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THE ROLE OF "BUSINESS ANGELS" IN FINANCING SMALL AND MEDIUM ENTERPRISES

Nadica Figar, PhD*

Abstract: *Financial crisis has expanded from the USA to the whole world and caused not only financial, but a global economical crisis. Reduced amounts of loans lead to the reduction of production in the real sector on the one hand and, on the other hand, to the reduction in demand. SMEs, which are, joined together, the largest employers, suppliers and inovators, have suffered the strongest blow. They cannot finance their activities independently, therefore they are forced to reduce the number of employees. Due to the fact that the investors are becoming more cautious, the majority of the SMEs will be liquidated. The state, banks, investment funds, strategic partners, capital market, pawn-shops and wealthy individuals are the ones who can be „the angels“ for these enterprises. „Business angels“, who are usually connected to crisis situations and ventures, are the ones who could play a significant role. They are usually wealthy individuals who wish to preserve their privacy. In the business world, they work through groups, confederations and angels networks.*

Key words: *business angels, business angles groups, confederations, business angel networks, investment forum, entrepreneur, small and medium enterprises (SMEs)*

Introduction

For financing their business, enterprises use their own and borrowed assets. In some cases this is due to the lack of their own funds and in some other cases due to the fact that the borrowed assets are cheaper. The price of borrowed assets depends on their kind. Investors can be: banks, investment funds, capital market, strategic partners, the state, "business angels" and pawnbroker's shops. In order for the enterprise to become the user of the funds of the potential investors, it must first fulfill certain conditions. In

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conditions of expansion and business activity growth, accessing investments is easier because there are favourable conditions for the return of the same: high current demand for real goods, growing potential demand, favourable financial performances of the investment user, acceptable degree of liquidity etc. Such conditions create an impression that borrowed funds are not expensive since they can be returned on time, which leads to further and even greater investments. Both expansion and growth have certain limitations, therefore, there is a periodical occurrence of a limiting factor to such growth. In such cases, the entry curve of business activity changes which signifies the beginning of a recession or even a period of crisis. These are the periods that lead to 'sobering' of both investors and borrowed-funds-users. Investors often use a part of their funds which leads them to become more cautious with future investments, while the debtors either crumble or are on the verge of crumbling, or need to significantly reduce their activity (which can cause severe social problems). In most cases, the first to help them is the state, either through direct investments or by subsidized bank loans. Strategic partners are neither strong enough nor prepared to take over the financial burden of their partners and the capital market is ruthless and can easily lead to capital loss. This brings out the so-called nontransparent investors – pawnbroker's shops and "business angels". They are the most suitable ones for the small and medium enterprises, since the financial power of these enterprises is too small for the big investors to be interested in them. This is the reason why some call the crisis that began in the USA in 2008 the crisis of entrepreneurship, since the consequences were first felt by the small and medium enterprises. For example, pawnbroker's shops are the main investors for small enterprises in China. "Forbidden at the beginning of the Cultural Revolution, pawnbroker's shops were considered a form of capitalist exploitation which was robbing the poor desperate people. They were beyond the reach of law for two decades, until 1987, but are now working at full pace. They charge clients monthly interest rate of 3.2%, whereas the interest rate in banks is 0.4%. However, it takes about two hours to get a loan at a pawnbroker's shops and the money is available to client within a week. In addition to that, in a pawnbroker's shops, it is possible to borrow money for a period of a few days, just to bridge the gap between the liability and demand, which cannot be done in a bank" (1, p. 55).

"Business angels" are wealthy individuals who invest money, knowledge and experience into newly-founded small and medium sized enterprises. They expect a high annual income from their investments and even for their initial investments to be multiplied over a period of a few years, after which they withdraw from the initial business. This means that small and medium enterprises should have attractive Business plans in order to

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draw the attention of “business angels”. Until now, “business angels” have appeared mostly as venture capitalists – in the countries of the former SSSR they started with attractive acquisitions, not on their own, but in cooperation with insurance companies. In 2007 and 2008 in Serbia, some of them, came forward as private investment funds for private enterprises that were not rated on the stock market and in 2009, Peter Kelner, the wealthiest man from the Czech Republic announced that he would be participating as well (2, p. 23). He previously appeared in Ukraine with an Italian insurance company Generali and his targets were attractive acquisitions. So far he has not disclosed his business plans for Serbia.

Who Are Business Angels – What Do they Offer as Investors and What Are their Expectations from the Investments?

The word “angel” means savior, while a “business angel” is a person which saves an endeavor from crumbling or undesirable effects of its crumbling. Some think that “business angels” first appeared in the early 1900s in Broadway, when wealthy individuals financed the making of numerous movies, what the original creators of those movies were not capable for. However, the practice of financing risky endeavors by wealthy individuals dates much further. Namely, there is an example from the 15th century when Elisabeth, the queen of Spain, financed Columbus’s endeavor of discovering America (3, p. 327). It is quite certain that many other examples can be found as well, but what all of them have in common is that the word “angel” bears the meaning philanthropist. Wealthy individuals financed other people’s endeavors in order to help those individuals realize succeed with their plans, without expecting any income from the invested capital. The endeavor was, usually, of a general interest and its realization was supported not only with money, but by others kinds of property (houses, estates, artworks etc.). Many buildings were given away or left as endowments for the development of education and the wealthy individuals’ money was used for starting foundations with a specific purpose of a wider social interest. There were numerous examples in Serbia as well. “In the late 19th and early 20th century in Branicevski County, it was popular with wealthy influential people to appear as philanthropists. Merchants, craftsmen and clergy, and especially those who had no offspring, used to leave their entire estates and wealth to the city to use it for charity” (5, pp. 12-13). Today, these gifts would be, both in literature and in practice, labeled as philanthropy. But this is not only the issues of a terminological difference between the past and the present. Today’s “angels” are “business angels”, “angels investors”, “professional angels”, “informal angels” or “angels capitalists”. Regardless of their name, all of them expect a high income from

their investments, as well as for their investment to be multiplied as quickly as possible. These two elements are emphasized in all definitions of “business angels”.

The word “angel” means savior or a person who is just in time to save somebody. “Angels investors” are individuals who invest into businesses that bring greater return than it is expected from traditional investments” (6). “Professional angels” invest into businesses where the potential increase of the initially invested sum is at least ten or more times that of the original investment for a five-year period. Some even look for an increase of twenty to thirty times of the original sum in a period of five to seven years” (6). “Motives of “angels investors” vary, but are always based on money – big profit that cannot be achieved through traditional investments, increased return of the initial investment and low tax for both the investment and profit” (4). “They invest in fast-growing businesses with large income in a short period of time, usually in the first four to seven years, while they are uninterested in the mature businesses” (6). “They fill the gap in FFF ventures – ventures that require greater investments than the family and friends can finance” (7). “They look for favorable opportunities in the start-up investments, because that provides seed-capital” (8). “Angels investors” make it possible for your dreams to come true” (9). “They bridge the gap between the starting business phase (founding of the enterprise) and the phase in which venture capitalists appear” (10).

All the listed definitions suggest that “business angels” are no longer philanthropists, since today’s philanthropists are also profit-orientated (11, pp. 67-74). Prof. William Wetzel from the University of New Hampshire founded the Center for Venture Research in 1978 and set for himself a task to investigate the profile of today’s “business angel”. According to him, an average “business angel” in the USA is:

- 47-year-old, with a college education, self-employed, with an annual net income of \$90.000, he invests \$37.000 dollar per venture;
- The majority of “angels investors” invest ‘at home’, i.e. into ventures in the local community, 50 to 150 miles from their place of residence or workplace;
- They represent the greatest external source of capital for small enterprises, which is why 9 out of 10 “angels investors” invest into start-up enterprises with around 20 employees;
- They ask for personal guarantees from the enterprise owners and 57% of the start-up business is financed by the angel investor’s capital;

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- Informal investors are older, more educated and wealthier than an average citizen, but they are not millionaires;
- 7 out of 10 business investors invest into ventures that are around 50 miles away from their place of residence or office;
- They expect an average income of 26%, but are also prepared for 1/3 of their investments to end with the loss of capital;
- They are picky about the choice of their investments because they accept only 3 out 10 offers. The most common reasons for rejecting a large number of offered projects are: insufficient growth potential, overestimated assets of the entrepreneur (who is looking for funds), lack of talented managers, lack of key-employees and key information about the entrepreneur;
- They want to be included in the preparation of a Business plan and if they are included, 35% more “angels investors” decide to invest;
- They expect to be included in the business by providing their professional and management expertise and experience, as well as in the key-decisions making;
- They expect to be hired as consultants and members of the executive board;
- They want to participate with 5-25% in the ownership, through regular and priority stocks;
- They want guaranties that the stocks can be converted into debt or cumulative priority stocks. These stocks have greater priority in charging the dividends than regular stocks and also offer cumulative payment of the dividends for the period during which the enterprise had a loss;
- They want to have priority in the next round of financing – they are against diversification of the ownership structure and the source of financing;
- They want a guarantee that the executive board will remain the same even if the ownership structure changes;
- No activities that would lead to the reduction of the assets should be taken without their consent (e.g. assets cannot be sold without their consent, no new stocks for the managers can be issued, stocks cannot be sold below the emission price, no types of stocks that have priority in payment in relation to “angels investors” should be issued etc.);
- They want an accountant and a lawyer to be included in the supervising board;
- They expect to be informed about the business in quarterly, and in key moments even weekly;

- Business plan is an indispensable document to them.

From all that was listed above, it is evident that the profile of a today's "business angel" is such that he wants "to be kept in the loop with both growth and decline of the business he is investing in" (12). Perhaps this is why the word "angel" has completely disappeared from both literature and practice and has been replaced with the expression "business investor". Today's "business angels" somewhat resemble venture capitalists, but are different from them because:

- they usually invest in start-up enterprises;
- they invest smaller sums than venture capitalists;
- they invest into local, maybe regional ventures, but never national or international ones;
- they are very careful with their choices and accept a very small percentage of the projects offered for investment;
- they invest into fast-growing businesses (information technology, telecommunications, bioengineering and similar);
- they expect a high return rate from their initial investments and a high annual income (40 – 50%);
- besides money, they want to invest their professional knowledge as well and they are often called "professional investors";
- perhaps the greatest difference between them and venture capitalists is that they do not like transparency, meaning that they do not like to be recognized as investors in public, which does not mean that they avoid paying their taxes or other obligations to society.

Table 1 shows the relationship between invested and returned funds of some "business angels" in specific companies. What is interesting to note is that the name of the "angel investor" who acquired 1692 times the sum of his original investment from Apple Computers remains undisclosed (3, p 328). What is also evident is that the same sum invested into different businesses and different enterprises brings different returns of the initial investments (even 260 times to 30).

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Table 1. Return of initial investments of particular ”business angels”					
Company name	Name of the ”angel investor”	Type of business	Initially invested sum	Capital income	Growth of the initial investment
<i>Apple Computer</i>	Nepoznato	Computer hardware	91.000\$	154,000.000\$	1.692 times
<i>Amazon com.</i>	Thomas Alberg	On-line book shop	100.000\$	26,000.000\$	260 times
<i>Blue Rhino</i>	Andrew Filipowski	Replacement of propane cyclinders	500.000\$	24,000.000\$	48 times
<i>Lifeminders.com.</i>	Frans Kok	Internet e-mail	100.000\$	3,000.000\$	30 times

How to Find an “Angel Investor”?

Some claim that “finding an “angel investor” is as hard as finding gold. And if you do find one, it is very difficult to reach an agreement, let alone keep him” (13). There are two basic reason why “angels investors” are difficult to find: the first one is because they like to remain unknown and the second because they don’t function individually, but through groups, confederations and networks in the USA and through groups and networks in Europe. In 2008, there were 258.000 of active “business angels” in the USA, whereas in the period from 2001-2003, there had been between 300.000 and 600.000. Connecting “business angels” into confederations – groups of around 50 “business angels” who create their own companies in stead of investing into somebody else’s is certainly one of the factors that has led to the reduction in the number of active “business angels”. They are also known to be connecting into groups of 2-3 “angels” and these groups further connect to create networks, which all together leads to the increase in the number of confederations and networks and a decrease in the number of “angels” who work individually. No matter how they operate, all of them are interested in start-up enterprises with fast-growth potential and innovation implementation.

In 2009, there were between 4.000 and 6.000 active “business angels” in Great Britain. An average “angel investor” in Great Britain invests an average of 42.000 pounds per venture and expects an average annual return of 22% and for the initial investments to be multiplied 2.2 times over a period of 3.6 years. 35% of “angels investors” expects their initial investments to be multiplied up to 5 times and 9% of them up to 10 and more times.

In Europe (without GB), there are considered to be 125.000 active “angels investors” and around a million potential ones, with the potential for

investments between 10 and 20 billion euro. They form groups of 2-3 investors. Groups are not form only according to the funds they poses but according to their areas of expertise as well. While in the USA, a group of “business angels” is usually formed by an ex-manager, a lawyer and a technical expert, in Europe, groups are formed by an active stock holder in the enterprise which they will be investing in, an ex-manager and a technical expert. Other than that, groups of “angels investors” are more powerful in both financial term and in terms of their competencies. That way they can invest in larger ventures in a wider range.

Networks of business investors are form out of groups of investors. They can be international, like, for example, the European Network which includes groups from Great Britain, Germany, Netherland, Belgium, Finland and France. The European Network of Business Angels (EBAN) invests around 1.5 million euros annually in order stimulate contacts between private investors and small and medium enterprises.

In Europe, 92.31% of “business angels” are males, 6.41% women, and 1.28% spouses (4). Among members in business angel networks, we can distinguish between Gold Members, who have access to all documentation sources in the city and can organize educational courses and Platinum Members, who make it possible to access information of fiscal and legal nature (4).

Groups of angels investors form clubs, and networks of angels investors form forums. The task of both clubs (in the USA) and forums (in Europe) is to track potential users of the angels investors’ funds and arrange contact with them. Clubs, forums and networks are non-profit organizations and are financed from the membership of “angels “ and often have subventions from the state. For example, the network Venture Giant in Great Britain is a network of “angels investors” that connects entrepreneurs and active “business angels”, interested exclusively in start-up businesses. Entrepreneurs pay a membership of 99 pounds for a period of six months and within that period are able to contact all “business angels” from the database of that network. Connecticut is a business angels network from North America, which created the Angel Investor Forum (AIF) to connect the network to “companies with good business models” (4). Minority Angle Investor Networks are networks of investors who are interested in high growth of companies they are themselves establishing or which are run by certain groups (refugees, immigrants etc.). Internet is also a network that can connect “business angels” and entrepreneurs.

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“Business angels” therefore look for the users of their investments – alone, through business angels groups and business angels networks. They are highly unlikely to appear individually, so it is not advisable to entrepreneurs to appear alone neither when looking for them, nor when negotiating with them.

Negotiation Process between “Angels Investors” and Entrepreneurs

“Angels investors” use various resources to collect information about potential users of their investments, which is why entrepreneurs should collect information about “business angels”, no matter how urgently they may need the funds. The saying “look before you leap” can apply here. There are various ways of gathering information about “business angels” before the users gets tangled into his web. We should not forget the 1990s in Serbia when many individuals and families lost their entire estates and belongings, all on account of small loans which were given by informal creditors.

When looking for “business angels”, information should be collected from the following sources 913):

- *Universities*. If a person intends to startup his/her own business immediately after graduating from a university, he/she can gather information about “business angels” during the course of his studies from the entrepreneurship program. Apart from them, people who have not graduated from a university and intend to start-up a new business can also use these programmes;
- *Business incubators* offer formal and informal approach to entrepreneurs. Potential entrepreneurs can have access to information about “business angels” and to information about numerous benefits offered by the incubators (acceptable lease, access to joint services, professional help, as well as atmosphere of entrepreneur behavior);
- *Branch organization or chamber*. These institutions usually have in-debt information about interested investors. As a member, an entrepreneur has a right to these information, since he is paying his membership fee;
- *Institutions for stimulating and development of small businesses* have information about available sources for financing small businesses, among which are probably “business angels” as well;
- *Accountants* are not only a source of quantitative but other information as well. “Business angels” usually hire them as

consultants for investments, so they can recommend a list of “business angels”;

- *Lawyers* also have information about “business angels” because, like accountants, they are also members of business angel counseling team;
- *Agencies for regional development* have information about investors and investment-users;
- *Bankers*. If you don’t want to use a bank loan from a bank where you have your business account or you feel that your loan would not be approved, the bank can give you information about interested “business angels”;
- Finally, there is *the local media* (press, radio, TV) through which you can advertise for an investor or look up some of the existing advertisements posted by investors.

If a “business angel” appears individually and not through a group, club or a network, he certainly won’t show up for the first meeting without an accountant and a lawyer, therefore, an entrepreneur should have a team of counselors as well. It is possible for the first contact to be informal and you can find yourself alone with your potential investor, however, this doesn’t mean that it will not be professional, so you should act as a professional entrepreneur. The number and the types of encounters can tell you a lot about the strength and expectations of the “business angels” – true “business angels” do not waste time and act professionally and swiftly. Be prepared to be asked to supply an outline, if not an entire in-debt business plan the very next day after your first encounter.

Making and Presenting the Business Plan

Business plan is a document that shows the current state of business and at the same serves as a guide to the future. This is precisely why its quality will determine whether a “business angel” will accept to invest into your product or not. Practice has shown that there are four levels or four stages in making a Business plan (14; 7).

Business plan – level 1 contains:

- Detailed biography of an enterprise or goals for its founding if it is a start-up enterprise,
- Organizational structure,
- Description of products/services,
- Branch market analysis and enterprise market analysis,
- Marketing plan and

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- A three-year projection of the most significant performance indicators.

Time required for making this level is 7-10 days. You should present the Business plan to the “business angels” face to face and not only send the Business plan and passively wait for the response. In conditions of recession, “business angels” receive up to 200 Business plans and only 5% of entrepreneurs get an opportunity meet them and talk to them face to face; roughly 2% make it to the second phase, less than 1% to the third and only 0.3% get accepted. This is why, if a “business angel” appears through his representatives (network, group or club), you should insist to be presented to him personally after each of the stages. An entrepreneur should under no circumstances present the Business plan himself to the “business angel”. This should be done by an expert – an accountant, a lawyer, a more experienced entrepreneur or a technical expert, because this increases the chances that you will get into the second stage.

Business plan – level 2 or phase 2 means that your Business plan has gone into the second round and that you have been invited to an introductory conversation or a meeting. You will be expected to explain your Plan in as much detail as possible, after which you will wait between 10 and 14 days for a response – depending on the number of entrepreneurs that have been interviewed whether they were more attractive than you or not.

Business plan – level 3 or phase 3 can last up to three months. The longer it lasts and the more information you are required to provide, the greater the chance that you will become the user of the investment. During that period, there will be more telephone calls, more e-mail messages, interviews, information exchange, strategy evaluation etc. This is why the original team that appeared before the “business angel” should not be changed and it should be under constant alert.

Business plan – level 4 or phase 4 means that you have fulfilled all the conditions from the previous phase and that the “business angels” will offer you an investment agreement. “This is a document which contains basic terms and deadlines about the investment agreement” (7), and it will take another 3-4 weeks for you to receive the funds.

The first “angel investor” who invests into a start-up business is called the *A series investor* and is followed by *the B series investors*, *C series investors* and *D series investors*. After that, the business enters into more mature phases and can appear on the capital market. This is why both the “angel investor” and the entrepreneur have to bear in mind the long-term development of the start-up business, because “angels investors” usually do

not prefer the mature business phases and leave them to venture capitalists. *That is why a Business plan, for a “business angel”, represents an investigative, strategic and refined document for a specific time period that lasts up to the mature phase of the current start-up business (14).*

Conclusion

Different phases during a life-cycle of an enterprise require different financing sources. Since an enterprise is a subsystem in the external environment, financing during certain phases of the life-cycle is also conditioned by the environment. Therefore, in conditions of expansion and growth all investors are interested in investing into small and medium enterprises, even if they don't have an appropriate mortgage. However, in conditions of recession and crisis, when the demand declines, small and medium enterprises very quickly run out of capital and their liquidity is jeopardized more quickly than the liquidity of large enterprises. Banks become uninterested in investing in them, unless the state offers some sort of subsidized loans. Investment funds are more interested in acquisition of small and medium enterprises, since their market value quickly declines. Venture capitalists also appear as the ones who take over the enterprises rather than investing in them. It can be expected from wealthy individuals with managing, accounting, legal, or expert knowledge to come forward as parties interested in investing in survival of small and medium enterprises. These are so-called “business angles”. They expect of their investments to bring them high return in a short time-frame, as well as for their initial investment to become multiplied. In addition to that, their reaction are not as quick as reactions of “business angels” used to be – they are looking for a detailed Business plan, negotiation through several phases, so that it can take several months before the actual investment takes place. On the other hand, the trustees cannot afford to wait that long since they have to carry out their financial obligations. Rescuing small and medium enterprises is a lucrative business for “business angels”, while their investments are very expensive for those enterprises. The fact which needs to make clear is that today's “business angels” are not philanthropists, since the great majority of today's philanthropists are profit-orientated (11, pp. 67-74). Due to the fact that they undertake great risks when making investments, in the sense that they not only risk losing the return but the entire initial investment, it is understandable why, especially in the period of crisis, they do not come forward alone, but in cooperation with investment funds and insurance companies. This way, from informal, they become formal investors (two examples given in the paper – the first one relates to the behavior of the

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wealthiest Czech and the second one to a private investment fund in South Banat) (2).

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ULOGA „POSLOVNIH ANĐELA“ U FINANSIRANJU MALIH I SREDNJIH PREDUZEĆA

Rezime: Finansijska kriza se iz SAD proširila na ceo svet i izazvala ne samo globalnu finansijsku, već i globalnu ekonomsku krizu. Smanjen iznos kredita dovodi na jednoj strani do smanjenja proizvodnje u realnom sektoru, a na drugoj strani do smanjenja tražnje. Pod posebnim udarom su mala i srednja preduzeća, koja su zbirno najveći poslodavci, snabdevači poslovima i inovatori. Ona ne mogu samostalno da finansiraju svoju aktivnost, te stoga moraju smanjivati broj zaposlenih, a mnoga će biti i likvidirana, tim pre što dosadašnji investitori postaju mnogo oprezniji. Država, banke, investicioni fondovi, strateški partneri, tržište kapitala, zalagaonice i bogati pojedinci mogu biti „spasioci“ ovih preduzeća. Značajnu ulogu bi mogli da odigraju tzv. poslovni anđeli, čija pojava se i vezuje za krizne situacije i rizične poduhvate. To su bogati pojedinci koji čuvaju svoju privatnost, a u poslovnom svetu nastupaju preko grupa „poslovnih anđela“, konfederacija ili mreža“ poslovnih anđela“.

Ključne reči: „poslovni anđeo“, grupa „poslovnih anđela“, konfederacija, mreža „poslovnih anđela“, investicioni forum, preduzetnik, mala i srednja preduzeća.



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GLOBALIZATION AND COMPETITIVENESS OF THE AGRICULTURAL SECTOR OF SERBIA¹

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***Abstract:** Under conditions of globalization the agricultural sector of Serbia, as compared to the other economies, resulted in weakening of its comparative advantage. This paper especially emphasizes the insight in economic implications previous economic activities had in domain of Serbian agricultural sector competitiveness.*

***Keywords:** agricultural sector, competitiveness, globalization*

Introduction

Globalization is determined by national economies' increasing dependence on and connectivity to the world economy. Countries around the globe participate in the multidimensional network of social and economic ties. Global business operation systems have integrated national advancement throughout the world [2]. Scientific and technological progress gives a strong impetus to globalization process and has an effect on the change of production character. Knowledge and information are the key factors of competitiveness upon which the increase of productivity, cost-effectiveness and profitability of the economy as a whole extremely depends.

Global economic changes, introduction of advanced technology and market dynamics have reduced the remaining competitive areas. Business processes change and adjust to market situation, business globalizes and

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accelerates, competition intensifies, and the key resources of the new world of economy have become both information and corporative intellectual capital. Information and Communication Technologies, Internet especially, have affected transformation of both manner and course business activity is realized [5]. The above mentioned technologies are crucial components of the economy revitalization and re-structuring processes. Having in mind specific situation national economy has recently experienced, it is necessary to get an insight into both the world trends and agricultural sector business strategies [3].

1. Sources of National Economy Competitiveness under the Global Crisis Conditions

National economy competitiveness in the international market is realized by both price and non-price factors. Dynamics of a competitive economy creation has to be synchronized to the restrained pace of building new institutional mechanisms that should enable reallocation of resources. An institutionally unfurnished market economy would not be able to engage and efficiently use them.

In addition to that, presence of monopolies could make influence on low competitiveness of an economy. By specific macroeconomic policy instruments the state has to suppress monopolistic tendencies as well as to tend towards obtaining a totally competitive market. This would result in the higher competitive level on both national and international market.

From the point of view of competitiveness increase it is necessary to provide for national market opening, to get economic development based on the economic-financial sector services growth, as well as of agrarian sector, trade, construction and construction related economic activities growth, which are measures missing under the global economic crisis conditions. The state of crisis is related to unsuccessful business operation management of both companies and national economies. Crisis could be identified in the following areas: proprietary relations, managerial function, development, market, production (agricultural especially), financial activities, personnel and the other. Overcoming the crisis requires a planned approach in making influence in particular segments of business system as a whole.

Cognizance and experience in overcoming the crisis and company revitalization domains is of immense importance when it comes to definition of trends that should be pursued for the purpose of decreasing gaps between the world's economy and national economies. The competitiveness achievement problem analysis differs to some extent in developed market economies from the one concerning developing countries. What they share is

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the fact that failure, business operation problems and crisis are involved in company operation cycles throughout the World. There are more unsuccessful, collapsing companies than successful ones. Numerous companies resolve their problems by both organizational re-structuring and adequate business strategies implementation. Strategic options of overcoming the crisis and of realizing a competitive position on both national and global markets are the only differences between them [4].

Therefore, in order to overcome the economic crisis, it is necessary to make numerous changes both globally and within companies themselves, as well as to apply a competition strategy that is relevant from the economic development point of view. A successful strategy aimed at realization of competitiveness shall comprise many factors and measures (management change, organizational change, reducing of operational costs, business-financial operation change, agrarian sector change, marketing improvement, innovation of both products and services), thus influencing elimination of causes of the crisis.

Knowledge of the new business operation concept, based on economic, informatics and managerial structure, is of the crucial importance to successful changes within national economies under the globalization conditions. This is why it is necessary to initiate, in the sphere of agriculture, implementation of corporate business strategies based on creation of a beneficial economic environment, by overcoming the present institutional problems, by stimulation of competitiveness and by investing in intellectual capital.

2. Serbian Agriculture Competitiveness Strategies

Having in mind global changes that have affected agrarian sector, both market liberalization and company ownership transformation are necessary. Under the crisis conditions, Serbia endeavors to get privatization process completed, as well as to achieve macroeconomic stability as reflected in purposeful development of institutional infrastructure needed for regular market economy operation.

There is a thought prevailing in Serbia that its agrarian sector comprises unemployed development potential. Lack of both working capital and investment funds, connectionless and fragmented agrarian economic subjects and low competitiveness are the main features of Serbian agriculture. The agrarian sector share in the Republic of Serbia domestic product has been evaluated as the high one, which is not the result of its favorable condition, but of the fact that the economy operates under conditions of the crisis.

Actually, primary agriculture proportional share in the Republic of Serbia domestic product reciprocated in the 15.5% to 11.8% interval in the 2002-2008 period. Regarding the contribution agriculture made to the other economy sectors as a whole, its gross domestic product share exceeded 40 % in domains of food industry and input and raw material producers and manufacturers [17]. It can be concluded on the basis of the above said that agriculture is of a special importance to the integral economic development stability.

Analysis of the previous period investments made in agriculture shows that they were not sufficient for realization of substantial acceleration of this activity growth. From the point of view of both investing economics and production effects, technical structure of these investments was disadvantageous as well. When it came to investments made in rural social infrastructure objects, the difference identified between necessities and the works completed proved to be even higher.

Constituents of the agrarian sector changes are subvention system changes, the increase of domestic products competitiveness and institutional adjustment, implementation of both new technologies and higher product quality standards, all together resulting in better offer. The above stated changes are related to implementation expenses.

Table 1 The Agrarian Budget share in total resources of the Republic of Serbia Budget, and the Agrarian Budget subsidy share in the 2004-2007 Period
(million RSD)

No	Description	2004	2005	2006	2007
1.	Agrarian Budget ²	18,059.5	16,269.9	23,593.5	21,410
2.	% share of the Agrarian Budget in the total RS Budget	4.99	3.79	4.30	3.31
3.	Subsidies (agriculture, veterinary science, plant protection) ³	16,340.40	14,311.90	17,877.70	16,943.20
4.	Subsidy share in the total Agrarian Budget (3/1*100) %	90.48	87.97	75.77	79.14

Source: [14, p. 189]

On the basis of available data, the above Table 1 presents the Agrarian Budget share in the total resources of the Republic of Serbia Budget, as well as subsidy share in the Agrarian Budget in the 2004-2007

² Not including the Budget resources beneficiaries' autonomous income

³ Not including the Budget resources beneficiaries' income. Directorate for Water and Forestry Administration are not included.

Source: *RS Official Gazette*, Nos.: 115/04, 66/05, 85/06, 58/07

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Period. Proportional decrease of the Agrarian Budget share in the total Budget of Serbia, ranging from 4.99% to 3.31%, is marked. It is obvious that subvention shares in the total Agrarian Budget ranging from 90.48% to 79.14% were lower. The lowest subvention share in the period observed totaled 75.77%, as recorded in 2006.

A prerequisite for the development strategy implementation is accelerated economic integration into the environment, including the national economy competitiveness increase. In order to get economic progress achieved, it is necessary to get market conditions for business operation created. Investment in, primarily, "healthy food" manufacturing and in modernization of equipment are key prerequisites for any improvements of agricultural economy competitiveness.

Comparative advantages in agricultural production domain are realized by application of relevant competitive strategies. Competitive strategy in domain of agriculture shall include branch, corporative and particular product/service levels, for the purpose of realization of both pricing and non-pricing competitiveness. In formulating a successful competitive strategy it is necessary to take into account the actual strategic and operational condition of a company. These include combination of numerous current and operational measures. The integral part of this phase is preparation of both strategic and operational plans aimed at market competitiveness increase. Development of competitive environment considers harmonization of agrarian companies' business operation with international standardization requirements [10].

Changing market necessities and requirements demand application of both advanced business approaches and new agricultural production quality standards. This is the way of making up an effective and efficient agrarian sector, able to affect economic development significantly. According to the United States Agency for International Development (USAID), the important potential of the Republic of Serbia economy is agriculture, being able to reach the high competitive levels at the international market by brand promotion and realization.

Competitiveness of agriculture is based on optimal use of production capacities and on the increase of agricultural production scope and quality level, altogether aiming at meeting national market demand, as well as at the increase of both exports of quality agricultural products and agrarian sector's efficiency as a whole.

In order to get international competitiveness of the agrarian sector achieved, it is necessary to realize agriculture restructuring process as based

on more intensive investment activity and on both theory approaches and practice. Transformation of big agrarian companies is necessary as well, which is the process requiring both privatization actively supported by the state and application of a range of measures aimed at revitalization of agricultural subjects. Implementation of effective company management in agrarian sector is a prerequisite of both business operation effectiveness increase and competitive advantage realization.

Progress in agrarian structural reforms is inextricably linked to both dynamic introduction of new companies and development of the existing private sector. Development of small and medium-sized enterprises in agribusiness should be based on investment of significant resources through various forms of lending and borrowing. It can be achieved through institutional support and by equity of banks, credit associations and leasing companies. In circumstances of the kind development of small and medium-sized enterprises in agribusiness should be achieved through family farms development.

Table 2 Credit facilities share in the total Agrarian Budget and Agrarian Budget subsidy resources in the 2004-2007 Period.

(million RSD)

No.	Description	2004	2005	2006	2007
1.	Agrarian Budget ⁴	18,059.5	16,269.9	23,593.5	21,410
2.	Subsidy (agriculture, veterinarian science, plant protection) ⁵	16,340.40	14,311.90	17,877.70	16,943.20
3.	Credit facilities earmarked for registered farmers ⁶	3.767	3.460	3.400	2.000
4.	Credit facilities share in the total Agrarian Budget (3/1*100) %	20.86	21.27	14.41	9.34
5.	Credit facilities share in the Agrarian Budget subsidy funds (%)	23.06	24.18	19.02	11.80

Source: [14, p. 190]

On the basis of available sources the above Table 2 presents credit facilities share in the total Agrarian Budget and Agrarian Budget subsidy

⁴ Not including the Budget resources beneficiaries' autonomous income

⁵ Not including the Budget resources beneficiaries' income. Directorate for Water and Forestry Administration are not included.

⁶ In the frame of economic classification 512 "Machinery and equipment"

Source: *RS Official Gazette*, Nos.: 115/04, 66/05, 85/06, 58/07;

"Program of Subsidy Funds Distribution and Use in Domains of Agriculture, Forestry and Water Management" for the years reviewed, Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia (<http://www.minpolj.sr.gov.yu>)

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funds in the 2004-2007 Period. Proportional decrease of credit facilities in the total Agrarian Budget, ranging from 20.86% to 9.34% is marked, not including the year 2005 when the share totaled 21.27%. It is obvious that credit facilities in the total subsidy funds of the Agrarian Budget ranging from 23.06% to 11.8% were lower, not including the year 2005 when the share totaled 24.18%.

Under conditions of a modern and knowledge based development model, creating a business success strategy is a complex and dynamic task. It is directly connected to the kind of a company and to its way of operation, as well as to the advanced information and communication technologies application. Investments made in intellectual capital within agrarian sector are of special importance, because it is the branch strategically important to the further economic development of Serbia. Basic changes that could be made in an agrarian company involve both production program and the market. Agrarian sector companies are due to endeavor permanently in domains of restructuring and innovating of their production programs, as well as on the plan of both permanent improvement of the existing products and introducing of new ones. Technique and technology changes and innovations are of the immense importance to any company. Technology changes and technology development make a basis for the further advancement of any company. A number of companies within the agrarian sector of Serbia have been technologically falling behind these in developed countries, making investments in technology development the initial condition for market competitiveness realization [12]. Improvement of research and development is one of the key tasks that shall be realized in order to get the economic crisis outbalanced.

Conclusion

Functioning of an economy depends on connections and relationships it makes within its economic environment. Economies operate in conditions featured by extremely fast and extensive changes in both social and economic spheres. Permanent growth of national economies has been based on competitive strategies as well as on the use of modern scientific and technological development accomplishments.

Bearing in mind both positive and negative experience gained by countries of the Region, it is possible to come to the conclusion that Serbia could not improve its economy in the long-term without previous basic restructuring and its inclusion in the new economic trends. Successful implementation of constructive economic change cannot be achieved without both foreign capital inflow and establishing of relations with

international institutions, as well as without completion of privatization process which is to lead into the agrarian sector development. The basic question is how to find the own place within the new international distribution of economic power and how to get the agriculture competitive position increased under conditions of globalization.

The future development of agriculture shall be based on the optimal use of production capacities and on the increase of both volume and quality of agricultural production. The purpose of the above is meeting the national market demand as well as realization of substantial increase of agricultural products exports. The agriculture growth performance shall be based on economic, financial, energy and environmental indicators. It refers to the fact that Serbia has to use the available resources adequately, to improve agricultural production without genetically modified products and to increase efficiency of the agrarian sector as a whole.

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GLOBALIZACIJA I KONKURENTNOST AGRARNOG SEKTORA SRBIJE

Rezime: U uslovima globalizacije, agrarni sektor Srbije je rezultirao slabljenjem komparativnih prednosti u odnosu na druge zemlje u regionu. U radu je poseban akcenat stavljen na sagledavanje ekonomskih implikacija dosadašnjih privrednih aktivnosti na konkurentnost agrarnog sektora Srbije.

Ključne reči: agrarni sektor, konkurentnost, globalizacija.



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MARKET POSITIONING OF HOTELS IN VOJVODINA

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Abstract: *Market position of hotel companies is the result of its overall perception and knowledge of all relevant characteristics of tourists within the selected segments. These are the needs, requirements and behavior of tourists. In that sense, it is necessary to identify the key dimensions of tourists and to examine their perceptions and preferences in selecting one of the possible "package offers" on the market. Increase and enterprise development in tourism for many years is primarily determined by changes in the scope and structure of tourism demand on the one hand and technological development, on the other hand. So, in addition to persistent tendency of quantitative increase of the tourist market, it is important to point out the qualitative changes, as demand in the area, as well as the total area of tourism. Numerically speaking, in comparison to the 1999, the number of hotels in Vojvodina has increased by 21 object and most hotels in the group IV category (10 objects), category II (5 objects), and opened 3 new hotels of category I ("Park" and "Leopold I" in Novi Sad and "Vila Breg" in Vršac). Analysis of market share in recent years shows that hotel companies (70% -85%) have the best market position within the objects for the accommodation. Within these companies the most competitive are hotels of category III, and for the international markets hotels of first, and other categories. Therefore, international demand imposes the needs and demands for high quality hotel service, which is why the economy of Vojvodina must focus its development policy in that direction.*

Keywords: *market, positioning, competitiveness, hotel companies, Vojvodina*

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Introduction

Spatial attractiveness that is of importance to tourism is not available to users if there are no hotel facilities. Economic effects of tourism are largely achieved through hotels; a hotel provides reliable information on the number of tourists in particular the tourist area, which is an important parameter for monitoring the development of tourist activities in some area. Registration of tourist visits and overnight stays very different in some countries, but the obvious is high, well known and many times confirmed correlation hotel deals and international tourist traffic. Vojvodina as an autonomous province in northern Serbia, has quality and versatile basis for the development of tourism, and various types of tourist movements. This requires a quality receptive base that must be achieved, where hotels, as well as basic types of accommodation facilities occupy a very important place. In this regard it is necessary to constantly adjust to changes dictated by the tourist market. New, modern trends in tourism are primarily reflected in the development of sophisticated tourist demand, political changes, the development of new technologies, market segmentation, globalization, vertical, horizontal and diagonal integration, economic integration and others. All this and many other important events such as the global economic crisis have contributed to the complexity of enterprise management in tourism. So, today and in the future, the tasks of strategic management include a much wider area than finding or creating new markets. To ensure the continuous flow of resources and continuous output flow of services, managers of tourism must be adapted to all kinds of changes. Processes and the complexity of the tourism market, demand from a modern hotel manager, sustained and continuous effort to find new strategies, innovating and creating new tourism products, adaptation strategies to new trends in order to fully meet the new demands of tourists, maintain and improve your position in the market and successfully meet competitive pressures and challenges. This is primarily related to the choice of types and categories of conventional hotel facility, which is now set and the quality of services in it, but also on finding new forms of housing in general, which may include other participants outside of the company and to ensure their presence in work on the international tourist market.

1. The Concept of Positioning and Competitiveness in the Tourism and Hospitality

With the development of tourism and its structure, tourism, and hotel companies are increasingly underlining the strategy of differentiation "package offers" according to the respective market segments. From small and local companies specialized in tourism development is taking place

Market Positioning of Hotels in Vojvodina

towards the emergence of large multi-generating tourism and hotel companies in domestic and international tourism. Along with that, to the fore have come the economy of size and economies of scale in the tourism industry. It is also increasingly emphasized the strategy of targeting offers to selected market segments and consumer expectations.

How the hotel business will position in the market depends on its overall perception and knowledge of all relevant characteristics of tourists within the selected segments. These are the needs, requirements and behaviors of tourists. In this regard it is necessary to identify the key dimensions of tourists and to review their perceptions and preferences in the choice of one of the possible "package bid" on the market. Concrete offer always makes certain combinations of range, price, service, communication and tourist areas.

