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LEGAL RELATION BETWEEN THE SHAREHOLDERS AND THE MANAGERS IN SOUTH-EASTERN EUROPEAN COUNTRIES AS A COMPETITIVENESS CONDITIONS

Dragana Radenkovic-Jocic, PhD[*]

Abstract: *Company laws in the Region of SEE do not have a long history, due to they all have been enacted after the fall of the Berlin Wall. The fact that almost all Central-Eastern European countries passed some sort of corporate governance codes doesn't change this reality. In Serbia the codification of commercial law started under difficult professional circumstances. Legal system had shown up contradictory trends of development despite the indisputably positive tendencies. Imperative for CEE countries definitely was to implement known company law principles in own acts. In that field the impact of European Union was very available. Corporate governance as the main part of company law plays very important role in management organization of every business association. There are a few legal acts which define some elements of corporate governance, especially regarding the role of main actors – shareholders and directors. Balance of power in a company based on three critical actors: shareholders, management and the board of directors. The negotiations about joining the EU determine, in fact, more or less established procedures, standards and other preconditions that a candidate country has to fulfill in order to join it, including all elements on company rule, as well as the companies' competitiveness.*

Key words: *company, shareholder, director, liability, competition*

1. Introduction

In the 20th century the usually pattern of the company management was the broad notion that control of a company resides in the hands of the

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individual or group who have the power to select the board of directors. It is in ‘management control’ that the kernel of their thesis resided. There are also different theories about corporations’ registration and the role of their stakeholders. Incorporation by registration was introduced in 1844. The corporate entity principle was firmly settled at the end of the 19th century in the Salomon case. Incorporation gives the company legal personality, separate from its members, with the result that a company may own property, sue and be sued in its own corporate name. However, it seems that almost exactly 100 years after Salomon was decided, the courts may have settled down to the idea that it has to be followed, unless the situation can be brought within the ‘facade’ test. It is likely that in future cases judges will find themselves focusing on what it is to mean.

Company laws in the Region of SEE do not have a long history, due to they all have been enacted after the fall of the Berlin Wall. The fact that almost all Central-Eastern European countries passed some sort of corporate governance codes doesn’t change this reality.[1]

In Serbia the codification of commercial law started under difficult professional circumstances. Legal system had shown up contradictory trends of development despite the indisputably positive tendencies, like in all former socialist countries. In Serbia there was specific problem about social ownership and no clear answer even to the simple question of who was (and still is) the subject of that kind of ownership. The result of social ownership was the new way of enterprises’ governing – self-governing.

Harmonization of law, particularly company law in mentioned countries is one of the competitiveness conditions. Defining the institute ‘piercing the veil’ definitely makes better position at the market for companies established in countries which laws recognize it.

2. Harmonization the laws of SEE countries in the relation with European Union rules

One of the goals set to the European Economic Community in the Treaties of Rome under which it was established, was the “harmonization of laws and regulations to the extent necessary for successful operation of the common market”.[2] The establishment and operation of the common market largely depends on an adequate law, including contract and company law.

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[1] The Region of SEE involves countries of West Balcan and Hungary, Romania, Bulgaria, Greece, Albania (in the author’s focus are Srbian, Croatian, FYROM and Hungarian rules); on the other hand, CEE countries is wider concept

[2] Article 3.h. of the Treaty Establishing the European Economic Community

The provisions of which should provide for the equality of members of the community, free trade and free movement of people, services and capital, the harmonization of national legislations of the member states were set as a goal parallel to the economic ones. In that respect, the EEC and subsequently the European Community and the European Union, should be looked upon not only as an economic integration, which is certainly is, but also as an effort made towards creating a unified legal system.[11, pg. 260-263] In that system the community subjects are not only states, but also individuals as consumers increasingly.

The community law is created and applied in the framework of three communities: European (Economic) Community, European Coal and Steel Community and European Atomic Energy Community. The entity definitely created as a special organization. Also, it comprised for a long time mostly regulations of public law nature. Economic and political integration process was going on to the Community's/Union's goals, moving from a "union of states" into a "federal state", in a form of European Union. Europeanization of law, particular company law, means a process of unification or harmonization based on the acceptance and application of common standards by official institutions, first in the European Union member states and then in other European states. Harmonization should be based on adjustment of regulations to the extent necessary for achievement of the desired goal by applying them. Also according Hopt, unification is conducive to the achievement of full uniformity of regulations, which in turn leads to the creation of a unified legal system.[7, pg.34] The EC has pursued a wide-ranging programme of harmonization. The provisions of the EC Treaty on the freedom of establishment of companies have given rise to several important judgments by the ECJ. One of final steps was made after many years of negotiation through a European Company Statute in 2001. European Commission has shown very strong intend on improvement a field of Company law and modernize existing directives, as well as adopt of several measures that have been in the pipeline for some time. It has been noted the intends to take steps by European Commission to take steps to improve corporate governance in the EU promoting proposals of directives which will require greater disclosure and introduce communication with shareholders and institutional investors.[12, pg.19-26] The Commission intends to legislative to give all listed companies the choice between the one-tier and two-tier board system. There are also recommended some solutions on the role of non-executive directors and directors' remunerations.

Obviously, one of the fundamental objectives of the European Union is to enable the free movement of persons around the Single Market. This includes the right for nationals of a Member State to establish themselves in another Member State, as well as this right extended to companies (articles 43 and 48 EC).[3]

Generally speaking, companies formed in the EU entitled to move around the internal market in the same way as individuals. Mentioned activity could be done in two different ways – so-called primary, and secondary establishment. A primary establishment considers setting-up in another Member State by moving the company's registered office, but secondary establishment means setting-up of an agency, branch or a subsidiary formed under the laws of the host Member State.

But, a fundamental problem could be that a company formed and registered in a particular Member State will only be deemed to have legal capacity and be recognized as a separate legal entity in accordance with the laws of that State. One of the solutions for evidenced problems was an attempt made in 1968. Then six Member States tried to enable companies to move freely around the European Union as the community (Belgium, France, Germany, Italy, Luxembourg and the Netherlands).[4] The main goal is to provide mutual recognition of companies with a Convention on the Mutual Recognition of Companies. But, Mentioned Convention has never entered into force, due to the Netherlands didn't it ratify. European Union company law is an area where you can see serious steps in order to improve a process of harmonization. The companies as legal entities are significant for all member States and their habitants. Particular attempt made in 2001 with the adoption of the Statute on a European Company, as well as a proposal for a Fourteenth Directive on the cross-border transfer of a company's registered office in 2004.

Comparing two ways of setting-up the companies and applicable law in different states it could be noted two doctrines. Namely, there are the *incorporation doctrine* and the *real seat doctrine*. Definitely, the Member States don't follow the same principles in order to determine the law applicable to a company law.[5, pg.353] The incorporate doctrine is used, for

[3] Article 43 provides follows: Restrictions on freedom of establishment of nationals of a Member State in the territory of another Member State shall be prohibited. Such prohibition shall also apply to restrictions on the setting-up of agencies, branches or subsidiaries by nationals of any Member State established in the territory of any Member State. And Article 48: Companies formed in accordance with the law of a Member State and having their registered office, central administration or principal place of business within the Community shall be treated in the same way as natural persons who are nationals of Member States

[4] Article 293 EC provides a legal basis for Member States to negotiate to secure the mutual recognition of companies and the retention of their legal personality in the event of a transfer of their seat from one Member State to another

example, in Denmark, Finland, Ireland, the Netherlands, Sweden, and UK. That doctrine could be determined as principle uses the registered office as the relevant criterion. It means that the company will be governed by the law of its country of incorporation. Thus, the company's legal personality would depend on the position as it obtains in the jurisdiction where its registered office is based, even if its head office was based in another Member State.

3. Development of the company laws in the CEE countries (including Region SEE)

Company laws in the region don't have a long history. All of them were adopted after the fall of the Berlin Wall. Almost all Central and Eastern European countries passed some sort of corporate governance codes. After more than couple decades of changes, a new process began. Privatization in all CEE countries was, undoubtedly, the biggest of its kind in the history. That process was one of the different significance comparing with the same in the other part of the world. The socialist regimes in CEE for around 45 years left deep traces in the legal and economic environment. This is one of the reasons why the way from plan to market appeared long. The fact is that there were no worthwhile historical models for privatization, but on the other side the managers of privatized economic entities lacked basic knowledge in modern management.

Privatization targeted different goals, for example, political, social, legal, and economic.[13, pg. 151] In different countries the goals had different priority: creating support for introduction of market economy in Russian Federation, cutting the links of companies from the state in Czech Republic, transformation the social ownership in the other forms in Serbia, raising government revenues in Hungary. The ways of privatization were differ from country to country. Sale of companies to outsiders was the most frequent model, but also insider buyouts, such as management or employees, as well as the privatization through vouchers have been used. Obviously, under these circumstances the corruption was not rare phenomena, perhaps in all CEE countries.

Imperative for CEE countries definitely was to implement known company law principles in own acts. In that field the impact of European Union was very available. CEE countries, including SEE countries, should follow the European way towards the market economy. Essentially, all named countries in the region must pay close attention to what goes in the realms of law in the EU. From the point of view of the role of the EU rules, the countries should transform own company laws in order to rise their harmonization with European law on the high level. It is particularly important in a field of responsibility the managers and shareholders as the main actors in corporations. Irrespective that not all CEE countries have become by now Member States of the EU, they must change reality regarding the liability of shareholders and managers.[6, pg.323] There are some questions where consensus is necessary, especially if the competitiveness of enterprises should be the main aim: payment by the corporation of individual obligations; absence of corporate records; fraudulent representation by corporate directors; use of the corporation to promote fraud, injustice, or illegalities, and where court must be active in order to indicate the piercing the corporate veil and provide security for all economic participants.

4. New elements in SEE countries company legislation (with focus on Serbia, Croatia, FYROM and Hungary)

Generally speaking, all SEE countries and their company laws had been influenced primarily by German and French law. The transition towards democracy policy and market economy, along aspiration for joining the EU, meant the beginning of the strong influence of European Union law. The result is the chose between one-tier and two-tier corporate governance system and employees' role in the company management, which should be done in all SEE countries. Also, it has been found some new institutes, such as *prokura* (a legal institute originating from German law, a form of agency agreement whereby the agent acquires the widest authorization for representation of a company).

All of company laws in SEE countries define modern business form. ***The Serbian*** Company Act of 2004 presents the primary source of company law today.[5] That Act has managed to totally abandon the regulation of socially-owned companies. It is also featured by its focus on the latest developments in the company laws of developed Western legal systems. The Serbian Act has opted for four forms of business associations: two partnerships (general and limited) and two companies (limited liability company and joint-stock company). It defines business associations according to the teleological criterion, i.e. *making of profits*, which makes a clear departure from the previous tradition of using the character of activities as the criterion. It also introduces the notion of *tripartition*, whereby the company presents the amalgamation of interests of the shareholders,

[5] Zakon o privrednim drustvima, enacted in 2004, published in the Official Gazette of the Republic of Serbia, No. 125/2004

employees and creditors. At last, it strengthens the notion of liability by upgrading the doctrine of piercing the corporate veil and by introducing concepts related to the liability of company directors, namely the duty of loyalty, prohibition of competition with the company, and avoidance of conflict of interests.

There are some important aspects of company law that are covered by other pieces of legislation: the Act on Privatization, the Act on Classification of Activities and of Register of Units of Classification, the Act on the Market for Securities and other Financial Instruments, the Bankruptcy Act, the Act on Protection of Competition, the Act on Foreign Investments. Regarding the field of corporate governance, the Serbian Securities Exchange Commission has published a document entitled *The Principles of Corporate Governance*, which is clearly not meant to represent the Serbian Code of Corporate Governance (rather it is an educational material). But, the Company Act in 2004 has incorporated some of the OECD Principles of Corporate Governance.[14] This could be induced from the increased protection of creditors' and minority shareholders' interests, which is noticeable in the new Company Act. The Company Act in 2004 for the first time includes duty of care and loyalty towards the company, conflict of interests and promotion of competition, and various forms of transparency and information to be provided.

Hungarian law belongs to the European continental legal system. In May 2004, Hungary has been a member of the European Union. Due to, the body of the *acquis communautaire* become a part of Hungarian law. As one of the youngest members of EU, Hungary is still in the learning phase of making legislation. The new Company act entered into force in July 2006, replacing Act CXLIV of 1997. This is the third company act in the past twenty years. It was promulgated to improve the competitiveness of Hungarian legal environment for doing business. One of the main tasks, among others, was to improve the flexibility and plausibility of the available Hungarian company forms, first of all, by enhancing the mechanisms for protection of creditors' rights, by introducing legal remedies that could be more easily used by shareholders and introducing new flexible systems for communication with authorities.

Definitely, Hungarian company law follows mostly the German model.[5, pg.353]_The company forms available under mentioned act are as follows: partnership, silent partnership, limited liability company, and joint-stock company. The fact whether shares of the latter and publicly listed, or privately held, shall be referred to in the name of the share company (public joint-stock company and closely held share company). The most frequent company forms provide the members with the protection of limited liability.[6] Members and shareholders in economic entities may not be held personally liable for the debts of their companies.[7]

Two countries have a status of candidates to join the EU – Former Yugoslavia Republic of Macedonia (FYROM) and Republic of Croatia.[8] The legal system of the ***FYROM*** is based on the civil law tradition. Obviously, the company area was the completely idiosyncratic law of the former Yugoslavia. Nowadays, the Company Law follows a combined French-German model. As the European integration of the FYROM is moving ahead the influence of the European Union law increases. The first company act of FYROM was passed in 1996. But, that act was an attempt to reform the inherited Yugoslav system. In 2004 FYROM enacted its second transitory Company act. This act is trying to involve full process of harmonization Macedonian legal system with the EU law. For example, the Company act incorporates following EU directives: the First, Second, Third, Sixth, Eleventh, and Twelfth. It means that in the Macedonian legal system are involved the elements concerning: the requirements for publishing information about joint-stock and limited liability companies as well as partnerships limited by shares, undertaken on behalf of companies, maintaining and changing the registered capital, est. There are defined well-known forms of companies: limited partnership, general partnership, limited liability company, joint-stock company, as well as partnerships limited by shares, economic interest groupings, and silent partnership.[1, pg.127]

On the other side, corporate governance is developing on different way. Various codes of best practices and principles have been developed during the last decade around the world to improve the standards belong to this area. There is currently no code of corporate governance or similar set of best practice recommendations in FYROM. The Macedonian Stock Exchange has been very active in establishing corporate governance rules, but finally version is still missing. The National Bank of FYROM was the first institution that made a step forward so far. It gave detailed descriptions and guidance on the corporate governance of banks and explains in some

[6] Owners of the company are termed 'members' in Hungarian company law in connection with all the company forms other than in case of share companies, where the term 'shareholder' is used

[7] The other cases of different levels of liability will be discussed in the part of piercing the corporate veil

[8] FYROM and Croatia were the parts of Yugoslavia. FYROM is the south neighbor of Serbia, Croatia is on its west side, and Hungary is on north of Serbia. All named countries belong to south-east Europe; Serbia, FYROM and Croatia are the part of Balkan Peninsula

details the functions of board committees, their role and expected results from their activities. The corporate governance system should also be a combination of good company legislation, existence of an independent and professional court system, as well as a developed capital market.

Croatia, as FYROM, is the candidate country for joining to the EU. Croatia is a civil country. Its law of business associations is primarily regulated by the Law on Business Associations. It defines six different forms of business organizations: general partnership, silent (secret) partnership, limited partnership, stock companies, private limited liability companies, and economic interest groupings. By this Act are regulated also the groups, mergers and acquisitions, as well as splitting of companies. The majority of the business associations come into existence upon registration with the court register.

4.1. Shareholders – their rights in relation with the management

Corporate governance as the main part of company law plays very important role in management organization of every business association. There are a few legal acts which define some elements of corporate governance, especially regarding the role of main actors – shareholders and directors. The OECD Principles recommends the basic elements. They involve a set of relationship between management, following the principles such as: accountability, responsibility, transparency, and fairness. In order to focus on our topic it would be highlighted the responsibility of the stakeholders, first of all, the shareholders, and directors.

From the beginning corporate governance is characterized by the concept of ‘the control’ of the corporation. Berle and Means refer to a subgroup of shareholders who have the actual power of selecting the board of directors using the following ways: complete ownership of common stock, majority control, legal devices, minority control, and management control.[3, pg.xii] Actually, shareholders, management and the board of directors are three critical factors. They are the key of effective governance. Relations among these participants should be taken into account in order to be realized the concept of the corporate governance. According previous mentioned principles, they should work together as the system will be provided. Often, the relation between shareholders and the board could be in problems. Transparency and accountability are essentially missing in this relation. ‘The exchange of information between these two players is poor, and shareholders, for various reasons, have failed to exert much influence over boards. In short, directors don't know what shareholders want, and shareholders don't know what directors are doing.'[18, pg.18]

The shareholders, as one of the main players in the corporate governance system, can provide own influence in managing the corporation. First of all, they do it through the board structure, for example to promote individuals as candidates for a board. The shareholders intend to ensure proper process leading to the selection of a candidate who meets the right sort of criteria rather than to undertake the selection themselves. Also, shareholders seek to satisfy themselves, due to make a balance of executive and non-executive directors. They are keen to see the appointment of senior independent directors who can be an additional point to turn to in trouble, especially when the concern is about the chairman. The other shareholders' role is in remuneration policy: first, a conflict of interest could arise when boards have the task of deciding the remuneration of directors who sit on these same boards, and shareholders as owners should help mitigate this conflict; second, remuneration is one f the incentives that will determine the approach taken by the management in driving the company ahead; and third, there is a general need to preserve the integrity of the system. Shareholders their own interest could have in a field of internal control, due to the obligations facing listed companies to confirm that boards have examined the effectiveness of their internal controls.

As understanding the governance has grown over the years, the shareholders have sought to codify own best practice. That act should include set out clearly the shareholders' policy on how they will discharge responsibilities, monitor for performance of investee companies and establish a dialogue with them where necessary, intervene where appropriate, evaluate the impact of their engagement, and report back to their clients or to beneficial owners.

Having regarding the shareholders' status, ***Hungarian Company Law*** defines that in its equity structure, the company should apply the 'one share - one vote' principle. The Managing Body should ensure that shareholders receive access to information in time to enable them to exercise their rights. It is suggested that an investor relations department is established to ensure ongoing communication with shareholders in order to comply with the provisions regarding transparency and disclosure, as well as the company's disclosure guidelines. If a shareholder has provided all the information and documents necessary for dividend payment, it is suggested that the company pays the dividend within 10 days. It is suggested that the company discloses its policy regarding anti-takeover devices to assure shareholders that these devices will not hinder a merger or acquisition of the company, if this serves the strategic interest of the company.[2, pg.61]

The Serbian Company Act, applying the same principles, amended the following shareholders' rights: each ordinary share gives to its holder the same rights as are held by each other holder under this Law, the Articles of Association and by-laws of the company and which rights particularly include:

1. The right to access to legal and other documents and information pertaining to and in possession of the company;
2. The right to participate in the shareholders' assembly;
3. The right to vote at the shareholders' assembly based on the principle that one share gives the right to one vote;
4. The right to receive dividends after any dividends payable pursuant to preferential rights of preferred shares have been paid in full;
5. The right to receive a distribution on liquidation of the company after the claims of creditors and holders of any preferred shares has been satisfied;
6. Preemptive rights to acquire newly-issued shares and other securities of the company; and
7. The right to receive distributions on shares in accordance with law.

Ordinary shares of a company may not be converted into preferred shares or other securities of the company.

4.2. Role of management and the board of directors

Balance of power in a company based on three critical actors: shareholders, management and the board of directors. Definitely each of these has important responsibilities of his own, as well as the key to effective governance. When they work together they provide a company success. But, when pieces of management system are missing or not functioning well, the system can become dangerously unbalanced.[10, pg. 88] In business practice a great deal of attention had been paid to the relationship between management and shareholders, and between management and the board, due to improving the flow of information between them and in mutual understanding.

The balanced activities of boards and directors could be complicated by the pressure on companies to demonstrate their commitment to corporate social responsibility (CSR).[9] The board has to take a balance between the requirements coming from CSR activists and the stakeholders.

In most countries the boards of private equity-owned companies are fundamentally different from the public boards. Depends on structure and the board's size its role can be viewed as a marginal, but also it could add value to company. Marginal role should be observed in contexts of largely active the executive team. In positive way, a board adds value on the following ways: it acts as a check on the executive team; it provides advice; and it improves the overall quality of the company's decision-making. Well-managed board, made up of independent people who work as a team, can make a valuable contribution to company's image and market position.

Under the ***Hungarian Company Law***, the executive officers or a board made up of executive officers shall conduct the management of the business association pursuant to the provisions governing the specific forms of business associations. For the purposes of this Act, ***'management'*** shall mean the passing of decisions other than those conferred by the memorandum of association under the competence of the supreme body or other company organ, and which are necessary in connection with the company's operations. The management of (public or private) limited companies shall be conducted by the Management Board, except where the powers of the Management Board are conferred under articles of association of private limited companies upon a single executive officer (general director). The articles of association of public limited companies may also contain provisions to tender management and supervisory functions upon the board of directors (public or private limited companies operated by the one-tier system). Such a (public or private) limited company shall have no supervisory board, and the members of the board of directors shall be treated as executive officers.

Unless an exemption is made in mentioned Act, the administrative duties of private limited companies is handled by the management body, consisting of minimum three and maximum eleven members, all natural persons. The management body shall elect its chairman from among its members.

[9] What is CSR? This term can be defined in several different ways. Some companies adopted so-called triple bottom line reporting, covering the economic, social and environmental aspects of activities. Others have gone to demonstrate their commitments to the highest standards of ethical behavior. By company's acts directors should promote the success of the company and to have regard for the interests of customers, suppliers, the community and the environment

The Management Board shall exercise its rights and perform its duties as an independent body. The rules of procedure approved by the Management Board shall provide for the division of tasks and competence among the members of the Management Board.

The board of directors shall consist of minimum five and maximum eleven members, all natural persons, unless the articles of association provides otherwise with a view to employee participation. The board of directors shall elect its chairman from among its members. The articles of association may prescribe that the chairman of the board of directors be elected directly by the general meeting.

The majority of the board of directors shall be made up of independent persons, unless the articles of association prescribe a higher percentage. A board member shall not be considered independent, in particular, if:

a) An employee of the public limited company, or if a former employee for five years following the termination of such employment;
b) Providing services to the public limited company or its executive officers for consideration as an expert or other similar services;
c) A shareholder of the public limited company controlling at least thirty per cent of the votes, whether directly or indirectly, or is a close relative or a domestic spouse of such person;
d) A close relative of any - non-independent - executive officer or executive employee of the public limited company;
e) Entitled to receive financial benefits based on his board membership if the public limited company operates profitably, or receives any other form of remuneration from the company apart from the salary for his board membership, or from a company that is affiliated to the public limited company;
f) Engaged in a partnership with a non-independent member of the public limited company in another business association on the strength of which the non-independent members attains control;
g) An independent auditor of the public limited company, or an employee or partner of such auditor, for three years following the termination of such relationship;
h) An executive officer or executive employee of a business association, whose independent board member also holds an executive office in the public limited company.

The requirement for the majority of the board of directors to be made up of independent persons shall not apply if the public limited company is a controlled company belonging to a recognized group.

What are about the solutions offered by ***Serbian Company Law***? Closed joint stock company must have a single director or a board of directors. On the other side, an open joint stock company must have a board of directors.

The number of members of the ***board of directors*** of an open company shall be stated in the company's Articles of Association. The board of an open company shall have not less than three members and not more than 15 members.

All of the members of a company's board of directors:

1. shall be elected by the shareholders at each annual shareholders' assembly; and
2. may be elected by the shareholders at any extraordinary shareholder assembly which has been convened for that purpose.

In a listed open joint stock company a majority of the members of the board of directors shall be non-executive directors and, of them, at least two members shall be independent directors.

Nominators referred previously shall nominate at least three candidates for non-executive board positions. For purposes of the Law, "independent director" of a company means, as of any point in time, a director of a company who or whose family members either separately or together with him or each other, during the two preceding years:

- Was or were not an employee or employees of the company;
- Did not make to or receive from the company payments of more than 10,000 Euro or equivalent;
- Did not own more than a 10% stock or other ownership interest, directly or indirectly, in an entity that made to or received from the company payments of more than such amount;
- Did not act as a director or manager of an entity that made to or received from the company payments of more than such amount;
- Did not own directly or indirectly (including for this purpose ownership by any family member or related person) stock of the company representing more than 10% of the company's capital; and
- Was not an auditor for the company?

"Non-executive director" means a person who is not a member of the management body of the company.

What about the management body of a company under the Article 322 of Serbian Company Act?

An open joint stock company shall have a management body. A closed joint stock company may have a management body. A company's board of directors shall elect the members of the management body. The members of a management body may be called managing directors. A person may be both a member of the board of directors and the management body, but in an open company no more than half of the board of directors may be management body members.[13, pg.159]

The competence of the management body shall include implementation of decisions of the board of directors and all matters associated with management and operation of the current activities of the company except matters within the exclusive competence of the board of directors or the shareholders' assembly. The board of directors shall report to the shareholders on the following matters:

- Not less than once each year, on the intended business policy and other general matters regarding the future conduct of the company's business, including any deviations from previously-set goals and the reasons for such deviations;
- At each annual shareholders' assembly, on the profitability, economic condition and solvency of the company;
- Not less than every six months, on the state of the business, in particular revenues, and the condition of the company; and
- Promptly, on business transactions that may have a material impact on the company's profitability and solvency, so that the shareholders may be aware of such matters.

4.3. Legal Relation between the Shareholders and the Managers (Duties of directors and liability of the shareholders)

Modern company law is based on the premise of the separation of assets and liability between shareholders and the company. This means that the company is only liable for its own debts and that its assets are the basis of that liability. However, all legal systems are familiar with some exception to the principle of the limited liability of companies. There is the case of *in concreto* liability, such as guarantees, which is of contractual nature and it does not pose too many legal dilemmas. In case of groups of companies, sometimes is possible to establish *in abstracto* liability among the members of the group on a contractual basis. Modern company law also recognizes the concept of mandatory *in abstracto* liability.[15, pg. 85-89] This situation understands several possibilities: the cases of transformation the companies, such as mergers, divisions, and consolidations; all partnerships and limited partnerships, where some of the partners are always personally and severally liable for the debts of their partnership; cases of corporate veil piercing, where shareholders attempt to abuse the principle of distinct liability of the company to the detriment of the company and/or its creditors.

The crucial point of understanding the concept of limited liability and corporate veil piercing is the notion of legal personality and separation of assets. The legal personality of various business entities is the cornerstone of company law. The concept started gaining importance only in the colonial period, when the first joint-stock companies emerged. This period developed the postulate of limited liability: distinct juridical personality of companies from the shareholders and separation of assets. But, what could be the problem? People who had money didn't want to run the business on their own, invested into a company, due to company is separate legal entity. On the other side, they got a share profit. The company is the one that runs the business; it is responsible for the success or failure of the business, not the investors. The investors have only one obligation – to pay their contribution to the company. The company has its own assets, which is totally separated from the investors' assets.

5. Legal institute 'piercing the veil' under SEE rules as a competitive advantage

Translation law, where the legal system of SEE countries belong, is often 'fluid' and it is simply impossible to state with desirable specificity what is exactly the law?[9, pg. 20] This is the logical consequence of two opposing circumstances: the undeniably considerable gaps existing in SEE countries legal systems and, on the other side, the pressure imposed on local courts. The legal institute called 'piercing the corporate veil' and potential liability of directors and shareholders should be in the focus of the process of solving more traditional dilemmas.

It became obvious that the concept of limited liability could be abused by the shareholders and the managers of the company. This is the reason why the theories accept the solution that there is the better way of escaping liability than hiding behind the juridical personality of a corporation. But, in that purpose, company would be liable even its shareholders fraudulently used the corporation in order to gain benefit for themselves or to deceit creditors. The practice gave us the dilemma what is the way of preserving all the benefits of legal personality, and at the same time, protecting creditors from fraudulent behavior.

The real answer on previous question offers the institute of piercing the corporate veil. Its roots it can be found in the Salomon v A.Salomon & Co. Ltd. Case (HL 1896) which introduced the piercing the corporate veil in England. Although the case upheld the notion of separate legal entity, it became the landmark decision of modern corporate law. Besides different old opinions, the new notions are based on the presumption of upholding the juridical personality, which is rebuttable in case of serious abuse. The concept of serious abuse was developed through the time and legislative developing, but today involves various institutes: whether the corporation was used as the alter ego of the shareholder, whether the corporation was inadequately capitalized, or whether the corporation was used to perpetrate a fraud or a wrong.[18, pg.698]

The contemporary company law in the Region of SEE doesn't have a long history. Actually, all company laws have been amended after the fall of the Berlin Wall.[10] Among the others implemented institutes, the forms of business organizations, the managing, bankruptcy, role of stakeholders, own significantly place has the issue of piercing the corporate veil. The basic question of most importance is whether the shareholders may be hold liable for the obligations of a corporation. This question could be dominant exactly in the region of SEE countries where privately held companies are numerous.[11] [6, pg.323] Actually, relationship between the limited liability and the piercing the veil produces the most confusing meaning in corporate law. When does the piercing the veil exactly exists? It could not be found the final end precise answer. But, almost all national legislation of SEE countries (and the others countries) amended the following cases: payment by the corporation of individual obligations; use of the corporation to promote fraud, injustice or illegalities; fraudulent representation by corporate directors, or failure to observe corporate formalities.

Note once more: the fact that shareholders are not personally liable for obligations of the companies may lead to a variety of abuses. During the privatization process in transition countries, due to the lack of marker

[10] But, for example, Serbia in a period of the end of XIX century had a very modern Joint-stock company act, 1896

[11] The study has been done a few years ago among the 1600 reported cases, with special point to the piercing the veil

economy culture and complete legal framework, companies might have been acquired through transactions that remotely resembled leveraged buyouts. Often it could be seen the situation that an important individual uses own political influence to force on the corporation's director to get the money out of the company in lawful and less lawful ways. But, piercing the veil is not specific of the countries in transition procedure. This legal institute is very well known in the countries with market economies. In Germany, the members of the board of management conclude generally a service contract with the company represented by the supervisory board. They may only be revoked for cause. In United Kingdom a member of the board of directors possesses a dual character – he is agent of, and trustee for the company, and as thus liable to the company for, inter alia, ultra vires acts, mala fides acts, and losses caused by culpable negligence. Also, director has no right to be paid for his trustee services, cannon pay to other director-agent, or make presents to each other out of the company's assets, unless authorized by company (its general meeting).

In ***Croatia*** the status of business organization is regulated by Company Act (basic text 1993, changes 1999, and 2003). By mentioned act the corporate veil and legal aspects of piercing the corporate veil is defined, also. The central notion of the piercing the veil doctrine is ***abuse***.[8, pg.35] Liability of otherwise not liable shareholders of a company to the creditors of that company may only occur if such a shareholder abuses the circumstance that it is not liable for the obligations of the company. The definition of abuse in a corporate veil is specified in comparing the same in the other area. The abuse is a specific sub-type of the general prohibition of abuse of rights as a general principle of civil and commercial law. According the article 10 of Company law, paragraph 4, it is currently 'presumed that the prerequisite of liability of a member of a business association is fulfilled, such as the piercing doctrine applies to members of business associations who are not personally liable for obligations of the business association due to the limited liability principle of law. They should be liable particular:

- If he uses the business associations to attain goal that would otherwise be prohibited to such a member, or
- If he uses the business association to cause damage to its creditors, or
- If, contrary to law, operates the assets of the business association as if they were his own, or,
- If he – for his benefit of some other person – diminishes the assets of the business association, even though he knew or ought to have

known that the business association would not be able to settle its obligations.

Who is exactly member of business association? This word doesn't limit the personal scope of its applicability merely to natural or legal person. It means that both, natural and legal persons are capable of being liable under the piercing doctrine. Under the Croatian Company law, definition of member includes any partner in a partnership or shareholder in joint-stock company or limited liability company. It could be concluded that this meaning of word 'member' is broader that the term 'shareholder'. Furthermore, the piercing doctrine is not limited only to shareholders having a 100% shareholding in the company. It means that members would be involved all they have in the given business association – 1% or 100% shareholding. Generally, the piercing doctrine is applicable solely to the shareholders of companies (joint-stock and closely-held limited liability companies) and limited partners in limited partnerships.

Then, all mentioned kinds of liability shareholders are direct shareholders, the persons that directly share in a company, as opposed to indirect shareholders who controls direct shareholders. Direct shareholders are personally liable for obligations of the company under the piercing the veil. The situation could be considered if there is a group of companies, for example the company-mother, company-daughter or company-sister. [4, pg.56] Consequently, the piercing doctrine cannot be directly applicable to such companies, but the provision of the Company Law should be modified to enable such piercing, if any abuse is proved.

On the end, what could be conclusion regarding the solutions needed by Croatian Company Law? Who are responsible for the company's obligation? Definitely, it is possible to argue that the shareholder's liability is of the same nature as the liability of the company itself. The reason for this view lies in the very nature of the piercing the corporate veil doctrine, due to it puts the shareholder into the same position as if there would be no corporate veil.[12]

The legal system of the ***FYROM*** is based on the civil law tradition. The Company Law follows a combined French-German model and it amended in 2004. At the moment FYROM is in position of country candidate for EU membership. It has the same status as Croatia. As this country accepts the modern principle of corporate governance, the

[12] On the other side, it is possible to argue that shareholder's liability is tortuous, because of arising only in case there is some culpability on the side of the shareholder involved in abuse

usefulness and the obvious advantages of the juridical entity, especially corporate, status and limited liability of juridical entities are unquestionable. The principle of the legal personality means that the company once incorporated, becomes a legal entity that is separate from its founders. This concept considers that the company is capable of holding rights and of being subject to obligations and liabilities which are not the same as those borne by its members. As it is previous mentioned, this statement means that the company as separate legal entity has its own assets and liabilities and it own creditors, while the shareholders or members are not liable for the obligations of the company.

The exceptions could be present in a case of prevention abuse in the practice. In that cases the courts have own role in sense that they may negate the principle of separate legal entity and limited liability of the company and pierce or lift the corporate veil. The liability would be affixed to the persons responsible for or benefiting from the operations of the company. Mentioned persons could be the shareholders or managers. Of course, as in Croatia or the other countries (we will see later), this situation is known as lifting the corporate veil. In FYROM, according the Company Law, it could be applied in following cases:

- Where a relation of agency is found to exist;
- Where the company is being used as a mechanism to avoid legal obligations;
- In the case of a group of companies, where the justice of the case requires that the companies within that group should be regarded as a single economic entity; and
- Where the corporate veil is lifted to ensure compliance with a court order.

Historical aspect of the piercing the corporate veil is the same as in other former Yugoslav republics. The changes after independence were necessary. The country had to develop modern legal system, including the area of company law, in order to attract foreign direct investments and promote the private business. These goals were followed by the Company Act 2004. According this Act, a company shall be liable for its debts with its entire property. Also, as the article 27(2) of the mentioned Act defines, partners in a general partnership and general partners in a limited partnership and a limited partnership by shares shall be jointly and severally liable for the company's debts with their entire property. On the other side, members in a limited liability company, shareholders in a joint-stock company, and limited partners in a limited partnership as well as limited partnership by shares, not be able for the debts of the company, unless otherwise determined by Law (article 27(3) Company Act, 2004).

Directly, the principle of piercing the veil in FYROM legislation was embedded in the provisions which regulate the special liability of members or shareholders in exactly defined situations. In these situations members and shareholders can be liable for the obligations of the company to which they belong. The examples of the piercing of the corporate veil should be precisely defined. FYROM's Company Act has done on the following way, it means that members or shareholders of the company shall be jointly and severally liable if they:

- Abuse the company's status as a legal person in order to carry out transactions and pursue objectives prohibited to them as individuals;
- Abused the company's status as a legal person in order to cause damage to its creditors;
- Used the company's assets as if they were their own, contrary to the law; or
- Decreased the company's assets for their own benefit or for the benefit of a third party when they were aware or should have been aware that the company was not capable of setting its liabilities to third parties.

Generally speaking, the Company act 2004 has a more detailed provision concerning the personal liability of the partners than the previous. The same could be said for the liability of the members of a limited liability company. These facts could be crucial to ensure investors to have a trust in FYROM legal system.

Hungary as a member of the EU developed legal system which is known as the European continental legal system. The newest Company act amended in 2006. It was promulgated to improve the 'competitiveness' of the Hungarian legal environment for doing business. It's the main characteristics are improving the flexibility and plausibility of the available company forms, first of all by enhancing the mechanisms for protection of creditors' rights, by introducing legal remedies that could be more easily used by shareholders and introducing new flexible system for communication with authorities.

Hungarian Company law follows mostly the German model. Well known company forms provide the members with the protection of limited liability. It means that members or shareholders of company as a legal entity may not be held personally liable for the debts of their companies. The Company act governs three situation of the piercing the corporate veil:

- First of them is applicable after the termination of the company, if the members liquidate their company in bad faith, leaving the creditors' claim unsatisfied;
- The second – may arise during the liquidation procedure, when the creditors may claim piercing of corporate veil during liquidation in bankruptcy. The necessary condition is that the controlling member or shareholder pursued a business policy that is detrimental to the controlled company;
- At last, the piercing the veil could be the administrative measure. The party acquiring shares in a company has a duty to report to the court of registration about the acquisition of control within thirty days. In case of delay in complying with mentioned obligation, the acquiring party is liable for the debts of the controlled company in case of liquidation of the controlled company.

The so-called third company act, Act IV of 2006 on the following way introduces the provisions regarding piercing the corporate veil:

- Members of unlimited companies are liable for creditors' claims without limitation;
- In case of winding up or liquidation of a company with limited liability, the members may be liable for claims of unsatisfied creditors of the company for a period of five years, up to the amount they received in the course of winding up the company;
- According the section 50 of Act IV of 2006, no protection of limited liability is due to a member/shareholder who abused it;
- Piercing of corporate veil provisions regarding abuse the limited liability apply to all individuals and legal entities irrespective of company forms.[13]

Definitely, the act from 2006, besides maintaining the piercing the veil provisions, introduces a series of new provisions regarding groups of companies, also serving the interests of creditors. The fact alone clearly indicates that major efforts are made in Hungary to ensure adequate protection of creditors.

[13] Section 52-64 Act IV of 2006 introduced the series of new provisions regarding control and consolidation, the principle, however remains the same: the limited member/shareholder looses the privilege of limited liability once he abuse it

What it could be said regarding the case of **Serbia and management loyalty?**

Modern company law is based on the premise of the separation of the assets and liability between the shareholders and the company. All defined forms of the business associations under Serbian Company Act have a main goal to provide a profit. But, it means that all participants have to be responsible for their activities. On the first place it should be the directors and shareholders duties. And the company has to be liable for its acts. In that case the institutes of duty of loyalty, as well as the piercing the corporate veil, are very important for the business realization, as well as for competitive market position.

By the Company Act, article 31, there are basic principles about the duties to a company. The persons owing duties to a company are:

1. General partners and limited partners in a general or limited partnership;
2. Persons who under this Law are controlling members of a limited liability company or controlling shareholders of a joint stock company;
3. Authorized representatives of a company;
4. Members of a board of directors, members of an management body, members of a supervisory board, members of an audit committee, and internal auditors of a limited liability company or a joint stock company;
5. Persons who are authorized by contract to exercise management authority in a company; and
6. Liquidators of a company.

All of mentioned persons are obligated to act in the interest of the company.

Directly, term ***‘duty of loyalty’*** could be defined as a duty to act fairly and loyally to the company. Wider, it means that all persons who have this obligation and who have a personal interest in a matter, have a duty particularly not to use property of the company for their own needs, not to use confidential information of the company for the purpose of gaining personal profit, not to abuse their position in the company for the purpose of personal enrichment to the damage of the company, and not to take business opportunities of the company for personal purposes (hereinafter called the “duty of loyalty”, as it is defined by article 33 of Serbian Company Act).

The duty involves the obligation for named persons to perform their functions in the named capacity good faith, with the care of a good businessman, and in the reasonable belief that they are acting in the company's best interests.[14]

Obviously, all modern national legislations pay attention on liability for company debts. In that context the company's status and its relationship with external partners is in direct connection with its liability for debts. On the other side, the shareholders and the members should liable for company debts, but only in cases defined by Law. Actually, modern company law, including Serbian Law, is characterized by the principle of the separation of assets between the shareholders and the company. This is imperative for the implementation of institute *duty of loyalty* and *piercing the corporate veil*. Basic principle is that the company is only liable for its own debts and its assets are the basis of that liability. Without this principle companies could not be competitive, particularly on the international market. But, there are the cases when it should be necessary to make some exceptions to the limited liability of company. For example, mentioned situation is possible when is of contractual nature and it does not pose too many legal dilemmas. Or, in a case of group of companies sometimes it could be set up liability among the members of the group on a contractual basis. Finally, the case of piercing the corporate veil is one of these cases, when the shareholders attempt to abuse the principle of distinct liability of the company to the detriment of the company and its creditors.[15]

The Serbian legislature made decision to rely on the corporate veil piercing solution from the successor countries of the former Yugoslavia.

[14] A person who has acted in accordance with defined duties in making a business judgment will not be liable for damages to the company which may arise from such judgment

[15] The Salomon & Salomon Co. Ltd. case was the case which introduced the piercing the corporate veil in England, at the end of the 19th century. Aron Salomon, the owner of a boot and leather business, sold it to a company he formed in return for fully paid-up shares in it, allotted to him and members of his family. Salomon also received an acknowledgement of the company's indebtedness to him, in the form of secured debentures. These were later mortgaged to an outsider. Soon after formation, the company went into liquidation at the behest of unpaid trade creditors. The debentures, being secured by a charge on the company's assets ranked in priority to the trade creditors and so the mortgage to the outsider was paid off. About £1000 remained and Aron Salomon, now as unencumbered owner of the debentures, claimed this in priority to the trade creditors. He succeeded and also defeated their claim that he should be made to indemnify the company in respect of its debts. The House of Lords affirmed the principle that the company was a separate legal person from the controlling shareholder, and that it was not to be regarded as his agent

Slovenia was the first one which decided that.[16] As for the institute of veil piercing, the Serbian drafters have chosen a peculiar solution – enumeration of the situations that may lead to veil piercing.[17] The new Company Act 2004 in its article 15, under title *'Abuse of the Legal Entity'* stipulates that:

1. A limited partner of a limited partnership, a member of a limited liability company, and a shareholder of a joint stock company may be held personally liable for obligations of the company if he wrongfully abuses the company form for illegal or fraudulent purposes or treats the assets of the company as though they were his personal assets and as though the company did not exist.
2. In cases referred to in paragraph (1) of this Article, such person shall be jointly and severally liable with the company.
3. Liability referred to in paragraphs (1) and (2) of this Article shall be determined by a competent court taking into consideration of all the circumstances related to the wrongful abuse and particularly considering that the general principle of limited liability shall not apply in cases referred to in paragraph (1) of this Article.'

The new law has opted for a general definition of veil piercing in lieu of a detailed perspective-type of drafting. It remains to be seen whether this approach will bear more fruits than earlier one. The new general definition may extend even to some novel situations that may well emerge in practice. Obviously, the new Act's piercing rules do not extend to managers anymore (but, it couldn't be forgotten that the Act regulates institute 'duty of loyalty' in order to make obligation for managers). Also, this Act specifically stresses that the postulate of juridical personality is not

[16] The lack of experience with the institutions of market economy in all SEE countries after the World War II followed by no one model of the piercing the corporate veil doctrine. In Serbia there were so-called socially-owned enterprises – definitely the Yugoslav experiment. Even Serbia had modern legislation in XIX century: 1844 enacted Civil Code, 1860 Commercial Code, 1896 Code on joint-stock company; the period after the World War II was completely different. But, Serbia was the first country which started with economical reforms – 1989 and 1996 two version of Company Law, Law on foreign direct investments, Law on privatization, Law on free zones, est.

[17] The 1996 Company Act, article 54: 'Founders, shareholders, members of the management board and members of director's executive board are liable with all of their property for the debts of the company: 1) if the company was abused in order to achieve a goal which was prohibited for them as individuals; 2) if they abused the company to the detriment of their creditors; 3) if they, contrary to the law, used company property as their own; 4) if they knew or should have known that as the results of their acts, on one hand, the value of the property of the company will be diminished to their or somebody else's benefit and, on the other hand, that the company will not be able to fulfill its obligations towards third parties.'

applicable in case of piercing the veil. This exclamation was needed not just to end the confusion on the exact nature and meaning of veil piercing in courts, but also to support those trends in jurisprudence, which has vouched for a stronger reliance on the doctrine.

Regarding the general provision of liability for company's debts, the Act provides specific liability rules for every form of companies. For example, a general partnership is liable for all of its obligations with all of its assets. The same situation is in a case of limited partnership, a limited partnership is liable for all of its obligations with all of its assets (article 90(2)). Exactly and completely the same is about the liability of limited liability company and joint-stock company for their debts (article 104(2) and article 184 (2)).

What about the founders' liability? The Act specifies that in general partnership all partners of a general partnership are jointly and severally liable for all obligations of the partnership with all of their assets, unless otherwise agreed with the creditor. As a limited partnership is a partnership organized by two or more legal entities and/or natural persons who undertake to conduct business under a common registered name, in that form on business organization at least one partner's liability is unlimited (a "general partner") and at least one partner's liability is limited to the loss of his agreed contribution (a "limited partner").

