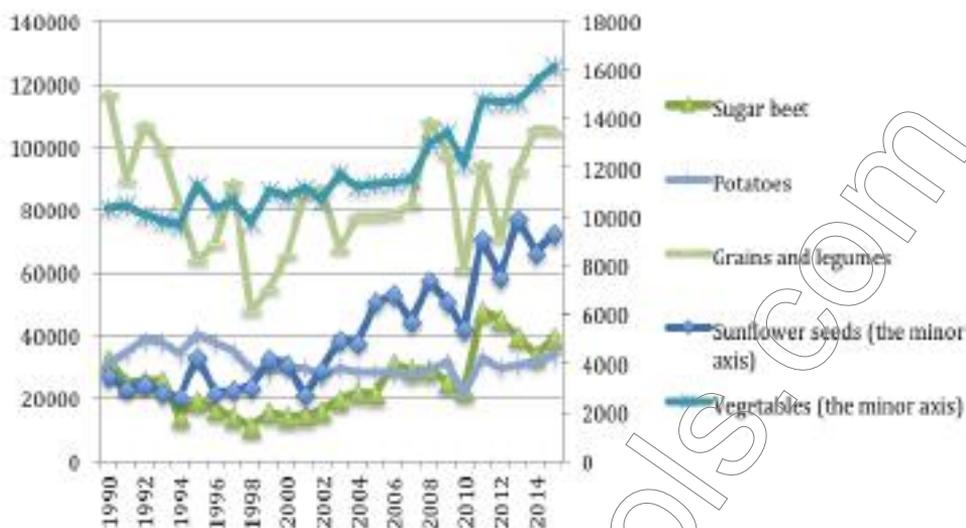


Figure 1: Production of main plant products in the Russian Federation in 1990 - 2014.

Thus, the decline in gross harvest of sugar beet during the period 1990-1998. It amounted to 66,6 percentage points. Since 1997, it turned to be a positive trend: the average annual gross yield increased by 7,9% or 1660,9 thousand tons. The highest growth was observed in 2011, when the gross harvest of sugar beet grown in 2,14 times. Such high rates of gross harvest of sugar beet remained until 2015. The main factors contributing to a significant increase in the production of sugar beet, were an increase in acreage and high productivity, which in 2013 reached its maximum value for all history of Russia – 432 kg / ha. It should be noted that such a rapid development of the industry has a positive impact on the food security of the country, because it allows you to form a stable raw material base of the sugar industry.

### **DEVELOPMENT OF CROP PRODUCTION**

Russia has always been a leader in the world grain harvest: in 1990, corn and legumes were collected 116675,67 thousand tones, however, the restructuring of the economy in general and agriculture in particular, has led to the fact that by 1998 gross yield decreased to 47771 thousand tones, i.e. the drop was 59%. Since 1999 there has been growth in the gross grain harvest in the annual average by 4,7% or by 3354 thousand tones.

Most crisis-crop production was the cultivation of sunflower, vegetables and potatoes: gross harvest of vegetables with a slight reduction in the period of 1990-1994 at a rate of about 7%, it had a strong positive trend and by 2015 reached 156,0% of the 1990 level.

A similar pattern can also be seen in figures of the gross harvest of sunflower. In 1990 production amounted to 3427 thousand tons in the period from 1990 to

1994 production fell by a quarter, but then came the phase of stable growth – at an average annual gross sunflower seeds increased by 6% and amounted to 9260 thousand tons by 2015. Thus, compared to 1990 sunflower production increased by 2,7 times: in 2014 produced 4,5 million tons of vegetable oil, but domestic consumption has gone only 2,3-2,5 million tons. Exports almost doubled in the past few years, and in the future this trend will continue.

Gross harvest of potatoes in the period 1990-1997. It has been consistently high and averaged 35 956 thousand tones per year. Since 1998 there was a sharp fall in – the average annual gross harvest amounted to 29019 thousand tones. This evolution was largely due to a high share of private farms in the market of the product: in 1990 the share of private farms accounted for about 66% of the production of potatoes and 30% of vegetables and have 90% in 2000, 75% of potatoes and vegetables. In 2015 large farmers occupy the lost ground in the market of vegetables and potatoes, as well as strengthening the peasant (farmer) economy, but the share of private farms in the market is substantial, and accounts for 67% of the production of vegetables and 77,6% of potato production.

### ***FORMATION OF MARKET RELATIONS IN ANIMAL HUSBANDRY***

Speaking about the development of agriculture from the perspective of food security of the country, the main attention should be paid to livestock, livestock products because it meets the needs of the population in the meat, milk, eggs, honey, as well as a supplier of raw materials for other sectors of the economy. However, as noted earlier, it is the country's largest cattle-breeding complex way affected during the transition period (Fig. 2).

So, by 2000 milk production accounted for only 58% of the 1990 level of production. In this period there was a steady annual reduction by an average of 2345,6 thousand tons per year, or 5,3 percentage points. The greatest decline in production was observed in 1992, when the decline amounted to 4,7 million tons from the previous year, or 9,1 percentage points. Further dynamics indicates the absence of any trends, i.e. Since 2000, there has been a process of milk production stagnation. To date, the milk and dairy products Russia self-sufficient in only 60%.

A similar situation exists in the production of meat: for of 1990-2000 the volume of production of livestock and poultry for slaughter in slaughter weight decreased by more than half, and in 2000 was 42,7% compared to 1990. The average annual production fell by 9 percentage points or 644,3 thousand tons. The largest absolute value, the decline observed in 1995 and was 15 percentage points from the previous year's level. Since 2000, there has been steady growth in meat production (average for the year the increase was 5,1%). It should be noted that the rapid growth of meat production occurred, mainly due to the production of poultry meat – it increased by more than 6 times in the last 16 years.

Another strategically important product from the perspective of food security – the egg. It is not only used as food but also an important raw material for the further development of poultry production. It should be noted that the production of this type of production has been the most crisis: drop it in production lasted until

1996 and was only a third of the volume of production in 1990, and the largest fall in output occurred in 1995, when it fell by 10% the level of the previous year [5].