In choosing the appropriate market positioning strategies for each key dimension of hotel business relates to the offer of direct and indirect competitors. In addition, it is important to consider the behavior of segments of tourists who prefer to offer competitors. This will determine the relative position of each dimension in the structure of the competition offers hotel companies. Positive discrimination, which exist in this area from the standpoint of a particular hotel company, has opened a space for formulating a new strategy of market positioning.

Key to effective positioning of the hotel company is in the selection of specific market segments whose needs are most fully met. On this basis, hotel companies design a special "package offers". However, for implementation of effective strategies for differentiation in tourism, it is necessary to the existence of the five conditions [3, pp.310]:

- 1) for unleading hotel companies in the market (in implementing the strategy of positioning attractive, they have much to gain and little to lose);
 - the point is to find weaknesses of leaders and to take over the tourists from them, because the leaders have no need for positioning relative to weaker competitors because, objectively, they can significantly improve the position looking to the weaker than themselves;
- 2) perception of favorable conditions that exist in the implementation of market positioning strategies;
 - there must be a real possibility for the realization of effective positions in the future and to that end it is necessary to design trends in tourist spending and trends in the field of competition,

3) accurate assessment of the relative position compared to competitors;

- determining primarily how tourists observe the tourist and hotel products and services over the competition (which tourists prefer the competitors, and what have described as their big weakness);

4) the existence of adequate structural elements of the hotel's business enterprises;

- relevant staff, location, hotel facilities, range and its quality, and appropriate working capital;

5) effective communication with the market, as a necessary condition for implementing the positioning strategy;

- the need to undertake promotional campaigns directed to the desired market position, with the emphasis put on display for tourists of those components that effectively differentiate from competitors.

Competitiveness is based on the favorable situation in terms of some macroeconomic factors, including: costs, salaries, interest rates and exchange rates, and / or other comparative advantages, considerable potential for natural resources to attract tourists. Comparative advantages are an important tourist destination, but not sufficient condition for their international competitiveness. Destinations need to create and maintain competitive advantage.

Competitiveness is the ability to offer high perceived market value, so neutralizing constant negative pressure of five competitive forces:

- threats to competitors;
- the threat of substitutes;
- bargaining power of buyers;
- bargaining power suppliers;
- rivalry among competitors.

In order to neutralize these forces, and build competitive advantage, you need to tourist destinations (especially tourist destination) develop activities that are better than the competition, especially the need to develop activities that are different from the competitors. In other words, to be successfully applied for a tourist destination has to offer to market higher value than its rivals, for the same efforts that make the tourists, or the same value with less effort invested.

The modern concept of hotel companies in particular highlights the positioning strategy. Development of a strategy of positioning is performed through several interdependent stages.

Market Positioning of Hotels in Vojvodina

The practice is common following six phases [3, pp.312]:

- (1) determining the needs and desires of selected market segments;
- (2) analyze the benefits offered by the company from the competitors who are present in the same market segments;
- (3) determining who benefits most and who are the least significant for the market segment;
- (4) study of benefits offered by competitors, and how the market segment of their overall responsive bid;
- (5) adjustment of "package offers" in the way to use the more benefits that are desirable for the market segment;
- (6) promote the "bid package" of hotel companies in order to create the image and understanding in relation to selected market segments.

Compared to the classical approach to strategic positioning (focus on hotels, restaurants and other tourist facilities), there are obvious advantages of the modern approach to positioning of the hotel company (the positioning of all companies in the overall tourism infrastructure), and defining its effective business strategy.

The advantages are reflected in the following [3, pp.312]:

- to facilitate a complete assessment areas and the activities of hotel companies;
- establishment of production and market framework for each business and each business unit within the hotel business;
- facilitating the accurate perception of tourism activities within the structure, not just the horizontal level of the hotel building;
- helping to identify the main strategic directions;
- rerouting and integrating diversified management strategy and implementation activities of hotel companies.

The contemporary strategy of positioning there is a complete business strategy of tourist business. It should provide long-term view of tourism companies in its fundamental nature, mission and goals. The only way we can always make a connection to the changing and complex market environment.

2. Process of Positioning Hotel Enterprise

The main problem of every tourist and hotel company is to successfully anticipate the structural changes in its market environment. Without this, decision the timely strategic adjustments cannot be done. Any error in this area in advance means loss of long-term competitive position,

and finally, the disappearance of such enterprises from the market. Until now, tourism has developed two approaches in strategic positioning, and thus, in defining business strategy: classic - traditional and modern approach.

However, in practice, the distinction is made between two classical approaches to strategic positioning and defining the overall strategy of hotel companies, including:

- a) approach with a focus on the basic features of the hotel product (the first formal approach has been used in strategic management in tourism);- emphasis is placed on certain functional areas (price, location, product range and services) and not the whole strategy and it is a partial functional approach;
- b) approach with a focus on the „image” of hotel products;- the result of increasingly complex competitive market conditions and greater respect for the needs of the specific preferences of tourists (emphasis is placed on the overall reputation of the product);- absent a complete image of the institutional and functional terms of the overall bid package (developed marketing strategies for specific product);

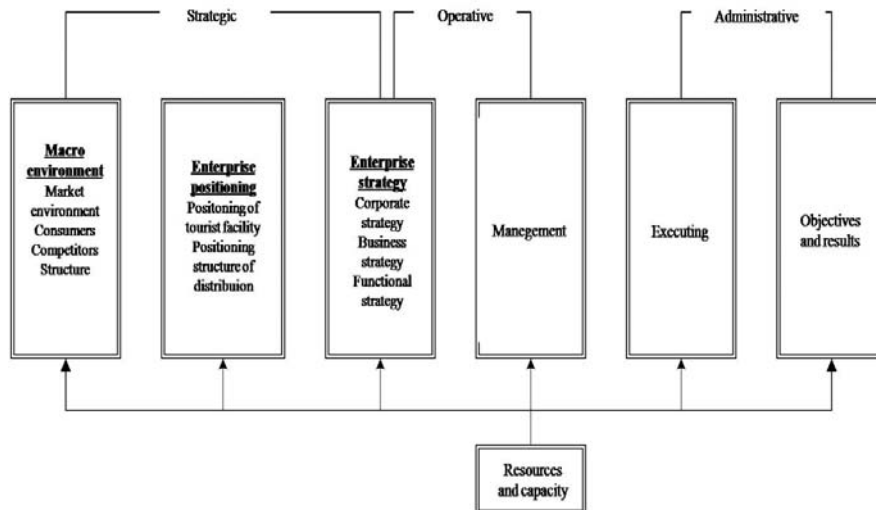
The common feature of both approaches is the emphasis that is placed on hotel product and its market position. Therefore, it departs from the hotel company as a whole, but solely and primarily, from the point position store (product) in the market.

This approach obviously calls into question the mission of hotel companies in relation to its environment.

The new approach requires defining a strategy for the hotel companies in the whole. This means that instead of the horizontal position (related to the product), transferred to a vertical position (refer to the hotel company as a whole). So, the modern approach still insists on the integrated approach to tourism product and the identity of the product, but an integral and defining business strategies of hotel companies.

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Figure 1. The process of positioning hotels enterprise in a particular market environment



Source: Čerović, S., Strategijski menadžment u turizmu, Univerzitet Singidunum FTTH, Beograd

The concept of positioning the hotel product is practically based on a complete consideration of its market position in relation to the strategy of competitors. Vertical positions relations reflect the integral relations that a tourist company has with manufacturers and other intermediaries as well as the users of hotel products.

When deciding on the positioning strategy, these are the suggestions what should be used to avoid the situation [5, pp.758]:

- should be positioned in relation to the follower if the leader of the destination;
- position not only on cost, because it is easy to neutralize the competitor;
- no need to change the positioning of successful and if no significant change in the target market;
- should be positioned directly to the competitor, but if necessary, and in this case only for a short time;
- not recommended for direct positioning of the leader but if there is no intention to take his place;
- does not use two position for the same product at the same target market;

- do not position the product based on promises or attributes that can not be met;
- to avoid sudden position changes, if there is a danger that consumers lose;
- we should not forget that the space in the minds of consumers is limited, usually the one who wins the first came in the room;
- when there is a great similarity with competitors, you need to find something in need of consumers is not well covered by a competitor, and it is important for consumers;
- qualitative research are necessary to gain insight into the mind of the target segment;
- when possible, use quantitative market research in order to quantify most important attributes of a tourist destination and ranked relative to competitors;
- when there is a dilemma, how to position the product, should be allowed to target market and its behavior is a guide to decision-making.

Positioning the hotel product and the positioning of the total tourist offer provides an integrated approach to defining business strategy of tourism and hotel companies. Precise positioning of the hotel company and its basic components provides a complete definition of all segments in the process of strategic management. With such a platform integrated strategy can be defined, including corporate strategy, business strategy and functional strategy [2, pp.207].

The overall process of positioning hotels and defining its business strategy is shown in the previous figure (Figure 1).

3. Positioning and Competitiveness of Hotels in Vojvodina

Growth and development of enterprises in tourism for many years is primarily determined by changes in the scope and structure of tourist demand, on the one hand, and technological development, on the other hand. In addition to persistent tendency of quantitative increase of the tourist market, it is important to point out the qualitative changes, both in the field of demand, as well as the total area of the tourism industry. Numerically speaking, compared to the 1999 the number of hotels in Vojvodina has increased by 21 building and to most hotels in the group IV category (10 hotels), category II (5 hotels), and opened up the hotel and 3, the first category ("Park" and "Leopold I" in Novi Sad and "Villa Breg" in Vrsac) that Vojvodina never had before. The first two hotels are a result of the transition process and the consequences of privatization. The greatest

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increase in the number of beds was achieved at the hotel I and II categories (more than 550 beds), and doubled the number of beds at the hotel category IV and V [7, pp.150]. Transition and new investments in the hotel in Vojvodina through structural changes enabled satisfy the needs of tourists of different preferences, from those who choose to humble those who demand high-quality accommodation. This remedy situations was created as a result of the adjustment of the economy hotel market changes, primarily to the requirements of demand for hotel accommodation, which can provide hotels in Vojvodina in the future with a good market position and competitiveness in the domestic, especially in international markets.

Table 1. The number of overnight stays by types of tourist accommodation facilities in Vojvodina 1999-2007 (000)

Types of accommodation	1999		2003		2004		2005		2006		2007	
	total	foreign	total	foreign	total	foreign	total	foreign	total	foreign	total	foreign
Hotels	503	36	549	95	547	98	569	124	540	129	582	162
First category	-	-	-	-	-	-	24	16	50	32	70	47
Second category	33	2	56	8	66	11	75	18	80	24	136	41
Third category	447	30	256	63	240	60	246	60	209	47	167	37
Fourth category	16	1	101	14	93	16	79	18	60	19	61	22
Fift category	7	3	24	2	37	3	30	4	31	2	30	5
Uncategorized	0	0	112	8	111	8	115	8	110	5	118	10
Other basic accommodation facilities	74	9	76	16	78	20	84	28	100	33,0	164	60
Complementary facilities	13	0	61	0	61	0	82	2	83	3	89	9
Total	590	45	686	111	686	118	735	154	723	165	835	231

Source: Republički Zavod za statistiku 1999-2007, Beograd

When it comes to the number of overnight stays according to the types of facilities for accommodation, it can be noted (Table 1) that the tourists who come to Vojvodina hotels accommodated about 69.7% in 2007, while other basic facilities accommodate 164000 overnight tourists, which amounted to 19.6%, and 89000 in complementary facilities, which was 10.7%. Also, based on the presented data it can be said that most tourists choose hotels of II and III categories, but in recent years there is an increase in the participation of other basic facilities for accommodation, motels, inns

and apartments. So, the hotel as a kind of storage facility is the most competitive in the market.

Strategic adjustment can be differentiated to [3, p.311]:

1. innovative adaptation, when the current product adds a new attribute,
2. prominent (supplemental) adjustment-when the mimic or follow the market leader.

Competitive advantage in tourism depends on, among other factors, the application of new technology, with a special role placed on development of information technology. This technology provides the necessary flexibility in meeting changing customer requirements and at prices that are competitive in relation to the cost of mass production of tourist services.

The competitiveness of companies will depend on its ability to provide a technological advantage through improved:

- information systems, which will intensify the process of research and better predictions of future trends of tourist demand and competition strategy, contribute to a better market position of its own tourist products,
- know-how, through development, their own technology (R & D) and the system of education and training (to ensure a higher quality of tourist services undertaken, harmonized with the demands of consumers).

In addition, the important feature is the rapid development of new technological solutions and their application in business enterprises in tourism. As hotel companies Vojvodina positioned in the market and how they compete in their activities according to market share (Table 2 and 3).

Table 2 .The market share of facilities for accommodation in Vojvodina, 1999-2007 (%)

Types of accommodation	1999		2003		2004		2005		2006		2007	
	total	foreign	total	foreign	total	foreign	total	foreign	total	foreign	total	foreign
Hotels	85,3	80,0	80,0	85,6	79,7	83,1	77,4	80,5	74,7	78,2	69,7	70,1
Other basic facil.	12,5	20,0	11,1	14,4	11,4	16,9	11,4	18,2	13,8	20,0	19,6	26,0
Complement. facil.	2,2	0,0	8,9	0,0	8,9	0,0	11,2	1,3	11,5	1,8	10,7	3,9
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: own calculations based on data from Table 1

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Analysis of market share in the past few years shows that in the facilities to accommodate all types of the largest market share and achieved the highest sales and hotel companies (70% -85%). In second place were all the other basic facilities (motels, inns, suites, etc.), and complementary facilities have market shares ranging from 2% -11.5%. Of course this result is expected as the dominant form of hotels accommodation in the province with 5139 beds.

Table 3. The market share of hotel facilities in Vojvodina 1999-2007 (%)

Hotels	1999		2003		2004		2005		2006		2007	
	total	foreign ⁷	total	foreign	total	foreign	total	foreign	total	foreign	ukupno	foreign
First category	-	-	-	-	-	-	4,2	12,9	9,3	24,8	12,0	29,0
Second category	6,6	5,6	10,2	8,4	12,1	11,2	13,2	14,5	14,8	18,6	23,4	25,3
Third category	88,9	83,3	46,6	66,3	43,9	61,2	43,2	48,4	38,7	36,4	28,7	22,8
Fourth category	3,2	2,8	18,4	14,7	17,0	16,3	13,9	14,5	11,1	14,7	10,5	13,6
Fift category	1,4	8,3	4,4	2,1	6,8	3,1	5,3	3,2	5,7	1,6	5,2	3,1
Uncategorized	0,0	0,0	20,4	8,4	20,3	8,2	20,2	6,5	20,4	3,9	20,3	6,2
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: own calculations based on data from Table 1

As for the hotel facilities and its market share, data show that within the hotels of all categories, the greatest market share had hotels of third category (28.7%) in 2007. It is interesting to note that in 1999 when the hotels of the first category did not exist as well as a small number of hotels of category II the market share of these hotels was even 88.9%. However, through the increase in the accommodation capacity in Vojvodina, raising services to the highest level with three 5-star hotel, the proportion is significantly reduced. In recent years, tourists are increasingly looking for high quality hotels and category (I and II), as shown in the previous section through the analysis of tourist traffic. This especially applies to foreigners who use these facilities more than 50%, actually their market share was 54.3% in 2007 . This indicates that high-class hotels in the most competitive international market. If we look at chronologically, the largest market share

⁷ market share of foreign tourist

in terms of foreign tourists were in the hotel category III (88.3%) to that after eight years reduced to 22.8%.

Therefore, international demand imposes the needs and demand for quality services for which a hotel economy of Vojvodina and its development policy must focus on. It is logical to conclude from previous years that the distinction between successful and unsuccessful hotels will be more evident so that the following can be concluded [1, pp.353]:

The failure will be those who would have the following characteristics:

- Inflexibility, i.e. inability to solve problems in a strategic manner,
- Cramped understanding of market trends,
- The dominant orientation by internal factors,
- Excessive attention to the budget in the planning,
- Lack of implementation focus,
- Undefined costs and unbalanced services,
- Without proper position in the market,
- Short-term management (also called the "crisis"),
- Contradictory goals,
- Inability to create and evaluate changes.

At the same time, successful will be those who are trying to achieve the following characteristics:

- The lower cost of distribution through a deep understanding of their work, its development and trends,
- Concentration on the pre-defined groups of customers (frequent users) and retail channels (connect them)
- Opportunity way using of technology,
- Differentiation of products and services, (insisting on additional value for consumers and lowering the cost compared to competitors), a form of differentiation will be different,
- Total service for tourist travel, frequent customer program, free transportation and the like.,
- "Ego"products (gold card, the Orient Express),
- Standard products (tours, rent a car at your disposal, etc..),
- Standard services (baggage handling, meals during the transportation, terminal facilities and the like.)
- Understanding the needs and focus on customers and competitors,
- Consistent management based on appropriate guidelines,
- Exercising control activities,

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- Constant review of the strong points in relation to the competitive position,
- Continued research in the field of product / market,
- Flexible organization, vision and guidance.

4. Strategic Objectives and Directions of Tourism Development in Serbia and Vojvodina

Starting from the fact that Serbia and Vojvodina have a very wide range of quality resources for tourism development, taking into account market basis in international and domestic tourism, the strategic goals and directions of development of tourism can be defined. With the inclusion of many activities that are of interest and which are related to tourism development, it should in the future be a major generator of overall economic development of Vojvodina, and the whole country.

Starting from these postulates, the following fundamental objectives of tourism development of Serbia and Vojvodina could be defined in the long run [6, pp.5]:

- development of international tourism has to encourage economic growth, employment and higher living standards;
- creating through tourism, the positive international image;
- ensuring long term protection of natural and cultural resources through sustainable tourism development and
- a new tourist products of Serbia and its cluster, including Vojvodina must meet international quality standards, primarily the protection of consumers according to today's tourist European practice.

To achieve these goals and objectives, it is necessary to:

- establish an efficient management system through the establishment of destination management organization for the destination, i.e. "Destination management organizations";
- establish the necessary instruments of influence on the development, growth and development of competitiveness in tourism;
- prepare tourism development at regional and local level, especially in protected areas in order to improve the organization, management and encouraging the development of tourism;
- establish a single tourism statistics and monitor the impact of tourism on national economies;
- establish an appropriate body or organization for the development of tourism, as part of the institutional organization in order to ensure

the system of incentives for investment in tourism for the domestic and foreign investors, improving the construction of tourism infrastructure and the establish a unified quality control system in tourism.

Multidimensional impact of tourism imposes the definition of basic policies and objectives in the areas that directly affect the development of tourism. Development tasks are related to [7, pp.22]:

- infrastructure and transport;
- tourist product of the Republic of Serbia;
- human resources and labor market;
- networking with other sectors;
- a system of national tourism marketing;
- organization, management and promotion of tourism development.

According to the Tourism Development Strategy of the Republic of Serbia until 2015, the nine main tourist products have the ability to market development and commercialization: City holiday, round trip, business + MICE tourism, health tourism, mountains and lakes, navigation, events, rural tourism and special interests. Investment in selected tourism products and regions initiated tourism development in general. Within the competitiveness program the following elements are defined:

- tourism companies and rivalry, which refers to the size and structure of the market and the situation in the area of receptive capacity, development of mutual cooperation between companies from the public sector, development of legislation, and so on.;
- demand conditions, related to the characteristics of demand, motivation, socio-economic level, behavior and customer satisfaction, the degree of consumer protection, tourist destinations etc. characteristics.;
- the sector support and supply, which is related to the complementary activities, such as facilities in the area of trade in tourism, travel agencies, facilities for accommodation, food and beverage, attractions, development of a network of local suppliers and producers, and so on.;
- factors of production, related to the infrastructure, technological, financial, human resources, attractions, research, innovation, and so on.

Investments in infrastructure can revitalize existing tourist offer, encourage the private sector, introduce the application of environmental

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standards in tourist areas, trigger linking of public and private sectors. Generally speaking, there are several possible situations in which to observe the development projects, including those in the tourism sector in the context of management development policy of a country. These situations are the result of different attitudes of public authorities in encouraging the development and / or autonomous level of attractiveness (profitability) of specific development projects.

On the other hand, today there is practically no country in the development whose state authorities are not trying to create a positive investment climate in the country, including potential investments in the tourism sector through the active promotion policies and a range of specific incentives. Today, as a rule, we can speak about four different, but complementary groups and investment incentives and benefits [7, pp.33]:

- financial incentives and facilities (e.g. direct investment of public authorities in the development of tourism infrastructure and capital in a certain area, allocation of grant funds if the project is opened through a number of new jobs or to invest more than a prescribed amount, development loans benefited under the conditions and the like.)
- quasi-financial incentives and facilities (such as state guarantees for the repayment of commercial loans, subsidized "market" interest rate defined for the purpose of reducing the cost of capital and so on.)
- fiscal incentives and facilities that not only raises the total profitability of investment projects, but that raises the overall attractiveness of investment in a country of countries with respect to such incentives / benefits are not offered. Typical examples of fiscal incentives / benefits are as follows:
 - reduction of income tax;
 - the possibility of failure to pay taxes until you get a negative operating result \ of some previous years in business as a whole does not cover the accumulated profits (the so-called "loss carry fonvard");
 - exemption of taxes on real estate;
 - preferential price of energy;
 - lower community contributions and benefits in the first years of operation;
 - reduced tariff benefits on imported equipment;
 - subsidies for domestic equipment purchased;
 - tax exemption for reinvested profits and the like.

- other incentives and facilities (such as training programs for employees, profit repatriation, employment of foreign experts, marketing activities sponsored by public authorities, etc.).

5. Economic Crisis and its Impact on Business Hotels

As you are aware, tourism is characterized by a high dose of elasticity of the previous cases, the appearance of crisis and negative economic cycle manifested itself through a very rapid regeneration of growth, stagnation or falls and the cycle of nature tourism is faster and less prevalent in comparison with other industries. Joint exploration of one of the world's largest business tourism market WTM and Euromonitor International research house showed that the dominant trend in tourism came under the influence of the global economic crisis will be less frequent, closer, shorter and cheaper journey. In that study mentions the possibility of introducing some "free" services to the tourism and hotel industry, which could be overcome crises such as free accommodation in return for payment only of food, or no additional cost for many services and other [9, pp.].

The main challenge for hotel companies is repositioning destinations, spread base of partners, change of structure within the channel, and work on quality events within the destination in order to secure their position in the market despite the current negative trend of global economic trends. What is now obvious is that the market reacts more slowly, the vast majority of business activities of the organization of visits taking place more slowly than in previous years. Companies come into play that does not depend only on specific sales channels and a narrow range of target groups. In any case, the activities of hoteliers in 2009 targeted in order to preserve financial stability of companies, through rationalization and ongoing cost control at all levels and in all segments.

Fundamental radical change in the world is that money has simply „disappeared” and is hardly available to the states, so the banks, cities, companies and any business entity which is necessary for normal functioning.

Conclusion

Market position of hotel companies is the result of the requirements of flexible adaptation of tourist demand, good coordination of business activities, continuous research on product-market relationship, and good organization, vision and control of management. Improving the quality of service process is the basic prerequisite to increase tourist traffic and better positioning of hotels in the market. Some steps have already been made (3

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hotel I categories, 7 hotel category II), but the tourist industry has to lead a competitive battle for tourist consumers, especially foreign. Improving the quality must be present in all types and categories of accommodation facilities and a hotel product differentiation is the result of market research and insight into the needs of modern consumers. Ownership transformation carried out in tourist-catering businesses in the province as well as supporting activities related to the tourism and hospitality, are, and will make in the future a strong financial incentive that would result in renovation, construction, equipping and qualitative improvement of the hotel industry.

The Tourism Development Strategy of the Republic of Serbia outlines clear guidelines for further development of tourism in the province. How they will be applicable for the current state of world and domestic economy remains to be seen. The primary task of the tourism economy of Vojvodina, and the Ministry of Economy and Regional Development in the future should be the adaptation of our entire supply foreign demand. This includes the creation of an integrated tourist product quality, building quality facilities for the accommodation of smaller size, plan built.

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TRŽIŠNO POZICIONIRANJE HOTELSKIH PREDUZEĆA VOJVODINE

Rezime: Tržišna pozicija hotelskog preduzeća rezultat je njegovog ukupnog sagledavanja i poznavanja svih relevantnih karakteristika turista u sklopu odabranih segmenata. Radi se o potrebama, zahtevima i ponašanjima turista. U tom smislu, potrebno je da se identifikuju ključne dimenzije turista i da se sagledaju njihove percepcije i preferencije pri izboru jednog od mogućih „paketa-ponude” na tržištu. Rast i razvoj preduzeća u turizmu dugi niz godina prvenstveno je determinisan promenama u obimu i strukturi turističke tražnje, s jedne strane i tehnološki razvoj, s druge strane. Pored stalno prisutnih tendencija kvantitativnog uvećanja turističkog tržišta, značajno je ukazati i na kvalitativne promene, kako u domenu tražnje, tako i u oblasti ukupne turističke privrede. Brojčano gledano, u odnosu na 1999. godinu broj hotela u Vojvodini se povećao za 21 objekat i to najviše u grupi hotela IV kategorije (10 objekata), II kategorije (5 objekata), a otvorena su i 3 hotela najviše, I kategorije („Park“ i „Leopold I“ u Novom Sadu i „Vila Breg“ u Vršcu). Analiza tržišnog učešća poslednjih nekoliko godina pokazuje da najbolju tržišnu poziciju su u okviru objekata za smeštaj ostvaruju hotelska preduzeća i to (70%-85%). U okviru ovih preduzeća najkonkurentniji su hoteli III kategorije, a za međunarodno tržište hoteli I i II kategorije. Dakle, međunarodna tražnja nameće potrebe i zahteve za što kvalitetnijom uslugom zbog čega hotelska privreda Vojvodine svoju razvojnu politiku mora da usmeri u tom pravcu.

Ključne reči: tržište, pozicioniranje, konkurentnost, hotelska preduzeća, Vojvodina



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TOURIST NEEDS AND MOTIVES FOR TRAVELLING

Vukašin Šušić, PhD*

Abstract: *The hierarchy of needs acts in such a way as to make man always try to satisfy his basic – primary needs, which are the need for food, water, air, clothing etc. Having satisfied his primary needs, man turns to secondary ones, or the needs of a higher order, which include tourist needs. Tourist needs influence man's decisions and choices, that is, his motivation for travelling. In tourism, motivation is the process of expectations regarding where to travel, the process of obtaining information, choosing and deciding on the travel. Motivation encourages man to approach a tourist object in order to achieve certain goals. Motives for travelling contain a wish to realise a great number of various human needs and desires such as: the need to spread knowledge, for aesthetic experiences, encountering new areas, people, cultures and customs, socializing, change, freedom and relaxation, adventure and play, as well as the need for travelling in search of one's own personality.*

Keywords: *tourism, hierarchy of needs, tourist needs, motivation, tourist motives*

Introduction

Tourism is often seen as aimed, planned and motivated behaviour, where the most important role in deciding on travelling have the expectations of the person travelling. Therefore, needs, attitudes and motives of tourists are essential for reaching a decision regarding travelling. [12, pp. 45] Tourist activities represent a part of the subconscious and desires of each individual, through which one tries to reduce dissatisfaction, tiredness, exhaustion and nervousness caused by monotonous everyday life. That process, which initially happens in the consciousness of a future tourist, starts with the occurrence of tourist needs as a result of an inner disbalance

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of an individual. Thus the need for traveling is a growing need originating in the lack of something. The need of an individual is a growing need. The following element of the process is creating tourist motives. A tourist motive can be understood as experiencing needs which start an activity and lead to achieving a certain goal. Therefore, tourist motives happen under the influence of needs and other inner encouragements, as well as outer spatial stimuli. A motive can be a combination of inner encouragements and outer stimuli. [2, pp. 248]

The term of tourist needs

The aim of tourist travel is to satisfy various needs. The basis of all human activities, including tourism, are human needs, that is, satisfying those needs. In the widest sense, needs are defined as „a request of an individual or a social group for material goods and services for the purpose of relieving the feeling of dissatisfaction and achieving certain welfare...“⁸. Needs occur as a lack of something and are followed by a desire to remove the lack, that is, to satisfy the need in order to reduce anxiety and pressure. [9, pp. 16]

Man's needs are numerous and various and depend on various factors and situations. In everyday life, all man's needs, including tourist ones, are ever present, whether in a real or hidden form. Various influences from the surrounding can influence the formation of various priorities. According to A. Maslow, physiological or primary needs are first to be satisfied, being undoubtedly more powerful than any other needs. „That, in fact, means that a human being, who is lacking in everything to a large extent, will probably be mostly motivated by physiological, not some other needs“⁹. With the change in the system of social values, various needs in the continuous process of development and transformation are formed. According to that, man's needs differ depending on the standard of living, tradition and the cultural level of an individual and the society as a whole. Therefore, man satisfies his needs in a certain order, or the hierarchy of priorities.

In the life of a man, travelling is of manifold importance. The point of travelling depends on the social and cultural surrounding and the very personality of the man-tourist. A desire for travelling occurred a long time ago, as a wish to directly encounter unknown areas, people, customs, culture etc. In the beginning, tourist needs were individually developed with

⁸ The Lexicon of Economy, Belgrade, 1975, pp. 989.

⁹ Maslow, A., 1982, pp. 94.

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adventurers, explorers, merchants, scientists etc. Only in the second half of the 19th century one can discuss tourist needs as social needs of a certain social class (elite tourism). In the modern society, tourism has become a social phenomenon, which has spread over all levels of the society, so that tourist needs have become more complex and difficult to separate. In tourist travels, man is looking for an opportunity to realize those needs which are difficult to realize in everyday life, as well as those he considered almost unreal, so one satisfied them through daydreaming and apparent escape from everyday life, mostly through media, film and books.

Tourist needs are a part of overall needs, characterized by certain specific characteristics. In the hierarchical order of overall human needs, tourist (secondary needs) can be considered needs of a higher order, since they occur only after existential (primary) needs have been satisfied. However, having in mind the importance of the renewal of physical and psychological stamina for work productivity, tourist needs approach existential needs to a certain degree. [7, pp.16] That is why in modern conditions of living they are often considered to be primary human needs. "The result is not only a change in work conditions and the standard of living, but in the overall understanding of life and work as seen today by modern science and practice."¹⁰

Tourist needs represent the sum of individual needs which satisfy the individual and a group of people in their wish to rest and relax outside their place of residence, in order to renew their stamina. Therefore, tourist needs are formed in the place of residence, and are satisfied outside of those places, which produces tourist movement.

Tourist needs are manifested through two phases. In the first phase, a tourist need is manifested as a need to rest and relax or as a need to meet new places, objects, people, customs etc. outside the place of residence. For the second phase it is characteristic to transform a tourist need into a need for rest, relaxation in a certain place or area or into a need to meet specific occurrences and objects. [4, pp. 64]

Tourist Needs in the Hierarchy of Needs

The classification of needs set up by the American psychologist Abraham Maslow is widely accepted in textbooks. Maslow divided all human needs into five groups, which can be used for the analysis and understanding of tourist needs. They are:

¹⁰ Vukanić, B., Čavlek, N., 2001, pp. 393.

- physiological needs,
- safety needs,
- needs for love nad belonging,
- needs for self-esteem (recognition),
- needs for knowledge, self-actualization. [6, pp. 99-106]

Physiological needs are the most important needs. „If all needs are not satisfied, the organism is ruled by physiological needs and in that case all other needs can practically exist, that is, be pushed in the background.”¹¹ These needs include needs for food, water, sex etc. and are normally not considered tourist needs. However, if physiological needs are being satisfied in a higher hierarchical order, they can have the character of tourist ones (e.g. rich menus with national specialties, gourmet experiences, high quality drinks, more explicit sexual behaviour etc.).

Physiological needs satisfied through tourism also include rest due to over exhaustion, illnesses, rehabilitation and health improvement , recreation, fitness etc. [3, pp. 20] These needs are satisfied through spending time in natural and anthropogenic ambient with high values in the most important elements of attractiveness (e.g. favourable geomorphologic, climatic, hydrological and biogeographic resources, cultural and historic heritage, ethnic and social characteristics of other nations etc.) through satisfying basic physiological needs such as accommodation, food, entertainment etc. [3, pp. 42]

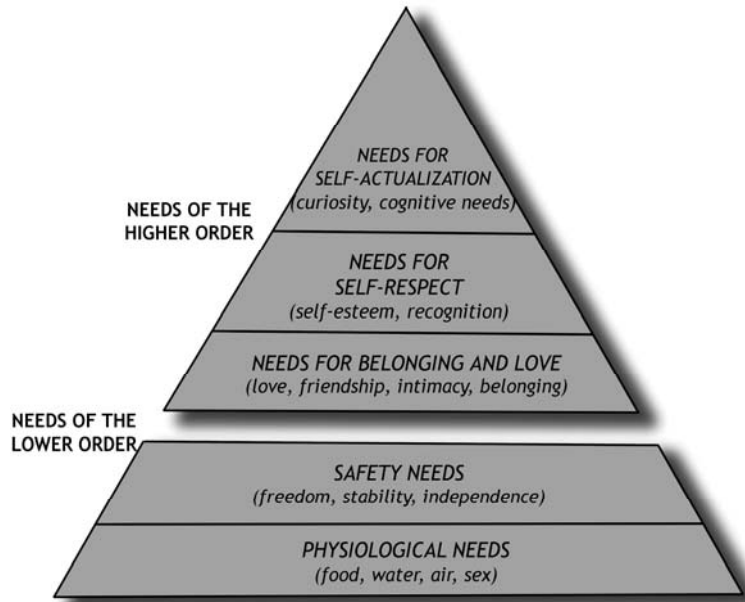
Safety needs are related to freedom, stability, exclusion of fear, chaos, lawlessness, theft, various restrictions etc. Social crises, terrorism, war conflicts and natural disasters (earthquakes, tsunami, hurricanes etc) can influence these needs and tourist movement in general. „That group of needs differs from others, because its fulfillment is not its own purpose, but a precondition for the occurrence and fulfillment of other tourist needs.”¹²

Safety of traveling can influence the range of traffic and directions of traveling. The best examples are terrorist attacks on New York and Washington, Madrid, London, Sharm el Sheik in Egypt, wars in the Persian Gulf, infectious diseases such as SARS, bird's flu etc. That is why tourist countries are trying with every possible means to disable any threats to the safety of tourists, so tourists often have better protection than local people (e.g. in Egypt etc.).

¹¹ Maslow, A. 1982. pp. 92.

¹² Dulčić, A., Petrić, L., 2001, pp. 21.

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Picture 1: Hierarchy of needs according to Maslow

To sum up, it is very important for tourism that tourists' staying is in complete safety and based on the respect of law and order. This is best seen in enjoying freedom, independence, democracy, political, social and economic stability and protection from any incidental situations etc. "Apart from that, other important things are immediate and preventive health insurance, protection and insurance of property, being as fully and accurately as possible informed about issues necessary for the safety of traveling and staying, then the possibility of direct communication with the place of residence."¹³

Needs for belonging and love occur when physiological and safety needs have been met. These needs are initiated by "unsatisfied craving for touch, intimacy, belonging and the need to overcome the feeling of loneliness, alienation and solitude worsened by mobility, breaking apart of traditional groups and the family, generation gap, constant urbanization and disappearance of rural closeness, as well as friendship superficiality as the result of all the above."¹⁴ The appearance of tourist needs is interpreted through not satisfying this group of human needs, since tourism represents adjustment, or resocialization of man. In the modern society these needs are

¹³ Ibid. pp. 42.

¹⁴ Maslow, A. 1982. pp. 100.

often not possible to satisfy through mass tourism, which leads to the appearance of alternative types of tourism, such as ecotourism, agritourism, green tourism etc.

Tourist offer in this group of needs includes renewal and strengthening of close family, friendship and love relationships, freedom to express strong feelings in the new surrounding through new acquaintances, friends, lovers and other forms of socializing. [3, pp. 21]

Needs for self-respect (recognition) are becoming more and more important. According to Maslow, all people have a need and desire for a steady and usually high value of themselves, for respect and self-assessment and appreciation by fellow men. [6, pp. 100] Tourist companies and individuals have to take care of tourist needs for self-respect and their desire to satisfy them as well as to hold on to the business philosophy “the customer is always right” or “everyone and everything is in the function of guests.”

This group of needs includes needs for independence and freedom, self-esteem, importance, dignity and recognition. While staying at a desired destination, tourists are in for various experiences and pleasures which meet and even exceed their expectations. In this way, their staying there fills them with feelings of safety, self-esteem and self-respect. [3, pp. 42]

Needs for self-actualization are based on the previous fulfillment of physiological needs, safety needs, needs for love and appreciation. However, even when the previous needs have been satisfied, dissatisfaction and restlessness can occur, “except with a person who is already doing what is appropriate for that individual.” Maslow defined it in the following way; “Man has to be what he can be. He has to be faithful to his own nature.”¹⁵ These needs are very difficult to achieve in the modern world. From the aspect of tourism, these needs are manifested as curiosity, attraction to the unknown, desire to learn and expand knowledge, expanding knowledge, building a system of values in co-existence with others etc. [3, pp. 22]

Classification of Tourist Needs

In order to realise a tourist travel, apart from the tourist offer and demand and side factors, it is necessary for the individual to make a decision about going travelling. In order to reach that decision, one has to feel the need and be motivated to satisfy that need. However, regarding business trips, needs and motives do not depend on the individual, as, although a

¹⁵ Ibid. pp. 101-102.

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participant, he does not decide on that journey, but someone else, for example, a company, an employer etc.

Unlike business trips, travelling for pleasure is inspired by tourist needs which, as already mentioned, hold a certain position in the hierarchy of human needs (picture 1). Therefore, there is a certain number of needs which are most often satisfied through tourist movement and can be marked as tourist needs to a degree. Tourist, as well as any other needs are historically, physiologically and culturally conditioned. According to Čomić Đ. [9], tourist needs are:

- the tourist need for a change,
- the tourist need for affirmation and self-assertion,
- the tourist need for rest and recreation,
- the tourist need for socializing,
- the cognitive tourist need,
- the tourist need for play,
- the erotic need of tourists,
- the tourist need for safety.

The need for a change is a basic human need, because when it is not satisfied, the feeling of boredom and monotony appears. The solution to the problem of boredom and monotony one finds in changing jobs, types of entertainment, company, sex life etc, but also in the temporary change of the place of residence, that is, travelling. So, the need for a change occurs as one of the basic inner impulses for travelling. „It can be of different intensity in comparison to certain factors which change while travelling (climate, nature, architecture, customs, people, food etc)¹⁶ .

Needs for a change are not present only when one is dissatisfied, but also when one is satisfied with the existing conditions in the place of residence. Being dissatisfied with the every day situation in the permanent place of residence, man is trying to satisfy his needs through travelling to familiar or unfamiliar tourist destinations. In other words, man can not fulfill certain needs in his place of residence, but he can satisfy them in other places, which is why he travels there. However, even when living in welfare and not having any unfulfilled urgent needs, man is striving for changes. In this case „one gets bored even in abundance and welfare he enjoys at home. He no longer wants only changes for the better, but changes for the sake of

¹⁶ Čomić, Đ., 1990, pp. 17.

changes, in order to break the monotonous chain of repetition of the same days, weeks and months¹⁷.

The most important forms of the need for a change which are achieved through tourist travel are: the change of space, time, social environment and one's own personality. [9, pp. 18]

The tourist need for affirmation and self-assertion when travelling is manifested in many ways. The increase in the standard of living, mass development of tourism, development of traffic and easier accessibility of distant destinations have all led to the fact that the prestige is not simply going on a holiday, but where to go. Therefore, rich clients travel to famous tourist destinations which are fashionable (Nice, Cannes, Acapulco etc.), and which are inaccessible to clients with the average income. The status of prestige also holds hotels where they are staying, the type and class of transport etc. It is the demonstrative effect which, due to material wealth, gives tourists the feeling of superiority in relation to the poor local population.

