

Economic Development **Економски Развој**

JOURNAL OF THE INSTITUTE OF ECONOMICS - SKOPJE

Year.16 No.3/2014

Skopje, December, 2014

Economic Development

Published by:

Institute of Economics - Skopje, University "Ss. Cyril and Methodius",
Republic of Macedonia

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Cover design: Koco Fidanovski

Computer preparation and printing: VIDEKS-Skopje

UDK -CIP Catalogue record from National and University Library

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Published **three times per year**

Available on the websites: www.ek-inst.ukim.edu.mk

Abstracted/ indexed in: *EBSCO Business Source Complete, EBSCO*

Discovery Service (EDS) in **EBSCO** Publishing Database, (Ipswich USA);

CEEOL Central and Eastern European Online Library, (Frankfurt am Main,
Germany)

Circulation: 200

Price: 300 MKDenars; 10 EUR

The Ministry of Education and Science of the Republic of Macedonia has financially participated in printing the journal. In accordance with the decision No.07-3266/20 as of 11 July 1999 by the Ministry of Finance of the Republic of Macedonia, a reduced tax rate has been paid for publishing "Economic Development".

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On the path of development of the economic thought and building a wide network of research and professional cooperation with other countries in the world, we set new goals, criteria and challenges in order to improve the journal's quality. In this regard, during 2010 and 2011, significant changes have been made in editorial policy, design and its availability to broader academic and professional public in the region and worldwide. As result of all this changes, starting from no. 3/2010 "Economic Development" will shift into international journal, will be published in English language and will be distributed in all countries of the region and worldwide.

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**FACTORS RANKED BY EXPATRIATE MANAGERS FOR
SUCCESSFUL IMPLEMENTATION OF INTERNATIONAL
TASKS**

Abstract

Expatriate managers in multinational corporations are ahead of everyday challenges to successfully implement international assignments in the turbulent highly competitive business environment. Competitiveness requires hiring qualified employees that along with their knowledge, ability and experience will make the corporation internationally competitive. The practice shows that the human resources policies in the organization need to be in direct relationship to the establishment of intentional structures in it, as well as the respective roles and jobs. Human resources policies of multinational corporations are necessary to directly connected to the type and nature of the international business company performances. The research throughout this paper aims at pointing out the fact that the advantage of quality human resources in multinational corporations and their training, development and initiation of work with a team spirit is much more complex, unlike the situation in domestic corporations which have large homogeneous structure of employees. For a successful implementation of international tasks there is a need to satisfy more psychological and organizational factors concerning managers and organizations in order to successfully implement and realize the given organizational goal at international level.

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Keywords: international business, international management, human resource management, planning, strategy

JEL Classification: M 120; M 160; O150; O190

Introduction

It is always necessary that managers of multinational corporations have a great sense of culture, religion and other factors, regarding employees that come from different backgrounds. Otherwise, they will face problems in communication, performance of their tasks and accomplishment of organizational goals. The practice shows that multinational corporations will increasingly require educated staff, and for that reason, they will increasingly engage in looking for talented people from developing countries. Therefore, planning of HR (human resources) is very important in terms of successfully dealing with organizational changes caused by internal and external environment of the organization and a successful performance on the international market. It involves a process in which organizational goals, mission, planning and targeting under new conditions in the organization and beyond.

Planning within the pattern of modern models implies a strong relationship between the business strategy and the human resource planning in an organization. Modern management must involve planning that can deal with fast changes of the external environment, rapid changes of technology, demographic trends and new conditions of globalization⁴. This includes long term planning and permanent communication of high and low management in making the strategy of the organization instead of the traditional short-term planning. The connection between the strategy of the organization and the modern (contemporary) planning model has a large emphasis on planning of the human resources, improvement of their qualifications and professional development, behavior and organizational culture.

⁴ Schuler R. S., Jackson S. E., "A quarter-century review of human resource management in the U.S.: The growth in importance of the international perspective", *Management Review*, 16(1), 2005, p.11–35.

According to Mintzberg: “not only in stable, but also in the dynamic environments, it is necessary to plan and build the human capital, which is a prerequisite for a successful operation of the organization⁵.” Koch and McGrath confirm the importance of timely planning of human resources in an organization in terms of planning the number and qualifications of personnel who should be involved in an organization, its selection and recruitment⁶. Brews and Hunt have done analysis on 656 organizations and confirm that planning is a prerequisite for development of the organizations operating in unstable environments⁷.

The planning of human resources is a process which is based on taking responsibility of the changes in the internal and external environment, in order to anticipate the needs for human resources in the defined time period. It is a process in which the organizational goals are contained in missions and business plans, adapted to suit the purposes of human resources.

The planning of human resources involves great responsibility not only to the general managers but to the human resource managers as well. Each of them has their own part of work and responsibility. Everything is subordinated in order to create the necessary conditions for timely staffing, necessary for future activities of the organization. However, none of the work is done in isolation, since the planning of human resources must be consistent with the vision and strategy of the organization.

Workforce planning is the preparation of plans for filling future posts in the company on the basis of forecasts for vacancies on the basis of deciding whether jobs are going to be filled by candidates who are already working in the organization or outside candidates. Therefore, the objective of planning should be to fill any or all future posts in the organization. Most organizations use the term planning (succession) that marks the implementation of the plan for how it will fill the most important positions in the top management of the firm.

⁵ Mintzberg, H., “Strategy-making in Three Modes”, *The Strategy Process*, Englewood Cliffs, NJ: Prentice-Hall, 1988, p.82–88.

⁶ Hossain S., Davis H.J., “Some Thoughts on International Personnel Management as an Emerging Field”, *Research in Personnel and HRM*, Supplement 1, 1989, p.121–136.

⁷ Hunt J, Boxall, P., “Are Top Human Resource Specialists Strategic Partners? Self-perception of a Corporate Elite”, *The International Journal of Human Resource Management*, 9(5), 1998, p.767–781.

No matter how much care is taken for the planning process in order to finally do that carefully and with high quality, it is almost impossible to predict all the circumstances. Good planning involves continuous monitoring and evaluation of the company needs for employees. Thereon, we can conclude that the human resources plan is never finalized, but it is a continuous process that is constantly being renewed.

By predicting the demand of human resources, it is required to see the needed number of people and professions in the organization, in order to be able to achieve the planned goals. Predicting demand is based on information from the past, present and future assumptions. Predicting the need for human resources is considered a much more complex process, not only a human resources supply.