On the contrary, a member of a limited liability company and a shareholder of a joint stock company are not liable for obligations of the company solely by reason of being a member, except that a member shall be liable up to the amount of any agreed but unpaid contribution of the member to the company. [16, 34]

But, the responsibility of mentioned persons exists under the article 15 of the same Act, in a case of abuse of their position and it is directly applying the piercing the corporate veil doctrine.

The latest reforms of company law have not just reaffirmed the concept of limited liability of companies and the companies' sole responsibility for their debts as the basic principle of Serbian company law, but they have also reconstructed the concept of piercing the corporate veil.

6. Serbia in the middle of European Union joining process

The transformation of economy, republic institutions and legislation in line with European standards and communitary regulations remains a pivotal precondition for the accession of Serbia to the EU in the foreseeable future. It should first of all enable the government to prepare its own economy, after the European model, for the advancement to the Internal EU Market. To this effect, the European formula of an internal market and EU experience in forming its internal market are still imposed to Serbia as a strategic pattern.

According to the original plans, the internal market, as a hard core of the single market concept in the EC, should have been established until the end of 1969, but this aim was only partially fulfilled in the domain of free trade of merchandise. In historic terms, substantial and decisive steps toward establishing a single (internal) EU market were not taken until the appearance of the **White Paper -** Cockfield Report of 1985, which contained 282 detailed statutory proposals as recommendations on how the single market could be brought into being. In this respect, three types of remaining national barriers were identified:

- Physical barriers, in the form of slowly harmonizing customs formalities and police controls;
- Fiscal barriers, primarily in the form of disparate excise duty taxes, tax bases and value-added tax rates;
- Technical barriers, mainly in the form of quite different national standards and procedures related to production processes, products and services.

The technical barriers proved to be the most persistent obstacle in forming a single market. In spite of the duty-free foreign trade exempt from quotas, excessive non-tariff barriers of technical and procedural character preserved the segmentation of national markets within the EC. This seriously endangered the performances of European manufacturing industry and service sectors, both within the internal market and with regard to external competitiveness in the markets of the USA, Japan and newly industrialized countries. The elimination of non-tariff barriers within the EC represented an ambitious undertaking. In this, it is interesting to note that, during the process of market harmonization, due to a decentralized mechanism of decision-making and somewhat unavoidable antagonism of different national interests, the EU sometimes faced the same problems (and wasted a lot of time), like Serbia, until the recent Maastricht turnaround. Therefore, the need for a more effective application of the single market program forced the enactment of the **Single European Act 1986**, which accelerated and simplified the decision-making process in the EC, having increased the significance and number of decisions related to the single market completion that were being adopted by the qualified majority voting in the Council of Ministers.

In the meantime, the creation of a more comprehensive common EU market started through the **1992 Treaty of Maastricht**, including the political and economic and monetary union. There are several fundamental and indisputable theoretical arguments in favor of production factor mobility from the single market concept. An internal market and a full mobility of factors of production have to exist within the optimal currency area; a macroeconomic adjustment among currency areas is provided by the fluctuations in exchange rates, while the balance within the currency area is secured by the unobstructed factor mobility. Here, however, certain theoretical warnings arise. If there is free labor and capital mobility within the framework of regional integration, the factor mobility may encourage escaping toward the areas of lower fiscal burden, which would subvert the tax base and the production factor mobility in a country with forced tax rate growth. For this reason, the EU supported its internal reforms and processes of its own expansion by abundant financial funds. However, the amount of available (that is, planned) financial support to the "May" expansion eastwards and to the "Iberian" enlargement, as we might say, indicates the trend of a significant decrease of such support.

The policy of promoting competition limits the price fixing and the agreed market partitioning, lowers the abuse of natural or state monopolies, and restricts the suppression of competition by merging and acquisitions. The exceptions to these general rules are tolerated by the European Commission only in specific, especially unfavorable economic conditions in a particular sector or in a particular national economy.

In forming a strategy of conforming to the EU requirements, one should start from the "Copenhagen criteria". Namely, based on the conclusions and motions adopted at the session of the European Council held in Copenhagen in 1993, principal preconditions for adjustment to, that is, the criteria for joining the EU were defined. These reflected in a package of political and economic requirements:

- A candidate country has to achieve stability of democratic institutions, the rule of law and the protection of human rights, with special reference to religious and national minorities.
- A candidate country has to provide undisturbed functioning of market economy as well as the economic capacity to cope with competitive pressure from the EU itself.
- A candidate country has to express the ability to responsively take on the obligations imposed by the EU membership, including its adherence to the aims of political, economic and monetary union.

The negotiations about joining the EU determine, in fact, more or less established procedures, standards and other preconditions that a candidate country has to fulfill in order to join it. First of all, candidates have to enact EU legal attainments (*acquis communautaire*), i.e., the total body of EU law mainly defined by the famous treaties of Rome, Maastricht and Amsterdam. A country that plans to join the EU is faced with the 31 chapters within the standard EU accession program, on the basis of which negotiations on stabilization and association are conducted.

However, it should be pointed out that every new wave of EU enlargement brings about ever greater requirements that each particular country has to meet in the process of stabilization and association, although some of these requirements are not completely fulfilled by the EU members themselves.

With the aim to facilitate the process of adjustment, in particular to the countries of the Western Balkans, by launching the initiative of **European Partnerships**, the **Thessaloniki Agenda of 2003** charted concrete guidelines and defined the dynamics of intensifying the process of stabilization and association of new countries interested to join the EU. The prospects of Serbia on the way towards European integrations shall be within these limits as well. Here, we tried to give a summary of immediate demands and standards that Serbia would have to meet in a short term (of one or two years).

7. Conclusion

Main principle in every company should be headed by an effective board, which is collectively responsible for the success of the company. It is true that the case law on directors' duties has been developed slowly over about 150 years. Often, this way drew on even older concepts from the law of trusts. It is traditional to see the duties as falling into two quite distinct categories: common law duties of cares and skill and fiduciary duties. This is the result of the idea that the director has two types of function which are treated separately by the law. From one side the director can be seen as a trustee, whose role it is to protect and preserve the assets for the beneficiary. From the other side, the director is seen as a dynamic entrepreneur whose job it is to take risks with the subscribed capital and multiply the shareholders' investment.

During the eighteens to the current concept has added a tinge of irrelevance to the old-established ideas concerning directors' duties. Very often the directors in a company will find themselves at the receiving end of an unfair prejudice petition brought by a member. Under the case law on unfair prejudice, there are a range of acts which would probably not cause them to break their duties under the established rule of directors; duties but which will be likely to cause them to lose an unfair prejudice petition. For this reason, director who wishes to stay out of trouble will probably be wise to view the unfair prejudice law as a very broad type of directors' duties.

Definitely, the directors owe their duties to the company of which they are the directors. The shareholders themselves have no cause of action against directors for breach of their duties. Only the company has a cause of action.

Generally speaking, the rules in all SSE countries are harmonized with EU law. Surly, main aim of this activity is better position of companies in the international market. Solutions offered by previous mentioned countries are different in few articles. It makes a fact that all of them accept solutions known in modern legislative. It could be seen insignificant differences in a way of presentation the articles, as well as in structure of acts. But, these differences cannot exert influence on the level of harmonization with EU laws. Legal status of the shareholders, on one hand, and managers and their liability or duty of loyalty, on the other side, show in all mentioned countries similarity, and in numerous cases identity of the articles. This particularly understands the rights of shareholders, as well as the directors, due to situation where all countries define and implement OECD Principles on Corporate Governance.

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PRAVNI ODNOS IZMEĐU AKCIONARA I DIREKTORA U ZEMALJAMA JUGOISTOČNE EVROPE KAO ELEMENT KONKURENTSKE PREDNOSTI

Rezime: Kompanijsko pravo u Regionu nema dugu istoriju, jer su sva akta usvajana posle pada Berlinksog zida. Činjenica da skoro sve zemlje centralno-istočne Evrope imaju sličnu vrstu kodova korporativnog upravljanja nije promenila ovu realnost. U Srbiji je kodifikacija privrednog prava otpočela pod vrlo teškim ekonomskim okolnostima. Pravni system je pokazao kontrandiktorne trendove razvoja uprkos neospornim pozitivnim tendencijama. Imperativ za sve zemlje pomenutog regiona definitivno je bio da u svoje akte implementiraju dobro poznate proncipe kompanijskog prava. Naravno da je Evropska unija u ovoj oblasti imala zapažen i koristan uticaj. Korporativno upravljanje kao značajan deo kompanisjkog prava ima vrlo važnu ulogu u organizaciji upravljanja svake poslovne asocijacije. Postoji nekoliko pravnih propisa koji određuju elemente korporativnog upravljanja, posebo odnose glavnih učesnika – akcionara i direktora. Balans moći u jednoj kompaniji zasnovan je tri kritična aktera: akcionara, menadžmenta i borda direktora. Pregovaranje o pristupanju EU determiniše, manje ili više, procedure osnivanja, standard i druge preduslove, koje zemlja kandidat mora da ispuni u cilju priključenja, uključujući i osnovne elemente kompanijskog prava.

Ključne reči: kompanija, akcionar, direktor, odgovornost, konkurencija

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COGNITIVE AND AFFECTIVE REACTIONS TO NUDITY IN ADVERTISING IN SERBIA[*]

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Abstract: *The paper aims at providing a deeper insight into the issue of impact of nudity on attitudes to advertisements. Affective and cognitive reactions to display of nude advertising models were examined using the methodology of Dianoux, Linhart, and Kettnerova (2007). The study previously conducted in France, Spain, and the Check Republic was replicated in Serbia for comparability of results. Students were exposed to a folder containing a 12 page mock-up of a magazine, that included an advertisement for a mobile phone where one could see a woman showing either her face, or being topless. The evidence from Serbia reveals moderately negative attitudes toward an ad displaying a nude model with no impact on product recall, and brand recall. Affective reactions of men and women differ significantly therefore influencing their different attitudes toward ads (Aad) depending on whether a picture of nude or a not nude model is displayed.*

Keywords: *Nudity, attitudes, advertising, print media, Serbia.*

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1. Theoretical Background

Depending on the accepted social values of the times, sex has always been more or less present in various forms of social communications including advertising. For being a rather controversial issue, sex has been considered an interesting topic both for advertising practitioners and researchers. Use of sexual appeals in advertising is therefore not a new topic either in professional or in academic marketing literature. The first studies addressing this issue are almost a century old. In such a long period, a number of studies on the use of sexual appeals in advertising were conducted. These all focused on three major issues: 1) emergence of sex in advertising [eg. 28]; 2) consumer's attitudes toward sex appeals in advertising [eg. 9; 15]; 3) effects of communication of sexual appeals in advertising [eg. 12; 26]. However, the research interest dedicated to each of the three major issues is very diverse.

This field of research is characterized by highly contradictory conclusions on the effectiveness of use of sexual appeals in advertising. All through seventies and eighties the researchers mostly agreed with what Steadman concluded in his 1969 study that nonsexual illustrations were more effective than sexual in achieving brand recall [30]. This was further supported by a study by Alexander and Judd [1] who however failed to prove that the brand recall is decreasing as the amount of sexual stimuli (i.e. nudity) in advertising increases.

Many authors also supported the findings of Perterson and Kerin [23, p.61] that "the advertisements containing nude model was perceived as least appealing while the product and the producing company were perceived as possessing least quality and being the least reputable." Questioning this in a way, the eighties brought product nature as yet another important factor to be taken into consideration when deciding to use sexual appeals in advertising. Namely, the authors of two studies [referenced by 26] found that higher recall levels were generated for those products that were naturally congruent with the type of sex stimuli used in an ad. In the nineties generally negative attitudes of the researchers toward the use of sexual stimuli in advertising started to change. After a thorough review of all previous studies, Grazer and Keesling [12, p.48] suggested that earlier conclusions on the cognitive effects of the use of sex appeals in advertising (recall and recognition) should be tested while "matching physically attractive models and the extent of sexual stimuli with the type of product being advertised." Additionally, they studied effects of the use of sexual appeals in advertising on cognative response such as purchase intention. Finally, at the end of the last century, the attitude toward the advertised brand was also taken into consideration when measuring effectiveness of the use of nudity in advertising, revealing "that a brand using the nude model was seen as the most distinctive" and leading to "a higher interest in purchasing of the brand" [9, p. 92].

The main conclusions which however remain valid through time are: a) sex in advertising triggers attention [eg. 9; 15] b) sex is becoming more explicit, the models are becoming more clad, and more nude female models is being used in advertising [eg. 23; 28; 11; 13]; c) men react more positively on sexual appeals in advertising than women [27; 18], d) sexual appeals related to models of opposite sex are more positively evaluated by both male and female, men react more positively to nudity when watching a female model, while women's reaction is more positive toward sexual appeals related to male models [26, 27].

Contrary to the above, there is still a lack of theoretical consent concerning the effects of the use of explicit sexual appeals in advertising to ad, product ,and brand recall and recognition. Additionally, it is still not certain whether its effect to purchasing intention is positive or negative although the most recent studies indicate a positive effect on both recall and purchasing intention [eg. 9; 6; 12].

The researchers today are also more interested in the use of sexual appeals in different cultural contexts. De Mooij [4], for example, questions if the Anglo-American values that are mostly built in advertising produced in London and New York could easily be transferred to other cultural contexts. The vast majority of the studies covering the use of sexual appeals in advertising were conducted in the U.S. It seems questionable whether the research findings related to the effectiveness of use of sex and nudity in advertising may be considered *universal* i.e. not depend on cultural context. In the last two decades, more research studies were addressing the issue of using sexual appeals in advertising in other cultural context including Eastern Asian countries – Singapore, China, and India [11] and the most developed European countries – France [18], UK, Germany, and Italy [16]. Additionally, studies addressing the use of sexual appeals in advertising in transition countries (the Czech Republic and Poland) in comparison with more developed European countries (the UK and Belgium, respectively) were also published [14; 5].

2. Nudity in Advertising: the Case of Serbia

Based on all the above, our research interest was derived from the fact that, though recall and recognition have been often addressed by a number of authors, there is still a lack of knowledge whether the effect of use of such stimuli is actually positive especially in various cultural context presently in Serbia, a South Eastern European country in transition.

Questioning whether sex is still capable of triggering attention to the same extent seems to be a challenging topic in the times when display of sex in advertisement has become omnipresent even in the mainstream media. Our study focuses primarily on measuring product and brand recall (i.e. cognitive response to sex appeals) as well as consumers's attitudes toward nudity in advertising (which may have both affective and cognitive components). Literature on marketing theory in Serbia well recognizes the ABC model of attitudes [19, p.218; 20, p.330] and advocates that brand itself is a cognitive construction [29, p.127].

On the other hand, research studies addressing the use of nudity in advertising in Serbia are scarce. On the other hand, if judged by the attitudes of local advertising professionals the use of sex appeals in advertising seems to be a rather triggering topic. The perception of the local marketing professionals is that women are very much abused in Serbian advertising messages [31]. While these attitudes are mostly built on particular cases (typically ads shown on local TV networks or displayed on billboards) a content analysis of Serbian print media [21, p.192] has revealed no empirical proof to support the professional discourse of "women treated as merely sexual objects" by the local advertisers in Serbia. Furthermore, Ognjanov [22] claims that the study findings support the gender equality principle promoted by the Serbian Advertising Low passed in 2005. Such a conclusion was based on the three measures of potential discrimination applied in the study - frequency of appearance of male and female modes, their position and role played in ads, as well as the use of sexual appeals.

The above mentioned study and articles revealing professional discourse on the use of female nudity in ads in Serbian media belong to the first group of those focusing on the emergence of sex in advertising. Any other reports on the attitudes of local consumers toward nudity in advertising as well as the effects of such appeals on their behavior were not at the authors' disposal when initiating our research study. Consequently, we aimed at providing an insight into the effectiveness of the use of nudity in advertising among local consumers as well as to promote the necessity for further research of this issue.

3. Research Study

3.1. Hypotheses

For the purposes of this study, the use of sex appeals in advertising was limited to displaying a nude model in advertisement. Therefore, only visual aspects of the message were taken into consideration, while the advertising copy (verbal message) was not analyzed.

Use of nudity in advertising and its effects on brand recall and recognition

As explained above, previous research of the use of sexual appeals in advertising was claiming its negative effect on ad/product/brand recall and recognition. Later research revealed that the use of sexual appeals while constantly been proved to be provoking immediate arousal may also have both negative and positive effects on recall and recognition depending on various dimensions [27]. Among those dimensions are, for example, product category, attitudes toward sex in general, acquired ethical values, gender, age, social class, etc.

Grazer and Keesling [12] studied the use of sexual stimuli in advertising for two product categories, revealing different levels of recall and recognition. The explanation for that may be found in general marketing communications theory, claiming that the product category involvement should also be taken into consideration. For example, as explained by De Pelsmacker [6] *"the more one is interested in a certain product, the more attention is paid to the ad and the better it is recalled."*

In line with the above we hypothesized that the use of nudity in advertising may not have any different effect on product and brand recall than not use of nudity:

H1: *The use of nudity in advertising doesn't lead to significantly higher product/brand recall and recognition than the use of not nude models.*

However, any attempt to generalize this must take yet another factor into consideration. Serbia, the country in which our study was placed is a former communist country now in tradition sharing advertising industry background similar to that of other Eastern European countries. Therefore, our findings might be in line with those of other studies conducted in countries in transition, such as for example a study conducted by De Pelsmacker and Geuens [5] which revealed the overall high brand recognition based on different advertising appeals in Poland. Based on that, it is suggested that the consumers in former communist countries seem to be paying more attention to advertising than consumers in the countries which had a longer advertising tradition such are those in Western Europe. The explanation today may also be found in less intensive advertising clutter typical for less developed economies.

Gender reactions to the use of sexual appeals in advertising

Reaction to sexual appeals in advertising may have both an affective and cognitive component. Affective responses are connected to what the observers feel and cognitive to what they think of the advertisements. Affective reactions are measured by scales depicting different levels of specific positive (eg. tenderness and amusement) of negative feeling (eg. irritation and anger). On the other hand, cognitive responses are also measured by scales depicting different levels of agreement with specific statements such are for example *I like this ad very much* or *I find this ad to be offensive*. A broad part of advertising research was focused on the issue of how the affective reaction to advertising stimuli [7] or advertising context [2] may influence observers' attitudes toward the ad and the brand.

Sex as controversial issue still induces both negative affective and cognitive reactions when applied to advertising context. The intensity of these reactions differs among the observers. Some explanations to that may be looked for in the concept of sexual self schema as defined by Davis, Zhu and Brantley [3] or connected to the variables such are gender, age and social status and occupation as used by Manceau and Tissier-Desbordes [18]. As reported by authors, the negative sexual self-schema seems to have a stronger influence of processing sexual stimuli in advertising than the positive one. Consequently, the recipients opposing to the use of sexual stimuli may pay more attention to it and better recall the advertising message and the advertised brand regardless their strongly negative feelings toward it. On the other hand, Manceau and Tissier-Desbordes [18, p.21] reported that "*women are more hostile than men to nudity and sex in advertising*". A cross cultural study covering three countries (the UK, Germany and Italy) revealed that in all of these countries men had generally more positive feelings about the use of nudity in advertising [16]. Finally, a study focusing on analyzing the extent to which Generation Y college students evaluate the use of sex appeals in advertising ethical revealed significant differences between male and female students, with female students being strongly opposing to it regardless their personal ethical value system [17]. Based on such a theoretical background, we expected significantly different reaction between male and female in Serbia toward the nudity in advertising, thus hypothesizing the following:

H2: Affective reactions and attitudes toward ad (Aad) of males and females differ depending on the use or not use of nudity. Male observers' affective reactions and attitude toward the ad which use nudity is more positive than female and it is identical when the ad does not use nudity.

The same concern was expressed by Manceau and Tissier-Desbordes [18] in interpreting the findings that women find sex a taboo in advertising to higher extent than men. Earlier studies of this issue (Baker and Churchil, 1977) [referenced by 26] reported that female and male were more positive to the portrayal of opposite sex in advertising. Similarly to this, latest studies report that the display of male models as sexual symbols may provoke homophobic feelings among male recipients [10].

3.2. Research Design

The research presented here is replicated using the same methodology previously applied by Dianoux, Linhart, and Kettnerova [8].

A number of studies in this field can be grouped according to the methodology they have applied into three broad categories: 1) applying a content analysis, 2) using an experimental research format and 3) based on consumers' attitudes survey. Our study belongs to the second category as it was based on an experimental magazine developed for the purposes of this study and distributed among college students with the additional use of a specially developed instrument used for surveying observers after they have been exposed to the experimental magazine. The methodology applied in this research was designed to control several factors, which were not fully controlled in previous research. The most important variables were the product category, brand, and advertising copy. Two photos of the same lady were applied in an identical advertising setting for a mobile phone - Nokia 6630. The display of nude model (topless women) was compared with the use of the same model while displaying only her face (head to shoulders). That allowed us to isolate nudity as the only factor which might influence product and brand recall, affective reactions and attitudes toward the ad.

The experimental magazines used in this research were distributed among the students of the Faculty of Economics, University of Belgrade in Serbia. Though the results of the study could hardly be generated on the whole population in Serbia, the overall conclusions seem relevant for one cohort – Generation Y - to which our respondents belong. Furthermore, as reported in marketing literature experimental studies based on similar methodology are mostly organized with students [eg. 16; 10; 25] which makes our results comparable to the main body of knowledge on this issue.

In total, 152 students of marketing participated in our experiment. The experimental plan is presented in the table below.

Experiment plan

	n
Nokia ad with naked woman (ad-Naked)	77
Nokia ad with face of woman (ad-Face)	75
	152

3.3. Research Finidings

To test our H1 (The use of nudity in advertising doesn't lead to significantly higher product/brand recall and recognition than the use of not nude models) we measured our respondents' recognition (assisted) and recall (spontaneous) of the products and the brand advertised in our experimental magazines.

As regards memory traces (cognitive aspects, ie assisted and spontaneous recall) left by the Nokia ad, the results do not allow to assert that the experimental ad with the naked woman (Ad-Naked) results in more precise memory than the advertisement not using it with the only face of the woman (Ad-Face). Indeed, if we take into account the answers about assisted memory of advertised product (Table 1), spontaneous recall (Table 2), or the assisted recall of the name of the advertised brand (Table 3), no significant difference between both groups can be disclosed.

Table 1: Assisted recall of product advertised

Mann-Whitney Test	Group with Naked woman in Ad (Ad-Naked)		Group with Face woman in ad (Ad-Face)		p.	Means Ad-N/ Ad-F
	N	Mean Rank	N	Mean Rank		
Calculator (not in folder)	76	76	70	70	0.298	3.2/2.9
Perfume (not in folder)	72	74	71	69	0.504	1.9/1.8
Mobile phone	77	77	75	76	0.655	4.9/5.0
Air company	72	73	70	70	0.700	3.3/3.2
Trainings	76	80	72	69	0.088	4.1/3.7
Cars	75	77	74	72	0.436	3.8/3.7
Wearing	75	74	74	76	0.781	3.7/3.8
Drink	74	75	74	74	0.900	3.9/4.0
Film	75	80	73	69	0.107	4.1/3.8

Question (Q5): "Among the following products, some of them (mobile phone) were used as the object of an advertising, which ones?" with 5-points semantic scale with "I am sure seeing it (5)" vs. "I am sure not seeing it (1)".

Table 2: Spontaneous recall of the name of the brand

		n	No name quoted	Brand advertised quated	Fisher Test
Mobile phone (Nokia)	Naked	75	3%	97%	p.=0.166
	Face	75	9%	91%	
Calculator (not in folder)	Naked	77	75%	25% (wrong)	p.=0.017
	Face	75	91%	9% (wrong)	
Perfume (not in folder)	Naked	77	99%	1% (wrong)	p.=1.0
	Face	75	100%	0% (wrong)	
Air company (JatAirways)	Naked	73	81%	19%	p.=1.0
	Face	74	81%	19%	
Trainings	Naked	65	88%	12%	p.=0.353
	Face	73	81%	19%	
Cars (VW Polo)	Naked	76	50%	50%	p.=0.626
	Face	72	54%	46%	
Wearing (MaxMara)	Naked	75	48%	52%	p.=0.623
	Face	74	43%	57%	
Drink (Coca-Cola)	Naked	77	31%	69%	p.=0.863
	Face	75	33%	67%	
Film (Horton)	Naked	75	55%	45%	p.=0.041
	Face	70	71%	29%	

Question (Q6): “For the ads which you remember to have seen, write what brand they tried to promote“.

There is no difference between the two groups for assisted memory of product advertised. But, we can see two significant differences between Ad-Naked and Ad-Face concerning spontaneous recall of the brand. Paradoxically, these differences are not about the experimental ad, they relate to calculator and Film. The first was not an advertised product, yet people who were exposed to the Ad-Naked remembered much more than those exposed to the Ad-Face to had seen a calculator brand (p=0.017). The second (ad for film) was placed on the last page, and we could see the same effect (p=0.041). Though we miss to provide explanations for such findings, we must note that at least for the Film these could have resulted from an experimental mistake since the ad for Film was placed on the last page of the magazine. It might seem as though those who looked at the Ad-Naked kept their experimental magazine closed and turned on the last page displaying an ad more pleasant to look at.

Similarly, concerning the Calculator it might be hypothesized that people did not want to stay on this page because of the naked woman, and they could have been confused because of the similarity between the picture of a mobile phone and a picture of a calculator.

Table 3: Assisted recall of the brand

	Group with Naked woman in Ad		Group with Face woman in ad		p.	mean
	N	Mean Rank	N	Mean Rank		
Siemens	75	69	71	78	p=0.10	1.19/1.39
Nokia	77	76	75	77	p=0.63	4.79/4.87
Sony	76	68	71	80	p=0.056	1.2/1.45
Motorola	76	67	71	81	p=0.022	1.22/1.52
Samsung	76	67	71	81	p=0.022	1.18/1.46

Question (Q8): " Among the following mobile phone brands, you can say which you remember to have seen in the ad " with 5-point semantic scale with " I am sure seeing it " vs. " I am sure not seeing it ".

In addition, we tested the attention paid to our experimental ads to measure their cognitive and affective responses to the use of nudity. As regards the attention carried in the advertisement (Q10), we find no significant difference between both groups for the four questions about attention (5-point Osgood scale), except for item "I did not look at this advertising". Paradoxically, the individuals exposed to Ad-Naked declare to have less looked at this ad than those exposed to the Ad-Face (p. = 0.024).

It would seem that there is a refusal to look at this ad, and we could compare this refusal to the famous reply of Tartuffe "Cover this breast which I would not know to see. / By this kind of things, souls are hurt, / And it leads to guilty thoughts. " and the answer of Dorine « you are very sensitive to the temptation, / and the flesh on your senses makes big impression" (Molière, Tartuffe, Act III, 2, 1664).

It would seem that we also meet the same trend with the answers to questions on affective reactions (Q11). Affective reactions differ depending on whether the individual is exposed to Ad-Naked or to Ad-Face, notably as regards following items (p. <0.05): worried, unpleasant surprised, disgust, and fear (Naked> Face), or confident (Face> Naked).

Concerning the attitude toward the ad, this one differs significantly between both groups about only the cognitive dimension for two items centered on elements of execution:

- "For you, this advertising concerns more emotions than reason " (Q12b): p.=0.002 with Naked> Face
- "In your opinion, the manner this advertising message is displayed is unusual " (Q12d): p.=0.003 with Face> Naked

and an item centered on the ad content (while this one was strictly identical between both ads):

- “the quantity of information contained in this ad satisfies you“ (Q12c): p.=0.000 with Face> Naked

This result has a logical explanation –since the observers who saw Ad-Face were obviously ready to read the whole copy, while those who saw Ad-Naked didn’t look for Nokia model characteristics placed on the ad.

If we notice no difference between both groups (Ad-Naked and Ad-Face) concerning the affective component of ad, we cannot say that when we compare the answers of the men and the answers of the women about the Ad-Naked (Table 4) which is in accordance with results noticed in other researches [24]. The table below displays results which address our H2 (*Affective reactions and attitudes toward ad (Aad) of males and females differ depending on the use or not use of nudity*).

Table 4: Ad for men and women concerning Ad-Naked and Ad-Face

Mann-Whitney Test	Ad-Naked		Ad-Face	
	Men (Mean Rank)	Women (Mean Rank)	Men (Mean Rank)	Women (Mean Rank)
I like this ad	45	34	38	38
	p.=0.041		p.=1.0	
This ad appeals more to feelings than to reason	45	34	43	36
	p.=0.028		p.=0.194	
The quantity of information in this ad satisfies you	38	39	32	41
	p.=0.858		p.=0.097	
This ad is unusual	39	38	36	39
	p.=0.910		p.=0.567	

The information in this ad is objective	44	35	36	38
	p.=0.069		p.=0.640	
The message is completely convincing (you are favourable)	42	36	39	38
	p.=0.239		p.=0.870	
This ad is good (nice to look at)	51	30	41	37
	p.=0.000		p.=0.480	
This ad is sensual (sexy)	46	33	37	38
	p.=0.017		p.=0.778	

The table 4 shows us that the men answer more favourably toward the Ad-Naked than the women with statistically significan differences. They like more the Ad-Naked than women (p.=0.041), find it nicer to look at (p.=0.000), and think it is more sensual (p.=0.017). When we see the answers about Ad-Face, there is no differences between men and women for all the items measuring ad.

4. Conclusions

In conclusion, it would seem that H1 should be accepted because we do not notice significant differences between both groups. People exposed to Ad-Naked or Ad-Face have more or less the same memory of the advertised product or the brand. Let us point out nevertheless that for spontaneous brand recall, if no significant difference appears we can observe that twice less subjects exposed to Ad-Naked are unable to quote the name of the advertised brand (Nokia) than subjects exposed to Ad-Face (i.e. 9% of people who were exposed to the ad-Face did not remember the brand name Nokia vs. 3% who were exposed to the Ad-Naked).

This absence of significant differences between the two groups maybe comes from the very low rate of people not remembering the name of the brand (3% vs. 9% with n_1=75 and n_2=75) coupled with a better memory about the calculator (see above). So, it seems better to remain careful on this point.

Results also allow to validate H2. Men have tendency to prefer Ad-naked compared with the women. No difference between men and women can be pointed out when it is about Ad-face.

This first research on influence of the nudity in advertising on Serbian consumer shows results which can be observed in other European countries [8] or Americans [24]: the use of nudity in advertising for a product not having direct link with the body is less attractive for women than for men, and, above all, tends to generate negative attitudes on behalf of the women, while the attitude of women does not differ from attitude of men when they have to evaluate the same advertising without nudity.

This research requires some supplementary investigations nevertheless, notably concerning memory and attention with a bigger sample. For the questions of attitude, it would be also necessary to test this type of ad with a broader public who can react differntly.

On the other hand, the collection of supplementary data in other European countries would be interesting to allow a more total understanding of an element of execution often used by the advertising executives: the nakedness.

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KOGNITIVNE I AFEKTIVNE REAKCIJE NA GOLIŠAVOST U OGLASNIM PORUKAMA U SRBIJI

Rezme: Cilj rada je da se prodube saznanja o uticaju golišavih manekena na stavove o oglasnim porukama koje ih prikazuju. Afektivne i kognitivne reakcije na prikazivanje golih manekena u oglasnim porukama merene su na osnovu metodologije koju su razvili *Dianoux, Linhart and Kettnerova* 2007. Studija koja je prethodno realizovana u Španiji, Francuskoj i Češkoj Republici ponovljena je u Srbiji u cilju poređenja rezultata. Studentima je prikazan eksperimentalni časopis. U njemu se nalazila reklama za mobilni telefon koji je reklamirala devojka. U jednom slučaju devojka je bila obnaženih grudi (eksperimentalna grupa), dok se u drugom slučaju videlo samo njeno lice (kontrolna grupa). Rezultati ovog istraživanja sprovedenog u Srbiji pokazuju umereno negativne stavove prema reklami u kojoj se pojavljuje gola manekenka, bez njihovog uticaja na sećanje na proizvod i njegovu marku. Afektivne reakcije muških i ženskih ispitanika značajno su različite utičući stoga na njihove stavove prema oglasnoj poruci (Aad) u zavisnosti od toga da li je prikazani model golišav ili nije.

Ključne reči: golišavost, stavovi, oglašavanje, štampani mediji, Srbija

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STRATEGIC ALTERNATIVES OF EMERGING MARKETS' COMPANIES IN THE CONDITION OF BUSINESS GLOBALIZATION

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Abstract: *The process of democratization of developing countries, followed by the liberalization of trade, opening and integration of their economies into the global market economy, however, brought many problems. Namely, companies from these emerging markets have faced with the entrance of multinational companies (MNCs) from developed countries and enhance of competition at the home market, as well as at the global market. Facing these difficulties, and their own inefficiency in business activity, and also lack of strategic resources, many companies from developing countries lost market share and faced with crisis in business, which threaten their growth and even survival. However, some of them managed to restructure their business, and have exploited new opportunities from the global market. They have become world-class companies, so-called "emerging giants", which competing successfully with global multinational rivals. Strategic options for these emerging giants in response to MNCs entry into their home market, as well as internationalization of their business activities at global market, are the themes of this paper.*

Keywords: *globalization of business, developing countries, emerging giants, strategies, market economy*

Introduction

World economic crisis showed in a dramatic way to what extent economy has become globalized. Financial markets as well as markets of products/services have become increasingly interrelated, and it can be said that they have become global as well. For that reason, leading economists started raising a number of issues: Do companies that have been global from

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the day of their emergence create global markets? Are these companies guided only by market opportunities and do they overlook traditional business rules and focus on presupposed global ideas of conduct instead? Will these global companies prevail over the attempts of nations/states to preserve their distinctive identities? Globalization encompasses much more than simple export of products/services to other countries. Globalization can be defined as the evolution of distinctive markets of products/services into globally interrelated markets of products/services [1, p. 94]. In global industries, key products are standardized, marketing approaches are uniform and strategies of competition are integrated into various foreign markets. In these industries, companies that are not capable to compete at a global level cannot achieve competitive advantage.

With regard to this kind of convergence of companies towards globalization and to its impact, it is understandable why people from both developed market economies and emerging markets fear economic impacts of globalization. The situation is even more striking when condition of world economic crisis are taken into consideration. Within developed market economies, people fear the impact that the globalization of business operations might have on their job security, salary and standard of life, especially in situations of constant penetration of companies from the emerging markets. On the other hand, people from the emerging markets, such as Brazil, India, China, Russia, Eastern and Central Europe fear the so-called homogenizing effects of globalization considering it as the danger not only for their economy, but also for their culture, customs and tradition [2, p. 9]. However, this fear of developing countries proves to be groundless for at least two reasons. First, globalization offers opportunities for all companies, and not only for low-cost ones. In the latter case, all business operations would flow only in one direction – towards the countries that manage to reduce the cost of their products through low input costs. Second, greater global integration brings about greater differentiation. Added economic value will go to the ones who come up with unique offer, with something that makes them special.

Regardless of the impact the economic recession caused to big multinational companies and the issues it raised on globalization and its influence on recession, the struggle of companies, including the ones from the emerging markets, to globalize their operations is still under way. FDI are still regarded as the strongest mechanism of the economic growth, international partnerships and acquisitions grow as well as outsourcing, and companies increasingly turn to customers from developing countries. However, beside the fact that economic recession affects the companies from developed and developing countries in a different way, responses of the companies to those challenges differ as well. For that reason, new trends in the development of world economy appear, as well as the ways in which the companies from developed and developing countries cope with those trends and challenges.

Present big economic crisis brings about changes that are related to the role and influence of developing countries, i.e. of emerging markets on global economy. These changes can be presented in three ways [3, p. 131]:

Firstly, developing countries are becoming big and significant markets of products/services. Not only is their rate bigger than the growth rate within developed market economies, but also their participation on the world products market will be greater when the recession is finished than it was when it started.

Secondly, role of governments in the economic development of these countries is bigger than it is in developed market economies. Apart from offering various financial and tax stimuli with the purpose of influencing the demand in certain industries (for example, reduction of taxes on the sales of small and fuel-efficient cars in China), they also contribute to the process of redesigning of certain industries.

Thirdly, competition in developing countries is becoming increasingly severe. Due to the reduction of possibilities for export under conditions of world economic crisis, companies in these countries are increasingly concentrating on the stimulation of sales on the home market. Since the case includes some of the most populated countries in the world (China, India, Russia, Brazil), potentials of those markets are of extraordinary importance for domestic companies as well as for multinational companies from abroad.

1. Possible Responses of Companies from Emerging Markets to Challenges of Globalization

When the wave of liberalization of trade hit the developing countries and "blew away" most of the protectionist barriers more than two decades ago, these countries started integrating more and more into the world economy. However, they were at the same time overflowed by the entry of multinational economies from North America, Western Europe, Japan and South Korea. Consequently, many local companies lost their market share and were even forced to sell their businesses, while others entered the contest with MNCs. Some of them managed to restructure their businesses and utilize their market chances, so that they built the reputation of world-class companies and themselves became the global rivals of big MNCs.

However, beside that, an issue is raised as to why customers on the global market of products and services expect products with labels "Made in China" or "Made in Brazil" to be inferior to the products that come from companies – global giants from Western Europe, Japan or USA – the triad of countries that dominate the global trade. With the purpose of overcoming the image of cheap, low-quality producers, companies from emerging markets have to offer added value for the money the customers pay for those products. Evolution into more profitable segments of value-added products can be clearly tracked on the so-called value curve [4, p. 134]. Namely, according to Bartlett and Ghoshal, all industries can be perceived as a group of segments product/market; value curve is a tool, which can be used for differentiating among various segments. The more profitable the segment is, the more sophisticated capabilities and resources (in R&D, distribution and marketing) are necessary for competing in that segment. The problem for emerging giants from developing countries is that they usually enter the global market with the products that are positioned at the bottom of the value curve and usually stay there. It is not that those companies do not see the greater profitability of the value-added product. However, they do not have either sufficient resources or confidence in the capabilities of their company, as well as the courage to dedicate their resources to the process of development of the product that will enable them to go up the value curve and respond to the challenges of global competition.

It is obvious that MNCs from Western Europe, USA, Japan and South Korea are in great advantage over the businesses from emerging markets. According to Khanna and Palepu [5, p. 62], not only do they possess famous brands, efficient innovative processes and management systems as well as sophisticated technologies, but they also have almost unlimited access to financial resources and highly-trained workforce. MNCs from developed countries are in a position to provide great sums of money for investments with relatively low costs owing to well-developed financial markets; or, they can employ the world's best experts, owing to the fact that talents from all over the world converge towards these countries. On the other hand, companies from emerging markets are not in a position to assemble the capital and talents in an easy and cheap way, which is why it is much more difficult for them to invest in R&D and create global brands. They often lack the so-called "soft" infrastructure that enables these markets to function efficiently. Moreover, there are no appropriate specialized intermediaries; regulations are insufficiently developed, as well as mechanisms for the application of contracts [see more in 6, pp.118-119].

However, nowadays some of the emerging giants successfully compete on the world market – for example, Brazilian AmBev, Chinese Lenovo Groups, and Huawei Technologies, Indian Infosys, NIIT, Tata Group and Wipro, Israeli Teva Pharmaceuticals, Mexican Cemex, Philippine Jollibee Group are some of the most famous ones, as cited by Khanna and Palepu [5, p. 62]. It is arguable which strategies these emerging giants applied to overcome the obstacles set by their domestic environment and compete successfully on the foreign market. What is more, do other companies from the emerging markets should follow their pattern? And which steps and strategies should they undertake with the purpose of entering foreign markets?

Regardless of the above-mentioned disadvantages that the companies from emerging markets have in relation to developed countries, they often have the possibility of overcoming those disadvantages. Some of the causes and ways of overcoming those disadvantages are the following [5, pp. 62-63]: First, MNCs from developed countries have to face the same institutional voids, which local companies face as well (for example, lack of sophisticated agencies for market research, lack of reliable members of supply chain), which brings about the difficulties in the process of efficient application of their business models. Due to their long-term experience with business in that kind of environment, managers from local companies know how to overcome those problems and institutional voids; what is more, better understanding of local context enables them to identify and satisfy the needs of local customers in a better way. Also, some local companies created mechanisms for collecting funds from local stock markets, relying on their reputation and connections. Second, initial success enables domestic companies to enter financial markets or markets of highly educated labor themselves both in country and abroad. For example, education programs that have been introduced in accordance with the programs of business schools in developed countries enable them to employ managers and other experts with knowledge and skills possessed by executive directors in MNCs from developed countries. Third, it could be too expensive and difficult for MNCs from developed countries to adjust their strategies to every market of the developing countries they enter, since it requires modification of products, services, and marketing communication in accordance with local preferences and tastes of customers. For that reason, MNCs often end up occupying small, super-premium market niches. Local companies, which operate on smaller number of markets, are better aware of the needs and tastes of local customers, which leave them in a better position for responding to requirements of customers on local markets or for adjusting the quality of their products/services to their preferences.

Although the companies from developing countries entered the market game on the global market too late and are faced with the above-mentioned disadvantages, they have to get rid of a belief that they are in no position to compete successfully on the global stage. Once they free themselves from these prejudices, they have to find adequate strategies for facing MNCs on local, as well as on the global market. However, on that road, companies from emerging markets can fall into several traps that Bartlett and Ghoshal label as "liabilities of origin" [4, p. 136]. The first trap is when local companies feel themselves "locked" in the local standards in situations when there is the gap between technical requirements and design norms that govern the home market and standards of world class that govern the global market. If the demand on the home market is high, managers of local companies can postpone investments in harmonization with international standards, which postpones their entry into international market as well. The second trap is when management of companies in developing countries is unaware of global potentials of their company or exhausted with doubts about their abilities to profit from those potentials and advantages. Third trap stems from the limited exposure to global competition, which leaves the managers too certain in their abilities or blind to dangers that lurk on the global market.

In the process of overcoming these traps, management has two possibilities: pushing from the home market and pulling from abroad. Pushing from the home market turns out to be facing the truth about positioning of company's products on foreign market. Some local companies are so blinded with success of their products on the home market that they refuse to face the truth about the existence of negative perception of their products by the customers abroad. That moment of truth has a long-term effect and is only one step on a long way, that is, one out of a series of actions that should change the perception and expectations of customers abroad about the product. Some companies perform the process of pushing from the home market intensely, by investing in those products (regardless of lower demand on foreign market), even if that kind of behavior reduces the company's ability to respond efficiently to higher demand on the home market. Pulling from abroad, on the other hand, stands for the investment in the abilities of management from foreign organization units, for the purpose of enabling them to open new market for the products of that company in an efficient way.

2. Strategies for Developing Countries' Companies Facing the MNCs on the Local and Global Market

When they develop value-added products, companies from emerging markets have to develop strategies for successful facing with MNCs on the local market as well as in case of their entry into the global market. Local companies, facing the pressure to globalize their products and regarding their strategic and marketing advantages, have three options in response to entrance of MNCs into their home market [7]: to become MNCs themselves, to merge or cooperate with MNCs, or to exit the market. They propose four response strategies for domestic firms facing the entrance of MNCs: to become contester, contender, cooperator or defender [see more in 6, pp. 123-126].

Due to the market structure in developing countries, local companies are in a more favorable position when it comes to development of strategies on the basis of which they will use their offer to face multinational rivals. As Khanna and Palepu point out [5, pp. 63-64], most product markets involve four distinctive segments: global segment, "glocal" segment, local segment and segment of "the bottom of the pyramid". Global segment includes the customers who require the products of global quality and with global characteristics – that is, offer that is characterized by the same quality and attributes, as is the case with the products from developed countries, for which they are ready to pay the prices that are valid on the global market. "Glocal" segment refers to the customers who require the products of global quality but with local characteristics ("local soul") and they are ready to pay for them the price that is somewhat lower than the one on the global market. Local segment refers to the customers who want the products with local characteristics and local prices, whereas the segment of "the bottom of the pyramid" refers to the customers who want to buy the cheapest products regardless of their characteristics. It is characteristic that these market segments can be differentiated not only on the product market but also on the resource market (market of experts and talents, capital, raw materials).

Due to the above-mentioned institutional voids with which big MNCs are faced upon entering the market of developing countries, these companies realize that they can hardly serve any other but the global market segment. Because of the lack of companies or agencies that deal with market research in developing countries, they can hardly understand the tastes of local customers. What is more, their offer is limited because of insufficient development and availability of distribution channels. On the resource market, MNCs often do not have sufficient information or knowledge about the offer of local experts, which could help them create policies with which they could attract and motivate labor from other market segments, apart from global. For that reason, after liberalization of developing countries, MNCs that rush to enter these markets usually position themselves on the global market segment, leaving other segments to domestic companies. After some time, "glocal" segment becomes the battlefield between local and foreign corporations. Since customers from these segments ask for global products with local characteristics, more companies from emerging markets manage to use their better knowledge about local markets to serve and attract local customers than it is the case with MNCs from developed countries.

When companies from emerging markets overcome institutional voids and create their strategies in accordance with the requirements of the local markets, they can profit from their ability to serve the home market in a better way than MNCs from developed countries can. They do that by using one of the following three strategies [5, pp. 64-69]:

1. Utilization of better knowledge of the product market. Many companies from emerging markets became world-class businesses because they profited from better knowledge of local product markets. Uniqueness of product markets lies in the needs and tastes of local customers, which are unique and specific. Local companies are the first to realize that they should build their business around distinctive national characteristics. They manage to keep MNCs at a distance by adapting to special characteristics and requirements of local customers and business systems. Apart from that, it is difficult for foreign companies to enter the local product markets since they are used to specialized infrastructure, channels of distribution and delivery systems in the process of successful satisfaction of customers' needs, which is in great number of cases very difficult for them to provide on the market of developing countries. On the other hand, when they enter the global market, companies from emerging markets instinctively turn towards geographically close emerging markets because they have the ability to embrace the chances in those countries due to better knowledge of bases of competition, i.e., products and prices, as well as linguistic, cultural and other types of closeness. When they enter the markets of developed countries, they avoid face-to-face competition with MNCs, focusing instead on the chances that exist in market niches that enable them to benefit from their advantages and strengths.