The tourist need for rest and recreation represents one of the basic needs fulfilled through tourist travel. It often represents the basic content of tourist travel, manifesting itself through numerous recreational and physical activities: swimming, skiing, jogging, rowing, trekking, golf, basketball, football etc.

The tourist need for socializing, due to the alienation of man in the industrial and postindustrial society is one of the most important social needs. Alienation in the process of labour, from the product of labour, from the environment, from fellow men, moves one towards tourist travel. [3, pp. 23] In order to reduce the feeling of loneliness, man is looking for an opportunity to meet and socialize with similar people while travelling.

The cognitive tourist need inspires curiosity, an important element of human nature, which moves man to explore and gain knowledge of unfamiliar spaces, countries, cities, customs, cultures, ways of life etc. In the modern world, cognitive need is satisfied through mass media (television, film, press, books etc.), which, regardless of the level of objectivity, contribute to the promotion and popularization of tourism. However, modern man does not want to live with the knowledge of the world presented by others, but wishes to see and live it personally. „The tourist himself goes on

¹⁷ Ibid., pp. 18.

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the location, he sees the world „now“ and „here“ with his own eyes, not depending on the will of others ¹⁸

The tourist need for play in various forms exists as a need in the life of adults. This need one tries to fulfill as any other need. „Although play is not always strictly separated from everyday life, it is most often understood as an antipode to work and serious life, as something casual, secondary, irrelevant, as a rest, relaxation, leisure time, fun which is used to fill up free time“¹⁹. Fun and games can compensate for the monotony of life, by providing new experiences and various stimuli, giving the individual an opportunity to make up for failures in everyday life and work. [11]

The erotic need of tourists occurred with the increase in freedom and free time, which enabled the tourist to satisfy his deepest individual needs. Showing erotic needs in everyday life of modern civilization is still not completely free. Therefore, man strives, at least temporarily, to leave such civilization and satisfy his erotic needs in the surrounding where such an act is not the object of social judgment. So, far from the eyes of the surrounding where one lives, the erotic need can be satisfied through tourist traveling.

The tourist need for safety can be non-stimulating and thus prevent tourist travel. Namely, every change in everyday life is seen as the fear of the unknown and a threat to one's safety. The fear of travelling can be of a rational and irrational character. Rational fears are the fear of the unknown and hidden dangers to one's very existence (fear of injuries, contagious diseases, traffic accidents, earthquakes, natural disasters, political riots, wars, terrorism, physical assaults etc.). Irrational fears are not justified and are manifested through different phobias: the fear of closed space, the fear of heights, bacteria and diseases, the fear of flying etc.

Motives for Tourist Travel

Studying the motivation for travelling is one of the starting points in studying social factors of tourism. That is why one of the key questions in tourism is: what encourages (motivates) an individual for tourist movement. Numerous motivation theories, which are trying to establish the basic motives and causes of tourist movement, offer explanations. Froyd S. argues that the basic motive for travelling is the motive of making love. According to Adler A. the basic motive is the motive of the development of personal

¹⁸ Čomić, Đ. (1990.). pp. 26.

¹⁹ Ibid. pp. 28.

ability, i.e. overcoming inability, whereas according to Rogers K. the basic motive for travelling is – the motive of self-development. [2, pp. 250]

Motivation implies a psychological process of encouraging man to realize certain needs. In tourism, motivation is the process of expectations regarding where to travel, the process of obtaining information, choosing and deciding on the travel. [1, pp. 226] Motivation is the process which encourages man to approach a tourist object in order to achieve certain goals. In accordance with that, a motive is an experienced need which inspires an activity towards a certain goal. „Tourist motives occur as a result of needs and other internal encouragements which act on the inside and spatial stimuli, as goals which act on the outside.“²⁰

There is no general agreement on what a motive in tourism is – is it a need, the object of that need or both? According to some theoreticians of tourism, tourist motives are the reasons for the tourist behaviour of people, such as, for example, interests, attitudes and expectations. On the other hand, there are certain opinions that tourist motives are all objects and occurrences in space which influence the need for movement as an outer stimulus. [12, pp. 45-46] The term motive originates from the Latin word “movere” which means moving, although it is sometimes translated into wider context as a cause, reason or mobility.

Motives for tourist traveling contain a wish to realise a great number of various human needs and desires such as: the need to spread knowledge, for aesthetic experiences, encountering new areas, people, cultures and customs, socializing, change, freedom and relaxation, adventure and play, as well as the need for travelling in search of one’s own personality. Tourist needs are entwined and most often all of them or many of them together occur as motives of tourist travel.

Modern tourists most often travel for pleasure, but travelling can also occur for different reasons (e.g. business, professional etc.). Motives for tourist travel can be categorized into two dimensions:

- push factors when an individual wishes to leave his home, i.e. desires to leave his everyday life, work environment, pollution, traffic jam etc.
- pull factors which influence the decision where and how to travel as well as the behaviour within the destination. [12, pp. 45]

Motives for tourist travel do not have to be individual, but can be shared with family members or a tourist group and can be of different

²⁰ Čomić, Đ., 1990, pp. 15.

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weight, depending on the age, social, cultural and other influences. [12, pp. 45] In textbooks there is a large number of classifications of tourist motives. Regardless of the multidimensional and subjective nature of motives, a certain number of groups of motives or individual motives, which appear under the same or similar name with a significant number of authors, can be identified. According to Fridgen D. J. (1990), the following types of motivations are common in textbooks:

- the need to escape – travelling is an escape from every day life,
- motives that include social exchange,
- motives which include the comparison of social and personal reasons,
- travelling for research and discoveries of new things.²¹

One of the easiest divisions of motives is the following:

- biological - stemming from basic human needs which must be satisfied not only at a tourist destination, but also in the place of residence (food, drink, psychological and physical relaxation),
- social motives - related to the immediate human desire for socializing with other people and improvement in interpersonal relations,
- personal motives – referring to the need of the individual for self-assertion, obtaining new knowledge, meeting new areas and cultures, etc.. [8, pp. 25]

According to one of the greatest theoreticians of tourism, Krippendorf J., basic tourist motives are:

- rest and renewal of physical and spiritual strength which are worn out in every day life, work, school and family;
- compensation and social integration: through travelling, one is to make up for what is missing and what is given up in life; it is to find a balance to the monotonous requests of the work environment;
- an escape: travel can be an escape from reality, from every day life into the imaginary kingdom of freedom;
- communication: the stress is on the relationship among people as opposed to the anonymity and loneliness in everyday life; travelling as an opportunity to make new acquaintances, to be with other people, to find human warmth;

²¹ Taken from: Wall, G., Mathison, A. 2006, pp. 47.

- expanding one's horizons: a wish to do something for one's own education, to experience other areas and meet people, to see the world, to make new impressions;
- freedom and self-actualization: travelling is a form of free time which liberates man the most, as he leaves the surrounding where he resides every day; travelling is double freedom – man does not work and is not at home, freedom of tourists is preserved on the road;
- discovering and experiencing oneself: man becomes aware of his own reality exactly there where everything is new and unknown, travelling is an opportunity to find the way to oneself;
- happiness: the one who travels is striving to realise the joy and happiness of life. [5, pp. 43-47]

Numerous surveys and studies done in the USA concerning the advantages of travelling (surveys were mainly done on tourists who travel in the summer) have pointed out, according to the questions most often asked, six target groups of travellers with different preferences regarding their holiday:

- travellers who stress the need for excitement and escape from every day life,
- travellers who travel for excitement,
- travellers oriented towards family and friends,
- travellers- naturalists, who enjoy natural surrounding,
- travellers who especially stress the escape from everyday life,
- travellers who enjoy all advantages [2, 12]

Although it is not a clear division of motives, the above mentioned division helps to understand the importance of tourist motives when creating tourist arrangements by mediators in tourist travellings. Travel organizers, besides questions regarding motives for travelling, usually include in their surveys questions why certain destinations are chosen. Therefore, most often, the answers to these surveys represent a combination of the attractiveness of tourist destinations and chosen motives for travelling. [2, 249-251]

However, although there are motives, travels are not always realised. As destimulating factors there are:

- the lack of free monetary resources,
- the lack of free time,
- physical limitations (illnesses, invalidity etc.),
- different family reasons (small children, old parents etc.),

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- the lack of interest, when there is no desire for travelling,
- psychological limitations (the fear of the unknown, the fear of travelling, etc.) etc.

Conclusion

The very existence of needs and motives is still not enough to move the individual towards tourist activity. Needs and motives in the consciousness of the individual must get a psychological form, by transforming into certain feelings, followed by desire, and only then will the preconditions for action be made. So, upon recognizing needs and motives which have encouraged the individual, as well as the possibility of fulfilling other conditions (free monetary resources, free time etc.) one can act, i.e. start to look for necessary information regarding conditions of travel in order to decide on the best solution.

Information is partially obtained through experience on the same or similar tourist product or is partially looked for. The sources of information on a tourist product are most often obtained through commercial messages of tourist agencies or in the social surrounding where the potential tourist lives and works (recommendations of relatives and friends etc.) The individual then assesses the obtained information and consequently reaches a decision on purchasing a certain tourist product, i.e. on travelling. If the journey ends in fulfilling one's needs, there is a noticeable desire to repeat the experience, which leads to the development of a habit and loyalty of the consumer towards a certain activity or the choice of the same tourist destination or accommodation facility.

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TURISTIČKE POTREBE I MOTIVI TURISTIČKIH PUTOVANJA

Rezime: Hijerarhija potreba deluje tako da čovek uvek pokušava da zadovolji osnovne - primarne potrebe, a to su potrebe za hranom, vodom, vazduhom, oblačenjem i dr. Kada zadovolji primarne, čovek se okreće sekundarnim potrebama, odnosno potrebama višeg reda, u koje spadaju i turističke potrebe. Turističke potrebe utiču na odlučivanje čoveka i njegov izbor, odnosno na njegovu motivaciju za putovanje. U turizmu motivacija je proces očekivanja o tome gde putovati, proces prikupljanja informacija, biranja i donošenja odluke o putovanju. Motivacija podstiče čoveka da se približi turističkom objektu radi postizanja određenih ciljeva. Motivi turističkih putovanja sadrže u sebi težnju za realizacijom velikog broja najrazličitijih ljudskih želja i potreba, kao što su: potreba za širenjem znanja, estetskim doživljavanjem, upoznavanjem novih prostora, ljudi, kulture i običaja, za druženjem, za promenom, slobodom i opuštanjem, za avanturom i igrom, kao i potreba za putovanjem u potrazi za sopstvenom ličnošću.

Ključne reči: turizam, hijerarhija potreba, turističke potrebe, motivacija, turistički motivi.



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APPLICATION OF DISCONFIRMATION MODEL FOR MEASURING QUALITY OF HOTEL SERVICES

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Abstract: *This article presents the results of measuring the quality of hotel service based on disconfirmation model, which is one of the most common and widely used models of quality measuring of hotel services. The research was conducted during August and September of 2008 in five spas of The West Morava region. Model for measuring quality was based on SERVQUAL. Statistical methods used here are descriptive statistical analysis and analysis of variance ANOVA which showed whether there is statistically significant link between dependent variables (questions about expectations and perception) and independent variables (education structure).*

Keywords: *disconfirmation model, SERVQUAL, quality of hotel services*

Introduction

One of the most important problems that hotels face is demand for better quality of goods and services. Japan and some other more developed country clearly prove that improving the quality of products and services and creating values for consumers present a whole which should be treated as priority in business strategy and hotel policy. Hotels which opt for the concept of quality as their key factor of success should achieve higher level of satisfaction of their users/guests, i.e. to acquire better position on the market and earn bigger profit. While trying to improve hotel service quality managers often come across problems of measuring the quality of services.

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First, hotel managers do not know what their guests consider important when evaluating quality of hotel products and services. Secondly, hotel managers usually do not have reliable methods of determining expectations and perception of hotel guests as far as quality of service is concerned.

Measuring of quality posed a problem at the very beginning of scientific processing of quality. Different authors offered their own models for measuring quality of service and level of consumer satisfaction. Disconfirmation model appeared in the 1980s in the USA and in time became the most popular mostly due to its simplicity. Disconfirmation model evolved out of research of consumer satisfaction. According to this model, consumers have certain expectations in pre-consumption phase, i.e. they predict the quality of a service or a product before they consume it (7, page 493).

Although numerous authors emphasize the importance of the influence of expectation on the process of evaluating quality of service, in scientific papers which deal with quality measurement the term expectation is still vague and neglected. Dilemma about including expectation in the measuring of perceived quality of service leads to two conflicting paradigms: 1) disconfirmation paradigm – according to which guests judge the service comparing perception to their expectation and 2) perception paradigm- according to which guest's expectations are irrelevant (16, page 5), where grading of tourist product quality is the same as grading level of satisfaction the product induces, regardless of expectation which was formed before arrival to a tourist destination (12, page 270). The most common approach in measuring service quality according to the first paradigm is SERVQUAL, while SERVPERF represents the main model in the second paradigm.

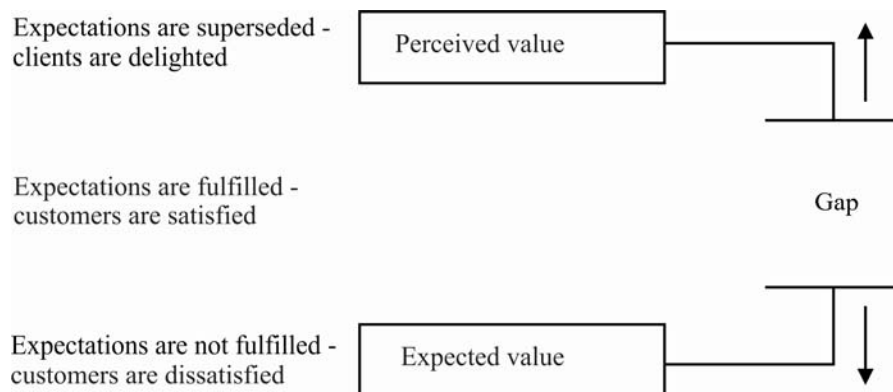
1. Concept of Disconfirmation Model

According to disconfirmation model from the point of view of a consumer, satisfaction is a personal feeling of being happy or unhappy and it appears as a result of comparison of perceived characteristics of a hotel service and expectations. Whether consumer will be satisfied or not after paying for a product or a service depends on how much an offer meets his or her expectation (14, page 412). A guest is dissatisfied when his expectations do not come true, respectively, when what he expects is not the same as his experience in the hotel itself (14, page 412). A guest is satisfied when his expectations come true. If experienced quality is above expectations we can say that the guest is very satisfied or thrilled. Each consumer creates his/her

Application of Disconfirmation Model for Measuring Quality of Hotel Services

own expected value of a service. Confirmation of the expected can be seen through a gap, or difference between expected and perceived value for a consumer.

Picture 1 Disconfirmation model (Source: 23, page 37)



Perceived value for buyers is a difference between all the commodities and expenses of an offer and possible alternatives which buyer takes into consideration. Total value for buyers is perceived money value based on economical, functional and psychological commodities that buyers expect from a current offer on the market, while the total cost for buyers represents expenses of looking for, finding and using a certain offer including spending of money and time, energy and personal effort (14, page 141).

There is a close relationship between quality and consumer satisfaction, and yet they are different. Predominant approach is that consumer satisfaction is the result of each transaction with a service company. Opposite to perceived quality of service, which is a consumer's attitude based on complete and long term evaluation of a service and services company, consumer satisfaction is shorter (3, page 70).

Consumer satisfaction as a result of transactions with a services company is defined as an emotional response to provided experience connected to paying for product or service, or as recognition of suitable or unsuitable prize for their sacrifice (18, page 36).

Literature dealing with the concept of services quality describes numerous models which emphasize different aspects of quality. Nitin et al. (17, page 915) provide detailed survey and evaluation of models and aspects

of quality create between 1984 and 2003. Total number of 19 models of services quality was analysed based on the following element:

1. Identification of factors that influence services quality
2. Adaptability to different kinds and types of services
3. Flexibility connected to constant changes of consumer perception
4. Suggestions for improvements of services quality
5. Providing development of the method for measuring consumer satisfaction
6. Acknowledging need for training courses and education of employees
7. Flexibility in modifications depending on changes of conditions and environment
8. Focus on improvements of quality on all levels of organisation (vertically upward and horizontally downward)
9. Identification of future needs (resources, infrastructure) and help for management with planning
10. Chances of being a tool for benchmarking

Based on the given criteria, numerous authors conducted thorough analysis of model of quality and compared a number of approaches written by different authors from this field. Although research results did not provide universally accepted model, the biggest support and the best comments were given to disconfirmation model of measuring quality of services - GAP model of quality and aspects of quality which are presented in SERVQUAL model. Main advantages of this model are the fact that it enables management to identify gaps they have in services quality on different levels and that it is consumer oriented.

Results of the survey conducted in four companies in services sector: banking, telecommunications, insurance company and repair and maintenance of apparatus, Parasuraman, Zeithaml and i Berry (from 1985 to 1994) managed to develop GAP model which measures gap between expected quality before being served and perception of quality after being served. The same group of authors invented a model for marking services quality – SERVQUAL which consists of five elements of quality (tangibility, reliability, responsibility, assurance and empathy) and 22 questions (19, pages 12-40, pages 41-50). Key features of GAP model are connected to mistakes which appear between a guest and a service provider, and which are connected to a specific point of view on perception and expectation. This model demonstrates the process of creation of services quality.

Application of Disconfirmation Model for Measuring Quality of Hotel Services

According to disconfirmation model, services quality is the function of expectation and perception, which can be presented in the following way (17, page 917):

$$SQ = \sum_{j=1}^k (P_{ij} - E_{ij})$$

SQ (service quality) – total services quality; *k* – number of attributes.

P_{ij} (perception) – perception of features of stimuli *i* under the influence of attributes *j*.

E_{ij} (expectation) – expected services quality for attribute *j* in comparison to set standards for stimulus *i*.

2. Application of Disconfirmation Model for Measuring the Quality of Hotel Services

Although SERVQUAL, as the representative of disconfirmation model for measuring the quality of services, became widespread, it was also criticized, especially its conceptual and methodological aspect. One of the main objectives is about the number and meaning of determinants of quality, i.e. applicability to different types of companies (5, page 10). Thus, McDougall and Levesque modified SERVQUAL and produced the model with three determinants: tangible elements, the outcome of a service and relationship between employees and consumers (15, pages 189-209). The results of a research of service quality in public utility companies were two determinants, tangible and non-tangible elements of services (2, pages 253-258). Another survey conducted in health sector (hospitals) produced nine determinants: check-in, accommodation, food, privacy, care, explanation of treatment, politeness, planning of discharge and services payment (6, pages 33-55). Parasuraman, the creator of SERVQUAL model developed a model for measuring the quality of electronic services on two levels. The first one is E-S-QUAL which is used for measuring the quality of basic electronic service. The second one is E-RecS-QUAL, which is used for measuring the quality extended electronic service. E-S-QUAL includes the following determinants of quality: efficiency, availability, realisation and privacy, while E-RecS-QUAL consists of the above mentioned plus: responsibility, compensation and contact (9, page 47).

When we take into consideration sector of tourism and hotel management, most authors use modified and adapted SERVQUAL model for the research of services quality. Saleh and Ryan in their research of hotel industry differentiate five determinants: sociability, tangibles, trust, avoiding of sarcasm and empathy (22, pages 324-334). Their research consists of 33

questions which is not the case with SERVQUAL questionnaires. Ekincki et al. (10, pages 63-67) tested SERVQUAL model based on the research conducted in hotels on the coast of Turkey. Their model is based on tangible and non-tangible determinants of quality. Akbaba (1, pages 170-192) formed a questionnaire with 29 questions based on his research of services quality in Turkish business hotels. He used SERVQUAL model as well. Getty and Thompson developed a scale called LODGQUAL (lodging quality) for measuring the quality of hotel accommodation (11, pages 3-21). Soriano (25, pages 1055-1067) did a research of services quality in restaurants in Spain. The elements he evaluated were: food quality, services quality, atmosphere quality and price/quality ratio. Stevens et al. (27, pages 56-60), based on SERVQUAL model, developed a model called DINSERV which consists of 29 questions divided into five determinants of quality according to SERVQUAL model.

In 1992, Cronin and Taylor launched alternative methodology of measuring called SERVPERF (service performance). Considering the fact that SERVPERF does not measure expectations, it does not formally measure services quality but consumer's satisfaction. Measuring, i.e. collecting data about users' perception (attitudes) in a sample is done one off, which shortens the process of doing the survey. Further processing and analysis consist of statistical techniques adequate for this type of data (8, pages 55-68).

SERVQUAL model served as a basis for a model which measures services quality, respectively tourists' satisfaction with a destination. This model was developed in 1998 by Tribe and Snaith who called it HOLSAT (holiday satisfaction). HOLSAT consists of 56 questions (28, pages 25-34).

Ramsaran-Fowdar conducted rather interesting research on Mauritius whose final product were determinants of quality (21, pages 19-27). Apart from taking over some of the SERVQUAL model components, the author gave us a great number of new components. This model contains 59 quality components.

In 1991 and in 1992, Snoj and Mumel carried out a research of services quality in spas in Slovenia. The authors provided 23 questions set in five determinants according to SERVQUAL model. The first determinant – tangible elements-consists of 12 questions (24, pages 362-379).

Model for measuring services quality in spa hotels used in this research appeared as a result of detailed analysis above mentioned models, especially model created by Snoj and Mumel, while SERVQUAL model served as a basis (4, page 105).

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Questionnaire consists of two parts, and each of them has 24 questions. The first part deals with expectations of guests and contains five determinants of quality taken from the original SERVQUAL model. The second part of the questionnaire contains the same determinants and questions and measures guests' perception of services quality (Table 1).

Table 1. Determinants and questions as elements of research into hotel services quality

Determinants	Questions (Expectations)	Model
Tangibles	1. Hotel should have good location and be approachable.	<i>New</i>
	2. Hotel exterior and its surroundings should be visually attractive (facades, greenery, terraces, gardens...).	<i>New</i>
	3. Hotel interior should be visually attractive (room arrangement, state of appliances and equipment, decoration...).	<i>Servqual</i>
	4. Prospects, brochures, menus, wine lists, serviettes and hotel bills should be visually attractive.	<i>Servqual</i>
	5. Quality of food and drinks should satisfy guests' needs.	<i>New</i>
	6. Range of food and drinks should satisfy guests' needs.	<i>New</i>
	7. Premises for serving food and drinks (restaurants, bars, patisseries ...) should be clean and tidy.	<i>New</i>
	8. Rooms, bathrooms and toilettes in the hotel should be clean and tidy.	<i>New</i>
	9. Hotel staff should look tidy.	<i>Servqual</i>
	10. Hotel should be able to organize entertainment for the guests.	<i>New</i>
	11. Hotel should have facilities for recreation (swimming pool, gym, sport terrains etc.).	<i>New</i>
	12. Hotel should have well organized medical and other professional programs for health improvement of the guests.	<i>New</i>
Reliability	13. Hotel staff should serve the guests in the promised time period.	<i>Servqual</i>
	14. Hotel staff should show understanding for the guests' problems.	<i>Servqual</i>
	15. Hotel staff should do the services to the guests during their stay.	<i>Servqual</i>
Responsiveness	16. Hotel staff should always be ready to help the guests.	<i>Servqual</i>
	17. Hotel staff should always be ready to answer guests questions.	<i>Servqual</i>
	18. Hotel staff should always react quickly and without delay.	<i>Servqual</i>
Assurance	19. Hotel staff should always be polite to the guests.	<i>Servqual</i>
	20. Hotel staff should have knowledge and professionally fulfill guests needs.	<i>Servqual</i>
	21. Guests should feel safe personal and material safety).	<i>Servqual</i>
Empathy	22. Hotel staff should pay attention to each guest.	<i>Servqual</i>
	23. Hotel staff should talk with the guests honestly and sympathetically.	<i>Servqual</i>
	24. Hotel staff should understand specific needs of the guests.	<i>Servqual</i>

Source: Made by the authors of the article based on SERVEXP scale of SERVQUAL model according to: Zeithaml, V. A., Parasuraman, A., Berry, L., L. (1990): *Delivering Quality Service: Balancing Customer Perceptions and Expectations*. The Free Press, New York.

Questions from the second part were formed in the following way: the first question from the scale of expectations: *Hotel should have good location and be approachable*, in the scale of perception is: *Hotel has good location and it is approachable*. The second question: *Hotel exterior and its surroundings should be visually attractive* is *Hotel exterior and its surroundings are visually attractive*. All the other questions from the expectation scale were re-formulated in the similar way. The first 12 questions from the questionnaire are about tangible elements which can help us materialize a service. The other 12 questions are connected to non-tangible elements which present key feature of a service and what makes it different from a material product.

Likert's scale was used for measuring guests' attitudes. This scale starts with 1 - *completely irrelevant* and finishes with 5 - *very important*. In the second part of questionnaire (about perception) grade 1 means that a guest *completely disagrees* and grade 5 that he/she *completely agrees*.

3. Description of a Research Sample

The research of hotel services quality was carried out in five spas in The West Morava region: Vrnjačka, Mataruška, Ovčar, Bogutovačka and Gornja Trepča from 1st August until 30th September in 2008. 147.342 tourists visited these spas during 2008 which makes them the busiest spa destinations in Serbia. Data was collected through a questionnaire, i.e. *face to face* technique and through questionnaires left at the hotel reception desks. Four interviewers took part in this research. Out of the total number of 1600 questionnaires 618 were completed in a correct way. Interviewing guests resulted in 453 questionnaires, and hotel reception desks returned 165 questionnaires. 62.1 % questionnaires are from the hotel in Vrnjačka Banja, 10.7 % from the spa Mataruška banja, 12 % from the spa Bogutovačka banja, 9.6 % from Gornja Trepča and 5.7 % from Ovčar Banja.

90.9 % of the sample are domestic guests. There are 56 foreign guests which makes 9.1% of the total. 46 foreigners come from ex-Yugoslavian countries and only 1.6% from other countries. According to the sex structure 54.5 % respondents are female and 45.5 % are male. Analysis of the age structure shows that most of the guests belong to people who are from 41 to 50 years old (163 or 26.4%). The second group consists of people between 31 and 40 (142 or 23%) and the last one the age group between 51 and 60 (134 or 21.7). 71% of respondents belong to employed population. 24.6 % of respondents are over 61 years old, while 4.4% of respondents are under 30 years old. As far as educational structure is concerned, 319 or 51.65% of respondents finished high school, 23.3% finished college and

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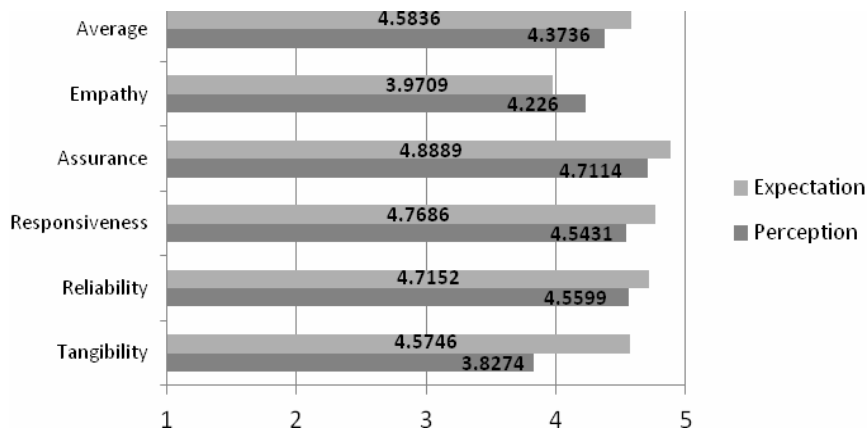
19.9% have university degree. 5.2% of them finished elementary school only.

Data collected in this research was transferred to SPSS data base and all the analyses were carried out with the help of Statistical Package for Social Science SPSS, version 13.0. Social Science.

4. Results

Descriptive statistical analysis was used for calculating average grades based on determinants which are connected to expectations and perception of hotel services quality (Chart 1).

Chart 1. Grades of expectation and perception based on quality determinants



The difference between perceived and expected quality of services is negative in all determinants of quality except determinant *empathy*, positive gap is the result of low expectations (3.9709). Guests had the highest expectations about determinant *assurance*, then determinant *responsibility* and *reliability*. If we take into consideration small absolute difference between arithmetic mean, it can be said that the above mentioned determinants are of equal importance for the interviewed guests. Guests also showed high expectations for determinant *tangibility* (4.5746).

Grades for perception of quality are highest for the determinant *assurance*, then *responsibility* and *reliability*. Absolute difference between the values of arithmetic mean is small in these determinants as well. The lowest score is connected to *tangibility* (3.8274) which is realistic and in accordance with the material elements of hotel services in these spas (interior and exterior design of the facilities, equipment, range of additional

services etc.). The result is the highest negative SERVQUAL gap in determinant which represents tangible elements of a service.

Total SERVQUAL gap is negative-0.21. Values of SERVQUAL gap for determinant *tangible elements of a service* (-0.7472) and *reliability* (-0.2255) are above average. Value of gap of other determinants is below average.

Analysis of variance ANOVA was used for measuring differences on variables with several modalities. Statistical significance of these differences was tested, i.e. we were looking for the significant statistical link between dependant variables (questions connected to expectations and perception) and independent variables (educational structure).

The results of One-Way ANOVA in educational structure for the domen of expectations point out that on the level of significance $p < 0.01$ there are statistically important differences in determinants *assurance* and *empathy* (Table 2). With determinants *tangibility*, *responsibility* and *reliability* there are no statistically important differences.

According to the results of F test the only certainty is the importance of difference between the group with the biggest and the group with the smallest arithmetic mean. Post-hoc test was applied in order to get insight into the groups which are significantly different. Programme package SPSS offers several post-hoc tests (LSD, Sidak, Duncan, Bonferroni, Dunnett, Scheffe etc.). Scheffe post-hoc test was used in this research because it is considered to be the most rigorous and the most widespread.

Post hoc test showed that in determinant safety respondents with elementary school diploma have rather lower expectations than respondents from other educational groups. In the last determinant there is a great significance of expectations of respondents who finished elementary school, which means that they have higher expectations than other groups. Respondents with high school diploma have higher expectations about *empathy* of personnel compared to those who finished college or university.

Respondents' grading of perception of given services in spas is significantly different in all quality determinants on the level of significance $p < 0.01$ (Table 3).

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Table 2. Analysis of One-Way ANOVA – according to educational structure for the domain of expectations

Determinants	Level of education	M	σ	F	p
Tangibles (expectations)	Elementary school	4,5130	0,23390	1,252	0,290
	High school	4,5875	0,26678		
	College	4,5544	0,20205		
	University degree	4,5806	0,26716		
Reliability (expectations)	Elementary school	4,8438	0,26753	2,880	0,035
	High school	4,7388	0,42051		
	College	4,6898	0,35182		
	University degree	4,6504	0,37658		
Responsiveness (expectations)	Elementary school	4,7500	0,25400	0,198	0,898
	High school	4,7753	0,33338		
	College	4,7731	0,34961		
	University degree	4,7507	0,35859		
Assurance (expectations)	Elementary school	4,7604	0,24296	5,959	0,001*
	High school	4,8767	0,23072		
	College	4,9190	0,19411		
	University degree	4,9187	0,17773		
Empathy (expectations)	Elementary school	4,8229	0,35905	23,609	0,000*
	High school	4,0763	0,75520		
	College	3,8773	1,47222		
	University degree	3,7154	0,94828		

NB: * $p < 0.01$; $F \geq 3.78$;

M-arithmetic mean, σ -standard deviation

Source: Made by the authors of the article based on data analysis in SPSS 13.0.

Guests with college diploma gave rather low grades to *tangible* elements of hotel service in comparison to other groups. When we take into consideration determinant *reliability* guests who finished elementary school gave higher grades compared to those who finished college. Guests with high school diploma also gave higher grades compared to the guests with college degree. Features of services connected to *responsibility* received the highest grades from the guests who finished elementary school, followed by

the guests who finished high school. *Assurance* is more important to the guests with high school diploma than to the guests with college diploma. The last determinant contains statistical significance in answers of guests with elementary and high school diplomas, who altogether gave higher grades to it than guests with college and university diplomas.

Table 3. Analysis of One-Way ANOVA – according to the level of education for the domain of perception

Determinants	Level of education	M	σ	F	p
Tangibles (perception)	Elementary school	4,0911	0,52165	18,722	0,000
	High school	3,9188	0,60216		
	College	3,5278	0,52806		
	University degree	3,8726	0,52708		
Reliability (perception)	Elementary school	4,6979	0,60677	10,456	0,000
	High school	4,6635	0,48779		
	College	4,3958	0,61951		
	University degree	4,4472	0,59725		
Responsiveness (perception)	Elementary school	4,8542	0,26690	9,881	0,000
	High school	4,5946	0,48097		
	College	4,4120	0,51698		
	University degree	4,4824	0,48135		
Assurance (perception)	Elementary school	4,7708	0,41854	6,699	0,000
	High school	4,7701	0,41976		
	College	4,5926	0,41987		
	University degree	4,6829	0,35670		
Empathy (perception)	Elementary school	4,5937	0,48441	12,632	0,000
	High school	4,3417	0,69283		
	College	4,0718	0,69761		
	University degree	4,0108	0,68677		

NB:* $p < 0.01$; $F \geq 3.78$;

M-arithmetic mean, σ -standard deviation

Source: Made by the authors of the article based on data analysis in SPSS 13.0.

Thus, tendency among guests with higher educational degree to complain more about the quality of hotel and restaurant service is confirmed

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by the research conducted in Hong Kong. According to this research tendency to complain about the quality of hotel and restaurant service showed 9.9% of guests who finished elementary school, 22.9% of guests who finished high school and 67.2% of guests who finished university. This article also confirms the thesis that the level of expectation and tendency to complain is directly connected to the level of education (13, page 286).

Conclusion

Generally speaking, evaluation of spa tourism presented in the first draft of the report of Strategy of tourism development of The Republic of Serbia coincides with the estimation of Serbian tourism and hotel management. The most problematic areas are lack of strategic positioning, worn out accommodation, not being modernized and up-to-date, unfinished privatization processes, lack of variety of tourist offer (29, page 205). The results of his research support above mentioned situation because most of the guests in spas in The West Morava region were not satisfied with the services. Their expectations were higher than the services provided in all determinants, except determinant *empathy*, in which positive value of its gap is the result of very low expectations. The biggest negative SERVQUAL gap was created in the first determinant which is about tangible service elements which shows that the main obstacle to giving more quality service in spa hotels is inadequate setting and equipment of facilities and lack of additional hotel services.

Methods of measuring quality of services should be applied to current spa tourism which is considered to be possibly prosperous branch of Serbian economy. Disconfirmation model of measuring quality of services can also be used for measuring level of users' satisfaction in certain market segments. Analysis of One-Way ANOVA enables determining significant differences in expectations and perceptions of consumers according to their socio-demographical characteristics. Very important element for forming the right market segments is defining groups of consumers who share the same set of characteristics because these characteristics reflect consumers' wishes and needs in their search for suitable hotel products and services. Market segmentation represents basis for creating up-to-date hotel product and implementation of the concept of long term relationship with a guest. To modern hotel organizations which face more and more refined demand from their consumers together with fierce competition on the global market, quality has become one of the main factors of success and paradigm of competitiveness. Thus, providing quality service and its continuous improvement has become the most attractive feature to guests.

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**PRIMENA DISKONFIRMACIJSKOG MODELA U MERENJU
KVALITETA HOTELSKIH USLUGA**

Rezime: U radu su prikazani rezultati merenja kvaliteta hotelskih usluga primenom diskonfirmacijskog modela, jednog od najpoznatijih i najčešće korišćenih modela za merenje kvaliteta usluge. Istraživanje je sprovedeno u pet banja Zapadnomoravske zone, u toku avgusta i septembra 2008. godine. Model za merenje kvaliteta usluga razvijen je na osnovu SERVQUAL modela. Korišćeni su statistički metodi deskriptivna statistička analiza i analiza varijanse ANOVA, pomoću koje je ispitano da li između zavisnih varijabli (pitanja iz domena očekivanja i percepcije) i nezavisnih varijabli (obrazovne strukture ispitanika) postoji statistički signifikantna veza.

Ključne reči: diskonfirmacijski model, SERVQUAL, kvalitet hotelske usluge



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THE SIGNIFICANCE OF AGRICULTURE IN STRENGTHENING THE ENERGETIC POTENTIAL IN SERBIA¹

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Abstract: *A need for energetic stability, as well as awareness increase on environment preservation, is a key of actualization in using renewable sources of energy worldwide. However, prevailing energetic crisis and high price of fossil fuels have allured numerous countries to turn to their own alternative energetic resources and therefore increase independence from the fossil fuels. The European Union, we tend to join, too, leads obviously in regard to the rest of the world, in usage of alternative sources of energy, because it uses successfully secondary agricultural products. In regard that Serbia uses even 20 % of GDP from agro-industry, while the agricultural production participates in creation of GDP with 12 %, it is obvious that there is a need for directing the agriculture toward production of alternative forms of energy. With pre-orientation of agricultural husbandries on production of alternative energy would stimulate development and diversification of rural economy, provide needs for the energy and therefore decrease export dependence.*

Keywords: *Alternative sources of energy, agriculture, decrease of import dependence, diversification of rural economy*

Introduction

The agriculture, as a branch of human activity, has always had a task to produce enough food for men, but lately it is assuming no less important role – the production of energy. Getting energy from the agriculture is not negligible factor within an aspiration for energetic stability of every country, so this economic

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activity could become, along with food production, main producer of energy from renewable resources. According to our existing Law on Energetics¹, the term “renewable sources of energy” (RSE) refers to the natural sources of energy, which renew completely or partly, especially the energy of watercourses, wind, non-accumulated solar energy, geo-thermal energy, biomass etc. The highest participation in renewable resources in our country has the biomass, which represents biodegradable part of the product, remains and waste in agriculture, forestry and wood industry, whether they are plant or animal origin, where their use of energy is permitted only in line with regulations on environment preservation issues. Among other renewable sources of energy, the biomass is getting more and more attention, regarding the fact that it is similar to fossil fuels, so there is a possibility to be directly replaced.

The fact that redirection to alternative, renewable sources of energy in every country contributes to national security is not either negligible, having in mind increase of self-sufficiency level in energetic sense, providing preservation of fossil fuels reserves, as well as profitability of agricultural production, which have always been low-accumulative economic branch.

Working method: In order to review the significance of agriculture and its contribution to dependence from fossil fuels decrease and energy import generally, it was given review of capacity of basic agricultural activities. During the analysis of sown and reaped land of main crop cultures for ten-year period, as well as during the analysis of energy export and import for four-years-lasting period were used data of the Republic Institution for Statistics, while available data of “Eurostat” were used for review of data regarding RSE in some of EU-members.

Condition and Tendencies of Energy Substances' Foreign Trade Exchange in Republic of Serbia

The Republic of Serbia is energetically dependent country, which provides 42 % of totally needed primary energy from import, while only 58 % ensures from domestic production, where dominates the production of low-calorie coal. In accordance to last data of the Republic Institution for Statistics on energy substances balance in our country, in November 2009, the import of the energy substances was even 20,2 % of total import, which was for 1,4% more than in November 2008. Such high energy import in 2009 had cost us 205,2 million EUR, while the value of exported energy was 19 million EUR.