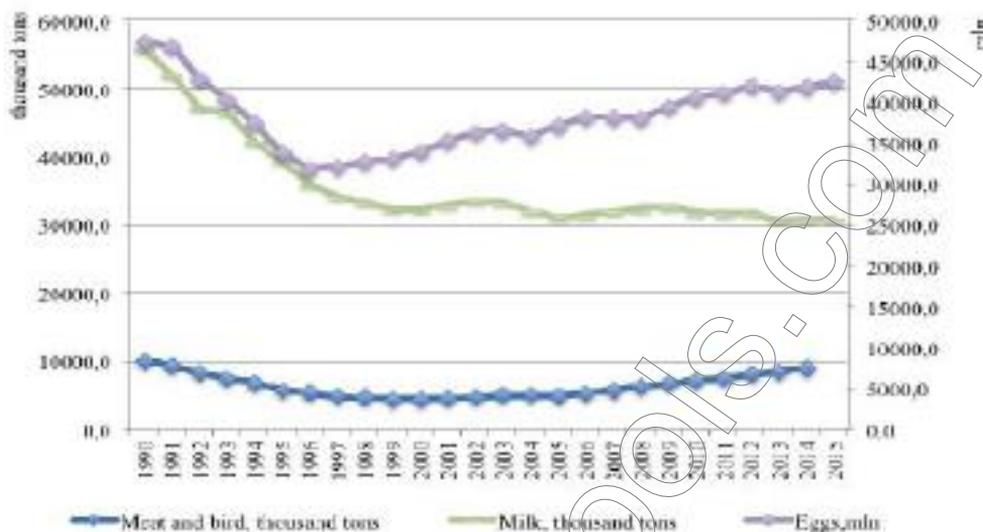


Figure 2: The main types of livestock products in the Russian Federation in 1990-2015.

## **ENTREPRENEURSHIP DEVELOPMENT IN THE AGRICULTURE OF RUSSIA IN XXI CENTURY**

Since 1997, there has been a steady growth in annual egg production and by 2015 the volume of production increased by one-third from the 1996 level, but did not reach the 1990 level given the nature of the dynamics is largely due to the peculiarities of the sector: on the one hand short cycle of production process is largely increase the turnover of working capital, and, on the other hand, poultry and egg are more in demand in the market due to its affordability, making this production more cost-effective than the production of pork or beef.

The second stage occurs at the end of 90th – the beginning of the 2000s, when the trend changed and the process of growth of agricultural production begins. Since 1999, agricultural production volumes are included in the zone of positive growth, but do not give a stable positive trends and periods of growth followed by periods of decline.

Over the past 15 years, the development of agriculture in Russia is characterized by intensive growth of crop production and some of the individual types of livestock production. In general, during the reporting period, the growth of agricultural production amounted by 152,4%, while the production of crop products grew by 63,5% and livestock by 35,4% [2].

Looking at more detail tendency in agricultural production, it should be noted that the growth in production volumes of certain types of crop products: grain, potatoes, sugar beet and sunflower allowed reaching such a level that became

possible export. Livestock did not develop so rapidly that a number of reasons: a significant reduction (60%) population of farm animals, the lack of sufficient investment and state support [7]. Exceptions are pigs and poultry, in the period since 2000, pork production increased by 88,4% or 1395,7 thousand tons, while the production of poultry meat – 5,4 times and reached the level of 4161,4 thousand tons.

In 2015 indicators for grain, sugar, vegetable oil are made, and a significant increase in grain and sunflower production will increase the amount of exports up to 20-30%. A similar situation exists in the production of sugar, which was achieved by the rapid growth of the raw material base.

Speaking of the food embargo, as one of the factors in the development of agricultural production, it should be noted that only the first half of 2015 the production of food (including beverages and tobacco) increased compared to the same period of the previous year by 2% (excluding tobacco growth It amounted to 2,5%). Especially distinguished producers of cheeses, which showed an increase of 27,5%. At 26% increased production of canned vegetables, by 13,2% – meat, at 11,4% – poultry, by 8,5% – drinking water, by 5,8% – fish and products from it [6].

According to Rosstat, in 2015 the gross yield of wheat increased by 3,5%, maize – 16,2%, 30,1% buckwheat, leguminous crops – by 7,3% [10]. Also showed steady growth in certain types of industrial crops, potatoes and vegetables are both open and closed ground. Positive dynamics was observed, and the main types of livestock production: in 2015, compared with 2014 growth of meat production was 4,4%, eggs – by 1,7% [11].

As of mid-august 77,4 million grain harvested in Russia. Tons, including wheat 53,5 million. Tons, which is higher than in the same period of 2015 by 26,2% and 21,3%, respectively. The International Grains Council (IGC) raised its forecast for grain production in Russia up to 110,8 million tons from 98,1 million tons previously, while wheat production is forecast by 70 million tons [9].

During the first seven months of 2016, meat production increased by 7,6%, compared to the same period last year, eggs – by 2,1%.

## **CONCLUSION**

The rapid development of the production to a greater extent is due to the formation of favorable conditions for business activities, as imposed restrictions on imports of agricultural products, to some extent reduced the saturation of the market and caused a decrease in supply in the agricultural market. As a consequence of increased the pent-up demand for the products of this segment of the market. Farmers have received the most favorable conditions due to the expansion of demand for domestic agricultural products. All this has led to an increase in business activity and as a consequence to a significant increase in business activity.

For the first seven months of 2015 the number of newly registered private (peasant) households was 18700, which is 49,0% more than the same period in 2014. (Peasant) households registered 18500 Russian citizens, which exceeds by

48,3% the same period of the previous year and 162 foreign citizens that is more than 2,3 times in the first seven months of 2014.

The growing number of businesses and an increase in production led to an increase in the agricultural production of the country. When in August 2014 the number of people employed in agriculture amounted to 16 745 thousand people, a quarter of which were aged 40-49 years, by August 2015 the number of employees reached 17018 thousand people, and a little less than a quarter – 24,5% at the age of 30-39 years.