Companies that enter global markets must recognize that these markets are not simply mirror images of their home country⁸. Countries differ along a number of dimensions that influence human resource management in the global market. Some of them are: the culture, the education-human capital, the economic system, the political-legal system etc.⁹ All these factors affect human resource policy and human resource functions. Therefore, human resource management must be adjusted for international operations in order to decide which individuals are most capable of handling an assignment in different cultures.

International human resources staffing approaches

Creating a human resources policy by definition involves filling and keeping the positions in the organizational structure. In multinational corporations, we come across people with different educational, religious, linguistic, cultural and other background. In the selection of the employees in the corporation three types of international human resource policy can be identified: ethnocentric, polycentric and geocentric¹⁰.

Ethnocentric staff approach is the policy of employment of staff from the local countries on key management positions. Their advantage

⁸ Noe, Hollenbeck, Gerhart, Wright, "Human Resource Management" McGraw Hill Int 2008. Pg.661.

⁹ Peiper R, "Human Resouce Management: An International Comparison" Walter de Gryter, Berlin, 1990.

¹⁰ Weihrich H., Koontz H., "Menadzment", Nacionalna i sveucilisna biblioteka, Zagreb, 1994.

is seen in the vast knowledge of the activities of the corporation and their ability to successfully present the corporation internationally. This policy may change if the domestic company does not have enough trained staff potential. Some managers stated that the departure from the local company overseas brings damage and harms their career because they move away from the center of the contracting company and the most important affairs. Most managers who leave to foreign branches are executives. Usually companies that have a large number of overseas employees provide preliminary training that enables success in working abroad and when they return to their home country they provide assistance in resettlement.

Companies argue that the implementation of the ethnocentric approach makes it possible to maintain unified culture. On the other hand, this policy prevents the promotion of managers from the host country, which can cause dissatisfaction and decrease of productivity, because they (managers from the host country) have lower wages, and this can destroy the corporate unity. The imported managers are never able to understand the characteristics of the local employees and customers. This policy is applied in companies that want to have complete control over its international operations and want to shape their work in each foreign market independently.

The advantages of the ethnocentric staff policy is seen in the inability always and everywhere to find quality and qualified human resources to fill in specific and managerial positions in the company, and by importing that staff, a qualified filling is being reached. Also, some of the companies deem that the interests of the company are better taken care of by a management team from the country of origin, unlike the management team of the host country.

The experience has shown that this kind of human resource staffing is specific for the initial stages of the international operations of the organization, or if its business abroad is not permanent and limited.

One of the weaknesses of the ethnocentric human resources staffing is seen in the large outflow of funds to cover the costs of managers who leave to work in the branches abroad. The differences in cultures for managers and local people bring difficulties in the coordination and communication within the organization, as well as the fact that the presence of several managers from the home country can cause complication of things outside the home country.

The ***Polycentric*** staffing policy approach of employment in multinational corporations means that the citizens of the host country will manage the branches and the main headquarters of the corporation will also be managed by managers from the mother country. In this way, the company employs citizens of the host country according to their abilities and professional, political or other influence that they have in their country. They have excellent knowledge of the political, economic, cultural and other values of their country and enjoy a certain reputation and respect in the environment in which they operate. The company evaluates and invests in their professional development in order to easily overcome the cultural differences in the new environment. A disadvantage arises from the possibility of creating a gap between the linguistic misunderstanding, national loyalty and liking. These managers lack experience working internationally and thus they find it difficult to make progress in the center of the company, which may cause dissatisfaction. Certain autonomy can appear in the branches of host country, which can lead to problems in the operation of the corporation and poor assimilation with the remaining part of the organization.

Geocentric (region or national) staffing approach uses the most professional staff for each position of the company regardless of the nationality of the employees. This policy allows the use of the strongest human resources available in the organization. This group of managers can be comprised of employees from third countries who gained their experience in the company headquarters or in another country and their knowledge and skills are at the disposal of the corporation wherever there is a need of that kind of knowledge and experience. They have a developed flexible attitude and they can adjust to work in any country, and thus avoid cultural differences.

This kind of human resource policy may be limited by immigration laws imposed by the developed countries, which impose a free access of people on their territory. But this can be solved by the preparation of necessary documents for legal residence and working permissions. A resistance towards new managers may also occur from domestic employees and for this purpose there is a need for carefully planned events and actions.

As barriers to the professional managers for their commitment to work in branches outside their countries, a disagreement and rejection of the fact of moving and adjusting of the spouses in another country may appear. There is also a possibility that the manager faces inability to

adjust to the new environment which includes acceptance of a new civilization, culture, behavior, environment and similar. Familiarity brings an obligation of managers to be close to their loved ones in the case of diseases of children, education, sports, and death as an inevitable part of human life. All this may occur as an obstacle to the transfer of staff from the host to affiliates outside the home country. The manager's solution to this problem is engaging young helping staff from poor countries who cannot find similar employment and the opportunity for them and their spouses to live in more better conditions. It is also a great opportunity for this helping staff to have bigger salaries, which in their home countries would never be possible.

Methodology

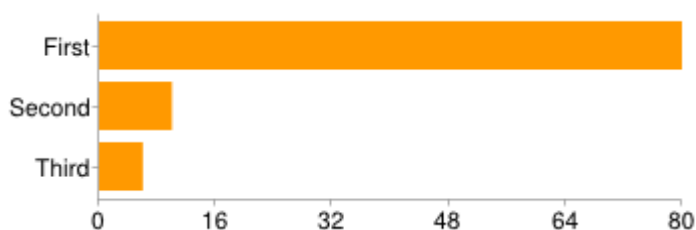
The empirical research presented in this paper is to ascertain the relationship of international assignment success factors ranked by importance for the successful implementation thereof, enhancement and improvement of the management staff, care for its professional development as one of the most important strategic tools for successful performance on international market. The research is aimed at proving the hypothesis that emphasizes the importance of the professional competence profile of managers who are sent on international assignments, which is a guarantee for successful performance, operation and implementation of organizational goals internationally. It guarantees excellent knowledge of international business, a successful and rapid adaptation of managers in the new environment and culture, and to this end the research was focused on current experiences of managers globally.

For this purpose, 100 international managers globally of both genders were surveyed, with varying degrees of education and experience and originating from different religions and cultures.

Results

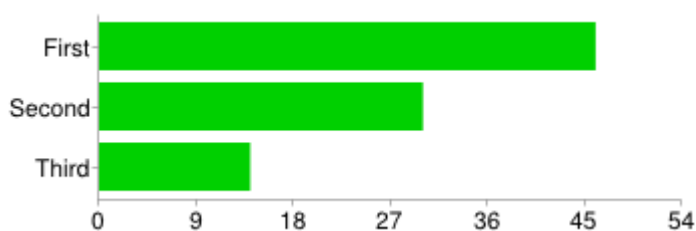
The results from the research confirm the fact that interpersonal skills are the most important factors for successful implementation of the international task. 80% of the respondents have confirmed that fact.