¹ Official Gazette RS No. 84/04, article 3, clause 14.

The Significance of Agriculture in Strengthening the Energetic Potential in Serbia

Table 1: Foreign trade of energy of the Republic of Serbia, export and import per economic purpose of EU

2006		2007		2008		2009	
Participation in total export in %	Participation in total import in %	Participation in total export in %	Participation in total import in %	Participation in total export in %	Participation in total import in %	Participation in total export in %	Participation in total import in %
3,3	19,8	2,6	17,3	3,5	20,5	4,5	17,0

Source: [10]

Remark: data for 2006, 2007 and 2008 were given for period January-December, while for 2009 were given till month of November inclusively

We do not have domestic oil sources, so in net import structure dominates:

1. import of oil and its derivatives,
2. than gas,
3. coal and
4. electrical power, which participates with less than 1 %.

The supply with raw oil provides mostly from import (81 %), while minor part (19 %) provides from domestic production (Table 2). The import in 2008 was the same as the import level in 2007 and higher in regard to 2006 for around 2 %. Total needs for natural gas ensure primarily from import; according to data of RIS we import 91 % of this energy substance and 9 % from our own production. As for other two energy substances that we import, domestic production of coal satisfies 89 % of needs, while the production of electrical power almost completely satisfies domestic needs.

Table 2: Review of import and domestic production for main energy substances in Serbia in 2008

Energy substance	Oil	Natural gas	Coal	Electrical power
Import	81%	91%	12%	Less than 1%
Own production	19%	9%	89%	Almost completely satisfies needs

Source: [10]

The statistical data for our country, but also other countries worldwide, point out to constant growth of energy consumption. Further growth of demand, with decreasing reserves of fossil fuels, leads to replacement of energetic crisis one by another, and therefore increase of prices and more pronounced import dependence of some countries. Along with this scenario, it is necessary to increase immediately the production of energy from own sources, primarily alternative sources, and in such way decrease a size of import and import dependence from countries which have fossil fuel sources.

Serbia abounds in significant potential of renewable sources of energy (including the potential of small watercourses up to 10 MW), evaluated on 3,83 million tones of oil equivalent (toe) annually. However, according to RIS data, the participation of renewable sources in total energy consumption in 2008 amounted only 6 %, which was significantly less than the real possibility. Regarding the participation of specific forms in total potential, there can point out a fact that the biomass does even 63 % of renewable sources of energy. In accordance to statistical data, the need for non-renewable sources would decrease for around 45 % and import dependence for 20 %, by using available potentials for production of alternative sources of energy.

Big quantities of biomass derive from agriculture, cultivating grains, industrial plants and forage crops, than from remains in fruit culture cutting, as well as from residues on the farms, so the biomass from the agriculture could split in three basic groups: Biomass generated from crop growing, fruit growing and livestock breeding.

The Potentials of Agricultural Production of R. Serbia in the Field of Alternative Energy

The crop production is the most present agricultural activity in Serbia and provides the highest percentage of biomass that can be used as an alternative energy source. Harvest residues, so called side-products of crop growing, can be used as important source of thermal energy, but their purpose is not technically defined in our country. Total production of biomass from annual cultures in our country ranges over 12,5 million tons per a year. Only in Vojvodina gets annually between 6 and 7 million tons of plant residues, which is equal to quantity of 2,5 million tons of oil.

Table 3. The production of bio-diesel from oil plants

Oil plants	Average yield of kernel (t/ha)	Content of oil in kernel (%)	Production of biodiesel	
			(kg/ha)	(l/ha)
Sunflower	1,79	40	716	816
Soya	2,25	18	405	460
Rape	1,69	36	608	690

Source: [12]

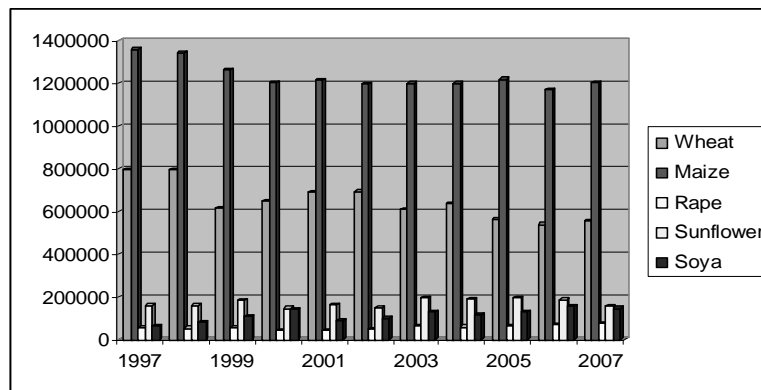
Serbia has extremely favorable terms for growing oil plants, first of all sunflower, soya and rape, whose seeds are rich with oils necessary for biodiesel production. Planned production of biodiesel in 2008 (0,061 million toe) is for almost 2,5 times higher than evaluated production in 2007 (0,026

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million toe), which points out to growth of production and consumption of alternative fuels in Serbia [10].

In order to increase the production of alternative fuels and therefore decrease our import dependence, it is necessary to use suitably residues of crop production, increase of oil plants yield on already existing areas or increase the areas under these crops, safe repurchase and guaranteed prices of oil plants, prohibition of unallotted consumption of waste biogenic fats for forage crops, as well as for increase of agricultural areas, which Serbia has potential for. If areas of around 200.000 ha, which remain unsowed each year, should be used, an important resourceable base could be created, where by it would be possible to enlarge capacities of crop production, especially oil plant production. As we can see in reviewed graph, there is a mild trend in substitution of wheat with industrial plants in last years, but for serious production of alternative fuels and increase of our energetic independence is necessary target increase of industrial plants production. In accordance to statistical data, the areas under wheat in observed period have been decreased for 30%. Unlike the wheat, the maize has some stabile areas, while in this period they had decreased for about 12 %. The sunflower grows also on smaller areas (3,73 %) than in 1997. Unlike the areas under wheat, maize and sunflower, the areas under rape have increased for 14,12 %, as well as the areas under soya (25 %). According to some evaluations there are potentials that the oilseed rape grows on 150.000 ha, so the production on those areas would be enough for production of around 100.000 tons of biodiesel [6, pp.8].

Graph 1: Harvested areas of more important crop cultures in Serbia in period 1997-2007, in ha



Source: [10], * Without data for Kosovo and Metohija in 1999, 2000 and 2001

Ilić and associates (1998) present data on energetic potential of the most present crop cultures' residues in our country (Table 4), where can be concluded that treatment with plant residues is inadequate and that should make efforts to use such significant agrarian potential for development of rural areas, but also for fossil fuels dependence decrease.

Table 4: Production of main crop cultures in Serbia and energetic potential of their residues

Plant	Area (10 ³ ha)	Production (10 ³ t)	Relation product/residue	Total residue (10 ³ t)	Residue which uses energetically (10 ³ t)	Energetic potential (toe)
Wheat	797	2.905	1 / 1	2.905	1.365	Average thermal value 14 MJ/kg
Barley	135	365	1 / 0,8	295	180	
Rye	8,5	14,1	1 / 1,1	15,5	4,4	
Maize	1.358	4.827	1 / 1,1	5.310	1.140	
Sunflower	160	280	1 / 1,2	705	240	
Soya	83	160	1 / 2	320	130	
Rape	1,4	2,6	1 / 3	7,8	1,6	
Total				9.560	3.060	1.023.000

*1 toe = 41,860 MJ, data for 1998

Source: [6, pp. 8]

We can see in table 4 that only a third of the biomass, which remains after the harvest, is used for making the energy. The most are used residues from wheat and maize, while the residues of rape have the lowest level of utilization.

Except crop farming, Serbia has high potentials for intensive fruit production, which represents one more important source of biomass. The fruit growing is developed in all parts of Serbia, where the most is present the production of plums, apples, sour cherries, peaches and grapes. Each season gets high quantity of plant residues 1-2 t/ha by cutting the fruits, which the most often burns, or plows, and rarely briquet. Similar situation is in viticulture, where every year burns around 1 t/ha of cutting residues.

According to data of Radojević and associates in 2005, thermal values of some fruits cutting residues are not the same.

Table 5. Characteristics of some fruits cutting residues

Fruit kind	Peach	Pear	Apple	Apricot	Sour cherry
Relation product/residues	2,51	1,26	1,20	2,84	1,20
Upper thermal value (MJ/kg)	19,4	18,0	17,8	19,3	19,1

Source: [9, pp. 86]

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From reviewed data can be observed that the most plant residues get from peach cutting, but also that their upper thermal value is the highest of all related kinds. The mass of wood rejected by cutting ranges from 4,13 kg to 9,83 kg per a peach tree, in dependence of growing form [9, pp. 87]. According to various sources, from fruit growing could be got annually 597.000 toe, which in negligible quantity regarding that we spend significant assets on energy import, so each contribution in decreasing import dependence would be important as on micro, as well as on macro-economic level.

Livestock breeding in Serbia, in last few years, has been less represented. Nevertheless, the residues from livestock breeding are significant energetic source, because there is 70-90 % of energy in waste, accumulated in animal food, and which they cannot use. Energetic potential of biomass in livestock breeding, favorable for biogas production, has been evaluated on 42.000 toe [12]. Besides they have great energetic value, the waste in livestock breeding seriously jeopardize human environment, so by their processing preserves the environment and farms get greater dependence from fossil fuels usage. For example, about 10-12 kg of liquid manure with 4-10 % of dry matter is necessary to get 1 m³ of biogas [4, pp. 10]. Domestic animals, whose liquid manure can be used economically for production of biogas, are milking cows, cattle, fattening pigs, laying hens, and with proper use of livestock side-products on annual level could be got a gas quantity equal to 1.814 toe.

In Serbia and in the EU, the highest percentage of participation in renewable sources of energy has the biomass, which made 25 % of used alternative forms of energy in 2008. This fact overlaps with aspirations from European Commission report in 2005 („Biomass Action Plan”), according to which the support to alternative sources of energy development, like biomass, is very important for development of rural areas².

Condition and Tendencies of Renewable Sources of Energy Use in EU Countries

Basic reasons for starting the production and the use of alternative forms of energy are: frequent energetic crisis, high costs of extracting oil from Earth's deep layers, as well as concernment because of enormous

² According to data of Čeček and Dragutinović, it is possible to produce annually from RSE around 886.800 kWh t of thermal energy, 53.450 kWh of electrical power on small husbandry of 11 ha, in mixed plant and livestock production (*presentation of „Perspectives of sustainable development in the field of renewable sources energy use, with special view to biomass energy, on territory of AP Vojvodina., Milan Čeček , Katarina Dragutinović*).

production of carbon-dioxide, which cause is, among others, excessive use of fossil fuels. For now, the most available natural sources of energy are the energy of water, sun, wind, geothermal energy and biomass, but there are also other alternative sources of energy, whose appliance is only expected. The biomass makes at the moment 44-65 % of overall renewable sources of energy, which uses in EU, and satisfies 4 % of EU energetic needs (or 69 million tons of oil equivalent). The goal of EU is to increase the biomass on 150 million toe till 2010. From several scientific and economic studies follows that increase of biomass usage would contribute to realization of the following scenario till 2010:

- Diversification of energetic supply of Europe, i.e. increase of renewable sources of energy participation till 5% and decrease of reliance on energy import up to 42-48 %,
- Decrease of green house gas emission up to 209 million tons,
- Direct employment of 250-300.000 men, mostly in rural areas,
- As a result of decreased demand would come to decrease of oil price on the market.

In accordance to Directive 77 from 2001, the European Union had set the goal: 12 % of total spent energy in EU till 2010 must be from renewable resources, which is in harmony with energetic policy of developed countries, which tend to decrease of harmful matters emission and achievement of sustainable development. The same directive dictates that the participation of renewable resources of energy in total energy production should increase for 15 % in 2002, on 22,1 % till 2010. In order to introduce faster the renewable sources of energy at the market, general terms have been clearly defined and improved. It is especially effective for the production of electrical power from biomass, because the incentive for its production has been regulated by regulations. However, the enterprises which deal with distribution of electrical power produced from RSE, are obliged to overtake all quantities of offered electrical power, according to already regulated terms.

According to data which Eurostat published in 2007 in the document „*Energy, transport and environment indicators*“, we have selected some of member-countries and have given review of renewable sources participation in total consumption of energy, as well as changes in using these sources in ten-years-lasting period between 1995 and 2005

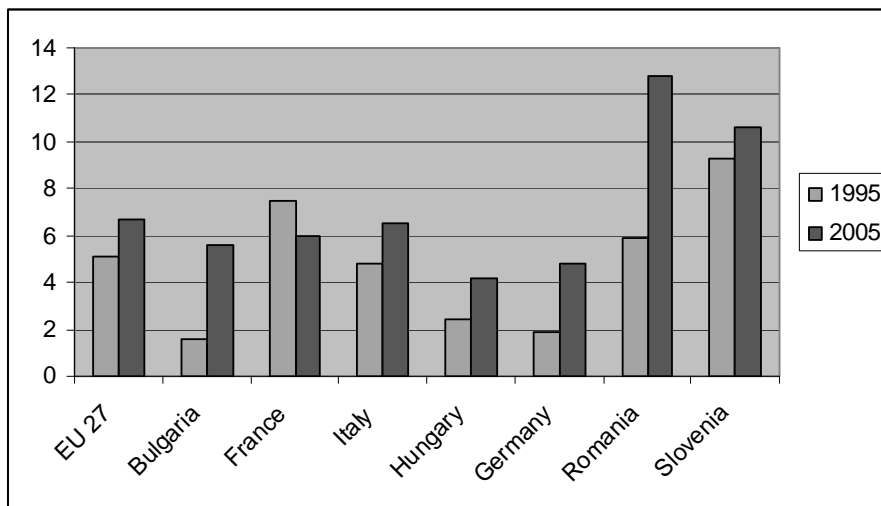
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Table 6: The total energy consumption of renewable sources in some countries of European Union (in ktoe)

Country	Total		Hydro-energy		Biomass		Others	
	1995	2005	1995	2005	1995	2005	1995	2005
EU 27	84.113	120.571	28.054	26.394	51.991	81.906	4.068	12.271
Bulgaria	363	1.123	151	373	212	717	0	33
France	17.903	16.640	6.322	4.491	11.434	11.912	147	236
Italy	7.771	12.125	3.249	3.101	1.346	4.008	3.177	5.016
Hungary	626	1.180	14	17	526	1.073	86	89
Germany	6.516	16.713	1.873	1684	4.447	12.186	197	2.844
Romania	2.797	5.004	1.435	1.737	1.362	3.185	0	82
Slovenia	571	774	279	298	292	476	0	0

Source: [3, pp. 58]

Graph 2: Participation of renewable sources of energy in total energy consumption in some countries of European Union (in ktoe)



Source: [3, pp. 58]

What can be observed at first sight from the Table 6 is significant increase of renewable sources of energy use in EU countries, which was amounted 14,33 % in period from 1995 to 2005. There is observed that the participation of biomass in RSE is the highest and in 2005, on level of EU 27, was amounted around 68 %. Next by relevance of usage is hydro-energy, which makes around 22 % of all used RSE. If we observe the contribution of RSE in some selected members of the EU, we can see that Romania and Slovenia provide significant percentage of energy from alternative source.

According to the report of the European Commission on condition and visions of bio-fuel consumption in EU countries, Table 7 shows the quantity of biomass used for making energy in EU in 2003 and evaluated potentials in 2010, 2020 and 2030.

Table 7: Potentials of biomass in EU 25 for energy production³

Mtoe	Consumption of biomass, 2003	Potential in 2010	Potential in 2020	Potential in 2030
Wood from the forest, growth and residues	67 ⁴	43	39-45	39-72
Organic residues, residues of wood industry, agriculture and food industry, fertilizer		100	100	102
Agricultural energetic crops	2	43-46	76-94	102-142
TOTAL	69	186-189	215-239	243-316

Source: [1, pp. 11]

Shown data point out that total potential for 2010 is 2,5 times higher than the one from 2003. The potential for 2020 is for 3-3,5 times higher and the potential for 2030 is for 3,5-4,5 times higher than the one from 2003. The European Union anticipates that the production of energy from biomass, in relation to other renewable sources of energy, will amount 73 %.

The forestry and agriculture together give great contribution to potential increase in production of alternative fuels, but more serious contribution of agriculture is expected only after the reform of existing agrarian policy, as in Serbia, as well as in major member-countries of EU.

Use of Renewable Sources of Energy as a Factor of Diversification and Rural Economy Development

The agricultural production has great influence to economic activities of Serbia, whether we observe its participation in total employment, participation in creation of GDP or contribution in other industrial sectors, which depends on raw material from agriculture and other serviceable activities. From the total of employees, 21,4 % work in agriculture, which is 18 % of active inhabitants in our country, while 45-50 % of the total of rural population is employed in agriculture, which is

³ Remark: Ciphers show satisfaction of just primary energetic needs, without data for Romania and Bulgaria, which had not been EU members when the data had been processed.

⁴This figure includes 59 Mtoe of wood and wood wastes; 3 Mtoe of biogas; and 5 Mtoe of municipal solid waste.

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furthermore clear statistical index of low diversified activity of rural sector, so the income of rural population, too. In regard that Serbia realizes as much as 20 % of GDP from agroindustry, while the agricultural production participates in creation of GDP with 12 %, there is more than obvious a need to direct the agriculture in direction of alternative forms of energy production. Therefore it is necessary to ensure diversification of economic activities in rural areas. Within the agriculture it is possible to introduce some new forms of production, such as the production and use of biomass for energy production. Available renewable agricultural resources would, not only simply transform into food, but also in employment growth, as well as in welfare of local and whole community.

In the EU countries have programs and regulations that regulate the issues of production, distribution and renewable energy use, but in our country such programs are still developing. Without help of appropriate institutions and different supporting programs, as: tax, custom and other relief, subsidies in construction of plants for using renewable sources of energy, introduction of preferential tariff systems for energy producers etc, efforts of individual agricultural husbandries cannot give any positive results. One of the first steps that are necessary to do is support to pre-qualification of farmers from conventional form of primary agricultural production in direction of biomass production. If massive number of husbandries would pre-qualify to production of renewable energy from own sources, that would decrease usage of conventional sources of energy on farms, increase reliability in supplying energy, set sustainable energetics development and improve life standard in rural areas. Intensive growing of energetic crops would improve total profitability of farms, which would contribute to profitability increase of whole agricultural production. In this way it would significantly affect also on governmental development, while with diversification of energy supplying decreases the dependence on fossil fuels import and increase continuity in energy supplying.

Renewable sources of energy, which derive from agriculture, would influence also on development of rural areas through additional engage of local labour for production and use of biomass. In this way, working-capable population would stay in rural areas, as well as in poorly inhabited and industrially insufficient developed regions of our country. As renewable energy is a real future of the whole world, and our great developmental and export chance, there would come to overflowing of assets and human capital into our agrarian sector, which would extremely contribute to agricultural development. The development of innovative way of production, improvement of infrastructure and creation of new possibilities for

employment would influence to decrease of „rural poverty“, much more expressed in our country than in other European transitional countries, so the wellness in alternative sources of energy from agriculture is inevitable to direct to agrarian and rural development.

Conclusion

The international trends show that demand for energy is directed to bigger demand for purest fuels, so the renewable energy is our developmental and export chance, because natural potentials provide exactly the same. In order to make natural sources more available for energy making, there is necessary an infrastructure construction, as well as diversification and adjustment of agricultural production and support to rural development, as a fundament for further development of Serbia.

The redirection to alternative, renewable sources of energy contributes to national security in energetic sense, providing preservation of fossil fuels reserves, and makes agricultural activity more profitable. Investing in agrarian sector, which would also reflects to biomass production, would increase and stabilize economic growth and employment in many regions. However, cheap labour and high availability of natural sources can give a comparative advantage in biomass production to these regions, and therefore sustainable socio-economic rural development. Therefore is support to use of renewable sources of energy, like biomass is, important goal Serbia should strive.

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ZNAČAJ POLJOPRIVREDE U JAČANJU ENERGETSKIH POTENCIJALA SRBIJE

Rezime: Potreba za energetsom stabilnosti kao i povećanje svesti o očuvanju životne sredine predstavljaju ključ aktuelizacije korišćenja obnovljivih izvora energije u celom svetu. Naime, sve češće energetske krize i visoka cena fosilnih goriva navela je veliki broj zemalja da se okrenu sopstvenim alternativnim energetske resursima i na taj način povećaju nezavisnost od fosilnih goriva. U korišćenju alternativnih izvora energije Evropska Unija, kojoj mi težimo, vidno prednjači u odnosu na ostale delove sveta, jer uspešno koristi sekundarne proizvode iz poljoprivrede. S tim da Srbija čak 20% društvenog proizvoda ostvaruje iz agroindustrije, dok sama poljoprivredna proizvodnja ušestvuje u stvaranju GDP-a sa 12%, više je neko jasna potreba usmeravaja agrara u pravcu proizvodnje alternativnih oblika energije. Sa preorijentacijom poljoprivrednih gazdinstava na proizvodnju alternativne energije podstakao bi se razvoj i diversifikacija ruralne ekonomije, obezbedile potrebe za energijom i na taj način smanjila uvozna zavisnost.

Ključne reči: Alternativni izvori energije, poljoprivreda, smanjenje uvozne zavisnosti, diversifikacija ruralne ekonomije



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EU DEVELOPMENT PERSPECTIVES AFTER LAST ENLARGEMENTS

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Abstract: *The last wave of enlargement was another historic step in a series of further unification of Europe. With ten new countries that joined in 2004, two in 2007, this round of the EU enlargement is the largest both in number of countries, and in population. Generally speaking, the most obvious feature of the last enlargement is that it merged the countries that have undergone severe economic, social and political development. It was practically a milestone in the unification of Europe after decades of artificial separation which was a result of the Cold War.*

Keywords: *The process of enlargement, new democracy, *acquis communautaire**

All the previous enlargements have helped in strengthening the unity of the European continent and the creation of lasting peace and prosperity. It should be emphasized that it contributed to the integration and interdependent relationship of the Member States. Everything that happened in one Member State had a certain impact on other Member States. This interdependence could be best seen in the example of the last two enlargements (2004 and 2007), where the EU was supposed to absorb new members faster and without much effort. For these reasons, a very careful and measured approach to new EU requirements for membership can be observed. It is obvious that the vertical integration of the EU was possible only with the successful completion of the transition, through meeting the Copenhagen criteria and carrying out structural adjustments necessary for the successful assimilation of the single market. One may say that the adjustment of the systemic transformation of the EU socio-economic system was the most difficult task of a new democracy. These reasons, which means

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accepting the EU adjustment and ability to apply all that is achieved in the integration, which is its heritage and what is simply called the *acquis communautaire*.

1. The Process of Horizontal Integration of the EU

Last wave of enlargements was not only the largest in terms of number and population countries that joined the EU, but also the most complex, given that the countries had different economic, social and political background. This round of enlargement had an impact on the EU as a whole, as well as on its place in the global economy, and the generated mixed reactions. While many people welcomed the arrival of new members of Europe as an opportunity to become stronger, more competitive and ready to defend its interests on the world stage in the era of globalization, others looked at it as a threat to their identity, security and jobs. The success of this enterprise was to be compared with the rank of the reunification of Europe after the collapse of socialist regimes in the East. As the potential EU members were former socialist countries with centrally planned economies (except Cyprus and Malta), it was necessary to undertake a fundamental transformation of their economic structures. Only in this way these countries could adopt the *acquis communautaire* and integrate it into their legislation. That is why the process officially began with the accession in 1993, when the Summit in Copenhagen clearly defined economic, political and legislative criteria that applicants must meet before the general membership review. Most authors believe that the last two expansions have brought considerable benefits to all parties involved in economic and political life in the new member states. EU presents new model of cooperation and economic organization of sovereign countries that share democratic values and adhere to the principles of market-oriented economies.

It is known that the EU in 1991 signed Europe Agreements with Hungary and Poland, followed by other candidate countries of Central and Eastern Europe. Cyprus and Malta have already been signed on the association with early 70's of last century. Thanks to these agreements, trade between the Union and of potential candidates is gradually liberalized thus avoid trade shocks in May 2004 and January 2007. This means that the overall economic integration of candidate countries took place during the 1990s of the twentieth century. Accession negotiations officially started in March 1998 involving the 6-candidate countries (Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus) and in October 1999 were extended to comprise Bulgaria, Romania, Latvia, Malta, Lithuania and Slovakia. Negotiations pertaining to the 31 chapters of the *acquis* were particularly difficult and complex. The main principle of the negotiations was that no

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permanent derogations from EU rules will be permitted to potential candidates. In practice, however, this principle was amortized using the principles of maximum flexibility, or an exception or precedent.

Due to technical and practical difficulties in implementing all necessary adjustments, transition periods ranging from 6 months to 12 years were introduced before the full adoption of the *acquis communautaire*. This is particularly related to areas such as environment, agriculture, social policy and employment policy, transport, energy, free movement of labor, services and capital. These transition periods, and in particular restrictions on the free movement of labor, practically disturbed the functioning of the internal validity of the EU market. As for the labor market, so called 2+3+2 arrangement urged the EU-15 countries to decide in May 2006 and May 2009 whether they will open its labor market to the workers of new member states.

Significant part of the negotiations and the accession process related to the financial support to expanding. The availability of the EU funds - as a political instrument and an expression of solidarity, the EU - provided the possibility of new member states to improve competitiveness and strengthen the overreach of the process. By accessing, new members have also benefited by the significant transfer to the cohesion and structural funds (whether provided about 50 billion euros for 12 new members). In the last financial perspective, which covers the period from 2007-2013 the sum for the 12 new member states has increased about 3% of the annual GDP of the Union. Only in 2007, approximately 17.8 billion was transferred to new member states, representing about 2.1% of GDP EU-12 and only 0.2% of GDP in EU-15. It is obvious that the extent to which the new member states will be able to take advantage of the EU transfers will depend on the quality of the achieved economic system reform process. Accession of new member countries had a visible impact on them, before and after joining the EU. The prospects of membership have accelerated reforms and set the economic and political course toward fundamental, liberal and democratic values that are shared in the EU. After joining the EU, both new and old Member States have experienced further reallocation of economic activities and resources which has led to significant benefits. In particular, it is important to note that the new member states have significant benefits on the basis of the principle of solidarity action that is valid in the EU. At the same time, the obligation to adopt a common currency demanded great efforts to achieve nominal and real convergence. Entering the EMU has led to positive economic results, which was confirmed by the countries that have already joined the euro zone and met the relevant criteria (Cyprus, Malta, Slovakia and Slovenia).

2. The Expanded EU in the Global Economy

The new Member States have made the EU stronger and culturally richer through the size of its population. Enlargement process, according to most of the authors helped primarily in building and consolidating democracy after the fall of the communist regime. The entry of new countries under the EU umbrella strengthened European security, has created a stronger basis for faster economic growth and development and improved living standards. Benefits are, however, mutual. The “Old” Member States, among other things, have had enormous benefits on the basis of the well-known effects of economic integration. This implies conquering new markets where products will be offered freely, as well as the opportunity for favorable investments. The Expansion has also enabled the EU to reap the fruits of globalization. Namely, it is obvious that the enlarged EU has a higher authority when dealing with issues such as climate change or the international economic crisis. The views presented above to a large extent are justified by europessimists, emphasizing only the practical advantages that the economic integration provides.

The latest expansion, on the other hand, aroused some suspicion, and as in all previous enlargements the europessimists have come to the fore. The process of receiving new countries, according to them did not come at the right time, and therefore the positive effects of integration cannot be expected. The capacity of the EU institutions to absorb the diversity of opinions that should be taken into account in the decision making process is just one in a series of questions to which the EU has not made a convincing answer. One should take into account the costs of enlargement, as well as the extremely low level of income of the newly joined countries in contrast to the old Member States. This made the integration process a great challenge for the new and old Member States, but at the same time and potential individual countries and the EU as a whole. Not surprisingly, the fact that the EU citizens have mixed feelings and see the risks in terms of their jobs, salaries, security and identity. The global financial crisis and economic slowdown have added a new dimension, which greatly hinders the integration and convergence that have already been achieved.

Due to the present challenges, the support of the citizens in the EU countries to the enlargement was mixed before and after the last wave of enlargement, as opposed to economic studies that have mostly amounted to only positive results. Although new member countries participated with 21% of the total population of the Union, in the total GDP were involved with only 7%. As the economic growth in the new Member States at the time of the accession was significantly higher, the initial gap in income compared to

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the average in the EU decreased over time. However, the actual benefits of the latest enlargement are not just based on the increased share of EU-27 in the world GDP (about 2.5 percentage points). They are also the result of synergy and economic dynamism that this association has made possible, allowing a more efficient response to the challenges posed by globalization. After the transitional recession of the 90s of the last century, the economy of new member countries have stabilized and received support for growth in light of the accession which became a real possibility. Growth in industrial production was apparent soon after accession in 2004, but without some spectacular growth rates. In fact, the new jobs were secured in most countries, but only after several years of layoffs of workers due to economic restructuring. Five years after the accession, the average GDP growth in the new Member States amounted to about 5% compared to 3% in pre-accession period, while growth in the old member states has remained around 2%. Due to the credit crunch in the U.S. and rising energy prices the global recession followed in 2008 and 2009, particularly evident in the Baltic countries, which dramatically slowed the growth in all countries of the Union. Main agents of the process of growth in new member countries were trade liberalization, foreign direct investment and the overall improvement in the institutional framework which has contributed to the accession. These factors have contributed to the acceleration of productivity growth, which is the basis for a permanent increase in living standards.

Based on regression analysis of growth, it is estimated that every year during 2000-2008 the process of joining the new Member States gave added impetus to the growth of around 1% on average. The elements of success were certainly the improvement in productivity growth based on FDI and technology transfer. Analyzed growth model emphasizes the narrowing of margins within which interest rates ranged was also important. This has contributed 0.3% additional growth, although the new member states will no longer be able to count on such developments in the near future, as the risk premium increased as a result of the outbreak of the financial crisis in 2007. Stronger growth performance has allowed new members to catch up with the old members in the growth of GDP per capita with 40% average EU-15 before enlargement, to 52% in 2008. The actual process of convergence in some countries was faster than in others, depending on the applied measures of economic policy. The old Member States have benefited from the new expansion. Ex ante assessments adopted by the Commission in 2001 point to additional growth stimulus of 0.5% or 0.7% at the end of the period tested, and in 2009. These figures can not be verified, but it is clear that the countries of the EU-15 with a higher rate of growth based on FDI and

foreign trade policies to the new member states, have also recorded increases in their rates of growth of real GDP per capita.

Since 2000 the growth of GDP per capita in the new Member States has been stronger than the market economies in Southeast Asia that passed through the similar process of catching up and have been subject to the same global trend. The above-mentioned facts suggest that the EU has a positive effect, compared with not-so-strong regional arrangement among Southeast Asian countries. In particular, the EU has had a favorable impact on the quality of institutions. The EU membership makes easier the overcoming of the shortage of savings in the new member states. It is known that such a model of catching up (known as catching-up model) based on the import of capital still generates a huge trade deficit and appreciated exchange rate. However, the strengthening of the currency has not undermined export performance of the new member states due to increased inflows of foreign direct investment. In contrast, after the financial crisis of 1997 the approach to the practice of catching up of the countries in Southeast Asia relied on a weak currency and active balance in the balance of payments.

In general, the relative gap in income between countries is decreasing, while the phenomenon that some regions have more benefit from enlargement than others is evident. The reason for this is that the capital and skilled labor force are more concentrated in a limited number of regions during the initial stages of the process of catching up. The actual convergence went along with the significant progress in nominal convergence to the inflation rate, interest rate, budget deficit reached the level in the old member states. However, since the mid of 2007 as a result of the financial crisis, the macro financial stability has been under pressure in several new member states (Hungary and Latvia). Re-evaluation of business risks in the markets of the new democracy will cause a significant decline in economic activity, with the gap in development between the old and new EU member states will be more pronounced. Priorities in the implementation of the reform process in the member states that have recently joined the (EU-12 can be divided simply into four groups:

1. macroeconomic stabilization,
2. privatization and restructuring of companies,
3. improving the business environment, and
4. improving labor market performance.

The specified priorities support the goals of increasing productivity and accelerating growth of real convergence in order to improve living standards and economic and social cohesion in a sustainable manner. First, all the accession countries have achieved a sufficient degree of

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macroeconomic stability at the time of the accession, regardless of the agreements on their exchange rate and macroeconomic performance in the initial phases of transition. The rate was the single-digit inflation in all economies of the EU-12, while the public finances largely consolidated. On the other hand, excessive borrowing abroad led to large external imbalances, especially in the Baltic countries and Bulgaria. Ensuring proper servicing obligations under international loans remains a challenge to macroeconomic stability and growth, especially if we take into account the current global financial crisis. Second, the privatization, restructuring or bankruptcy of state enterprises has been economically and politically difficult task, and the candidate countries who took part in the recent enlargements have made it a different speed. Economies that are rapidly advancing economies in transition, such as Hungary, Czech Republic, Slovakia and the Baltic countries have been able to attract a critical mass of foreign direct investment and achieve growth rates in the early stages. Other countries, like Romania and Bulgaria, where reforms were implemented in the style of “go-stop-go” did not reach the process of economic catching up to 2007. Slovenia is a special case because of its gradual approach to reforms and the poor rely on the inflow of foreign direct investment. Third, the business environment in the new member states has gradually improved in the pre-accession period and after entry, provided that it is still not favorable as in the old member states.

According to the World Bank study in 2005 the gap in the average ranking of the old and new EU member states amounted to 15, but improved to 13 points in 2008. The majority of members that joined recently are viewed as destinations where it is easier to do business and as such are highly ranked in relation to the old member states. However, the challenges in terms of further progress in the business environment remain, particularly in the field of licensing, employment of workers, paying taxes and closing. Finally, the biggest challenge is still related to the performance of the labor market, especially in the context of aging working population. In fact, there is an ardent issue concerning the new member countries, and it refers to low employment rates to rates in contrast to the old member states. Constant high levels of unemployment and the concentration of unemployment among certain groups and regions suggest that structural rigidities continue to prevent “smoother” operation of the labor markets in new member states. Also, there is still a gap between education levels and training in the old and new member states. These trends make a negative impact on the availability of trained manpower in the new member states. Despite the significant increase in productivity achieved, the level of productivity in new member countries continues to be significantly low compared to the old member

states, which show the differences in income. While the new Member States accounted for 21% of EU population, took part with only 7% of GDP. In 2007, their per capita income reached 8.330 euros compared to the EU average of 24.810. This represents one third of the EU average, while three years ago it amounted to a quarter. With economic growth significantly stronger in the new member states which have recently acceded to, the initial gap in income between them and the EU average is reduced. Equality of distribution of income - from 0.3 - to better achieve the EU, compared with Japan as the only non-European country with a lower coefficient of Ginny.

The accession of new countries has led to the overflowing of the world population of 1.6% to the EU, with a share of the global population of 7.5% in 2007. However, demographic trends are less favorable, and predict that the population of the new members will fall by 20% by 2050. In general, it is assumed that the EU share in world population will fall to 5.2 percent by 2050 from 7.5 in 2007. Demographic trends are favorable for the U.S. and other high-income countries and even more for developing countries which has the impact on the potential economic growth. With 2.1% of the world GDP, the economic significance of the new Member States is higher than their share in the world population, resulting in the level of 30.8% in 2007 in the enlarged EU. Measured by parity purchasing power, the contribution of the new member states is more important.

Conclusion

The EU is open economy and the fact that 12 other countries, are subject to a unique set of rules (a single customs tariff and a single set of administrative procedure) in the enlarged EU has facilitated trade in the associated countries. On the whole, the EU is the world's biggest retailer. In 2007, EU imports reached 18% of the world total imports and exports 16.8%. Member States that have recently joined contributed 1.6 and 1.2 percentage points in the share of EU in the global imports and exports respectively. Although the participation of new Member States has increased significantly over the last enlargement, the EU share in the world exports fell from 18% in 2004 to 16.8% in 2007. The main reason for the decline is recorded in the dynamic growth economies of China and India and their importance in the global market. It should be noted that these figures do not include imports and exports within the EU, with the extent of about two times higher than the inter exports and imports. Considering these trends, after the enlargements of 2004 and 2007, the EU share in the world exports and imports has been about 40%. With enlargement, trade the with new member states has been enhanced.

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While intra-industry trade EU-15 increased by 20.7% between 2004 and 2007, intra EU-12 trade has increased as much as 180.7%, while the exports between the EU-15 and EU-12 grew by an average of 84.2%. Facing the emergence of new competitors in the world market, the EU excelled in comparison with the U.S. or Japan, based on results of recent extensive analysis of the market share. This is partly due to the improvement of production quality, but also the quality of the division of work within an integrated economic space. Also, the net inflow of foreign direct investment provides an indication of the competitiveness of the economy. EU FDI inflows in the 2007 reached 46.4 per cent of global investments, in which the new member states participated with 4.5%. This is good in comparison with other major economies. The inflows of FDI in the U.S. reached 13.4% and 5.8% in China. If we look at the EU as a single economy and if you turn off flows within the EU, the EU share in the global FDI net inflows would reduce to 19%, compared with the United States and China, where data are respectively 20% and 9%.

The development of the trade within the EU reveals that the rapid reorganization of specialization is taking place between the old and new Member States and such movements will likely strengthen the competitiveness of the EU in the world market. However, at the level of member countries, performance is different. Some member countries (eg., United Kingdom and the Netherlands) are changing orientation from industry to services, while other Member States (Germany) remain highly specialized in manufactured goods and flexible participation in the market. Other Member States have failed to adopt a proactive policy of competitiveness at the micro level and lost market share for manufactured products. Member States with the best performance are those that have developed production chains that overlap, and they often involve partners from new Member States. It is obvious that increased EU influence in the world economy and diplomacy are spread much further than the statistics show. The expanded EU is becoming the economic and political center of gravity in the new international emerging economic order. The big EU internal market provides attractive and profitable opportunities for outsiders who want to get into it, but the rules of access and commerce are determined by the EU itself. It is inevitable that the application of EU rules and regulations on the internal market will become more acceptable by those who wish to access it complying with the rules of the game, i.e. the international standards that other nations must adopt. Along with increasing membership in the European Monetary Union, European Union's international role has grown to an unprecedented degree.

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PERSPEKTIVE RAZVOJA EU NAKON POSLEDNJEG PROŠIRENJA

Apstrakt: Poslednji talas proširenja je bio još jedan u nizu istorijskih koraka daljeg ujedinjenja Evrope. Sa deset novih zemalja koje su se priključile 2004. i dve 2007. godine, ovaj krug proširenja Evropske Unije je bio najveći kako po broju zemalja, tako i po broju stanovnika. Generalno posmatrano, najočiglednija crta poslednjeg proširenja jeste da je ono spojilo zemlje koje su prošle težak ekonomski, društveni i politički razvoj. To je praktično bio kamen temeljac u ujedinjenju Evrope posle nekoliko decenija veštačke podele koja je bila rezultat hladnog rata.