It should be noted that a positive trend was also observed in the labor remuneration indicators that should be considered as a result of revival of business activity. If in 2013 the average monthly salary amounted to 15724.7 rubles, then by 2014 it already amounted to 17723,7 rubles, and in 2015 reached 19721,1 rubles [8, 9].

Despite the positive aspects, it should be noted a number of problems that hinder the further development of the Russian agricultural industry. Recently, about 95% of seed stock of the country, 100% breeding egg chickens and turkeys that are used in the production must be purchased abroad. All this, to a large extent, makes the further development of the industry is extremely dependent on the political situation in the world. It should also be noted that the imposition of Western sanctions against the Agricultural Savings Bank and led to a reduction in «cheap» loans volume and, as a consequence, reduce the availability of credit to farmers.

However, sound public policies that are directed to support domestic agricultural producers allowed to avoid a crisis in the industry and contributed to its intensive development. Thus, we believe that the introduction of the food embargo was not the only factor in the development of agriculture in Russia, but also a key element in restoring the country's food safety system.

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## **THE STATE AND PERSPECTIVES OF DEVELOPMENT OF THE CREATIVE INDUSTRY OF SERBIA**

Milan Krstic<sup>60</sup>,

Ana Skorup<sup>61</sup>

### **ABSTRACT**

*In the era of information society, creativity is becoming an increasingly important factor and takes on new roles. On one hand, the role of creativity is reflected in the fact that creativity has a positive influence on innovation which clearly reflects the competitiveness of businesses, and ultimately contributes to increasing overall economic activity. On the other hand, the role of creativity refers to the development of a new segment - the creative industries sector, which provides about 7 percent of gross domestic product worldwide. That was the reason to consider and analyze the current state and prospects of further development of the creative industry in Serbia. Therefore, the authors of this paper undertook a desktop research based on the study of the available literature sources, in order to comprehend the current range of this sector as an important economic activity. The study included theoretical consideration of creativity and the creative industries with a particular emphasis on the state of development of creative industries in Serbia. It was concluded that there is a serious gap between the current state of development and opportunities for further development, which refers to the insufficient utilization of available resources (available talents, the education level of employees, the state of intellectual property protection, etc.) and especially if we take into account the possibility of connecting of mentioned sector with other economic activities (for example tourism, etc.). One of the main obstacles to the further development is the very low level of institutionalization of the sector. It was concluded that further development requires to build up the institutional framework of creative industries in Serbia. In this sense, the paper presents a proposal (draft) of above mentioned institutional framework and the manner of its management.*

**Key words:** Creativity, Creative Industries, Research, Serbia

**JEL Klasifikacija:** O31, O32

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## INTRODUCTION

For a longer period of time back the key incentives of the economic development and success of economic subjects have been the factors of productivity of the employed, the efficiency of the planning process and the efficiency of labour. Lately, the mentioned opinion has changed in favour of other factors, before all, creativity, and it happened in all the aspects of business, starting from the strategy and culture, through innovations all the way to the engagement of customers. (Wadhvani D, 2014)

In management, the problems appear when there is a difference big enough between new situations and the existing state, and their solution often requires completely new solutions. However, it is not always easy to get to the solution of the problem the usual way just by logical thinking, since logical thinking uses our existing knowledge to which it applies the rules of concluding and progresses step by step, where each new step depends on the previous step. In that way the new opinions are more the extension of what we already know, instead of being something really new. Creative problem solving is before all the consequence of certain defects in applying logical thinking to creation of novelties. The novelties require a different way of thinking which applies imagination, analogies, associations and other mechanisms which can be helpful with productive problem solving. That is way creativity has become a very modern topic over the last few decades. (Proctor T, 2006).

The current economic paradigm is *Economics based on knowledge* which is defined as “economics directly based on manufacturing, distribution and usage of knowledge, where there is a high level of correlation between the involved protagonists, and knowledge is widely used and applied in all the ways in economic activities” (Krstić, M. 2013). In economics based on knowledge, creativity is undoubtedly a significant driving force of the economic growth and the key strategic resource for increasing competitiveness (Ravić, N., Ravić, V., 2015). Apart from the fact that creativity is important in all the segments of economy, a new economic sector has been built on creativity – creative industry.

According to available data, as viewed in global proportions, creative industries create more than 7 % of the total gross social product in the world, with the growth of 10 % per year. Thereby, the higher development of the countries is, the bigger the participation of creative industry is. (DN, 2015)

The sector of creative industry integrates more creative industries whose products are predominantly the consequence of individual creativity, skill and talent which eventually result in intellectual property. In that way, functioning of creative industry is based on exploitation of intellectual property.

The sector of creative industry comprises various kinds of creative industries (activities) such as: publishing, printed media, graphic industry, advertising industry, music production, film production, radio and television production, theatre, design, IT sector.

Respecting all above mentioned, especially the potential which can be seen in development of this sector of economy, it has been estimated that it would be very useful to perceive the current state of development of this sector. In accordance with the stated it has been decided to conduct a **research** of theoretical character with the **aim** to establish the current state of development and perceiving the opportunities for further development of the sector of creative industry of Serbia in the future. The research was set on an **assumption** that the creative industry sector possesses significant potential for further development of economic activities in Serbia, for which no further capital investments are needed. In that sense the strategy is to apply **methodology** of research based on the desk top research which is based on studying the available bibliography sources on which occasion the relevant data would first be collected from the stated domain, subsequent processing of thus received data, and based on the conducted processing the results would be analysed. The research was conducted by the authors in the period from August to September 2015. The results of the stated research are shortly presented in this paper. First the results of the research of creative industry as a phenomenon are presented, and then the results of the research of creative industry from the theoretical viewpoint are presented. Afterwards the focus of the research is switched to perceiving of the existing institutionalised framework, including the perception of the state and perspective of creative industry in Serbia. Based on conducted analysis of processed data it was concluded that there is a serious gap between the current state of development and opportunities for further development, which refers to the insufficient utilization of available resources (available human resources necessary for creative industry- talents, the sufficient and available education level of employees, the insufficient education level of employees on the account of the state of intellectual property protection, etc), especially if we take into account the possibility of connecting the mentioned sector with other economic activities (for example tourism, ecology, etc). In the end the findings of the research are presented and results discussed within which the main obstacle to the further development of the creative industry sector in Serbia is presented, as well as the proposal for its overcoming.