Figure 1: Interpersonal skills



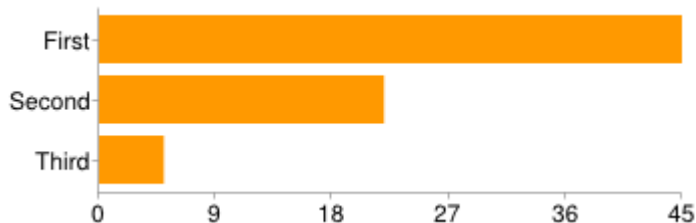
Self-efficiency takes the second place according to the respondents.

Figure 2: Self-efficiency



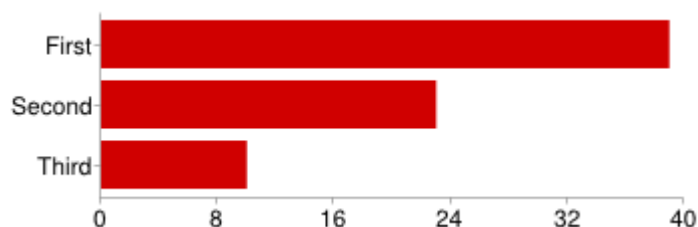
Solving conflicts is ranged as the third most important factor for successful implementation.

Figure 3: Solving conflicts



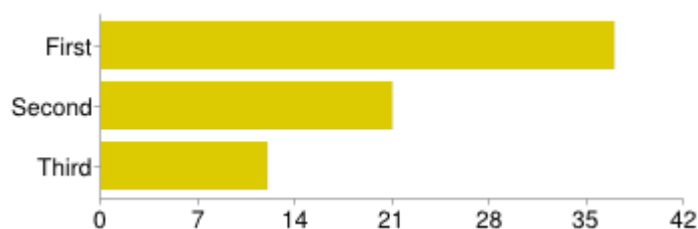
The fourth most important factor is solving ambiguity.

Figure 4: Solving ambiguity



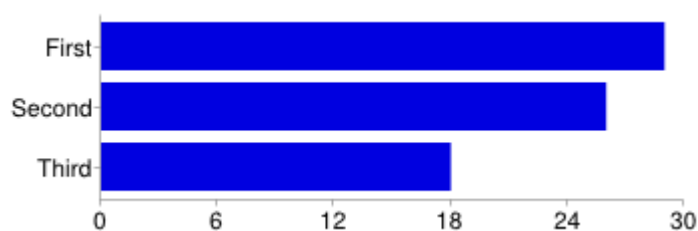
The respondents voted that discretion ability is the fifth most important fact.

Figure 5: Discretion ability



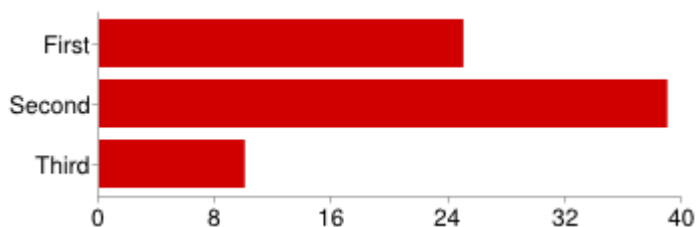
Results according to the respondents showed that interaction of the family with the citizens in the new surrounding is on the sixth place of the rating scale.

Figure 6: Interaction of the family with the citizens in the new surrounding



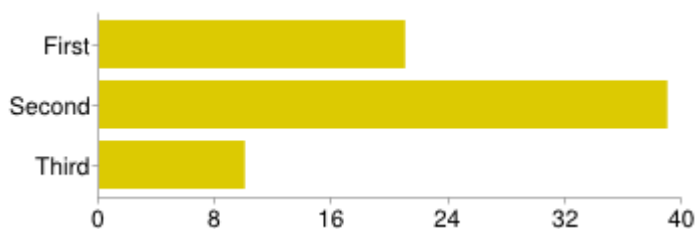
The rating scale showed us that on the seventh place is the adjustment of the family.

Figure 7: Adjustment of the family



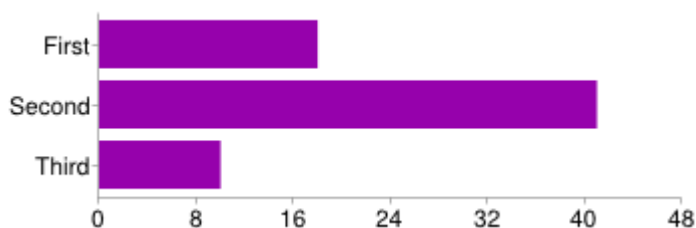
As the eighth most important fact ranged by the rating scale is the interpersonal adjustment of the members of the family.

Figure 8: Interpersonal adjustment of the members of the family



And the last but not the least is the factor of general adjustment of the members of the family.

Figure 9: General adjustment of the members of the family



Conclusion

From the survey results it can be concluded that: for the success of the implementation of international assignments, the most important factors for the international managers are: interpersonal skills, followed by self-efficiency, and then the ability to deal with conflicts...

The conducted empirical research can offer the following recommendations for building a strategy for successful performance on the international market:

- Providing implementation of modern management of human resources;
- The organization to be interested in innovation, learning and creativity;
- Selection of the managers for performance on the international market to be according to the standards of modern IMHR;
- Paying attention to the psychological factor profile of managers who are sent on international assignment;
- Being careful with the human resource policy within the organization in order to successfully implement and realize the given organizational goals internationally.

Given the growing need for qualified managers globally, professionals tend to care for the employees and their training and development, which is undoubtedly one of the most important factor for success in modern economies, and thus caring for the aforementioned factors is undoubtedly crucial for the successful implementation of international assignments.

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UDC 334.722:[004.7:342.51(497.7)

Original scientific paper

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BUSINESS BENEFITS FROM E-GOVERNMENT SERVICES: CASE OF SLOVENIA AND MACEDONIA

Abstract

Nowadays, governments around the world are operating in the dynamic environment where information and communication technology have dominant role. Using of information and communication technology by the governments generates delivery services in electronic form and changes their relations with the citizens and business community.

The purpose of this paper is to analyze e-Government services in Slovenia and Macedonia by focusing on government-business relationship with special emphasis of business benefits from the e-Government services.