Ključne reči: proces proširenja, nove demokratije, *acquis communautaire*



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BUSINESS ETIQUETTE AND ETHICS IN DOING BUSINESS

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***Abstract:** Business is an important part of modern society. From the very beginning of business development and making a profit, there is one question to be answered: is moral behavior related to business? Today's business conditions, the necessity of achieving competitive advantage and goals that include not only increased profitability, have become an imperative of every organisation. If individuals in organisations and the organisations themselves are to accomplish these objectives, all their acts have to be based on ethical principles and ethical attitudes. The paper considers the key aspects of business ethics, which in today's business conditions has become an indispensable part of business practice and a precondition for realising business performances in the long run.*

***Keywords:** morality, business ethics, business responsibility, corporate culture, business, competitiveness.*

Introduction

The changes caused by the Industrial Revolution and the introduction of new technologies, scientific discoveries and technical innovations as well as the changes that have occurred due to globalisation, have influenced the development of a modern society and shaped organisations which have had to adapt to the new ethical changes with regard not only to their organisational and functional structure but to the ethical one as well. The definition of the new concept of business etiquette left behind the traditional materialistic concept of business behaviour that was solely directed toward making profit and accomplishing personal goals; this happened because it had become clear that unethical behaviour in

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business could not be allowed or rewarded. A new concept of business ethics was created, based on the respect of the rights and interests of others and accomplishing general social interests which, among other things, include a working environment of high quality in which business success, competitiveness and making profit do not depend on anything but the rights and duties applied in decision-making.

The issue of business etiquette is not a new one; in the last couple of decades it has aroused a wider public interest, not only in the developed countries but also in countries in transition which are trying to build up new value systems, and along with them values in doing business and business etiquette. In such circumstances, the primary emphasis is on the responsibility in all business activities, while business etiquette and ethics is becoming a scientific discipline without which business cannot survive.

Ethics as a Social Phenomenon

When defining ethics from the social point of view, the starting point is the intention to come up with all social factors that affect ethics and then in accordance with that, to establish relationships between ethics and other social phenomena. If we presume that ethics does not exist outside place or time, that man is its carrier and that its existence is intertwined with society, the sociology of ethics in its broadest sense is seen as a set of rules, standards that exist in particular social groups and in which particular social relationships are built.

There is a general agreement that ethics is a system of moral rules, a set of standards which determine man's actions within society, toward that society in general, toward other members of society and toward oneself. As a set of rules, ethics is based on the norms of what is good and what is evil, and is manifested in the values of judging human actions, meaning that some actions are worth human beings and some are not, some are valuable and some are not, some are approved of and some not. In accordance with the ethical standards and within a complex communications system carried out in a society, personalities, characters and personal features are being formed; people direct their motivation and actions making judgements and forming opinions regarding both themselves and others.

The main characteristic of moral standards is their obligatory nature. Obligation is a characteristic of legal and common standards as well. However, the moral obligation is two-fold, which means that ethics is obligatory both socially and individually while legal and common obligation is only social. Also, one of the more important characteristics of ethics is

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momentness – the obligation of every individual to act morally, almost automatically, when found in a moral situation.

If a man as a practical being is to adopt moral standards and act accordingly, if he is to create value-based- standards toward himself and other people, he has to make a moral judgement. The moral judgement is an opinion regarding one's own behaviour, other people's behaviour, the behaviour of other groups in relation to the given moral standard. The judgement can be either positive or negative. In case that a moral standard is violated, the consequence is a negative judgement and a moral sanction.

Moral opinions have been changing along with the changes that have occurred in society; this means that there are no fixed or eternal moral systems that could be applied or respected in all societies or in all periods. Different moral opinions are the result of different material living conditions and different structures of the leading economic and political relationships [1, p.3-20].

Effects of Economic Processes on Ethics

The effect economy has on ethics is not seen in all societies and in all economic systems in the same way. In other words, in undeveloped countries, in societies in which people are relatively mutually equal there can be a minimal amount of ethics meaning that there is a level of solidarity and mutual help as a basic moral standard. However, in developed countries ethics loses its necessity, an economic process can be judged as immoral, solidarity is replaced by laws regulating the survival in the market, moral standards can be violated and the economic process can be endangered for these reasons. Therefore, great economic poverty in the same way as economic wealth can limit or even destroy moral values. The relationship between economic processes and ethics is very complex, especially as moral problems can have a great effect on people and their attitude to work.

If we start with the definition of a human being from the economic point of view according to which work is the essence of existence, ensuring not only material conditions of living but releases the creative spirit in man as well, we can say that material interests are not the only ones or the dominant ones since there are many people who engage in work although they do not have to. As far as the moral stance is concerned, the attitude toward work encompasses human views on the goals and sense of work and its importance regarding society and human life in general.

The attitude man has toward work and consequently toward the social and economic systems depends on the supreme values he or she holds

regarding life. These supreme values greatly determine the ethics people adopt. And if ethics proposes work as a supreme value, people will be inclined to the economic system in which such a value is achieved best [1, str.64-67].

Business Ethics and Business Etiquette

Business ethics is part of business etiquette. The standards of business etiquette are built into the values which are based on the basic moral principles and as such are the basis for professional and ethical etiquette of business behavior. The content of these standards reflect the judgements regarding what is good and what is evil, what is successful, i.e. profitable business behaviour and what is not, and their main goal is to make every member to act morally in doing business. This is the way how business etiquette defines the desirable rules of doing business which is a framework for deciding whether something is allowed or not, but points out to the main rules of moral acting of every individual. In fact, business etiquette is a framework in which business context is a set of moral problems confronting a moral person who is a representative of a moral system. Within a moral system and within a business-moral situation, a person seeks the most just solutions which are in accordance with his or her characteristics and personal morale. It seeks solutions as many business relationships are not regulated by the law or in any other way. This means that business ethics can be determined if we take the basic principles of business etiquette, the dependance of moral standards and business manners and moral values of every individual and his / her awareness of the sense of a particular moral - business act [2].

Business ethics is a set of unwritten, general values characteristic of every individual which affect his / her behaviour in business relationships at all times. This means that the standards of business ethics are not written down as such so that their content can be seen in various duties and desirable behaviour or the behaviour that every moral individual can feel as their internal need. The basic characteristics of business ethics refer to the following:

- respecting other's personality,
- mutual respect and trust,
- respecting the differences,
- overcoming the differences and respecting other people's interests,
- protecting other people's dignity,
- responsibility for and obligation toward other people,
- mutual help,

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- keeping promises,
- respecting good business customs and intentions,
- business compromises and humanity.

In the same manner, the characteristics of business ethics in all business relationships and in all periods are related to independence, fast reaction, punctuality, truthfulness, justice, tolerance, cooperation, mature motivation, esthetic evaluation, lack of evil will, rationality, consistence.

The characteristics of business etiquette are seen in moral abilities of a person who acts in a just or unjust manner which again depends on his/her inner rules of behaviour. Besides the person's moral abilities, the characteristics of business etiquette can also be seen in the possession of those intellectual abilities which enable fast learning and fast adapting to changes, the authority that is acquired most easily through just and fair relationships with co-workers, through great energy and ambitions, flexibility, creativity, imagination, optimism, communicativeness. Besides the person's moral abilities that are the essence of accomplishing moral relationships in doing business, business etiquette is closely related with socio-cultural, socio-economic and technical-technological relationships which determine the ethical attitude to work of a particular person. This means that there is a number of factors which shape business activities, business relationships and business etiquette: economic, technological and social processes, and the development of a society, its culture, its tradition, its religion and the adopted system of values.

Business ethics is obligatory for all business participants, especially managers. Managers ought to be moral persons with built and adopted inner feelings, which is especially related to moral responsibility. Besides the education and managerial skills, they should be good at interpersonal relationships, they should develop abilities to recognize and understand social (and natural) environment, they should be acquainted with behavioural psychology, mentality, ethical standards and systems, they should share the system of values and understand the spirit of the time.

The principal new values or principles of moral behaviour in business should rely on the principles of ethical humanism. Business ethics, as a set of general unwritten moral standards and values which determine business behaviour at all times, should be based on the dignity and autonomy of all business participants as well as on the freedom of choice on the part of a manager to follow his business instincts until this does not endanger other business participants. What is also important for business morale besides respecting the differences, is defining the ethics of excellence and business

standards such as: creativity, rationality, free choice, mature motivation, just and fair behaviour, ability to adapt to different situations, empathy, self-help, keeping promises and fair business cooperation.

Responsibility and duties are closely related; therefore, it is extremely important in business to increase the degree of one's own business responsibility as well as toward business partners, their needs and interests, it is crucial to act humanely in every business contact [3, p. 120]. If man is capable of achieving such awareness and business morale, disregarding the challenges imposed by the globalisation processes, it is possible to speak of universal and global business ethics.

Moral Dimension in Business

If we start with the presumption that ethics is related exclusively to the personality, it is impossible to talk about business ethics without having people who would support the given moral standards. For the very fact that the key goal of doing business is making profit, there are many dilemmas leading to the opinions according to which ethics and economy are two separate entities. Besides the fact that business ethics itself is not enough for business success, as other elements are also needed, business success is impossible without ethical behaviour. Besides, supporting ethical principles does not mean direct profit increase as there are other spheres in which business morale finds its place and which directly contribute to the organisation's respect and to its success at the same time [4].

The issue of business ethics and social responsibility of organisations and individuals has come in the centre of public debate lately. The overall corruption and unethical behaviour are primarily explained as consequences of the lack of democratic reputation, which is today especially true for developing countries. Although there are different approaches to business ethics, different notions referring to the problem which values and business practices are to be favoured, business ethics is, beyond any doubt, a very significant factor in business. The importance of business etiquette is especially visible in modern society burdened with numerous crises and contradictions both on the local and global level, which has ultimately lead organisations to face a challenge - how to overcome numerous problems and issues and make decisions in order to satisfy not only social and economic, but organisational and personal interests as well.

Modern economic and business dynamics requires greater transparency, freedom and liberalism of all economic subjects. This means a high degree of trust and social capital, which in other words means a dilemma regarding the relationship between economy and ethics. The recent

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research in this field has suggested that the absence of ethical standards in business causes great damage to both organisations and global economy. Business ethics has two main dimensions of manifestations and these are: collective ethics (referring to a group) and ethics of individuals.

Collective ethics refers to the moral steps in making business decisions by the management regarding the surrounding and subjects outside the organisation as well as ethical relationships within the organisation. On the other hand, the individual who does not possess elementary principles of personal business ethics and lacks general moral standards, is always ready to commit fraud, to sacrifice collective, legal, business ethics for the sake of one's own personal interests and thus endangers business atmosphere.

The basic question that arises when analysing business ethics and the relationship between ethics and economy is this: where is the limit to what is ethical in business and what is not? Setting this limit is a great challenge for every manager and for all employees as well. This is an issue for every individual to make one's own decisions, to make one's own opinions regarding a particular situation, need, interest or motive; it is a question of one's own integrity, cultural heritage, expectations and the pressure imposed by the organisation and the surrounding.

Moral Dilemmas and Confusions in Business

Every organisation's business is based on business ethics or at least on its main characteristics. Business ethics means rights, duties and responsibilities of the organisation toward individuals, their interrelationships, all business participants, other organisations and business partners and toward society as a whole. All the problems that exist within the organisation are related to the moral issues of honesty, respecting other people and keeping promises, which consequently leads to numerous ethical dilemmas and confusions managers and all employees face. There are many ethical dilemmas managers face in their business practice, the most important of which are the following:

- greed,
- covering and falsifying accounts and reports,
- assertions that lead to false conclusions,
- avoiding keeping promises,
- disrespecting the agreed deadlines,
- too much confidence, belief only in one's own judgement,
- insufficient loyalty to the organisation, especially at the time of crisis,
- no respect for the workers,

- submission to the authority regardless their dishonesty or lack of ethics,
- neglecting the organisation's interests,
- repressing the basic human rights,
- conscious exaggeration of the advantages of a particular plan in order to gain support,
- neglecting possible problems,
- becoming close to people in top positions,
- promoting those who have made mistakes,
- lying to the workers by giving insufficient information,
- making alliances with business partners who are not trustworthy,
- refusing to accept responsibility for bad business decisions, etc.[5, p. 27].

Of course, this list is not complete or final, especially if we take into account that we live in the era of information technology which has brought yet another moral dilemma and that is information ethics which sets new standards of behaviour in this field [1, p.188].

The Importance of Corporate Culture for Business Ethics

The term corporate or organisational culture, that is culture of an organisation, refers to every form of the organisation, not only corporation as a complex organisational form, owned by shareholders and managed by managers who get paid for their job. We can freely say that all definitions of corporate culture refer to the following elements:

1. content which refers to the values, standards, basic rules and symbols,
2. character which refers to the social character of the culture in the sense that culture is a set of different groups, the result of common experience and the interpretation of group members,
3. origin which refers to the way how it was formed,
4. influence which refers to the behaviour of the members of the organisation.

Therefore, all these elements point to a multi-layer phenomenon which are all manifested in dependance on the organisation's philosophy and starts with the basic premises and values; these are the elements that determine the organisation's relationship with its entrepreneurial purpose and goal, which further determine the direction of its development with regard to the environment, people and society.

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Corporate culture means a specific set of shared beliefs, attitudes, values, basic principles and standards within an organisation, which all shape its identity and are the ground for its activities and processes and define the way of behaving and doing business.

There are many other factors from the surrounding that also create and shape the specific culture of an organisation. The economic system within which the organisation is operating is of particular importance, especially if the system is a modern one, or rational, or simulative, or competitive. What is also important is whether and to what extent the market is developed and the characteristics of market competition. However, the most important factor of all in creating organisational culture is certainly personal philosophy and the behaviour of the management, because it is the management style and the management structure that ultimately define corporate culture. It is the managers who set the behavioural models in business through their decisions and imposing the models. The employees have to adapt to these models if they want to avoid conflict with their superiors. Also, besides these inevitable external factors, what also affects the standards of behaviour in the organisation are personal features and characteristics of top managers. It is of crucial interest for every business and organisation to shape and create corporate culture which will rely on accurately defined moral standards, on the rules that clearly say what are the basic values, on the main moral principles that the organisation has to respect and apply in everyday work [6].

Globalisation and Business Ethics

What is characteristic of the modern world is the high speed social changes undergo; the new century started at the moment when it seemed that everything was brought to be questioned. What gives power and relevance to contemporary changes is certainly economic, political and cultural change.

Globalisation is a relatively recent issue in scientific circles and discussions regarding the phenomena of modern society. As a relatively new term, it acquired a specific technical meaning only in the last decades of the 20thC, and the term globalisation began to be used in the seventies and eighties of the last century to mean the process of the unification of the mankind [7, p.18].

The processes of globalisation inevitably bring numerous problems and contradictions that are the result of the development of technical and technological sciences and the political division of the world. There is no general consensus or total cooperation of how to solve global problems in the

modern world, which makes the future of the mankind uncertain. In fact, we can say that all modern societies are moving toward the 'risk society' although they should be going toward the 'knowledge society' which would rely on humanistic and ethical principles and true shared values. The future will show whether the process of global unification of the world is to be directed against the human kind or it will turn out to be a new planetary humanism [8, p. 31].

We can conclude that the process of globalisation carries two contradictory tendencies: the former is connecting the world in one unique economic whole and the result is the development of modern technique and technology; the latter is the struggle for liberation from all forms of economic and political dependance and having the rights to decide on a free national and cultural development.

In the middle of all changes the modern civilisation has found itself under the pressure of globalisation, there is ethics and the whole system of values. Along with the changes that ethics is undergoing, business ethics also faces many challenges. Under the influence of globalisation business ethics seeks the most suitable ways of its further development, whereby it is quite clear that it is precisely in these new and changeable conditions that new principles and values are to be found. It is certain that man has to be prepared for such changes all in accordance with the current situation and future expectations.

Since the term 'globalisation' first appeared, its very understanding and meaning has not been unified and there are more and more new explanations all the time. However, there are three main approaches to globalisation in literature so far: hyperglobalistic, sceptical and transformational.

The hyperglobalistic approach starts with the assumption that there is a unique economy in the modern world which has unified the leading economic regions. However, this integration does not include national economies but only big corporate organisations. In that sense when we are talking about the new economy or what is usually called the economy with no limits, the greatest importance is in the hands of economically most powerful corporations as they take over the role of the states in a way. In such circumstances the states only have the function of regulating and developing market institutions as spontaneous regulators of the economic life. In that way a new global market civilisation is created, a new world government is formed based on power and dominance, which altogether negates the need for the existence of a country of well-being.

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The sceptical approach starts with the general notion according to which globalisation only has negative consequences. In other words, globalisation has numerous negative consequences, economic, cultural, ecological, to name just a few. This approach is based on defending the economic nationalism, it is in favour of ecological sustainability, it tends to protect the local cultural identity. The followers of this stream actually want to stop globalisation because they consider globalisation to be equal to hegemony and cultural violence over knowledge, information, education and technique, and especially emphasize the military industry monopoly. Such an approach points out to the neoliberal practice based on the power of the minority and the power of those who are technologically more advanced and richer in comparison to the economically weaker and poorer, while emphasizing at the same time the issue of improving the living standards of all people.

The transformational approach starts with the obvious need for a new reorganisation of the economic, political, military and cultural dominance, whereby the ability of capitalism to introduce well-being into society is not taken into account.

However, besides the above mentioned approaches, there is a new one which is more and more heard lately. It is called 'the fourth way'. Its main followers and supporters are the authors from the countries in transition. Their understanding of the interconnection of the world in a unique whole is mainly based on the criticism of the current course of globalisation, of the negative experiences many reforms have undergone in the countries in transition with the purpose of wakening and stabilising the market economy [1, str. 204-205], and what is being said often and often again is especially the protection of human and natural resources.

Conclusion

Everyday life, mutual dependance of people leads to a set of social processes that determine the content, form and manner of acting on the part of both individuals and groups in doing business. Today, organisations have responsibility not only for their own survival but also for acting in accordance with social circumstances and requirements. Organisations are confronted with demands for socially responsible behaviour which is based on ethical principles. These ethical principles ought to be incorporated into each organisation primarily through ethical standards of the organisation itself and are seen in their ethical codexes, ethics boards and training and in that way become a substantial part of the organisational culture. Although employees already have a developed system of ethical standards, they should adopt the organisation's moral standards and work in accordance with them.

Social responsibility enables organisations to have a recognizable image in their environment and also to act in accordance with moral standards and thus attract new workers, motivate and keep the already employed ones, and have a chance to get a long-term competitive advantage and an image of a 'respected citizen'.

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POSLOVNA ETIKA I MORAL U BIZNISU

Rezime: Biznis je značajan deo savremenog društva. Od samog početka razvoja biznisa i sticanja profita, nameće se jedno pitanje: da li moralno ponašanje ima dodirnih tačaka sa poslovanjem? Današnji uslovi poslovanja, nužnost ostvarivanja konkurentne prednosti i postizanje ciljeva koji ne uključuju isključivo povećanje profitabilnosti, postali su imperativ svake organizacije. Da bi pojedinci unutar organizacije i sama organizacija uspeli u tim ciljevima, njihovi postupci i delovanje moraju se temeljiti na etičkim principima i etičkim stavovima. U radu se razmatraju ključni aspekti poslovne etike koja je u današnjim uslovima poslovanja postala nezamjenjiv deo poslovne prakse i preduslov ostvarenja uspešnosti poslovanja na duži rok.

Ključne reči: moral, poslovna etika, poslovna odgovornost, korporativna kultura, biznis, konkurentnost.



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POSITIONING AND DIFFERENTIATION OF TRADITIONAL SERBIAN FOOD

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Abstract: *The Consumption of ethnic food in the world is increasing. Mediterranean (Italian, Greek), and Asian cuisine (Chinese, Thai and Indian) are particularly popular. Consumers want to buy and prepare Mexican, Kosher, Italian, Chinese, Thai, Indian, Japanese, French, Spanish, Greek and other authentic food and products. Consumers are exposed to new ethnic cuisine (food) on the basis of globalization, integrated marketing communications (especially advertising), travel (tourism, migration), stores and restaurants. Organizations in the Republic of Serbia could promote healthy eating, healthy, Serbian food and tourism. Proactive organizations can achieve competitive advantage by positioning and differentiating on the basis of healthy Serbian food. A marketing strategy for ethnic food is necessary for positioning and differentiation of Serbian cuisine.*

Keywords: *Ethnic food, marketing strategy, positioning and differentiation.*

Introduction

Proverb - "The food we eat speaks what we are" reflects the importance of food. Consumers show a growing demand for healthy and ethnic food. A number of authors and research results show growing but still very small consumers' demand for ethnic food in the world. In fact, the consumption of ethnic food represents only a small percentage of total food consumption. Today, ethnic food vendors still occupy only a market niche, but they have a much greater market potential. Concerning ethnic cuisine several have differentiated themselves such as: Italian, Chinese, Mexican, Spanish, French, Japanese, Greek, Caribbean, German, Thai and other

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cuisines. Consumers also express a growing demand for specific forms of tourism such as spa and relaxation. Food, along with other factors such as accommodation, transport, attractions, cultural and historical monuments, activities, etc. presents bitan element turističkog proizvoda. an essential element of tourism products. Of course, it is questionable what the Serbian cuisine is (and what it represents). For positioning and differentiation of Serbian cuisine, a marketing strategy of Serbian food is required. Accordingly, the paper is dedicated to marketing activities in the field of healthy, quality Serbian food from the Republic of Serbia. Key marketing activities include: selection of target consumers, the choice and application of the concept of integrated positioning and differentiation of Serbian food and tourism. The involvement of specific government ministries, producers and distributors of food, tourism organizations, health and educational institutions is essential. The goals are: creating a culture of eating healthy, quality food from the Republic of Serbia, positioning and differentiation of Serbian cuisine/food compared to other ethnic cuisine/food, increasing production and consumption of Serbian food and attracting the greater number of tourists.

The Demand for Ethnic Food in the World

Food Marketing Institute (1998) defines ethnic food as products that certain ethnic or cultural groups prefer, such as Mexican, Chinese and Kosher food.

Socio-cultural changes (related to changes in lifestyles and values) are essential for food consumption, and define three major trends in food preference. The first is related to the simple replacement of the traditional dishes that are prepared from fresh ingredients in the household, with the processed, industrially produced food. The second trend is related to the disappearance of the seasonal cycle in food consumption, and the third is a trend towards "exotic" ethnic food (Verbeke, Lopez, 2005).

Many authors and the research results show the growing interest and consumers' demand for ethnic food in the world. However, consumption of ethnic food represents only a small percentage of total food consumption. Today, ethnic food vendors still occupy a market niche, but they have a much greater market potential. Based on trends research in the field of food in the United States, Papadopoulos (1997) concluded that two categories are dominated: 1. ethno-oriented kitchen, hot and spicy food and 2. "healthy" alternative - food with less fat and vegetarian food. The sale of frozen ethnic foods is growing in the U.S.

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Consumers are exposed to new ethnic cuisine (food) due to the growing international trade, globalization, integrated marketing communications (especially advertising), travel (tourism, migration), stores and restaurants. Factors that provoke the growing demand for ethnic foods are: demographic changes, television shows about food, the Internet, a new ethnic restaurant chains (Duff, 2005). Growing demand for ethnic food is the result of growing demand for healthier food and desire to try a different, lighter, spicier food. Also, the demand for "natural" food is notable, and various ethnic food is less processed than traditional "western" food and it is directed to the fresh vegetables and meat. People value more the taste of "eastern" cuisine and strong spices of Indian and Mexican cuisine comparing to the moderate, traditional food, thus reflecting the desire of consumers to experience something that meets their senses (Datamonitor, 2005). Lifestyle oriented to the convenience and purchasing power of some consumers, especially in developed countries, lead to the fact that more and more people eat in restaurants or eat prepared food, so they are more exposed to new options in terms of food. The desire for healthier but also more delicious food is the next factor of growth of ethnic food consumption. In Europe, the increase of consumers' concern for certain aspects of food consumption, such as nutrition, health, safety of food and the environment is notable. In the UK, Germany, Belgium and the Netherlands popularity of alternative diet such as macrobiotics and vegetarian diet have increased in response to consumers' concerns, after problems with safety of food, environment and so on. In many countries and regions (e.g. USA, Canada, Australia, Europe) a recent decades' immigration lead to the creation of large ethnic subcultures that influence the changes in culture and adaptation (Verbeke, Lopez, 2005). Large ethnic subculture cannot be ignored. Thus, for example, minorities in the United States make more than a quarter of the population and spend more than trillion dollars a year (Angell, 2000). Knowing specifics regarding the behavior of ethnic subcultures and manufacturing of products in accordance with the requirements of a customer, provides a competitive advantage of an organization.

The authors speak of the joint impact of tourism and agriculture on the development of countries (Mueller, Cerovic, 2003, Torres, Momsen, 2004). Limiting factors of linking tourism and agriculture can be found in the area of:

- offers - insufficient, unwarranted quantity of locally produced food; inadequate quality of local production; high prices of locally produced food; insufficient capital, investment and loans; technological limitations;

- demand – preferences of hotels, restaurants and tourists for imported foods;
- marketing and intermediaries - lack of promotion of local food; weak/inadequate transport and marketing infrastructure; mistrust and lack of communication/information exchange between farmers, suppliers and the tourism industry; the development of monopoly marketing network which prevent access to local farmers (adapted according to Torres, Momsen, 2004). Removing the observed (above and other) problems would allow the joint impact of agriculture and tourism on the development of the country, but only with the development of other activities, i.e. with the diversified development.

The image of food with the tourists depends on a number of interrelated institutional factors that are beyond the power of politics in the field of tourism. National economic, agricultural and food policy, influence the standards and production of food for tourists, more than tourism policy. If the appropriate authorities want more influence on the specific food consumption in tourism, then they should consider and implement general policies and regulations, particularly in the area of food (adapted to Hjalager, Corigliano, 2000).

The organizations engaged in the production, distribution and sale of food (retail stores and so-called "HoReCa" facilities - hotels, restaurants and cafes) and the organization in the field of tourism together can affect the consumers to consume healthy food and get to know - go to specific regions. The organizations may affect consumers in the domestic and international markets.

The Basics of Positioning and Differentiation of Serbian Food

The basis of modern theory and practice of ethnic food marketing is the creation of value and satisfaction for consumers. The aim of marketing is to attract new and retaining existing customers by delivering a superior values and satisfaction. For successful business, in addition to customer satisfaction, it is necessary that the organization is profitable. Thus, ethnic food marketing is the science and art of creation and maintenance of value for consumers and profits for the organization. Broadly speaking - at the macro level, ethnic food marketing should enable the improvement of public health, development of agriculture and tourism, environmental protection and increase in gross domestic product.

Marketing managers of the organization are responsible for managing of integrated marketing activities through an integrated concept of

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marketing mix - product, pricing, distribution and promotion. In order to make marketing decisions, the information about consumers and other relevant entities and forces in the environment are needed.

The most important ethnic food consumers are younger, employees and residents of the metropolis, cities and suburbs (Sloan, 2001). In order to buy ethnic foods, the consumers should be aware of its importance and what is more, they should have the purchasing power to buy ethnic foods. So, further education of consumers and creation of culture of ethnic food consumption is necessary. The specified above requests money, time and activities of many organizations.

There are two key initiatives in the multicultural marketing of food. On the one hand, retailers adjust assortment to respond to the demands of ethnic groups in the community. On the other hand, consumers prefer a more diverse assortment of ethnic products. Food retailers must quickly adapt to the above trends. "Mark Brown, deputy store manager of the Waitrose supermarket and department store unit in London's Canary Wharf district, said that anticipating the evolving multicultural preferences of the company's shoppers is essential to its competitive position" (Duff, 2005, p.23). Organizations adapt products and services to the subculture. Thus, for example, beside standard, Jat Airways also offers special types of meals, such as Serbian national cuisine meals not containing animal fat (prepared with vegetable oil or water), vegetarian, Kosher, Muslim food, sports meals rich in calories and meals for children.

Faster way of life in cities, increased stress at work and at home, lack of time to prepare food at home, a growing number of different *fast-food* facilities (pizza, *McDonald's* facilities in Serbia, kebab shops etc.), bad nutrition habits, lack of knowledge regarding proper diets produce the increased number of patients with various diseases. Instead of eliminating the consequences of malnutrition, it is necessary to have proper education and proper nutrition culture. The educational and health organizations and institutions should inform and encourage the consumption of healthy food and acceptance of healthy lifestyle.

To be able to position Serbian cuisine, you should first of all define the concept of Serbian food, that is, what exactly the Serbian food is. Given that trends in the world, in the field of food, tend to divert consumers to healthier food, then from traditional - "antique" Serbian food, drinks and dishes that are based on healthy, quality foods and ways of preparation should be selected and presented. Serbian food should be differentiated with respect to the known and accepted food. Based on the concept of Serbian

food, holistic engagement of various stakeholders should ensure the production, distribution and promotion of Serbian food.

Key activities for the purpose of positioning and differentiation of Serbian cuisine are:

- **Choosing target markets** - the key target groups could be young, educated people, the residents of cities, the traditionalists and older people; Serbian food could be presented to the domestic and foreign markets (to the inhabitants of other countries and in the diaspora);
- **The selection and presentation of the concept of the Serbian, healthy, quality food** - the selection of traditional dishes (which are in line with the concept of healthy food) from Serbia; positioning Serbian food as healthy and of a good quality;

Majority of people in Serbia – the Serbs, as people of Orthodox religion who respect tradition and customs, manifest special behavior during the religious celebrations called “Slava” and Lents. In the time of Slavass that come during the Lent (October 27th is the Venerable Mother Paraskeva - Saint Petka, December 19th is the Saint Nicholas etc.), one-day Lents (every Wednesday and Friday etc.) and some other days of Lent, the demand for fish and food without animal fat is growing. On the contrary, during the Slavass that does not come in the days of Lent, the demand for fatty food is growing. For the manufacturers and distributors of food, at the time of these religious celebrations there is a need and ability to adapt their offer to the traditional behavior, to the increased demand for certain types of food. Having in mind the positive impacts of so-called "lean food" (food that does not contain animal fat) on health, the Serbian food could be positioned on that concept, too. "Food that does not contain animal fat is deeply rooted in the tradition of the Serbian people. Methods of preparation date long before the acceptance of Christianity. The Lents prescribed by the Christianity, Serbian people have easily accepted. In the time of persecution of the Orthodox Church and in the era of socialism, food of non-animal origin was eaten in villages and managed to outlive single-mindedness and prescribed ways of behavior. Diseases of modern society and the need of healthy food, which does not overburden heart, blood vessels and internal organs, food that can be used by diabetics and patients with heart disease, and, also, by healthy people who care about their health, bring back the traditional food of Serbian people, as one of the essential elements of a healthy body and mind. This food is carefully balanced by the national experience and it is very rich in energy." (www.foodfair.co.yu).

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Regions in the Republic of Serbia are specific for their individual products and these products could be further used in tourism promotion and presentation of the region (on both domestic and foreign markets).

Some additional, possible Serbian national products could be: raspberry brandy, dehydrated raspberries, wine, cold-pressed sunflower oil, dried fruit (plums, apricots and peaches), drinks from medicinal herbs, products based on healthy soy, pickled cabbage from Futog, ham and cheese from Užice and so on (Taboo, 2003). (Taboo, 2003).

Serbian food could be positioned on the basis of: the attributes and quality of healthy food (the presentation of the composition, methods of preparation, taste, smell, appearance), the benefits (emphasizing the importance of eating certain foods – e.g. in the prevention and treatment of certain diseases), the group users (e.g. production of special products for children, teenagers, etc.), comparing to foreign competitors (e.g. highlighting local natural ingredients), involvement of celebrities and/or experts in various fields who eat healthy foods and the like.

- **Creating a culture of consuming Serbian, healthy food** - including institutes, schools, universities and other organizations and institutions in order to educate the population of Serbia about the importance of consuming Serbian healthy food (for health and income of the population and gross domestic product of the Republic of Serbia);
- **Creating the image of Serbian food and increased consumption of the same in Serbia and outside Serbia** - relevant ministries, institutes, media and other organizations should take the key role in the process of creating a favorable image;
- **Production of high-quality traditional foods** from different regions (districts, regions) of Serbia and the promotion of both food and places;
- **Creating attractive packaging** which attracts attention. "Knowing that people eat with their eyes as much as their mouth", Stocking says, "you need great packaging, but the quality better measure up to that packaging. Otherwise you are not going to get repeat customers." (Roberts, 2001, p. 13). Of course, the package may attract attention once, but further sale depends on the quality of products. In other words, packaging is important, but without the right quality of the product, it will not be sold.
- **Ensuring availability of the food** (in all channels of distribution, continuously and in sufficient quantities) from different regions (districts, regions) in Serbia and other target markets - the supply of

channels of distribution by Serbian food. The offer of ready-made and frozen food for busy people who do not have enough time for a longer cooking;

- **Promotion of Serbian food** (e.g. in TV shows dedicated to food, magazines, special sites, trade shows, etc.);
- **Association of manufacturers** (raw materials and finished products) of Serbian food for availability, quality and promotion of products – for increasing the competition (particularly in relation to foreign companies);
- **Construction of Serbian food restaurant chain** – could provide: 1. the impact on residents as potential end-consumers of Serbian food, 2. ensuring availability of products in retail stores (and other channels of distribution), 3. additional impact on creating awareness regarding the importance of consuming Serbian food and image of Serbian food is possible through the hotel/restaurant/cafe, i.e. by offering Serbian food and drinks, as well as through the creation of Serbian food restaurant chain (which would serve only healthy Serbian food).

Factors that influence the perceived authenticity of regional foods are:

- Personal factors (knowledge and experience);
- Factors relating to the product (name, brand, design, package, description);
- Situational factors - the place of purchase and/or consumption of products (retail, "HoReCa" object) (adapted to Kuznesof et al, 1997).

Organization could affect the listed factors in the following ways:

- Information, persuasion and reminding of the importance of eating healthy, Serbian food; providing samples, and by encouraging testing and positive experiences;
- Specific names, attractive packaging, a description of the ingredients;
- intensive distribution and availability of products at retail and "HoReCa" facilities.

Serbian food can be positioned integratively with certain forms of tourism such as spa, rural and religious (tourism). Recognizing the necessity and importance of physical activity, tourists are diverted, to a great extent, to the spa tourism, particularly to wellness. Spa is further positioned and

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differentiated on the basis of the spa menu. Spa menu in the Republic of Serbia could be drafted on the basis of a healthy Serbian food. By educating the tourists and by healthy food consumption in spas and spa centers in the Republic of Serbia, domestic tourists - consumers would be able to go on consuming these foods at home. In addition to domestic tourists, spa may affect the foreign guests in terms of consumption of Serbian food.

More and more tourists visit villages, so the producers of food in cooperation with local tourist organizations and households may influence the creation of the culture of eating healthy, Serbian food.

The project relating to the Serbian Lenten food was presented in the Republic of Serbia in 2001. "The Serbian Lenten food is a project organized by a company from Serbia with the idea to promote high-quality food products. Presented food products meet the standard of traditional Serbian Fast - a healthy, lean food. Prehrambeni proizvodi su raspoloživi za uvoz/izvoz" (www.foodfair.co.yu). Food products are available for import/export." (www.foodfair.co.yu). In the Republic of Serbia in some restaurants traditional, Serbian Lenten meals are served. In the last few years at the time of fasting, lean rolls are offered in the bakeries. However, there is no generally accepted culture of moderate consumption of traditional, healthy, lean Serbian food.

Actors in the Process of Positioning and Differentiation of Serbian Food

Integrated marketing activities that would be aimed at consumers (to influence consumers to buy Serbian food) are needed, as well as **the engagement of various stakeholders such as:**

- **The Government** - relevant ministries should create and implement a strategy that could relate to ethnic foods, co-ordinate all actors to achieve the strategy, provide resources (personnel, finances, etc.), adopt certain regulations, educate consumers and organizations with regard to ethnic food;
- **Experts from the health** – e.g. doctors may be involved in the counseling of individuals (population) about healthy food;
- **Teachers and professors in schools and colleges** (in some programs) teach about the importance of eating healthy food and its impact on health;
- **Manufacturers** produce, distribute and promote high quality, healthy, Serbian food. Manufacturers together with the government can promote and implement the campaign - buy a healthy home-made food (as opposed to actual or carried out campaigns that are

related to the promotion of domestic products, the said campaign would promote healthy domestic products);

- **Dealers** - make decisions on product assortment and provide continuous availability of ethnic food;
- **The so-called *HoReCa* facilities - hotels, restaurants, bars and other similar facilities** may affect the supply and promotion of ethnic food; they have a significant impact on the quality, taste and presentation of food as well as the same affect on the acceptance by consumers;
- **The media** can promote ethnic food;
- **Consumers with adequate purchasing power and interested consumers** for ethnic foods have the key role, because buying products of certain manufacturers provides their survival in the market.

Therefore, with financial support, and the support in the form of training and promotions - the impact on the residents to buy local products, manufacturers, distributors of food, "HoReCa" facilities, tourist organizations and institutions and the population could affect the positioning, differentiation, production and the sale of Serbian food.

Production, distribution, promotion and sale of ethnic foods with profit is the result of the complementary effects of invested knowledge, investment, labor, money and time on all levels - from the state, through various organizations (manufacturers, distributors, faculties, associations, media, etc.) to the end consumers.

Conclusion

Consumption of ethnic food in the world is increasing. Despite the above trend, the level of ethnic food consumption is low. Production and distribution of ethnic food is a possibility for the positioning of manufacturers and distributors of food. Serbian food could be positioned and differentiated on the basis of selection of traditional dishes, healthy food, presenting features and benefits of eating healthy food. To successfully define and implement marketing activities of Serbian food the following is needed:

- leaders, knowledge, money and time;
- holistic engagement of various stakeholders;
- integrated representation of Serbian food to the final consumers (e.g. through promotion by the satisfied customers - word of mouth advertising "from mouth to mouth", etc.), the offer of Serbian

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healthy foods (both of ingredients, and ready-made and frozen meals) in retail outlets and hotels/restaurants and cafes.

The strategy of positioning and differentiation of Serbian food should be only part of the strategy of positioning and differentiation of Serbia.

The organizations in the Republic of Serbia, by an integrated marketing of healthy Serbian food and tourism, can contribute to the creation of the culture of consumption and to the increase of healthy food consumption and of the number of tourists. The development of agriculture and tourism is a necessary but not sufficient condition for the development of the country. Integrated development of agriculture and tourism contributes to the development of the country, but only with the development of other activities, i.e. with the diversified development.

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POZICIONIRANJE I DIFERENCIRANJE TRADICIONALNE SRPSKE HRANE

Rezime: Potrošnja etno hrane u svetu se povećava. Posebno je popularna mediteranska (italijanska, grčka) i azijska kuhinja (kineska, tajlandska i indijska). Potrošači žele, kupuju i pripremaju meksikansku, košer, italijansku, kinesku, tajlandsku, indijsku, japansku, francusku, špansku, grčku i drugu autentičnu hranu i proizvode. Potrošači su izloženi novim etno kuhinjama (hrani) na osnovu globalizacije, integrisanih marketing komunikacija (posebno oglašavanja), putovanja (turizma, migracija), prodavnica, restorana. Organizacije u Republici Srbiji mogle bi da promovišu zdrave načine ishrane; zdravu, srpsku hranu i turizam. Proaktivne organizacije mogu da ostvare konkurentnu prednost pozicioniranjem i diferenciranjem na osnovu zdrave srpske hrane. Neophodna je marketing strategija etno hrane radi pozicioniranja i diferenciranja srpske kuhinje.

Ključne reči: etno hrana, marketing strategija, pozicioniranje, diferenciranje.



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THE GENERAL EQUILIBRIUM, IMPERFECTIONS AND DILEMMAS RELATED TO IS-LM MODEL

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Abstract: *The basic task of economic analysis is to determine inter-dependance existing among economic phenomena or processes, in order to explain or predict them. For that purpose, economic analysis uses economic models. Since the models are simplified representations of reality, and reality can change from one situation to another, it is necessary to make a great number of models. One of the most often used frames for the economic analysis is the IS-LM model. Economists use this model in order to see and understand how the market for goods and money function integrally. It is one of the most important economic models used for the understanding of basic economic variables.*

Key words: *IS curve, LM curve, IS-LM model, market for goods, money market, interest rate, national income*

Introduction

Keeping in mind to what extent the numerous theorists were impressed by the IS-LM model, this paper will be devoted to everything that is relevant to the model. The IS-LM model is the basic model of aggregate demand, which has an aim to show the influence of fiscal policies on the economy through the IS curve, the monetary policy and the LM curve. On the goods market, the national income's response to the interest rate's changing is being followed, as well as, interest rate's response to the national income's changing on the money market. The IS-LM model shows how the interest rate and the national income are determined under the conditions of fixed prices. Although the model cannot show the way of economic prosperity, it can be useful in deciding which policy would, in given circumstances, be the most efficient.