## **FROM CREATIVITY TO CREATIVE INDUSTRY**

### ***Creativity***

Creativity is a multidisciplinary and multi-layered phenomenon. It means that it can be considered from the viewpoint of several scientific disciplines (sociology, psychology, economics, management,...) and also from different levels, in that sense from the level of an individual (micro level), a group, (mezzo level), and industry (macro level).

The efforts of numerous theoreticians and practitioners within the mentioned scientific disciplines have resulted in a highly developed theory of creativity.

Within the scientific disciplines of **sociology** and **psychology** the developed theories of creativity have gone through a multi-levelled evolutionary development

which started with the theory *The Principle of inner motivation of creativity*, went through *The Componential Theory of creativity: social-environmental powers in context* and have currently reached the development of theory *Intrreactional framework for organizational creativity*. (Amabile T., Pillemer J, 2012)

Within the scientific discipline of **management**, creativity is usually considered as the first and integral part of the innovation process, Figure 1.

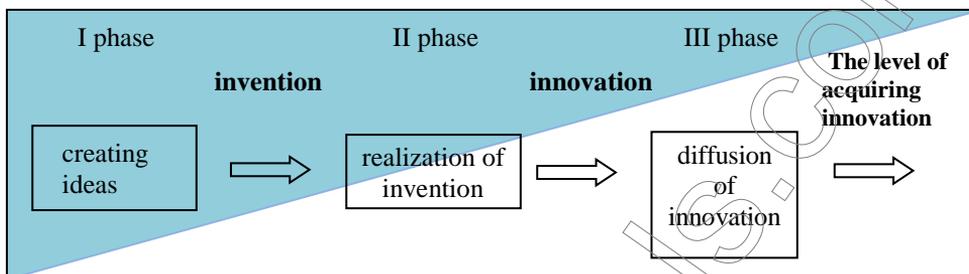


Figure 1: Phases of innovation process

Source: (Krstić, M, 2013) expanded

From this point of view the first phase of innovation process consists of creating ideas, or the creative activity where the creative abilities of an individual predominantly become prominent. Creative abilities of an individual can be seen in the fact that experience and other relevant elements novelties are created based on intuition, perception and imagination, as well as knowledge. (Krstić, M, 2013). It is important to emphasize that creativity is present during the whole innovation process, and mostly during the first phase, so that it would decrease during the following phases (which is presented by a shadow in Figure 1).

Within the scientific discipline of **economics**, creativity is mostly viewed from viewpoint of the connection which exists between creativity and innovations. Having in mind that innovation represents commercialization of an idea, it appears that creativity is also indirectly connected to economics. “Creativity is not necessarily an economic activity, but that is what it can become when it produces an idea with economic implications or a product which can be traded” (Howkins J , 2001).

Due to mentioned reasons, a bigger number of various definitions of creativity exists, depending on which point it is viewed from. According to (Bilton C, 2007) “Definitions of creativity are pervaded with ideas of duality and paradox, merging of various ideas into new, unexpected structures, about uniting innovativity and values, pervading of various styles of thinking, rational and irrational. Such unions can be accomplished by extraordinary individuals, but it is achieved more easily through networks and systems.

Two definitions will be presented in this paper and they are:

According to (Franken R, 1993), by which creativity is “the tendency for generating or recognizing ideas, alternative or opportunities which can be useful in solving problems, communication with others, for self-entertainment also, or entertainment with others.”

According to (CAW, 2014) “Creativity is turning a new and imaginative idea into reality. Creativity is distinguished by the ability of perceiving the world in new ways, finding hidden patterns, making a connection between two seemingly unconnected occurrences and generating solutions.” From the stated definition it turns out that creativity involves two processes: thinking and generating ideas and acting on ideas. If somebody has ideas, but does not undertake anything for them to come true, he can be said to be imaginative, but not creative as well, however, if he actively works on those ideas to come true, then he is creative.

Based on perception (Pink D, 2006) who defines economic developments of society through several eras and those are: 1. Agricultural era (agriculturers); 2. Industrial era (industrial workers); 3. Informational era (workers of knowledge); 4. Conceptual era (creators and empaths), it is evident that in the current stage of economic development of society creative people play a significant role.

As mentioned before, creativity apart from individual can be perceived from organizational viewpoint as well, i.e. from micro, mezzo, and macro organizational level. Two developed organizational models of creativity should be particularly emphasized here, the componental and interactional model (Cokpekin Ö, Knudsen P. M, 2011):

**Componental model** defines conditions necessary for development of creativity and innovation and it examines the relationship between them. In this model, creativity is connected to individuals, while innovation is described as an organizational phenomenon. It deals with issues how to motivate an organization for innovating, resources needed for the innovation, and adequate managing practice which suits the innovation. The mentioned components taken altogether stimulate creativity, which in return feeds innovations with new ideas if the firm is motivated to innovate.

**Interactional model** defines the situation and factors with a special reference to the interaction between individuals, groups and organizations. This way the model within the organization identifies factors which stimulate, or starters (“improvers”) or slow-downers (“restrictors”) of organizational creativity.

Organizational creativity which is manifested on all three levels, in that sense individual, group and organizational, is important for improving partial competitiveness of economic subjects, which is subsequently manifested on the economic development of society as a whole on the macro level.

Organizational creativity apart from the mentioned can have some influence on the development of “purely” creative industry, which is described in more detail in the next chapter.