Keywords: *e-Government, e-services, G2B, business benefits*

JEL Classification: L26, F2, H25

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1. Theoretical aspects of e-Government and their services

The process of using information and communication technology in the public sectors is happening rapidly in both developed and developing countries as a result of the new environment of the governments. The number of the citizens and companies that use different types of digital technology is increasing every day. As a result of this, many governments try to respond and adapt to the changes in the new environment and, therefore, they transform their activities by introducing information and communication technology. This is a process of transformation of the government into e-Government. This process takes high position on the agendas of many governments aiming at for better services and relations with citizens and businesses.

Today, the globalization development divides the world in two zones: stagnation and development zone. Those countries that failed in using modern information and communication technologies for their own development will nevertheless remain in the stagnation zone (Government of the Republic of Macedonia in 2005).

According to the definition of the World Bank (2009), e-Government refers to the use of information technologies by government agencies that contribute to the transformation of the relations with citizens, businesses, and other units of the government. This transformation of relations is related to better delivery of the government public services to citizens and businesses through electronic tools, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The results of this transformation are: reduced corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions.

Turban, Ephraim and Wetherbe (2004) define e-Government as using the Internet technology in general and e-commerce, in particular delivering information and public services to the citizens, businesses and those working in the public sector. It is also an efficient way of conducting business transactions with citizens and businesses, and within the governments themselves.

By introducing information and communication technology in their activities and providing e-services to citizens and businesses, Governments directly or indirectly contribute to positive influence on societal development as a whole through the following (USAID, Ministry

of Information Society of the Republic of Macedonia & Metamorphosis Foundation 2010):

- Building a transparent and fair public administration,
- Increasing the effectiveness and productivity of the functionality of the institutions,
- Improving the quality of services provided by the public sector to citizens and the business community,
- Introduction of new types of relations between government and citizens, and government and businesses.

E-government services can be classified into three major categories depending on the parties that are involved into the delivery process:

- *Government-to-citizen (G2C)* includes all electronic interactions and activities between the government and its citizens (Lee 2005). These interaction and activities include: asking questions, receiving answers through Internet platforms, payments, receiving and completing forms and documents, and similar e-Government services.
- *Government-to-business (G2B)* that includes all electronic interaction and relationship that works in two directions between the government and the businesses. The government sells products to businesses and provides them with services, but businesses sell products and services to the government agencies as well (B2G) (Lee 2005). The key example for G2B e-services are e-procurement, e-taxes, and obtaining licenses.
- *Government-to-government (G2G)* includes all electronic activities between different government institution and its units. This category also includes activities between government units and their employees (e.g. e-training) also known as government-to-employees (G2E) activities.

The essential e-Government services of the European Commission for businesses are: electronic declaration of VAT and Corporate tax, e-registration of new companies, e-Public procurement, e-permits related with the environment and customs, electronic declaration of social contribution for employees and e-submission of data to the statistical office. The European Commission uses twenty basic e-Government services to benchmark the progress of the EU countries on

e-Government (Capgemini, IDC, Rand Europe, Sogeti & DTi 2010a; UNDP 2010). Eight of the 20 basic e-Government services relate to businesses, and twelve relate to citizens (Table 1).

Table 1: 20 basic public services

G2B		G2C	
1	Social Contribution for Employees	1	Income taxes
2	Corporate Tax	2	Job search
3	Value Added Tax	3	Certificates (births, deaths and marriage records)
4	Registration of a New Company	4	Announcement of moving (migrations)
5	Submission of Data to the Statistical Office	5	Social benefits (unemployment benefit, child supplement, health care payment, student supplements and grants)
6	Custom Declaration	6	Personal Documents (Identification document - ID, passport, driving license)
7	Environment-related Permits	7	Car registration
8	Public Procurement	8	Public libraries: review of catalogues and ordering
		9	Admission to higher education institutions
		10	Application for building permits
		11	Declaration to the police
		12	Health-related services

Source: Capgemini, IDC, Rand Europe, Sogeti & DTi (2010a)

The benchmarking is based on the core and proof-of-concept indicators. (Capgemini, IDC, Rand Europe, Sogeti & DTi 2010b). Core indicators include: online sophistication and full online availability of the 20 basic e-Government services, user experience, portal sophistication, e-Procurement visibility and availability. Proof-of-concept indicators are: e-procurement availability for the post-award phase, maturity of “life events” and availability and use of key enablers.

The indicators ‘online sophistication’ and ‘full online availability’ are maintained and assessed against the five-stage maturity model. The model reflects how businesses and citizens can interact with public authorities. Governments’ service delivery processes are described according to the following stages: (i) information, (ii) one-way interaction, (iii) two-way interaction, (iv) transaction and (v) targetisation. The fourth and fifth levels can be referred to as ‘full online availability’.

The most important indicator of successful government is the quality of the e-Government services which are offered to citizens and businesses. Lee & Lin (2005) defined the quality of e-Government services as overall customer assessment and judgment of e-Government service delivery in the virtual marketplace. For Janda, Trocchia and Gwinner (2002) the most relevant factors affecting e-Government service quality are:

- access,
- security,
- sensation and
- information/content.

Zeithaml’s (2002) model of e-Government service quality includes eleven dimensions like: access, ease of navigation, efficiency, flexibility, reliability, personalization, security/privacy, responsiveness, assurance/trust, site aesthetics, and price knowledge.

The quality of the e-Government services influences the better acceptance rate of their users and their positive response regarding loyalty (Cristobal, Flavian, & Guinalu 2007), trust (Al-Faouri & Al-Kasasbeh 2010) and satisfaction (Cenfetelli et al. 2008).

The delivery of e-Government services generates various types of benefits for citizens and businesses on one hand, and benefits for government institutions and units on the other hand. The most important and prime motivators for using e-Government services are the following benefits:

- Improved access of citizens and businesses to government services (British Columbia 2010).
- Reduced costs for the citizens, businesses and government agencies (Zaimes, Kalampouka & Emmanouloudis 2012).
- Increased end-user’s convenience (AGIMO 2011).
- Increased transparency of government activities (Luna-Reyes et al. 2012).

- Improved efficiency and effectiveness of the government functions (Rao 2011).
- Strengthened legal system and law enforcement (Lan 2004).

Measuring e-Government user satisfaction and impact is therefore a key instrument in assessing progress towards the efficient and effective e-Government (Deloitte & Indigov 2008).

2. Case of Slovenia: Some benefits for the business sector from the e-Government services

Around 46% of the EU citizens use e-government services for different purposes and Slovenia with around 49% of its citizens is slightly above the EU average. In addition, 87% of enterprises in the EU-27 and 92% of the Slovenian enterprises use e-government services (Eurostat, 2012; Florjančič and Vičič, 2013).