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In accordance with all stated above, the analysis will at first be pointed at the theoretic basis and the IS-LM model origin. Then, goods market and money market will be integrally analyzed, i.e. the IS-LM model will be presented which enables us to see both markets and economy as a whole. In the end, basic observations about the model, as well as, its imperfections and dilemmas related to that will be presented.

1. The Theoretical Basis and the IS-LM Model Origin

While researching economic, especially macroeconomic thoughts, it seemed that the new economic thought can be divided into the one before and the one after Keynes. J.M Keynes is an economist who aroused heated reactions of his contemporaries, but, at the same time gained many supporters of his work. He was not just a theoretician, but also a pragmatist, who dealt with macroeconomic problems of his time. Before him, theory of economics was observed as descriptive, far from real occurrences in economy, but with Keynes, it was acknowledged that theory of economics can be very helpful in dealing with and solving real economic problems.

Even without deeper analysis of the Keynes-classics relation one difference can be seen, and that is that microeconomic analysis was used before Keynes and macroeconomic analysis has been developed with Keynes. At the same time, while there was a debate between classics and Keynes, a group of theorists of monopolistic and incomplete competition, and, together with J. R. Hicks, they accomplished the microeconomic analysis system of the neoclassicists and transformed it in accordance with the Keynesians' macroeconomic analysis. In this manner, the general system of economic analysis was formulated.

Hicks's greatest contribution is reflected through the development of numerous models, above all, of the microeconomic analysis, and then of the macroeconomic analysis, too. In the field of microeconomic analysis his role in the development of customers' behavior model was appreciated. At the macroeconomic level, Hicks gave his contribution to the development of the IS-LM model. He found the theoretical basis for the development of this model in Keynes's work 'The General Theory of Employment, Interest and Money'. In it, Keynes analyzes goods and money markets, and that gives Hicks the idea about their mutual relations. In his work 'Mr. Keynes and the Classics' he summarizes Keynes's analysis. More precisely speaking, he shows the equilibrium on goods market with IS curve, equilibrium on the money market with LM curve and the general state of economic equilibrium with the intersection of IS and LM curves.

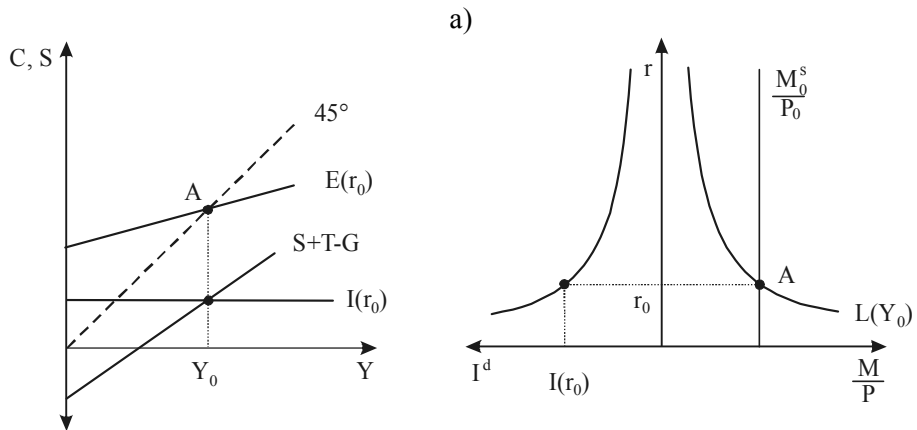
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2. Goods Market and Money Market Interaction

The analysis starts with the integral observation of goods and money markets. Those markets are the two key markets which fiscal and monetary policies have their impact on. The fiscal policy brings direct changes on the goods market and indirect changes on the money market. On the other hand, the monetary policy affects the money market directly and the goods market indirectly. All the changes of the fiscal and monetary policies, manifested through these two markets, can be illustrated with the IS and LM curves. Admittedly, the IS curve shows all the combinations of the interest rate and national income when the goods market is in balance/ equilibrium, and the LM curve shows all the combinations of the interest rate and national income when the money market is in balance. At the same time, both markets will be in balance in the intersection point of both curves. In the theory of economics this approach is known as the IS-LM model.

Further analysis will show how the balance is simultaneously made on the goods and money markets. In Figure 1, (a) Keynesian diagram of the income inflow into the circuit and its outflow from the circuit [8, p.409]. Balanced national income is achieved when the level of national income is Y_0 .

Figure 1. Balance on the goods and money markets



In Figure 1, (b) the money market chart is given. It shows the curve of liquidity preference and the curve of money supply. On the left side of the diagram on the right as an additional analysis implement, the demand for investments is drawn as a function of the interest rate. The values which are on horizontal axe are taken as absolute values, so when the interest rate is r_0 , the demand for investments (which makes autonomous part of the aggregate function) is $I r_0$.

It can be observed that in the point A there is a balance in both diagrams. That means that when the income rate is r_o , there is balance on goods market for the national income Y_o . On the other hand, on the money market, when the national income is Y_o , the demand for money will be equal as the money supply, when the interest rate is r_o .

The question which is imposed is: Is there a simultaneous solution for the problem of balance on both markets? It is true that there is that kind of balance in the upper diagram, but when we think about it thoroughly, it isn't intuitively obvious. The increase of the national income will cause the increase of the interest rate and that will have further impact on the decrease of the demand for investments and decrease of the national income. Since the national income will be smaller, the demand for liquid assets will decrease too, and in accordance with these changes, the interest rate will be lower. That will cause the increase of national income even more. Therefore, this question is imposed: Is there a pair (Y, r) for which both markets will be in balance?

In an attempt to find the solution for this problem, the equation which shows goods market and money market in balance was a starting point.[8,p.410] The balance on this markets is introduced in equations:

For goods market: $E(Y,r) = Y,$

For money market : $(\frac{M}{P})^s = L(r, Y).$

In this way, there are two equations with two unknown (Y, r) , where r and Y are endogenous variables. The interest rate doesn't determine the national income on goods market and national income doesn't determine the interest rate on money market. They are determined by other variables, which are exogenous for the model.

In the basic Keynesian model, the balance is shown in this equation:

$$E(Y,r) = C(Y,T) + I(r) + G = Y.$$

In the explicit form, the function of the consumption will have the following structure:

$$\begin{aligned} E(Y,r) &= c_o - c_1 T_o + c_1 Y + I_o - I_1 r + G_o \\ &= [c_o - c_1 T_o + G_o + I_o - I_1 r] + c_1 Y, \end{aligned}$$

Where c_o are autonomous components of the consumption and c_1 is marginal predisposition for the consumption.

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In balance, the equation has this form:

$$A(G_o, T_o) - I_1 r + c_1 Y = Y,$$

Where A has two variables which are related to fiscal policy: state expenditure and the effects of disproportional taxation.

It is assumed that money market has simple, linear function of money demand and it has this form:

$$L(r, Y) = aY - br,$$

Where a and b are coefficients which represent the strength of the impact the changes of the both variables will have on money demand. It is observed that the equation has basic features of the money demand because the increase of the national income increases the demand for the liquid assets, while the increase of the interest rate reduces the demand for the liquid assets. So the condition for the balance on the money market will be:

$$\left(\frac{M}{P}\right)^s = aY - br.$$

Taking into consideration the balance conditions on both markets, and if Y is isolated, we get :

$$\text{Goods market: } Y = [A(G_o, T_o) - I_1 r] / (1 - c_1),$$

$$\text{Money market: } Y = \frac{M}{P} \frac{1}{a} + \frac{b}{a} r.$$

Equation of Y will enable r to be isolated:

$$[A(G_o, T_o) - I_1 r] / (1 - c_1) = \frac{M}{P} \frac{1}{a} + \frac{b}{a} r$$

$$A(G_o, T_o) \frac{1}{(1 - c_1)} - \frac{M}{P} \frac{1}{a} = \frac{b}{a} r + \frac{I_1}{(1 - c_1)} r$$

$$A(G_o, T_o) \frac{1}{(1 - c_1)} - \frac{M}{P} \frac{1}{a} = r \left[\frac{b}{a} + \frac{I_1}{(1 - c_1)} \right].$$

If we mark the formulation in square bracket on the right side of the equation with γ , we get:

$$A(G_o, T_o) \frac{1}{(1 - C_1)\gamma} - \frac{M}{P} \frac{1}{a\gamma} = r.$$

It is observed that the value of r isn't determined with Y . It depends on the fiscal policy parameters (G i T) and on monetary policy parameter (M) as well. Additionally, it depends on the marginal predisposition for consumption ($1 - C_1$) of the cost levels and on sensitivity of the demand for the investments for changes of the income and the interest rate.

In order to find value Y , it is sufficient to change r in one of the equations of balance written above:

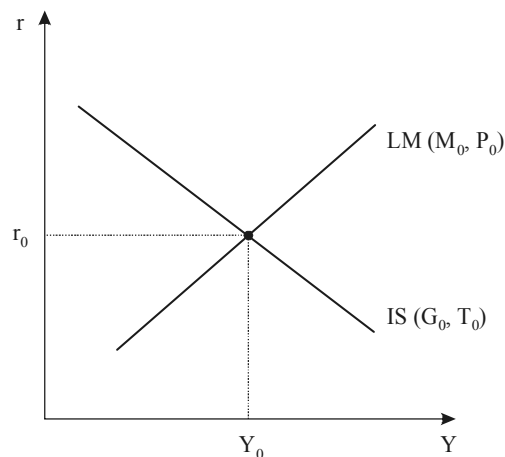
$$Y = \frac{M}{P} \frac{1}{a} + \frac{b}{a} r = \frac{M}{P} \frac{1}{a} + \frac{b}{a} \left[A(G_o, T_o) \frac{1}{(1 - C_1)\gamma} - \frac{M}{P} \frac{1}{a\gamma} \right],$$

Which indicates that the value of Y , also doesn't depend on r .

However, the fact that equilibrium values Y and r are determined by the exogenous factors, cannot be neglected, for e.g. if there is increase of A , it is obvious that the values of Y and r are going to increase (if $\gamma > 0$).

A simpler way for studying the equilibrium relationship between the goods market values (A) and money market (r) is explained through the analysis of IS-LM model.

Figure 2. The equilibrium on the goods market and the money market



Instead of the complex diagram (*figure 1*), a simple presentation of Y and r values is shown (*figure 2*) for which there is a balance on the both

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markets. The fact that IS is a negative slope curve, and LM is a positive slope curve suggests, as it has been previously said, that there is only one pair of Y and r , for which the balance on both markets exists (Y_0, r_0).

3. The Comparative Analysis – Keynesian Versus Classic View

With respect to the previously said, the IS-LM analysis may be used for analyzing the effects of the fiscal and monetary policy. For the purposes of this analysis, the effects of expansionary fiscal policy on the aggregate demands will be observed from the Keynesian and classical economists points of view of.

When the state decides to increase their consumption it may opt for one of the following methods for funding the additional activities: increasing taxes, borrowing from the public by selling bonds and borrowing from the central bank.

Tax financing – Increase in the government spending leads to an increase in G with G_0 to G_1 ($\Delta G = G_1 - G_0 > 0$). This will cause further increase in the autonomous components of A . Since the state chooses to fund increased spending by increasing taxes, the effect on A will not have the same volume as on the ΔG . The impact of the increase in consumption due to the increase in taxes can be represented as follows [8, pp. 414]:

$$\begin{aligned}\Delta A &= A(G_1, T_1, r_0) - A(G_0, T_0, r_0) \\ &= [c_0 - c_1 T_1 + G_1 + I_0 - I_1 r] - [c_0 - c_1 T_0 + G_0 + I_0 - I_1 r] \\ &= (G_1 - c_1 T_1) - (G_0 - c_1 T_0) \\ &= G_1 - G_0 - c_1 (T_1 - T_0) \\ &= \Delta G - c_1 \Delta T.\end{aligned}$$

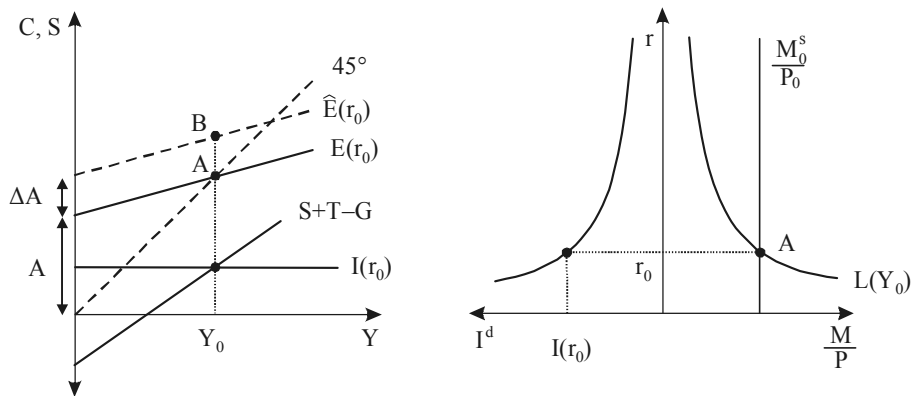
It depends on $\Delta G - c_1 \Delta T > 0$ whether increase in government spending, which is financed by increasing taxes, cause the growth or decrease in aggregate demand. It can be observed that tax increase will have effect on aggregate demand only when $\Delta G = \Delta T$, $\Delta G - c_1 \Delta T = \Delta G (1 - c_1) > 0$ stands. In other words, since the marginal propensity of the state to spend is higher than the marginal consumer propensity, the transfer of income from the public towards the state will increase aggregate demand. As long as $A(G_1, T_1, r_0) > A(G_0, T_0, r_0)$ stands, the state implements the expansionary fiscal policy.

It is assumed that the increase in G and T be such that it will generate an increase in A and the function E will ascend in *Figure 3*. In other

words, it means that expansionary fiscal policy will bring greater demand for goods and services at any level of Y . There will be a greater demand for goods and services in Y_0 (point B).

It is noticeable that there were no changes in the market of liquidity assets, because there were no changes in income, price and supply of money. Since the gap at point B is formed in the commodity market, a question raised is how that gap can be corrected. The answer depends on applying the adequate mechanism of adjustment.

Figure 3. Increase in government spending due to tax increase



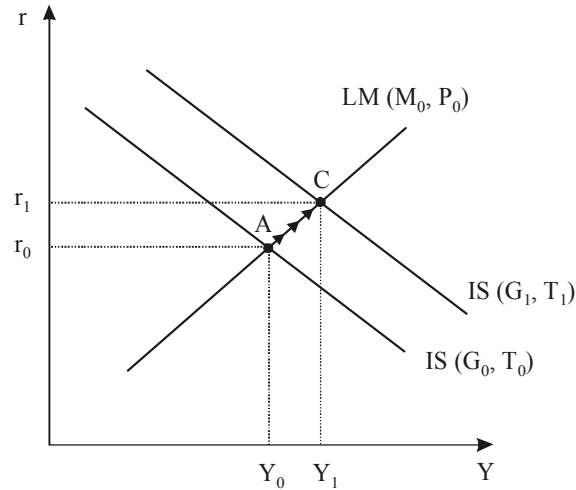
Keynesian point of view – it is assumed, according to this point of view, that there is no changing of price and attention is paid to the adjustment of amount. Initial influence of simultaneous increase in G and T is similar as it was before. There is excess demand for goods and services on the goods market, which will increase the offers and national income. With a growth of income, the demand for liquid assets will increase. Because of this, within the initial interest rate, the excess demand for liquid assets exists. The same as in a previous case, interest rate will increase and that will reduce the demand for investments. Further on, this reduces the demand for goods and services. The balance will be achieved at the level at which the interest rates and national income are higher. However, although there has been an increase of national income, it was not enough to cover completely the national consumption. That is the reason for the relocation of some investments, for the purposes of public spending. The outcome of this expansionary policy will be successful in the sense that there will be an increase in national income. However, it will have negative effects on investments.

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Classical point of view- according to classical point of view, the only adjustment mechanism will be based on price adjustment. This means that an excess in demand will lead to increase in price. When that happens, increase in price will reduce the offer of a real balance sheet. Namely, the same amount of money will bring less goods and services when compared to some previous periods. This means that although the amount of money stays unchanged, the supply of liquid assets will be reduced and excess demand for liquid assets will occur. Then people will sell securities, and that will lead to decrease of their prices and increase of interest rate. Increase of interest rate will make current consumption more expensive, so individuals will buy securities in order to enable higher consumption in the future. Increase of interest rate will restore the balance on liquid assets market, but it will produce reduction of investment demand. Further on, this will reduce aggregate demand for goods and services and the balance will have the initial position. The consequences of expansionary fiscal policy will be: national income remains unchanged, while prices and interest rates are higher, and investments lower. That enables us to see why classical economists think that increase of demands is not justified when the aim is to achieve real changes.

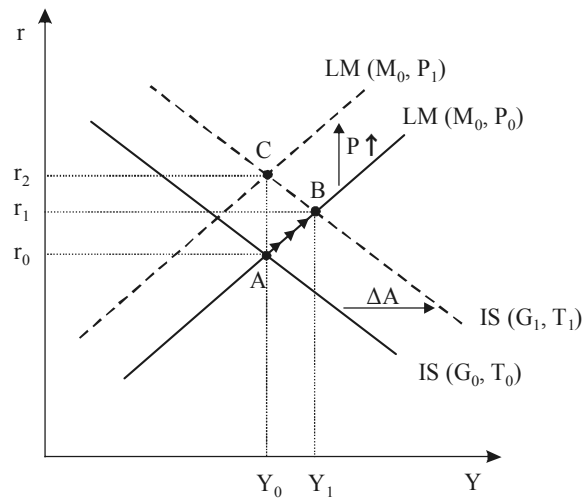
Keynesian view through the IS-LM model- as long as amount adjustment is concerned new balance will be in the point C (figure 4), which represents intersection of the shifted IS curve and existing LM curve. Increased supply will be the reaction to increased aggregate demand. Further on, it will cause increase in personal income which will also increase aggregate demand. However, along with increased income there will be increase in demand for liquid assets. That will cause a growth of securities' offer, fall of their prices and increase in interest rates. Since there will be a reduction of demand for investments, a slowdown in aggregate demand increase will appear. It is obvious that the effect of expansionary fiscal policy will bring increase of national income and interest rate. Increase of national income is used as an initiator for additional consumption demand and for public expenditure demand.

Figure 4. Expansionary fiscal policy within the IS-LM model – Keynesian point of view



The Classical point of view - Since the adjustment mechanism suggests the price increase, there will be a change in one parameter of LM function (Figure 5.). IS curve will shift to the right, and the balance will be achieved at a higher level of income. However, along with the price increase, there will be a reduction in supply of liquid assets, and this will represent moving / shifting the LM curve up.

Figure 5. Expansionary fiscal policy within IS-LM model –classical point of view



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The balance from the point A will move to the point C which will represent the new intersection of the shifted IS and LM curve. In this case, the increase in government spending will lead to excess demand for goods and services, income and consumption will also increase. At the same time, there will be an increase in liquid assets demand. People will sell bonds and cause the increase in interest rate. This will neutralize the part with the increased demand, since the investment demands will be reduced. The movement from point A to point B will be slow. There, based on the classical view, the economy cannot be held for a long time in the point B. This will cause the other adjustment mechanisms to give their contribution. There will be increase in the price and that will reduce an offer of real-balance. The excess of liquid assets demand will appear and people will want to sell their funds. This will increase interest rate again; reduce the demands, because of the increase in investment demands, until it reaches the point C. The outcome of this policy is the unchanged national income and complete extrusion of investment for the purposes of public consumption. It can be observed that increase in interest rate within classical view is higher than within Keynesian version, which will also cause greater decline of investments.

Borrowing from the public – This form of financing, when the government imposes taxes, will not have a realistic effect on the current demand for goods and services. From the point of view of the public, the presence of the state bonds, as a way of borrowing from the public, simply represents an alternative form of saving. That is why the influence of the increase in the state spending on the aggregate demand will be [8. page 420]:

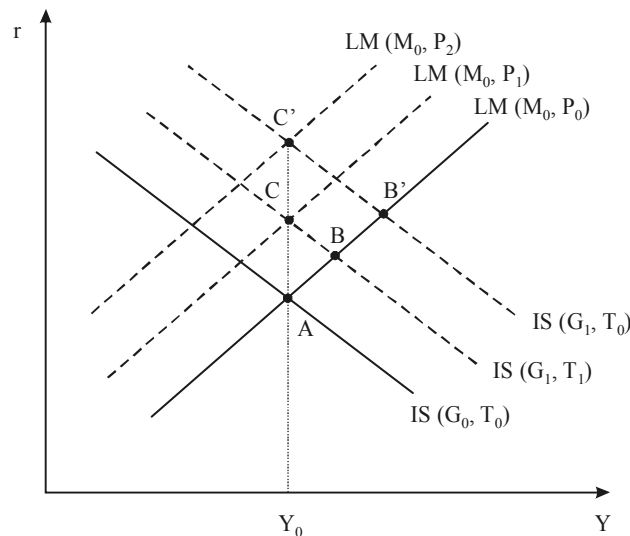
$$\begin{aligned}\Delta A &= A(G_1, T_0, r_0) - A(G_0, T_0, r_0) \\ &= [c_o - c_1 T_0 + G_1 + I_o - I_1 r] - [c_o - c_1 T_0 + G_0 + I_o - I_1 r] \\ &= G_1 - G_0 = \Delta G.\end{aligned}$$

With this form of financing, the expansive effect of the government policy is much greater than with the tax increase. Thus, in the classical case, this will mean that there will be a significantly bigger increase of the interest rate, and a greater decrease of the investment for the benefit of the public spending. (a big *crowding-out* effect). In the Keynesian case, the increase in the demand for money, which comes about due to the expansive fiscal policy, will have a slight influence on the increase of the interest rate, and even less on the decline of the investments. In figure 6. The effects of the increase in the government spending when it is financed by the increase in taxes and borrowing from the public is compared. The transition from point

A to point B and B', represents the Keynesian interpretation, and the transition from point C to point C', represents the classical interpretation.

Borrowing from the central bank (the printing of money) – The last option of the state / government financing of the state spending is by borrowing from the central bank. In this case there will necessarily be a growth of the money offer in the economy. Naturally, the bank can reduce the supply of the money, but this is not the subject of the discussion. For that reason when the state increases its spending by borrowing from the central bank, the G increase will shift the aggregate demand for goods and services up. This means that, at any national income level, the overall demand for goods and services will be bigger. At the same time, the supply of the liquid assets will grow, for the money which was transferred from the central bank to and the government to the economy. The excess of the demand for the goods and services will appear and the excess for the offer of the liquid assets. The result will be the the combined fiscal and monetary expansion.

Figure 6. The increase of the state spending financed by the borrowing from the public



The Keynesian point of view – According to the Keynesian point of view, the increase of the output will come about in order to fill in the gap on the goods market. At the same time, the excess of the supply of the liquid assets will make the demand for the goverment bonds grow (future spending), the price of the state bonds will grow and the interest rates will fall. This will initiate further increase in the demand for the investments However, since the national income starts to grow in order to satisfy the the

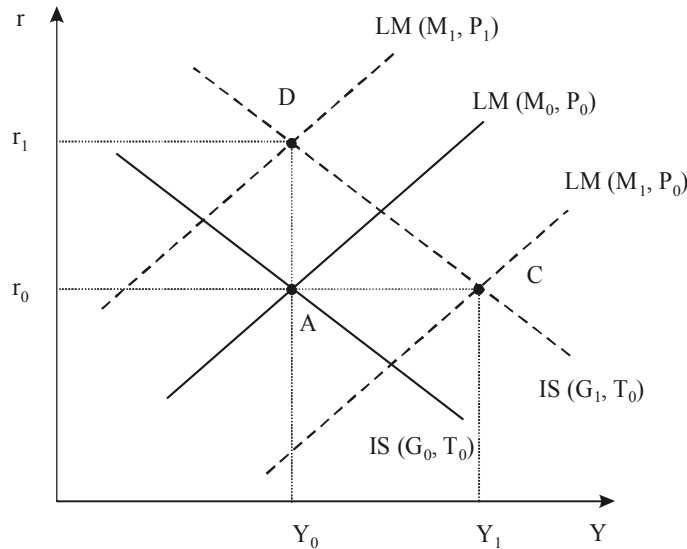
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excess in the demand for goods and services, the demand for the liquid assets will also grow, the demand for the investments will go back, and the pressure on the domestic product will decrease. The end outcome will be the growth of the national income.

The classical point of view – Since the adjustments come mostly through the price changes, the effect of the double growth of the aggregate demand, by G and I, will result in a big increase of the price. However, as the price grows, the supply of the real balance will fall, and the interest rate will grow up to the point when the investments fall low enough so that they completely neutralize the increase of the demand due to the increase in the government spending. The end outcome is the complete excretion.

The point of view in the IS-LM model - The initial increase of G and M (Figure 7.) will be manifested by the shift of the IS to the right (suggesting the interest rates at any level, due to the greater demand for goods, and the equilibrium will only be realized on the higher level of state income) and LM to the right (suggesting that at any level of income, since the supply of the liquid assets has increased, the equilibrium will be made at a lower level of the interest rate). The point C is the spot where the Keynesian version of the analysis will end. When the classical analysis is concerned, the increase in the prices will be present, of such kind that LM will have to shift to point D, where the interest rate is higher and the national income is at the starting level Y_0 .

Figure 7. The State spending financed by the increase in the money offer



Bearing in mind all of the above, some general remarks can be given concerning the controversions about the equilibrium/ balance in the Keynesian and classical points of view. According to the Keynesians, the growth of the demand in the liquid assets, which comes about due to the expansive fiscal policy, will have little effect on the increase of the interest rates, and even less on the fall of the investments. That is why the *crowding out* effect is small or none. For that reason, the Keynesians prove that the fiscal policy combined with the good assessment and prediction, adequately planned and well implemented measures, can lead to the creating of the relatively stable growth. According to the classical point of view, the interest rate growth will influence the great decrease of the investment, so that the *crowding-out* effect will be big. Because of that, they are of the opinion that it is extremely important for the state to decrease the size of the budget deficit.

It is necessary to point out that in the recent years there has been a fewer number of discussions about the benefits of the fiscal and monetary policy. Namely, the consensus has been achieved that the combination of the fiscal and monetary policy will have a strong influence on the aggregate demand. Nowadays the discussion is much more focused on whether the state should carry out the active policy of managing the aggregate demand or it should only support a cluster of rules of the economy policy [6, page 275]. Of course, the Keynesians believe that the state should manage the level of the aggregate demand, to move the persistent inflation and deflation gaps, and to "level" the cyclic fluctuations in the national income. They prefer the discretion policy, which includes the change of policy as the circumstances change. As opposed to them, the monetarists prefer the strict attitude in the sense that the state /government should set up the goals of the strong increase in the money supply in accordance with the growth of the potential output. The strong and stable monetary framework, without any prospects of the sudden reflational and deflational shocks, will encourage the companies to have a long-term growth of the capital investments. That is why the long term economy growth will be real too.

Finally, it can be concluded that the estimation of this controversial discussion depends on many factors. Firstly, on the size and the frequency of the exogenous shocks on the aggregate demand and on the trust people have in the dicretional policy or rules. This estimation also depends on the rate of the inherent economy instability (in the case of the dicretional policy) or just stability (in case of the set goals and regulations), on the capability of the state to adopt and carry out the adequate dicretional policy, on the speed by which such policy can be realized, and on the preciseness of the estimations.

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The Disadvantages and dilemmas concerning the IS-LM model

Although the IS-LM model is accepted as a good means of the economic analysis, the time has yet shown that there are some doubts and restrictions concerning the very model. The fact that the deadline to which the model refers to is stated as the most frequent disadvantage of the model. The logical conclusion would be that it refers to a short deadline, because the theoretica basis of this model was Keynesian analysis, whichi is short-term by its time component. However, the theoreticians have posed the questions about what happens when the deadline is middle or long-term. As far as the long-term deadline is concerned, is known that on the long term basis the equilibrium is always achieved, no matter which phenomenon we observe because the short-term oscillations are anulled.

The second disadvantage of this model is that it encompasses two markets only, for example, the goods market and the money market. When the IS-LM model is applied it is impossible to se what is happening, for example, on the labour market which passively adjusts itself to the changes on the goods and money market. Namely, it can only be supposed that the new investments lead to the growth of the unemployment. However, this needs not be the case if the investement is guided towards the implmenetation of a new technology, which reduces the need for the labour force. The problem arises then, because if the employment fell, it would lead to the employment decrease, the decrease in the demand, the decrease in the supply, and the decrease in the demand would cause a number of other consequences etc.

The third disadvatage is that the prices are not shown in the model. They can be obsreved through the LM curve, but the abscissa and the ordinate do not have the prices. Since the change of prices is the main means of the market adjustment in the macroeconomic theory, the failure of the IS-LM model to offer an explanation concnening the prices is at the same time its most significant disadvantage.

The fourth disadvatage is more of a doubt than a disadvantage. Naimely, if the two basic determinants within the model are the balanced income and the interest rate, the question arises is it the real or the nominal value? It is supposed that it is real because the investors make their decisions based on the real interest rates. However, if this is true, another question arises and that is what happens with the infaltion and now is it followed since the real interest rate is the difference between the nominal interest rate and the inflation rate?

The biggest number of disadvantages can be observed when the open economy is concerned. There is a free flow of goods, capital, labour and investment. The question of investment is inconclusive in the modern circumstances of integrations and globalization. The question is are the foreign investments included in the model and if they are, the next question arises to what extent? For example, the direct investment lead to the rise in the employment and if the employment rises, the aggregate demand rises too, which in its turn moves the IS curve. The question then arises what happens on the money market? The question can be numberless and represent some interesting theories.

Apart from that, one of the dilemmas which is connected with the open economy is: Did the model take into consideration all the factors which operate within the real monetary sector? Firstly, when money is concerned one should bear in mind that the interest rate at the domestic market is not only under the influence of the factors of the observed economy but also by the foreign interest rate. If the interest rates abroad are higher there is a bigger outflow of funds. Furthermore, if the efficiency of the investment abroad is bigger there is the outflow of the funds too. That's why the matter of the open economy turns every kind of analysis into the scenario model, what-if. Ofcourse, in case of the open economy the model needs to include taking into consideration the foreign currency market, the exchange rate and the balance of payments.

Conclusion

Based on the analysis of the interconnection of the goods market and the money market, it can be stated that there is a strong connection between the real and monetary sector. The complexity of their relationship is further strengthened by the processes of globalization, intensive integration and increasing competitiveness. This analysis provides merely the guidelines for some basic directions of operation, and is far from perfect.

The modern world economy imposes new ways of conduct so the usefulness of the IS-LM model is diminished. This doesn't mean that this way of presenting economy is wrong but that it is simplified version of real economy life. If we start with the supposition that behind the complex problems there is a multitude of simple ones, then the IS-LM model is a useful means of analysis and drawing conclusions. Time can only tell the validity of the statements presented here, so the survival and the extension of the Keynes' and Hicks' points of view and postulates say enough about the pragmatic values of them.

The General Equilibrium, Imperfections and Dilemmas Related to IS-LM Model

Finally, we can point out that each market is interesting in its own right and that the simplicity of the particular analysis is much more attractive than the complexity of the interactive approach, but since the new tendencies in the economies all over the world show more and more complexity, we are of the impression that the IS-LM model will be expanded many times again in the future.

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OPŠTA RAVNOTEŽA, NEDOSTACI I DILEME U VEZI IS-LM MODELA

Rezime: Osnovni zadatak ekonomske analize jeste utvrđivanje međuzavisnosti koje postoje između ekonomskih pojava ili procesa, radi njihovog objašnjenja i predviđanja. U tu svrhu, ekonomska analiza koristi ekonomske modele. Budući da su modeli pojednostavljena slika stvarnosti, a da stvarnost može da varira od jedne do druge situacije, potrebno je konstruisati veliki broj modela. Jedan od najčešće korišćenih okvira za potrebe ekonomske analize jeste IS-LM model. Ekonomistima ovaj model služi da bi sagledali kako funkcionišu tržište roba i tržište novca integralno. On je jedan od najznačajnijih modela koji se koriste za razumevanje osnovnih ekonomskih varijabli.

Ključne reči: IS kriva, LM kriva, IS-LM model, tržište roba, tržište novca, kamatna stopa, nacionalni dohodak



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FUNCTIONING CHECK OF INTERNAL CONTROLS SYSTEM BY INTERNAL AUDIT

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Abstract: *For today's enterprises to survive, grow and developed in a turbulent global environment, management efforts must be directed towards the quality management processes at all levels, foremost within the meaning of increasing concern and commitment to achieve the objectives and requirements of owners, the efficient use of resources, increase in quality and environmental awareness, ethical behaviour and emphasize responsibilities, etc. The main role in all of this plays internal controls system as a fundamental component of the overall system of internal audit. In small companies internal controls system is established and supervised by management. However, in large, diversified and decentralized companies there is the internal audit which checks functioning of internal controls system and thus helps management with efficient managing of business risks. The aim of this paper is to point out the place and role of internal audit in overseeing internal controls, and building an efficient internal audit system.*

Keywords: *internal audit system, internal controls system, internal audit, controlling, monitoring of internal control.*

Introduction

The fundamental objective of the capital owner is long term profit generation. This goal is achieved if the management is able to provide long-term effectiveness and efficiency as the main capability of competitive enterprise. Of course, long-term effectiveness and efficiency is a result of management effectiveness to adjust company in accordance to current and

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future environment. For successful adjustment to the environment it is necessary to know the characteristics of that environment. In addition, it is necessary to identify opportunities and threats in the environment as well as the strengths and weaknesses of the company using internal analysis. The results of such analysis are starting point for proper positioning of the company in its environment and creating sustainable competitive advantage.

Paralleled with development and growth of the company, and as a consequence of increasing instability and complexity of the environment in which enterprises operate, within the framework of modern commercial economy in recent years it is increasingly emphasized the importance and role of *concept of risk and internal controls as an instrument of risk management*. Management, which has a duty to define the appropriate ways or strategies of risk management, is responsible for successful risk management. In small companies internal controls system is established by management. However, in large, diversified and decentralized companies there is the internal audit which checks functioning of internal controls system and thus helps management with efficient managing of business risks.

1. Understanding of Internal Audit as One of the Components of Internal Audit System

We said that in smaller companies the management establishes and monitors internal controls system. However, when it comes to large, diversified and decentralized business systems, in today's highly complex and unstable conditions, lays the question of sufficiency of internal audit which is conducted by internal controls. *There is more and more need for critical examination and evaluation of internal controls functioning*. The internal controls system includes accounting controls and non-accounting or administrative controls. Beside controls that are built into the accounting system for detection and timely debugging, management often organizes controls in those areas where accounting controls, in a relatively short period of time, are not effective. These are administrative or non-accounting controls organized mostly in the executive and management subsystem of the company.

In large and complex, decentralized and diversified organizations that operate in conditions of complex, heterogeneous and unstable environment, it is usual to organize internal audit which monitors accounting and administrative controls, apropos provides *additional degree of control* over the entire business of the company. According to the definition of the American Institute of Internal Auditors, internal auditing "is an independent

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assessment function, established within an organization, which examines and evaluates its activities as an organization service. The purpose of internal auditing is to assist members of organizations, including the administration and the various committees in the effective performance of their responsibilities. Internal audit provides administration with analysis, evaluations, recommendations, advices and information about organization activities. Internal audit objectives include effective control promotion at reasonable costs.” [1, p. 5]

From the definition of internal auditing it is evident that its main characteristics are: **1)** internal audit is conducted by persons employed in a company whose business is audited, **2)** it is about independent function of testing, assessment and evaluation, without any limitations or restrictions about assessment of internal auditors, **3)** all companies activities are under the scope of internal auditing, **4)** internal audit is organized as a support and assistance to management and organization as a whole, and therefore it is advisory and not linear function of the company.

For a better understanding of the internal auditing, as a form of internal audit at the higher level, it is necessary to point out the difference of terms *internal control* and *internal audit*. Since domestic and foreign literature does not pay enough attention to the delineation of content of these concepts, in our opinion the difference between internal control and internal audit should be sought in the process of functioning. In this respect, according to proceedings of testing and irregularities elimination, internal audit can be prior or subsequent. The fundamental characteristic of prior monitoring is elimination of certain processes, if they are not in accordance with predetermined criteria. That is why this type of audit is preventive one, because it does not allow the performance of certain procedures that are not in accordance with predetermined criteria. Prior monitoring is achieved via controls. Internal audit is a subsequent audit of functioning of internal controls system and business achievements in accordance with defined goals.

Thus, the task of internal auditing is to explore, examine and assess the internal controls system and their efficiency in the operation of each business system, to report findings and to propose solutions to management. Internal audit “examines the organization and functioning of accounting system and related internal controls, the credibility of financial and operational information, evaluates the effectiveness, efficiency and effectiveness of operations and control, application of policies, plans and procedures and conducts special checking” [2, p. 23]. Hence, in contrast to audit of financial statements which is focused on testing and evaluation of

reality and objectivity of financial statements and is commonly performed by external auditors, *internal audit is focused on testing and evaluation of business as well as development and increase in overall organization efficacy.*

2. The Objectives and Characteristics of Internal Audit in Modern Business Environment

In modern business environment basic objective of internal audit is to examine and evaluate the totality of functioning of the entire business system, and to provide opinion and suggestions for improving its operations. It is often said that internal audit is an effective instrument of managerial control. Although it is often limited to audit of accounts, internal audit operation array is related to assessment of the business as a whole. Thus, internal auditors, in an attempt to verify the authenticity of documents, also evaluate policy, procedures, powers, quality of decision making and management, the effectiveness of methods and procedures, specific problems, some business stages, etc.

The purpose of existence and activity of internal audit in the company is to ensure protection of company resources from disloyal behaviour of employees, subcontractors that use the name and technology of the company, protection of top managers from disloyal behaviour of other managers at lower levels, to ensure that official performance and tax calculation reports be without errors that could cause application of sanctions against the company, etc. Taking all the above into consideration, the operation array of modern internal audit can be systematized as follows: 1) improves the accuracy and reliability of accounting and operational data and information's as the basis for decision making, 2) determines the operating services extent of compliance with the policy of the company, 3) protects the assets from dissipation, 4) minimize the risk of fraud by exposing weaknesses in business and controls that can prevent fraud, 5) assess the overall efficiency of company business, 6) provides detection and elimination of unsuccessful and inefficient operations, 7) demonstrate compliance with regulations, 8) suggests usage of internal company guidelines.

The role of internal audit in the process of business decision making comes from the fact that internal audit determines reliability, reality and integrity of financial and operational information that come from different organizational units, which is basis for making appropriate business decisions at all levels of management. In their daily work, managers at all organization levels rely on information provided by the department of

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internal audit. Prior auditor check and verification of information makes decision making more reliable, safer and faster, since it is based on information verified by professional, objective and independent persons. Planning, organizing, leadership and control is based on this information, to a greater or lesser extent.