2. Positioning on the basis of knowledge of resource market. Some companies from emerging markets gained their competitive advantage owing to better knowledge of local production factors – thus serving the customers on home and foreign market in cost-efficient and effective way.

MNCs that offer sophisticated products and services have difficulties to benefit from human resources, as well as to select educated experts on the market where the level of knowledge, skills of people and quality of educational institutions varies to a great extent. When talented people and experts become rare in urban centers, local companies can have the advantage over MNCs in the process of attracting people from smaller cities, since local companies have better knowledge of local labor market. Also, it should be mentioned that some local companies used their better knowledge of local production factors and supply chains with the purpose of creating world-class businesses. Local companies which base their advantage on better knowledge of resource markets can successfully serve the customers on the markets of developed countries as well, because they have been, as a rule, either global from the emergence, or have become part of supply chain of some MNC. They spread their international operations and presence in three ways: first, they search for customers in developed countries whom they can successfully serve from home resource market; second, when the market of factors of production becomes saturated and more expensive, they turn towards other developing countries that offer similar resources under lower prices; and third, these companies start offering not only resources on the foreign market, but also finished products and solutions for some market niches, thus introducing products of higher added value.

3. Treatment of institutional voids as business opportunities. Third way in which the companies from emerging markets can gain competitive advantage is to start profiting from some intermediary operations on the markets of products and factors of production. These refer to operations of institutional intermediaries that provide for the flow of information on the market (such as, for example, agencies that sale databases); analyze information and advise the customers and vendors (agencies for checking of rating, ranking of products or, for example, publications that rank universities and professional schools); these also refer to quality assurance companies and accrediting agencies; markets and on-line auctions or job offer Internet sites that serve as special forums for realization of transactions on financial markets, markets of products and talents. Although in these intermediary operations MNCs can have particular advantages since they possess knowledge, expertise, credibility and experience, companies from developing countries can use their own advantages in three ways: first, these intermediary firms are, as a rule, human capital-intensive, and performance of these tasks requires knowledge of local market of experts, local language and culture; second, these firms are also information-intensive, which requires local expertise to collect and analyze information and data that can be of variable quality; and third, governments of developing countries regard many of these institutions that perform intermediary operations as institutions of national importance (media, banks, stock markets and other financial institutions), which is why they often prohibit MNCs to establish these institutions themselves or force them to form partnerships with local companies.

Apart from entrance of foreign MNCs into the home market and relevant response to that threat, another big challenge with which the companies from emerging markets have to face has to deal with their decision to enter the global market. At the point of entering the foreign market, each company has to decide how to respond to several important strategic issues. First important strategic issue, which they have to face, is the choice of the entrance mode into the foreign market. Beside standard modes of entry such as classic export, licensing and franchising, nowadays there are many other forms such as joint ventures, business cooperation contracts, strategic alliances, wholly-owned subsidiaries-WOS (which corresponded with Greenfield investment), as well as acquisitions, which may correspond also with Brownfield investment [see more in 8, pp. 88-90]. Second important strategic issue is the choice of strategy of entry into the foreign market. Companies may choose one out of three strategies that differ in relation to basic motives that lie behind the decision to enter the foreign market: market-seeking strategy, resource-seeking strategy or efficiency-seeking strategy [see more in 9]. However, for companies from developing countries, i.e. from emerging markets, choice of strategy of entry into the foreign market is also determined by the fact that they enter that market later than it is the case with big MNCs. Management researchers concluded a long time ago that domination of global giants, such as Coca-Cola, McDonald's, IBM and other MNCs had its roots in their status of first movers to certain industry/market. For example, Coca-Cola was the first company of non-alcoholic beverages that created a globally recognizable brand. However, as Bartlett and Ghoshal point out [4, pp. 138-139], there are some distinctive advantages on the part of late movers to the global market. According to these authors, companies from emerging markets usually utilize their late-mover advantages in one of the following two ways:

1. Benchmarking of MNCs and maneuvering around them. Managers of companies from emerging markets that, as a rule, have limited international experience and weak exposure to foreign companies' competition are not ready to face the global companies in a foreign environment that is not familiar to them. However, under contemporary conditions of globalized market, one does not have to go abroad in order to face the international competition. Sooner or later multinational companies will come to you. For that reason, companies from emerging markets have to learn how to compete with global players on foreign markets by responding to challenges in situations when those global players enter the home market, by benchmarking the existent global players and maneuvering around them. For those purposes, sophisticated operative systems and business models of big companies should not be copied, but analyzed, adapted and innovated. Moreover, instead of face-to-face competition with those global giants on the global market, it should be started with smaller, geographically and culturally closer markets or with selection of markets and niches, which are not interesting for those global players. In keeping with company's growth, differentiated competitive products should be offered even on the markets of developed countries on which those global players dominate. An example of successful competition of Philippine producer of fast food Jollibee with American giant McDonald's proves the point. Jollibee's success shows how even late movers from less developed countries to global market can benchmark and adapt business models of their multinational rivals with the purpose of successful competition and success on the global market.

2. Confrontation with MNCs and challenging. More radical strategy in relation to the previous one refers to introduction of new business models that stand for the challenge to established rules of competition in a certain industry. Although rather risky, this second approach can be very effective in industries that rely on tradition or that are characterized by oligopolistic competition. When a business model that prevails in these industries becomes too inflexible, new business models based on national specifics and needs, can be developed.

However, what managers of companies from emerging markets have to know is that global market is knowledge-intensive and based on information. In order to be able to survive in that kind of environment, you have to possess the skill of learning. This is precisely what enables the company to introduce the value-added products and go up the value curve to the position that provides it with higher profit margins. At that point the company is faced with risk that investments into acquisition of knowledge and skills might entail too many resources and endanger domestic operations. The trick lies, according to the above-mentioned authors [4, pp. 140-141], in the protection of the past by creation of the future.

When it comes to *protection of the past*, it should be pointed out that the first rule that the companies wishing to learn should stick to is to continue utilizing to the fullest extent the resources and skills that provided them with competitive advantage. In the process of searching for the position on the global market, too many companies start being so focused on the global market that they often forget where they come from. Close cooperation between the parent company and its subsidiaries abroad enables them to learn from each other dynamically. Openness of domestic organization and exposure to international competition and development might enable these companies to benefit from adaptations and adjustments made with the purpose of adapting to different situations on the foreign markets.

When it comes to *creation of the future*, it should be pointed out that successful entry into new market requires much more than a simple application of successful formula with which competitive advantage on the home market was achieved. Companies that enter the global market stage often lack knowledge about the ways in which the products and strategies should be adjusted to new environment. One shortcut to acquisition of this knowledge lies in the establishment of partnership with a foreign company from which the expertise and skills could be gained. However, although some of these international partnerships turn into long-term ventures, great numbers of them fall apart due to the asymmetry of interests or imbalance in partners' prerogatives. When it happens, companies from emerging markets, being new and small players, are often left to themselves on the global market where they are a long way behind the big MNCs. Because of some disadvantages of partnerships with MNCs, companies from emerging markets try to gain knowledge and skills by acquiring some foreign companies. Although they consider that the acquisition will provide them with necessary knowledge and resources that will enable them to improve their offer and marketing abilities, these companies often face the truth that new knowledge and skills in managing international business cannot simply be introduced; knowledge and skills have to be internalized, adopted, developed and adjusted to the specifics of the company that performed the acquisition.

It is a fact that some companies were failed because they did not manage to develop the strategies of entry into the global market in an efficient way. In order to avoid these situations in the future, managers of those companies have to respond to three simple questions [10, p. 73]:

1. Will our company benefit from globalization of business; when will those benefits appear and what is their economic value?
2. Do company has necessary management skills that will enable it to realize the benefits of entering the global market?

3. Will the costs that include not only direct costs, but also investments in business processes and management time excel the potential benefits of strategy of business globalization?

Even if the benefits of business globalization are realizable, unpredictable costs and damage done to business might make all efforts counterproductive. Very often companies fail to see that full costs of entering the global market can reduce the significant benefits of globalization (for example, when the attempts to harmonize the practices of national business units with the ones abroad drive home market customers away because management teams in the host country give up the needs of their home market customers.

On the other hand, globalization might strengthen national distinctiveness's without eroding them. Big MNCs will attempt to support all those specific national practices that allow global competition. That moment is reflected in global alliances [11, p. 170]. However, authors point out that although most technological alliances are formed by companies from the same country, big MNCs from the field of biotechnology or industry of semiconductors for example, act as bridges among countries and regions all over the world. Small companies from various countries can hardly form an alliance. The process of creating one such alliance can be done by a big multinational company, such as Novartis in the field of biotechnology or Motorola in the industry of semiconductors, for example. Nowadays, there are highways of multinational companies that connect world regions in which entrepreneurial activities from certain industries are concentrated.

Conclusion

It is arguable whether it is better for a company to be global in its activities. Although correlation between globalization of market and performances puts forth affirmative response, Khanna and Palepu emphasize [5, p. 69] that some other facts should also be considered. Management should perceive whether competitive advantage resulted from globalization of business or from some other capabilities. There are many companies that are successful only on their home market. What is more, financial performances of some world-known companies that diversified their operations in several countries/markets do not always have to be superior in relation to the performances of the companies, which failed to do the same thing. Companies from the emerging markets can be successful even if they are not globally present.

Moreover, big companies from emerging markets successfully responded to the challenges set not only by market globalization, but also by world economic crisis. They were fast in the process of modification of their strategies. Since their advantage already lay in the fact that they were cheap producers, they did not have to develop business models on the basis of low costs. Many emerging giants restructured their business portfolios, made diversification plans, consolidated their operations and introduced systems of quality such as Six Sigma that enabled them to make better products with lower costs. With lower costs and highly trained workforce, great number of these companies used the profits they gained to develop new products and services designed especially for the middle-class customers or customers living in big rural provinces. Some companies from developing countries (such as China) developed products that were so advanced that they did not have to act as subcontractors of big MNCs any longer; however, they still invest in innovations. According to Raman, P.A. [3, pp. 131-132], in March 2009 in India, Tata Motors launched the cheapest vehicle in the world – Nano that cost only 2000 US$. Since this kind of production and innovations, together with low costs, became priority for companies from emerging markets, this trend even got its name: the Nano Effect.

The same author points out that the companies in these countries will be much more competitive at the end of world economic recession than they were at the very beginning. This is further supported by the fact that governments in several developing countries – including Brazil, China, India and South Africa – try to reduce their dependence on international trade. They can achieve this owing to great potentials of demand on the home market especially outside the major cities, and owing to big foreign exchange reserves. Furthermore, their governments invest more and more money in building of infrastructure and introduce tax reduction and stimuli, especially related to the products for customers with lower incomes. If they manage to increase the demand and consumption on the home market, they will also manage to maintain high growth rates regardless of the fact that the demand and growth rates in developed economies still fall. Beside that, exchange among the developing countries increases, and that trend will continue in the future. Owing to these trends within emerging markets, which happen even at the times of global economic crisis, Chinese phrase about "capitalism with local characteristics", as Raman concludes, will soon become realizable for other developing countries as well. In that way, these countries and their companies will become more and more significant players on the global market stage.

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STRATEGIJSKE ALTERNATIVE KOMPANIJA IZ NOVONASTALIH TRŽIŠNIH EKONOMIJA U USLOVIMA GLOBALIZACIJE POSLOVANJA

Rezime: Proces demokratizacije zemalja u razvoju praćen liberalizacijom trgovine, otvaranjem i integracijom njihovih ekonomija u globalnu tržišnu ekonomiju, doneo je, međutim, mnogo problema. Konkretno, kompanije iz tih novonastalih tržišnih ekonomija su se suočile sa ulaskom multinacionalnih kompanija iz razvijenih zemalja i porastom konkurencije na domaćem tržištu, kao i na globalnom tržištu. Suočavajući se sa tim poteškoćama, kao i sa sopstvenom neefikasnošću u poslovnim aktivnostima i nedostatkom strategijski značajnih resursa, mnoge kompanije iz zemalja u razvoju su izgubile svoje tržišno učešće i suočile se sa krizom u poslovanju koja predstavlja pretnju njihovom rastu, pa čak i opstanku. Međutim, neke od njih su uspele da restrukturiraju svoj biznis i iskoriste nove šanse na globalnom tržištu. One su postale kompanije svetske klase, takozvani "novonastali džinovi", koji uspešno konkurišu globalnim multinacionalnim rivalima. Tema ovog rada su strategijske opcije za ove novonastale džinove u njihovom odgovoru na ulazak multinacionalnih kompanija na domaće tržište, kao i u internacionalizaciji njihovih aktivnosti na globalnom tržištu.

Ključne reči: globalizacija poslovanja, zemlje u razvoju, "novonastali džinovi", strategije, tržišna ekonomija

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MATHEMATICAL MODELS OF INSURANCE AND REINSURANCE

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Abstract: *The topic of the paper is the insurance and reinsurance of enterprises' capital. The notion of capital insurance i.e. capital reinsurance, their classification, as well as the mathematical models used in insurance and reinsurance are discussed here. Reinsurance represents the most efficient form of risk sharing among insurance companies.*

Keywords: *insurance, reinsurance, risk, retention, mathematical models, retention function, compensation function.*

1. Introduction

The term insurance refers to security and trust. Therefore, the purpose of insurance is providing security. In broader sense, insurance is joining of all those open to the same danger i.e. risk, together [1]. Risk is an uncertain future event that may cause damaging consequences. Risk is narrowly related to insurance since the main prerequisite for the existence of insurance is the presence of risk. Accordingly, insurance represents the protection of the ownership interests of physical and legal persons during risk realization i.e. insured case, by the insurance funds founded through premium collection from these persons.

In economic terms, insurance represents economic activity that has as its objectives: to estimate the existence of risk that carries material damage to the economic subject (insured) for the realization of an insured event; to cover possible damage caused in the realization of an insured event; to perform the redistribution of damage in time; to realize the recovery of insurance premium in terms of the compensation for damage from the insurance fund.

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Risk represents the uncertainty in terms of the outcome of an accident, the danger against the damaging consequences of which, the economic protection through insurance is organized. In order that the insurance could cover the risk, it must have the following features: the possibility of risk realization, the uncertainty of events to be insured, the danger of the realization of economically damaging event, repetition, that is the risk mustn't be isolated, independence from the will of an insurer and insured, legality of risk, limited scope of risk in space and time and homogeneity.

In practice, it is rare for only one risk event to be insured. It is usually spoken of a risk portfolio. In economic terms, the risk portfolio represents the total ownership of insurance company over insurance policies related to different insured events. In mathematical terms, the risk portfolio represents an ordered n-tuples of n elements of different insurance policies.

The insurance company accepts risk from its clients i.e. the insured for compensation called premium. A premium is the amount of money paid by the insured to the insurer in accordance with an insurance contract.

If the risk or risk portfolio is extremely high for an insurance company, it can divide it into smaller parts and pass it over to other companies, its reinsurers. They can further share the risk between their reinsurers. Part of the risk that remains with the insurance company that has taken on the risk from its insured is called retention, [2]. So, the starting risk is covered by an entire net of the insurance and reinsurance of more insurance companies, whereby each has its retention. Determining the size of retention depends on many parameters, that being the issue of actuarial mathematics.

In practice, insurance companies come across different problems, the most common being: evaluation i.e. calculation of a premium; evaluation of risk capital; evaluation i.e. calculation of retention; behavior of the company's management regarding the kinds of risk; maximally acceptable amount of risk for a company; and other. Each problem is very significant for the business of an insurance company. It is in the interest of the company to collect a higher insurance premium in order not to have losses, however, in that case, most of insured would go to another insurance company that has a favorable insurance premium.

The evaluation of risk capital, retention and maximally acceptable amount of risk that a company can cover with its capital are the issues associated with reinsurance. Every insurance company disposes of a certain amount of capital used for claim payment to its clients. If a company insures an event of high risk whose realization can have catastrophic consequences, the size of the claim for the realization of that event can exceed all the available capital of the company. In that case, the company will share the surplus of the risky capital among its reinsurers and will retain the part that can be covered with available capital. In order to be without the loss, it is in the interest of the insurance company to decide precisely on the part of the risky capital it wants to keep for itself.

2. Basic Mathematical Models of Insurance

From the theoretical point of view, a mathematical model can be described as a reservoir. The characteristic feature of this model is that the capital inflow is regular, on one side, while on the other, the capital outflow is unknown. The capital outflow can be very irregular depending on the unpredictable events such as accidents and natural catastrophes. It can be noticed that the stochastic nature of the capital outflow is dual i.e. it is neither known when it will come to a claim, nor what is the size of a claim. This simple model describes the most important aspects of insurance problems.

Mathematical model of insurance depends on four elements, two being stochastic and other two deterministic.The basic elements are:

1) The initial reserves u defining the beginning point of the process;
2) The premium return c determining capital (profit) accretion;
3) The time sequence when it comes to the claim T_1, T_2, T_3, ..., where T_1 refers to the time interval between the beginning moment $t = 0$ and the moment when it comes to the first claim, T_2 the time interval between the first and second claim.
4) Sequence of the claim variables X_1, X_2, X_3, ... determining the capital decrease.

It should be pointed out that the sequence (T_i) and (X_i) are the sequences of independent random values.

Apart from the above mentioned values, in insurance theory, the following values are also important :

1) numerical process *N(t)* represents the number of claims up to time *t* and we get

$$N(t) = \sup\{n \geq 1 \mid T_n \leq t\}, \text{ за } t \geq 0,$$

2) the total amount of claims up to time t is defined by the following expression:

$$S(t) = \sum_{i=1}^{N(t)} X_i .$$

When $U(t)$ represents the profit of an insurance company we get the following formula:

$$U(t) = u + ct - S(t).$$

Here, the claims X_1, X_2, X_3, ..., and the premium income c are stochastic i.e. random variables.

The greatest importance for the risk have the variables S and N. When their values are known, the size of the risk is also known. All the other variables can be deduced from these two series of basic variables. This means that the claims distribution X_i should be defined as well as that for time moments T_i, when the claims are paid.

The most famous model of modeling risk in insurance theory is the Cramer-Lundberg model. It is a simple model that quite realistically examines the process of the total amount of claims S. For the application of this model in practice, it is necessary to meet the following conditions:

1) it comes to the claims at intervals $0 \le T_1 \le T_2 \le ...$ that make a homogeneous Puasson process $N(t) = \sup\{n \ge 1 \mid T_n \le t\},\ t \ge 0$;
2) the claim at time T_i amounts to X_i. Sequence (X_i) represents the sequence of independent, identically distributed, non-negative random variables;
3) the sequences (T_i) and (X_i) are independent among themselves, as well as the process N and the sequence of random variables (X_i).

The Cramer-Lundberg model, as one of the simplest model of the total amount of claims will be considered in modeling capital reinsurance.For more information on the model se [3], [4], [6].

3. Mathematical Model of Reinsurance

Reinsurance represents repeated insurance i.e. insurance of insurance. The insurer can transfer part of the insurance obligations to other companies, the reinsurers, if there is no sufficient capital to cover the total risk taken on from the insured. Part of the obligations that an insurance company can keep for itself, without jeopardizing its liquidity, is called retention. Liquidity represents the ability of an enterprise to pay its money obligations till the due date [5]. The reinsurer is not in direct obligation to the insurer. If it comes to the realization of the insured case, the total claim is paid to the insured by the insurer an then the insurer from the reinsurer compensates the part of the claim that the reinsurer has taken on through reinsurance. Risk distribution of the insurer and the insured is not final. The reinsurer can share the obligation with his/her reinsurers.

One of the most important tasks of actuarial mathematics is the calculation of retention. In that sense, the factors influencing the size of retention should be understood. They are: financial force, i.e. the capital of an insurance company; the readiness to take on the risk on part of the management of an insurance company; profitability, i.e. the possibility of earning from insurance business; (non)alignment of risk. Financially strong, sound, company can afford a larger amount of risk in comparison to a poor company, so retention directly depends on the economic power of a company. The size of retention depends on the company's management, a conservative management will show little interest for taking on the risk in contrast to a brave and competent management. The size of the premium is such that it brings profit to the company. Also, the very nature of risk affects the size of retention.

If we compare the share of these factors in the calculation of retention, in notation (*Ret*), it is clear that its size depends on the following parameters: "capital", shortly (*C*), "readiness for taking on the risk", shortly (*Risk*), "the possibility of earning", shortly (*Earn*). If any of the values is higher the retention is higher. On the other side, the size of retention depends on the (non) alignment of risk, shortly (*nonAR*). The notion of non-alignment of risk supposes the random character of risk. So, it is clear that if the alignment of risk is higher the retention is lower and vice versa. If we have in mind all the mentioned parameters, their relation to the retention can be presented with the following formula:

$$\mathrm{Re}\,t = \frac{C * Risk * Earn}{nonAR} \tag{1.1.}$$

The formula (1.1.) offers the basis for mathematical modeling of retention that includes all the previously mentioned terms: claims, premiums, etc.

In mathematical terms, the reinsurance agreement for the claim X defines part of the claim $X - h(X)$ that will be covered by the reinsurers of the viewed insurance company.

The function $h : R^{+} \rightarrow R^{+}$ is called the retention function. The retention function has the following features:

1) $h(x)$ and $x - h(x)$ are monotonously increasing functions
2) $h(0) = 0$
3) $0 \leq h(x) \leq x$, $(\forall x \in R^{+})$

The function $k(x) = x - h(x)$ is called the compensation function. The assumption that the functions h and k are monotonously increasing is correct since the increase of claims supposes the share increase of an insurance company, but also the share of its reinsurers in covering the amount of the claim.

When it comes to proportional insurance, a good choice of the retention function would be the formula

$$h(x) = ax, \quad 0 < a \leq 1,$$

where, a defines part of the claim that the insurance company would cover with its own means.

On the other side, when it comes to the reinsurance of the excess of loss, a good choice is the function

$$h(x) = \min(a, x), \quad a > 0.$$

Let the formula

$$S = \sum_{i=1}^{N} X_i$$

stand for the risk that represents the amount of individual risks X_i. The individual reinsurance formula $h_i(x)$ can be modeled in the following way: let the value of the ith claim be X_i and let its part $X_i - h_i(X_i)$ be covered by insurance contract. It is supposed that the local retention function has the same features as the retention function h itself. Let $u(x)$ be a profit (usefulness) function and p the value of the premium paid to the reinsurer. Then the reinsurer efficiency function is as follows

$$u\left(p-\sum_{i=1}^{N}k_i(X_i)\right).$$

At the entire portfolio level, the reinsurer efficiency is shown in the function

$$u(p-k(S)).$$

The reinsurer is often in the position to choose whether he will cover only a part of the offered risk and give over the remaining part to other reinsurers or take on the risk himself.

Intuitively, it would be logical for the reinsurer to take on the risk himself. The following theorem shows that this conclusion is not entirely correct.

Theorem 1. *Let S be the risk defined by the formula* $S=\sum_{i=1}^{N}X_i$ *and let* $u:R^{+}\rightarrow R^{+}$ *be an increasing and concave function. For the local reinsurance with a compensation function* k_i*, there is a function* $k(x)$*,and so it follows that*

$$Ek(S)=E\left(\sum_{i=1}^{N}k_i(X_i)\right)$$

and

$$Eu\left(p-\sum_{i=1}^{N}k_i(X_i)\right)\leq Eu(p-k(S)).\ \square$$

In the theorem's proof, we use the inequality that is known in the theory of probability as the Jensen's inequality for conditional mathematic expectation and it states: Let X be an integrable random variable in a probability space (Ω,Φ,P) and let $G\in\Phi$ be arbitrary σ-algebra. If

$\varphi : R^{+} \to R^{+}$ is a convex function and $\varphi(X)$ an integrable random variable, then

$$\varphi(E(X \mid G)) \leq E(\varphi(X) \mid G).$$

If φ is a concave function, the above inequality is valid and vice versa.

Proof: Let for each $s \geq 0$ be defined the function

$$k(s) = E\left(\sum_{i=1}^{N} k_i(X_i) \mid S = s\right). \tag{1.2}$$

If we apply the feature of the conditional mathematic expectation $EX = E(E(X \mid Y))$ to the function (1.2.) we indirectly get $Ek(S) = E\left(\sum_{i=1}^{N} k_i(X_i)\right)$. So, the first part of the theorem is valid.

Further, as u is a convex function, we can apply the Jensen's inequality to it and we indirectly get

$$Eu\left(p - \sum_{i=1}^{N} k_i(X_i)\right) = E\left(E\left(u\left(p - \sum_{i=1}^{N} k_i(X_i)\right) \mid S\right)\right) \leq$$

$$\leq Eu\left(p - E\left(\sum_{i=1}^{N} k_i(X_i) \mid S\right)\right) = Eu(p - k(S))$$

and so, the second part of the theorem has been proved. □

The above proof has been deduced under the assumption that the compensation function is in the form of the formula (1.2.). However, that is not valid for the compensation function in general. Nevertheless, with some additional assumptions, the formula (1.2.) gives a compensation function. The assumptions are stated in the following theorem. In order that the theorem could be as clear as possible, we introduce the following definition:

Definition 1. *If the function* $f : R \to R^{+}$ *is given. The function f belongs to the class PF₂*[1] *if*

$$\det\begin{pmatrix} f(x_1 - y_1) & f(x_1 - y_2) \\ f(x_2 - y_1) & f(x_2 - y_2) \end{pmatrix} \geq 0,$$

for each $x_1 \leq x_2$ *and* $y_1 \leq y_2$.□

We can state the conditions under which the function $k(x)$ defined by the formula (1.3) can be considered as a compensation function.

Theorem 2. *Let* $n \geq 1$ *be a fixed real number in* k_1, k_2, ..., k_n, *arbitrary compensation functions. If* $S = \sum_{i=1}^{N} X_i$ *,where* $N = n$ *is a deterministic value and* X_1, X_2, ..., X_n, *are independent random variables of an absolutely constant type with the density* f_{X_1}, f_{X_2}, ..., f_{X_n}, *of the class PF*$_2$*, then the function k(x) defined by the formula (1.2,) is a compensation function.*□

On the basis of Theorem 2, we can model the compensation function, according to the given conditions, as well as the retention function. This way the problem of modeling reinsurance, with the above assumptions and limitations, is entirely theoretically solved.In more complex cases, in stead of deterministic value $N = n$, a numerical process, for instance, the homogeneous and inhomogeneous Puasson process $\{N(t) \mid t \geq 0\}$ can be viewed. Surely, in concrete situations the validity of mathematical modeling depends on the right choice of the compensation function k_i.

4. Conclusion

The theory of insurance represents a very important and interesting field for exploration and research, because insurance companies in the world, and recently, in our country have become important participants in the financial market. In this paper, the models of the functioning of insurance and reinsurance companies are described. The viewed models are theoretically realized under ideal conditions, however, in practice, the

[1] PF_2 - P:lya frequency function of order 2

situation is more complex, since the cash flows in insurance are affected by a great number of unpredictable factors. This is the reason why the researches in the field of finance are current and attractive.

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MATEMATIČKI MODELI OSIGURANJA I REOSIGURANJA

Rezime. Tema ovog rada je osiguranje i reosiguranje kapitala preduzeća. Razmatra se sam pojam osiguranja, odnosno reosiguranja kapitala, njihove podele, kao i matematički modeli koji se koriste u osiguranju i reosiguranju. Reosiguranje predstavlja najefikasniji oblik deljenja rizika medju osiguravajućim kompanijama.

Ključne reči: osiguranje, reosiguranje, rizik, retencija, matematički modeli, funkcija retencije, funkcija kompenzacije.

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REAL SECTOR IN SERBIA AND COUNTRIES IN REGION IN ECONOMIC CRISIS CONDITIONS

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Abstract: *The crisis in the USA and its frosting in the EU, which more has acquired the world character, has also certain negative consequences on our country. Considering high negative balance in international exchange, Serbia falls into most endangered countries in the Eastern Europe. The crisis has a great number of negative effects and it is clear that its scope and consenquences can be hardly perceived, but some urgent and all-inclusive measures are necessary for keeping the situation under control. In the paper, the authors firstly presented and analyze the effects of world economic crisis on Serbia and countries in the region, and than especially emphasized the negative influences of recession on Serbian companies functioning and business activities and measures for exceeding the emerged problems*

Key words*: global financial crisis, racionalization, countries in region, real sector*

Introduction

The global financial crisis, originated in the American market, has been experienced in the whole world. In time, the real dimension and size of the crisis has become more evident and clear. Even though the crisis emerged in the USA markets, for a short time it showed its influence on the markets in the whole world, which has confirmed the fact of inter-connection between markets in the world. These tendencies have indicated

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the global character of crisis and showed that the crisis has not been a local event. The recession is compared with the great world crisis from the 1929 that also became in the USA and caused the enormous damage in the American economy with the highest level of unemployment. The recovery of American economy lasted very long.

Economists quite argue over the origin of credit crisis in America. Some of them claim that the collapse has been caused by the exaggerated regulation of financial market and the other think that the absence of control and regulation has been the main „lawbreaker" of crisis in that segment of economy. But all of them agree about the fact that the recession became from housing or mortgage credits granted to citizens by banks. The main cause of crisis was credits that were granted disregarding income of credit seekers. Perceived the exceptionally uncollected credits banks were decided to issue bonds on the basis of stable monthly earnings. The bonds were buying by other banks which issued their bonds and the risk pyramidal increased at the world level.

Taking into account that the price of real estate was rising, as well as the mortgages, the mortgage „balloon" was growing. The credits were granted on the basis of sustained price growth, not on the real income, which led to the situation that borrowing money was based on sustained real estate price growth or its keeping. Actually, the whole financial system was based on unreal suppositions that value of something could rice constantly. The monthly installment for all credits was permanently changed and even increased in time and clients were not capable to service their obligations, so majority of them decided to sell their real estate. When the price of housing projects in the USA begun to decrease, banks deprived the housing projects from those who were not be able to service their obligations. With a view to provide necessary cash, the banks started to sell deprived mortgages, which caused further decrease in prices. The decrease in price of housing projects caused that the bonds based on housing projects lost their value.

This state brought the financial institutions that bought the mention bonds to a difficult situation. The banks that were faced with the cash problem were able to effect payment only by raising a loan from other financial institutions. However, since the environment was very indefinite and uncertain and risk borrowing was expensive, the activities in financial sector were narrower. This brought to the culmination of mistrust in financial market and responsible banks started to fail. The financial crisis started to show its influence on the real sector, too. And the financial economic crisis started to extend on the economy of other countries and became the world phenomenon.

Effects of economic crisis on Serbia and countries in region

Under estimation of the International Monetary Fund, all countries in region will record business depression influenced by the global financial crisis. Taking into account such prognosis, the countries have undertaken a number of measures on reduction of a consequence of global crisis, from stabilization of banking sector and tax reduction to cutting the unnecessary government expenditures. According to the statement of Stratford Agency, Croatia, Hungary, Romania, Bulgaria, Serbia, and Baltic countries are on the top of countries that will be a target of financial crisis [1]. For actual transition process, the countries of South-Eastern Europe are especially under the crisis' negative influence. However, it is important to stress that the mentioned countries are not in the same economic situation and therefore it is not relevant to pass an unique resolution of way of financial crisis influence on each of them.

Under estimation of the leading economists of the European Bank for Reconstruction and Development, Serbia falls into the group of six countries in transition that are most vulnerable on the negative effects of world financial crisis. [1] It is interesting an opinion of the leading economists that Serbian economy is not in recession, but in a serious social and economic crisis of a large scale without a visible end. The economy is faced with heavy losses, illiquidity, and increased unemployment. The crisis will mostly affect the sector of ferrous and non-ferrous metallurgy, automobile industry, industry of building materials, and that will also have certain indirect consequences, so each branch of industry will be affected.

Serbia is not immune on world crisis of mortgage loans, since its macroeconomic stability has based on foreign loans, revenues from privatization, and inflow of foreign direct investment, so Serbian economy is affected from the indirect effects. According to some estimation of most respectable banking groups in our country, GSP will decline for 2,5 percent on 29,5 milliard euros in 2009, and the decline will be slowed down in 2010 for 0,7 percent. The unemployed rate in 2010 will increase on 21, 5 percent in relation to the rate of 18 percent. Inflation in 2009 will be 7, 8 percent, and in 2010 will be 6, 2 percent, till in 2008 it was 11, 7 percent [3]. The direct foreign investment inflows will decline on 1,1 milliard euros from 1,9 milliard from 2008, and in 2010 it will rise again on 1,3 milliard euros. Deficit of current payment, which in 2008 was 17, 8 percent of gross domestic product, this year will decline to 10, 8 percent of gross domestic product, and in 2010 it decline on 9, 2 percent of gross domestic product [1]. Also, the business recession that has started in October 2008 will continue in 2009 and mostly affect export activities of Serbian economy, which will have a negative influence on the other companies that are in connection with the export sector. [10]

Serbia is faced the enormous problem of impossibility of receiving new credits from abroad. Foreign currency inflow based on selling companies to foreigners and green field investment has also significantly decreased, which is a consequence both of the world economic crisis and very low credit rating of Serbia. Foreign currency inflow based on current transfers has also been decreased (for about 6, 6%) and it has been specially decreased on the basis of export of goods and services – for about 21, 2% [8]. The consequence of these flows has been a significantly greater total foreign currency outflow than total foreign currency inflow (for about 200 million dollars), which has caused the depreciation of extremely overestimated national currency.

The fact that the index of most qualitative shares that is the share price of the best companies in Serbia, BELEX 15, has been drastically decreased also has indicated the great crisis in Serbian economy. The complete situation is aggravated by the external imbalance and greater foreign borrowing in the recession conditions when, in short-term, it is not possible for capital inflow in Middle and East Europe to be returned at the level from previous period.

The following table shows the flow of GDP and average rate of transition economies compared with the data from 2001. It is obvious that Serbia lags behind the other countries in region primarily because of late transition [7, p. 5].

Table 1: Gross Domestic Product

Transition economies	Million EURs		Average rate (%)	GDP/ EUR	
	2001	2008		2001	2008
Bulgaria	15.250	34.118	5,6	1900	4400
Romania	45.357	137.035	6,2	2000	6400
Hungary	59.521	105.244	3,4	5800	10500
Croatia	25.501	48.183	4,5	5000	11000
Slovenia	22.707	37.516	4,4	11400	18200
Serbia	13.186	33.750*	5,4	1723	4500*

Source: Eurostat, national statistics, RZR

Hungary is the regional country that unavoidable has sunk to deeper crisis. It was for long time in general the first country among the transition countries, but now it has got into rear position. During the first years after changing the social system, it was the leading country in the region concerning economic development, reforms of big systems, and foreign capital inflows. The difficulties in economy arisen after certain time, when it was recognized that numerous privatizations were, in fact, the miss which the country tried to hide through an excessive borrowing and often change of government that additionally got into debt with the view to fulfill the election promises. Besides the difficulties from the nearest past, Hungary has faced with the negative effects of global financial crisis, having in mind that its economy has been closely connected with the economies of most developed European countries. Hungary imports from Western Europe and almost exclusive exports to Western Europe. Such close connection of economies indicates the clear fact that recession in the West will mean a serious slowdown in economic growth in the East.

The catastrophic situation in Hungary is indicated by the fact that more than 30000 people loosed their jobs in the last ten months. A great number of stocks were loosed their value in the stock exchange. At this moment it is seems that the Hungarian economy is affected by the global crisis more than other former socialist countries which are the actual members of European Union. The reason for that is the big external debt as a significant sum of money that was borrowed by the government in Budapest and Hungarian countries and citizens.

Romania, that was recently a standard model of economic development in Central and South-Eastern Europe, also is faced with the dramatically increase of unemployment, especially in private sector. The economic crisis caused that 321 Romanian companies, mostly from the private sector, fired almost 34 thousands employees. The oil industry, automobile industry, chemical industry and building industry were mostly affected. In the report of International Monetary Fund it is estimated that in Romania, during last months, the global recession has influenced the deterioration of economic indicators, considerable decline of industrial production, and the trust of investors were also declined. As the measures for protection of crisis, some companies announced that they would reduce production or stop their activities. According to a survey made in this country, the half of small and medium enterprises in Romania have been strongly affected by economic crisis, till only two percent has induced that they have not felt the consequences of crisis. The situation is favor increasing uncertainty and decreasing foreign investors trust.

It is obvious that in Slovenia, the most developed country from the all republics of former Yugoslavia, the crisis has crossed a threshold, and inflation, dismissals, and bad results in economy are not unfamiliar, so therefore it is not discussible if it is necessary and economic correct to involve government in economic-financial flows. The influence of crisis is most evident in metal industry – iron and steel plant, aluminium production and all industries that are connected with automobile industry.

According to prognosis of European commission, the economic growth in Slovenia in the next two years will significantly decline and unemployment will increase. The results of the same research indicate that in this year Slovenia could expect the economic growth of only 0, 6%. The estimation of the IMF is that in these conditions Slovenian economy could have the negative rate of growth of 2, 7%, and in 2010 it will again have a negative growth at the rate of 1, 4%. The negative growth, according to the estimation of the IMF, is primarily caused by a slowdown in exports because of economic crisis in euro-zone and stronger credit terms. Trade, production, and investment have drastically decreased, till, on the other hand, unemployment and public debt have increased. In 2009 the unemployment will most probably reach 6, 2% of labor force, comparing with 4, 4% in 2008, before it will go down on 6, and 1% in the next year [9].

Global recession that belatedly has come in Croatia would mostly influence export-oriented companies, which has faced with sudden decline of order from foreign markets. Some initial analysis indicates that influence of recession will mostly reflect in sector of tourism and building. It is also expected a wave of bankruptcy of small and medium enterprises, which, because of growing illiquidity and high cost of financing, will not succeed in riding out the crisis. Dismissal of workers is announced, first of all in endangered branches, such as shipbuilding industry and wood manufacturing, but also in those economic activities that could be affected by global economic crisis. Croatia is especially vulnerable since it has an enormous budget and trade gap, as well as a great dependence of credit linked with foreign currency – primarily with euro.

The economic crisis, which spreader the most developed countries, has started „to damage" Bulgaria and the whole region of Southeast Europe. In Bulgaria the crisis in industrial production is most expressive. Dismissal of workers is also important in this country. A great number of small and medium enterprises are forced to send their workers on compulsory vacations because of their impossibility to receive bank credits. As a consequence of global crisis influence, in Bulgaria is more difficult to open credit – the interests increase and credit conditions become stricter. The companies engaged in agricultural production are specially affected by crisis, taking into consideration that, after the entry in the EU, these companies are obligated to meet the strong European requirements concerning quality and sanitary standards, which requires necessary credit stimulation.

Table 2. Productivity of labor according to BDP PPS 2008

	Productivity of labor per employee BDP PPS[1]) (EU-27=100)	BDP (PPS), according to final use of BDP, per capita (EU-27=100)
Bulgaria	36	40
Hungary	73	62
Romania	46	45
Slovenia	87	92
Croatia	78	64
Serbia	58	36

Source: Euro stat, for Serbia estimation RZR

An important indicator for recognizing the actual situation in transition economies is productivity of labor. Information presented in the report of Serbia development in 2008 indicate that productivity of labor at parity of purchasing power is lower for about 1,7 times in relation to the average of EU-27. In the last year productivity went up insignificantly in relation to 2007 according to the average of EU-27. However, in spite of significant growth of BDP, productivity in Serbia is still at the lowest level in Europe. The countries with highest values of productivity index in relation to the average of EU-27 are Luxemburg, Norway, Ireland and Belgium, till Serbia is in the group of countries with the lowest productivity of labor in Europe. Productivity of labor in Serbia is only higher than in Leetonia, Romania and Bulgaria [7, p.144].

The Negative Implication of Global Crisis on Business Activities of Enterprises in Serbia

The enterprises in Serbia are not immune on the economic crisis and they will be forced to face numerous problems which are come from the crisis. The effects of crisis will not influence in the same way different economic branches, small, medium, and big enterprises, stable or less stable enterprises. According to the global estimation, the consequences of crisis in

[1] PPS (Purchasing Power Standard) euro is the reduced unit of account which represents the value of the same basket of consumer goods in all EU countries and it is different from nominal exchange rate of euro.

Serbia are reflected in limited capital supply and more expensive credits, as well as in demand decrease, which reflects negative on economic trends. The inflow of foreign investment is also retarded and declined. About 60000 enterprises have blocked accounts, because of their dept to government, banks, and suppliers to the amount of 218, 4 milliard. The experts claim that the economic system of Serbia could be destroyed since the empty budget will not be able to help in such difficult situation. Industrial production in September this year was at the lowest level from 2005 and revenue of tax on value added has constant decrease, which indicates that business activities of Serbian enterprises slow down constantly. The low level of public income inflows and high illiquidity of economy indicate, on the opinion of economists, that recession will be very serious [4].

Although the crisis appeared in financial sphere, it has been abundant to the real sector, which specially sustains because of expensive bank credits and their influence on operating cost increase. If an enterprise decides to decline its credit since the interest rates are extremely high, that decision will directly and proportionally influences lower liquidity of enterprise. A chain continues with lower consumption, which causes a decrease of demand. Simultaneously, the lower demand requires from an enterprise to react directly through decrease of production and cost, specially the cost of labor. The chain, which reminds on domino effect, could take on wide proportions and for preventing that situation the government has to apply all available measures and return confidence of all participants in financial sector and on that way prevent further negative effect of economic crisis. However, having in mind that in actual global circumstances the government measures and actions are incomplete and late, the enterprises will be forced to reexamine the scope of investment, with obligatory production decrease and dismissal of workers.

Still in the second half of 2007, when the price of inputs started to increase, all enterprises were aware that the crisis became. In the whole last year, besides the internal rationalization, it was obvious that the crisis would influence further decrease of purchasing power of customers, increase of input prices, impeded collection of assets, but also the growth of exchange rate of national currency has the negative influence on business result.

A great effect of crisis, however, has been reflected on enterprises development, since new, planned investments have to wait some next years. Investment will be lower from the two reasons: first, the big investors still withdrew their capital from this region and look for some attractive areas, and, second, all companies put their affairs in their „own yard".

With a view to overcome the problem of illiquidity and provide cash, the enterprises in Serbia have endeavored to convert their all real estate which is not used for business activities to cash, at the good price. Decrease of available money, however, together with price increase and lower purchasing power (as a consequence of great dismissal of workers), illiquidity of enterprise, specially the medium ones, more restrictive politics of big companies and public enterprises, are unavoidable reflected on sales. It is more than clear the legality that in the crisis conditions population orient itself mostly on buying the necessary assets. In the foreign market there is a cautious in placing orders in fear of stock-piling and low liquidity.

It is evident that the consumption of population as well as customers stock has reduced. „The destiny" of difficult payment of assets the companies bear with their partners. The methods of solving problems are different, depending on company, but the aim is the same. The mostly applied solution is cost rationalization, which must not endanger the product quality.

Taking into consideration numerous problems they are faced, such as lower level of production and sales in relation to the planned one, many companies have undertaken measures for increase productivity and efficiency through permanent internal programs of excellent quality of business activities. The measures for preventing the negative influence of buyers and suppliers illiquidity on business activities of company have also been undertaken and found some alternatives for illiquidity partners. The companies have also striven to induce buying of final consumers, in cooperation with banks, and reduced investments at an optimal level, and, after all, to service their obligations regularly.

Some enterprises strive to reduce their business risk on the way to cancel the unpayable assets, and estimate the stocks in books at the very low level, respecting all requirements of accounting standards, which open a possibility to make solid margins in the next period just by selling the stocks. Also, the infrastructural investment could set the conditions for significant growth of productivity.

The next table shows the trends in productivity of labor in Serbia in the period 2002 – 2008. It is evident that the productivity of labor has the trend of growth, but the growth is insignificant, which could impute to results of bad privatization, to influence of global financial crisis, but also to numerous other problems that charged Serbia at certain previous periods [7, p.144].

Table 3. Dynamics of productivity of labor in Serbia (EU-27=100)

	2002	2003	2004	2005	2006	2007	2008
Productivity of labor according to BDP PPS per employee	39	40	44	48	52	56	58

Source: Euro stat, for Serbia estimation RZR

In economic crisis conditions, the sector of small and middle enterpreneurship, which is really the basis of prosperity of national economy, is at the global level and in Serbia one of weakest on the negative financial trends. For protecting the small economy to a certain degree, the goverment has started several programs through which it will invest over 60 millions in small and medium enterprises [6].

With a view to help this most endanger sector, the investments in economy will continue, which will prevent a deeper recession. The small businessmen struggle with the economic crisis on very different ways. Some of them think that the solution is in stimulating innovation, and others the key of success look for in new business strategies. An way of adaption could be in reducing certain activities and expanding the activities on large number of clients, which could alleviate the negative effects of crisis.

Serbia will hardly bear the effect of crisis, more difficult than the other countries in region, since its economy is completely destroyed by the privatization process. The owner of big business significantly contributed to the collapse of Serbian economy. With the support of political and legal system of our country they ook on the attractive property and land, incompleting the obligations from their sales contracts. Their motive for such step was not an aspiration for improving economic efficiency of enterprise but stopping the business process and capitalization the property. Another problem were the employees but the new owners payed off severance pay to them from the funds created by selling the profitable parts of enterprise.