The development of the e-Government services in Slovenia has positive impact on the business sector in the some areas. For example in:

- Setting up enterprises and self-employment
- Compulsory delivery of monthly and annual reports

Due to the de-bureaucratization processes regarding setting up enterprises and self-employment in 2005, the e-VEM portal was established (Republic of Slovenia 2013a), which means All at the One Place.

The establishing of self-employment is now possible through a website in one hour and establishing a simple enterprise with limited liability has become much easier. Unlike in the past, to establish an enterprise there is no need to visit different offices and obtain different permissions or pay high amounts at the notary offices. The establishment of an enterprise through the e-VEM portal has become fast and efficient with one visit at the administration office.

In Slovenia enterprises are obliged to report to the public institutions monthly (such as for wages) and annually (such as for balance sheets). In 2007, enterprises were forced to use electronic submission of all crucial tax reports to the **Tax Administration of the Republic of Slovenia** – eDAVKI or eTAXES (DURS, 2013). At the same time, the opportunity was made for the electronic submission to the Agency of the Republic of Slovenia for Public Legal Records and

Related Services (AJPES, 2013) and the Office for Pension and Health Insurance of Slovenia (ZPIZ, 2013). Due to DURS, for on-line reporting all enterprises as well as self-employed citizens have to obtain digital certificates, which are not free-of-charge. Individuals can also submit different reports on-line via the portal eDavki, but it is not obligatory. The digital certificates for individuals can be obtained free-of-charge.

Once a year, each of the e-government service suppliers in Slovenia conducts a survey of satisfaction of the users with the e-government services on its website. This is prescribed in the Article 34 of the Law on Public Agencies – conducting anonymous surveys. In this way, users of the e-government public services can have the opportunity to express their satisfaction with different public services (E-government 2013a, 2013b). Among them, there are also development and use of e-government sides, which are a part of the European e-government services such as project technology for electronic identification (STORK 2.0), project e-health (epSOS) and e-justice (e-CODEX), older pilot projects for e-business (SPOCS) and e-public procurement (PEPPOL, or Open PEPPOL ASBL). Further development of new instruments for integration in Europe is expected, such as infrastructure for digital services (e-identification and e-public procurement).

The use of e-services can save time and money, and increase flexibility, but on the other hand some persons still prefer personal contacts. One of the reasons for the not very common use of e-government services in Slovenia is the lack of trust in the e-government with generally long-lasting administration procedures. Therefore, the increase of the trust in the e-government services and in government services in general is one of the main factors for improving of the use and acceptance of the e-government services. Among other actions that should be taken to improve the use and acceptance of these e-government services are also education and promotion activities particularly among retired and elderly persons, who are also less familiar with the use of advanced information and communication services, including the e-government services.

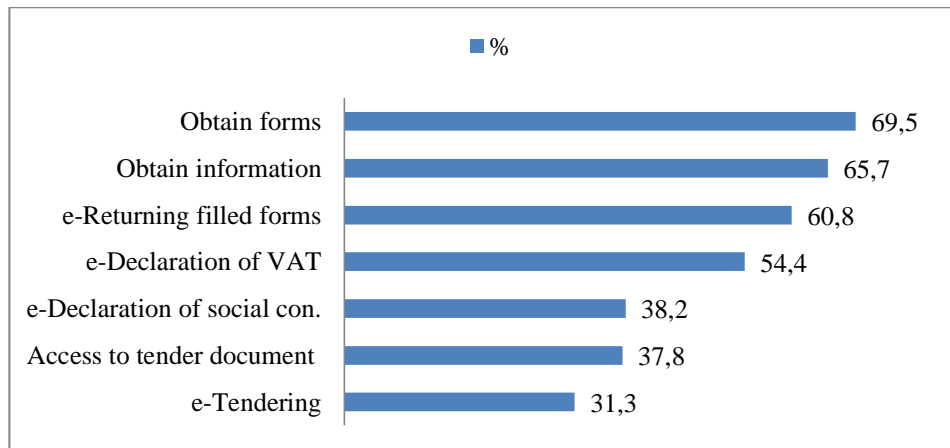
3. Case of Macedonia: Benefits of the business sector from the e-Government services

Policy papers and strategies for increased adoption and use of the e-Government services by the citizens and businesses in the country are drafted and positioned highly in the agenda of the Republic of Macedonia.

Macedonia intensively invests in the development of the e-Government services and other elements of the information society. A survey of the level of online sophistication of the e-Government services of eSEE (electronic South East Europe) member countries for the Republic of Macedonia shows a level of 60% of online sophistication of e-services, as well as 69% of online sophistication of G2B (the eSEE average is 52%), and 51% online sophistication of the G2C services (the eSEE average is 38%) (Janevski et al., 2010). Nevertheless, it is far from the level of availability and sophistication of e-Government services in the EU member countries. According to the surveys for online sophistication of the EU27+ countries (EU27 + Croatia, Iceland, Norway, Switzerland and Turkey), the level is 90%, while the average full online availability is 82% (Capgemini et al. 2010a). Regarding the use of different e-services of EU27+, the average of G2B is 94%, while for the G2C is 87%. However, the European Commission has targeted that 50% of the EU citizens will use G2C services and 80% of EU businesses will use G2B services by 2015 (EC 2010). Macedonia has not determined targets in terms of the penetration level of e-Government services.

According to the report of the State Statistical Office of Republic of Macedonia (2013), the business sector in the Republic of Macedonia in 2012 used e-Government services usually for obtaining forms – 65.7%, obtaining information from the public authorities' websites – 69.5% and electronic completion of files – 60.8% (Figure 1).