## ***Creative industry***

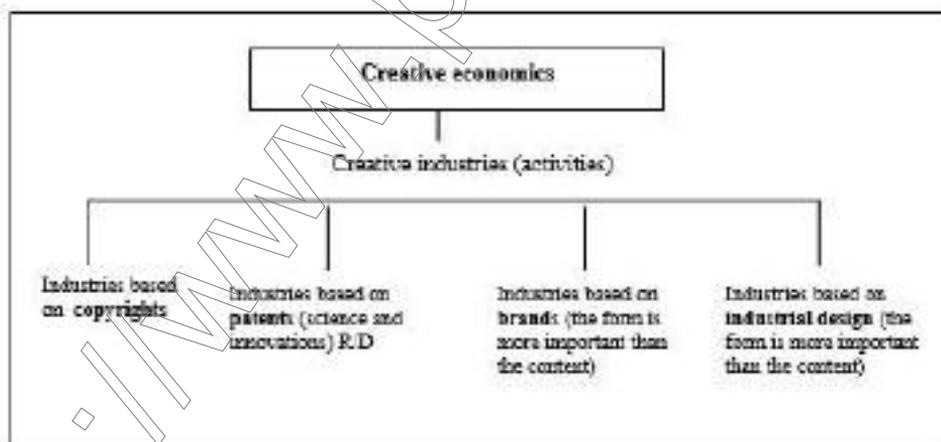
Creative industry is a term of a relatively newer date and it presents the redefining of an earlier term of the “cultural industry” (EKIİK, 2015), which implies “creativity of an individual, skill and talent”, which was not general enough to comprise the latter wider perception of the role of culture and creativity in economics. That is why a term which has a wider conotation – creative industry - was adopted by the government of Great Britain in 1998.

Today more definitions of the term of creative industry exist, where all of them contain several mutual points, and they are: creative industries are based on skills, talents and creativity of an individual; they are developed through creating and use of intellectual property, their aim is accomplishing economic profit and opening new work posts.

In this paper the definition according to (Biton C, 2007) will be adopted by which creative ndustry is based on “creativity, skill and talent of an individual and creating intellectual property”.

Creative industry becomes a constituent part of the traditional economic chain of value, in which the products go from the manufacturer (deliverer) to the consumer (user).

The following creative industries (activities) can be counted as dominant fields of creative industries: design, (electronic) publishing, communicational technologies, fashion, film, video and photography, softwares, computer games, music, visual and performing arts, architecture, crafts, advertising, radio and television, which taken together make a special economic sector - creative economics.



*Figure 2: The sector of creative industries (activities)*

*Source: Authors*

The common characteristic of all creative industries (activities) is that all of them have a certain creative product as a result – intellectual property. Creative

product is most often the result of individual, group and organizational efforts (shown through the creative and managerial team), Figure 3.

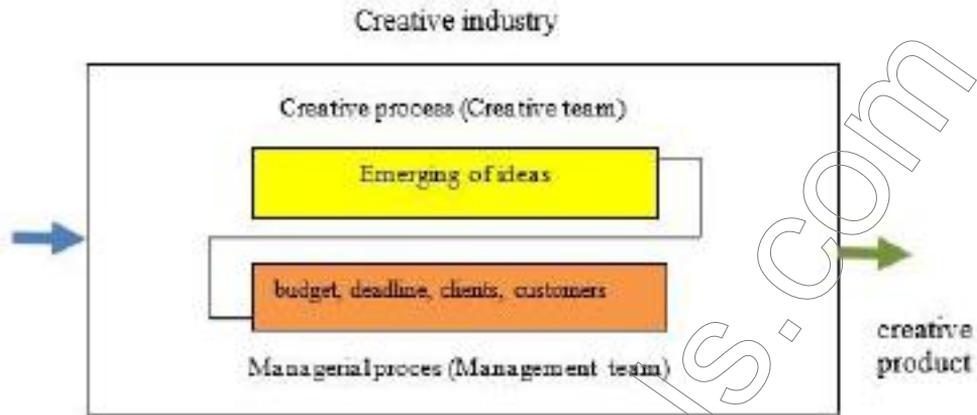


Figure 3: The process of creation of a creative product

Source: Constructed based on (Bilton C, 2007)

Creative industries lie on creative products, which represent intellectual property. Having in mind that the sector of creative industry integrates different creative industries (activities), there will also be different kinds of creative products, which depends on the shape of the intellectual property that the product belongs to. Intellectual property can be divided into industrial property, copyrights, related rights, Table 1. All these industries (activities) which can produce any of mentioned intellectual property can be included in creative industries.

Table 1: Division of intellectual property

| Intellectual property                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Industrial property                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Copyrights                                                                                                                                                                                                                                                                                                                              | Related rights                                                                                                                                                                                                                     |
| <ul style="list-style-type: none"> <li>• Patents and small patents</li> <li>• Signs of differing               <ul style="list-style-type: none"> <li>• Stamps (business and brand)</li> <li>• Industrial design (models and samples)</li> </ul> </li> <li>• Marks               <ul style="list-style-type: none"> <li>• The name of origin</li> <li>• Geographic</li> <li>• Origin</li> </ul> </li> <li>• Topographies of integrated circuits</li> <li>• Sorts</li> </ul> | <ul style="list-style-type: none"> <li>• Written works</li> <li>• Spoken works</li> <li>• Dramatic works</li> <li>• Music works</li> <li>• Film works</li> <li>• Works of art</li> <li>• Works of architecture</li> <li>• Cartographic works</li> <li>• Plans, sketches, models and photographs</li> <li>• Theatre directing</li> </ul> | <ul style="list-style-type: none"> <li>• Interpreter</li> <li>• Manufacturer of phonograph</li> <li>• Manufacturer of videogram</li> <li>• Producer of shows</li> <li>• Constructor of a data base</li> <li>• Publisher</li> </ul> |

Source: Krstić, M, 2013.

So, creative products present immaterial goods or spiritual creations (“a product of the human mind”) which are the result of creativity and intellectual work, i.e. creator or producer (innovator, inventor, author), and they are liable to

protection of the intellectual property. The owner of the rights of intellectual property acquires the right to prevent their possible unauthorized use. (ZIS, 2009)

Intellectual property is thus, the right of property which came out of creative (inventive) activity and it represents the product of human mind- intellect. It is impalpable by its nature, and to be protected it is necessary for it to be expressed in a recognizable way first. Otherwise, intellectual property can be handled as any other property, it can be sold, bought, licensed, exchanged, given, presented.