Estimates and recommendations to weather the crisis

According to the estimates of the IMF, the world economic and financial crisis are “so far from the end” and it is considered that the recovery should begin from the USA. The opinions about duration of crisis, which is one of the most difficult up to now, are very different. Most economists consider that the duration of crisis to a great extent depends on the dept of caused effects. However, the undoubtedly thing is that the world waits some further temptations and it is so ungratefully to predict the start of recovery. It is also very important to stress that the crisis will come to an end and the whole economy should ride out the crisis more competitive and with good perspectives for future.

The fact is that the crisis will last longer than it was expected, which is indicated by information related to foreign trade deficit, monetary-credit policy, high borrowing of enterprises and economy in the whole, lower purchasing power of customers, worsening liquidity, as well as the other negative factors that influence the regular business activities. However, even when the influence of economic crisis would stop, many limiting factors that have been presented in our spaces more than one decade will remain. Most economists mean that the key condition for weathering the crisis is just returning the confidence in financial sector. Besides higher credibility, it is necessary to take a series of measures for protecting domestic production that continues with the reforms and reduce public expenditures. All these activities are the reason for Serbia to create an optimal strategy of managing foreign dept that will also define an optimal strategy of new borrowing both of the state and enterprises. The enormous, dramatic problems Serbia is faced and will be faced with, require that it should accept a clear vision, that is the optimal strategy of social and economic reforms in the condition of world economic crisis which, judging by the facts, will last longer than it was expected. But, it is necessary to stress that this crisis, like each crisis, could be a good opportunity to recognize the best possibilities for setting the conditions for higher competitiveness through efficient business activities with complete rationalization at the internal level and reducing administrative, tax and other burdening for employers at the decision making level.

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REALNI SEKTOR SRBIJE I ZEMALJA U REGIONU U USLOVIMA EKONOMSKE KRIZE

Rezime: Kriza u SAD i njeno prelivanje u EU, koja sve više poprima svetski karakter, ima negativne posledice i na našu zemlju, koja zbog visokog negativnog salda u razmeni sa svetom spada među ugroženije zemlje istočne Evrope. S obzirom na brojne negativne efekte, postalo je jasno da je reč o krizi čije se razmere i posledice teško mogu sagledati, ali i da su nužne hitne i sveobuhvatne mere kako situacija ne bi izmakla kontroli. U radu su prvo prezentovani i analizirani efekti svetske ekonomske krize na Srbiju i zemlje u regionu, a zatim je poseban akcenat stavljen na negativne uticaje recesije na funkcionisanje srpskih preduzeća i na aktivnosti i mere koje se primenjuju u cilju prevazilaženja ispoljenih problema.

Ključne reči: globalna finansijska kriza, racionalizacija, zemlje u regionu, realni sektor

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A CONTRIBUTION TO THE ANALYSIS OF SERBIAN ECONOMY COMPETITIVENESS AND POSSIBILITIES FOR ITS IMPROVEMENT

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Abstract: *The competitiveness of the economy of Serbia is of a relatively low level. In this paper, the author analyzes the attained competitiveness level and defines the priorities related to its enhancement. The author has particularly insisted upon intensifying the microeconomic reforms in public and private sectors, establishing a competitive exchange rate and eliminating the barriers to a stable and sustainable market economy operability.*

Key words: *competitiveness, market economy, exchange rate, private sector, public sector, reform*

Introduction

One of the key factors of national economy development is represented by its capacity to be incorporated in the international division of labor, reflecting in its competitiveness in the global market. The attainment, maintenance and enhancement of competitiveness are the cardinal preconditions for an increase of economic and technological capacities of each national economy. In this, the most significant role belongs to the entrepreneurial and innovative behavior of enterprises and to an active technological and industrial government policy.

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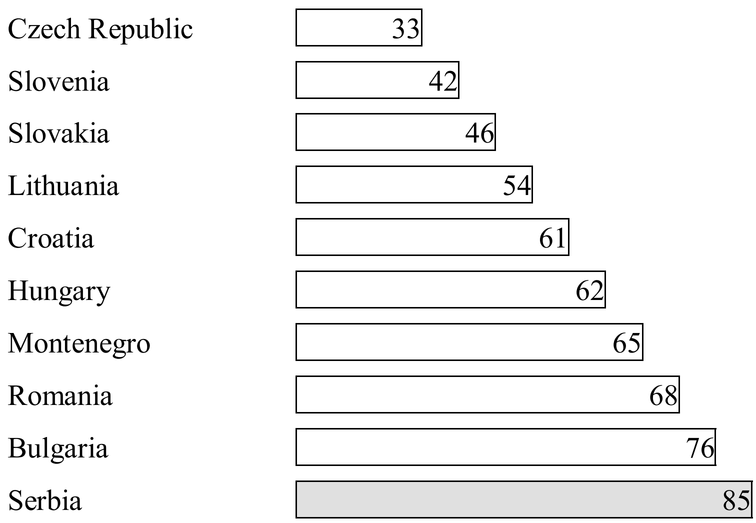
Competitiveness is of a great importance for the development, employment, economically profitable exchange with the world and social welfare. It has a particular significance for small countries, which have to be successful in terms of export. Due to a high import related to industrial-technological needs and final consumption in the country, their export has to exceed 50% of GDP, which can be achieved only if they have attained international competitiveness.

In view of the significance of competitiveness for a dynamic efficiency of national economy, the paper shall analyze both the attained level of Serbian economy competitiveness and the possibilities of its improvement, such as: intensification of microeconomic reforms in public and private sectors, introduction of a competitive exchange rate and elimination of the barriers to the establishment of a functioning market economy.

1. Attained competitiveness level

Serbian economy competitiveness is on a relatively low level. According to the Global Competitiveness Index, World Economic Forum for 2008, Serbia ranks 85th in competitiveness on the list of 134 countries [1, p. 294]. This ranking is considerably low, not only compared to the Western countries, but to the transition countries as well. The position of Serbian economy among economies in transition may be observed in the following Illustration 1.

Illustration 1. Competitiveness among the sample of transition economies



The low competitiveness of Serbian economy has significantly been conditioned by a delayed transition, a longtime isolation and absence from the global market, a long-lasting disinvestment, as well as by a substantial lagging behind developed economies in technology. There is also highly pronounced price non-competitiveness, being that low labor costs are accompanied by low labor productivity, while the non-competitiveness related to the quality of products is even more expressed.

In the previous period, Serbia achieved certain technological development primarily through the implementation of foreign technologies and less by developing and applying its own ones. Thus, a considerable technological potential was formed, incorporated in the equipment of specific branches of economy, but not much effectuated in Serbia. The main cause of Serbian non-competitiveness lies in the system that did not generate necessary motivation of economic subjects to quickly develop and efficiently use technologies and to modernize the economy and the public sector on this basis. After two decades of disinvestment, many sectors of Serbian economy have non-competitive prices and non-competitive technological contents due to the obsolete machinery, instruments and equipment and to the outdated knowledge and information. The absence of investment into human capital caused a significant decline in the economic and technological competitiveness of Serbian economy [2, pp. 50-80].

Many years of the domestic economy isolation have affected a technological lagging of economy behind the world tendencies and a decrease of domestic product competitiveness in the global market. Exporters from other countries have displaced domestic enterprises from specific global market segments, first of all from the EU market, so their return to these markets after 2000 was much difficult. The requirements of foreign buyers are increasingly rigorous regarding the quality, performances and design of products, servicing of complex products, as well as supplying credit for purchases, which brought about an increase of the global market competition. This resulted in an insufficient export growth, regardless of the increasing dynamics in the period after 2000.

Commercial categories that make 74.2% of the commercial export of Serbia are of a small importance for the EU import. Moreover, most of these products belong to primary products that are labor-intensive and natural resource-intensive, indicating the incapability of Serbian economy to be integrated into the EU market by technology-intensive products. This was caused to a significant extent by insufficient import of modern equipment and state-of-the-art technology and inappropriate investments in scientific research and development [3, p. 31].

The non-competitiveness of domestic products and services in the global market reflects in the level of cover of imports by exports of more of less intensive products. Domestic products do not contain competitive technological contents, which has induced low exports of such products and low income from technology exportation. This is an indication that Serbia is technologically lagging behind developed countries and that it is dependent to a great extent on foreign countries, with an adverse balance of technological payments. The unfavorable balance of receipts and expenses related to technologies points out the predominance of technologies of foreign origin, which have not been significantly improved in order to increase the export of technologies and gain more significant income on this basis.

A low competitiveness of Serbian economy also results from its delayed transition and, in its framework, a slowed down privatization and unsatisfactory quality of institutions. As opposed to successful transition economies, which have accomplished transformational efficiency and whose institutions have successfully adapted to the requirements of functioning market economy, Serbia is in a different situation in this respect [4, p. 7]. Namely, on the level of legislation, changes in economic system solutions have been materialized, a stabilization policy has been implemented, a monetary reform has been performed, the prices of most products and services have been liberalized and the foreign trade liberalization has been accomplished. Also, radical changes of the fiscal system have been made through the introduction of transparent public expenditures and strict control of the fiscal deficit [5, p. 390]. In view of the previously emphasized, it may be concluded that Serbian economy has mainly achieved a well-rounded quality of formal institutional facilities that should generate a competitive environment and enable the establishment of a functioning market economy. However, in spite of the formal rhetoric, competition is obviously yet to take hold, while a specific institutional vacuum may be observed that adds to the persistence of a non-market system, or, to be more precise, a quasi-market system, which is of a low developmental capacity. Competition deformity is not limited only to the public sector, but it spreads to the parts of transformed enterprises, as well. It all leads to the creation of a chaotic "non-system", which significantly affects the disruption of macroeconomic stability.

It has also been assessed that the competition in Serbian economy has been reduced to primitive market structures, that there are various market substitutes and mutant pseudo-market structures, which cannot guarantee economic efficiency. In fact, the point is that many forms of quasiinstitutionalization of market relations were established, reflecting in paternalism, monopolism, rent-oriented behavior, etc. It is even believed that certain nomenclature-lobbyist groups tend to create "supra-institutes", that is, to monopolize further flows of institutional development by their wide network of informal ties and relations.

A widely spread reluctance to entrepreneurial behavior is an essential institutional determinant of the transition of Serbian economy. This is certainly contributed by the trait of collectivism that gives no impetus to individual entrepreneurship [6, p. 360]. A significant influence on the deep-rooted disinclination to entrepreneurial initiatives was exerted by historic circumstances abundant with bifurcations, instability and permanent uncertainty. The reluctance to entrepreneurship in the modern economy of Serbia resulted from the integrated effects of the mentioned historic factors and contemporary perception of entrepreneurship in the society. Negative apprehensions of entrepreneurs partly originate from the forms of acquiring illegal wealth during the past years, based on the connections with corrupted segments of government, on gaining extra-profit through monopoly, war profiteering, etc. In this respect, certain role belongs to the inclination of many entrepreneurs toward blatant spending, cherishing the style of nouveau riche instead of investing the earned income into the expansion of capacities, new technologies and new jobs [7, pp. 280-286].

Thus perceived, the economy of Serbia is obviously on an economically inefficient pathway to institutional evolution. The reason for this should be sought in the ruling cultural model that does not favor a behavior in line with marketing principles. Therefore, transition policy creators would have to fully respect the existing informal institutional structure, especially the rigidity it produces in the process of delayed transition.

2. Possibilities for competitiveness improvement

Previous analysis clearly shows that the competitiveness of Serbian economy is on a low level. As already pointed out, numerous and complex factors determine the level of competitiveness. The following ones seem to have high priority for being resolved in Serbia: intensification of microeconomic reforms in public and private sectors, establishment of competitive foreign exchange and elimination of institutional barriers for the introduction of functioning market economy.

Restructuring of the strategic public sector, which includes state-owned natural monopolies and network technologies, is of a special importance for the economic development strategy, being that it represents a place for investment and a ground for technological development. Considering its strategic significance, and especially because of its influence on the increase of economic competitiveness, the state should retain a substantial presence in this sector.

Electric Power Industry of Serbia is a typical strategic public sector representative. The energy industry is the largest industrial sector with big direct and indirect effects. Its product is market-perspective, mobile and in short supply, so it represents a strategic product in the proper sense of the word. By its developmental prospects, the energy industry offers the biggest investment opportunities, thus creating the conditions for the elimination of transition deficit that is characteristic for Serbia. The investments into the energy industry should be financed by privatization revenues, by joint ventures with strategic partners and by selling stocks and bonds.

The first restructuring phase of the Electric Power Industry of Serbia should be a corporatization, that is, a transformation of the status of public enterprise into a state-owned joint-stock company. Restructuring includes size determination, reposition and recapitalization. Size determination refers to the capital, assets and number of employees. Repositioning means an optimization of the existing capacities, investment into new energy sources and construction of and energy distribution from renewable sources. Recapitalization may be accomplished through the first-tender mechanism with a pre-set share flotation percentage. Finally, the technological basis of energy industry renders an opportunity for development in different fields of science, by which preconditions may be created for synergetic effects in other branches of industry both in demand and in supply.

Beside the energy industry, the strategic public sector contains telecommunications and agriculture, too. In contrast to telecommunications, the strategic public sector in agriculture is yet to be formed. The first step in the right direction shall be the establishment of a retirement system that would imply the acquisition of land from elderly households.

In an economy dominated by uncertainty, the only permanent source of competitive advantage is knowledge. Knowledge is needed not only for running a business (business management), but for increasing the capital (corporative management), as well. Both types of management have to be effective and ethical. Ethical management should eliminate so-called "agency problem" resulting from asymmetric information between the manager and the owner. The most significant manifestations of the "agency problem" are a moral hazard and an opportunistic behavior. The task of corporative management is to put an end to the mentioned deviations. This may be performed in various ways: by forming boards of directors (managing and supervisory boards), which control the managing team behavior through internal audit and by adhering to the ethical codex [8, p. 25].

Boards of directors have different functions. Apart from strategic management and personnel policy, one of the important functions is remuneration by effect, too. Adequate remuneration is the main factor of motivation and loyalty. The system of remuneration for management has evolved in the last thirty years. Thus, for example, until 1980s, the remuneration system was dominated by fixed compensations, while the stress was placed on the question of how much a specific position should be paid. During 1990s, remuneration was associated with performances. Since 2000, the remuneration essence lies in investments, so that compensations now stimulate the increase of performances. In this way, the system of remuneration becomes the principal lever of the implementation of a strategy that will affect performances instead of following them.

Competent analyses of corporative management show that there is a close interrelation of the director's education and the company performances. Namely, better performances are achieved by the companies whose directors have a systematic information exchange and a permanent education, as compared to the firms whose directors learn exclusively from their own experience. It is also important that directors behave ethically, spreading a culture of behavior that contributes to a wider social responsibility. Consequently, organizations whose mission is the very development of corporative management appear in this sphere. They recruit, monitor and promote corporate directors.

If the strategic sector remains in the hands of the state and if corporate management in the private sector gets improved, a transmission of positive influence to the quality of public management may be expected. Renowned theoreticians and practitioners of economic development agree that adequate public management represents a significant development lever. Therefore, without adequate public management, other generators of economic development cannot yield adequate results.

The domestic currency has to have adequate price, since it has the character of commodity. In the international exchange, the domestic currency price is determined by the foreign-exchange rate. The real exchange rate exerts neutral influence upon the international exchange. In the case of real exchange rate, the competitive advantage has a decisive impact on the international exchange. The real exchange rate is, practically, the market rate, as it represents the outcome of the supply and demand of foreign currency. Generally, the rate is not real, but either overvalued or undervalued. The point at issue is a monetary problem that may have unpredictable consequences to the competitiveness in future. On the one hand, it is difficult to identify the rate undervaluation level, while on the other, the "black-market exchange rate" indicates an overvaluation of the foreign-exchange rate. A particular problem arises when a fixed exchange rate is maintained by the intervention of a central bank, like in the case of Serbia. In the economies in transition, this operation is enabled by the increase of foreign exchange reserves due to the increased foreign capital inflow, caused by privatization and liberalization. A reasonable question may be put up in relation to the exchange rate preserving, namely, why to defend the rate by offering foreign exchange if it is formed in the market? Another two questions may also be raised. First, is such formed exchange rate competitive? Second, is such a rate sustainable? The answer to the first question is negative, although argumentation is not always simple and unambiguous. The second question implies a negative answer, as well.

Only a real exchange rate can be competitive. The competitiveness is based on investments whose effects shall be realized in the future, and not on monetary tricks. However, an exchange rate can be qualified as real only on the basis of complex analyses, by comparing relative prices and expenses, determining the purchasing power of the domestic currency and analyzing the macro balance. Without going into the mentioned analyses, we may conclude that an overvalued exchange rate cannot be permanently defended by central bank interventions in the foreign exchange market. It is neither rational to repeat this strategy, nor it can be permanently feasible, since foreign exchange reserves originate from privatization, the income from which is not of a permanent character. Therefore, beside the monetary model change, the policy switch from a quasi-market exchange rate to a competitive rate has to be the priority of the economic policy. The exchange rate problem is not only a short-term macroeconomic issue (inflation control), but also a long-term microeconomic issue (competitiveness and survival of exporters). Being that only a competitive economy can permanently resolve the problem of maintaining external liquidity, a competitive exchange rate represents a long-term macroeconomic issue, as well.

In the case of Serbia, organization and functioning of the state in transition is a permanently neglected topic. However, the only way to provide adequate public management is to secure transparency at work and depoliticization of public affairs. In this respect, it may be wondered what type of a state is able to protect public resources from abuse. It certainly cannot be a party-state or a voluntaristic or weakened state, including demoralization as well, without clear goals and perspective, which could become a suitable ground for interconnecting state authorities and criminal entrepreneurial structures [9, p. 14]. It would have to be a legal state with strong government, as defined by Kornai, supported by professional and competent administrative and technical services and scientific research institutes [10, p. 70].

One contradictory tendency of the economy of Serbia related to the state interventionism should be particularly pointed out. Although there are numerous requirements addressed to the state, since the economic activity is directly related to the state, these requirements are by no means followed by the loyalty to its authority. It may even be said that there is an obstruction of the state authority in Serbian economy, with a pronounced tendency to trick it and to avoid its standards. This inclination toward deceiving the state is observed as a part of general behavior and as an attitude that is not disapproved by the society, but it remains as a permanent form of socially supported behavior [11, p. 45].

For this reason, a closely connected question, or better formulated, a significant aspect of building and improving the quality of institutions, reflects in the further capacitating the state in assuming its adequate role in the process of transition. This is undoubtedly the central problem of the institutional transformation policy. On the other hand, the mentioned dichotomy, between the extensive requirements of actors addressed to the state and the concurrent obstruction of its authority, is additionally aggravated by a non-credible and incompetent state administration. It is thence justified to raise the question of the state capacity to perform a whole scale of functions aimed to establish and secure the market economy functioning, in view of the mentioned institutional effects. A solution to the defined problem should be sought through an institutionalized form of the selection of personnel that should represent the core of a future state administration. Strengthening of the state competence and authority would influence the decrease of tension between the state and the actors, while a reduction of the institutional transformation cost would be a significant output. This would, additionally, influence a rise of trust into the introduced market institutions and into the direction of Serbian economy to an economically efficient route of institutional evolution. The ultimate output of the mentioned process should be an improvement of its performances and, thereby, its competitiveness, as well.

Conclusion

The definition of priorities in the transition strategy and the strategy of economic development of Serbia should be the main task of the creators of these strategies. Fully legitimate and feasible priorities are related to the restructuring of the strategic state-owned public sector and to the improvement of corporative management in the private sector, by which we may expect a propagation of positive influence to the quality of public management in general. Alongside with the establishment of a competitive exchange rate, which is both a short-term macroeconomic and a long-term microeconomic problem, and with the creation of a competent and credible state, prerequisites may be obtained to increase the competitiveness of Serbian economy in the foreseeable future.

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PRILOG ANALIZI KONKURENTNOSTI PRIVREDE SRBIJE I MOGUĆNOSTI NJENOG UNAPREĐENJA

Rezime: Konkurentnost privrede Srbije je na relativno niskom nivou. U radu se analizira dostignuti nivo konkurentnosti i definišu prioriteti u cilju njenog povećanja. Autor posebno insistira na intenziviranju mikroekonomskih reformi u javnom i privatnom sektoru, na uspostavljanju konkurentnog deviznog kursa i otklanjanju barijera stabilnom i održivom funkcionisanju tržišne privrede.

Ključne reči: konkurentnost, tržišna privreda, devizni kurs, privatni sektor, javni sektor, reforma

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STATISTICAL ANALYSIS OF THE PREMISES, FACTORS, AND BARRIERS OF DEVELOPMENT OF PUBLIC-PRIVATE PARTNERSHIP IN THE REPUBLIC OF BULGARIA

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Abstract: *Public-private partnerships (PPP) are an important element of contemporary national and international business processes. Experience to date and the modest accumulation of theory moved a joint team of researchers from the International Economic Relations and Statistics Department[1] of Sofia's University of the National and World Economies to address the issue. The paper presents sample survey results and their theoretical context amid the latest studies by EU authors. Basic conclusions refer to the: correct understanding of the PPP essence, determination of the real mechanisms for effective PPP, practical realization of the today's principals of PPP in our country, crucial points guarantying the PPP success in different activities, main railings for future development of the PPP, main financial tools for real mutually beneficial PPP etc. The whole empiric information is treated with SPSS. The results are correct analyzed by appropriate statistical methods.*

Keywords: *public-private partnership (PPP), sample survey, probability proportion, standardized questioner, statistical methods for analyzing empirical data, basic conclusions about Bulgarian experience in the field of PPP.*

The development of Public-private partnerships (PPP) has accompanied a renewal of the public sector by the adoption of a new management culture. It places the client centre-stage and presupposes accountability as to outcomes, researching a great many diverse alternative mechanisms for service provision and for competition between public and private undertakings in delivering services, while recouping costs and

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attaining the best quality for the price. Moreover, the image of government as the direct supplier of services is transformed into one in which government is an empowering body which coordinates the actions of other suppliers. A number of countries which are updating their public administrations have adopted the ideas and principles marketing of services.

1. Nature and premises for establishing public-private partnerships

A substantial increase in partnership between public and private sectors has been observed in recent years. Within EU members, this has come into effect as a result from public service privatization. Emergence of large multinational operators of public services and public expenditure revision in accordance with Maastricht criteria require financial sources diversification.

Public-private partnership PPP is defined as long-term cooperative activity between the public and private sector for project accomplishment or service provision, traditionally supplied by the public sector and/or public interest, in which case the expenditures, values and risks are distributed to the mutual advantage of both sides.

The main target of PPP is to structure cooperative connections between separate parties in such way that the risks to be taken by those who would be able to control them in the most appropriate way. Within PPP environment, entrepreneurs form the private sector transform from assets' bearers into service suppliers for a long period of time. Parallel with that they carry the responsibility of designing, construction, exploitation and possible financing, in order to provide the service necessary in the public sector. As a result the central and local governmental agencies gradually adopt regulatory function and focus resources upon service planning, execution, monitoring and contract management, instead of performing direct management and serving.

In cases PPP has been developed in an appropriate manner, it can generate substantial benefits for the customers and taxpayers:

- Taking much of the risks (including price risk and time risk) and better service provision renders PPP projects cheaper compared to the traditional public procurement both for the government and the tax payers.
- The predominant part of the project risks are transferred to the private sector as the party that is able to manage them better.
- Private sector provides better service to public service consumers;

- World practice and project assessments, materialized through PPP schedules display considerable improvement in quality and public infrastructure condition.

Cooperation together with the private sector in PPP projects offers a number of advantages. These are based on the following principles: accelerated provision of infrastructure; fast accomplishment; lowering total project cost, better risk distribution; technical performance stimulus; service quality improvement; additional income generation; improved public management; higher effectiveness at resource deployment; generating commercial value from public sector assets.

The form PPP usually obtains depends to a large extent upon the specificity of the particular project. Main forms are: public procurement; leasing; service agreements with private sector companies; exploitation and management agreements (including Build-Operate-Transfer approach); concessions, etc.

Membership of Bulgaria in the European Union stimulates new opportunities, though new requirements as well in front of PPP. In this way it emerges as an operating mechanism for acquiring funds from the Cohesion and structural EU funds. The principle of partnership and European financing gradually establishes itself. The national strategy of regional development of Bulgaria for the period 2005-2015 defines PPP as a basic instrument for regional development projects accomplishment.

2. Objectives and characteristics of the sample survey

In view of the actuality of problems, in process of development is the project “Public-private partnership in terms of integration of Republic of Bulgaria into the European Union”, one objective of which was the conduct of a special inquiry study. The experts from the research unit estimated that the main respondents are: the public administration, Bulgarian financial institutions, international financial institutions, Bulgarian companies, foreign companies, non-governmental organizations, and the academic community. In essence, these are the seven types of statistical research units, upon which the detached sample quota is based.

Due to the fact that only partners with real experience in PPP represent specific interest, they were divided into three main groups: with one to five years experience; with one to ten year practice, and third segment – of already realized the benefits and acting through PPP respondents with significant experience of more than ten years. The latter category, though minor, is of special interest to this analysis, due to the fact that it was supposed to contain predominantly international financial institutions and foreign companies, which could transfer their positive experience in our country.

After repeated discussions, including experts from the Ministry of Finance, Ministry of Regional Development and Public Works, and representatives of private sector, a relatively short questionnaire was made up. The objective was for the latter to serve as means to estimate the overall awareness of potential partners regarding the essence, necessity, mechanisms, principles, state policy, critical points, and financial instruments of the European Union, increase of competitiveness and key success factors of PPP within the present conditions in Bulgaria. Due to the specific wording of the objectives of the study and the fact that PPP in our country is not entirely recognized as practice, the assignors preferred to grant the respondents the possibility to mark more than one correct answer of the separate questions. This was a reasonable approach due to the fact that the majority of potential opportunities are still at research level both on the part of the state, ministries and municipalities, and also on the part of the representatives of the partners – Bulgarian companies and those with international participation, Bulgarian and international financial institutions, nongovernmental organizations, and academic community representatives.

The inquiry survey prepared was relatively short in order not to burden respondents and not to predispose them of length of the answer reduction. It contains fifteen questions only in close form. The maximum number of answers to one of the questions only is ten, of which the respondents can point up to five correct. Based on the developed project for group tables, the average number of cells is of range 16-21 and only in solitary cases can reach up to 63. Naturally the model, volume, and method of survey formation depend upon other objective parameters and most of all from the level of scattering of the seven unit types surveyed within the studied indications (questions). Unfortunately, we did not have at our disposal data from similar preliminary research within this scope. Due to the above-mentioned, it is deemed logical to set the hypothesis that the level of scattering would be different not only for the seven potential types of partner, but also according to their PPP experience. Due to the lack of supporting point, related to the volume of investment, size of partnering organizations, auction procedure requirements etc., we headed for pilot survey.

The limited financial and time resource were the reasons for us to unify upon research of about 130 units. 200 survey cards were printed, which were distributed for filling in May 2007. 129 of the survey cards were returned (about 65%). The highest level of responsiveness was registered among respondents from the state administrative and academic community. The highest level of non-filled in survey cards are from Bulgarian and international financial institutions. In Table 1 the absolute number and the percentage of the respondents is presented according to their belonging.

Table 1 Distribution of the interviewed persons according to their belonging

Representative of	Absolute number	Percentage (%)
State administration	42	32,6
Bulgarian financial institution	4	3,1
International financial institutions	3	2,3
Bulgarian company	24	18,6
International company	4	3,1
Non-governmental sector	22	17,1
Academic community	30	23,3
Total	129	100,0

The prevailing part of the surveyed (69,1%) have experience in the field of PPP from one to five years, and 10,9% have experience for more than 10 years. The profile described so far gives sufficient grounds for in depth analysis of the conditions and problems in PPP in our country and against the background of our accession to the European Union.

Following survey research held regarding PPP, the survey card data were entered through electronic means into the application statistical software SPSS. Primary logical and statistical control was executed upon the data, after which final result was formed, containing primary data.

Situational statistical analysis was held, including one-dimensional distribution from respondents upon each and every one of questions asked and calculation of appropriate summarizing statistical characteristics of every one-dimensional distribution. The summarized results from formations and distributions are represented in table form and in graphic display. A basis for evaluation of PPP was created, as well as of opinions of representatives of Bulgarian state administration, business, non-governmental sector and academic community regarding the essence, aims, possibilities for application in the country, advantages of PPP and efficiency of realizing such partnership. The statistical analysis performed grants the opportunity also for hindrances to be cleared as of PPP accomplishment that can be of various natures – administrative, legal, and other.

Parallel with one-dimensional distributions, in order studying the status and basic regularities of PPP accomplishment, suitable two-dimensional distributions are performed (i.e. cross-tables). They provide us with the chance for more in depth analysis regarding the prerequisites and conditions of developing PPP in our country, for revealing sources of the hindrances in performing this activity, for the areas, where better chances exist, or PPP is not accepted well etc. with the aim of better visualization, part of the results of this multi-dimensional analysis are represented in graphic display.

Based on various two-dimensional distributions with the help of χ^2-analysis and other statistical methods, statistical analysis can be performed, for establishing and proving important connections and dependences in the field of PPP.

3. Factors for contemporary development in PPP

One of the accents in the survey held was establishing the factors that guarantee PPP success. The survey question consists of ten variances of answers, of which up to five true can be pointed. The prevailing opinions are that sound and clear state politics (74,17% from answers) is the most important prerequisite for PPP development (see fig. 1). Following are 69,17% of answers in favor of the legislation and 59,17% - for necessity of state policy succession regarding PPP. In essence, all three of the answers gravitate around the necessity of clear and consecutive state policy in the above-mentioned field, to be held by the state and the judicial system.

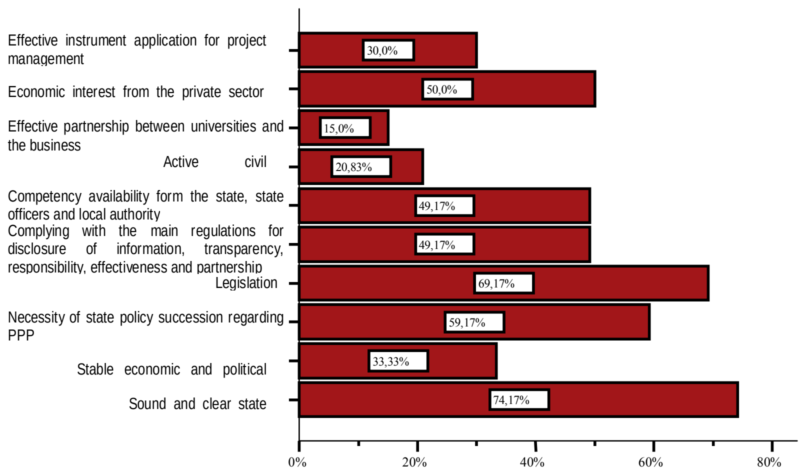

Fig. 1 Factors that guarantee PPP success.

Very similar in intensity are the following answers: “economic interest from the private sector”, “complying with the main regulations for disclosure of information, transparency, responsibility, effectiveness and partnership” and “competency availability form the state, state officers and local authority”. Success factors that have received least votaries are: “effective partnership between universities and the business” and “active civil society”.

Analysis of PPP success factors can be deepened basis of the experience, the surveyed possess in the field. It is distributed in intervals with width of five years. Results received are presented in Table 2.

Table 2 Success factors and experience in the field of PPP (%)

Success factors	Experience in the field of PPP		
	1 to 5 years	5 to 10 years	more than 10 years
Sound and clear state politics	71,2	78,6	63,6
Stable economic and political environment	32,9	28,6	45,5
Necessity of state policy succession regarding PPP	57,5	42,9	72,7
Legislation	69,9	78,6	81,8
Complying with the main regulations for disclosure of information, transparency, responsibility, effectiveness and partnership	47,9	64,3	36,4
Competency availability form the state, state officers and local authority	49,3	64,3	54,5
Active civil society	23,3	28,6	9,1
Effective partnership between universities and the business	16,4	14,3	18,2
Economic interest from the private sector	49,3	64,3	63,6
Effective instrument application for project management	37,0	7,1	18,2

For the companies with least experience in the PPP field the leading factors are: “sound and clear state policy” and “presence of legal regulations”. The least important factors for them are: “effective partnership between universities and the business” and “active civil society”. The surveyed that have experience within five to ten years again place the dominant preference upon the two factors presented. The least important factors for them are “effective application of instruments for project management" and "effective partnership between universities and the business". However, percentage differences are more than ten times. The most experienced, applying PPP for more than ten years, consider most important (81,8%) "existence of legislation" and hardly 9,1 % need support of "active civil society".

Lack of sound and clear state policy is considered success factor for PPP within 100% of the foreign companies surveyed and within 82,6% of the Bulgarian ones. The legislation is very important for the financial institutions and for the foreign companies. The economic interest of the private sector is considered of highest importance from the financial institutions and the state administration. Effective partnership between universities and the business is deemed important factor predominantly by the financial institutions and from the non-governmental institutions.

For those with above ten years of experience in the field of PPP, the most serious factors of prosperity are with regards to the legislation and succession of the state policy in this area. The companies, participating in PPP between five and ten years add to these two factors also: competency of state, state officials and the local authority, as well as complying with the main regulations for disclosure of information, transparency, responsibility, effectiveness and partnership. For the companies with less than five years there also occur problems, connected with economic interest of private sector and effective instrument application for project management.

4. Barriers to effectiveness of PPP

Barriers to effective development of PPP in our country are numerous. The question in the survey card contains ten possible answers. In expert opinion, the surveyed received the chance to answer up to five true.

First level barrier is "lack of motivation on the part of the government, local authority, business and interested parties" (65.9%), followed up by "incompetent state officials in the face of constant political replacements" (60.0%) and complicated legal frame" (47,4%). Comparatively lesser difficulties can be caused by "limited activity of the civil society" (17,0%) and by "lack of capacity on the part of the local authority" (23,0%).

As a main barrier, it is indicated "lack of motivation on the part of the state, local authority, business and the interested parties" (Table 3). This attitude is held by 75,0% from the financial institution representatives, by 72,7% of nongovernmental organizations' representatives and by 70,8% of the Bulgarian companies. Interesting is the fact that "lack of competency on part of the local authority" is considered barrier for 100% of the foreign companies representatives and for 76,7% of the academic community representatives.

Table 3 Barriers to effective development of PPP according to the different representatives (%)

Barriers to effective PPP	Representative of						
	State administration	Bulgarian financial institution	International financial institution	Bulgarian company	International company	Non-governmental sector	Academic community
lack of motivation on the part of the state, local authority, business and the interested parties	57,1	75,0	66,7	70,8	50,0	72,7	70,0
lack of understanding	45,2	0,0	66,7	7,5	50,0	31,8	36,7
lack of competency on part of the state	23,8	50,0	0,0	0,8	0,0	7,3	23,3
lack of competency on part of the local authority	47,6	50,0	33,3	66,7	100,0	45,5	76,7
incompetent state officials in terms of an ongoing political replacements in the country and abroad	45,2	25,0	66,7	62,5	50,0	40,9	33,3
lack of rules at state/local authority level	23,8	5,0	66,7	29,2	0,0	31,8	46,7
insecurities of partners – representatives of the business (local and foreign), related to the judicial system	45,2	50,0	0,0	1,7	25,0	50,0	53,3
complicated legislation	26,2	50,0	66,7	33,3	25,0	45,5	60,0
conflict of interests between state, society and private business	19,0	0,0	33,3	2,5	50,0	18,2	16,7

Around ¾ of the Bulgarian and 2/3 of the foreign financial institutions criticize "lack of regulations on state/local authority level". It is interesting to note that although being on polarized sides of PPP, the state administration and Bulgarian companies arrange in similar way existing barriers of PPP effectiveness. In the first place, they place "lack of motivation on the part of the state, local authority, the business and the interested parties" and "lack of competency on part of the local authority". These answers called into question even realizing PPP. Simultaneously, both partners almost completely neglect the possibility of "conflict of interests between state, society and private business" and "lack of competency on part of the state".

An interesting fact is that continuance of experience of the surveyed in the field of PPP affects extremely the weight and arrangement of barriers in partnership effectiveness. The surveyed with one to five years of experience place importance mainly upon "complicated legislation" (83,7%) and "conflict of interests between state, society and private business" (80,0%). They meet the least impediments, born out of "insecurities of partners – representatives of the business (local and foreign), related to the judicial system" (65,3%) and "lack of understanding" (67,4%). Along with increase in continuity of experience from five to ten years, gradually in most serious barriers become "lack of competency on part of the state" (24,0%) and "incompetent state officials in terms of an ongoing political replacements in the country and abroad" (21,3%). They placed on the last place "complicated legislation" (4,7%) and "lack of rules at state/local authority level" (14,7%). The surveyed with more than ten years of experience consider most serious the barriers "lack of competency on part of the local authority" (16,1%) and of "insecurities of partners – representatives of the business (local and foreign), related to the judicial system" (14,3%). According to them, the least important are "lack of rules at state/local authority level" (5,9%) and "lack of competency on part of the local authority" (8,0%), Evolution of opinions is very unsteady with increase in the experience and the opportunity a lot of barriers to be overcome.

Against the background of the previous questions, the necessity of setting key success factors of PPP logically emerges. Possible answers of the question are five, of which the surveyed can point out up to three dominating. They are displayed in Figure 2.

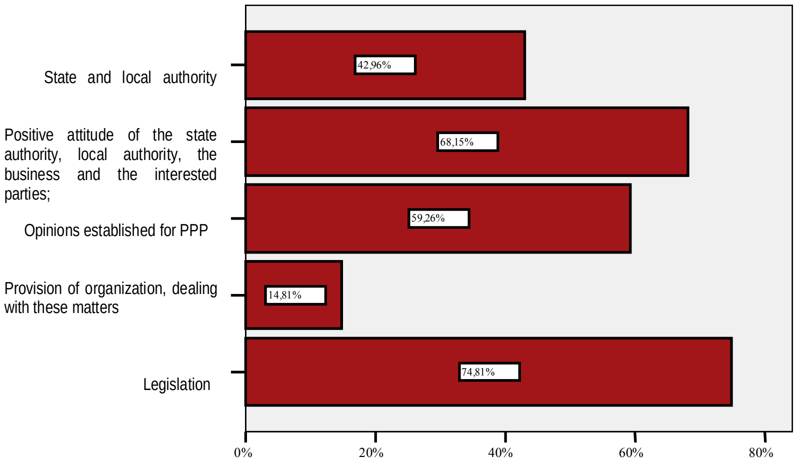

Fig. 2 Key success factors of PPP

The most important key success factor turns out to be the legislation. Following are consecutively arranged the positive attitude of the state authority, local authority, the business and the interested parties; opinions established for PPP; state and local authority capacity and the provision of organization, dealing with these matters.

The survey has the purpose of establishing only the essence, factors, mechanisms, and barriers of PPP development in our country. Its aim is broader and it encompasses namely also treating it in terms of integrating of the country in the European Union. Subsequently follows the necessity of evaluating the circumstance of whether according to the surveyed PPP can be considered as part of EU financial instruments deployment in view of full membership of our country. Special attitude deserves the fact that more than ¾ form the surveyed consider, that this is one of the prerequisites for EU financial instruments deployment and only according to 5,7% interaction between PPP and EU financial instruments deployment does not exist.

Troublesome is the fact that for about the half of the surveyed (49,6%) PPP projects in Bulgaria are accompanied by corruption scandals. Only 1/5 of the respondents identify them with anticorruption practice.

Another substantial in importance result is that in our society (according to 88,4% of the surveyed) gradually established the opinion that through PPP the competitiveness of the country is enhanced, of separate regions and economic sectors.

In summary, it should be noted that PPP is considered relatively new form of economic activity. About 70% of the respondents define it as "durable interaction between state /state administration/ and the business in financing projects in the field of infrastructure**,** Water supply and sanitation, education and health**".** The other widely accepted opinion is that PPP is steady interaction between state /state administration/ and the business in the form of consultancy and analysis of the benefits and advantages when adopting laws, management documentation in the form of plans, strategies and programs, solutions in the area of economic policy and regulation".

Mechanisms of effective PPP are numerous. According to the surveyed three of them are leading: organizational management (meetings, consultancies between representatives of the official and local authority, the business and the interested parties); permanently active organizations (unifying representatives of the official and local authority, the business and the interested parties) and effective form of financing.

The respondents leveled the main principles of PPP in the following way: partnership, mutual benefit, responsibility, transparency, economization and information disclosure.

This grants us with the guarantee of statement, and namely that developing of project "Public private partnership against the background of integration of Republic of Bulgaria in the European Union" was on time and the data received should be placed under deeper and broader scrutiny with the help of statistical methods. The results should be presented at a round table, as more than 83,5% of the respondents have preliminary requested participation thereof, representatives of the seven main participants of the problems regarding effective realization of PPP in Republic of Bulgaria.

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STATISTIČKA ANALIZA PREMISA, FAKTORA I BARIJERA RAZVOJA JAVNO-PRIVATNOG PARTNERSTVA U REPUBLICI BUGARSKOJ

Rezime: Javno-privatna partnerstva (JPP) su važan element savremenih nacionalnih i međunarodnih poslovnih procesa. Dosadašnje iskustvo i skromne akumulacije teorije opredelili su tim istraživača iz Odeljenja za međunarodne ekonomske odnose i Odeljenja za statistiku Univerziteta za nacionalnu i svetsku privredu u Sofiji za rešavanje ovih problema. U radu su prikazani rezultati istraživanja uzoraka i njihov teorijski kontekst u okviru najnovijih studija EU autora. Osnovni zaključci se odnose na: ispravno razumevanje suštine JPP-a, određivanje realnih mehanizama za efikasno JPP, praktičnu primenu današnjih principa JPP u Bugarskoj, ključne tačke koje garantuju uspeh JPP u različitim aktivnostima, glavne prepreke za budući razvoj JPP-a, glavne finansijske instrumente za uzajamne koristi od JPP-a, itd.

Ključne reči: javno-privatno partnerstvo (JPP), uzorak istraživanja, verovatnoća proporcije, standardizovani upitnik, statističke metode za analizu empirijskih podataka, osnovni zaključci o bugarskom iskustvu u oblasti JPP.

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THE ROLE OF ACCOUNTING IN FOREIGN SUBSIDIARY PERFORMANCE EVALUATION

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Abstract: *In order to remain competitive globally, MNCs need to use performance evaluation system which is congruent with the company's mission, objectives, and strategies. Performance evaluation is the key management control task. It provides measures that can be used to evaluate management performance. Corporate management applies performance evaluation system in order to assess the profitability of current foreign operations, identify areas that need corrective actions, and motivate foreign subsidiary staff. The success of a performance evaluation system is determined by its design as well as the implementation of that system. A great number of studies have shown that no single criterion can be used in evaluating the performance of all foreign subsidiaries. MNCs use a mixture of measures, financial and non-financial in order to evaluate performance. Conducted research indicated that three financial measures used by both the U.S. and U.K. MNCs are profit, return on investment, and comparison of budgeted and actual profit. The most important non-financial measures of performance include market share, relation with host government, quality control and productivity improvement. The successful implementation of a performance evaluation system requires the integration with the overall strategy. Performance evaluation system must include comprehensive measures, fair and achievable measure. It is best to use simple, clear and understandable measures. One of most important aspect in the designing of performance evaluation systems was the introduction of the balanced scorecard. It represents creative mixture of financial and non-financial measures. It provides management guidelines for creating shareholder value. Balanced scorecard focuses on integrated relations among the key elements of a business – vision and strategy*

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and four perspectives, namely financial, customer, internal business process and learning and growth. Corporate management applies performance evaluation system in order to assess the profitability of foreign operations, identify areas that need corrective actions and motivate foreign subsidiary staff. No single criterion can be used in evaluating the performance of all foreign subsidiaries. Multinational companies use a mixture of measures, financial and non-financial in order to evaluate performance. The success of a performance evaluation system is determined by its design as well as the implementation of that system. One of most important aspect in the designing of performance evaluation systems was the introduction of the balanced scorecard. It represents creative mixture of financial and non-financial measures. Accounting plays the most important role in performance evaluation system implementation.

Keywords: *performance evaluation, balanced scorecard, multinational companies, accounting information, foreign currency translation.*

Introduction

Performance evaluation is a complex issue in a domestic context. It becomes much more complex in an international setting. Performance evaluation of foreign subsidiaries must deal with some issues that are unique to global business, such as exchange volatility, varying rates of inflation in foreign countries, international transfer pricing, and environmental differences that exist across countries. Unless these factors are appropriately considered, headquarters may receive distorted pictures of foreign operating results and use inappropriate standards to assess performance. Inappropriate standards of foreign subsidiary performance may encourage managers to take action not in line with corporate goals. Direct consequence is reduced corporate efficiency and competitiveness.

The success of performance evaluation system is determined by its design and its implementation. To be successful, performance evaluation system must be in line with the overall corporate strategies and the local circumstances. Multinational companies strive to achieve superior economic performance in global arena. They need to set up a balanced set of financial and non-financial performance measures to get an accurate picture of the performance of their managers and subsidiaries located in different countries.

There are a great number of factors that must be considered in setting up performance evaluation systems for subsidiaries located abroad. First is the choice of appropriate currency for measuring the performance of foreign subsidiaries. The second factor relates to transfer pricing policies. It must be taken into account a number of macro-economic variables, such as different level of inflation, interest rate differentials and differing levels of political stability across countries.

In practice, financial criteria tend to dominate performance evaluation systems. The most important financial criterion used to assess the performance of foreign units is budget to actual profit followed by return on investment. Despite difficulties in measurement, some non-financial criteria are considered important in multinational performance evaluation systems. Market share is the most important non-financial measure of performance.