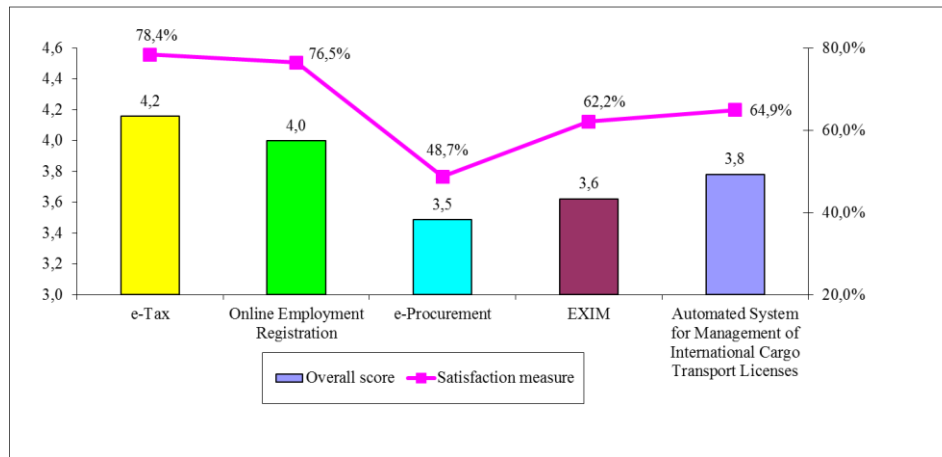
Figure1: Using of e-Government services by the business sector in Republic of Macedonia



Source: State Statistics Office of Republic of Macedonia (2013)

The five most used G2B applications in the Republic of Macedonia are: e-Tax, online employment registration, e-Procurement, EXIM – single system for import, export and transit of goods and tariff quotas, and the automated system for management of international cargo transport licenses – CEMT. According to the survey of the user satisfaction for these applications in the country made by Janevski, Stojanovski, & Jashari (2009), the registered users of e-Procurement expressed lowest level of satisfaction (with 3.5 on a 5-point scale). However, even this lowest level of satisfaction is quite satisfactory on the scale from 1 to 5 (Figure 2).

Figure 2: Satisfaction by the users of certain e-Government service



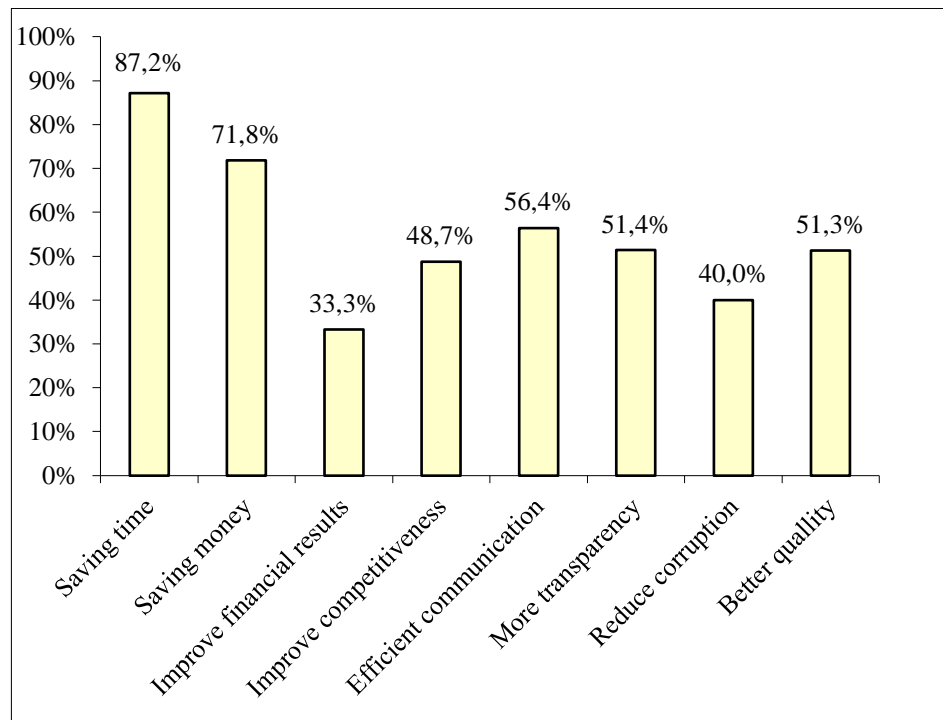
Source: Janevski, Stojanovski & Jashary (2009)

The highest level of satisfaction, 4.2, is awarded for the application of e-Tax.

The level of satisfaction for the e-Procurement application decreases with the size of the company, from 3.6 for large enterprises, down to 3.47 for micro enterprises.

Only 5% of the respondents (2 out of 39 companies) attributed a maximum score 5/5 for overall satisfaction.

Figure 3: Reported benefit from the e-Procurement



Source: Janevski, Stojanovski & Jashary (2009)

Two highest scores for the benefits perceived have been reported for 'saving time' (87.2%) and 'saving money' (71.8%). Only one third of the users believe that the use of e-Procurement could contribute to the improvement of their financial results, and only 40% of all users claim that the e-Procurement could reduce the corruption in the country, especially in the field of public procurement (Figure 3).

Understanding the future demand for development of new functionalities of the e-Procurement application expressed by the companies and their need for further improvement of the existing system gives us some ideas about the future demand and thus sustainability of the process of e-Procurement service delivery. 77% of all respondents that answered the question "Do you reckon that the existing e-Procurement service needs further upgrades?" claimed that the existing Application needs further upgrades. But this is not the reason why the satisfaction level of the system is the lowest comparing to the other four services covered by the research.

The survey respondents provided many ideas on how to upgrade the existing e-Procurement Application. Some respondents focused on the improvement of the stability, accessibility and reliability of the application. Others emphasized the need for further simplification of the business procedures, especially increasing the level of interactivity and feedback by the responsible institutions. Many respondents mentioned insufficient training and the need for seminars for the users of the application. Some respondents also emphasized the lack of public awareness for the existence of the e-Procurement application and other e-services in the country as well.

Conclusions

The concept for the development of e-government services aims at greater transparency, efficiency and effectiveness in the delivery of public services to the citizens and businesses, as well as improvement of the communication between the public, private and civil sector. Simplification of the business procedures, increased level of interactivity and feedback by the public authorities responsible for delivering e-Government services, improvement of the stability, accessibility and reliability of the e-Government services are necessary for obtaining more benefits for the business sector from using the e-Government services. The practical and legal requirements should be also taken into consideration for better e-environment in the society.

Further research could be directed towards the analysis of the fight against the corruption and contribution to favorable e-environment of the business sector. Also, it would be of great interest to work on building models of introducing public-private partnership in the process of establishment and delivery of e-Government services to citizens and businesses.

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UDC 005.51:334.72.012.63/.64(497.7)

Original scientific paper

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USAGE OF BUSINESS PLANS AS A TOOL FOR STARTING AND EXPANDING BUSINESSES IN REPUBLIC OF MACEDONIA

Abstract

Today's dynamic economic systems delegate uncertain surroundings for the business. Therefore today's entrepreneurs and business owners tend to use planning and prediction in order to decrease the risks brought by uncertain and dynamic surroundings. In efforts to minimize the risks, entrepreneurs and business owners use a variety of tools for planning and prediction. The business plan, among others, is considered to be such a tool. According to the latest findings in the field of the business, even usage of these tools cannot thoroughly decrease the risks brought by dynamic and uncertain surroundings. However the usage of tools for planning can greatly increase the success of the business. So the business plan as a tool is still one of the most used tool for business planning worldwide.