It should be noted that the role of internal audit, its duties, requirements that are placed in front of it and approach to audit performing from the beginnings of development of modern internal audit till now have been substantially changed. Many researchers, professional associations and organizations, as well as internal audit service users, especially managers, are preoccupied with the question of *expectation from internal audit in the future* and the necessary shift in its development in order to be able to respond to increasingly complex demands that are placed before it. Just as managers, their partners, internal auditors are burdened with speed of entering in a new phase of activity in which there is need to respond to the influences of global economic and social changes and rapid development of technology, particularly in the field of information technology. According to modern trends in organization and enterprise management focus in future will be on flexibility, decentralization, information and communication, democratic style of leadership, teamwork without emphasised hierarchy, innovation and knowledge, and changing requirements that internal audit face, an international group of specialists (*GTF – Guidance Task Force*), which operates within the U.S. (worldwide) Institute of Internal Auditors, formed, after two years of intensive work, a new definition of internal auditing for 21st century: *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”* [3, p. 25]. Most recent expectations from internal audit, that have to be met, are implemented in this definition. However, this does not come by itself, but this is a complex process of adapting an existing professional commitment of internal auditors to new conditions and circumstances that tear down the existing framework within internal audit operated. It is realistic to expect that the operations of internal auditors will move in two main directions:

- Internal auditors will continue to act subsequently, assessing the effects of past events apropos achievements and mistakes, so that they can avoid them in the future.
- In today's business environment, preventive operations of internal audit are becoming more important according to which its activities are

aimed at providing assistance and support to management in anticipation of future risks and proposing internal controls system that will overwhelm them in time.

The entire company business, which is focused on the *future*, becomes test facility of internal auditor. In such circumstances, report of internal auditor becomes just a mean of communication between internal audit and management in which the internal auditor presents audit results and reviews of business areas, with proposal for corrective actions, and with even more detailed analysis and proposals in the future, to reduce, mitigate or eliminate the risks and evaluate functioning of the existing internal controls system.

Lately, there is another form of internal audit that occurs more and more in theory and practice, with content and objectives similar to internal auditing, called controlling. Development of controlling as an instrument for managing business system originated in the thirties in the U.S., while it's established in Europe in seventies, as a consequence of changed market and business conditions, and therefore starts solving management problems. In relation to the concept of controlling there is not always a unique opinion. Controlling is effective modern concept of company's performance management, which includes coordination and connection between planning and information, and analysis and control of human, material, financial and information resources in order to accomplish goals in an efficient manner. In American theory and practice, term "*The Management Control Function*" is often used, instead of term controlling, as the process by which management influence other organization members in order to achieve the chosen strategy of the company. Controlling is the business philosophy, a special management style and (accounting) information function set for decision making. It is a mover and rudder of the company and requires planned and decentralized management, developed entrepreneurial culture, entrepreneurial planning and economic control.

Thus, one can say that the concept of controlling includes all management functions, especially planning and control, apropos guidance and coordination of business processes, informing, analysing and consulting. The purpose of controlling, as well as other possible forms of internal audit, is directing and coordinating organization activities towards pre-set goals, analysis of discrepancies and causes of discrepancies, proposing of corrective actions in case of discrepancies and to assist in implementation of proposed actions.

3. Forming of Process of Internal Audit

The difference that exists between internal and external audit is not only evident by the carriers (the perpetrators) of that work but also by goals and scope of work. External audit conducts audit of financial statements for capital owners and thus expresses its opinion about objectivity and fair view of elements of these reports. However, internal audit is focused primarily on evaluating operational efficiency of companies business and effectiveness of the organization to identify and implement better solutions and improve management process. Given diversity of goals and a relatively wider and variant scope of internal audit in relation to audit of financial statements, process of internal audit does not have a standardized structure in so far as the process of auditing financial statements. In accordance with the content of the fundamental determinants of process of internal audit (internal audit standards and internal auditors code of professional ethics) and accepting the similarities and differences in their operationalization in theory and practice, the basic stages of process of internal audit are: *1) planning internal audit, 2) testing and business evaluation (data collection and completion of evidence), 3) reporting on testing results, 4) monitoring achieved results.*

What approach to forming the process of internal audit will be adopted by an organization depends on a previous analysis of the major influencing factors, such as *the rules of an audit committee, a professional evaluation of internal auditors, the specific requirements of management, gained practical experience, etc.* We should not forget that the internal audit standards are formed accord that their contents gives only minimum framework for defining approach to carrying out internal audit, leaving ample space for forming the concrete content of that process in an organization, taking into account the above influencing factors and circumstances.

(1) Planning Internal Audit. Today, in complex and dynamic business environment the need for planning internal audit is intensified. Planning involves several steps that need to be done correctly if we want to ensure the efficiency of the entire process of internal audit. In addition, because of usually limited resources for conducting internal audit (time, financial, human) attention of internal auditor must be selectively directed to critical areas of the business and needs to be define by audit plan. Universally accepted division of the internal audit plan is one that starts from the time criteria as the criterion for division. Related to this, we distinguish long-term or strategic plan for internal audit, short-term, usually annual plan and functional plans of internal audit. This phase of internal audit performance includes setting objectives and scope of internal audit,

collecting information about activities that are being examined, identification and allocation of necessary resources to perform audit, developing audit programs, etc. Internal audit plans must be flexible and allow available resources to be redirected to "unplanned" risky areas of doing business.

(2) Testing and Business Evaluation. After planning, in phase of implementation of internal audit in the strict sense, an internal auditor collects and critically valorises information about examining area, combining different approaches and, within them, multiple methods and techniques. These approaches can be classified into two main groups: systems approach and transactions approach which will be discussed later.

(3) Reporting on Testing Results. After completion of sufficient and appropriate audit evidence in working documents of internal auditors, reporting on testing results of internal audit follows. This phase of the internal audit cannot be reduced to a technical issue of compiling reports of internal auditor, but, on the contrary, the meaning, specifics and complexity of the entire process of internal audit generates some important activities of internal auditor. Namely, the reporting process, understood in a broader sense, ends with management taking actions that are oriented towards changes and improvements in internal controls system and business based on the recommendations contained in the report. Report of internal audit is only mean of communication for achieving that final objective. In addition, objectives of reporting by internal auditors are not uniform, but various and multiple, and significant for directing conduct and actions of internal audit.

(4) Monitoring Achieved Results. The process of each individual internal audit should not be completed by composing and distributing the final report, yet it is necessary to monitor and assess whether necessary activities are undertaken, in relation with the reported results of individual audit, and are desired results achieved. In the case of possible discrepancies we should take appropriate corrective action. This is not only important from the standpoint of achieving the audit objectives and justifying the existence of meaningful internal audit, but it's the starting point and stimulus for planning and starting a new cycle of internal audit in one of the high-risk areas of the doing business.

4. Approaches for Forming of Process of Internal Audit

As already mentioned, in the second stage of process of internal audit (testing and business evaluation) an internal auditor combines different approaches, where he uses numerous methods and techniques. On this occasion, an internal auditor uses the *systems and transactions approach*.

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Systems approach of carrying out internal audit starts with importance of building a system that will detect and prevent issues, errors and frauds in the company. All responsibility for that bears management, while internal audit department has an advisory role. System approach of carrying out internal audit assumes that certain organization processes are observed as integral parts of the entirety (see Figure 1). System process or transforms inputs into the appropriate output, therefore achieving system objectives. In all system elements adequate internal controls are installed to assist in achieving system objectives. The task of internal audit is to investigate the functioning and effectiveness of internal controls embedded in some parts of the system. If internal controls are not working, then discrepancies occur in business that adversely affect reliability and integrity of information for business decision making, respect for policies, plans and regulations, property protection, cost-effective use of resources and ultimately to achievement of objectives.

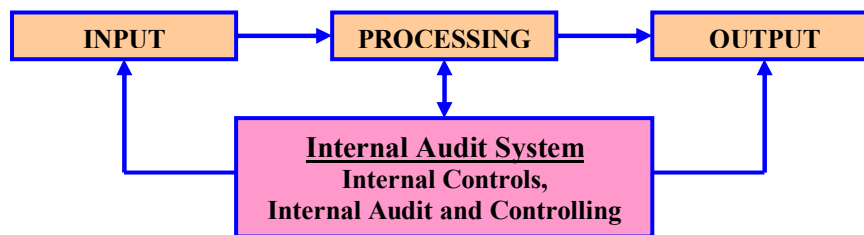


Figure 1. Internal audit system as a subsystem of overall system

Transactions approach does not start from a consideration of the company as a system with embedded control mechanisms, but solely focuses on the identification of erroneous transactions. For example, if an audit team, in the performance of internal audit, examines the activities of company's vehicle fleet in order to determine whether it's used just for business or for unauthorized private purposes, then this is an example of transactions approach. However, if the auditor team is focused on testing if existing controls are adequate, if they are applied properly and only for business purposes, then we may talk about a systems approach.

The audit approach that is not based on checking the adequacy, functioning and evaluation of the internal control system in some field of audit examination cannot be a systems approach. Systems approach, for example payment cycle, starts from determination and verification of embedded controls in process of preparing accounts and payments. In contrast, transactions approach starts from selection of a sample containing

several payment transactions in order to determine their validity, without evaluation of controls built into the overall payment system and attempt to act preventively in order to prevent mistakes in the future.

The basic criterion for the assessment of success of internal auditor work, according to transactions approach, is reduced on quantity and importance of the established business errors, while in systems approach that is assistance and support to management in formulating and implementing an integrated and efficient internal controls system which cover all elements (input, process and output) of the company. While transactions approach starts from understanding of enterprise as a set of processes in which errors and problems may occur if the results of those processes are not subjected to routine testing of compliance with pre-defined criteria, systems approach starts from enterprise as a system in which appropriate control procedures, activities and measures are installed at all levels in order to support the successful achievement of objectives and acted preventively in order to prevent errors and frauds.

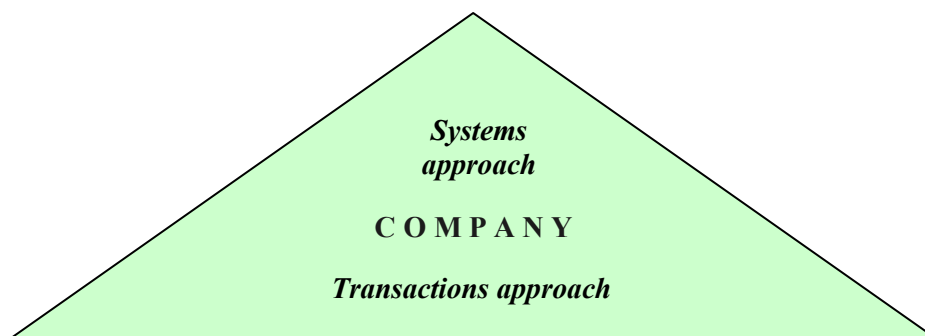


Figure 2. Approaches for performing internal audit [4, p. 203]

As it is shown in Figure 2, fundamental characteristic of a systems approach of carrying out an internal audit is that this approach starts from the top (controls embedded by management) of the organization and extends throughout the whole organization, while transactions approach starts and ends at the bottom (the final results of transactions processing) of organization.

Transactions approaches in carrying out internal audit, which are mentioned in auditing literature and applied in practice, are actually *verification approach* and *vouching approach* [5, p. 92]. *Verification approach* means that an auditor uses the appropriate methods for verifying the status of examined object, apropos it determines compliance of presented state with real, factual state. If it assesses state shown in the accounts ledger,

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internal auditor can verify the assets, liabilities, equity, revenues and expenditures.

However, verification can be carried out, so that the internal auditor determines the existence, ownership, value and efficient use of resources, or simply to answer some other important questions in relation to specific transactions. Verification approach will be more effective if the auditor's independence on information, opinion and management evaluation is ensured. Examples of verification approach in conducting internal audits are: confirmation of cash account balance from bank, notices of debtor or creditor, a professional appraisal of property and equipment, physical verification which involves counting tangible assets, observation of certain processes. This approach of collecting audit evidence is often used by external auditor in the process of audit of financial statements.

However, from the definition of internal auditing it is noted that the internal auditor use verification approach in his work. Verification approach is primarily used for internal financial audit.

Vouching approach or *ticking and checking* are frequently used in business audit. In this approach, the internal auditor using sampling method selects a business event (e.g. procurement of long-term assets) and conducts testing from start to completion of the transaction in order to determine whether the transaction is properly approved and processed. With this test internal auditor tests relatively small number of transactions from start to completion (*walk through system*), usually without applying methods of statistical samples, and with aim to acquaint the system. Weaknesses found by internal auditor must demonstrate and appropriately communicated to management. For this purpose, detailed testing is carried out using methods of statistical samples or so-called *weakness tests*, which are closely associated with *substantive tests*, are conducted.

From the above, it can be concluded that verification and vouching approach are complementary, i.e. they are mutually complement, and they both have their place and role in internal audit.

5. Characteristics of Modern Systems Approach in Forming of Process of Internal Audit

Basic principles of modern systems approach have dual implications for approach of performing of internal audit. *First*, the entire process of internal audit is well organized, purposeful and structured system. The process of collecting and testing evidence of economic events and activities is achieved with appropriate procedures for planning, execution and

reporting of test results. Thus, the system helps internal auditor with forming of process of internal audit. *Second*, area of audit tests is understood as a set of interrelated, interactive components or subsystems of the company that is treated as a complete system.

Although the transactions approach is of great importance for process of internal audit, it can be said that the systems approach is the fundamental characteristic of modern internal auditor. According to this approach, the internal auditor focuses on a business system and its constituent elements and their interconnections. Verification approach and vouching approach are a great help to internal auditor in the implementation of systems approach. To acquaint the existing business system, an internal auditor uses a variety of internal manuals and guidelines regarding business, and methods of interviewing and observation. Compliance of actual with planned system auditor evaluates with appropriate tests of system compatibility with the prescribed system. Therefore internal auditor combines verification and vouching audit approach. This significantly changes the position of internal audit. In fact, internal audit is not focused only to examining the business for previous period, but it is actively involved with *future* in a way to examine and evaluate solutions that are prepared for future business. That preventive action, which means that testing is not consisted only form disclosure of errors, but also in their prevention in the future, provides internal audit with qualitatively and completely different role and meaning. Performing an internal audit by a systems approach can be graphically represented as in Figure 3.

Figure 3 shows organized and pre-planned approach of performing an internal audit, which is in a way the system itself, since that approach is a set of pre-planned and related activities that are directed to achieve specific audit objectives. Realization of systems approach of performing internal audit is assumes defining of *testing strategy* – from scanning of internal controls system to functioning check and final assessment of efficiency of its functioning. In addition, it is necessary to define the main techniques and methods of internal audit that will be applied in each individual case.

Systems approach of conducting internal audit also includes forming of appropriate working papers of internal auditor in order to prove that all activities from pre-prepared audit program are done. Also a common practice is reporting results of the audit during performance of internal audit, in the form of interim reports, in order to take appropriate corrective actions on time.

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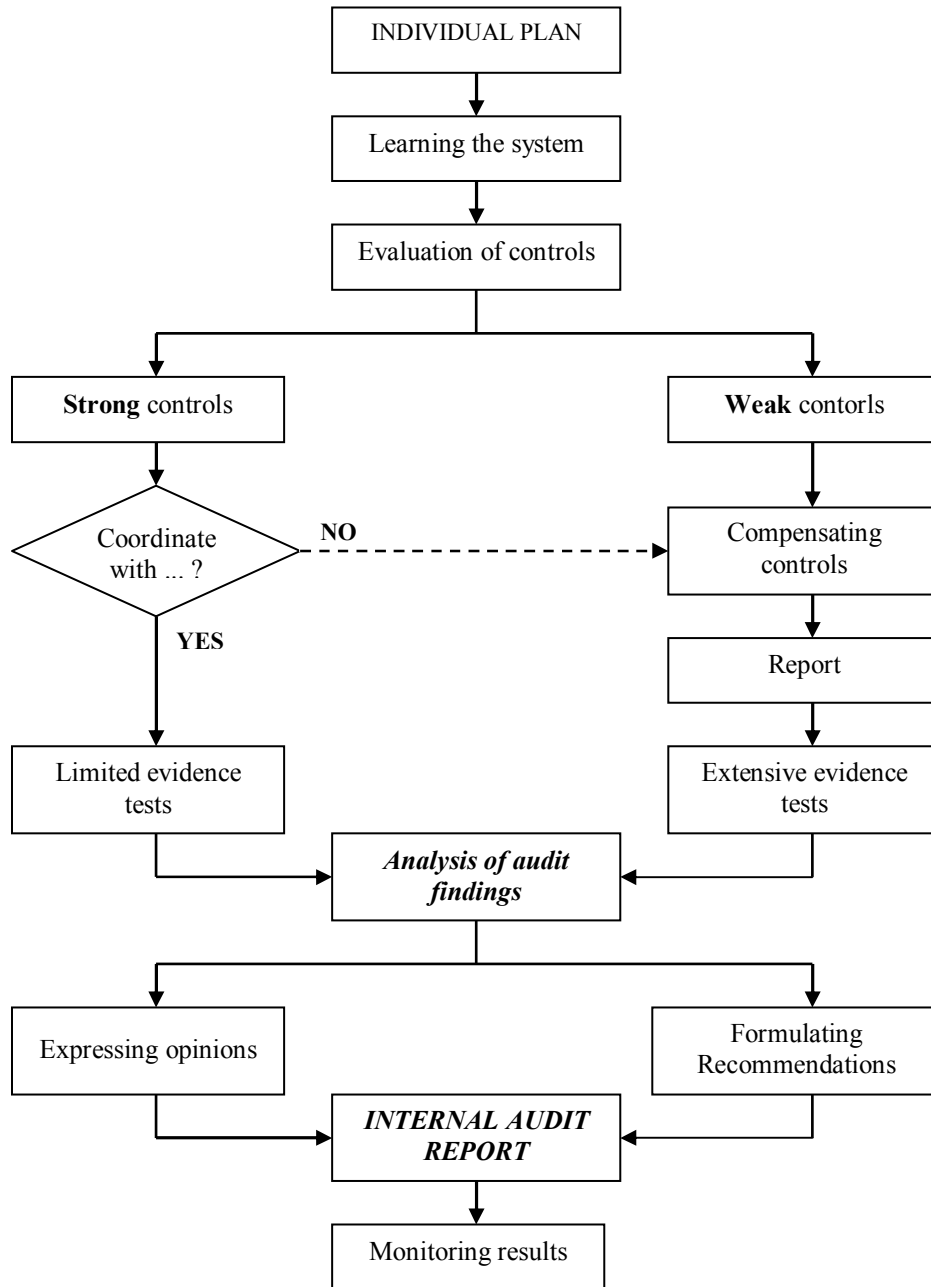


Figure 3. Systems approach for performing internal audit

It should be noted that there are numerous *advantages* of the systems approaches of carrying out internal audit. In addition to identifying and reporting of errors occurred in previous period, systems approach provides analysis of capabilities and power of company control system in the future. In addition, the systems approach promote active role of subjects and all other members of the organization in internal controls system and its goals, promotes the professionalism of internal auditor in the true sense of the word, as opposed to approaches in which auditors direct their professional potential towards routine testing. Systems approach regularly result in constructive suggestions for improving the internal controls system, ensures prevention of errors in the future instead of their subsequent identification. Modern systems approach allows internal auditor to gain extensive experience and enables him for testing of very complex activities. Systems approach satisfies wide spectrum of management needs. Finally, systems approach of conducting internal audit examines not only consequences but also causes of problems, which clearly confirms the need for its implementation.

Conclusion

Today's companies operate in a turbulent global environment with emphasised market orientation and private ownership of production assets. In such conditions, internal audit takes an increasingly important role and meaning. Internal audit is performed within the boundaries of a business system or organization in order to monitor pre-set goals, and to propose corrective actions in case of discrepancies from these goals. There are three basic types of internal audit, namely: a) internal control, b) internal auditing, and c) controlling.

Internal audit is consisted from methods and procedures incorporated into the organization of the company, and adopted by management, in order to ensure uninterrupted operation of all business functions of the company. *Internal auditing* is an independent assessment function, established within an organization, which examines and evaluates its activities as service of that organization. The basic objective of internal auditing in modern conditions is to examine and evaluate the totality of functioning of the entire business system, and to provide opinions and suggestions for improving its operations. *Controlling* is efficient modern concept of managing company's business result, which includes the coordination and connection between planning and information, and analysis and control of human, material, financial and information resources in order to accomplish goals in an efficient manner.

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Since the internal controls system is the foundation of internal audit system, in this paper special attention is dedicated to monitoring internal controls system by internal audit which represents an additional, higher level of control over the entire company's business. It is an independent function of testing, judging and evaluation without any limitations and restrictions on internal auditor assessment. Basic stages of the process of internal audit are: 1) planning internal audit, 2) testing and business evaluation (data collection and completion of evidence), 3) reporting on testing results, 4) monitoring achieved results. Special attention is dedicated to approaches for forming of process of internal audit. *Systems* and *transactions* approach are applied.

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PROVJERA FUNKCIONISANJA SISTEMA INTERNIH KONTROLA OD STRANE INTERNE REVIZIJE

Rezime: Da bi današnja preduzeća opstala, rasla i razvijala se u turbulentnom globalnom okruženju, naponi menadžmenta moraju se usmjeravati prema kvalitetu procesa upravljanja na svim nivoima, i to najprije u smislu sve veće brige i predanosti ostvarivanju postavljenih ciljeva i zahtjeva vlasnika, efikasnoj upotrebi resursa, povećanju kvalitete i ekološkoj svijesti, etičkom ponašanju i naglašenoj odgovornosti, itd. Glavnu ulogu u svemu tome igra sistem internih kontrola kao temeljna komponenta ukupnog sistema internog nadzora. U manjim preduzećima sistem internih kontrola uspostavlja i nadzire menadžment. Međutim, u velikim, diverzifikovanim i decentralizovanim preduzećima organizuje se interna revizija koja provjerava funkcionisanje sistema internih kontrola i time pomadže menadžmentu u efikasnijem upravljanju poslovnim rizicima. Cilj ovog rada je da ukaže na mjesto i ulogu interne revizije u nadziranju internih kontrola i izgradnji efikasnog sistema internog nadzora.

Ključne reči: sistem internog nadzora, sistem internih kontrola, interna revizija, kontroling, nadziranje internih kontrola.



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BRAND MANAGEMENT IN FUNCTION OF THE CORPORATE MARKETING STRATEGY IMPLEMENTATION

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***Abstract:** Brand management in the marketing strategy implementation has been getting on the importance of the market because one product does not compete to another – today it makes brand to brand. Once recognized brand, and even the most successful one, can not long survive within the market if it is not implemented brand strategy. Company through the creation of successful and powerful brand strengthens its value. With the increasing value of brand, the company increases its market value and ensures long-term business and profitability.*

***Key words:** brand, value, loyalty, strategy, positioning.*

Introduction

In modern economic conditions, the role of brand as one of the elements of the concept of product positioning in the stage of product marketing strategy and implementation is very important. To create a successful and strong brand is the goal of every company that has the focus of consumer needs and satisfying those needs, and whose primary objective is customer's satisfaction. The essence of a strong and successful brands is that their identity creates a distinctive competence of the company, compared to the competition, provides a superior and, in the eyes of consumers, more attractive offer. Brand is the one that is the basic source of strength and value of the company.

The strategic importance of the brand in the implementation of marketing strategy requires from the managers to have a clear idea of what

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role the brand represents to the company in an effort to create the value - the satisfaction of consumers, ensure stability of operations, profitability and relatively durable competitive advantage. Precisely, this paper will point out the strategic role and importance that brand management has in implementing the strategy and its contribution to creating value for consumers and other relevant stakeholders.

1. The concept and the role of trademarks

The term "brand" is a name, word, term, symbol, sign, picture or shape or any combination thereof that is designated by a product manufacturer or trade. Same brand of products makes a variety of products from other manufacturers. If the mark can be spoken, it is called "protective name." If the manufacturer has made the legal registration of marks, then the term "trademark" is used. Brand is used for identification - that is the name of a product or product line, but never a generic name for the product [1, p. 294]. Mark is in the modern business environment viewed as a set of attributes that are given to those who buy the brand gain satisfaction. Attributes can do mark real or an illusion, rational or emotional, tangible or intangible. Building a strong and successful brand, and creating its personality is intended to differentiate it from competing brands and and thus in the eyes of consumers creates offers from a company that is more attractive than competitors.

The product with the brand's core product plus features that allow consumers to differentiate them from similar products. The largest number of products already has some features that allow consumers to recognize and remember their experience with them. What transforms a product into the brand is a combination of natural products with symbols of the image, feelings to produce an idea that is more different than the sum of parts [2, p. 190]. When you are thinking of building a reputation of products, or its name or reputation of building product line that has the same name, then it comes to managing brand products. High-quality implementation of marketing strategies required to effectively and efficiently meet the needs and desires of consumers. The role of brand is very important in transferring the meaning of the concept of products, as a way of identifying the manufacturer, retailer, consumer, and others. Successful brand carries the effective meaning of the concept of products and facilitate its identification. In this way the buying is facilitated and the costs to the consumer search are reduced. It becomes a symbol that has more attributes for the consumer. Mark makes it possible to create a public image of the product that is often meant much more for the largest number of customers than its use-value. The company, combining the brand along with other marketing mix

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instruments, in particular the promotion, aims to create prestige and consumer preference in favor of brands and products company. This company effort is expressed to differentiate their product from the products of other companies [1, p. 295].

Companies need to manage the brand, taking into account the needs and desires of consumers. Just through marketing efforts to strengthen relationships with customers the company may create the image with the consumer about the product, i.e. brand that provides both functional sense of satisfaction, as well as symbolic and experiential needs. Consumer for the use of the brand will be ready to pay "premium prices" because using these stamps gets him a lot more than what he give - he receives multiple benefits. Brand and attitude of the consumers towards brands have a decisive role in the purchase of the product. For the consumers the importance of branding is in: reducing the cost of searching for the product because it can be identified quickly and accurately, reducing the expected risk because the product provides the insured quality and consistency and reducing social and psychological risks associated with owning and using the "wrong" products (consumer buying the brand gets a "psychological reward" because he bought a brand that symbolizes the status and/or prestige).

Also, for the *company*, the brand can serve in the function of facilitating implementation of tasks related to the implementation of goals and strategies that the companies or their managers have defined. As the brand management is subsystem of the concept product management, it is very important to find out how the quality management of the brand leads to an effective implementation of marketing strategies. The task of managing the brand is just to position the product or brand, in such a way that the product (brand) is in the minds of consumers, that brand has a special meaning for the consumer.

Characteristics that are related to successful or valuable brands are the result of marketing skills, product quality and efficient representation of the brands for many years. For the company, a successful brand can:

- facilitate the re-supply, which could affect the financial performance of the company, because the brand allows consumers to identify and commit to re-identify the product compared to alternatives,
- facilitate the introduction of new products under the same brand because the consumer is connected with the brand on the basis of previous experience in purchasing,
- affects the efficiency of promotion and the formation of "premium prices" which may make differentiation over the competition and

- enable consumers of the brands to create loyalty.

When it comes to brand and its role in implementing the marketing strategy it is necessary to highlight that the effectively managing of the brand can not be achieved if the company is not clearly defined "in which the company wants consumers to look at the brand companies." It is nothing other than the often stated term in literature- the identity of the brand. It is necessary that the management company has a defined brand identity that has a clear picture of what kind of image of the brand wants to create for consumers to capitalize loyalty of customers and enable the company to operate successfully, to achieve lasting competitive advantage and maintain the vitality of business. Wheeler [3, p. 15] states that the basic characteristics of the identity of the brands include: vision, meaning, connection, authenticity, differentiation, durability, value, commitment and flexibility.

It is believed that the ultimate goal of brand management and goal of all activities on the implementation of marketing strategy is achieving brand loyalty product or service. *Brand loyalty* is in the commitment and preferences of consumers in every situation, buying the same brand of products or services. Brand loyalty can be measured by the degree to which consumers buy a particular brand of products without considering alternatives. Management companies must be aware that the creation of customers' loyalty is a condition of existence of the company in the market in which is ruthless fight fought for every customer.

To ensure loyalty of customers, the brand has to pass the process from choosing brand and name of the product/service, until creating loyalty. The process of creating brand loyalty is shown in figure 1.

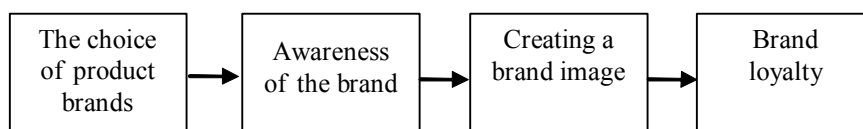


Figure 1 – The process of creating brand loyalty

As you can see, the process begins by selecting the brand for a product/ service. The procedure of choosing the brand requires, although it may seem simple, a series of activities that must be carried out before the final selection of the brands name. According to L. C. Bowee [4, p. 641] information that should be taken to determine the brand names are: the number of competing brands on the market, the degree of consumer loyalty

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to brands, the degree of variation in quality and price within the group of products, reputation for products that are leaders in the markets, the prevalence of products with a private brand and no brand with the general name and total sales volume and market share that can be achieved.

The next step in creating brand loyalty is the existence of awareness among consumers about brands. Awareness of the brand is established when the target consumers know about brands and have it in mind when thinking about the product category. Awareness of the brand needs to be transformed into a reputation - brand image or impression that consumers have about brands. Brand image is nothing but a play - the image of brands in the minds of consumers. Brand image is the mirror of consumers beliefs. Creating a prestige brand is an effective way to ensure brand loyalty. These are their thoughts, their feelings and expectations, which for them is a brand. Management of the company which is responsible for managing the concept of brand image needs to ensure that consumers have accurate perception of the benefits of the brand and to create a positive attitude toward the brand or to create an image with consumers about brands just as they were aimed at companies marketing efforts.

With a positive image of the brand that was created in the mind of consumers, the consumers will buy this brand when buying a particular product. Such consumers lead to brand loyalty, and loyal consumers will opt to buy in every situation the same brand of products. The result is repeated purchases of the same brand by consumers. And not just repeated purchases, but also real situations in which the consumer identifies with the brand or the consumer identifies himself through the use of certain brands. Marketing efforts must be directed to the company so that consumers using the brand at the same time satisfy not only their needs but also their desires. Brand loyalty is the ultimate goal which should strive to take the marketing efforts of the company. Brand loyalty refers to the re-purchase and product brand preferences of consumers and on a permanent basis.

2. Brand Value

Over activity of choice for the product brand, creating awareness of the brand and its image, brand loyalty, we come to the creation of brand value, as something which is woven in all efforts related to brand management, concept and brand.

In foreign literature, when it comes to brand value, it is talking about the concept of "brand equity". The potential contribution of brands to build value for customers and competitive advantages leads to managers around

the world today in the center of attention put brand value assessment and the concept of "brand equity" [5, p. 322]. "Brand equity" is the value that the brand has on the market. It is a value that is embedded in the brand. Aaker [6] provides the largest definition of brand values. According to Aaker brand value is a set of assets such as brand awareness, viewed quality, image and associativity brand, brand loyalty and other proprietary assets. Also, in the literature can be found attitudes that put emphasis on the financial side of the value of brands, and its value defined as "financial value that is added to the brand product" [7, p.p. 24-33]. This is especially important when it comes to activities related to the business combination merger, or mergers and acquisitions.²⁶

Creating brand value also has an impact on marketing efforts. Marketing efforts require significant costs related to creating a successful brand. Efforts are directed towards establishing brand awareness with consumers, creating positive consumer attitudes about brands and brand loyalty, and to creating successful, powerful and valuable brands are more successful. It can be argued that, precisely, the consumers, "Chief Judges" to determine brand equity and its value.

Brand value is related to its power over time that can be measured. Measuring the value of the brand can be used for the evaluation of marketing activities for building brand and strengthen its products in different markets. Brand can play a positive and a negative value. The positive value of the brand is to create effective and efficient promotion and consistent fulfillment of desires and expectations of the consumers. A negative value of the brand is mainly due to poor management of the brand. Positive brand value can be significant barrier to entry competitive products and brands.

To measure the value of the brand which represents intangible assets of the company and which, if strong, allows businesses to make above the average return on deployed capital, different criteria is used. Valuation is done partly on the basis of the premium prices that have multiplied with the brand that carries extra volume compared to the average brand. The advantages of high-value brands for the company are [8, p. 423] in negotiations with distributors, because consumers expect to find a prestigious brand in the stores, higher prices, because the brand has a higher perceived value, the company can later go no expanding the brand and the brand gives the company a significant advantage over the competition.

²⁶ The financial dimension of brand will be more words in the section talks about the relationship between strategy of "building" vs. strategy of "buying" brand.

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Consultancy *Interbrand* measures the brand value as a net of present value of earnings by the brand and is expected to generate in the future. This model is based on the forecast revenue and brand earnings for the risk and the role of brands in stimulating consumers demand. *Interbrand* includes a measure of power, leadership (ability to influence the market), the stability brand (ability to survive based on the loyalty of consumers), market stability, the ability of internationalization of the brand and the legal protection of trademarks. The result of this model is that the brand value expresses the cash equivalent. Table 1 shows the brand developed by its value and became the world's leading brands.²⁷ The table shows the value of 10 leading brands in the end of 2008.²⁸

Table 1 – The value of the 10 leading brands

Position	Brand's Name	Country	Value of the Brand (in billions USD)
1.	Coca-Cola	USA	66.667
2.	IBM	USA	59.031
3.	Microsoft	USA	59.007
4.	GE	USA	53.086
5.	Nokia	Finland	35.942
6.	Toyota	Japan	34.050
7.	Intel	USA	31.261
8.	McDonald's	USA	31.049
9.	Disney	USA	29.251
10.	Google	USA	25.590

In contrast to these criteria, measuring the value of brands based on consumers and their awareness of brands, seen the quality of brand, brand image, brand loyalty, helps managers to evaluate their marketing strategies that are aimed at long-term "health" brand [6]. The value of the brands is a key indicator of health of the brand. Keller [9, p.p. 1-22] based on the brand value to consumers defines the value as a result of the consumer's knowledge of the brand and its response to the marketing of brand, business or marketing efforts related to the concept of brand management.

Aaker [6, p.p. 102-120] proposes a measure that expresses the value of the mark: loyalty, which is reflected in the premium price of the brand and

²⁷ www.interbrand.com/best_global_brands.aspx

²⁸ It can be concluded that the world's leading brand names just to companies names, which means that companies promote their name and their name creating a strong and successful brand. If you expand the list of the top twenty leading brands, only Mercedes-Benz (position no. 11 with a value of 25.577 billion USD) and Marlboro, which is currently in 18th position and with a value of 21.300 billion USD, are also the company name.

in the customers' satisfaction and loyalty, consideration quality, image and associations, which are reflected on the expected value, personalization of the brand, associativity, awareness of the brand and market share of the brand. According to Aaker this criteria can be expressed in all relevant aspects of the value of the brand. Previously is stated that the brand is a kind of intangible asset of enterprise. Intangible assets, in addition to brand, make the organization and enterprise culture, quality of personnel, technology, and others. Some, for example, luxury brand products make up to 95% of the value of all intangible assets and approximately 70% of the total market value of the company. A large number of leading companies with intangible assets, and most of the brands is on average about 40% of their market value. It is believed that the percentage of some companies and is much more.

3. Brand Strategy

Kotler and Keller [10] suggest that a well-established brand established in the development of branding, even the most successful ones, can not survive the market in the long run if it does not implement the brand strategy, and if you do not manage the brand, i.e. create its positive value. Brand development is just one step in a much longer process of implementation of the brand strategy, and Peter Doyle [11, p. 20-30] believes that basically every brand strategy should be creating value for shareholders.

Companies can enter the market with no brand. However, if the company decides to award a product name and to promote a product name, through that promotion it creates a successful brand name, then it can be spoken of two types of brands. The first type is a manufacturing brand, if it is a manufacturer that produces its own brand products. The second type is a brand stores, which are often called a private brand or trade mark. In fact, a number of companies in addition to products with its product brand produce brands which are sold with the trade mark. There are also companies that sell products exclusively to the trade mark. These are mostly brand wholesalers or retailers. A large number of distributors make the sales range of own brand because marketing of private brands costs less and allows you to maintain high profit margins and lower prices of private brands in relation to the manufacturing brand.

Management of the companies should define a strategy that will be his "guiding star" in making decisions about brands of products. The company has several strategies available: *individual* brand strategy and *family* brand strategy.

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In *individual* brand strategy company assigns each product in the product line, a special name. This approach allows the company to create a branding strategy for each individual product. The value of the brand can not be used to increase the value of other brands. Certainly the company Procter & Gamble known by individual brands to compete with each other with their properties. For example, detergents of listed company that are produced and sold under well-known individual names such as Tide, Ariel, Bonux, Bold, Dash and Oxydol. Surely that these brands compete with each other. The company's strategy of appropriate management of these brands can attract customers of other competing brands, protect existing brands from attacks by competitors and potential competitors' brands, increase their market share and increase overall profits. In other situations, this strategy is unacceptable. If the company chooses the strategy of *family* branding, then the products in the product line give the same name brand, or use different names for different familial production lines. Also, at the strategic options the company can use familiar and individual brand name for each product. [12, p.p. 262-263]. A good number of big companies go to protecting a company name combined with individual names of products. Obvious examples of this are the car manufacturers.

If you look at the list of the world's leading brands, you'll notice that they are also the leading brand name of the companies, which means only one thing – the company had decided to promote the proper name of it and create a brand. This strategy builds brand identity using the name of the company to identify the entire range of company products and markets in order to meet the needs and desires of consumers and create their satisfaction. This strategy has the advantage using promotion of the company names to promote all of its products and / or services, not only existing ones but also the new ones. "*Branding*" the name of the company is certainly the best strategy when it is not feasible to promote a specific brand identity and product line when the company is relatively narrow. The lack of this strategy is that the failure of the negative publicity of certain products may seriously undermine the position of the brand, and thus the company.

A large number of companies with broader product line has a problem to determine how many stamps to use. One extreme is a special name for each product, and the other is that all products have the same protective name (familarly known as a protective name). Advantage owning a name for all products has smaller and medium-sized enterprises with limited resources for promotion. If there is one name, the company can concentrate all the means at his promotion. The problem is to find a name that suits equally well in all products. If there are large differences among

the products in price and quality it is not good to give the same name, because it has no specific meaning for each individual product. The risk is, if you launch a product that the market does not accept, that this failure does not extend to other products. Hence, it is often recommended to introduce new products with a new name [1, p. 295].

Well known brand has a significant role in introducing new products into existing or new product. The main advantage is that the new product will instantly be recognized by potential customers or consumers. Strategic options that can capitalize brand include expansion of existing lines, expanding vertically brand, brand extension, "co-branding and licensing

The company may decide to expand product lines and new products in this class assign an existing brand. Extension lines can include new forms, colours, flavors, new packaging, new sizes of the same product. *Brand strategy of spreading vertically* [13, p.p. 278-291] involves moving up or down in price and quality compared to the original brand and its meaning. The advantage of this strategy includes the expansion of market opportunities, lower costs and promotes general use of distinctive capabilities. The fundamental limitation is that this strategy may be detrimental to the original brand and its image. One of the risks of this strategy is that wide used name brand is that they could lose their own meaning. In the case of *brand extension strategy* it goes to expanding when the existing brand name in a category is given the products or product lines in new or new product categories. If the company carefully and successfully implement this option, taking into account the importance of the primary brands, its recognition and reputation can lead to increased profitability and market value of the company. This strategy is common knowledge how the *capitalization of the value brand* that was created earlier marketing efforts of the company. Critics in this case amount to a claim that often this strategy will not achieve success but can only harm which has already been incorporated into the brand.

Another popular method today using basic brand is *licensing*. Sale of brands by one company owns another company for the purpose of its use for uncompetitive products is one of the main business activities of enterprises that have a known/famous trademark/brand [5, p. 332]. Selling the right to use brand allows the company additional revenue with little cost. Also, in this way, the company gains additional publicity, and its brand. It is easier to identify and strengthen brands. License can be your company name, brand specific product or specific brand. One of the biggest beneficiaries are the producers of licensed brands of clothing that brand name or logo put on clothes that produce and distribute.