The most important achievement in performance evaluation system designing was the introduction of balanced scorecard. Contrary to the traditional performance, measurement system, which starts from the financial control as the essence, the balanced scorecard starts with the organizational vision and strategy. There is a tendency to translate these vision and strategy into performance measures, which could be tracked and used for the success measurement in the vision and strategy implementation process. These could be achieved by defining the aims and measures into the each of the four interrelated perspectives of the balanced scorecard: finance, customers, internal process and learning and growth.

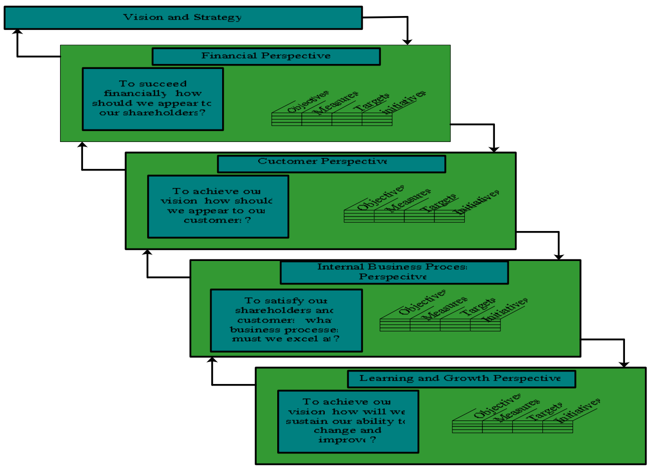
The main point of this paper is how to assess performance, but especially foreign subsidiary and what the role of accounting in such a process is. Thus, the paper is structured into two parts. The first part is devoted to the mere balanced scorecard model, that is its postulates and role and the other one is devoted to the key role of accounting information in assessing foreign subsidiary performance. Besides, there are considered some obstacles in this process that are inherent to the multinational company.

1. The Role of the Balanced Scorecard in Assessing Foreign Subsidiary Performance

Performance measurement is the most important element in the enterprise economy system. It is too complex process for each company, not to talk about multinational ones. Namely, multinational companies strive to achieve superior economic performance in global arena. They need to set up a balanced set of financial and non-financial performance measures to get an accurate picture of the performance of their managers and subsidiaries located in different countries.

In modern business environment, the traditional performance measurement system is necessary but not sufficient one. This is because of the fact that modern business environment has suffered many changes and forces the companies to undertake emergent actions. The most important achievement in the design of performance evaluation systems was the introduction of the *balanced scorecard*. A balanced scorecard focuses on an integrated relationship among the key elements of a business – vision and strategy and four perspectives – finance, customers, internal business processes and learning and growth. This performance measurement model has been very popular in latest years either in positive or negative sense. The question is if it is in essence something real new, or it is just rhetoric game. Many companies do apply non-integrated performance measurement system. Being an integrated system, the question is what the role of balanced scorecard in performance evaluation at all is and what in MNCs, especially.
The basic premise beyond the balanced scorecard is simple. Financial measures are, and will always be important, but they must be supplemented by other indicators that predict future financial success. Starting from this as the basic aim, *Kaplan* and *Norton* developed the balanced scorecard model (see figure 1-1).

Figure 1-1. Balanced Scorecard Model



Source: Kaplan, S. R. and Norton, D. P. (1996): 'Using the Balanced Scorecard as a Strategic Management System', *Harvard Business Review* (January-February 1996): 76.

For difference from traditional performance measurement system, which starts from the financial control as the essence, the balanced scorecard starts with the organizational vision and strategy. There is a tendency to translate these vision and strategy into performance measures, which could be followed and used for the success measurement into the vision and strategy implementation process. This could be achieved by defining the aims and measures into the each of the four interrelated perspectives of the balanced scorecard: finance, customers, internal process and learning, and growth.

Financial perspective

Financial measures are certainly the important element in each company (profit, public and non-profit). In domain of profit organizations, the measures from this perspective tell us if the strategy implementation, which is explained in detailed through the measures from other perspectives, leads to the better final results. In non-profit and public organizations, financial measures provide results to be achieved, but so that costs are to be minimized. Here, we have lagging indicators like: revenue, profitability and assets use, and the key questions is: how should we appear to our shareholders? Profit-oriented companies tend to increase the shareholder value. This could be happened in two ways: revenue growth and productivity growth. For foreign subsidiaries, the most important financial measures are sale growth, cost reduction, profit, and return on investment.

Customer perspective

The core of any organization's strategy is the value proposition for customer, which describes mix of product, price, service, relationship and image that a company can offer. The value proposition defines how one organization differentiates from the competitors to attract, retain and improve the relationships with the target customers.

In the process of selecting the measures from the customer perspective, organizations must set two critical questions: ''Who are our target customers?'' and ''Which is our value proposition in serving the customers?'' It sounds too simple, but both of these questions offer many challenges. Here, organizations may choose among:

- Business excellence, which implies low prices, reliability and often ''has no extra attributes'',
- Product leadership, which implies constant innovation and best product on the market;
- Customer intimacy, which implied building the long-term relationship with the customers through getting deeply known with their needs.

Multinational companies tend to adapt themselves to the local markets, so the measures from this perspective are very important. Foreign subsidiaries certainly have to take care about the customer needs, their preferences, so that they could increase sale, revenue, market share and profit as the primary motive of their functioning. The very important issues from this perspective are if their customers are satisfied and if not what they should do, that is how to act, in order to attract and retain customers, that is what they should do that customers become loyal in future.

Internal business process perspective

In this perspective of the balanced scorecard, there are identified the key processes in which a company must excel at so it could continue with adding value for customers. In order to satisfy the customers, an organization must identify complete new internal processes instead to focus its efforts on incremental improvements of the existing activities. The development of the service and delivery, partnership with the community and reporting are the examples of some elements which could be presented in this perspective.

The internal business process perspective encompasses these critical organizational activities, which belong to the four processes on upper levels [3, p. 93]:

- Building the franchise stimulating the innovation to develop new products and services and to penetrate to new segments of market and customers.
- Increase value for customers expanding and deepening the relationships with the existing customers.
- Realize operating excellence, improving supply chain management, internal processes, assets use, resource capacity management and other processes.
- Become good corporative citizen establishing the efficient relationships with external interested groups.

Foreign subsidiaries especially should accommodate their products and services to the local customers' tastes. There are certain specificities in respect to the relationships with the external interested groups (cultural, sociological, psychological, linguistic, religious, political, and economic). The financial benefits from improving different business processes typically are being realized in phases. The costs savings from increasing business efficiency and process improvement deliver short-term benefits. The revenue growth from improving the customer relationships is being realized in medium term. The increasing innovation rate generally leads to the improving the long-term revenue and profit. Thus, the complete strategy should generate return on all three levels of the internal processes.

Learning and growth perspective

The measures from learning and growth perspective enable the other three perspectives. In essence, these are the base on which the whole balanced scorecard house is built.

Once, when the measures and related initiatives from customer and internal business process are defined, it is possible to reveal some gaps between current organizational infrastructure of the employees' qualifications (human capital), information systems (information capital) and climate (organizational capital) and the level which is necessary to close the gap and it provides the sustainable results in future.

Similar to other perspectives, it is expected to get a mix of the core results and efficiency drivers so the learning and growth perspective could be presented. For an example, the staff qualifications, employee satisfaction, information availability etc. may have the significant role in this perspective.

Human capital is of special importance in the company efficiency. Unfortunately, this is in collision with the fact that foreign subsidiaries use cheap local labour force. The question is if they are satisfied and motivated to improve efficiency, and how this is resolved in practice. No matter how much it is cheap for foreign subsidiary, the employees are satisfied if their salary is higher than the average one in domestic economy.

Since the late of 1990s, almost all main companies expanded their business chain, supply chain, services served to the customers and employees including and internet. At the same time, it is created the discipline Web analytics in aim of measuring the influence of Web based initiatives. Web analytics is the data analysis from the web site so the web site success could be determined and customers' behaviour understood. With this information, the company may collect the data of customers' preferences, feedback and demographic data, which could be of help in generating the higher revenues and lower costs.

Successful companies strive to connect their present activities with the tomorrow aims – not with the yesterday performances. The company has to make the mix of traditional performance measures, to support with Web analytics and connect with vision and strategy so it could be created a holistic sight on organization.

The technology change, which is more and more massive, does not mean abandoning the traditional management concepts. It is actually accommodating the traditional business principles on transformational world of internet. Such a consideration has led to the extension of the traditional balanced scorecard with two new dimensions, which include Web analytics – electronic business perspective and user perspective. Both these dimensions support two of four original dimensions.

The electronic business perspective connects in traditional balanced scorecard the tasks in customer and finance perspectives and is focused on increased profits and market share. This perspective includes the metrics, which measures as well as financial as the influence of the market penetration linked with the users' interaction with Web based technologies. The user of Web based systems may be that who has a contact with this system, including external buyers, internal employees and suppliers and partners. When the metrics in electronic perspective is developed, it should be analyzed the process types, which are set for the Web based initiatives and their basic intention.

The user perspective supports the internal and learning perspective in traditional balanced scorecard, focusing on experience of users and technology performances. In metrics selection for this perspective, it should be focused on processes that improve company efficiency and the way the users evaluate them.

However, the prerequisites and philosophies that lay in base of these balanced scorecards are completely different from those lying in the base of strategic balanced scorecard. In practice, there are often two types of the balanced scorecard to be applied: stakeholder scorecard and key performance indicator scorecard. Namely, the balanced scorecard may be viewed from many aspects. It may be an effectiveness measurement model, efficiency measurement model or strategic performance management model. Of course, the way one will consider the balanced scorecard depends on defined aims and objectives.

The balanced scorecard should not be just a collection of financial and non-financial measures, organized into three or four perspectives. The best one reflects the organization strategy. The good test is if the strategy could be realized watching just this balanced scorecard or strategy map. Many organizations do not pass this test, especially those which create the stakeholder scorecards or key performance indicators scorecards.

The strategic balanced scorecards together with graphical presentations on strategy maps supply a logical and understandable way of strategy description. These clearly communicate the desired results and hypotheses about how to achieve these results. For instance, if a company is

to improve the delivery on time, then customer satisfaction will increase, and then the customers will buy more and more. These balanced scorecards enable all organizational units and employees to understand strategy and identify how they can contribute to the strategy realization.
Here, the term *balanced* is especially interesting. This means a balance among [5, p. 22]:

- Financial and non-financial performance indicators. Balanced scorecard originally is directed toward overcoming the disadvantages of relying on financial measures balancing them with the drivers of the future results. This remains as a main principle of the system.
- Internal and external constituents. Shareholders and customers represent the external constituents who are explained in the balanced scorecard while employees and internal processes represent the internal constituents. The balanced scorecard recognizes the significance of the balancing the temporarily contradictory needs of all groups in order to implement strategy efficiently.
- Lagging and leading performance indicators. The lagging indicators represent the past results. Typical examples can include the customer satisfaction or revenue. Although these measures are usually completely objective and available, the lack is a predictive power. The leading indicators are the result drivers which lead to the realizing the lagging indicators. Delivery on time may present the leading indicator for the lagging measure of the customer satisfaction. Although these measures are considered to be predictive by its nature, the correlation may show that they are subjective ones. The balanced scorecard should combine the lagging indicators with the leading ones. The lagging indicators without leading measures do not tell us about that how the aims could be achieved. Conversely, the leading indicators without lagging measures can demonstrate the short-term improvements but do not show if these improvements led to the better results for the customers and finally shareholders.

2. The Role of Accounting Information in Foreign Subsidiary Performance Evaluation

Performance evaluation is a complex issue in a domestic context. It becomes much more complex in an international setting. Performance evaluation of foreign subsidiaries must deal with some issues that are unique to global business, such as exchange rate volatility, varying rates of inflation in foreign countries, international transfer pricing, and environmental differences that exist across countries. Unless these factors are appropriate considered headquarters may receive distorted pictures of foreign operating results and use inappropriate standards to assess performance. Inappropriate standards of foreign subsidiary performance may encourage overseas managers to take action not in line with corporate goals. Direct consequence is reduced corporate efficiency and competitiveness.

The success of performance evaluation system is determined by its design and its implementation. To be successful performance evaluation system must be in line with the overall corporate strategies and the local circumstances. Setting up an effective performance evaluation system for subsidiaries located in other countries requires decisions with regard to:

(1) The performance criteria;
(2) Distinguishing between subsidiary performance and manager performance;
(3) The treatment of the foreign operation as cost, profit or investment centre;
(4) Understanding issues specific to companies engaged in global business, such the choice of appropriate currency, transfer pricing policies, differing levels of inflation and political stability across countries.

Multinational companies must decide to use financial criteria, non-financial criteria, or some combination of the two to measure and evaluate performance. Both financial and non-financial criteria are used for the evaluation of the performance of overseas unit and subsidiary manager. Financial criteria tend to dominate performance evaluation systems. They include sales growth, cost reduction, profit and return on investment (ROI).

Several surveys conducted in United States and in the United Kingdom have attempted to determine the importance of these criteria. Both U.S. and non-US multinational companies indicate that the most important criterion used to evaluate the performance of foreign units are profit, return on investment and budget compared to actual profit (reported in Exhibit 1) although the rank order changes slightly among the four studies.

Exhibit 1: Financial Measures Used by U.S. and UK MNCs to evaluate Subsidiary Performance

	Ranking			
	United States			*United Kingdom*
Financial Measures	1980	1984	1990	1988
Profit	1	2	1	3
Return on Investment	2	3	3	2
Budget compared to actual profits	3	1	2	1

Sources: Doupnik, T, Perera H. (2007): International Accounting, International Edition, McGraw – Hill Companies, New York, p. 541.

The results of a survey of U.S. and Japanese multinationals are presented in Exhibit 2. This survey indicates that compared with Japanese MNCs U.S. MNCs are much more concerned with return on investment and controllable profit. Japanese MNCs are much more concerned with sales volume and production cost than their counterparts.

Exhibit 2: Comparison of Japanese and U. S. Performance Evaluation Measures

Percentage of Times Ranked in Top Three Budget Goals for Divisional Managers

Measure	*Japan*	*United States*
Sales volume	86,3	27,9
Net profit	44,7	35
Production cost	40,7	12,4
Return on sales	30,7	30,5
Controllable profit	28,2	51,8
Sales growth	19,4	22,4
Return on investment	3,1	68,4

Sources: Doupnik, T, Perera H. (2007): International Accounting, International Edition, McGraw – Hill Companies, New York, p. 541.

Many MNCs do not confine their performance criteria to financial consideration. Despite difficulties in measurement some non-financial criteria are considered important in multinational performance evaluation system. Non-financial criteria reinforce financial measure and highlight the difference between managerial and unit performance. Important non-financial measures of performance involve: market share, relation with host country government, quality control, environment compliance, employee development, and employee safety, research in development in foreign unit, and productivity improvement. Results of study of U.S. and Japanese management accounting practices that included both types of measures are showed in Exhibit 3.

Exhibit 3: Comparison of Financial and Non-financial measures in Japan and the United States

Percentage of Time Considered Important		
Measure	*Japan*	*United States*
Sales	69	19
Return on investment	7	75
Market share	12	19

Sources: Doupnik, T, Perera H. (2007): International Accounting, International Edition, McGraw – Hill Companies, New York, p. 543.

It indicates that financial measures are gained primary importance in both the U.S. and Japan. Ranking of both types' evaluation criteria used by MNCs from UK, Canada, German and Japan is showed in Exhibit 4.

Exhibit 4: Ranking of Evaluation Criteria by MNCs with Operations in the United States

Criterion	British	Canadian	German	Japanese
Profit margin	1	1, 2	1	4
Sales growth	2, 3, 4	1, 2	2	1
Cost reduction	2, 3, 4	3, 4	5	5
Net income	12	5	4	3
Goal attainment	5	3, 4	8	2
Budget adherence	2, 3, 4	6	9	9
Return on sales	6	13	13	7

Return on assets	7, 8	10	14	13
Technical innovation	7, 8	11	7	10
Return on investment	9, 10	9	11	10
Product innovation	9, 10	11	6	12
Market share	11	8	3	7
Company standards	13	7	10	5
Residual income	14	14	12	13

Sources: Doupnik, T, Perera H. (2007): International Accounting, International Edition, McGraw – Hill Companies, New York, p. 543.

The differing economic, political and business conditions among countries and even within countries at different points in time require corporate management to periodically review the criteria for each unit. Companies must be flexible and pay attention to company specific variables in designing performance evaluation system. It is critical that MNCs distinguish between manager performance and subsidiary performance. There is a variety of factors that affect subsidiary performance, but over which managers may not have control. The performance of a foreign subsidiary is the result of decisions made by local management, corporate management and host government. It is possible to have good management performance despite poor subsidiary performance. To reward and keep good managers evaluation system should be able to separate subsidiary from managerial performance. Managers should be evaluated on the basis of controllable items. Responsibility accounting suggests that assets, liabilities, costs, and revenues should be traced to the individual manager who is responsible for them. Individual manager should not be responsible for uncontrollable costs, nor should be rewarded for uncontrollable revenues.

Important issue that companies must address is the choice of appropriate currency for measuring the performance of foreign subsidiaries. There are two factors that companies must consider when selecting the currency to be used in performance evaluation. First factor relates to the role of specific subsidiary in the company's overall strategy and second is the responsibility for foreign currency risk management. Measurement of profit in local currency is considered to be appropriate if the foreign subsidiary is not expected to generate parent currency for payment of dividends to stockholders. If the foreign subsidiary is not given the authority to manage its currency exposure it cannot be held accountable for the effects of exchange rate fluctuations on its profitability. Results of conducted research indicate that a much greater percentage of U.S. companies than European companies evaluate the performance of foreign subsidiaries on the basis of parent currency results only. If parent currency is used in evaluating performance, the company must translate foreign currency profit into parent currency and decide upon which translation method should be applied. The four methods of foreign currency translation are the current rate method, the current/non-current method, the monetary/non-monetary method, and the temporal method. MNCs should consider which of these methods best reflects economic reality for the particular foreign subsidiary being evaluated. It is very important to consider if translation effects are involved into result or equity. If translation effect represents a part of the result (transaction gain and loss) it should be encompassed in performance evaluation. On the other hand, translation adjustment as a result of foreign currency financial statements translation should not be included into performance evaluation.

There are a number of other factors that must be considered in designing performance evaluation systems for foreign subsidiaries. Comparability is desired ingredient of the performance evaluation system. The type of transfer pricing policies within an organization impacts the revenues of selling subsidiaries and costs of buying subsidiaries. The performance of subsidiaries may not be comparable if they use different transfer pricing policy. A number of macro-economic variable adversely affect comparability. The differing levels of inflation, differing levels of political stability, labour situation in that country could have a significant impact on the subsidiary in that country.

Conclusion

Traditional international boundaries are becoming less relevant to business enterprises as the global marketplace evolves. Multinational companies establish foreign operations largely for strategic considerations, the most common of which are to penetrate foreign markets, diversify business risk, and maximize long-term profits.

The evaluation of subsidiary performance is a complex issue in a domestic context, and the complexity increases when operations are located abroad. Performance evaluation in an international setting must deal with some issues that are unique to global business. Performance evaluation of foreign subsidiaries must take into account such complicating factors as currency volatility, foreign inflation, interest rate differentials, and differing levels of political stability across countries.

Performance measurement and management have gained in popularity in recent years. For a company, it is of great importance to consider if the company operated successfully or not. But, the very important question is how to measure its success. This is especially problem is modern business environment in terms of increasing globalization. The business environment of the contemporary companies remarkably differs from the one in the past. The modern times are being characterized by discontinuity, uncertainty and turbulence. The dynamism of the environment factors impacts on the company position and affirms the significance of the proactive relationship toward the environment. In modern business environment, the successful company differs from unsuccessful one by its capability of the changes management, but not the state of the *status quo*.

For a company, which has subsidiaries in foreign countries, this problem gets more in its complexity. There are a number of factors that must be considered in setting up performance evaluation systems for subsidiaries located in other countries. First is the choice of appropriate currency for measuring the performance of foreign subsidiaries. The second factor relates to transfer pricing policies. Performance evaluation of foreign operations must take into account a number of macro-economic variables such as different level of foreign inflation, interest rate differentials and differing levels of political stability across countries.

There are various considerations about the frameworks and models for performance evaluation. This paper is focused on one which is especially in focus of modern managers' attention. The word is about *balanced scorecard*. In its history, this model passed three phases: from measurement system, through strategic management system to communication tool.

Balanced scorecard integrates financial and non-financial performance measures. In recent years, there is an increasing accent on non-financial performance indicators. However, the question is how much a multinational company may rely on non-financial measures and at what degree they are important. Non-financial measures (so called leading measures) predict future financial results, which are timely become lagging measures. The financial measures derived from the accounting data are still the starting point in evaluating foreign subsidiary performance. Certainly, there are numerous adjustments for some indicators (economic value added, market value added, CFROI etc.). In order to acquire the complete picture of the foreign subsidiary efficiency, it becomes and imperative in modern business environment to supplement the financial measures with non-financial ones.

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ULOGA RAČUNOVODSTVA U OCENI PERFORMANSI INOSTRANIH FILIJALA

Rezime: Korporativni menadžment primenjuje sistem ocene performansi kako bi se procenila profitabilnost stranih operacija, identifikovale oblasti u kojima treba preduzeti korektivne akcije i motivisali zaposleni u inostranstvu. Ne postoji jedan kriterijum koji se može koristiti u proceni performansi svih stranih filijala. Multinacionalane kompanije koriste kombinaciju finansijskih i nefinansijskih mera kako bi ocenili performanse. Uspeh sistema za ocenu peformansi je određen njegovim dizajnom i primenom. Jedan od najvažnijih aspekata u dizajniranju sistema za ocenu performansi bio je uvođenje integralnog sistema za ocenu ostvarenja preduzeća (Balanced Scorecard). On predstavlja kreativnu kombinaciju finansijskih i nefinansijskih mera. Računovodsto igra najznačajniju ulogu u primeni sistema ocene performansi.

Ključne reči: ocena performansi, Balanced Scorecard, multinacionalne kompanije, računovodstvene informacije, prevođenje strane valute.

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ECONOMIC ASPECTS OF COPYRIGHT FOR BROADCASTING, TRANSMITTING, AND CABLE RETRANSMISSION OF THE WORKS OR ART

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Abstract:The topic of the research *is "Economic aspects of the copyrights for broadcasting, transmitting, and cable retransmitting of the works of art".* ***The actuality of the topic*** *is based upon the practice in using the works of arts by the cable operators, without payments for the copyrights and related rights established on them as a part of the content of the broadcasted and retransmitted TV programs. The subject is important since Bulgaria become part of the European Union, which creates a common economic, cultural and social open market. The existing disrespect to the economic value of the copyrights and the related rights could create a serious problem in international management of the rights of broadcasting and retransmitting the foreign art productions.* ***The object of the research*** *is the copyrights for broadcasting, transmitting, and cable retransmitting of the works of art.* ***The subject of the research*** *is the way of functioning of the system for management of those rights.* ***The main aim of the research*** *is to clarify that the rights for broadcasting, transmitting, and cable retransmitting of the works of art are separate property rights of the owner of general copyrights or related rights*

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The subject is important, since Bulgarian became part of the European Union, which creates a common economic, cultural, and, social open market. The existing disrespect to the economic value of the copyright and the related rights could create a serious problem in international management of the rights of broadcasting and retransmitting the foreign art productions.

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Concerning the field of creativity, where the creativity idea becomes a work of art, the right of an author to use the economic value of its creation is an important issue. In order to satisfy the impulse and to motivate the creativity, the legislator grants to the author a copyright to his original works. The copyright is a means of economic welfare and public recognition of the creative effort meeting the public cultural needs.

The copyright is the author's exclusive right to use on his/her own or allow third parties to use his/her original work against the payment of a specific remuneration. The payment of the required remuneration is a relevant part of the content of the copyright, since the copyright agreements are always payable. The remuneration is paid by the users, who may fall under the following two headings:

- Users such as performing artists, producers, and radio or television broadcast organizations, who in this capacity are owners of related rights on the performance; sound or video recording; own program;
- Users such as consumers of the objects of copyright or related rights such as and radio or television broadcast organizations, theatres, cinemas, public establishments, Internet providers, cable operators, and others.

All those users of the work of art should pay for its economic utilization to the owners of the rights upon it. The payment could be made individually or through the mediation of a special organization. The competent organizations in the field of copyright and related rights are the so called Collective management organization of copyright or collective management of related rights. These are two type of collective management organization established upon the principle of the kind of the managed rights. The competencies of CMO's are to represent the owners of the rights in negotiating the utilization of the work; to sign the authorship contracts by the name of the author and in its interest when he is a member of the CMO; to collect the due remunerations; to share out the percentage of the collected sum among the authors which works have been economically used; to represents internationally its members.

The CMO's manage the copyright or the related rights after their acquisition by the owners made with a transfer contract. In some cases, the owners after the rights' transfer do not have the rights to license the work on their own. In other cases, the owners can't manage some of their rights of utilization the work. They are obliged to do this through the mediation of a CMO. That case concerns particularly the right of cable retransmission of the work which could be only collectively managed. The utilization of the right of cable retransmission could be made under the condition of compulsory license for the owner where the license of broadcasting and transmitting the work includes its retransmission as well. Despite the compulsory license the user is obliged to pay separate remuneration for cable retransmission of the work.

The remuneration shall be collected and distributed by the Collective management organization of copyright or related rights /CMO's. These organizations are voluntary associations of owners of the rights in a specific branch such as music, film, literatures, etc. The producers and artists could participate separately of the authors in another CMO of related rights.

The collected remuneration shall be distributed by each CMO's among its members, who may be authors of various types of works, producers, or performing artists. Amounts shall be paid only to the members of the organization, whose works have been the object of economic use.

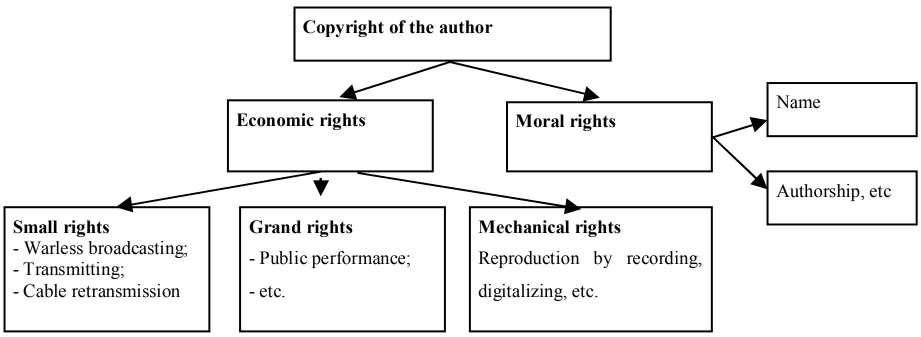
Before the sum of remuneration to reach the owners of the rights, the CMO's detach 20% and transfer it to the National Fund of Culture to support the sustain development of the national culture by implementing the national culture policy. Another percent of the remuneration sum could be detached by the CMO for its administration support. Usually the percent is lower that 10%. For example the CMO of music rights collects 5% for administrative costs, which is one of the lowest rates in Europe.

The CMO's have the competency to represent the author in relation with work's utilization by third parties when the owner of the right is not their member. The owner is represented when his work have been an object of cable retransmission made without its preliminary consent. In this case, the CMO collects the due remuneration for the author and transfers it to him after establishment of similar relations as its member.

This specific legal provision is a result of the fact that the aforementioned rights are subject to collective management. This means that it is only CMO's acting on behalf of and at the expense of their members that may authorize a given work to be used by exercising the author's right of cable retransmission.

The right of cable retransmission is part from the group of so called small author's rights[1].

Scheme 1: Structure of the copyright content



The small rights fall under a group of the author's economic rights as part of the scope of copyright. Copyright[2] includes two major types of rights, economic and moral rights. Each group comprises a set of separate rights that are comprehensively listed.

The cumulative or separate exercising of rights is regarded as using the protected object – the work. Moral rights are also named non economic copyright are defined as such not because they are ineffective in economic terms, but because they include certain basic personal authors' rights such as the right to a name and authorship.

[1] By analogy with authors, the performing artists hold small rights over their own performances, sound recording and audio recordings.

[2] This applies to the scope of the related right, concerning the structure of non-property and property rights. The specific thing is that the rights comprised by the copyright are fixed for the authors, but the rights related to the copyrights differ for their owner due to variety of the protected objects.

A part of the economic rights have been united in separate groups on the basis of the type of use of the work. These are the so called mechanical, small, and grand authorship rights. The mechanical rights are related to the activities of recording and circulating, this is to say reproduction of the work, the grand rights are related to its public performance, the small rights are related to its broadcasting, transmission, and cable or wireless retransmission.

The author may regulate his copyright individually or collectively, through CMO's as an intermediary. It is the small economic rights that are mostly subject to the collective management of copyright. The right of retransmission of the work is obligatory collectively managed by the mediation of collective management organization. The users of this right are cable operators. The utilization of the small rights are payable. The user of the aforementioned copyright should pay remuneration for each right separately.

This obligation comes under article 19 of the Copyright and Related Rights Act: the author is entitled to get remuneration for any type of use of the work and for every successive use of it. The author's remuneration is payable as of the moment the work is used for the first time, and an additional percent is payable for every successive use of the original or any copy.

The economic utilization of right of work' retransmission is raising problems because of its obligatory collective management; its utilization under a compulsory license and its participation in a group of small author's copyrights. The reason of establishment of such specific regime regarding the right of retransmission is its high economic value and the easiness of this for of utilization through internet and cable transmission. As well as the fact that retransmission of work is a subsequent use so called "secondary use" after broadcasting and transmitting.

The failure to interpret this rule causes a number of problems in the sphere of copyright and related rights, particularly concerning the "secondary use" of the works by Internet providers or cable operators. The problems stem mostly from the lack of a uniform terminology in the special laws, regulating certain rules in the use of a work via the cable retransmission. The relevant laws that concern this case are the Copyright and Related Rights Act[3] and the Telecommunications Act[4]. The differences

[3] Copyright and Related Rights Act, State Gazette No. 56/1993

[4] Telecommunications Act, State Gazette No..88/2003

in positions hold by the owners of copyright and the users of protected works stem from some certain provisions of the Copyright and Related Rights Act. For instance, in the Copyright and Related Rights Act[5], although the comprehensively listed types of economic copyright, the legislator has failed to make a clear distinction between the rights of transmission and retransmission of the work in the copyright content[6]. This lapse creates a number of disputable cases in real life, where it is difficult to tell whether the author can possibly invoke two separate rights or else both rights are cumulatively applicable.

Even this structural lapse, there are two separate economic rights and the legislator emphasize this by referring the issues to be regulate as a private case[7]. In this manner, some of the questions are clarified, but another still stays disputable. The law has not defined the content of the action "television broadcast" and "cable retransmission".

The frame of their content follows to be found in the exceptions and equivalents of the content of "warless broadcast", which is well defined by the law.

There are some definitions clarifying the content of the right of "warless broadcast" as the right to broadcast the work on radio or television by land as well as its inclusion in an uninterruptible chain of communication, linked to a satellite and back to earth via signals that transmit the programs, which are controlled by the broadcasting entity and subject to its responsibility in order to receive the signal either directly by the audience or by an organization which is other than the broadcasting one.

The right to „ warless broadcast" is named also as „public transmission"[8] of the work via a satellite, and it is also defined as „television broadcast"[9].

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[5] article 18

[6] (article 2, item 5)

[7] articles 21 and 22 of the Copyright and Related Rights Act

[8] Art.1, p..2a from the Directive 93/83/EEU for coordination of some aspects of copyrights and related rights concerning the broadcasting, transmitting and cable retransmitting works of art.

[9] Art.1 from the Directive 89/552/EEU for coordination of the legal rules of practicing the broadcasting indicates the "TV broadcasting" as to be the first broadcast on cable or wireless or trough satellite of a code or decode TV program destined for the public. In addition, TV broadcasting is the exchange of programs between different TV organizations and cable operators with the intention to be delivered to the public. The communication services which provides information in individual order such as telefax, digital data base or other alike does not a part of TV broadcast.

These terminological distinctions have been made because there may be a discrepancy in the translation of the directives on the topic, to which Bulgaria has acceded and whose provisions have been transposed into the national legislation.

To facilitate the economic placement of the work, the legislator has stated that the license for wireless transmission of the work includes its cable transmission by the same organization free of charge or of any separate fees, in case this transmission is conducted simultaneously with the broadcast in the same type and within the same territory. These are the requirements and the scope of the compulsory license.

In the meaning of the law, an organization which is other than the broadcasting one may be another receiving radio-television /broadcasting/ organization, which serves as an intermediary, or a cable operator. Receiving the signal which transmits the program, which is the object of public transmission, this organization for example a cable operator actually makes a secondary use of the works which are included in the program by retransmitting them to the end consumer. The cable operator, such as the organization receiving the program, exercises the copyright to retransmit the work via cable. The utilization of this right requires payment of authorship remuneration.

As a secondary utilization of the work, the „cable retransmission” is defined as the intermittent retransmission via cable or through an ultra high frequency system the transmission via cable or wireless mode of another organization, including the satellite transmission of radio or television programs which are targeted to the audience.

To conduct a cable transmission, it is necessary for the cable operator to have been given in advance the author’s consent on the basis of certain legal grounds and to pay the due copyright remuneration.

In this particular case, the author may give his consent through the mediation of:

- Collective management organization, if it is a musical work, this is Musicauthor, while if it is an audiovisual work by Filmauthor.[10]

In case a film is retransmitted via cable, the copyrights of the authors and the related rights of the producer and the performing artists shall be

[10] Art. 21, p. .2 of the Act of Copyright and related rights

granted by Filmauthor (the producers holds the rights of the performing artists on the basis of the agreement signed for the creation of the film);

- Radio-television /broadcasting/ organization broadcasting the program, which includes the works, if it has not itself acquired the legal grounds to hold the right to retransmit the work by its owner[11].

The acquisitions of right under the conditions of secondly mentioned options hides some scale of risk since, transferring the right of retransmission to the radio-television /broadcasting/ organizations, the author are deprived of the opportunity to obtain an additional remuneration for the secondary use of their works by cable operators thus still in Bulgaria unfortunately remunerations are not payable for retransmission, but only for broadcasting.

Despite the comprehensive regulatory framework in place, the issues concerning the transmission and the retransmission of works are still the subject of heated debates and tension between the authors and the organizations for collective rights management, on the one hand, and the cable operators, on the other.

This problem burns due to the fact that cable operators refuse to realize that, retransmitting the programs of the radio-television /broadcasting/ organizations, they are obliged to pay remunerations to the author for the use of the works and to the owners of related rights to copyright, which are included in them. In addition the cable operators claim that they are not oblige to pay any payments because the main stream of programs they obtain by the national TV organization and national radio organization and under the legislation rules they are forced to retransmitted it free of charge.

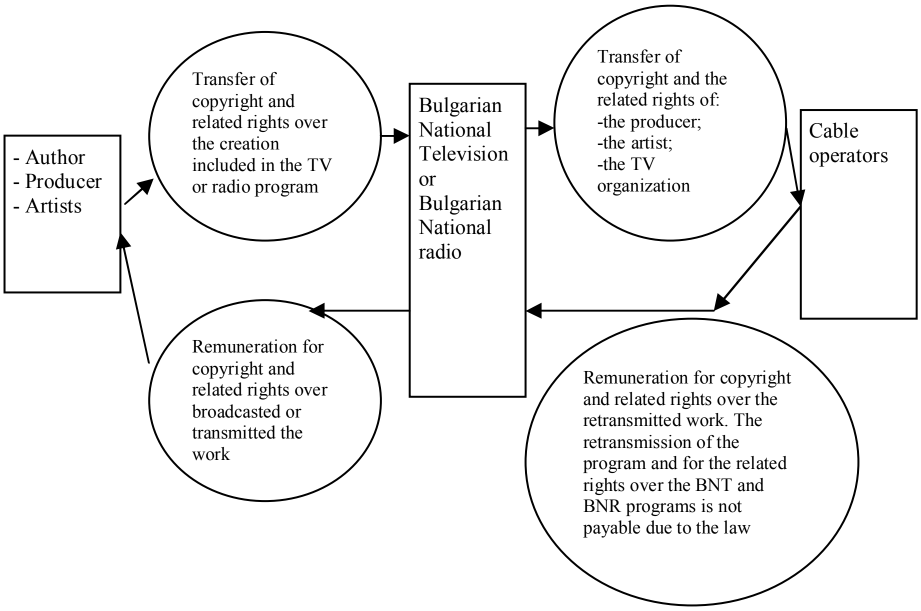
Defending their interest not to pay authorship remuneration for retransmission, the cable operators invoke part of the provisions of the Telecommunications Act. In it is stipulated[12] that cable operators shall perform telecommunication activities for the distribution of radio and television national and regional programs, which they have been provided by the Bulgarian National Radio and the Bulgarian National Television free of charge.

Despite this legal text, providing for the use of the programs without remunerations payment, the authors of the programs that have been included in them are to be paid, because when the work is retransmitted, it becomes

[11] In relation with the art. 21, p.5 from Act of Copyright and related rights
[12] Article 2, paragraphs 2 and 3 of the Telecommunications Act

the object of the „secondary use". This time the work is used by another user who is the cable operator. A case of secondary use exists when the right to transmit, broadcast, or retransmit the work is granted to a third party against the payment of certain remuneration.[13]

Scheme 2:Structure of the relationships in work utilization by broadcasting, transmitting and cable retransmission of a program containing the same work



The free use of the programs of Bulgarian National Radio and the Bulgarian National Television concerns only the organizations' related rights over their own programs. The radio and television organizations concede to the cable operator only the right over the program as a whole and the rights over the internal productions, which it produces, but in most cases they do not concede the right for retransmission of the authors over their works.
In this respect to the author shall be paid remuneration[14]:

- For any type of use of the work, which means once a remuneration is payable for the transmission of the work and another remuneration is payable for the retransmission of the work via cable.

This remuneration is payable by the radio and television /broadcasting/ organizations and the cable operators.

[13] Art.64 in the same Act
[14] article 19 of the Copyright and Related Rights Act

- For any successive use of the work of the same type, which means for any successive time the radio and television organization or the cable operator shows the work in public.

This is the reason why, as a rule the agreements for the use of the work are signed for a single broadcast, not for an unlimited broadcasts by the radio and television organizations, which are a party to the agreement.

In order to change the status quo and guarantee that copyrights are well respected, in 2005 the Telecommunications Act was amended[15], that the cable operators' obligation to the free retransmission of the programs of Bulgarian National Radio and the Bulgarian National Television does not revoke their obligations under Copyright and Related Rights Act to pay a remuneration related to the regulating of the copyright and related rights on the objects such as works, audio or video recordings, which are included in the national and regional programs of Bulgarian National Radio and the Bulgarian National Television.

Unfortunately, the legal amendments that have been made did not contribute to a higher clarity and order in the regulation of the remunerations payable for the use of copyright and related rights in the relationships with cable operators and the vicious practices are still rampant in the country.

EKONOMSKI ASPEKTI AUTORSKIH PRAVA ZA EMITOVANJE, PRENOŠENJE, I KABLOVSKO REEMITOVANJE UMETNIČKIH DELA

Rezime: Tema istraživanja su ekonomski aspekti autorskih prava za emitovanje, prenos i kablovsko reemitovanje umetničkih dela. Aktuelnost tema je bazirana na praksi korišćenja umetničkih dela od strane kablovskih operatera, bez plaćanja autorskih i drugih prava. Ova tema je bitna od kad je Bugarska postala deo Evropske unije, čime je stvoreno zajedničko ekonomsko, kulturno i socijalno otvoreno tržište. Postojeće nepoštovanje autorskih i drugih prava može dovesti do ozbiljnih problema u međunarodnom upravljanju pravima za emitovanje i reemitovanje stranih umetničkih dela. Predmet istraživanja su autorska prava za emitovanje, prenos i kablovsko reemitovanje umetničkih dela i način funkcionisanja sistema upravljanja ovim pravima. Osnovni cilj istraživanja je da razjasni da su prava za emitovanje, prenos i kablovsko reemitovanje umetničkih dela posebna imovinska prava vlasnika autorskih prava ili srodnih prava.

[15] in the part of paragraph 2, adding the text to item 4

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"PUZZLE" OF ENTREPRENEURSHIP: SOME METHODOLOGICAL PERPLEXITIES

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Abstract: *Study of entrepreneurship consists of many different research topics, which hardly can be synthesized into a coherent theory. As the time passes by, researchers keep on producing wide spectrum of theories concerning definition, origins, determinants and measures of entrepreneurship, as well as diverse explanations about its possible impact on economic development. Most of them usually agreed upon just a few things: a) entrepreneurial activity varies both across the countries and over time; b) neither individual (entrepreneurial efforts) nor environmental factors (supportiveness in environment) can solely determine the outcome of entrepreneurial activities. The purpose of this paper is to review some parts in the evolution of very concept of entrepreneurship in order to analyze: 1) what are the main causes producing changes in contemporary analyses of the subject; 2) do the changes in the concept represent departure (and in what direction) from Schumpeter's vision of entrepreneur (as innovator); 3) why neglecting or misunderstanding of Schumpeter's work might be counter-productive for progress in studies of entrepreneurship.*

Keywords: *entrepreneurship, innovation, Schumpeter's concept of entrepreneur*

Instead of ordinary introduction

"We are standing on the shoulders of the giants who came before us – that is why we can see the horizon and look towards the sun".[1]

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[1] In spite of my not being able to recall either where I heard of this statement or who its author was, I consider the quoted (or paraphrased) words appropriate for one of paper's purposes – to express respect and admiration to Schumpeter's theory of entrepreneurship.

At the moment when I conceptualized the key ideas intended to be analyzed in this paper, they seemed so provoking and inspiring, that I was very proud of my being able to think them out. And although some perplexities crossed my mind, I did not bother why other researchers disregard and /or miss at least similar points. Simply, I was deceiving myself for couple of days that I revealed some unnoticed facts. Probably, I secretly hoped my approach to be labeled as a sort of entrepreneurial one. Of course, it turned out that I was misled. And it reminded me to the "old" truth: whenever one believes to find out something new and rare, it usually reflects the fact that he (she) either has not read appropriate literature enough or has not studied it properly. Becoming finally aware of potential as well as actual limits of my knowing the subject, I decided to moderate an overoptimistic enthusiasm which dominated in the abstract.

Being constrained by time and space, this analysis is far from being detailed evolution of entrepreneurship. It is rather a rough sketch of it, which reminds the audience of just a few well known approaches in the field. Also, it covers some (to my opinion) important elements of Schumpeter's work, as well as dissonant contemporary interpretations of his ideas about entrepreneurship.[2] The reason for deciding on strictly theoretical approach is to make soft warning and/or reminding of its insufficient presence in the literature. At the same time, it represents a sort of appeal for returning to the "roots" (fundamentals) of entrepreneurial research. In that sense the main point remains unchanged: considering entrepreneurship, some important pieces of this "puzzle" are already contained in Schumpeter's writings.

Individual *versus* social context in contemporary studies of entrepreneurship

Being simultaneously economic and social phenomenon, entrepreneurship is truly inspired subject of interest, which has attracted attention of researchers from diverse disciplines.[3] That is why its meaningful analysis is supposed to include many different elements, covering variations and sequence of variations at individual as well as institutional level which might influence the process of entrepreneurial decision-making. What modern approaches offer in that regard?

[2] In doing so I had to rely either on translation of Schumpeter's books into English or on secondary sources (like some interpretations of his ideas), which obviously made additional constraints to analysis of the problem.

[3] In fact, analysis of entrepreneurship represents one of rare areas within economics where such approach is understood as even desirable.

Thanks to the Global Entrepreneurship Monitor [8], as international research program annually dealing with national level of entrepreneurial activities, we are able to analyze development of entrepreneurship over time and compare current state of these activities across the countries. Also, there is eclectic approach which tries to sublimate many standpoints about the topic, regardless of the fact they originated from diverse perspectives and even different disciplines [9].

However, on theoretical level there have been and still are many problems regarding entrepreneurship. In spite of revitalized interest in this phenomenon, some authors [6; 7; 28] kept warning that increasing number of researches undertaken in this field during last two decades has not produced less confusion and better understanding of the problem. What are the main reasons for such state of affairs? First of all, some main contributions were somehow put aside regardless of the fact that some of them (as being complemented to several contemporary insights) could be very useful for (so far relatively modest) theoretical progress in the theory of entrepreneurship [26]. Second, different disciplines have a tendency to offer their own, unique and particular standpoint. In doing so, they usually ignored other perspectives, illuminating some part of entrepreneurial "puzzle" and, as a result, there is no coherent, multidimensional approach.[4]

Frankly speaking, it was more or less expected since the mainstream (neoclassical economic theory) mostly ignored the subject [18, p. 242]. That's why entrepreneurship was either analyzed under the wing of organizational and managerial studies or outside economic science (with the exception of heterodox economy). And although multi-dimensional approach is certainly welcomed, insisting to cover many aspects of the problem by integration of factors into those shaping either demand or supply of entrepreneurship has always been difficult for several reasons. First of all, focus of analysis determines which (out of so many) definition of entrepreneurship is supported; second, a chosen definition itself significantly influences what indicators will be used to measure level of entrepreneurship across the countries and/or over different time periods; third, keeping in mind that indicators may refer to quite different aspects of entrepreneurship, their result are not comparable, that is we can't make a proper analysis of countries' achievements in that regard; fourth, empirical researches are usually founded on survey data, which hardly can be treated as reliable means for deriving valid conclusion about entrepreneurial activities.