This paper concerns the topic of use of the business plan as a tool for starting or expanding the businesses in Republic of Macedonia. The goal is to determine the degree of usage of this tool for planning and determine the reasons for its degree of use. For the purpose of this paper, a research was made through the methodology of online survey. The survey was conducted in three consecutive years on the statistic specimen of 150 small and medium business owners on the territory of Republic of Macedonia. The results of the research as well as commentaries and guidelines for future are also presented in this paper, all concerning the subject that is the usage of the business plan.

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Key words: business plan, small and medium business owners, planning, benefits of business plan

JEL classification: M13

1. Business plan and benefits which arise from its usage

Business plan is a written document which explains the possibility for the business success, identifies the markets and provides details of goal achieving processes of the business.³ More so, business plan presents a modern tool for describing and planning your business, so that it becomes a success. It describes the possibilities a certain business could have; its threats, strengths and weaknesses. The business plan presents the financial possibilities and the growth possibilities of the business as well. It gives insight to the possible investors in the qualifications and capabilities on the managerial team, and also explains the necessary resources for achieving the specified goals and results of the business.

Besides being a successful tool for business idea presentation to possible investors, the business plan is also a guide to all of the obstacles on the way to putting the business idea into practice. According to that, the business plan can also be a helpful guide towards the future decisions of running a business. The necessity of the business plan as a tool for planning a successful business is recognized worldwide. Besides the previously stated benefits from creating a business plan, several more are recognized, giving the business plan even a bigger role in the modern business planning processes. The crucial benefits from the business plan can be seen as:⁴

- Incising the possibilities of acquiring financial assets for starting a new business as well as acquiring additional capital for promoting growth of existing businesses;
- Developing key elements of the business;
- Recognition of the business possibilities, threats, strengths and weaknesses;

³ Richard Luecke & Alfred E. Osborne Jr., *“Entrepreneur’s toolkit – Tools and techniques to Launch and Grow Your New Business”*, Harvard Business School, 2004, p.68.

⁴ Ibid p.70.

- Development of the financial plan of the business. Recognition of the various kinds of expenditures and possible revenues for the business;
- Developing planned budget of the business that can be used as a guide into the archived results of the operating phase of the business and furthermore, it can be used as a feedback for the success of the business.

Besides the crucial benefits of preparing a business plan for the business, this tool has additional benefits which can be seen in:

- Developing and managing clearer business objectives and priorities for the business;
- Developing a vision and mission statement for the business;
- Better planned and realized cash flows of the business;
- Promoting and managing the growth of the business;
- Developing a reliable marketing approach through the marketing plan as a part of the business plan;
- Making a suitable approach to domestic as well as foreign markets.

The number of benefits confirms the precious statement of this worldly renowned tool for planning a business. Its standardized form, which is accepted everywhere in the business communities throughout the world, gives even more credibility to the business plan. In the next chapter, the results of a conducted research of the usage of the business plan in the process of starting or expanding your business in Republic of Macedonia are presented.

2. Use of business plan as a tool for starting and expanding businesses in Republic of Macedonia

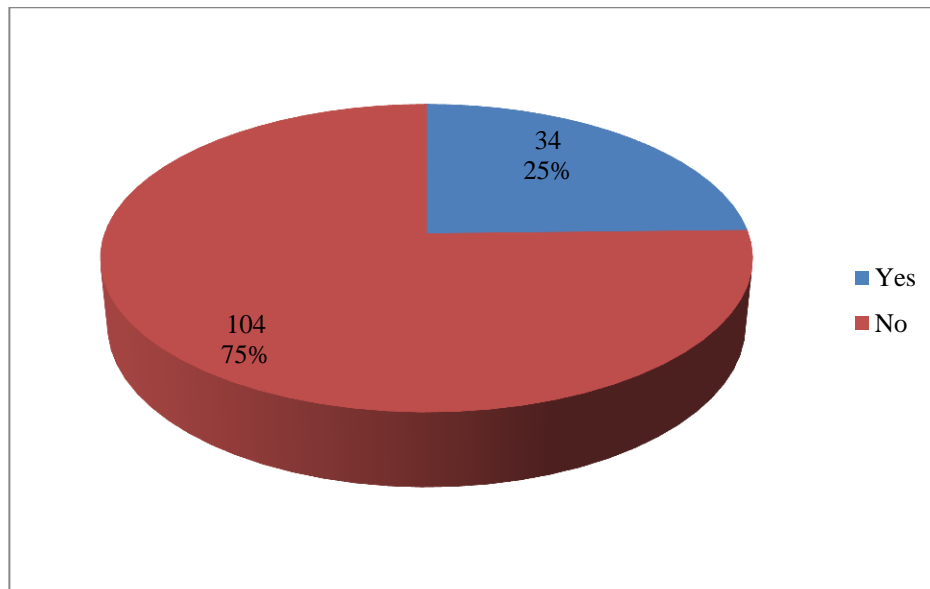
In the previous chapter, several benefits of using a business plan as a tool for starting or expanding a business were presented. According to that, a research was made in order to determine the use of the business plan as a tool for planning a startup business or expanding an existing business. The research was conducted on the sample of 150 small and medium business owners on the territory of Republic of Macedonia through online survey. The survey was constructed on 6 different questions concerning the usage of the business plan as a tool and also it

was realized three years in a row starting from 2012 till 2014. The same statistical example of 150 small and medium enterprises was used for the survey in the three year period. The survey consisted of the following questions:

1. Have you ever used a business plan as a tool for starting or expanding your business?
 - Yes
 - No
2. If you haven't used this tool, what was the reason?
 - Haven't heard of it
 - Didn't know how
 - I have used other kind of tools for the purpose
 - Don't have the need to use this kind of tool
3. Do you know the benefits of using a business plan?
 - Yes
 - Some of them
 - No
4. What was your purpose for using a business plan?
 - Financing
 - Market plan
 - Financial planning
 - Competition analysis
 - SWOT analysis
 - Other
5. Did you find using a business plan as a tool for starting or expanding your business helpful?
 - Yes
 - No
6. Do you plan to use a business plan as a tool for starting a new or expanding the existing business?
 - Yes
 - No

On the first question from the sample of 150 small and medium enterprises, 132 answered the question in 2014, 142 gave answer to this question in 2013 and 140 in the year 2012. The results concerning the first question are presented in the graph and picture below.