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Companies can also opt for the strategy of introducing new brands when it comes to new products of existing or new product. *More brand strategy* means that the company introduces a new brand name in the same category of products. Procter & Gamble (P & G) is certainly the best known company that has several different brands in each product category.²⁹ More brands are a way to introduce different attributes for different aspects of buying. In some cases the weakness of the strategic options could be that each brand in the same category of products achieves relatively limited market share [2, p. 195]. Also, the company can decide for an option to use new products that belong to a new category of products that are introduced in the production program to the new brand. This represents a *new brand strategy*. The company needs to more effectively manage this portfolio of brands, and should have a systematic approach and thus create a synergy effect. Brands need to support each other, not that they are managed in an independent basis. Only in this case the company can benefit from the new brand strategy for a new product category.

One of the latest strategies that companies are applying is the so-called "*Co-branding*" strategy or "*joint brands*". It is about using two or more well-known brands that combine to offer enterprises. Every brand sponsor expects the name of other brands enhance the product purchase preferences. The benefit of a common brand is that it creates a broader impact on consumers because each brand is dominant in the different categories of products [2, p. 195]. This strategic option is intended to capitalize on the value contained in the brands that are combined and in such a way that the effective guidance message defined target markets.

Management of the companies have a very difficult task to ensure the brand through management in order to become successful, strong and a very valuable asset and that through this process increase the profitability of the company. In the process of using the brand, or brand extensions it can be gone too far, and the result is that the brand could lose one of its primary value, and its prestige, built image in the minds of consumers about the brands. In the worst case the loyalty of consumers to the brand can be lost, and thus brand may compete to other brands just by cost and by any other element, which means that the brand does not differentiate from other brands. They have to be focused on creating and maintaining "healthy" portfolio of brands.

²⁹ Previously, the example given with detergent brands of the P&G Company.

4. Strategies to strengthen the brand

Strategies that build strong brand and in which is maintained its strength in brand management strategy as part of the same marketing implementation require the implementation of a series of activities on the design and implementation of the concept of brand identification in the strategy of building brands, revitalizing the brand when the brand is at the stage of maturity, as well as activities in the case of vulnerability - the sensitivity of the brand.

Strategies for creating a strong brand and its strengthening require active management to "build, maintain and manage the assets in which the value of the brands are, such as awareness of the brand, the expected quality, image and brand associations and brand loyalty [13, p. 35]. Basic in this process is the development strategy of identifying the brand and its implementation in the target market. With a clearly defined identity management will be able to focus marketing efforts to companies that create the image of consumers about brands just as the managers want, and eliminate the "gap" between brand image and identity. In this way, through the creation of brand loyalty they will create a strong and successful brand and increase its value. In order to be positioned brand, and to find a place in the minds of consumers just as what kind of company wants it, it is necessary to use different media and different ways to do it.

Keller [14] makes a distinction between marketing activities aimed at preserving the existing strategic brand position and activities aimed at strengthening the brand. If the activity fails to keep the position of the brands the result will be a reduction in awareness of the brand and its image. Strengthening the brand depends on the nature of the association, which causes the brand. It is important that these associations are linked or not with the product. Product innovation is essential to brand based on performance when the choice is primarily based on brand associations with the product. If it is about the brand which essence is primary in the attributes that are not associated with the product and are symbolic – based on experience, it is marketing imagination of the companies which is important [2, p. 193]. The essence of these activities seems to create relationships in order to generate customers' loyalty to brands or brands if the company promotes a number of names of products/services.

Brands that came in the stage of maturity, and which are consistent with the overall strategy of the company may require their rejuvenation, and their *repositioning*. This represents the *strategy of revitalizing the brand*, i.e. its revival, forbidding brand to go off the market. Naturally, this strategy requires much effort to maintain brand and renew its strength. If it is about

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repositioning the brand strategy in order to be successful you need a message transferred to the new attributes convincing way to consumers. Brand can be repositioned promoting new ways of using this product, or, for example, if the older population previously identified with the brand, it is possible to reposition the brand for younger populations and in that way again achieve market share. The *Procter & Gamble* has repositioned certain brands with success. Sometimes companies decide to go in the revival of brand core repositioning brand to the markets of greater value through increasing the prices that repositions a brand up. The primary assessment of confidence of consumers and their attitude about how much the company has the knowledge, skills and willingness to position the brand up. Of course, making decisions about revitalizing brands is increasingly important for necessary financial resources and for implementation of the strategy. If the amount of these assets is far beyond its use from such efforts, it is certain that the company and its management and staff responsible for the marketing will well consider the feasibility of implementing this strategy.

Strategic views on the brand also require decision makers to be aware that brand may be vulnerable, and that promotional activities can sometimes lead to the creation of positive brand values.

5. "Building" brand or "buying" brand

"Building" a successful brand benefits in terms of price premium, willingness of distributors to accept products of company, to achieve high sales volume and profit based on brand loyalty [2, p. 185]. Building a successful brand requires effective and efficient management of the brand to create brand loyalty and create a valuable brand that could lead company to a position on that basis to differentiate from the competition, achieve a competitive advantage and high profitability. Certainly we can say that this process of "building" brand requires significant marketing efforts and a significant amount of money. Therefore, successful brands have so high value.³⁰

There are several reasons for the high value of brand names. The first reason is that the introduction of new products to a market is very expensive activity. There is an estimate that the costs of the introduction of 100 million USD and the failure rate of about 75% of company costs about USD 400 million to acquire a successful brand [2, p. 185]. Also, one of the reasons is that exists in the market a large number of brands exists in each

³⁰ The value of the first hundred global brands is ranging from 3.338 (VISA brand – position no. 100) to 66.667 billion USD (Coca-Cola brand – position no. 1).

category of products that are distributed and what consumers buy. When consumers become loyal to one particular brand product are not likely to change or to try the same product, but with a different name, which significantly increases the cost of creating successful brands for those companies that launch products with a new name. Strategy which aims to create brand loyalty has to make the company a long-term benefit. Every brand gets stronger over time with an adequate marketing effort of the company [2, p. 186]. All these efforts to build a brand also build into it a certain value. The company that chooses a name brand and invests in its promotion creates value for customers, the owner/owners and the company itself. Once selected, the name brands can not be changed without the property's built-in name brand [2, p. 186].

Most companies decide to invest marketing efforts on building successful and valuable brands. However, the number of companies, which are generally large and well-known, financially strong companies, decide that the well-known brands come in a different way. In fact, companies often "buy" the new brand through mergers and acquisitions of other companies that have well-known and successful brands, or brands that have made customers' loyalty. In the era of numerous mergers and acquisitions, financial measures of the brand value help investors to determine the value of the brand or company. Simon and Sullivan talk about this [15, p. 28-52]. Management of those companies that intend to "buy" a known brand, the company determines the value and brand value or brand portfolio of the company that is a candidate for merger or acquisition. If the management finds it cheaper to buy a company that is known or well-known brand than to invest in the promotion of the company name for a particular product or product line, that is, if it finds that the *costs of "building"* a new brand is much higher than the *cost of "buying"* brand or company names of candidates for the download, then download or purchase of the companies and candidates will be realized.

When you buy brands or companies that own the brand/brands that are successful, management considers two important issues: 1) how much the company is ready to pay for the leading brands in the market and 2) determine how much the market capitalization of products with the brand is than their tangible assets [1, p. 379]. By joining a company with a strong brand by the larger and stronger company, just a value that is woven into the construction of brand impact and value of companies acquired or purchased to be significantly higher than the value of tangible assets of the company. For example, when in 1989 the company *Philip Morris* acquired *Kraft Foods* paid for her 12.9 billion USD, which was 6 times more than the balance

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value, but they were willing to pay so much value as they became owners of some of the leading brands – *Jacobs, Maxwell House, Toblerone, Milka*. A similar example applies to a company that *Nestle* in 1988. The British company bought *Rowntree*, a company with 280 years of tradition, paying 2.5 billion GBP for a company whose balance sheet value amounted to 400 million GBP. With the acquisition *Nestlé* became the owner of renowned brands such as *Kit Kat, Lion Bar, After Eight, Polo*. Financial calculations for companies that opt for such a business move, or to buy brands, show that it is cheaper to buy a "pre-existing well-known brand than to the" zero "form of its own.

Conclusion

In an effort to meet the needs and desires of consumers as effectively and efficiently, and in an effort to implement marketing strategy, the company should focus its activities in the great, if not largely, to the positioning of its products - brands, and brand management to product, i.e. to activities aimed at creating brand loyalty products. Through a designed, planned approach to the implementation of brand management strategies in the marketing strategy will create a strong and successful brand that the company provides distinctive competence, competency of the company, compared to the competition, provides superior and, in the eyes of consumers, offer more attractive. The company through the creation of successful and strong brand strengthens its value. To strengthen the brand value of the company increases its market value.

It can be concluded that the management in implementing the brand marketing strategy, a clear goal to keep achieving the ultimate objective of business – make money business owners and increase the value of the company. The goal of management is to create a brand mark that meets the needs and desires of consumers, the brand that can differentiate the brand for which consumers are willing to pay the "premium price", a brand that ensures the stability of product sales, brand or company that provides cost-effective and long-term business in dynamic economic environment.

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UPRAVLJANJE MARKOM U FUNKCIJI IMPLEMENTACIJE MARKETING STRATEGIJE PREDUZEĆA

Rezime: Upravljanje markom u implementaciji marketing strategije dobija na važnosti jer na tržištu jedan proizvod ne konkuriše drugom – to danas čine marke. Jednom afirmisane marke, pa čak ni one najuspešnije, ne mogu u dugom roku opstati na tržištu ukoliko se ne sprovodi strategija marke. Preduzeće kroz stvaranje uspešne i snažne marke jača njenu vrednost. Sa jačanjem vrednosti marke, preduzeće povećava svoju tržišnu vrednost i osigurava rentabilno i dugoročno poslovanje.

Ključne reči: marka, vrednost, lojalnost, strategija, pozicioniranje.



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EXPORT-ORIENTED INDUSTRIALIZATION AS THE BASE OF THE NEW MODEL OF DEVELOPMENT

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***Abstract:** A decade ago, Serbia entered the second transitional phase. The goals set were very ambitious, but their realization does not correspond to the promises and high expectations. Although it has achieved important results, today Serbia is dramatically facing the decrease in the GDP growth rate, unemployment regrowth, huge foreign trade deficit, high and mounting foreign debt, massive public spending and state budget deficit. Serbian economy suffers severe consequences of the world economic crisis, but the majority of the problems listed (excluding the GDP negative growth rate) were evident even before the appearance of the world crisis. Why didn't Serbia achieve better results in the first transitional decade? Energetic conduct of painful and traumatic reforms eased up considerably in 2003. As the majority of other countries in transition, Serbia was more efficient in conducting one-time reforms related to the privatization and price liberalization, whereas the process of long-term structural reforms went through very slowly. The results, which were worse than expected, were also the outcome of the choice of the economic development model that was based on the foreign capital inflow and dynamic development of the service sector. The global crisis decreased the foreign capital inflow and made the current development model useless. Serbia has no more time to wait. Owing to quite numerous and grave problems of the past development, our country is obliged to turn very rapidly to reindustrialization oriented to export, as this will be the way to generate the conditions needed for the production and employment growth and the reduction of the foreign debt and vast deficit in trading with the world.*

***Keywords:** transition, reindustrialization, export, model of economic development*

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Introduction

This year a decade will have passed since the outset of carrying out transition in Serbia. The results achieved are not in compliance with the promises, and more importantly they are far from the expectations that the deep changes will produce a notable standard of living. Instead, today we have decrease in GDP growth rate, increase in unemployment, modest export and huge foreign trade deficit, high and soaring foreign debt, massive public spending, state budget deficit and constant threat of inflation. The global economic crisis has significantly pushed down the key performances of the Serbian economy, although the majority of the problems stated (except for negative GDP) were very distinct even prior to its emergence. The key question is why Serbia did not accomplish better results in the first transitional decade.

Undoubtedly, the current model of economic development had the major impact. The vitality of the Serbian economy depended crucially on foreign capital inflow. The most important stimulus to GDP growth was given by import, on which almost 110 billion dollars were spent between 2001 and 2009. Huge amount of goods should have been bought, transported, insured sold and financed. These were exactly the activities that encouraged GDP growth. Simultaneously, the development of the real sector, i.e. industry and agriculture was very modest. With the global crisis, foreign capital inflow considerably plummeted, which made the current model of development practically useless.

Considering that the crisis will last, meaning that Serbia cannot once again expect notable foreign capital inflow in the foreseeable future, we have to turn to domestic saving, investments and development of the real sector which is the only way to provide multiple export growth, unemployment decrease and growth in the real standard of living in the period to follow.

While searching for the answers to what the future model of economic development in Serbia should be, we will first analyze the key features of the present model of the economic development of our country. In the second part we will consider the effects of transition in Serbia in the last decade. The third part is dedicated to the analysis of the model of the economic development that should be applied in the following period. Unfortunately, its implementation will be carried out in highly disadvantageous conditions, as the global crisis reduced direct foreign investments almost by half and seriously cut down the volume in the world foreign trade exchange, or export. On the other hand, the level of national saving is not sufficient to encourage remarkable surge in investment in Serbia. Regardless of these unfavourable circumstances, Serbia has no

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choice, because further implementation of the current model would put Serbia at the bottom of the European scale, thus boosting unemployment, indebtedness, poverty and degrading people's already low standard of living.

1. The Features of the Current Serbian Model of Economic Development

When the authorities in Serbia were changed in October 2000, the second transitional phase began. It was mainly based on the familiar principles that were more or less successfully applied in almost all transitional countries. This decade, especially the first half, has been marked with expansion of growth worldwide, which remarkably made room for the dynamic development of a great number of countries. At the same time, manipulations on financial markets and introduction of new financial instruments, created an illusion that the financial inflows from the world were limitless and that the development of these countries could have long-term base on huge foreign capital inflow. That mostly led to the devastation of economic structure, atrophy of the real sector development and exaggerated and very dynamic service sector development.

From the outset of transition, Serbia strictly applied the neoliberal concept of development, which implied introduction of free market principle, along with establishment and development of the missing market institutions. General liberalization, the opening of borders for free competition of foreign companies and accelerated transformation of public property into private property were the most important grounds for building the new transitional model of the economic development in Serbia. The condition necessary for its efficient execution was the establishment of macroeconomic stability, i.e. the reduction of inflation to the acceptable level (below 10%) and maintenance of the stable exchange rate of the national currency.

Ambitious and very deep reforms in Serbia have seriously slowed down due to the infamous events from March 2003. The difficulties were unavoidable even without these tragic incidents, because sooner or later the building of market economy inevitably faces occasional recessions and crises. The slowdown in carrying out the reforms in Serbia is partly the result of unreadiness of the majority to face the consequences of building a new system, in which, there was neither certainty nor security in contrast to the former socialist system. Millions of people expected rapid and spectacular results, and the execution of reforms, especially privatization, made many people jobless and deprived of tolerable existence, after which

the initial euphoria was firstly transformed into doubt, and as the time passed, into open resistance.

What are the basic features of the model of economic development that has been applied in Serbia since 2001? GDP growth rate was based on foreign capital inflow and it was realized through above-average growth in the service sector. At the same time, the growth rates in industry (and agriculture) were very modest and remarkably lower than GDP growth rate. The impetus to the growth in the service sector was given by massive import, on which almost 110 billion dollars was spent between 2001 and 2009. Enormous amount of the goods imported should have been transported, sold, insured and provided with money for their financing. It could be assumed that GDP growth rate would have been considerably higher, if the import in this period had been for instance 150 billion dollars. What contributed to GDP growth rate was value added tax (VAT), whose growth rate was higher than GDP growth rate. The development of Serbian economy predominantly depended on the import volume which was determined by foreign funds available, or the possibility of the country's further indebtedness. So, at the beginning of a vicious circle there is the enormous import that provides above-average growth in the service sector, on which VAT gets calculated and charged, which in total makes the high rates of GDP growth. The circle is closed in such a way that the placement of imported products and related services is provided by artificial increase in otherwise low spending power of the domestic unemployed and poorly paid people, through "affordable" bank loans that the people easily take, thus putting their apartments and houses on a mortgage.

The vital prerequisite for the present model of development to function is continuous and adequate foreign capital inflow. By the end of 2009, Serbian total debt was 32.7 billion dollars, and in 2001 it was 11 billion dollars. If we count 4.7 billion dollar pardon from the Paris and London Club creditors, Serbia's net debt mounted by 26.3 billion dollars during these nine years. According to official data based on the money orders from our people living abroad, from 2001 to 2009 the world poured 30 billion dollars into Serbia, though one should add a considerable sum that people exchange or spend when they visit Serbia. From 2001 to 2009 net FDI inflows were 16 billion dollars and in the same period total donations were estimated at 3.7 billion dollars. Although these data are not entirely reliable and accurate, it can be concluded that between 2001 and 2009 Serbia received 76 billion dollars on these four grounds. If we add the income from privatization weighing almost 3 billion dollars (it partially covers FDI), which has special value as it does not imply any obligation and it can be

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freely managed, and if we add the income realized from export estimated at 49 billion dollars, we come to an amount of almost 128 billion dollars. This means that Serbia received 14 billion dollars per annum during these nine years, which answers the question how this model could function even if the real sector practically suffered a breakdown.

Stable exchange rate of the national currency, as a part of a wider concept of macroeconomic stability, was an important and perhaps an essential basis for this model of economic development to function. Despite certain and regularly predictable fluctuations as one would say, at the end of 2009 a euro was worth only 66.8% more than by the end of 2001. Having in mind the symbolic cumulative increase in retail prices in this period which was almost 130%, and the increase in prices in the EU, which receives more than a half of our export, it can be concluded that a dinar was highly overestimated in comparison to a euro or a dollar. The long-term management of the policy called strong dinar – weak economy obviously resulted in the deformation of economic structure and vast and soaring foreign trade deficit.

Who found this model of economic development suitable? Primarily the state, as it made the ruling easy, thus providing a stable and lavish capital inflow for the republic budget. A strong dinar made a big profit for importers, simultaneously making export completely unprofitable. Goods were exported mainly by those who couldn't sell them on domestic market. They didn't expect the profit from export either, as the earnings came by selling imported goods. This is how our structure of foreign trade exchange was completely ruined. The state did not care about that much because capital inflow was favourable, and the regular payment of VAT, customs and tax on imported goods provided free maintenance of its obligations. By applying the concept of invoiced realization, or the payment of VAT on an invoice issued, the financial strength of companies, which paid for their obligations on a regular basis, was continually being undermined. The majority of public (state) companies, as well as a vast number of other companies that basked in the country's favour, did not settle their due liabilities in time, which caused unbelievably high level of insolvency of Serbian economy. Occasional cosmetic changes and small interventions of the state did not help much. As if it were a cancer, general insolvency demolished the tissue of the weary Serbian economy.

2. The Effects of Transition in Serbia in the First Decade of the 21st Century

The fact that the process of transition in Serbia did not go at satisfactory speed was confirmed by many analyses, among which there is a traditionally relevant estimate by the European Bank for Reconstruction and Development. In the last decade Serbia made a considerable progress in executing indispensable transitional reforms. Some of them were carried out well, and some realized very modest results.

Serbia achieved the best results in so-called small privatization, liberalization of prices, trade and foreign trade system. The transitional indexes on the three marks mentioned are all high, which can be concluded for the majority of other countries in transition as well. Having that in mind, it can be assumed that the countries in transition have, in a relatively easy way, fulfilled the liberalization of prices and total trade, as well as the swift sale of most companies that used to be a public or state property.

Despite the rapid liberalization of prices and full openness of borders, it was substantially harder to provide a suitable competition policy. Sudden power reinforcement of rich individuals, who earned their first million in the previous regime, and their unnatural symbiosis with executive, legislative and judicial government, significantly reduced free competition expected, creating very strong oligopolists that controlled Serbian market. In this case, the arrival of foreign companies was not particularly helpful, because what is mostly sold in Serbia are imported products which are relatively expensive and of less quality.

After 2000, Serbia energetically ran into carrying out the reforms, but since 2003, there have been a halt and a slowdown in changes. The most successful reforms were one-time – privatization and liberalization – and poor results were achieved regarding long-term structural reforms referring to the building of a competitive market structure and institutional organization of economic market. The efficiency of the reforms undertaken would have been much higher if the order of their execution and their accordance had been composed in a better way.

A slowdown in putting the process of transition into practice in Serbia was caused by a long-drawn-out and inefficient reform of financial institutions and especially public institutions. In the first several years of this decade, the speed at which the institutions were being reformed was good. With the emergence of problems, the system in which the state – government had the key role started to develop. Had it had the reference to creating a stimulating working environment, with formerly predicted and certain game

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rules, the effects of transition would have been much better, and the corresponding transitional indicators much higher. Instead of taking efficient measures to restructure big industrial companies, which carried the development in the former period, the state gradually became the key employer in Serbia, dealing with (mostly unsuccessfully) even those issues that organized countries never do. Fairly frequent changes of government in Serbia cut the reformist course of action and strengthened the populist one, thus carrying out mostly those reforms that were requested by the European Union or the International Monetary Fund.

There is no doubt that in the first decade of the second transitional phase the Serbian economy achieved solid results, but at the same time there is a question: couldn't they or shouldn't they be better? For the past nine years from 2001 to 2009, the average realized GDP growth rate was 4.4%. The fact that it was insufficient was confirmed by the information that Serbian GDP in 2009 reached only 73% of the GDP in distant 1990, while at the same time the most successful countries in transition passed the GDP from 1990 a long time ago. The dynamics of annual growth rate was quite uneven, moving from 2.4% to 8.3%, and in 2009 Serbian GDP was for the first time negative in this decade, owing to reduced foreign capital inflow and complicated export [5, p.153] in the countries that were also struck by the global recession.

The rate and growth of Serbian GDP were determined by the service sector, which is properly illustrated by average growth rate in retail circulation which was 13.6% between 2001 and 2009. Concurrently, the average growth rate in industrial production was only 0.5%, with 2.8% in agricultural. The present economic development completely devastated Serbian economic structure, reducing the participation of industry in the structure of gross value added at modest 20.4% in 2008 [3, p. 20]. Simultaneously, the participation of industry in the structure of GVA in Germany was 29%, Ireland 42%, Norway 38%, China 51%, Japan 30%, Korea 35%, Slovenia 36%, Romania 40% and Czech Republic 39% [6, p. 8].

Although Serbia's export increased almost five times in 2009 in comparison to 2001, it is still very modest. This can be concluded by contrasting the export realized in distant 1990 and comparing with other countries in transition. In 1990, Serbia's export was 5.8 billion dollars, in 2008 it was 11 billion dollars (increase by 1.9 times), and in 2009 8.3 billion dollars, which makes only 43% more than in 1990. In 1990, Czech export was at a similar level with Serbian, and in 2008 it was 146 billion dollars, thus being 24 times bigger [12]. Regardless of the fact that export was being

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marked as a priority in the total post-war development of Serbia, the results, especially those achieved in the last decade are very poor.

Table 1. The most important macroeconomic indexes in Serbia from 2001 to 2009

	2001	2007	2008	2009	09/01
<i>GDP, billions of EUR</i>	12.8	29.5	34.3	31.5	246
<i>GDP, average growth rate %</i>	5.6	5.9	5.4	-3.0	4.4
<i>Industry, average growth rate %</i>	0.1	3.7	1.1	-12.1	0.5
<i>Agriculture, average growth rate</i>	18.6	-7.8	9.1	1.0	2.8
<i>Retail, average growth rate %</i>	19.8	22.6	6.5	-12.3	13.6
<i>Number of the employed (000)</i>	2,102	2,002	1,999	1,904	90.6
<i>Unemployed individuals (000)</i>	777	883	728	723	93.1
<i>Unemployment rate, NSZ (%)</i>	21.8	24.4	26.7	27.7	27.1
<i>Unemployment rate, MOR (%)</i>	...	18.8	14.4	17.4	...
<i>Export, billions of USD</i>	1.7	8.8	11.0	8.3	488
<i>Import, billions of USD</i>	4.7	18.6	23.0	16.0	340
<i>Balance of trade, billions of USD</i>	-3.0	-9.8	-12.0	-7.7	256
<i>Coverage of import by export (%)</i>	36.2	47.3	47.8	51.9	143
<i>FDI, millions of USD</i>	162	2,532	2,717	1,972	16,003
<i>Privatization income mill. of EUR</i>	...	562	312	109	2,975
<i>Foreign debt, billions of USD</i>	11.1	26.2	30.7	32.7	294.6
<i>Public debt, billions of USD</i>	9.0	9.0	9.0	10.4	115.6

Source: RZS, RZR, NBS, Bilten javnih finansija MFRS

Implementation of Serbia's model of development brought about a slow and completely inadequate export growth in the last decade. By putting emphasis on the development of the service sector, which is traditionally and mainly oriented to domestic market, the development of the real sector was entirely neglected. The process of devastating the Serbian industry began with international sanctions and bombing and it was terminated by applying a completely wrong and inefficient concept of privatization. The bad model of privatization destroyed the leading companies of the Serbian industry which used to stimulate the progress of developing and poor areas. Rapid post-war industrialization led to the emergence of strong industrial centres which captivated penurious and uneducated peasants. In a short period of time, Serbia was transformed from a poor agricultural country into a medium developed industrial country. The industrial decay in the last two decades led to vast unemployment rate, export slowdown (more than 95% of Serbia's export comes from industry) and quiet death of Serbia's traditional centres of industry.

The bad concept of privatization, deindustrialization and the economic crisis reduced the number of the employed in 2009 by 200 thousand in comparison to 2001. The data on the number of the unemployed

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are not entirely reliable, because it becomes unbelievable that from 2005 the number of the employed declines as well as the number of the people trying to find a job. If we know that a vast number of the employed hasn't received their pays for months or even for years, or that they occasionally get an insignificant sum, and if we know that a great number of companies hasn't paid for income tax, it can be concluded that unemployment and poverty are currently the worst problems in Serbia.

Although some results have been achieved, it could be stated that Serbian concept of transition or the model of economic development was not as rewarding as it was in the majority of the most efficient countries in transition. At the same time, it generated a series of issues (unemployment, massive foreign trade deficit, high and mounting foreign debt, and terrible economic structure) which would even without the economic crisis have led to a serious slowdown in Serbia's economic development.

3. Export Oriented Industrialization – the Base for the New Model of Economic Development

Economic development is characterized by regularities that can be illustrated on the example of currently highly developed countries. In the initial stage of economic development, the most important contribution was given by primary activities. In the middle stage, the secondary activities became the backbone of development, resulting in an increase in the participation of mining and industrial production in total production, consumption and export. Industry takes a dominant position, with high yet declining share of agricultural production. Growth is very dynamic, and development is unilateral and based on reallocation of workforce from agriculture to industry. In the mature stage of economic development, the service sector prospers most dynamically, industrial development relatively slows down, while the share of agriculture in creating GDP goes below 5%. Modern development of the world is highlighted with the process of industrialization, in which agriculture also takes its prominent place. These two fields of production provide food and technology, and if it weren't for their proper development, the service factor wouldn't prosper either.

Considering the fact that our country is hit by a grave crisis and that the current model of development is unsustainable [13, p. 31], it is necessary to define a new model of development immediately in which the real sector and export-oriented industry will hold the key position [8, p.12]. Recovery of production, massive increase in employment and export rate, will not be gained easily, as the reindustrialization of our country will go under very controversial and demanding circumstances in the period to follow. In the

last decade, which was marked by competitive world economy and enormous foreign capital inflow, Serbia missed an extraordinary chance to improve and enhance the performances of our economy. At the same time, for a fundamental change in economic structure and enhancement of efficiency in total development, it is necessary to expand the level of investments, which will not be easily provided for an under-developed country like Serbia is today.

Our country does not have many alternatives in choosing holders of development in the following period. Owing to extremely large number of problems, internal and external limitations, the expansion of export based on dynamic industrialization is a concept of development that implies a radically different approach in comparison to the one applied in the last decade. The exhaustion of the “old“ model as well as the experiences of the most successful transitional countries (the Czech Republic) and developing countries (China) point to the conclusion that export-oriented industrialization is the only one that can pull the country out of the crisis and ensure the satisfaction of major socio-economic goals which are the growth in employment, labour productivity and international competitiveness, development of scientific and technical progress, the involvement in the international division of labour, development and enhancement of foreign economic relations, the dynamic development of other economic activities, providing economic independence and sovereignty of the country, which would create necessary prerequisites for a stable, balanced and continuous sustainable economic development. There is no doubt that these large social and economic objectives cannot be entirely fulfilled if industry does not hold the position it is lawfully entitled to according to the appropriate level of economic development.

At the end of the first decade, or the second transitional phase, the level of Serbia’s industrial development hardly surpassed 42% of the industrial level realized in 1990. At the same time, our industry is considerably behind when comparing with the majority of transitional countries in which industry is the heart of total economic development. Of all known and applied strategies of industrialization, the strategy of export expansion would be most acceptable for our country. It must be combined with other strategies also, especially at the beginning, since a frontal collision with strong competitive companies from highly developed countries could be a difficult temptation for the Serbian non-competitive industry. It is essential to establish and implement a very sophisticated industrial policy that must advocate the chosen course of development. The last practice showed that the countries, which applied the strategy of

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expanding export, turned out remarkably successful, efficiently providing a high pace of industrial growth, employment and export, alongside with accomplishing appropriate quality and competitiveness of industrial products. In order to realize the basic goal of our country's development in the following period, which is restoring growth on a permanent basis, Serbia has to start with immediate implementation of a new model of economic development grounded on export-oriented industrialization.

What should be the main directions of industrial development in the future [7, p. 459]? Owing to "difficult" inheritance coming from the previous industrial development and due to the emphasised need to accelerate industrial and economic development of the country to a more radical extent, it is necessary to change the economic and industrial structure of Serbia in the future. In order to boost the competitiveness of Serbian industry efficiently, some branches (only extraordinarily), groups (rarely) or single products (mostly) must gain the status of priority, while some must lose the position they had in the last period.

The development of energetics in the future should be adjusted to the fact that Serbia is a relatively poor country when it comes to the quantity and structure of energetic resources available. This means that the complex of energetics should be developed to the level of self-sufficiency, which would provide enough energy to meet its own need. Energy cannot be a more important product of Serbia due to poverty and inferior structure of resources (lignite), exorbitant price of development and enormous pollution of environment it causes.

By restructuring ownership and modernizing technology, traditional industries (textile, leather and footwear) can keep prominent positions, both in recruiting less qualified workforce and realizing significant results in export. Our chance in textile production is to meet exclusive needs of middle class society in highly developed countries and upper class society in medium developed countries. Remarkable export opportunities lie in so-called *lohn* (finishing) work with leading international manufacturers considering the low cost of our workforce and notable long-term experience in production.

Regarding black and non-ferrous metallurgy we should raise the level of finalizing production and increase the export of higher stages of processing. Complex recovery of capacities should create a quality input whose finalization in machine-building industry, the production of means of transport and other various kinds of equipment would create a valuable export product that could compete in the world market. Dynamic

development of these activities should be secured by creating adequate conditions for the arrival of foreign investors.

A great number of branches or Serbian industrial products should be generated for their own purposes, while some of them might become Serbia's greatest export asset. This particularly refers to agro-industry or food industry which gives more than a fifth of total industrial production and export. With a more serious approach, bigger investments and reduction of business uncertainty, this sector can become a major exporter of high quality and ecologically healthy food which will have a nationally recognized landmark.

Modern industrial development of the world is marked by the development of electronics, production of machines, means of transportation and chemistry. Considering that our country has qualified, educated and cheap workforce at its disposal, the productions of various machines, cars and electronics should also be important branches in future industrial progress. Above average growth should be realized in production of process equipment, electric machines, trucks and special vehicles, electronic components, engines, measuring and precise instruments, vessels and equipment for automation and IT. The National Strategy of Economic Development of Serbia 2006-2012 marked the leaders in export and industrial development of Serbia - metals, food industry, chemistry, sectors of rubber and plastic, machines and appliances, electric and optic appliances and means of transport, which means that the major segment of Serbian industrial structure should become technologically intensive industries belonging to the field of medium and low technologies which do not need large-scale production.

With the aim of implementing reindustrialization of Serbia and reaching the established goals productively, it is vital to set and execute the corresponding industrial policy in a consistent manner. Had an adequate industrial policy existed in the last decade, it seems that many issues would have been avoided. An industrial policy that is formulated correctly forms and accelerates the paths of growth and development. It is one of the fundamental sources for effective industrial progress and it represents the key of improvement of some middle developed countries and highly developed countries. It is no longer possible to manage modern economy and direct the process of changes in industrial structure (and economy) without an adequate industrial policy.

The encouragement of total industrial development should be done selectively, by using familiar instruments of industrial policy. Due to terrible state in Serbian industry (and economy) and numerous and tremendously

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difficult problems we are facing, the support of industrial policy has to be primarily directed towards those activities that will raise production, export and employment in the shortest period of time. In the following period we should take measures that will raise the efficiency of doing business, specialization of production based on comparative advantages and improvement of international competitiveness. Industrial policy should strongly stimulate supply for exporting medium and low technological equipment, labour-intensive and traditionally export-oriented productions and agro-industrial products, which in all will have to be in accordance with the rules of the World Trade Organization.

With measures of industrial policy, the liberalization of foreign trade regime should be gradually and carefully provided as well. This implies reduction of customs rates (multi-stage procedure in accordance with the WTO rules) and limited use of non-customs protection (quota, import and export permissions, reductions of import duties and other non-customs duties). At the same time, it is necessary to undertake limited measures of protection, which are primarily antidumping with a major objective to ensure the time needed for adjusting domestic industry for international competition. The former usual protection of branches and whole sectors should be abandoned and the protection of specific segments of production or single products that evaluate the existing comparative advantages should be initiated. Real exchange rate should have an important role in conducting industrial policy as it will provide an adequate export stimulus for industrial products. Successful performance on the international market, especially in less developed countries will be ensured by financing and providing export for equipment, investment projects and various finished industrial products.

Domestic and foreign investments should be stimulated by tax policy. Foreign direct investments should be especially stimulated as they provide new technologies, employment growth and export. Reinvestment of profit should be stimulated with measures of industrial policy much more than before, because this is the way to increase investments or production, employment and export.

Ecological taxes as a part of the instruments of industrial policy should function as environmental protection and preservation. Industrial policy measures should announce adequate fiscal relief that would liberate companies from tax liabilities if they finance environmental protection and improvement. Fiscal relief should be also introduced when importing equipment and production materials that safeguard and improve environment. It is necessary to provide increase in import stimulations for the products of “clean“ technologies and introduction of “ecological“ labels.

Technical and technological modernization in production should be instigated by the strategy of technological development, which would provide the necessary structural changes and dynamic growth. The transfer of modern technology should be especially stimulated through production cooperation and mutual investment with foreign partners, which will raise overall competitiveness of domestic industry. Special attention should be given to remove existing barriers for smooth sales of foreign technologies by applying the rules according to the international standards. More active measures to adjust Serbian standards to the international standards must be undertaken in a much intensive manner than before, because this is the necessary condition to develop economic ties with developed countries.

Conclusion

In the first decade of the second transitional phase, Serbia applied a completely inadequate model of economic development. It was based on foreign capital inflow and very dynamic development of the service sector. At the same time, the development of the real sector, i.e. industry and agriculture, was entirely neglected. That developmental concept completely devastated the economic structure escalating numerous and grave problems. At the end of the first decade of the second transitional phase, Serbia faces the decrease in GDP growth rate, high and mounting unemployment rate, massive foreign trade deficit and high and soaring foreign debt.

The global economic crisis, which emerged in the United States, struck the majority of countries. Its devastating effects were inevitably felt in Serbia as well, thus aggravating the existing problems and adding an entirely new one – decrease in GDP growth and especially processing industry. The recovery from the economic crisis goes more slowly than it was expected and predicted. The global economic crisis rapidly reduced the volume of foreign trade exchange and direct foreign investments of the world.

Considering that the current Serbian model of economic development chronically depends on foreign capital inflow, the model has turned out practically useless in recent circumstances. Due to the gravity of accumulated issues and the strong need to overcome the present economic crisis efficiently, Serbia has to set a completely different model of economic development, grounded on export oriented industrialization. With the aim to execute dynamic development of industry in a productive manner, Serbia has to introduce an adequate industrial policy that will be strictly followed.

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IZVOZNO ORIJENTISANA INDUSTRIJALIZACIJA KAO OSNOVA NOVOG MODELA RAZVOJA

Rezime: Pre jedne decenije Srbija je ušla u drugu fazu tranzicije. Postavljeni ciljevi su bili vrlo ambiciozni, ali njihova realizacija nije u skladu sa obećanjima i ogromnim očekivanjima. I pored značajnih rezultata, Srbija se danas dramatično suočava sa padom stope rasta BDP-a, ponovnim rastom nezaposlenosti, velikim spoljno-trgovinskim deficitom, visokim i rastućim spoljnim dugom, visokom javnom potrošnjom i deficitom državnog budžeta. Srpska privreda trpi žestoke posledice svetske ekonomske krize, ali je većina naznačenih problema (osim negativnih stopa rasta BDP-a) bila izražena i pre početka svetske krize. *Zašto u prvoj deceniji tranzicije u Srbiji nisu ostvareni bolji rezultati?* Energično sprovođenje bolnih i traumatičnih reformi je znatno usporeno 2003. godine. Kao i većina drugih tranzicionih zemalja i Srbija je efikasnije sprovodila jednokratne reforme vezane za privatizaciju i liberalizaciju cena, dok je proces dugoročnih strukturnih reformi išao veoma sporo. Lošiji rezultati od očekivanih su bili i posledica izabranog modela privrednog razvoja, koji se zasnivao na prilivu stranog kapitala i dinamičnom razvoju sektora usluga. Globalna kriza je smanjila priliv stranog kapitala i aktuelni model razvoja učinila neupotrebljivim. Srbija više nema vremena za čekanje. Zbog veoma brojnih i krupnih problema dosadašnjeg razvoja, naša zemlja se vrlo brzo mora orijentisati na eksportno orijentisanu reindustrijalizaciju, čime bi se stvorili potrebni uslovi za rast proizvodnje, zaposlenosti, saniranje spoljnog duga i ogromnog deficita u trgovini sa svetom.

Ključne reči: tranzicija, reindustrijalizacija, izvoz, model razvoja.

Guideline for writing papers for ECONOMIC THEMES:

1. The paper should be introduced at 12-15 pages. **Page format:** *File - Page Setup - Margins* - Top, Bottom: 5.5 cm, left, right - 4.5 cm, header, footer - 4.8 cm; *Paper size:* A4; **Font:** Times New Roman - 11 pt. **Spacing:** *Format - Paragraph - Indents and spacing:* Indentation: Left, Right 0; Special: First line 1.27; Spacing: Before 6pt, After 0pt; Line spacing: Single; **Tables** and **formulas** write in program Word for Windows, and **pictures** in program Corel Draw.
2. Paper should have: Title in English (bold, all caps, 12pt, center); Scientific degree, author's name (bold, small caps, 12pt, center); Footnote: institution (10pt); Abstract and key words in English (italic, 10pt); Subtitles (bold, small caps, 11 pt, center); Introduction, elaboration and conclusion (11pt); Literature (10pt, example: Rayport J. F., Jaworski B. J., Introduction to E-commerce, McGraw-Hill, International Edition, 2003.; in paper use number from literature, example: [1, page x]); Title, abstract and key words in Serbian (10pt).
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