[4] Failure of numerous attempts to integrate different points of view seemed to be quite similar to famous story about blind men and elephant [7, pp. 28-37].

All the above-mentioned “shortcomings” seem to be present in every trial to measure one or another dimension of entrepreneurship. However, there is one, but key difference between GEM model and eclectic framework. The former is focused on opportunities an individual is faced with, as well as his (her) capabilities to make decisions and act in an entrepreneurial way; the latter does the same plus enriches the analysis by interconnecting more determinants of entrepreneurship, particularly those streaming from environmental influence [9].

Keeping in mind that some researchers prefer to analyze individuals and opportunities, whereas the others favor environmental context, it seems that further deepening of confusion can not be avoided. For example, insisting on precisely defined theoretical perspective [7, p. 30] represents a trial of returning entrepreneurship under “economics’ wing”, which is praiseworthy idea. At the same time it narrows the field of entrepreneurship by focusing exclusively to individual’s ability to discover and exploit opportunities. Also, it may be true that trying to cover so many different topics prevented researchers to direct properly their affinities and pushed entrepreneurship phenomenon into another extreme: hyper-production of papers in which identity of the entrepreneur can’t be recognized. However, the claim that spreading of the analysis beyond individual level weakens theory of entrepreneurship is certainly questionable. Besides, focusing on the personality of entrepreneur, these behavioral and cognitive approaches totally ignored the broader (environmental) context in favor of individual (and firm level) analysis, which is (particularly nowadays) almost inadmissible mistake.

What are the arguments supporting predominant significance of social context in studies of entrepreneurship? Entrepreneurial “spirit” consists of different ingredients and that is why it is very difficult to clarify which of them may be the prime “mover” or further catalyst of that spirit. It is no longer matter of pure innovativeness of an individual whether any proposed project would be acceptable for society out of, at least, two reasons. First of all, even being innovative is dependent on different features of national culture [11]. In that sense, the countries being more inclined to individualism and less to uncertainty avoidance than others seem, almost by definition, to be preferable environment for innovative-oriented individual. These countries are well “equipped” for creation of entrepreneurial opportunities (i.e. they are able to foster entrepreneurship). Of course, it doesn’t mean that such type of entrepreneurial feature can not exist somewhere else. It certainly appears, but since entrepreneurial dynamics significantly depends on economic development [29; 4; 1] overall conditions necessary for its flourishing may not be favorable. Second, although we can leave a natural tendency of an individual to behave in a particular way apart, the importance of other kind of environmental influence can’t be neglected. In other words, even if we assume that individuals can be predisposed to become entrepreneurs regardless of their surrounding, the possibility of applying innovative ideas into the practice is still dependent on other factors. This means that having essential characteristics required for an entrepreneur is still different from the ability of proper using and transferring those features into concrete and positive outcomes. For example, even if there exists some “natural rate of entrepreneurship” [29], it also depends in large extent on laws concerning the level of economic development. Besides, the web of informal relationships an individual is capable to establish (social network) seems to be more significant for his (her) success; also, development of entrepreneurship can be determined by influence (either stimulating or inhibiting) of government policy and institutions; and change of norms, rules and beliefs (that is institutions) can also condition and shape behavior and choice of entrepreneurs.

Actually, taking into consideration social context [14, p. 142-3] which could stimulate or prevent an entrepreneur to develop his efforts in carrying out activities (processes) necessary for achieving adequate (and expected) outcome is not only welcomed, but necessary for completing study of entrepreneurship. Although entrepreneurial activity may be logical outcome of complex interaction between individual and environmental factors, the latter shape, affect and most importantly dominate the former, this way preventing nascent entrepreneurs from becoming real ones.

Missing parts in entrepreneurial “puzzle” or what we inherited from Schumpeter

Now, let us turn back to fundamentals of entrepreneurial research to see whether some of the above-mentioned changes were predicted or (at least) indicated at the time. In order to do so in a proper way, a preliminary useful step is to be taken – to recall what Schumpeter really meant by entrepreneur and how he has described the role and actions of the entrepreneur.

In the first edition of “*Theorie*”, an entrepreneur was understood as “new and independent *agens* in the economy” [25, p. 406], insightful and energetic man of action, who used his personality to force himself on others and demonstrated both *willingness* and *capability* to create “something new and destroy the old thing” [25, p. 409].

Judging by this explanation, Schumpeter (although quite unaware of it) made a proper distinction between so-called nascent and real entrepreneurs. He did not connect meaning of the term to mere desire to try one's predisposition to act in an entrepreneurial way (which can be qualified as nascent entrepreneurship), but rather to capability to disrupt previous practice and accommodate to new circumstances (real entrepreneurship).[5]

In fact, by bringing something qualitatively new, entrepreneurs were the ones "responsible" for development and they significantly differed from those who were only ready to adapt themselves by doing things to be familiar with. According to Schumpeter, only entrepreneurs were capable of carrying out innovative reallocation of economic resources, as well as transformation of organizational forms. Contrary to managers who were occupied with usual, routine activities, entrepreneurs were initiative individuals, possessing some exceptional and rare qualities such as readiness for exercise leadership by bringing about essential changes in organization. Actually, they were understood as "sociologically distinct individuals" [20], thanks to their impressive natural abilities necessary for making different "path-breaking" changes in the economic system.

This description corresponds to the claims of propensity model of entrepreneurship: individuals are predisposed to become entrepreneurs regardless of characteristics of particular institutional system they operated in. In other words, an entrepreneur was supposed to be the leader whose decisions were much more intuitively based [26] than founded on practical training or other kinds of support from surroundings. At the same time, he (she) was not expected to be inventive and creative person, but the one among the others who was able to recognize and exploit already present possibilities.[6]

Schumpeter emphasized that the main intention of that ambitious (let me say) freelancer was to "shake things up", that is to make the change bringing something new to be realized. In spite of the fact that such innovativeness was not explicitly connected to other aspects of entrepreneurship, capability of doing the above-mentioned type of activities necessary included much more than Schumpeter might be aware of and/or

[5] Only those capable for putting into practice already existing and noticed opportunities may belong to the latter category.

[6] "…the new thought is taken up by a powerful personality and is implemented by his influence. This personality does not have to be the creator of the thought, just as the entrepreneur need not have invented the new production method he is introducing. What characterizes the leader - here like everywhere else – is the energy of action and not energy of thought" [25, p. 429].

was willing to stress. Actually, the very decision to exploit the recognized opportunity reflected entrepreneur's readiness to bear some risk *by* taking *the proper* action *so that things would be* organized *and carried out in the appropriate way.* And these are entrepreneurial functions which were (more or less in a similar way) mentioned and analyzed (later or sooner) by Knight, Kirzner and Say, respectively.[7]

Besides above-mentioned innovativeness, there was another essential characteristic of the entrepreneur at the time. He (or she) was not initially motivated by profit stimuli, but rather driven by other motives. Such type of behavior seemed to be idealist and in that sense quite similar to so-called romantic entrepreneurs [3, p. 137]. Being driven by motivational forces which were not by origin profit ones, these individuals seemed to be similar to Kirzner's [12] pure entrepreneurs: "deprived" of ownership and having some prosperous ideas in their minds, they *primarily* brought about changes in goods, methods of production, markets, organizational forms and so on, whereas a reward for their efforts was somehow pushed into the background. Of course, this did not mean that Schumpeter believed an entrepreneur could live on changes instead on profits; it was just quite natural to expect that at such level of economic development (in the beginning of the twentieth century) impulses for generating something new prevailed.

Later on (during further development of capitalism), initiative and creativity of "heroic" individual have undergone dramatic changes. Entrepreneur was firstly transformed from one who "shook thing up" to another "getting things done" [24, p. 132]. And in the next phase, the exclusivity of individual entrepreneur was replaced by depersonalized innovative activities being done by large firms [24, p. 133].[8] In other words, so-called *Man of action* was somehow swallowed up by dynamism of capitalist engine. For this reason Schumpeter was accused to abandon his entrepreneur-centered theory [30, p. 8]. And probably that is why some authors [5, p. 213-214][9] saw the difference between Schumpeter I (insisting on individual as the entrepreneur) and Schumpeter II (ascribing entrepreneurship to corporations).

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[7] For more detailed analysis of these functions see: [16; 17],

[8] In that sense Becker and Knudsen tried to remind us about the differences between first and second German edition of Schumpeter's *Theorie;* during those fifteen years the entrepreneur was converted from energetic leader causing economic changes into "a much weaker individual" [2, p. 391, 393-4]. And later (from second edition onward) "de-personification of the entrepreneurial function" [2, p. 394] came to the scene.

[9] And George Ritzer [22] mentioned Carayannis, Ziemnowicz and Spillan in that context.

This has been known as *obsolescence thesis* and it represents an obvious example that contemporary researches overlook and/or neglect historical perspective contained in Schumpeter's writings. The main reason for this may be the very nature of the phenomenon: being defined vaguely and /or imprecisely [18, p. 242-3], entrepreneurship neither could be identified as the factor of production (like capital, labor or land), nor has it be treated as an argument in production function. That is why entrepreneurial activities (in contrast to adaptive managerial ones) can hardly be identified and predicted in advance. From the other side, this dynamic and innovative connotation of the term was recognized by Schumpeter. He emphasized the role a heroic individual (as "driving power") played in the process of "creative destruction" [24], this way inducing changes which exceeded a firm level and extended to whole economy [16, p. 109]. Under rapidly changing circumstances no wonder that the role of above-mentioned individual transformed as well. Socioeconomic environment conditioned further emergence of Schumpeterian entrepreneur. That is why he concluded that activities originally ascribed to individual entrepreneur were absorbed and/or vanished when big companies became to dominate. In other words, Schumpeter really predicted (in a roundabout way) that individual qualities would be less important in subsequent flow of events. In that sense the claim that innovative individual was no longer crucial for later capitalism (as it had been in earlier one) refers more to the distinction between different stages of capitalism development than to existing of two "Schumpeter" [13].

Still, for small, start-up business the role of innovative individual remained important. Schumpeter himself emphasized that different sides of the novelty could be represented by the most typical one – that is "the founding of a new enterprise" [25, p. 410]. Having in mind dominance of neoclassical theory (and its ignoring the relevance of hardly identifiable role of entrepreneurs) since that time, no wonder that researchers being interested in studying of entrepreneurship naturally stuck to what they really had at their disposal, in order to overcome impossibility of connecting an entrepreneur with any of production factors.[10] So, I suppose that analysis of entrepreneurship considered as start-up business was the idea which they inherited from Schumpeter.[11]

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[10] As Swedberg noticed, even Schumpeter himself was "more sensitive to what mainstream economics was doing" at the time when second edition of *Theorie* was translated to English [26].

[11] Changes in economic science (resulting in neoclassical dominance) might also have caused slightly revision of Schumpeter's standpoint about entrepreneurship [2, p.392].

Although the literature suggested that an entrepreneur could not necessary be regarded as identical to an owner, further researches in this area of interest have almost taken for granted that these two persons were alike in many ways. This naturally led to more often use of the terms business ownership and entrepreneurship interchangeably [9; 10; 15]. Besides, among different ways of measuring entrepreneurial activity, the number of business owners became the most popular indicator of entrepreneurship. So, when someone's wish to start up a business has begun to come true (materialize), it was treated as the signal of entrepreneurial activity. There is one obvious reason why it has been treated this way: establishing an enterprise represents concrete, tangible form and *an outcome* of entrepreneurship [3, p. 128] which can easily be tracked. What message left by Schumpeter these analyses forgot? If one organizes his activities in a similar way as his predecessors, he hardly can be identified as an innovator, rather as a mere reproducer and improvisers. Unfortunately, such kind of entrepreneurs is nowadays dominant. Still, competitive advantage is located on the side of those making efforts to initiate competence-destroying innovations. And Schumpeter exactly drove at pure, real, innovative entrepreneurs when spoke about those individuals which role remained important for economic development.

Is there another point where Schumpeter was right? Considering human wish for self-actualization and recognition, nothing dramatically changed since his time.[12] Although primary motives lying behind entrepreneurial decision were changing as the time passed by, most of contemporary researchers still considered self-actualization and independency aspirations to be the main motives for running a business.[13]

From the other side, nowadays an entrepreneur is supposed to be much more than some self-made individual having just a few essential merits which allow him to be different than others. Apart from willingness to take a risk and at least intuition about something new, he (she) is expected to be well educated and experienced.[14] Keeping in mind that there are many available ways to acquire skills and knowledge necessary for creating proper base for one interested in becoming an entrepreneur, it seems quite possible

[12] Individual motivation seems to be "more enduring and less mutable than capabilities" [3, p. 155] - that is being an entrepreneur by nature is still rare feature.

[13] What Schumpeter had not noticed, and some other researchers did is the fact that these driving forces could be initialized not only by recognizing an opportunity, but also by necessity.

[14] The latter represents a solid base for further upgrading of specific abilities: to be open-minded in any occasion, to think in non-linear way and to be able to face with challenges and not to hesitate if feels a premonition of danger.

to learn to be an entrepreneur even if someone originally hasn't possessed such qualities. This reflects another important change in the concept of entrepreneurship: it previously was defined as non-routine activity, whereas nowadays it becomes more or less regulated one [10] and alike to managerial activity. At the same time, converting such beginner into real (Schumpeterian) entrepreneur is not that easy. In spite of all the efforts made in such direction, there is no guarantee that "achieved" and "desired" outcomes will necessary correspond to each other.

Exactly in this point all factors being beyond individual's control became actual and important ones. That is the point where contemporary analysis of entrepreneurship departures from Schumpeter's vision: it is much more focused on the context and outcomes instead on features of individual entrepreneur. Although Schumpeter mentioned "the reaction of the social environment" in the sense of some legal, political or general difficulties surrounding entrepreneurs [23, p. 87], he either not considered them much important for being especially stressed, or they actually were not such troubling as nowadays. Probably that is why his explanation omitted to be more devoted to environmental factors [19].

Concluding remarks

The concept of entrepreneurship has undergone a lot of changes since Schumpeter's time. There were many *ad hoc* as well as permanent contributions to development of this area either at theoretical or at practical level. Also, although a relevance of an individual was not totally ignored in the meantime, interpretation of entrepreneur relying (almost exclusively) on its innovativeness became more or less obsolete. Was this trend expected? Yes, if we just glance, not to mention carefully observe and analyze, in which direction analysis of the subject has been going. What is more important is the fact that Schumpeter and his followers (and/or opponents) were expecting such sequence of events.

Yet, most of recent analyses dealing with entrepreneurial issues demonstrate some kind of departure from Schumpeter. Regardless of their usual assuming that both the presence of entrepreneurial spirit and the supportiveness of entrepreneurial environment almost equally influence the level of entrepreneurship, current studies are much more than Schumpeter's ones focused on stimulus and constraints caused by environmental influence. This type of "departure" is expected and natural tendency.

However, there is another, less visible and more serious, departure concerning the attention paid to what Schumpeter had done in the regard of entrepreneurship. What usually do Schumpeter's contemporary interpreters?

Some of them are inclining to point out an inconsistency they revealed in his writings and usually ascribe it to Schumpeter’s unsatisfactory understanding of a particular problem. The others, no matter how much being fascinated with some of his ideas, only try to fit them in their texts in order to prove “imagined” statement(s). Still, there are few, willing to remind us about either already mentioned or forgotten claims which are contained in his books. And even those insisting on inconsistency in his standpoints [22] believe that Schumpeter’s work represents a solid (and certainly provocative) base for creating further inspirational researches.

In that sense, it is necessary for economic analysis and policy makers to re-read Schumpeter’s books in order to discover some of (very often “hidden”) indications they contained. And I warmly suggest so, like some other researchers do [26; 27]. This is the only way to find out that he, at least, had a strong feeling what might have happened with analysis of entrepreneurship if he had taken it up regardless of change in circumstances. And it certainly will be helpful for understanding the advantages of his approach to issue of entrepreneurship. [15] Even if it were not for other things, out of this reason he simply deserves an upsurge of popularity!

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[15] This means nothing less but to become a new leader instead of bare follower, i.e. to “embrace the contradictions inherent in the intellectual structure of one’s own times, and channel them to produce a new synthesis of one’s own” [21, p. 238].

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«ZAGONETKA» PREDUZETNIŠTVA: NEKE METODOLOŠKE NEDOUMICE

Rezime: Problematika preduzetništva sadrži mnoštvo različitih tema za istraživanje, koje se teško mogu objediniti u koherentnu celinu. Istraživači stalno produkuju širok spektar teorija koje se bave definicijom, poreklom, determinantama i načinima merenja preduzetničke aktivnosti, kao i raznolikim objašnjenjima o njihovom mogućem uticaju na ekonomski razvoj. Većina njih se slaže samo u sledećem: a) preduzetničke aktivnosti variraju po zemljama i tokom vremena; b) ni individualni, a ni društveni faktori (preduzetnički napori i podrška okruženja, respektivno) ne mogu sami po sebi determinisati ishod preduzetničkih aktivnosti. Svrha ovog rada je da načini pregled dela evolucije samog koncepta preduzetništva, kako bi se analizirala sledeća pitanja: 1) šta spada u osnovne uzroke koji produkuju izmene u savremenim proučavanjima ove tematike; 2) da li promene u konceptu predstavljaju udaljavanje od Šumpeterove vizije preduzetnika (kao inovatora); 3) zašto bi zanemarivanje ili pogrešno tumačenje Šumpeterovog dela moglo biti kontraproduktivno za napredak u proučavanju problematike preduzetništva.

Ključne reči: preduzetništvo, inovacije, Šumpeterova koncepcija preduzetnika

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DEVELOPMENT MEANS IN REGIONAL AND LOCAL ECONOMIC DEVELOPMENT

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Abstract: *Regional development refers to the process of starting, structuring and reaching the sustainable development, where it is important to take into account very complex regional situation and to apply adequate actions and instruments. Business incubation is a process of dynamic development intended to initiate development of economies, especially and primarily the local and regional ones. This process minimizes the number of the enterprises ruined in the first (start-up) phase of their life cycle. Last 30 years were significant by an increased number of business incubators recorded in many developed countries and, also, by the first positive steps made in those less developed countries.*

Keywords: *regional development, competitiveness of region, incubator*

Introduction

Effects of the medium-level (regional and local) on company development: The medium level is therefore the optimal level of significant influence on business strategies definition in the companies operating within those frames. This confirms the supposition made by Jőrg Meyer Stamer (5, p. 53), according to which, at the global economy level, competitors to each other are not individual businesses but groups of industrial companies with network-shaped organisation and development schedule depending primarily on the economic and other potentials of only one location. Because of ever stronger pressure from the higher levels and the severe competition, local

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and regional communities feel it necessary for their regions to develop and support business environment to protect their own economies. Logical consequence is the obligation of the local factors to improve and make faster the privatisation process, because in the opposite case, businesses with the present business strategies and way of function are incapable of being competitive to the highly developed economies and their business. This is why the regional economic development is so important. Proof of this is that in the recent years, large number of development coallitions has been established almost all over the world.

Thus, it is necessary to define the local development alliances at the medium level as the adequate support to the business development within those frames.

Enterpreneurs' incubation support has stimulative influence on those making the decision to start a business, their operation & survival in business, and helps in realisation of a good business idea. Thus, the main business incubator effects are: in more rapid and easier starting, more easier access to financial sources and creditors in the ***start-up*** phase; advisory and educational assistance to newly established companies; easier access to domestic and foreign markets by enabling fast connecting and development, etc.

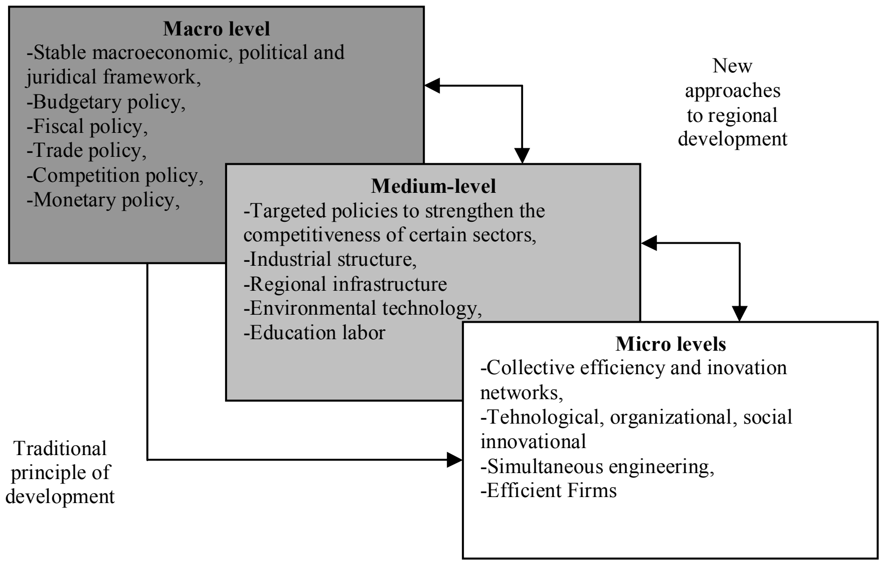
In addition to the effects imposed on the enterprises, one can expect certain effects on the local, regional, and wider community. Among the major effects there may be: VAT-based income for the municipality, region, and republic; newly opened jobs; income made on personal income of the newly employed labour; faster community development, etc.

Potential beneficiries of a business incubator may be: enterpreneurs, newly established micro, and small enterprises, as well as the cooperatives and/or cooperative organisations performing the registered activity for longer than a year, and the existing rapidly growing enterprises oriented towards the business process innovation and new technologies which, applied by the enterprises performing their registered activity for not longer than a year, support their rapid development and increase the number of employees.

1. Regional economy competitiveness

Regional economy competitiveness building based on financing from a state level (traditional principle), with the aim of economy improvement in specific areas, did not prove to be efficient. Big investments have been made, but they did not result in development. New approaches to regional development have different implications: *the initiative comes from regions itself while the state gives support.* The support to regional development has the characteristic of interest. The aim of the state is to support regional development expecting the effects which should come as the result of development.

Figure 1. Determinants of Systemic Cometitiveness



Source: Jőrg Meyer/Stamer, (2002) *Participatory Appraisal of Competitive Advantage,* http://www.paca-online.de, version 3.2.

In building the economy and enterprises competitiveness regions are using various development means and methodologies.

At in-between-level (regional level), the level of municipalities, districts or regions, *support the efforts of enterprises to succeed in business is provided*. It is obvious that enterprises in new economy courses, especially in transition economies, need more and more supportive structures.

Enterprises at local level, due to the big pressure, which is a consequence of the world market globalization and liberalization, have interest to cooperate, and therefore, form various associations and cooperatives to have joint appearance on domestic or foreign market. The role of regional integration is more and more important in that sense. More than anything else, it is important to have clearly defined development policy at this level (table 1.)

Table 1. Priorities in regional and local development policy

	Regional development policy	Local development policy
Systematic competitiveness of in-between-level	-Development of regional economy -Centers for technological development -Research-development institutions -Education and training -Financial institutions	-Development of local economy -Institutions for education and training -Effective Chambers of Economy -Technological Centers, incubators

In-between-level presents optimal level for the support of the creation of necessary development strategies of enterprises which have business at that level. The policy at in-between-level (local or regional) should be based and focused on the creation of systematic competitive advantage of enterprise. Regulation policy of local communities should protect economy system from the uncontrolled imports in order to protect new activities in its area. Beside that, within the financial policy it is important to have means to initiate research-development activities for the needs of enterprises.

Globalization of the world economy makes pressure to enterprises, which reflects in bigger assistance requests from the enterprises towards local community. The result of that is that local communities more and more have an intensive influence on the creation of common development strategies. That certainly does not mean that regional communities should be independent, on the contrary, they have a need to integrate and connect in order to represent, first of all, their own interest, and after that general interests.

2. Purpose and objectives of the center foundation

Development incubation centers are founded for the purposes depending directly on the founder targets and expectation.
Depending on the type, incubator centers may be classified as: corporate, technological, university, local, private, or public-private. Objectives of their foundation may differ depending on the above-mentioned incubator types based on their founders. Main objectives are generally defined towards: economic development initiation, new jobs creation, business operation diversification, making profit, credibility, etc. Example: University incubators are oriented to credibility, business diversification, and profit. Corporate and private incubators are oriented toward profit, while

technology incubators are primarily credibility oriented. Public-private and local development incubators have the largest number of targets. Most important of them are new job opening and economic development, which are of less importance for the other types.

Promotion of favourable business environment is of vital importance for the enterprise development. In many countries, with developed economies, incubator centers have appeared with the aim to encourage economic activities development.

Table 2. Busines development incubators developed in the countries of CEE

Country IB type	Inc.business	Classical business incubators[1]	Scientific and technological parks	Other types	**TOTAL**
Czesh	***16***	4	4	-	**24**
Poland	***53***	-	3	-	**56**
Estonia	***2***	3	1	-	**6**
Hungary	***17***	8	4	6	**34**
Slovakia	**-**	5	6	-	**11**
Slovenia	***9***	-	3	1	**13**

Source: Database (2003) CUOA, UNECE, Geneva

Incubators are founded with the purpose to develop enterpreneurs-friendly climate and opportunities for creative ideas turning in the opportunity for enterpreneurship.

Careful analysis results have proved that the "incubated" enterprises are developing much faster, confirming that such a support to the enterprises in development is really necesary. As a rule, such support is nedeed more for the enterprises oriented towards the global market, the newest technology developments and innovations, but primarily and most of all - for the countries in trasition. American research results gave evidence that state incubators can improve regional economy by 68% approx.; commercialize new technologies - 25%; and iniciate economic development - by 22 %.

The main objective of a development incubator is to offer and provide its assistance to new enterprises at the beginning of their life-cycle, which will, in return, reduce the probability for the newly established enterprises to get ruined in their start-up phase, and also, to develop a sound basis for new jobs

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[1] Breeding grounds and beginning units – workshops or workshop-companies

opened for large number of the workers fired in the process of privatisation and restructuring of the state and public enterprises.

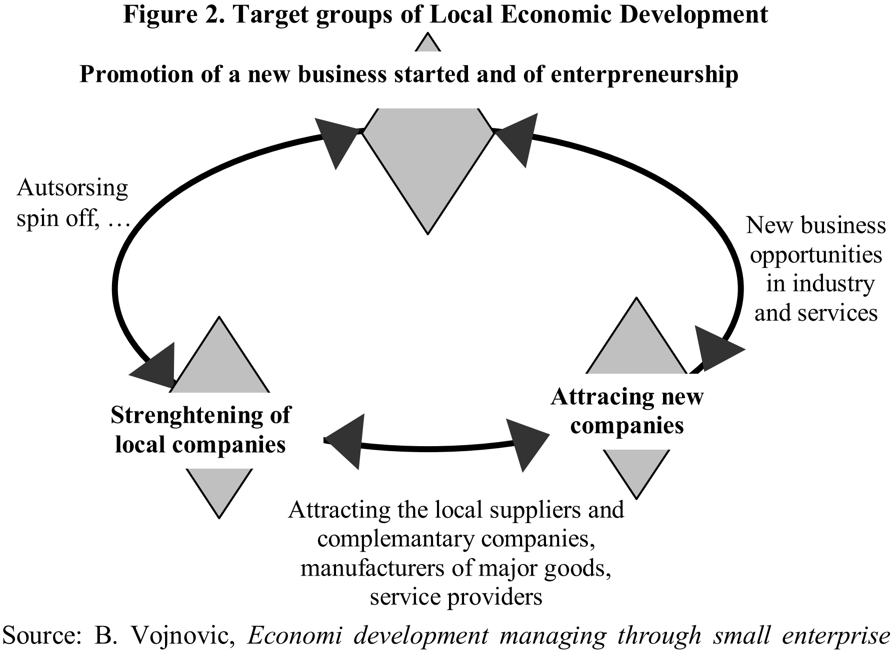
Getting incubated, local small enterprises are generating realistic chances for the employment rate increase, enterpreneurship development and, thus, for the development of national economy, as a whole.

3. About Business Incubation

Business incubators (i.e. Incubator Centers) represent tools of the economic development policy. Countries with developed economies have known and accepted such centers existence and they are given full support by the state, regional, and local communities. Opposite to the developed, countries undergoing the market re-structuring are still unaware of how important are the incubator centers, and that is why efficiency of this development instrument is pretty conditioned, i.e. questionable.

Business incubation through small enterprise breeding is in direct relation with the local and regional development. One of the major economic development target groups on these levels is new business initiation and enterpreneusrhip promotion.

Figure 2. Target groups of Local Economic Development



Source: B. Vojnovic, *Economi development managing through small enterprise (business) breeding, Serbian* Journal of Management, Technical Faculty at Bor, 2006, p. 106.

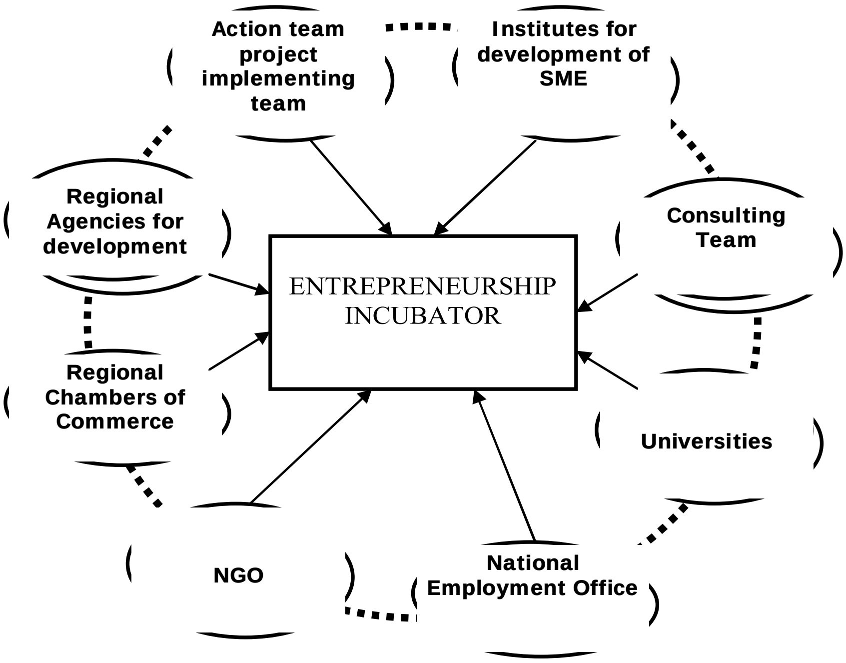
Business incubation is a process of dynamic development intended to initiate development of economies, especially and primarily the local and regional ones. This process minimizes the number of enterprises ruined in the first (start-up) phase of their life cycle. The start-up phase of an enterprise is the most difficult phase for its business operation and, also the phase in which the enterprise is most easily hurt due to the reasons resulting from: a lack of professional experience, a lack of knowledge, inadequate technology, a lack of financial sources for investment in production and development, having no access to any credit source, foreign capital, etc. Percentage of the enterprises ruined in these circumstances, is approx. 80%, while in business incubation the percentage is about four (4) times lower i.e. 20% approx. Also, entering business incubators, i.e. being "incubated" enables faster growth and development of the enterprise itself and, its direct influence on the employment rate increase and the enterpreneurship idea realisation.

Last 30 years were significant because of an increased number of business incubators recorded in many developed countries and, also, by the first positive steps made in those less developed countries.

For example, Germany had its first center established in 1983, and now, there are more than 200. In the USA - there are over 500. China was the first communist country that understood the importance of the centers for development, so that they have about 70 centers there. Through its enterpreneurship and inovation centers (European Business and innovation Centre Network) EU, is giving support to over 180 business centers in the EU member countries.

However, satisfactory development incubators operation requires support and development of agencies for regional development. Incubators should be based on partnership of the private and public sectors, including everyone interested in the development of economy - from national to local and individual level.

Figure 3. Composing elements for functional operation of small enterprise incubator



Source: B. Vojnovic, *Economy development managing through small enterprise (business) breeding, Serbian* Journal of Management, Technical Faculty at Bor, 2006, p. 107.

This means that countries in development should understand the importance of the support given to small enterprises and also, to have their activities oriented accordingly, and especially in the part related to establishment of institutions for development and support of newly established small enterprises. As a rule, even these organizations are short of experience since they are also in their initial (start-up) phase, having no certain knowledge applicable in practice, and that is why they should base their activities upon the experience of the developed countries and also to be capable of situational adjustment acording to the existing economy (commercial) and other circumstances.

4. Feasibility Study of Enterpreneur's Incubator

Key steps of any enterpreneurial undertaking are: vision, mission, performance strategies, business plan development, and implementation.

Vision, as the initial phase of the undertaking, contains the basic idea of the project and projection of the desired future condition. **Mission** is showing crystallised version of the vision and expressing the intention and justification (i.e. usefullness of the project), and, of course, the general and specific objectives of the project. **Strategies** are defining the method/s considered as satisfactory and sufficient for the project objectives meeting. **Business plan** is the formal business document, refering to both the development objectives and the strategies defined to meet them.

Planning as the primary function of the management, is a pretty complexactivity. Such a high complexity of the planning proces comprises defining the objectives,defining the business policy/ies, formulating the strategy/ies, preparing the program/s and developing plan/s. [8, p. 319]

Business plan is based on the **feasibility study.**

Because of the lack of any strictly defined rule referring to preparation of business plan, and having in mind its being directly conditioned by the Feasibility study, the resulting conclusion may be that there are no strctly defined rules for development of the feasibility study, either.

Feasibility study can be structured as follows: [2, p. 78]

1) Introduction, history, product/s or service/s description,
2) Accounting review/analysis,
3) Management,
4) Marketing,
5) Finances,
6) Legal matter,
7) Taxes and
8) Enclosures.

However, Feasibility study refering to the business incubator realisation, should be structured inc luding the folllowing activities:

1) Local economy analysis ,
2) Clear definition of the BI objectives,
3) Defining possible location/s, type and legal status,
4) Defining the partner/s for the subject,
5) Defining the services based on the enterpreneurs' needs analysis,
6) Defining the required personnel, procedures and equipment, ,
7) Identifying the possible financial sources.

5. Types of the enterpreneurship development incubators

In developed countries, incubators are used for the big companies diversification. In the countries in transition, incubators are just one of the development tool forms, intended primarily to support the SMEs development and, also, to provide the assistance in finding new jobs and/or business opportunities and transfer of technology and knowledge. Development incubators are significant for the fact that they rely on their own forces instead of waiting only for the assistance expected to come from the state institutions, which was just a normal phenomena in the socialist economy sistems.

Organised accordingly, and provided with the necessary financial support, incubator centers with the whole network made up of the incubated enterprises, may present a big contribution to development of the economy as a whole, new job opening and new tecnologies generation.

Depending on the founder and the purpose of their foundation, incubator centers can be classified as follows:

-non-profit (state) incubators,
-enterprise incubators,
-private incubators, and
-scientific (University) incubators. [6, p.242]

Non-proft incubators are founded by the state, primarily for the purpose of development of the certain individual activities, prospective programs developed to encourage export or local development.

Their main activities are those necessary for the existing production adjustments or modification, economic diversification, and/or labour pre-qualification. State incubator centers are applicable especially in the state regions characteristic for high labour unemployment rate.

Corporate incubators appeared as a consequence of the big business systems' incapability to keep up the pace with the more and more rapidly changing business environment. To enable their market-orientation and become profit-oriented, such big systems had to develop the so called internal enterpreneurship, based on the establishment of a number of new, smaller but innovation-oriented enterprises continuing to operate with and for the principal company.

Private incubators are those founded by private enterprises and/or individuals. The main objective of these incubators is profit making and the transfer of technology. There are many different types of private incubators, but most frequently their main activity is: renting business premises and providing advisory and professional services. These incubators are most widely spread in the USA.

University incubators are developing technologies primarily for commercial purposes. They are founded to enable fastest possible interpretation of the research results, and transformation of innovations into the actual product and its placement at the market. Another target of theirs is providing and maintaining credibility of the scientific institution, i.e. the university.

It is worth mentioning and even emphasizing that the most frequently occurring incubator form has no strictly defined characteristics. Because of the constantly increasing complexity of the business surroundings, precise incubator differentiation according to characteristics is simply impossible. In many cases those are the so called hybride incubators which are, in fact, a combination of those mentioned above. Therefore, pretty often you can see an incubator founded by an association of a number of state and private institutions, or any other combination.

6. A purpose of establishment

A purpose of incubator centers establishment is directly depending on the objectives and expectations of an establisher.

Table 3. A basic purpose of incubator centers establishment

Investment model	Employ-ment	Profit making	Economy development	Diversifi-cation	Value added	Credibility
University		*		*		*
Local	*		*	*	*	
Technological				*		*
Corporative		*				
Private		*				
Public-private	*	*	*	*		

Source: Smilor W. R., (1996) *The New Business Iincubator***,** Linging Talent, Technology, Capital, and Know-How, The University of Texas in Austin.

7. Functional operation : How do the small enterprise incubators operate

Economic development in the non-developed countries, subject to the pressure imposed by globalisation and transition resulted in even worse conditions, while the privatisation and restructuring process in the public and state companies was the cause of a drop in production and firing of a large number of workers.

More vital economies and better – concepted economies in transition needed 10-15 years to overcome the transitional depression and, finally, to get back to the initial positions they had in the 1990s, when they started the process. The economy of Serbia and other similar economies will take much more time because of the pretty low Gross National Product (GNP) -

presently at the level of about only 50% of the GNP at the beginning of 1989.

Transition processes in their initial phase, through business systems restructuring and privatisation, generally cause extremely high unemployment and indicate on the need for such organisations.

In such context and aiming to faster and more effective growth, those who decide on the economic policy should create the environment friendly and favourable for the SME development while, at the local level - they should support such development offering their institutional, administrative, legal, technological, and/or financial assistance.

Table 4. Most frequently used instruments for assistance to small companies in %

Instrument	Regional agency	Local agency	Development fond	Micro credits	Direct investment	Incubators	Innovation centers	Tax incentives	Modest administr.	Info. centers	Nat. strategy	Branch support	Joint venture	Business planning	Advisory net	Assistance in R&D	Voluntary associat.	Marketing	Quality	Support to export
Percentage of the country user	80	69	73	53	53	61	69	65	42	61	43	50	61	65	43	53	50	65	42	84
Percent of The Instrument users	61	52	55	41	41	53	47	50	32	47	35	38	47	50	35	41	38	50	32	64
Number of Users	21	18	19	14	14	18	16	17	11	16	12	13	16	17	12	14	13	17	11	22

Source: Pohleven P., (2002) PCMG, STABILITY PACT for South Eastern Europe, GEA College, Ljubljana, p. 258.

Very often, enterprises are still underage from the aspect of business, having neither the experience nor the necessary financial sources, have no good chanses to survive. That is why the main purpose of such incubator centers is to support new enterprise/s and their business activities through different methods and forms of the services they need, from their beginning till the time when they become independent and profit-making enterprises.

Most of the incubator centers are performing their activities based on the support provided by the state, regional or local communities. There are also certain kinds of incubator centers established by some institutions or even, individuals.

Enterprise incubation system involves large number of institutions offering and providing their support aimed at enabling the establisment and development of small enterprises/businesses.

The purpose of incubation centers is to have all the services and assistance necessary for small enterprises and enterpreneurship development *associated under one single roof.*

Assistance offered to the incubated enterprises comprises, most frequently:

- providing the space for operation,
- advisory services,
- legal and book-keeping services,
- financial services (i.e. providing contacts with the relevant financial institutions, business banks, providing the required bank guarantees, etc.).

In a word, incubation centers established to get together all the services and everything needed by a modern enterprise for successful operation and development.

Services provided by the incubation centers include not only the material aspect but other aspects, too (e.g. technology, information, etc).

It must be emphasized that, neither the structural composition nor the shape of it are strictly defined, and there is no need and there is no possibility for them to be standardized.

8. Conclusion

Vision and resources managing economic and entrepreneurship development should be directed to the establishment of institutions and specification of development means. Among others, those are entrepreneurship centres for business incubation. This requires the following: complete strategy for providing a competitive business environment, targeting to stimulate growth and development of regional economy, cooperation, and networking of regional communities and mutual support of the subjects linked with business. Founding, subsistence, and development of SMEs represent the basis for further local development, which is one of primary tasks of entrepreneurship development incubators.

Pressed by globalization, small enterprises find solution in group efficiency and support of public and private factors. This makes a partnership between the private and public, i.e. entrepreneurship and governmental subjects vitally important for local and regional economic growth.

Entrepreneurship incubators need a strong and straightforward organization structure and trained management team to manage the incubator. In the countries which went through transition phase entrepreneurship, incubators enable small enterprises to access new technologies and market. Conducted polls indicate that entrepreneurs are interested mostly in new technologies and possibility to enter foreign markets, as well as better production financing conditions.

In almost all developed countries, there are funds intended for initiation of beginning business. A lack of funding of that kind is a limiting factor for development of small enterprises. International organizations, like *USAID and HALP* incorporate the programmes of support to small enterprises in the form of small grants for starting the business, but they are limited to specific target groups and specific areas. For example, Norwegian organization *"Jarenprodukt Udvikling"* renders consulting services, founds cooperation groups and provides funds for members of cooperation groups in Serbia, but limited to just two municipalities, Kragujevac and Bač.

Finally, it should be stressed out that further growth of economy, reasonably based on the development of small enterprises, requires support and backing of foreign and local government institutions for development, but first of all the enterprises should have local and regional support.

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RAZVOJNA SREDSTVA U REGIONALNOM I LOKALNOM EKONOMSKOM RAZVOJU

Rezime: Pod regionalnim ekonomskim razvojem se podrazumeva proces započinjanja, strukturiranja i dostizanja održivog razvoja, pri čemu je važno uzeti u obzir složenu regionalnu situaciju i primeniti adekvatne postupke i instrumente. Inkubiranje preduzeća je dinamičan razvojni proces, kojim se pokreće privredni razvoj, pre svega lokalnih i regionalnih ekonomija. Ovim procesom smanjuje se broj propadanja preduzeća u prvim fazama njihovog postojanja. U poslednjih trideset godina beleži se rast preduzetničkih inkubatora u mnogim razvijenim zemljama, ali su prisutni prvi pomaci i u onim nerazvijenim.

Ključne reči: regionalni razvoj, kompetentnost regiona, inkubator

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CONSUMER EVALUATION OF THE SERVICE QUALITY

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Abstract: *The marketing concept of business operations involves the identification and satisfaction of consumer expectations, needs and desires, in a way that facilitates the growth in sales, profit and market share over the longest time period possible. For the marketing concept to be implemented, it is necessary for the company to understand consumers, i.e. how and why they behave, and create accordingly the range of its product and services that consumers will buy and use. A company's business performance depends on the extent to which consumers are satisfied with the offer. Quality is often considered to be one of the keys to success. The competitive advantage of a company is said to depend on the quality and value, of its products and services. In order to achieve market success, companies should pay significant attention to consumer evaluation of the service quality. When the service provider understands how services will be evaluated by the consumers, it will be possible to identify ways of managing these evaluations and influencing them in a desired direction.*

Keywords: *Service, Quality, Consumers, SERVQUAL, Perceptions, Expectations, Service quality determinants*

1. Introduction

In today global economy, companies of all kinds acknowledge that their customers/consumers are extremely important, that customers/consumers are the company's most valuable asset, that the

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company survives only when it has customers/consumers and grows only when it can retain them and recruit new ones, and that the company therefore should be structured and managed around the customer/consumer. Customer/consumers focus was identified in many academic researches as the single most important differentiator between the best and the worst companies in an industry.

Quality is often considered to be one of the keys to success. The competitive advantage of a company is said to depend on the quality and value of its goods and services, but it has to be proven through ultimate test-consumer evaluation of quality.

2. A Customer/Consumer Perspective

During the last two decades companies increasingly acknowledged the critical importance of becoming customer-oriented and market-driven, instead of product-technology-sales focused. Becoming customer-oriented and market-driven is the core of what marketing experts have called the marketing concept. In fact, marketers have even developed a formal measure of the degree to which companies live the marketing concept. It is called the marketing orientation scale and it consists of 20 items that companies can use to diagnose the degree to which they are customer and market focused. The scale includes three subcomponents that form the backbone of the marketing concept (1. pg 10):

- Intelligence generation – the collection of information about customer needs and competition through market research.
- Intelligence dissemination – the spreading of the collected information cross-functionally and organization wide.
- Responsiveness – acting on the collected information to satisfy customers – by incorporating customer intelligence into new product development.

It is the consumers who, by making decisions to buy certain products and services, most directly determine a company's sales and profit, i.e. its fate on the market. Daily life yields a large number of business failure, high death rate of new products on the market, and the disappearance of a large number of companies from the market. How well companies know their consumers will affect their business success or failure.

Consumer information is necessary if companies what to achieve their three main strategic tasks: ([1], p. 41)

- discovering new attractive market opportunities;

- positioning products and services on the market;
- enhancing the efficiency and effectiveness of marketing strategies.

With the advent of information and communication technologies, the vision of perfect competition is becoming a reality. Consumers can now find out the prices offered by all vendors for any product. New markets have opened up, and prices have dropped. When businesses can deliver their products down a phone line anywhere in the world, twenty-four hours a day, the advantage goes to the firm that has the highest quality of products and services with greatest value-addition. In order to achieve this goal-advantage over competitors, companies must accept new business philosophy – consumers are in focus of all activities. Competition is fostered by the increasing size of the market opened up by new technologies based products. Products with a high knowledge component generate higher returns and a greater growth potential. Competition and innovation go hand in hand. Products and processes can be swiftly imitated and competitive advantage can be swiftly eroded. Knowledge spreads more quickly, but to compete a firm must be able to innovate more quickly than its competitors. Moreover, a company must accept the fact that today consumers are mostly comprehended as well educated consumers (3. pg 211). It is no longer how to reach competitive advantage – it is how to reach and retain consumers.