This way, creative industries are becoming an important segment of economics of society which, thanks to organizing of creative individuals directly contribute to the increase of GDP. Apart from that creative industries, as key components of creative economics, also have significant potential for viable development. That is why the process of creative industry development can induce the development of other segments of economic development such as the development of cultural tourism, “urban regeneration” which is often accomplished through protection and use of cultural heritage, and other. Creative industries can induce wider inter-sector cooperation in many fields such as culture (and entrepreneurship in culture), IT (also entrepreneurship in IT sector), economics, tourism, economy, ecology and other. (DKES, 2014)

### ***INSTITUTIONAL FRAMEWORK FOR DEVELOPMENT OF CREATIVE INDUSTRY IN SERBIA***

The practice of managing innovations shows that ideas without support “wither as roses without water” if they are not managed the right way. The situation is similar when the creativity is in question. Since creativities and innovations are in direct relation (in accordance with interpretation of creativity from the viewpoint of management, creativity represents the first phase of the innovation process), and that also the segment of creative industry directly makes creative output for its commercialization, it is obvious that creative industries (activities) deserve to be given all the necessary support. It is essential to get that support from the national level and that the development of creative industry (activities) has a systematic approach.

Systematic approach of creative industry (activities) development implies that her goals are clearly defined in the national plan, and that the adequate Institutional framework for the development of creative industry in Serbia was made.

Just a glance at the relevant institutional constituents points out that the institutional framework for development of creative industry in Serbia has not been constructed. It is true that there are some hints about its establishing, but it all comes down to only partial elements without a genuine wish for its constitution.

The analysis of the Book of regulations about the inner organization and systematization of work places in the Ministry of Culture and Information from March 2013 between other sectors pointed out that the Sector for contemporary creativity and creative industries (MKI, 2005) was foreseen by the organizational scheme number 2, by which the will was explicitly expressed to give enough significance to this segment of creative industry (out of IT sector which is

otherwise under the competence of another Ministry). However, judging by other following documents, there is an impression that that is just of formal nature.

The analysis of the state of intellectual property in the Republic of Serbia for the period from 2003 to 2009 (SNTRRS, 2010) by structure (institutes and faculties, companies, physical persons) in the view of applied technical solutions (patents, pilot plants, new sorts, innovations, technological advancements), Figure 4 clearly shows that the intellectual property of this shape is poorly protected in Serbia. In the previous period (2003-2007) in the field of technological development and apart from 2700 realized technical solutions, the number of solutions reported by the scientific and researching organizations (54) and companies (155) is minor compared to physical persons (2497). Overall, these results place the Republic of Serbia in almost the last place in Europe.

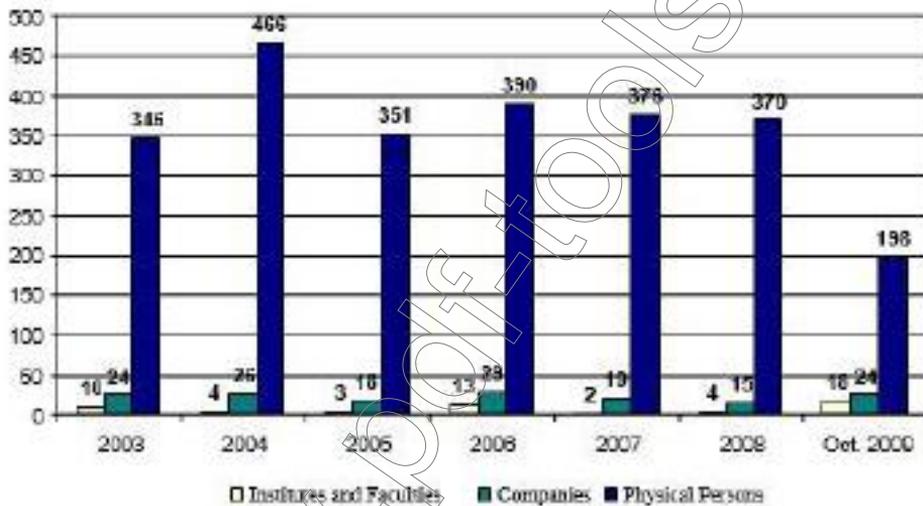


Figure 4: The structure of applying patents of domestic applicants  
Source: SNTRRS, 2010

The analysis of the Strategy of intellectual property development for the period from 2011 till 2015 (SRIS, 2011) among other preferential goals which should be accomplished by 2015 emphasizes the goal that “authors and interpretators on the one side and creative industry on the other side recognize that the main lever of their economic functioning is the right of the intellectual property, so they improve the skilled level of their mutual law transactions.” To what measure has this goal been achieved can be discussed.

The Analysis of Strategies of development and support to the industry of information technology in 2013 (SRIPIT, 2013) shows that the Industry of software and IT services will be stimulated and supported by Agencies for Foreign investments and promotion of export (SIEPA). Among other things irrevocable funds will be given intended for the “protection of industrial property (the costs of stamp registration, the design of integrated circuits, industrial design and depositing software as an author’s work)”.

The analysis of the website of the Chamber of Commerce and Industry of Serbia (PKS, 2015) shows that creative industries are mentioned on the level of description as “The Sector of creative industry includes publishing, printed media graphic industry, advertising industry, music industry, film industry, design, radio and television.”

The analysis of the website of Belgrade Chamber of Commerce (PKBG, 2015), also shows declarative pleading that “Creativity is an important strategic resource for increasing competitiveness in economics based on knowledge.”

### ***THE STATE AND PERSPECTIVES OF CREATIVE INDUSTRY IN SERBIA***

How much significance is given to this sector in Serbia is best shown by the fact that it is almost impossible to get to the data about the state and perspectives of creative industry in Serbia from the official sources such as standard reports of The Institute for Standardization: The Statistical Calendar of the Republic of Serbia-2015, or the request for generating special reports from the Database.