Consumers do not buy goods or services, they buy the benefits goods and services provide them with. Consumers buy offerings consisting of goods and services, information, personal attention and other components. Such offerings render services to them, and it is this customer-perceived service of an offering that creates value for them (4. pg 3). Companies always offer a service to customers, regardless of what they produce. The value of goods and services to customers is not produced in factories or in the back offices. Instead, value is created in customers' value generating process, when individual consumers make use of the products and services they have purchased. Before that moment only resources, such as product and services, information, employees, technology, systems, know-how and the consumers themselves, exist and wait to be used. In service contexts consumers' value-generating processes and the process where the service is created, normally called the service production and delivery process, take place to a large extent simultaneously.

Consumers do not look for goods and services *per se,* they look for solutions that serve their own value-generating processes. To take this statement one step further, whatever consumers buy should function as a service for them. When companies choose a strategic perspective they should carefully analyze their customers' value-generating processes and know what their customers want and how they evaluate quality of products and services offered by company.

Consumers' evaluation and perception of a service quality has huge impact on consumer satisfaction. Research suggests that customer satisfaction is influenced by both the level of effort expended by consumers and their level of expectations. Consumer satisfaction is an attitude formed toward a purchase (5. pg 306). The level of effort expended mediates product and service evaluation and the resulting degree of satisfaction. Effort is a flexible, highly unstable and individual yardstick. Equal amounts of effort extended by different individuals may be perceived by each as an investment or sacrifice of different magnitude and, as such, may yield different amounts of reward or satisfaction. Consumers' effort has been equated in literature with sacrifice, because every exchange in the market place can be viewed as a combination of some sacrifices. Almost always, some relinquish of financial resources, some loss of time in searching for the product and services and in consummating the purchase, and some commitment to spend time and effort necessary to learn the product or services use system, are required. In this sense, effort can be measured in financial, physical, or mental units. Satisfaction, on the other hand, could be described as mental state of feeling adequately or inadequately rewarded in a buying situation for the sacrifice a buyer has undergone. Consumer satisfaction is a postchoice evaluative judgment resulting from a specific purchase selection (6. pg 457). Thus, effort has been stressed as an important variable in the determination of consumer satisfaction with and evaluation of a product.

Consumer satisfaction is also an evaluative judgment related to the level of consumers expectation rather than to actual product or service performance. Satisfaction is a function of discrepancy or contrast between obtained and expected outcomes, between perception and expectation (7. pg 69). If expectations are high and performance falls below one's expectation, dissatisfaction arises. If actual performance meets or exceeds expectations, the consumer is delightfully pleased.

3. Service Quality

A service is a complicated phenomenon. Services could be defined as activities benefits or satisfactions which are offered for sale, or are provided in connection with the sale of goods (8 pg. 11). Very colorful definition of services expose them as an action, procedure, and execution (7. pg 21). A service is a process consisting of a series of more or less intangible activities that normally, but not necessarily always, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solution to customer problems (4. pg 46). A whole range of characteristics of services has been suggested and discussed in the literature. The most frequently mentioned characteristic of services are (4. pg 47):

- intangible,
- simultaneous processes of production, distribution, and consumption,
- heterogeneous,
- no transfer of ownership,
- cannot be kept in stock

Intangibility of service refers to the fact that services are performances, rather than objects, they cannot be seen, felt, tasted, or touched in the same manner in which goods can be sensed.

Inseparability of production and consumption involves the simultaneous production and consumption which characterizes most services.

Heterogeneity refers to the potential for high variability in the performance of services. No transfer of ownership simply means that customer cannot owe service that he paid such as the case when he pays for product which becomes his ownership.

Perishability means that services cannot be saved.

Due to the complexity of most services, consequently the quality of services has to be very complex too. The quality of goods is traditionally related to the technical specification of the goods, although, even in a goods context, a company using an image strategy, for example, tries to add value for their customers using, for example, fashion, status or lifestyle aspects. Concept of service quality is closely related to the concept of consumer satisfaction. Service quality is defined as the customers' assessment of the overall excellence or superiority of the service (6. pg 461). In order to develop and deliver superior service to consumers, as the way to achieve maximum level of consumer satisfaction, it is important that companies fully understand what customers are really looking for and what they evaluate. When the service provider understands how services will be evaluated by the users, it will be possible to identify ways of managing these evaluations and influencing them in a desired direction.

Interest in service quality emerged in the late 1970s. Ever since, the topic has attracted substantial attention among researchers and practitioners.

During the 1980s Christian Gronroos introduced concept of Perceived Service Quality, and the model of Total Perceived Service Quality (4. pg 62). This approach is based on research into consumer behavior and the effects of expectations concerning goods performance on post-consumption evaluations. The perceived service quality approach with its disconfirmation construct, 'cause it measures how well the experiences of the service process and its outcome meet the expectations, still forms the foundation of most ongoing service quality research.

Too often improving quality is mentioned as an company's internal goal without any explicit references to what it meant by service quality. To talk about better quality without defining it, how it is perceived by customers, and how it can be improved and enhanced, is of limited value. In service quality literature it is noted that the quality of a particular product or services is whatever the customer perceives it to be.

Services are more or less subjectively experienced processes where interactions-series of moments of truth between the customer and service provider, occur. What happens in these interactions so called service encounters or buyer-seller interactions, will obviously have a critical impact on the perceived service.

Basically, the quality of a service as it is perceived by consumers has two dimensions (9. pg 128):

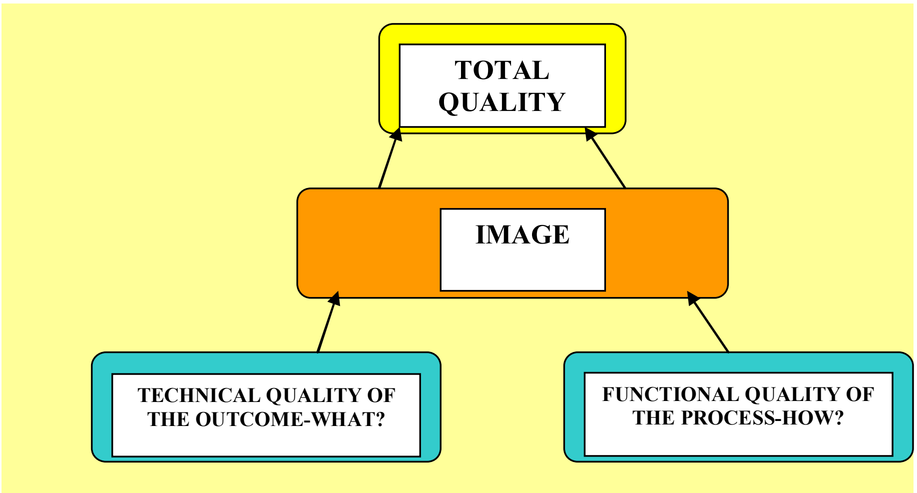
- technical-outcome dimension,
- functional-process related dimension

What customers receive in their interactions with a company is clearly important to them and their quality evaluation. Internally, this is often thought of as the quality of the service delivered. However, this is merely one quality dimension called the technical quality of the outcome of the service production process. This-the outcome quality is what the customer is left with, when the service production process and its buyer-seller interactions are over. This dimension can be measured relatively objectively by customers, because of its characteristic as a technical solution to a problem.

But, the customers will be influenced as well by the way in which the technical quality-the outcome or end result of the process-is transferred to him. The customer is highly influenced by how he receives the service and how he experiences the simultaneous production and consumption process. This is another quality dimension which is closely related to how the moments of truth of the service encounters themselves are taken care of and how the service providers functions. Therefore, this is called the functional quality of the process.

Usually the service provider cannot hide behind brand names or distributors. In most cases the customers will be able to see the firm, its resources, and its operating methods. Company and/or local image is therefore of high importance to most services, and it can affect the perception of quality in various ways, as illustrated in figure 1.

Figure 1. Service Quality Dimensions

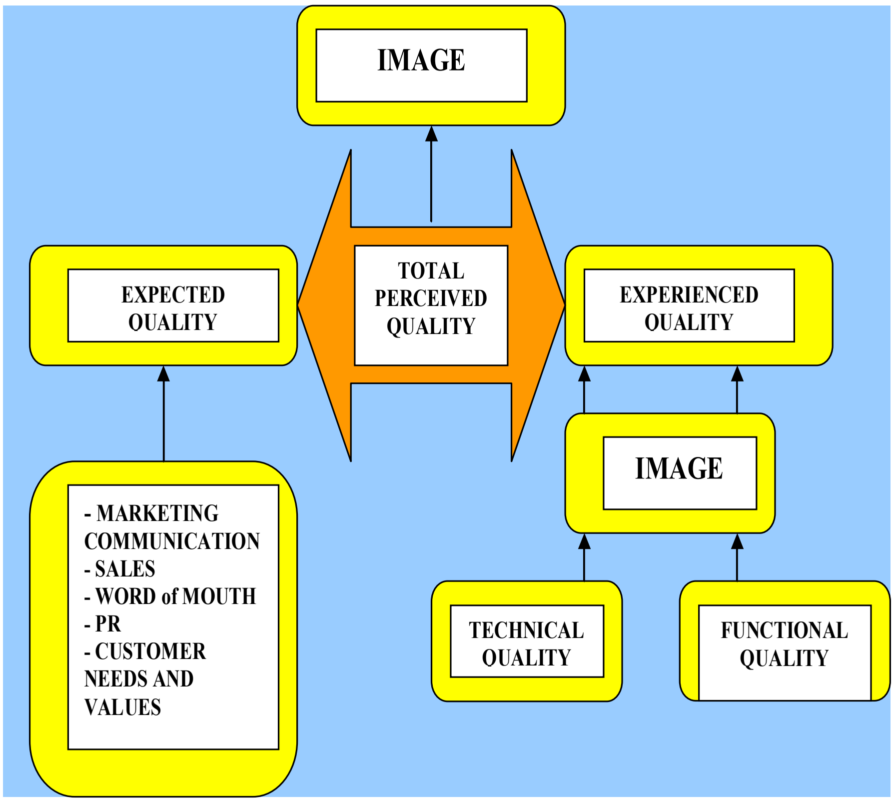


Source: Christian Gronroos, „Service Management and Marketing-a Customer Relationship Management Approach", John Wiley & Sons Ltd, 2004, pg 65

The technical quality of the outcome of a service process is normally a prerequisite for good quality. It has to be at an acceptable level. The definition of an acceptable level depends on the company's strategy and the needs and expectations of its customers. Good technical quality alone does not mean that customer perceive that the service quality is good. If customers are to consider total service quality good, functional quality has to be good as well. In a situation where a number of companies are competing with similar outcomes or technical quality, it is the functional quality impact of the service process that counts. Companies compete with their service processes and the functional quality impact created by them, but, if technical quality fails total perceived quality fails as well.

Quality is to a large extent perceived and evaluated subjectively by consumers. However, the quality perception process is more complicated. It is not just the experiences of the quality dimensions that determine whether quality is perceived as good, neutral or bad. Perceived Service Quality model exposes how quality experiences are connected to traditional marketing activities.

Figure 2. Total Perceived Quality



Source: Čedomir Ljubojević, „Marketing Usluga", Stylos, 2002, pg 134

When we consider service quality issues it is more appropriate to use Total Perceived Quality concept shown in figure 2. Good perceived quality is obtained when the experienced quality meets the expectations of the customer-that is the expected quality. If expectations are unrealistic, the total perceived quality will be low, even if the experienced quality measured in an objective way is good. The expected quality is a function of a number of factors, such as marketing communication under control of the company-advertising, direct mail, sales promotion, web sites, sales campaign etc., word of mouth and company/local image-indirectly controlled by the company, price, customer needs and values. External impact on these factors may also occur but they are basically a function of the previous performance of the company, supported by, for example, adversting. The needs of the customer as well as the values that determine the choice of customers also have an impact on his expectations.

The level of total perceived quality is not determined simply by the level of technical and functional quality dimensions but rather by the gap between the expected and experienced quality. Consequently, every quality program should involve not only those involved in operations, but those responsible for external marketing and market communication as well.

As the Perceived Service Quality model shows, customer expectations have a decisive impact on customers' quality evaluation and perception. If a service provider over-promises, it raises customers' expectations too high and, consequently, customers will perceive that they get low quality. The level of quality may very well still be high, objectively measured, but as customers expectations were not in balance with his experiences, the perceived quality is nevertheless low.

From marketing point of view it is better to under-promise in order to be sure that the organization can fulfill the promise that has been given. It is even better to under-promise and over-deliver.

4. Service Quality Determinants and the Servqual Instrument

How service quality is perceived has been studied extensively during the past three decades. Most of these studies are based on the disconfirmation notion-quality is perceived through a comparison between customer expectations and experiences over a number of quality attributes.

The problem which is still not adequately addressed is how to measure the extent of one's service quality objectively, and apply remedial procedures quicker and better than the competitors. The gap concept has clear implications for the measurement of service quality, implying that both perceptions and expectations need to be explicitly measured in order quantify service quality gaps,

SERVQUAL is a service quality measurement model based on the Perceived Service Quality, that has been extensively applied. The SERVQUAL model was developed by Parasuraman, Zeithaml and Berry in the mid-1980s on the study of how customers evaluate the quality of services through quality determinants (4. pg 74). With minor modification, SERVQUAL can be adapted to any service organization, and information on service quality gaps can help managers diagnose where performance improvement can best be targeted.

However, certain authors are critical of SERVQUAL in that, although it made great contribution to the field of service quality and was popular among service quality researchers for many years, it is thought to be insufficient because of its conceptual weaknesses caused by the disconfirmatory paradigm, and its empirical inappropriateness. The SERVQUAL satisfaction survey instrument is one of the most widely used techniques for obtaining quantitative measures of customer satisfaction. The survey instrument allows consumers to indicate the extent to which they agree with a series of statements designed to measure the elements of a service that consumers would expect as ideal (the expectations score) and then those elements of service that they have recently experienced (the perceptions score). The difference between the customer perceptions and expectations is referred as the satisfaction gap.

"The Servqual instrument was specifically designed to measure service quality using both the gap concept and service quality dimensions, and was designed to be transportable, with minor adaptation, to organizations in any service sector. The SERVQUAL ten dimensions model for service quality measurement should be tailor mad to ones business and they characterize customers' perception of the service.

The original 10 determinants of service quality (4. pg 75):

- reliability,
- responsiveness,
- competence,
- access,
- courtesy,
- communication,
- credibility,
- security,
- understanding/knowing the customer,
- tangibles.

Once the dimensions have been identified, the next step is to determine the extent of the impact the dimensions have in the customers' perception of service quality. This step will be followed by implementation of various service improvement programmes.

As a result of later study the 10 determinants of service quality were decreased to the following 5 (7. pg 130):

- tangibles-this determinant is related to the appeal of facilities, equipment and material used by a service company as well as to the appearance of service employees,
- reliability-means that the service company provides its customers with accurate service the firs time without making any mistakes and delivers what it has promised to do by the time that has been agreed upon,
- responsiveness-means that the employees of a service company are willing to help customers and respond to their requests as well as to inform customers when service will provided, and then give prompt service,
- assurance-means that employees' behavior will give customers confidence in the company and that the company makes customers feel safe, as well as that the employees are always courteous and have the necessary knowledge to respond to customers' questions,
- empathy-means that the company understand customers' problems and performs in their best interests as well as giving customers individual personal attention and having convenient operating hours.

Usually 22 attributes are used to describe the 5 determinants and respondents are asked to state on a 7 or 5 point scale from 'strongly disagree' to 'strongly agree', what they expected from the service, and how they perceived the service (4. pg 76). Based on the discrepancies between expectations and experience over defined number of attributes an overall quality score can be calculated. The more this score shows that experiences are below expectations, the lower is the perceived quality. However, more important than calculating the overall score may be the scores on the individual attribute scales, perhaps summarized over determinants.

SERVQUAL provides top management and key players with feedback about the organization's ability :

- to provide quality service,
- to identify service strengths and weaknesses – GAPs,
- to establish ongoing ''listening systems'' to develop continuous insight about customer service needs. (http://www.workinfo.com/Renres/register/9.htm, 2005).

The SERVQUAL scale should be applied carefully, and the determinants and attributes of the instruments should always be reassessed in any situation before the instrument is used. Services, as well as markets and cultural environments, are different, so it may be necessary to add new aspects of the service to be studied to the original set of determinants and attributes, and sometimes to exclude some from measurement instrument used.

From a managerial point of view, when trying to understand what constitutes a given service, the 5 determinants and also the 10 original determinants, give a valuable starting point for the development of an understanding of what aspects characterize the service that is provided. It is important to emphasize that when using a SERVQUAL type of approach to measuring perceived service quality one should always carefully customize the set of determinants and attributes used to the specific situation at hand.

SERVQUAL scale is most valuable when it is used periodically to track service quality trends, and when it is used in conjunction with other forms of service quality measurement, but is limited to current or past customers of that company. This is because meaningful responses to the perception statements require respondents to have some knowledge of, or experience with the company being researched.

The existence of customer satisfaction research lets customers know that the company cares about their opinions, so in itself has the potential to enhance overall satisfaction. Using the SERVQUAL scale can be helpful in determining how much time, staff and budget to allocate to the core and supplementary services that are affected by each of these factors. Key challenge for any service business is to deliver satisfactory outcomes to its customers in a cost-effective manner.

5. Expectation-Experience Evaluation And Measurement Controversy

There has been a considerable amount of debate regarding what kind of expectations the real experiences of a given service should be compared to. In the original SERVQUAL instrument, customers were asked what they expected from the service they had consumed, so the expectations and experiences measurements related to the same service. Later the measurement method was changed so that customers were asked what they expected from an excellent or ideal service in the same category as the one they had consumed. The original Perceived Service Quality model from which the expectations/experiences comparison originates in service quality contexts was developed to help managers and researches understand how customers perceive features of a given service. Hence, the expectations concept in that model is quite clearly related to the same service that is also experienced.

However, independent of what one wants to know about a given service, different kinds of expectations could be measured. If one wants to assess how good a given service is considered to be compared to the best in its category, expectations of an ideal service should be measured. On the other hand, if one wants to find out how customers perceive the quality of a given service, both, expectations and experiences regarding this particular service should be measured.

It is very important to stress that there are certain validity problems related to the measurement of expectations. These problems can be summarized in the following points (4. pg 78):

- If expectations are measured after the service experience or at the same time as experience occur, which they for practical reason often are, then what is measured is not really expectation but something which has been biased by experience.
- It does not necessarily make sense to measure expectations prior to the service experience either, because the expectations which customers have beforehand are perhaps not the expectations with which they will compare their experiences. The customer's experiences of the service process may change his expectations and altered expectations are ones with which the experiences should be compared to determine the actual quality perception of a customer.
- Measuring expectations is not a sound way of proceeding in any case, because experiences are perceptions of reality, and inherent in these perceptions are prior expectations. Consequently, if first, one way or another, expectations are measured and then experiences are measured, then the expectations are measured twice.

The problems described above are not easy to solve. Theoretically a comparison of expectations and experiences still makes sense because expectations clearly influence the perception of quality.

Conducted research on consumer evaluation of service quality in hospitals in province of Vojvodina, Republic of Serbia, by SERVQUAL model shows that there are significant differences between customer expectations about empathy as one of 5 determinants of service quality and customers experiences. Unfortunately, second evaluation of customers expectations wasn't carried out.

Replay to a question: ''Do you expect that a medical stuff in this hospital will take into consideration eventual customers' complaints and requests about the medical services?''

	NUMBER OF RESPONDENTS	%
I STRONGLY EXPECT	39	35.45%
I EXPECT	34	30.91%
INDEFINITE	**28**	**25.45%**
I DON'T EXPECT	7	6.36%
I STRONGLY DON'T EXPECT	2	1.83%
	110	100%

Replay to a question: ''A medical stuff in this hospital is taking into consideration eventual customers' complaints and requests about the medical services?''

	NUMBER OF RESPONDENTS	%
I STRONGLY AGREE	26	23.64%
I AGREE	32	29.09%
INDEFINITE	**29**	**26.36%**
I DISAGREE	16	14.55%
I STRONGLY DISAGREE	7	6.36%
	110	100%

Results obtained in the research shows that there is similarity of answers' percentage about customer expectations and experiences only concerning those indefinite answers. All this implies a huge complexity of the question of service quality, consumer evaluations, perceptions, expectations and consumer satisfaction and loyalty.

Management of expectations is becoming the core of quality programs in service industry. Hence, it is very important to invent alternative ways of measuring perceived quality. One of the potential alternative solutions is SERVPERF-Service Performance Only model based on belief that making no comparisons at all seems to be a good approach to measuring perceived service quality. This means that by measuring experiences only over a set of appropriate attributes, one can get a good approximation of the perceived quality (4. pg 78). It is necessary, in order to use the SERVPERF model, to develop a set of attributes that describes the service as conclusively as possible and only measures how customers experience the service on scales that measure these attributes.

6. Conclusions

Jeffrey Gitomer says that the challenge for the companies in 21^{st} century is not just serving customers-it is (10. pg 45):

- It's understanding customers,
- It's being prepared to serve customers,
- It's helping an angry customer immediately,
- It's asking customers for information,
- It's living up to your commitments,
- It's getting unsolicited referrals from customers regularly,
- It's listening to customers,
- It's being responsible for your actions when a customer calls,
- It's being memorable,
- It's surprising customers,
- It's striving to keep customers for life.

Basically, all these are about consumer satisfaction and loyalty through management of expectations, evaluations and experiences of service or product quality. Customer satisfaction with a physical product is often measured using an instrument where a given physical product is described by a set of attributes that reflect key product features. A comparison of experiences with prior expectations is also often made. Probably because the development of measurement models for perceived service quality included similar elements to models for measuring satisfaction with goods features, the question whether there is a difference between service quality and customer satisfaction has been debated in the literature. Furthermore, if there is a difference, the question whether quality is evaluated and perceived first and then satisfaction, or satisfaction with a service comes first and then leads to a quality perception, has also been discussed. There is no doubts about that a customer when consuming a service first perceives and evaluate the quality of the dimensions and determinants of the service, and only then perhaps considers other issues as well, is either satisfied or not with the quality of that service. A logical analysis clearly shows that an evaluation and perception of service quality comes first, followed by a perception of satisfaction or dissatisfaction with this quality, and later, the consumer loyalty.

Paying huge attention to the issues of consumer evaluation of product and service quality is crucial if the companies want to survive and succeed on the competitive markets.

But, a new dilemma has been occurring among marketing experts. The marketing concept in general, customer satisfaction, and customer relationship management all promise to help companies better understand their customers. However, each approach has remained narrowly focused and unnecessarily limiting. Maybe it is right time for new approach which would provide a view of the total customer experience. It would focus not only on functional product and service features and transactions but also on anything else that provides value to the customers during decision making, purchase and specially usage of product and services. This approach has to enable companies to create products and services that consistently delight customers and provides profits and increasing of market share. Maybe the Customer Experience Management could be that new approach.

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POTROŠAČKO VREDNOVANJE KVALITETA USLUGA

Rezime: Marketing koncept poslovanja preduzeća podrazumeva identifikaciju i zadovoljenje očekivanja, potreba i želja potrošača, na način koji treba da preduzeću omogući rast prodaje, profita, i tržišnog učešća u što je duže mogućem vremenskom periodu. Za implementaciju marketing koncepta u praksi neophodno je da preduzeće razume svoje potrošače tj. kako i zašto se oni ponašaju, i da, shodno tome, kreiraju ponudu proizvoda i usluga koje će potrošači kupiti i koristiti. Poslovni rezultati preduzeća zavise od nivoa zadovoljstva potrošača sa ponudom preduzeća. Kvalitet se veoma često smatra jednim od ključnih faktora uspeha na tržištu. Konkurentska prednost preduzeća uslovljena je kvalitetom i vrednošću njegovih proizvoda i usluga. U nameri da ostvare uspeh na tržištu, preduzeća moraju da poklone značajnu pažnju ka potrošačkom vrednovanju/evaluaciji kvaliteta usluge. Tek kada uslužno preduzeće potpuno razume kako će njegova uslužna ponuda biti vrednovana od strane potrošača, tada će biti u prilici da upravlja tim evaluacijama i da ih usmerava u željenom pravcu.

Ključne reči: Usluga, Kvalitet, Potrošači, SERVQUAL, Percepcije, Očekivanja, Determinante kvaliteta usluge

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SOCIAL RESPONSIBILITY OF MANAGEMENT AS PART OF THE COMPANY'S DEVELOPMENT POLICY

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"Social responsibility represents the influence of management on its environment, measured by written and unwritten moral rules, according to which the management and the enterprise are being assessed."

(Dijana Čičin-Šain, 2004)

Abstract: *By focusing on social responsibility within the business environment, we are leaving the previous framework of assessing the success of an individual manager, enterprise or industry based merely on economical results. Today, success is measured not only by the amount of wealth being achieved, but also by its equal distribution, the way it was achieved, its influence on different groups, as well as by its future sustainability. Respect for the established legal framework and for the syntagm of "triple-bottom-line-approach" indicates the necessity to respect the harmony between economical, environmental and social demands. These represent the minimum of expectations and the base of business operation- and enterprise development policy. Enterprises are expected to create such a development policy that will turn them socially responsible, focusing on their employees (within the organization) and the environment (outside the organization), not merely on economical success.*

Keywords: *social responsibility, its importance and dimensions, policies, ethical code in business operations.*

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Introduction

Today, emergence of increasingly large companies covering even several continents is leading to their increasingly negative influence upon the society and environment. Negative influences, primarily the outbreak of the crisis facing modern society, which is reflected through global warming, wars, discrimination and neglect of human rights, require new business thoughtways of managers within the business environment.

The new business concept, termed socially responsible business operation, introduces a new way of understanding of the enterprise's role in business courses, environment and generally in society, since instead of relentlessly pursuing profits, enterprises become the key drivers of social development. Directed by the logic of the concept of socially responsible business operation, enterprises are better positioned in the eye of different market stakeholders, decrease the costs of business operations, procure a more qualitative labour force, and also led by this imperative earn larger profit. The conclusion of all the above is that in modern economy socially responsible behaviour that requires respect for ethical code in business operation becomes an imperative.

1. The Role of Social Responsibility in the Enterprise's Development Policy

The pace of globalization, environmental disasters, exploitation in factories of the third world, all have caused that the issue of socially responsible business operation become of major concern, specifically with the aim to decrease the distrust towards multinational companies as the key factors of these changes.

Their socially responsible behaviour has proved very useful in all spheres of business operation, especially in that of finances and sustainable development. Thus, nowadays 73% of the largest British enterprises operate their business according to the principles of socially responsible behaviour, and this is also the course taken by small and middle-sized enterprises in order to satisfy the requirements of large companies as of their suppliers.

In recent years, the EU has largely focused on social responsibility, the specific reason for this being the fact that by 2010 the EU is expected to become the most competitive economy in the world, based on knowledge economy and social cohesion. This may be accomplished by respecting the principle of socially responsible business operations. Accordingly, many European countries have begun to fulfill the goals of socially responsible business operation. Belgium became the first European country that passed the law on voluntary marking the "responsible production". France has passed the first law on obligatory tri-balance reporting (financial, social and environmental balance) for companies participating in the stock market. Sweden promotes socially responsible business operation through the project termed "Swedish partnership for global responsibility" for developing countries. Since 2000, Great Britain appointed the first secretary for socially responsible business operation.[1] All states that want to enter the EU are expected to respect the basic postulates of social responsibility. This means that the General System of Preferences for formal tax exemption of developing countries may be granted only if they adhere to preferences that there is no forced child labour, prohibition of union activities, discrimination on employment, etc.

By focusing on social responsibility when measuring the success of an individual manager, enterprise or industry, we find that its contributions go beyond the rough indicators of economic results. It is reflected in contribution measured not only by the amount of wealth but also by its equal distribution, the way it was achieved, its influence on different groups, as well as by its future sustainability.

It is important to emphasize that when speaking of social and corporative responsibility, and of responsibility of managers, there is no essential difference – if there is social responsibility of a company's management and if the company's operation is socially responsible, in practice they are considered as synonyms. Thus, social responsibility of managers, enterprise or industry has to be measured through respecting the syntagm of "triple-bottom-line approach", referring to harmony between economical, environmental and social requirements. The developmental policy of an enterprise is accomplished not only by keeping the established legal framework in order to achieve basic economical goals. The enterprise also must turn its operation socially responsible, focusing it on its employees (within the organization) and on its environment (outside the organization).

To provide with prospective developmental policy through social responsibility towards the employees, primarily means to focus them on life-long learning, education, granting equal salaries, responsible policy of employment, as well ensuring health and safety on the workplace.

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[1] According to SMART KOLEKTIV, "Development of CSR", available at: http://www.smartkolektiv.org/csms/item (checked on 14.09.2009.)

2. Importance of Social Responsibility for the Enterprise

In addition of its clear importance to the environment, socially responsible business operation offers numerous benefits for the enterprise itself. Benefits from socially responsible business operation may be grouped as follows:[2]

- Reputation management
- Risk management
- Employee satisfaction
- Inventiveness and learning
- Capital accessibility
- Financial success.

2.1 Reputation Management

Through social responsibility in business operation, companies are able to influence the perceptions and attitudes of their consumers regarding the company and its products, thereby obtaining one of the most valuable capitals in modern business, and that is reputation. According to the management of large corporations, reputation is the most valuable asset (together with non-material assets, knowledge and brand it contributes to value of Coca Cola with 96%, and that of the American Express with 84%)[3] and the enterprise's key motif for existence. Thus, more than 250 of the most successful companies of present time,[4] in addition to regular financial reports, also create reports on contribution to society, putting reputation into the category of key elements within the company's strategy and developmental policy.

2.2 Risk Management

Risk is inevitable for any company. Changes in society and environment may influence the company's success significantly. The task of social responsibility with regard to the company's business operation is to help them to understand their environment where they operate and the risks it contains.

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[2] Systematization of benefits according to Arthur D. Little Limited "Business arguments for social responsibility of enterprises", available at: http://www.drustvenaodgovornost.undp.hr/upload/file/156/78390/FILENAME/Poslovni_argumenti_za_drustvenu_odgovornost_poduzeca.pdf

[3] Ibid

[4] Ibid

Social responsibility enables the companies to manage risks more efficiently, to reduce losses, to identify new circumstances and make use of the leading position as a means for gaining competitive advantage by influencing the creation of new regulations in order to strengthen their competitive advantage.[5]

2.3 Employee Satisfaction

"We believe that employees are one of our strongest assets and if given the day-to-day opportunity to do things in which they are the best, our employees will feel involved and fulfilled in their roles. Our vision is to create environment where exceptional people may give their best and realize their potentials."

Social responsibility is the key factor in attracting human resource, which is indicated by researches. Namely, 81% of young people believe that, with time, social responsibility in business operations affects the company's profitability. Job is an important part of all people's life. This means that just as they try to accomplish their private goals, people set their business goals and expect the possibility for job promotion. Indeed, this may be enabled by a socially responsible company.

"There is a new stratus of people emerging that puts ethical questions above monetary stimulation when considering a job offer. If companies' desire is to remain attractive, this new awareness of job seeking people should be reflected also on what companies offer besides any job."

2.4. Inventiveness and Learning

Inventiveness and learning are essential for the companies' long-term survival. Peter Sench, founder of the Center for Organizational Learning at the Sloan Business School which is part of the Massachusetts Institute of Technology, argues that the high "mortality rate" among the enterprises is the indicator of deeper problems affecting the enterprises, all for the fact that most organizations learn poorly. Recent researches have shown that companies adopting the principles of social responsibility

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[5] Namely, Europe-wide, 86% of institutional investors think that managing risks contained in society and environment influences the company's long-term market value positively.
http://www.drustvenaodgovornost.undp.hr/upload/file/156/78390/FILENAME/Poslovni_argumenti_za_drustvenu_odgovornost_poduzeca.pdf

encourage creativity and learning (this is the standpoint of 80% of European managers).[6]

Advantages contained in inventiveness shouldn't be encumbered by organizational barriers. Many organizations cooperate with business partners in order to identify inventive solutions that will both bring business benefits and solve some social problem. In such way, in cooperation with its six suppliers, Nike have started programs to collect 100% of waste materials and their use in the next manufacturing cycle, thereby reducing both production costs and the amount of waste.[7]

2.5. Capital Accessibility

When considering investments in a company, investors increasingly are focused on its accomplishments regarding to the society and environment. Thus, an increasingly large number of investment funds are managed according to the principles of socially responsible investments. Companies that fail to meet the high social and environmental standards are excluded from investment portfolios or are imposed with the condition to develop ethics in their business operation. 33% of investors Europe-wide emphasize their offering of products that meet the principles of socially responsible investment, while 15% intend to do the same. In 2001 in the USA, total value of funds that were managed according to the principles of socially responsible investment was equal to $2.34 billion. In Europe, value of private funds of socially responsible investments has reached £12,2 billion, and that of institutional £336 billion.[8]

2.6. Financial Success

For the enterprises adopting the concept of social responsibility, possibilities for reducing present and future costs are strengthening market competitiveness and position arise, which ultimately results in higher profits.

3. Socially Responsible Business Operation in Serbia

Socially responsible business operation is a concept of voluntary and inventive contribution by companies and their management to development

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[6] Systematization of benefits according to Arthur D. Little Limited "Business arguments for social responsibility of enterprises", available at: http://www.drustvenaodgovornost.undp.hr/upload/file/156/78390/FILENAME/Poslovni_argumenti_za_drustvenu_odgovornost_poduzeca.pdf

[7] Ibid

[8] Ibid

not only of the working surroundings, but also of the environment, as well as of society. It is not a substitute for regulative and other legal norms which regulate the social and ecological standards, especially in Serbia where the legal sphere is still not completely organized. Recently, since the consequences emerging from negative social and environmental conditions being increasingly stressed, these topics are recognized also in Serbia.

By the end of 2004, in cooperation with the Fund for an Open Society (FOSS) and the Chamber of Commerce of Serbia, the Smart Collective started a program for promoting socially responsible business operation in Serbia, termed *Initiative for responsible business operation*. This program is designed to be the way of encouraging, institutionalization and operationalization of the social responsibility concept in Serbia.

The Smart Collective has established the first forum of business leaders of Serbia, named Forum of business leaders of Serbia. Members of the Forum[9] have signed the memorandum on understanding, thereby committing themselves to socially responsible business operation. This Forum of business leaders is the first coalition of socially responsible companies in Serbia, with the mission to stimulate the development of socially responsible business operation and establish a stable business practice as the basis to realize the developmental policy of both the enterprises and the whole community. The Forum members, participating in domestic and international conferences address the issue of corporative social responsibility and enable the interconnection of international and domestic companies – members of the Forum of socially responsible business operation.

Socially responsible business operation s one of the key strategies of sustainable development to which is the European Union is clearly committed and any effort for its promotion is certainly a step towards the standards of the European society and market and is a contribution to "europisation of Serbia."

[9] The founders were 14 international and domestic companies: RDP B92, ERSTE Bank, a,d, Novi Sad, Holcim (Srbija) a.d., Lafarage BFC, PhilipMorris International, Coca-Cola Hellenic, British American Tabacco, US Steel Serbia, Pricewaterhouse Soopers, KPMG Inernational, Vip mobile d.o.o., Grupa Droga Kolinska, Societe Generale Bank Serbia a.d., Henkel Merima.

3.1. Understanding of the Term of Corporative Social Responsibility by the Enterprises in Serbia

According to the research conducted in 2005 in Serbia by the Initiative for responsible business operation, Serbian enterprises view factors directly affecting profit increase (product quality, behaviour according to regular principles, etc.) as the most important aspect of social responsibility.

Research have also indicated the fact that while the issue of social discrimination as a subject of social responsibility is mentioned only by 5 company representatives, most Serbian enterprises express their attitude that issues as women's rights, rights of minorities and endangered groups should have been subjects of the enterprises' social responsibility. Most of the companies, especially domestic, have agreed that companies from the former SFRJ should promote reconciliation and elimination of consequences of wars. However, regardless of the importance of socially responsible enterprises, many examinees have agreed that social responsibility in the companies' regular operation is rather an abstract category than an actively present category. This result from lack of awareness of the importance of socially responsible enterprises and examinees have opted for education, i.e. development of awareness of corporative social responsibility as of imperative of successful business operation of enterprises and their management.

4. Responsible Behaviour – an Imperative of Respecting Ethical Norms in Business Operation

ETHICS OF VIRTUES "Instead of viewing morality positively, as a continuous search for good, we often reflect on it negatively, limiting it to situations ashaming us. We feel ashamed in front of moral, as if there is no perspective in it for us. Edmund Pincoffs calls it the "ethics of inconvenient situations", where ethics and moral are needed only for times of crisis. Their major task is to resolve problems. The sense of ethics and morality is something else: to stimulate the goodness of human life and to achieve good personality." (I. Koprek)

One of the generally accepted definitions of ethics says that it is a sum of study of sense and purposes of moral volitions, basic criterions of moral assessment as well as of cogency of moral. Thus, ethics is to behave according to moral rules. Therefore, business ethics may also be described as a behaviour according to moral rules in business environment.

Many would say that since the daily struggle for survival on the increasingly saturated market there is neither time nor space for business ethics in their operative environment. Others say that business ethics is an oxymoron of modern capitalism, since the sole purpose of existence of enterprises is to maximize profits, operating according the laws and regulations.

Not so long ago, Ivan Boesky (1986) known as the "great white shark of the Wall Street", who has been rumored to "measure" $200 million, held a salutation speech at the Faculty of Economy of the Californian state university at Berkeley, saying "…and I want you to know, greed is good. I want you to know this. I think, greed is healthy. You can be greedy and still be of good opinion of yourself." Relying on such opinion of gaining position in the environment, many will recognize themselves in present-day business operation.

Still, many will say that keeping the principles of business ethics is something trivial, naïve, and often represents loss of time.

However, there are people who think that business ethics is increasingly becoming the base of good business operation on principles of social responsibility. Some recent researches have shown that 90 out of the 100 best enterprises (of The Financial Times and the London stock exchange) explicitly express their commitment to ethical business operation in their norms.

An increasingly large number of head officers take direct responsibility to conduct ethical programs in their organizations and corporations. To provide guidelines for the employees is said to be the major reason to introduce codes, while risk management is the second important reason of the organizations' successful business operation in a healthy business environment.

For successful operation, organizations need to understand that by successfully conducted business ethics they manage changes, develop successful relationships with interest groups, develop corporative identity, manage risks and successfully conduct crisis management and ultimately develop programs of social responsibility.

By conducting programs of business ethics, organizations realize that:

- instead of the product's price, on the first place is its quality and the way it is manufactured – this mentality forces manufacturers seriously to consider the ethical element of the way of manufacturing;
- in Serbia, the issue is not being considered, and the majority takes it merely as information; there is a dilemma between ethics and

successful business operation, a fear to consider business ethic closely;

- business operations are conducted even on the edge of felony. Things are being held morally justified as long as they don't depart from the law; according to the practice, certain behaviours, although not entirely ethically correct may be acceptable since the law permits them; there is a moral of success, it is important to success, regardless to the doubtful moral.

4.1. Consequences of Disrespect for Ethics in the Organizations' Business Operation

There are much larger losses from unethical business operation than that of material: decrease of trust between those working together, as well as between business partners. This results with the attitude – everybody works like this, why shouldn't I?

How to eliminate them? Which principles to keep? Which principles reflect the power of moral actions according to principles of social responsibility, as well as the power to eliminate the consequences of disrespect for ethics? There are many divisions of principles of moral behaviour. This paper deals with the most acceptable according to the author.

The first principle is the *purpose*. If we are focused on the highest principles, we know what to do on the long term basis. We aren't helpless when we are required to act, we know what we want and we are aware when we omit something.

From this principle logically arises the second – the *pride*. As people living in the perspective of purpose, we achieve results of which we may be proud. Besides us, proud could be also those we care for, we live and work with. This gives us strength to do what is right, even if there are strong pressures.

The third principle is *patience*. It warns us of the analogy of moral behaviour with the nature's behaviour. Patience is to believe in a process, in growth. When sawing the seed we need to wait long for harvest. Similar is the case with our moral behaviour: we cannot have the immediate verification that we have done the right thing. Lack of patience may lead to change of correct decisions. **It may seem that the righteous arrive the last, but they usually run different paths.**

The fourth principle is persistence. To be patient is not enough. It is necessary to be committed to our standpoints and their realization. It is necessary to be moral even when it is inconvenient and unpopular. To speak of persistence doesn't mean to speak of attempts to do something. **To attempt means much noise with no results.**

The fifth principle, which is the last, is in the core of the previous four – it is the *perspective*. Based on Fichte, though he is not mentioned, authors call upon us to wake our inner self. The outer self is focused on accomplishment of tasks and daily jobs, while the inner self thinks, and focuses on the meaning and purpose of life and the search for its values.

Instead of Conclusion – Challenges and Benefits

By introduction of ethical programs into business operation, organizations need to be ready to answer the numerous challenges resulting from different markets, local traditions, cultural and social hallmarks, and different legal and other rules. To conduct a development policy, besides the daily issues of survival, managers need to find time to qualitatively familiarize with the advantages and benefits of ethical codes in business operation, as well as that of socially responsible business operation in general. An additional challenge for managers, companies and employees should be the establishment of unified goals within the organization, measurability of results by introduction of a program and its profitability, and reporting on that.

A large benefit from application of the principles of social responsibility and ethical program in business operation is in introduction of simple and unified processes of corporative management in organizations, of unified business standards that contribute to the increase of business operations' quality (ISO 24000). Socially responsible business operation, as well as the program of business ethics, significantly improves also the human resource management, granting a steady internal development. It increases satisfaction and provides with high level of responsibility.

Harmonization of the organizations' and management's behaviour with the principles of social responsibility, and application of the program of business ethics should make business operations more successful, since they decrease operative risks, make business planning easier, yield with measurable results and provides transparency. The conclusion is that organizations increase their market value and become desirable partners of any interest group.

The novel concept of socially responsible business operation needs to come alive. In favour of this speak its numerous promotions from different international organizations. These are leading to standardization and predominance of this kind of business operation and management, harmonized with the basic principles of social responsibility and business ethics.

We are living in the eve of a new way of business operation, new type of businessmen, managers, with new understandings of economic courses, with perspective on the environment and society, making the previous way of business operation obsolete. In favour of this is also the new ISO 26000 standards soon to be introduced, that needs to define the term of socially responsible business operation and to become official, unavoidable requirement imposed to all companies and their management.

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DRUŠTVENA ODGOVORNOST MENADŽERA U FUNKCIJI RAZVOJNE POLITIKE PREDUZEĆA

Rezime: Stavljanjem pojma društvene odgovornosti u žižu interesovanja u poslovnom okruženju, izlazi se iz ranijih okvira merenja ostvarenog uspeha određenog menadžera, preduzeća, privrede koji su se vezivali za osnovne pokazatelje ekonomskih rezultata. Danas se uspeh ne meri samo količinom ostvarenog bogatstva, već i njegovom jednakom raspodelom, uslovima pod kojima je ono stečeno,uticajem stečenog bogatstva na različite društvene grupe, kao i održivost njegovog sticanja u budućnosti. Poštovanje utvrđenih zakonskih okvira, poštovanje sintagme „trostrukog rezultata"(tripple-bottom-line-approach), ukazuje nam na neophodnost poštovanja sklada između ekonomskih,ekoloških i društvenih zahteva. Njihovo poštovanje je samo minimum očekivanja, polazna osnova u poslovanju i osmišljavanju razvojne politike preduzeća. Od preduzeća se očekuje da formira takvu razvojnu politiku, koja će pored ostvarivanja svojih osnovnih ekonomskih ciljeva, svoje delovanje učiniti i društveno odgovornim usmerivši ga ka svojim zaposlenima(unutar organizacije) i ka okruženju(izvan organizacije).

Ključne reči: društvena odgovornost, značaj, njene dimenzije,stavovi, etički kodeks u poslovanju.

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THE STANDARD MULTIPLES VALUATION METHOD AND ITS CRITICISM

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***Abstract**: This research shows how to utilize multiples to yield proper estimates of a firm's value. To identify the underlying drivers of different multiples, intrinsic multiples are derived from fundamental equity valuation models. An overview of the standard multiples valuation method and its criticism initiates an analysis of the four-step multiple valuation process. The key criteria for the selection of value relevant measures and for identification of comparable firms, so as strengths and weaknesses of this method are investigated.*

***Keywords:** equity, methods, multiples, valuation*

Introduction

Accounting-based market multiples are the most common technique in equity valuation. Multiples are used in research reports and stock recommendations of both buy-side and sell-side analysts, in fairness opinions, and pitch books of investment bankers, or at road shows of firms seeking an IPO (Initial public offering). Even in cases where the value of a corporation depends on discounted cash flow, multiples, such as P/E (price-to-equity) or M/B (market-to-book), play the important role of providing a second opinion. Multiples thus form an important basis of investment and transaction decisions of various types of investors including corporate executives, hedge funds, institutional investors, private equity firms, and also private investors.

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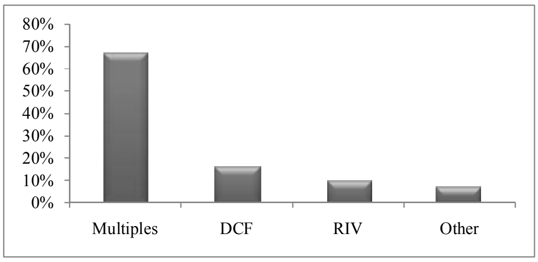
In spite of their prevalent usage in practice, not so much theoretical background is provided to guide the practical application of multiples. The literature on corporate valuation gives only sparse evidence on how to apply multiples, or on why individual multiples or comparable firms should be selected in a particular context.