One of the rare researches on the subject of creative industry conducted among the employees of the creative sector of western Serbia, by the Centre for research of creative economy (B&F, 2015) has shown the following values of indicators:

- the total of engaged in the sector of creative industries: 1200 employed
- the structure of a personal impression of the employed: as artistic and cultural creators 90%, participants in creative economics 10%
- the structure of employed by gender: male (68%), female (32%)
- the structure of activities: visual art 45%, publishing 10%, ICT 6%, electronic media 5%, and the rest 34%.
- the structure of economic subjects: entrepreneurs 59%, unprofitable organizations 26%, public institutions 15%.
- the structure of age of economic subjects: 10 years on average
- the structure of the number of the employed in the company: 3 employees on average
- the structure of business premises: owned space 75%, rented space 25%.
- the structure of defining the creative product: not able to define 50%.
- the employed are not acquainted well enough with protection and exploitation of the intellectual property

Thus, (RTS, 2014) specifies the branches of economy and fields which are comprised by creative industry – “graphic industry, publishing, discography, bookselling and distribution of books, cinematography, radio diffusion organizations, advertisers, agencies for market communicating, but it emphasizes that it is the branch of economy not recognized enough in Serbia, although it could be the engine of economy development.”

Thus, (DN, 2015) shows that “there is a number of economic fields in Serbia which are neglected, and which could be the real incentive of development even without many fabulously expensive investments. It is about

creative industry, of course, which has been marginalized here, and it could be the engine of economy development.”

### ***THE FINDINGS AND DISCUSSION OF RESULTS***

Institutionalized framework of Creative Industry of the Republic of Serbia has not been formed yet, more precisely its basic features are not even known for now. In that sense it is necessary by the authorities in charge to define and adopt a Plan for forming of the Institutionalized framework of the sector of Creative Industry of the Republic of Serbia. The plan should include the following key steps in its constituting, and they are:

1. Defining of the activities (industries) which are included in the Institutionalized framework of Creative industry;
2. Defining the competence of the Ministry of Culture and the Ministry of Economy in order to clearly determine the competences of the state authorities from certain sectors of ministries, which is presently not the case.
3. Defining the common Policy and Strategies of development of the sector of creative industry of Serbia, by the authorized ministries.
4. To launch a campaign for meeting the employees, especially of managerial structure of the sector of creative industry with additional education in the field of protection of intellectual property and management of innovations (Intellectual Property Office of the Republic of Serbia);
5. Develop methodology for systematic following of creative industry (Statistical Office of the Republic of Serbia);
6. Encourage scientific research institutions to develop adequate methodology of research, as well as to direct the focus of their research into direct into the creative industry sector.

In order to operationalize the previously mentioned Plan, in further text, a draft is proposed for the Institutional framework of Creative industry of the Republic of Serbia, Figure 5.

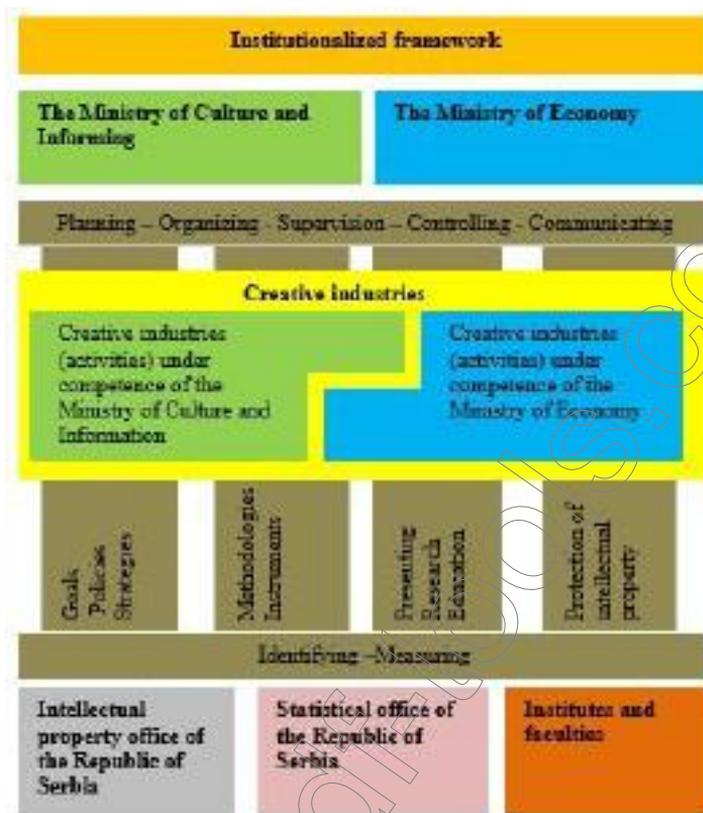


Figure 5: Institutionalized framework of creative industry of the Republic of Serbia  
 Source: Authors

Institutionalized framework of the sector of Creative industry of the Republic of Serbia consists of the following subjects: Economic subjects in the sector of creative industries (activities), authorized ministries (The Ministry of Culture and Information, The Ministry of Economy), relevant institutions (Intellectual property office of the Republic of Serbia, Statistical office of the Republic of Serbia), as well as interested institutions such as Institutes and faculties, and others. Within the stated Institutionalized framework, management is conducted and it includes continuous and cyclic conducting of the following managing functions from the field of creative industry, and they are: Planning – Organizing – Identifying – Measuring – Controlling – Supervision – Communicating.

Determining of activities (industries) which are included in the Institutionalized framework of the Creative industry was done based on the Classification of activities (KD, 2010), from which all the activities (industries) whose work is related to creative work were selected, through defining the suitable sector, field, branch, the group of the activity's name which belong to the sector of creative industry, Table 2.