Equity valuation is a primary application of finance and accounting theory. The theoretical emphasis usually focuses on DCF (Discounted cash flow) and RIV (Residual income valuation) models. However, these models are sensitive to various assumptions. Consequently, practitioners regularly revert to valuations based on multiples, such as P/E multiple, as a substitute to more complex valuation techniques [17, p.44]. They also appear in valuations associated with corporate transactions, e.g. IPO, LBO (leveraged buyout), MBO (management buyout), M&A (mergers and acquisition), spin offs, etc. [1, p. 139-151].

Figure 1. Usage of valuation models in analysts' reports



Source: Based on data from tables 4 and 5 in [10, p.230-231]

The primary reason for the popularity of multiples is their simplicity. A multiple is simply the ratio of a market price variable (e.g. stock price) to a particular value driver (e.g. earnings) of a firm. Based on how the market values comparable firms within the same industry or, sometimes, comparable corporate transactions, practitioners can quickly come up with estimations of a target firm's equity value. The multiples valuation method represents an indirect, market-based valuation approach, also known as the method of comparables, usually carried out in four steps.

The first two steps involve the selection of value relevant measures, the value drivers, and the identification of comparable firms (the peer group). Together with the market price variables, the value drivers form the basis for the calculation of the corresponding multiples of the comparables. Step 3 concentrates on the aggregation of these multiples into single numbers through the estimation of synthetic peer group multiples. Finally, to determine the value of the target firm, the synthetic peer group multiples must be applied to the corresponding value driver of the firm being valued [2, p.307-308]. Unlike DCF and RIV models, the method of comparables does not require detailed multi-year forecasts about a variety of parameters, including profitability, growth, and risk.

1. The main research questions

The main objective of this research is to investigate the role of multiples in equity valuation and to advance the standard multiples valuation method in a comprehensive framework for using multiples in equity valuation, which corresponds to economic theory. Breaking down the main objective involves the formulation of research questions. Based on the underlying concept of market-based valuation and the strengths and weaknesses of the standard valuation method, there are three research questions established for the theoretical construction of the comprehensive multiples valuation model.

The loose definition of a firm's multiple as the ratio of a market price variable to a particular value driver implies both, the ample score and a high degree of uncertainty. Uncertainty, because the definition does not tell a user which market price variable or which value driver has to be used in specific context. The user can choose between two market price variables, i.e. stock price or market capitalization (p^{equity}) and enterprise value (p^{entity}), and, basically, any value driver from the financial statements. The first question, therefore, aims at decreasing the uncertainty in the selection process of value relevant measures: *Research question 1 - What are the most criteria for the selection of value relevant measures for the calculation of single multiples?*

The first important step in a thorough multiples valuation is selecting appropriate measures, and another vital aspect is identification of the peer group. The ultimate goal of a multiples valuation is to approximate the future cash flow which provides necessity of forecasting future profitability, growth, and risk. The practitioners usually turn to firms from the same industry in the search of such comparables. This involves several problems. First, there are various industry classification systems available, which consist of different subindustry levels. Hence, the number of firms in an industry peer group depends on the both factors [5, p. 747-748]. Second, the incorporation of foreign firms with different accounting and regulatory standards raises complications. Third, many firms operate in several industries making it difficult to identify representative benchmarks [22, ch.11, p. 7]. Finally, the theoretical justification why firms from the same industry should have a similar profitability, growth, and risk profile is weak [15, p. 210]. The second research question addresses the foundation of a mechanism for the identification of comparable firms that respects concerns of both valuation theory and practice: *Research question 2 - What are the most important criteria for the identification of comparable firms for the peer group?*

Multiples usually rely on accounting numbers. The relation between market values and accounting numbers forms the core of the multiples valuation method. The same holds true for the most important innovation in accounting based valuation theory in recent years: the Ohlson (1995) and Feltham & Ohlson (1995) residual income valuation model which builds on Marshall (1898), Preinreich (1938), Edwards & Bell (1961), and Peasnell (1981/1982). This model defines the value of a firm as the sum of the book value of a common equity and the discounted present value of expected future abnormal earnings. The model is a transformation of the dividend discount model (DDM), but expresses value directly in terms of current and future accounting numbers, book values, and earnings [16, p. 142]. There might be a potential to also combine book values and earnings in a multiple-based valuation framework. This potential is examined as: *Research question 3 – Is it useful, from a theoretical point of view, to combine information from book values and earnings into a two-factor multiples valuation model?*

2. Theoretical Concept of Fundamental Equity Valuation Model

Shareholders, investors, and lenders have an obvious interest in the value of a firm. In an efficient market, firm's value is defined as the present value of payoffs which the firm is expected to deliver to its shareholders in the future, discounted to the appropriate risk adjusted rate of return [16, p. 108-109]. It is evident that dividends are payoffs to shareholders, but also well recognized that dividend discount approach have practical problems. Finance and accounting literature, therefore, offer a number of alternative valuation methods which are theoretically equivalent to dividend discounting.

Although the multiples valuation method does not require forecasting pro forma financial statements and discounting future payoffs, it would be wrong to conclude that multiples have no economic value. Multiples are simply derivations of fundamental equity models.

A firm's current performance as summarized in its financial statements constitutes an important input to the market's assessment of the firm's valuation. Fundamental analysis is the method of analyzing information in current and past financial statements, in conjunction with other firm specific, industry, and macroeconomic data to forecast future payoffs and eventually arrive at a firm's intrinsic value [24, p. 74-75]. The main motivation of fundamental analysis is to identify mispriced stocks for investment purposes. However, even in an efficient market there is an important role for fundamental analysis, since it helps to understand the determinants of a firm's market value, thus facilitates investment decisions and valuation of private firms [16, p. 171]. Below, four fundamental equity models are summarized.

2.1. Dividend Discount Model (DDM)

A shareholder's payoffs from holding shares in a firm consist of the dividend payments during the holding period as well as of the market value of the shares when selling them. Therefore, a firm's value should be based on the stream of dividends $D_1, D_2, \dots, D_T$ it is expected to pay in the future plus the market value of common equity p_t^{equity} at the end of the forecast horizon T. If the forecast horizon is assumed infinite, the DDM formalizes this notion and defines the intrinsic value of a firm as the present value of expected future dividends discounted at their risk adjusted expected rate of return. Formally,

$$v_t^{equity} = \sum_{i=1}^{\infty} \frac{\mathrm{Et}\,(\mathrm{Dt}+1)}{(1+\mathrm{r}_{t+1}^{\mathrm{equity}})^{i}} \tag{1}$$

Where v_t^{equity} is the firm's intrinsic value of common equity at time t, E_t (D_{t+1}) is expected future cash dividend in period t + i conditional information available at time t, and $\mathrm{r}_{t+1}^{\mathrm{equity}}$ is the cost of equity in period $t + i$. A frequently neglected assumption of the DDM is that the transversality condition holds. That is, the expected market value discounted at the appropriate cost of equity converges to zero as time goes to infinity $lim_{t+\infty} E_t$ $(\mathrm{p}_{t+T}^{\mathrm{equity}})/(1 + \mathrm{r}_{t+T}^{\mathrm{equity}})^T = 0$ (Spermann, 2005, p. 59-61). As seen in formula (1), value is dependent on the forecasts of future dividends and discount rates. Gordon (1962) makes simplifying assumptions about both the dividend process and discount rates to derive a simple valuation formula, which is referred to as the Gordon growth model (GGM). If the cost of equity remains constant through time and dividends grow geometrically at a constant rate g^D, *i.e. D, D·(1+ g^D), D·(1+ g^D)^2,..., and* $g^D < r^{equity}$, than

$$v_t^{equity} = \frac{D_{t+1}}{r^{equity} - g^D} \tag{2}$$

The DDM and the GGM, as a special case of the DDM, have two well-known weaknesses. First, they disregard internal growth through retained earnings. In practice, many young firms with a high growth potential tend to retain most of their earnings or, sometimes, do not plan to pay any dividends within a finite forecast horizon [28, p. 155-160]. The market values of such firms are usually much higher than indicated by either formula (1) or (2). Second, the DDM requires the prediction of dividends to infinity for going concerns, but the Miller and Modigliani (1961) dividend irrelevance proposition states that value is unrelated to the timing of expected payouts prior to or after any finite horizon. Forecasted dividends are uninformative about value. The both weaknesses stem from a common problem. The DDM targets the actual cash distribution to shareholders, but cash distribution is not necessarily tied to value generation. E.g. firms can simply borrow money to pay dividends, which has nothing do to with creating value through investing or operating activities [24, p. 90].

2.2. Discounted cash flow model (DCF)

The DCF model moves away from cash distribution to cash generation. By considering only cash and ignoring other assets and liabilities, the DCF model deals with a narrow aspect of a firm's value. Instead focusing on value generation, DCF model focuses only on cash generation (14, p. 3). The basic idea of the DCF model is to determine the present value of free cash flow (FCF) which a firm is expected to earn in the future. FCF earned in a certain period *t* defined as the after-tax cash flow available to all investors of a firm. FCF equals net operating profit after taxes (NOPAT) less the change in invested capital:

$$NOPAT_1 = EBIT_1 \cdot (1\text{-tax rate}) \tag{3}$$

The FCF can be calculated from information in financial statements. It starts with NOPAT calculated from the income statement using equation (3), add back depreciation and amortization, deduct increases in working capital, and deduct capital expenditures [19, p.462]:

$$\begin{aligned} FCF = NOPAT +/- \Delta Wc*(1-DFPWc) + \\ + D\&A*(1-DFPD\&A) - Cex*(1-DFPCex) \end{aligned} \tag{4}$$

where: $\Delta \boldsymbol{Wc}$ – change in working capital, ***D&A*** – Depreciation and Amortization, ***Cex*** – Capital expenditures, $\boldsymbol{DFP_{Wc}}$ – Debt financing proportion of working capital, $\boldsymbol{DFP_{D\&A}}$ – Debt financing proportion of depreciation and amortization, $\boldsymbol{DFP_{Cex}}$ – Debt financing proportion of capital expenditures.

Firms use DCF to distribute dividends, pay debt holders, or simply retain the cash. Consequently, the present value of future FCF represents the intrinsic value of common equity plus the market value of debt including preferred stock less cash and equivalents. The future FCF can also be viewed:

$$v_t^{entity} = \sum_{i=1}^{\infty} \frac{\mathrm{Et}\,(\mathrm{FCF}_{t+i})}{(1+\mathrm{r}^{\mathrm{wacc}})^{i}} \tag{5}$$

Where v_t^{entity} is entity value at time *t*, $E_t\ (FCF_{t+i})$ is the expected future FCF in period $t + i$ conditional on information available at time *t*, and r^{wacc} is the weighted average cost of capital, indicated as a constant. From v_t^{entity}, the market value of debt must be subtracted, including preferred stock less cash and equivalents at time *t* (this subtotal is defined as the market value of net debt $p_t^{netdebt}$ at time *t*) in order to receive the equity value v_t^{equity} at time *t*.

$$v_t^{equity} = \sum_{i=1}^{\infty} \frac{\mathrm{Et}\,(\mathrm{FCF}_{t+i})}{(1+\mathrm{r}^{\mathrm{wacc}})^{i}} - p_t^{netdebt} \tag{6}$$

FCF model has specific deficiencies. First, it is difficult to measure FCF when the separation between operating, investing and financing activities is blurry. Second, equation (4) identifies FCF as value added selling services and products but negative treatment of investments is troublesome. Anticipated investments made with ex ante positive net present values reduce FCF even if they create value. For extended horizons, the subsequent cash inflows of these investments are captured within the horizons and this ultimate matching of cash outflows and cash inflows captures the anticipated value added. However, for a firm as a going concern, investments roll over into new investments and the horizon may have to be very long to get this matching. Indeed, a lot of good firms have negative FCF for a long time as new investments exceed operating cash flow each year [25, p. 350]. The negative treatment of investments gives managers an arbitrary opportunity to manipulate FCF in the short terms by delaying new investments. Third, because FCF are not contemporaneous with value generation, it is difficult to be forecasted [Gode, Ohlson, 2006, p. 4-5].

2.3. Residual income valuation model (RIV)

The RIV model derives forecasts for its key measure residual income (RI), also referred to as abnormal earnings (AE), directly from earnings forecasts. RI is defined as:

$$RI_t = Ni_t - r^{equity} \cdot B_{t-1} \tag{7}$$

Where RI_t is the residual income in time t, NI_t denotes net income for the period ending at time t, r^{equity} is the cost of equity, and B_{t-1} is the book value of common equity at time $t-1$. The charge for the use of capital can be viewed as the opportunity cost of invested capital [23, p. 54].

Under the DDM, the intrinsic value of a firm's equity equals the present value of future expected dividends. By using an accounting identity between dividends, net income and changes in the book value of equity, the value of a firm can be reexpressed as the present value of a combination of net income and book value of equity. This accounting identity, called clean surplus relation, states that all changes in the book value of equity during a fiscal period are reflected in that period's net income or dividend distributed to common shareholders [20, p. 230-231]. Formally,

$$B_t - B_{t-1} = NI_t - D_t \tag{8}$$

Where B_t is the book value of common equity at time t, NI_t is the net income for the period from $t-1$ to t, and D_t is the cash dividend paid to common shareholders at time t. Solving for D_t in the clean surplus relation and substituting into the DDM formula (1), yields the RIV model:

$$v_t^{equity} = B_t + \sum_{i=1}^{\infty} \frac{Et\,(RI_{t+i})}{(1+r^{equity})^i} \tag{9}$$

This model has two major problems in practical application. First, the clean surplus relation only holds if equity related capital transactions are value neutral and measured by their market values. In practice, capital transactions are often driven by market inefficiencies and thus have an impact on the value of a firm. Second, RIV anchors on book values by deriving the intrinsic value of a firm as its book value of equity plus a premium for expected growth in the book value of equity. Such an emphasis on book values is only justified if they approximate market values reasonably well, as it is the case for firms in the financial industry. However, the focus on book values is misplaced in many other industries, especially when accounting is conservative [14, p. 5].

2.4. Abnormal earnings growth model (AEG)

AEG model legitimizes the common practice of using earnings estimates. It shows how to convert analysts' earnings forecasts to a valuation formula, which relies neither on the clean surplus relation nor on book value of equity.

Given the clean surplus formula (8), AEG at time t is equal to the change in RI between t-1 and t. for a constant of equity r^{equity}, it is possible to express AEF without the book value by rearranging terms:

$$AEG = NI_t + r^{equity} \cdot D_{t-1} - (1 + r^{equity}) \cdot NI_{t-1} \quad (10)$$

Utilizing the RIV (9) formula together with identity (10), the AEG valuation model can be derived:

$$v_t^{equity} = \frac{E_t(NI_{t+i})}{r^{equity}} + \frac{1}{r^{equity}} \cdot \left[\sum_{i=2}^{\infty} (1 + r^{equity})^{i-1} \cdot E_t(AEG_{t+i}) \right]$$

(11)

Where v_t^{equity} is the intrinsic value of common equity at time t, $E(NI_{t+1})$ is the expected net income in period $t + i$, $Et(AEG_{t+i})$ is the expected growth in abnormal earnings in period $t + i$ both conditional on information available at time t, and r^{equity} is the cost of equity, indicated as a constant.

AEG also comes with some reservations. The B_t=$E_t(NI^{t+i})/r^{equity}$ is set arbitrarily. In reality, no economic justification exists to start a valuation at the steady state, and then to allow for abnormal earnings in subsequent periods. What is more, this is not a number which can be found in the financial statements. It is a forecast, based on speculation. Besides that, no empirical evidence on the performance neither for AEG nor its simplification exists so far.

Taking the practical limitations of the presented fundamental equity valuation models into account, it is difficult to argue that practitioners ought to rely on either DDM, DCF, RIV or AEG method when it comes to real world applications.

3. The Concept of Multiples Valuation Method

In general, literature discusses two broad approaches to estimating the value of firms. The first is fundamental equity valuation in which the value of a firm is estimated directly from its expected future payoffs without appeal to the current market value of other firms. It is based on dividends, free cash flow, or earnings (abnormal), and involves the computation of the present value of expected future payoffs. This research does not discuss liquidation valuation in which a firm is valued at the break-up value of its assets. Commonly used in valuing firms in financial distress, the fundamental equity valuation method is not appropriate for most going concerns [3, p. 413]. The second is market-based valuation in which value estimates are obtained by examining market values of comparable firms. This approach involves applying a synthetic market multiple (e.g. the P/E multiple) from the comparable firms to the corresponding value driver (e.g. earnings) of the firm being valuated to secure a value estimate [3, p. 413-414][1].

In market-based valuation, also referred to as relative valuation, a target firm's value equals the product of a synthetic peer group multiple and the target firm's corresponding value driver. The value driver is treated as a summary statistic for the value of the firm. Assuming the target firm in its current state deserves the same market multiple as the typical firm of the peer group, this procedure allows to estimate what the market would pay for the target firm. [4, p. 12]. Fundamental analysis helps in identifying firms which deserve the same multiple as the target firm. Explicit expressions for the most of commonly used multiples can be derived using either DDM, DCF or RIV method, or a few additional assumptions. These expressions make interpreting observed patterns in multiples easier (e.g. why growth firms and industries have higher earnings multiples than stable firms and industries). Such explicit expressions, derived from fundamental equity valuation models, are the P/E, EV/EBIT and the P/B multiple. They are called intrinsic multiples:

Table 1. Intrinsic multiples derived from fundamental valuation models

Multiple	P/E	EV/EBIT	P/B
Valuation model	DDM	DCF	RIV
Valuation formula	$v_t^{equity} = \sum_{i=1}^{\infty} \frac{Et\,(Dt+1)}{(1+r_{t+1}^{equity})^i}$	$v_t^{entity} = \sum_{i=1}^{\infty} \frac{Et\,(FCF_{t+i})}{(1+r^{wacc})^i}$	$v_t^{equity} = B_t + \sum_{i=1}^{\infty} \frac{Et\,(RI_{t+i})}{(1+r^{equity})^i}$
Simplified formula	$v_t^{equity} = \frac{D_{t+1}}{r^{equity} - g^D}$	$v_t^{entity} = \frac{FCF_{t+1}}{r^{wacc} - g^{FCF}}$	$v_t^{equity} = B_t + \frac{RI_{t+1}}{(r^{equity} - g^{RI}) \cdot (1+r^{equity})}$
Intrinsic multiple	$\frac{v_t^{equity}}{NI_t} = \frac{PR \cdot (1+g^{NI})}{r^{equity} - g^{NI}}$	$\frac{v_t^{equity}}{EBIT_t} = \frac{(1+g^{FCF}) \cdot (1-taxrate) \cdot \left(1-\frac{g^{FCF}}{ROIC_t}\right)}{r^{wacc} - g^{FCFI}}$	$\frac{v_t^{equity}}{B_t} = 1 + \frac{(ROCE_{t+1} - r^{equity})}{(r^{equity} - g^{BI}) \cdot (1+r^{equity})}$

[1] A third approach, not covered in this paper, is contingent claim valuation based on option pricing theory elaborated in textbooks such as Brealy and Myers (2000), Damodoran (2001), Copeland, Weston and Shastri (2004) etc.

The objectives of the valuation method is to determine a firm's equity value based on how the market prices comparable firms, or, sometimes, comparable transactions. That is, practitioners try to approximate a firm's value by looking at the market value of a peer group. If the firms within the peer group are comparable to the target firm and the market is correct, on average, in the way it prices the comparables, the application of a peer group multiple to the corresponding value driver of the target firm yields the intrinsic value [8, ch. 7, p. 2]. The underlying concept of market-based valuation is the law of one price, which states that in an (at least on average) efficient market, similar assets should trade at similar prices [12, p. 24]. In practice, the concept embodies the problem that even if the market is efficient, similar firms are hard to identify or do not always exist. Other reasons why multiples vary across firms are accounting and regulatory differences, fluctuations in accruals or cash flow, or market mispricing. A recognized study comparing IFRS and US-GAAP identifies over 250 differences between the two accounting standards [29, p. 6].

Independent of the specific context, the multiples valuation method consists of four steps: selection of value relevant measures, identification of comparables, estimation of synthetic peer group multiples, and actual application of the synthetic peer group multiple to the corresponding value driver of the target firm.

3.1. Selection of Value Relevant Measures

To value a firm using multiples, we must first determine which value relevant measures we want to use. Practitioner prefer using equity value multiples because market capitalization does not require a further adjustment for net debt as it is the case with entity value multiples. The most widespread equity value multiples are the P/E, P/B, P/SA and P/OFC multiple which scale the market price of common equity by the most important summary numbers in the financial statements: net income, book value of common equity, sales or revenues, and cash flow from operating activities [24, p. 66]. The general description of the selection process of value relevant measures in the preceding paragraphs leaves three open issues:

- The computation of equity value multiples is straightforward, but is there any other reason why to favor equity value multiples over entity value multiples?

- The list of value drivers for the construction of multiples is long, but which are the value drivers we should use in practice and does it depend on the industry?
- An increasing number of analysts use forecast data to construct multiples, but what are their reasons to prefer forward-looking multiples to trailing multiples?

3.2. Identification of Comparables

In the search of an appropriate peer group, practitioners usually turn to firms from the same industry and current market prices. Thereby, they simplistically presume firms from the same industry to have similar operating and financial characteristics. This method is known as *the guideline public company method*. Another method is *the comparable transaction method* where historical corporate transactions in the same industry or country form the peer group [26, p. 35]. However, the comparable transaction method involves two problems, which limit it use in research as well as in practice. First, the number of industry deals within a specific industry or country is typically very small and does not suffice the statistical requirements for a clean multiples analysis. Second, even more importantly, capital market conditions for industry deals constantly change and therefore transaction premiums paid in the past are not representative for current premiums. It is recommended to calculate trading multiples first and then to adjust these multiples based on the current environment in the market of corporate control to eventually end up with a suitable transaction multiples and consequently an appropriate transaction value for the deal. There are three unsettled questions for this process: How to identify an industry (e.g. which industry classification system should be used)? Does an industry definition fulfill the condition of comparability unaccompanied or are there further adjustments to be made? That is the ideal size of a peer group?

3.3. Estimation of Synthetic Peer Group Multiples

This step involves the aggregation of the multiples into single numbers through the estimation of synthetic peer group multiples. For this estimation, statistics provide several methods. In the standard multiples approach, the information of the peer's multiples are aggregated into the synthetic peer group multiple $\hat{\lambda}_{c,mean}$ using the arithmetic mean (average) of the multiples $\boldsymbol{\lambda_1, \lambda_2, \ldots, \lambda_n}$ of all firms $\boldsymbol{j=1,2,\ldots,n}$ of the peer group $\boldsymbol{c}$:

$$\hat{\lambda}_{c,mean} = \frac{1}{n} \cdot \sum_{j=1}^{n} \lambda_j$$

(12)

The arithmetic mean is an inaccurate choice for the estimation of synthetic peer group multiples because it is heavily affected by outliers [27, p. 244]. Alternative statistical methods for the aggregation of peer group, such as the median or the harmonic mean, have to be examined.

3.4. Actual Valuation

For equity value multiples, the value of common equity $\hat{p}_{i,t}^{equity}$ of firm i can be calculated directly by multiplying the synthetic peer group multiple $\hat{\lambda}_{c,t}^{equity}$ by corresponding value driver x_{it} of firm i. When using entity value multiples, the product of the synthetic peer group multiple $\hat{\lambda}_{c,t}^{equity}$ and the value driver x_{it} must be reduced by the value of net debt $\hat{p}_{i,t}^{netdebt}$ of firm i to get $\hat{p}_{i,t}^{equity}$:

$$\hat{p}_{i,t}^{equity} = \hat{\lambda}_{\mathrm{c,t}}^{\mathrm{equity}} \cdot x_{i,t}$$

(13)

$$\hat{p}_{i,t}^{equity} = \hat{\lambda}_{\mathrm{c,t}}^{\mathrm{equity}} \cdot x_{i,t} - \hat{p}_{i,t}^{netdebt}$$

(14)

In both equations, t denotes time. This denomination requires that both the synthetic peer group multiple and the value driver refer to the same point in time or time horizon [18, p. 416]. Equations (13) and (14) yield appropriate valuations if the peer group’s profile of expected future free cash flows is representative for that of the firm being valued. However, if the peer group and the target firm do not form a perfect fit, equations (13) and (14) do not deliver reliable results.

4. Strengths and Weaknesses of the Standard Multiples Method

The main strength of the multiples valuation method is its simplicity of application. Computing multiples and implementing the four-step valuation process takes less time and requires less assumptions and information than the application of a full-fledged fundamental analysis with the DCF or the RIV model [8, ch.7, p. 3]. Beside their simplicity, valuations based on multiples are also easy to understand and simple to present to clients and customers [9, p, 100]. This advantage is of high importance for sell-side analysts and sales staff who have to sell their analyses and investments recommendations to potential investors under time constraints. A third advantage is the accessibility of multiples to investors through financial newspapers, magazines, and online platforms. These information sources publish common trading multiples of many firms daily, and update them regularly.

In any form of market efficiency, valuation based on multiples reflect the current mood of the market, since they attempt to measure current fair market values of firms' stocks, which do not necessarily equal their intrinsic values. In fact, the application of multiples yields valuations which are generally closer to stock prices than the results of fundamental valuation models [6, ch.8, p. 1-2]. This feature assists investors to get a feeling for the market value of privately held entities and supports investment bankers to determine appropriate prices or price ranges for industry deals.

The strengths of the multiples valuation approach are opposed by its weaknesses. There are weaknesses of the applicability of the standard multiples method. In addition, the method of comparables also incorporates five conceptual weaknesses.

First, the underlying assumption may be too simplistic. That is, by combining the key value drivers of a firm into a single number, multiples compact a great deal of information. This distillation makes it difficult to disaggregate the effect of different levels of profitability, growth, or risk among firms on value [29, p. 3]. Second, multiples are shortsighted because they only represent a snapshot of where a firm is at a certain point in time and assume the key value drivers of the firm to remain in a steady state from that date onwards. By doing so, multiples fail to capture the dynamics and evolving nature of business and competition. Third, the multiples valuation approach is not anchored in something fundamental, which tells us about the fair value independently of market value. Fourth, although there are potentials for bias in any valuation model, the lack of transparency regarding the chosen inputs of a multiples valuation model makes it particularly vulnerable to manipulation. For instance, a biased analyst can ensure justification for almost any value of a firm by arbitrarily selecting a "correct" multiple and a "suitable" peer group [8, ch. 7, p.4]. Finally, the fact that valuations based on multiples reflect the mood of the market also has a downside because it implies that using multiples can result in value estimates that are too high in "hot" markets or too low when the market is down. Viewed from a different angle, valuing firm by multiples instead of forecasting and discounting expected future payoffs promotes the formation of market bubbles [11, p. 70-72].

5. Conclusion

Even though the understanding of the right role of multiples in equity valuation is improved significantly, both theoretically and empirically, there is space for further investigation in the area of equity valuation using multiples. There is an apparent gap between the widespread usage of multiples in valuation practice and the deficiency of relevant research related to multiples.

Analysts, as well as portfolio managers typically cover a long list of stocks. For them, the methodological approach to multiples valuation itself can help to increase the efficiency of screening stocks. Then they are equipped with powerful but still simple framework to value firms. Comparison of thereof derived valuations across firms and to the current level of stock prices can form an essential part of stock recommendations and investment decisions.

At this point, it is essential to emphasize that the multiples valuation method is a useful alternative to – but not instead of – fundamental equity valuation models such as DCF and RIV model. However, it cannot replace a thorough analysis of a firm's fundamental.

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STANDARDNI MULTIPLIKATOR AKCIJSKOG KAPITALA I NJEGOV KRITICIZAM

Rezime: Ovo istraživanje prikazuje primenu multiplikatora u pravilnoj proceni vrednosti preduzeća. Suštinski multiplikatori procene kapitala izvedeni su iz fundamentalnih metoda procene kapitala i analiziran je četvorofazni proces procene. Istražena su adekvatna merila vrednosti, kriterijumi za izbor uporednih preduzeća, ali i snage i slabosti date metode.

Ključne reči: akcijski kapital, metode, multiplikatori, vrednovanje

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MULTINATIONAL CORPORATIONS' BUSINESS OPERATIONS IN THE KNOWLEDGE ERA

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Abstract: *This paper deals with the specific features of multinational corporations' business operations in the conditions of the new economy. Having in mind the actual nature of the process that the developed countries are undergoing, the paper begins with an analysis of technological complexities and the significance of behavioral research, as well as of pressures of international competition that are causing changes within corporations over time. Particular attention is devoted to elements of multinational corporations' competitive advantages, based on intangible assets: experience, information, know-how, management capabilities, brand name, image, reputation, organizational culture, consumer loyalty, trust, consumer preferences, etc. Under the conditions of the new economy, the concept of the learning organization has become a necessity for corporations, so that they may develop their competences and, thus, rise to new management challenges.*

Keywords: *corporation, management, learning organization, new economy*

1. Introduction

Under the conditions of the new economy, corporations, social and ethnic groups and institutions are developing a multitude of different links

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with the external environment. As societies are becoming more heterogeneous, they are increasing their exports, imports, communications and exchanges of information with other parts of the world, and forming more joint companies, strategic alliances and associations.

In such a conglomerate of constantly rising interdependence and hyper-connectedness, it is especially interesting to see how corporations are institutionalizing innovations and creativity. Namely, in developed economies, in which success is dependent on technology, interdependence and competition, adaptability and innovativeness are becoming the most prominent characteristics among successful people. To manage as much work as possible, to participate in all the most important decision-making, to expand one's spheres of influence both within the corporation and without; classical leaders have often identified the autonomy of their will with the interests of the corporation. However, in this world of dynamic interdependence, their ties to the corporation according to the principle of total devotion in exchange for lifetime security have outgrown the bounds of rigid dependence, developing into the more liberated forms of "builders of their own personality." [8]

Technological complexity, the significance of behavioral research and the pressures of international competition have caused changes in corporations over time. Today, more is being sought in terms of innovations and strategic thinking. The corporation cannot allow self-seeking careerism. The individualism that sparked risk-taking and entrepreneurship itself has become an obstacle to competitiveness. The era of builders of their own personality is not only the future of corporate management, stimulating and rewarding individual initiative and constant individual improvement, but a new hope for the future of mankind, where knowledge, mutual respect and support will be the "price" of human survival.

The corporation is an association of shareholders, formed according to the appropriate regulations, which wields business power. In the eyes of the law, it is a single entity – a legal person. The main characteristic of a business organization is the legal separation of the corporation from its owners. Its business operations are the ownership of its shareholders, who have limited business liability, which means that their personal property is not subject to any obligations emanating from business operations. They elect the board of directors, which elects the manager, and that is how the separation of the ownership and managerial structure comes about. This form of business organization is the most widely accepted form of business organization today. The eminent author Cerne writes that "corporate (shareholder) capitalism represents an abolition of classical privateproprietary capitalism and an affirmation of group-ownership, managerial (technocratic) capitalism." This definition points to the conclusion that the main characteristic of this form of business organization lies precisely in the separation of the corporation from its owners. In a corporation, proprietal liability is limited by the size of the stake or share in ownership. Limited liability holds significant advantages over an individually owned company or partnership. The owner's private property cannot be seized on the basis of a claims contract. Capital may be raised in the name of the corporation without exposing the owner to unlimited liability.

Back in 1819, Justice Marshall wrote: "A corporation is an artificial creation, intangible, invisible, existing only as a figment of the law. Since it is a pure creation of the law, a corporation can possess only those characteristics that are provided by law, whether they are explicit or appear incidentally, through its very existence." Ownership of a corporation is proved through company shares, which represent their owners' proportional share in relation to the total number of shares in circulation. Shares are also easily transferable, which means that ownership is easily transferable, which represents another important advantage for this form of business organization. Also, the life of the corporation is not limited by the life of its owners, because the corporation exists separately from its owners.

The sudden expansion in the number of corporations during the last century was a result of numerous advantages, of which the most conspicuous ones were: limited liability for owners, simple ownership transfer through the sale of ordinary shares, unlimited lifetime and the ability to raise capital separately from the owners. In addition, it turned out that individually owned companies or partnership companies experienced serious problems in securing necessary capital for further development, which further influenced the development of the corporation as the most important organizational form. [1]

A public or open corporation offers its shares to the public, thus making them available to all interested parties. The main owners of a public corporation are the majority shareholders, i.e., the shareholders who own the majority of shares.

A corporation has limited liability. In England, the abbreviation "Ltd." is used in place of "Inc." – denoting a Limited Liability Company. That means that only the corporation's property can be used to cover its obligations. If someone owns shares of a corporation that is not returning its debts, such shares may become worthless, but the shareholder cannot lose more than the value of his shares. Liability is limited to the purchase price of the shares.

A corporation has the advantage of gathering together many owners with various skills, knowledge and talents. In small corporations, shareholders may also be employees and share in the responsibility, i.e., they may carry out various tasks, such as bookkeeping, sales, etc. Ownership is easy to transfer in a corporation – simply by selling shares through a broker, stock market or private sale.

A corporation is a rather complex organization with relatively high costs. Transformation of an organization into a shareholding company may be of negligible value to the owners, when it comes to small businesses. As a rule, corporations are subject to higher local and other taxes, they require legal services, and more complex documents and reports that have to be regularly submitted to state and other organs, etc.

State regulations for corporations are more detailed than for other forms of business organization. A corporation's business operations are subject to the control of an authorized auditing organization, whose report is published publicly. Profit is distributed between shareholders after taxes, in the form of dividends. Corporations pay taxes on their profits, while the shareholders also pay taxes on the dividends from that profit.

2. Specificities of Multinational Corporations' Business Operations

There is a general consensus around the view that today's multinational corporation is a complex and important institution. Such concurrence is usually based on the conspicuous size of the largest companies. However, there is much less agreement regarding its attributes, and regarding how and why it developed to take on its present configuration. The study of the modern corporation, which may be understood as a product of a series of organizational innovations toward the goal of maximum rationalization of costs, should deal with the factors that contributed to its development, as well as the economic goals and utilities that are satisfied through the adoption and implementation of such a means of organization of production.

Multinational companies that control and manage production in multiple countries enable business companies to transfer capital, technology and organizational skills from country to country, thus restraining competition between companies from different nations.

Hence, a multinational company may serve both the above-mentioned purposes. However, it is useful to think about whether the overall character of a multinational company's investments, in terms of their distribution between branches of industry, is consistent with efficiency-related goals (transfer of capital, technology and organizational skills) or with the hypothesis on oligopolistic limitation.

Oligopolistic goals may be realized by way of portfolio investments, with limited engagement on the part of management. Actually, foreign direct investments and the organization of foreign branches within the M-form structure are not necessary means for limiting competition. If the limiting of competition is the main goal of such investments, than it would be the concentrated industries – including the tobacco, glass-producing and steel industries – rather than those tied to faster technical progress that would be active in creating multinational companies.

Multiple data connected with total foreign assets and sales, numbers of employees, as well as trends toward the home country and type of industry, confirm the dominant role of multinational corporations in the total investment and macroeconomic flows of the contemporary global economy.

Numerous theoretical approaches related to the essence of the functioning of multinational corporations are clearly indicative of differences between international and domestic management. The existing differences are a result of the fact that the management of a multinational corporation is done within the framework of various national sovereignties, under varying economic systems, with populations living within the framework of various value systems and institutions, and in widely varying national markets in terms of population and regions. The basic phases of multinationalization are shown in Table 1. [2]

Table 1. Six phases of multinationalization

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
Exports its products abroad	Organizes sales abroad	Sells licenses and its know-how to foreign firms that produce and sell its products	Organizes production plants abroad	Multinationalizes management on all levels	Multinationalizes ownership over the corporation's share capital

The functioning and further development of multinational corporations practically cannot be imagined without foreign direct investments. Managers who make the decisions about such investments consider them to be economically profitable because they: 1) reduce or eliminate high transportation costs, 2) allow participation in the rapid expansion of a foreign market, 3) secure foreign technical, planning and marketing skills and 4) bring high incomes and profits. However, independently of the said advantages, investing abroad is often connected with numerous risks, chief among which is political risk. That is why it is necessary to assess the political, economic and social factors that can bring risk to intended investments abroad in various ways.

Of fundamental importance to the development and progress of a multinational corporation is the existence of an educated, talented, enterprising and efficient management cadre. Just as the company is an essential part of society, so are managers essential for company success, regardless of company type or size. Managers' governance activities are directed toward making correct decisions in their daily efforts of planning, organizing and management, with the goal of achieving greater productivity and business efficiency. Although views regarding management in theory and practice vary, it is considered that the main determinant of the way in which competent managers can lead a multinational corporation is their stance regarding the management principles or practices they will adopt. Therein lies the difference, depending on whether the adopted dominant management practice is that of the host country, of international management, or simply the overall quality of management recommendations, between ethnocentric, polycentric and geocentric management approaches.

Understanding the potential value of these three viewpoints within a multinational corporation is extremely important. The ethnocentric approach, even though it has the advantage of keeping the organization simple, generally causes organizational problems, as it eliminates the return link of foreign operations. In some cases, the ethnocentric approach even causes enmity toward the host country within a foreign society. The polycentric approach may bring the advantages of building a foreign organizational segment in accordance with its culture, but it may also lead to significant shortcomings, creating numerous individual, relatively unequal and, thus, hard to control organizational segments. By general consensus, the geocentric approach most suits multinational corporation managers, as it promotes cooperation between foreign and host country managements, and stimulates the development of managerial skills regardless of the organizational segment or country in which the managers are working. All in all, organizations with a geocentric approach create organizations that contribute to a multinational corporation's long-term success.

From all the above said, it may be concluded that a special place in the functioning of a multinational corporation belongs to the management process, which, parallel with changes in its environment, constantly changes, expands and deepens its contents. Thus, management is a necessary instrument of the contemporary industrial world, which contributes to a more efficient functioning and development of every company. A multinational corporation manager's task is to help the company reach its planned level of business goals and international operations, using his knowledge, skills and abilities.

3. A Learning Organization – the Source of Successful Operations for Multinational Companies

More and more, corporations are basing their competitive advantages on intangible assets, which consist of: experience, information, know-how, management capability, brand name, image, reputation, organizational culture, consumer loyalty, trust, consumer preferences, and the like.

In the conditions of the new economy, learning is increasingly becoming a basic precondition for corporations to develop their own competences in order to rise to new management challenges. The corporation, or organization in the broader sense, can adapt to changes and initiate them in its own environment if it is able to learn. Thus, Peter Senge, the author whose name is most often linked to the concept of the "learning organization," writes: "A learning organization stimulates continual learning and generation of knowledge at all levels. There are processes that enable a simple flow of knowledge within the organization, wherever needed, and are able to quickly transform knowledge into changes – in a way that enables its functioning, both internal and external."

Managers began to think about the concept of the learning organization after the publication of Peter Senge's book, "The Fifth Discipline: The Art and Practice of the Learning Organization," which describes the types of changes that managers must undergo so that their organizations could adjust to an increasingly chaotic world. However, his original concept of how managers build learning capacities has evolved. [16, p. 157]

There is no single model of a learning organization. A learning organization has a view or philosophy regarding what an organization is and the role of employees. The concept of a learning corporation is a paradigm of change to a new way of thinking about organizations.

In a learning organization, everyone is included in identifying and solving problems, allowing the organization to continually experiment, improve and increase its capabilities. The essential value of a learning organization is problem solving, as distinct from the traditional organization, which is designed for efficiency. In a learning organization, employees are included in the identification of problems, which means understanding consumer needs. Employees also solve problems in order to meet consumer needs. In this way, the organization adds value by defining new needs and solving them, which is more often accomplished through ideas and information than through physical products. When physical products are produced, it is ideas and information that continue to secure competitive advantage, because products are changed in order to meet new and more challenging needs in the environment. [5]

In the contemporary innovational world, traditional capabilities (finance, marketing and technological abilities) require permanent learning ability on the part of an organization. The component of learning and recognizing competitive advantage relates to the ability to advance financial, marketing and technological abilities to a higher level, by motivating employees and their active participation in problem solution, which will help the organization to change creatively. The greater the ability to learn, the more flexible and successful the organization will be in the marketplace.

Looking to the long term, the task of the corporation will change, as the priority will be organizing rather than employment. The organizer offers opportunities, not jobs. He offers creative space. The organizer must recognize the resources for the realization of his idea, and then must attract those resources. Thus, the inspired organizer moves intellectuals to solve a given problem. Also, nothing is given once and for all in the organizational paradigm. Tasks may change. It is a temporary, powerful and unstable fusion of ideas and people. Risk, dynamism and constant value creation are the moving forces of organization.

A leader needs to work with a large number of partners and associates, creating network after network. Inspiration must arrive to the ends of the expanded network, which is how the most appropriate people for a given job will be found. Also, each individual or company with which cooperation is established has their own alternatives and may be lost forever. Any inattention will cost a company much more dearly than it will a quality individual.

The further progress of a learning organization is based on employees' contributions to the advancement of the strategic directions of the organization's development. Employees identify consumer needs, then pass on their findings to management, which then updates the corporation's strategy. The learning organization corresponds to a network in which various parts of the organization adapt and change independently, while at the same time contributing to the mission of the company.

Differently from the traditional hierarchical structure, the new corporate organizational structure is horizontal. Its main components are: experienced leaders, employees with greater authorization, the ability to create strategy, high corporate culture, exchange of information and a horizontal structure. A learning organization requires experienced leaders who understand the organization and can help others attain success. Creating a learning process that others can improve and understand requires initiative on the part of the leader. In a learning organization, leaders know that people are naturally curious and that learning makes them happy, so they strive to develop motivation and curiosity, which can bring improvement in operations. In learning organizations, managers do not direct so much as help employees apply new information and learn from their experiences. Managers secure the necessary time for exchanging return information, research and thinking about feedback, and then reach consensus about future courses of action.

The business strategy of the learning organization is built at all hierarchical levels. Corporation employees observe what consumers demand and research what they will require in the future. This information is accumulated in the strategy. Strategy is also built out of information received from partnership networks with suppliers, customers and competitors. A learning organization does not behave autonomously. Information from partners provides the organization with data about new strategic needs and directions. Most companies join alliances, joint partnerships and make electronic linkages. Organizations are becoming more associates than competitors, experimenting in the search for the best methods of learning and adapting to new knowledge.

Culture also stimulates a sense of belonging to a community. Employees like to belong to something and the learning organization becomes a place for creating a network of relationships and the development of each person within the community. Employees learn and experiment as a part of a team. [4]

A learning organization is overflowing with information. In order to identify needs and solve problems, people should be aware of what is happening. Formal data on sector budgets, profits and costs are available to all. Each person is free to exchange information with anyone else in the company. In moving toward information and idea-based organizations, information exchange is reaching incredible levels. A learning organization also encourages quiet communication between employees; ideas are exchanged throughout the organization and can be applied anywhere.

In learning organizations, the formal vertical structure that formed a distance between managers and employees has been abandoned. Bosses have been practically eliminated, replaced with team members who take responsibility for training, scheduling breaks, purchasing and job and wage-related decision-making. Boundaries between sectors are reduced or eliminated, and borders between organizations become looser. Companies cooperate in unexpected ways. Network organization and virtual organization contain groups of companies that unite in order to achieve certain goals or investigate specific opportunities. Such new structures ensure the flexibility necessary for adapting to rapid changes in conditions of competition.

A learning organization is similar to knowledge development. While the latter takes place on the individual level, organizational learning occurs on the level of the entire organization. An organization becomes a learning one when it develops abilities to direct the exploitation and application of individual competences. Organizational learning brings an increase in intellectual capital. Learning is an uninterrupted process in the creation of knowledge.

4. Conclusion

Corporation management possesses the relevant knowledge and is aware of its own importance today on the theoretical level. However, few of its members know how to manage that knowledge and use it as a competitive advantage. An organization intensified by knowledge, which recognizes and knows its own hidden assets, creates the necessary conditions and organizational culture and motivates employees to learn, apply teamwork, exchange information and experiences, and develop creativity and innovations. In that way, the organization manages knowledge in a quality way, with the ultimate goal of achieving competitive advantage in the global marketplace, while knowledge becomes its basic economic resource.

It may be concluded today that many national economies are in crisis and that they are undergoing processes of economic revitalization. Many multinational corporations are also seeing a need for reorganization. In that vortex of complex business operations, knowledge remains the only "constant," one that will determine the future of corporations in the conditions of the new economy.

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POSLOVANJE MULTINACIONALNIH KORPORACIJA U ERI ZNANJA

Rezime: U radu se razmatraju specifičnosti poslovanja multinacionalnih korporacija u uslovima nove ekonomije. Imajući u vidu samu prirodu procesa kroz koje prolaze razvijene zemlje, rad počinje sa analizom složenosti tehnologije i značajem bihejviorističkih istraživanja, kao i pritiskom međunarodne konkurencije na promene korporacije u vremenu. Posebno se razmatraju elementi konkurentske prednosti multinacionalnih korporacija zasnovani na neopipljivoj imovini koju čini: iskustvo, informacije, know-how, sposobnost menadžmenta, marka, image, reputacija, organizaciona kultura, lojalnost potrošača, poverenje, preferencije potrošača, i slično. U uslovima nove ekonomije, koncept organizacije koja uči postaje neophodnost korporacijama da razvijaju svoju kompetentnost i na taj način odgovore novim menadžment izazovima.

Ključne reči: korporacija, menadžment, organizacija koja uči, nova ekonomija