Table 2: Selected creative activities (industries) from the Classification of activities

| Field, branch, group |                                                                                                                      |
|----------------------|----------------------------------------------------------------------------------------------------------------------|
|                      | <b>SECTOR C PROCESSING INDUSTRY</b>                                                                                  |
| <b>18</b>            | <b>Printing and reproduction of audio and video recordings</b>                                                       |
| 18.1                 | Printing and printing services                                                                                       |
| 18.12                | Other printing                                                                                                       |
| 18.13                | Pre-press services                                                                                                   |
| 18.14                | Bookbinding and related services                                                                                     |
| 18.20                | Copying of recordings                                                                                                |
| <b>26.</b>           | <b>Manufacturing of computers, electronic and optical products</b>                                                   |
| 26.12                | Manufacturing of printed electronic boards                                                                           |
| <b>32.</b>           | <b>Other processing activities</b>                                                                                   |
| 32.1                 | Production of jewellery, baubles and similar products                                                                |
| 32.12                | Production of jewellery and related products                                                                         |
|                      | <b>SECTOR J INFORMING AND COMMUNICATION</b>                                                                          |
| <b>58.</b>           | <b>Publishing activities</b>                                                                                         |
| 58.1                 | Publishing of books, magazines and other publishing activities                                                       |
| 58.11                | Book publishing                                                                                                      |
| 58.19                | Other publishing activities                                                                                          |
| 58.2                 | Software publishing                                                                                                  |
| <b>59.</b>           | <b>Cinematographic and television production, audio recordings and publishing of music recordings</b>                |
| 59.1                 | Cinematographic and television production                                                                            |
| 59.11                | Production of cinematographic works, audio-visual products and television programme                                  |
| 59.12                | Activities which follow after the phase of recording in production of cinematographic works and television programme |
| 59.13                | Distribution of cinematographic works, audio-visual works and television programme                                   |
| 59.14                | Activity of presenting cinematographic works                                                                         |
| 59.2                 | Recording and publishing audio recordings and music                                                                  |
| <b>60.</b>           | <b>Programme activities and broadcasting</b>                                                                         |
| 60.1                 | Radio-programme broadcasting                                                                                         |
| 60.2                 | Production and broadcasting of television programme                                                                  |
| <b>62.</b>           | <b>Computer programming, consultant and related activities</b>                                                       |
| 62.0                 | Computer programming, consultant and related activities                                                              |
| 62.01                | Computer programming                                                                                                 |
| 62.02                | Consultant activities in the field of information technology                                                         |
| <b>63.</b>           | <b>Data processing, hosting and related activities; web portals</b>                                                  |
| 63.12                | Web portals                                                                                                          |
|                      | <b>SECTOR M SKILLED, SCIENTIFIC, INNOVATIONAL AND TECHNICAL ACTIVITIES</b>                                           |
| <b>71</b>            | <b>Architectural and engineering activities; engineering research and analyses</b>                                   |
| 71.1                 | Architectural and engineering activities and technical counseling                                                    |
| 71.11                | Architectural activities                                                                                             |

|                                         |                                                                                                                               |
|-----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 71.12                                   | Engineering activities and technical counseling                                                                               |
| <b>73.</b>                              | <b>Advertising and market research</b>                                                                                        |
| 73.1                                    | Advertising                                                                                                                   |
| 73.11                                   | Activity of advertising agencies                                                                                              |
| 73.12                                   | Media presentation                                                                                                            |
| <b>74.</b>                              | <b>Other skilled, scientific and technical activities</b>                                                                     |
| 74.10                                   | Specialised designing activities                                                                                              |
| 74.2                                    | Photographic services                                                                                                         |
| <b>SECTOR R ART; FUN AND RECREATION</b> |                                                                                                                               |
| <b>90.0</b>                             | <b>Creative, artistic and fun activities</b>                                                                                  |
| 90.01                                   | Performing art                                                                                                                |
| 90.02                                   | Other artistic activities within performing art                                                                               |
| 90.03                                   | Artistic creative work                                                                                                        |
| 90.04                                   | Work of artistic institutions                                                                                                 |
| <b>91</b>                               | <b>Activity of libraries, archives, museums, galleries and collections and other cultural activities</b>                      |
| 91.01                                   | Activities of libraries and archives                                                                                          |
| 91.02                                   | Activities of museums, galleries and collections                                                                              |
| 91.03                                   | Protection and preservation of immovable cultural goods, cultural-historic locations, buildings and similar tourist monuments |
| 91.04                                   | Activities of botanic and zoo gardens and protection of natural values                                                        |

*Source: Authors, based on (KD, 2010)*

## **CONCLUSION**

In this paper the results of the research of the development so far and the perspective of further development of the sector of creative industry of Serbia are presented.

The research was based on descriptive method, which implied the study of available literature sources from the above mentioned fields.

The results of the research show that at this moment there is a particularly emphasized gap between the opportunities that the sector of Creative industry of Serbia possesses (talents, competence, experience, connecting or expanding of the mentioned sector with other economic branches, for instance tourism, etc.) and what has so far been commercially realized on the business plan (used commercializations).

From the conducted research it is evident that the sector of Creative industry of Serbia represents a new segment of economic activity which is promising, especially from the viewpoint of employment and entrepreneurship in the Republic of Serbia, having in mind that it possesses great potential for growth and development, and all that without the necessary big investments.

The paper provides a theoretical and practical contribution to the further development of Creative industry in the Republic of Serbia. The theoretical contribution of the paper is reflected in an effort to illuminate and define the space of Creative industry. On the other hand, practical contribution of the paper is reflected in an effort to highlight the importance of the creative industry in the

Republic of Serbia, and to build its institutional framework. In this regard, the paper proposed:

- The plan for the establishment of institutional framework of creative industry sector in the Republic of Serbia;
- The draft of Institutional Framework of Creative industry of the Republic of Serbia;
- List of activities (industries) that are the part of the Institutional Framework of creative industry of the Republic of Serbia.

The above mentioned proposals are creating a solid theoretical and practical basis for further research and improvement of the business environment for the development of creative industries in the Republic of Serbia.

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