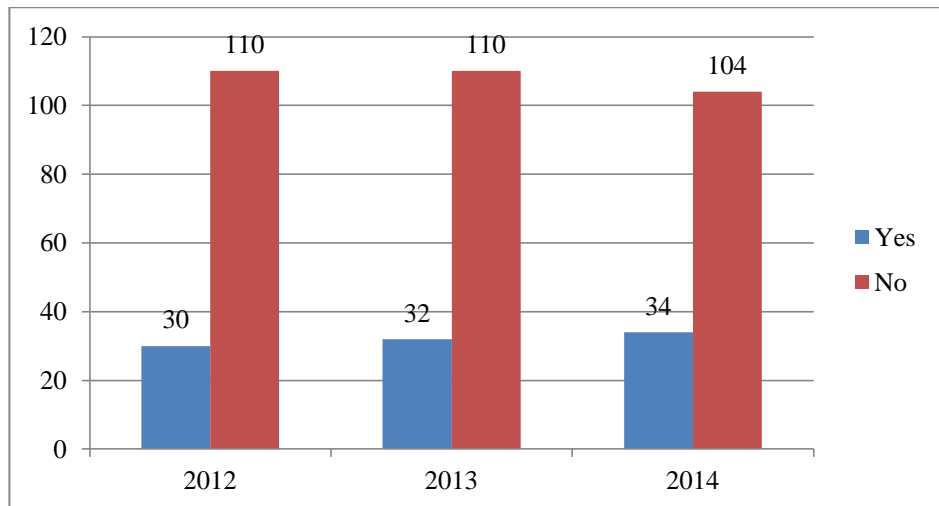
Figure 1: Results from the question *Have you ever used a business plan as a tool for starting or expanding your business from year 2014*



Source: Own Research

According to Figure 1, the results from the first question show that the owners of small and medium businesses on the territory of Republic of Macedonia that participate in the survey in larger percentage have not used the business plan as a tool. More accurately as can be seen from the Figure 1, 75% of the small and medium business owners have never used this tool. The numbers state that the larger part of the statistical example has never used business plan as a tool for starting or expanding the business. This condition can also be seen in the graph below, where answers from this question are presented for the previous two years i.e. 2013 and 2012.

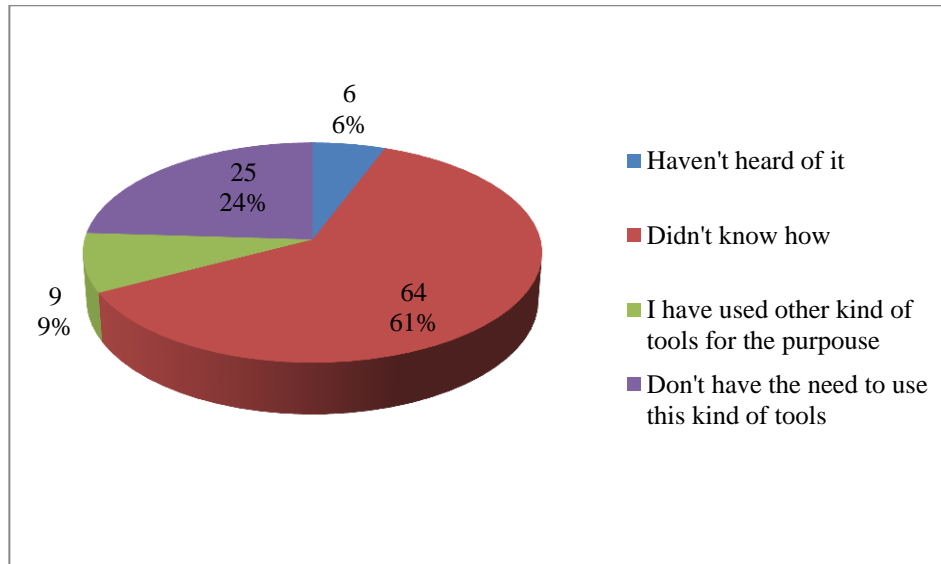
Figure 2: Results from the question *Have you ever used a business plan as a tool for starting or expanding your business*



Source: Own Research

From Figure 2, it can be determined that the number of small and medium business owners who have used business plan as a tool for starting and expanding their business has slightly increased. But the increase of the use of this tool was still too low, considering the number of business owners who answered the question. Following the results from question one, it can be determined that approximately 75% of the small and medium business owners have never used this tool for any purpose. The reason behind this result can be seen in Figure 3 and 4, which consider the second question i.e. consider the reasons for not using this tool.

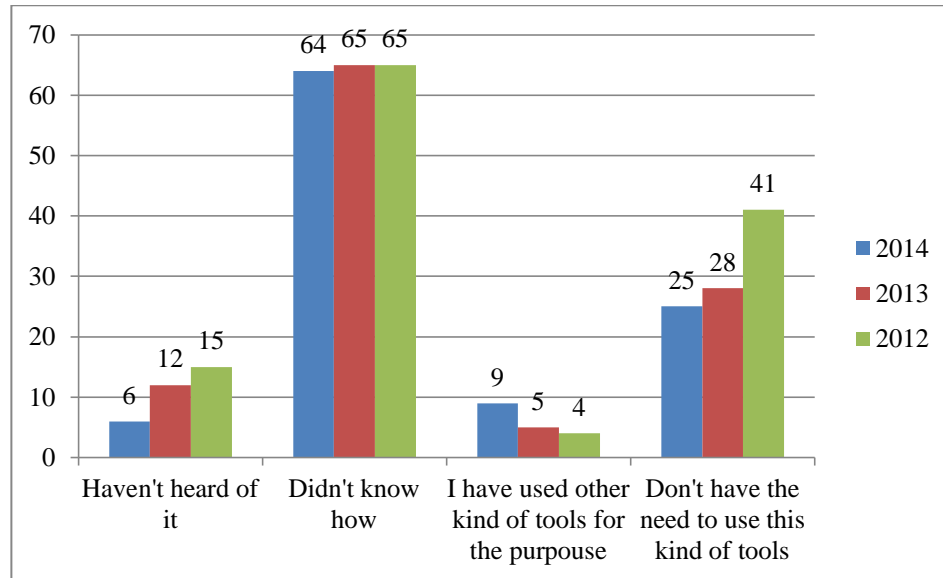
Figure 3: Results from the question *If you haven't used this tool what was the reason?* from year 2014



Source: Own Research

Of the 104 surveyed owners of small and medium businesses, the largest percentage had not used the business plan as a tool so far because they did not know how to. Around 6% have declared that they had never heard of it, as the second largest chunk (25%) of the surveyed owners answered that they did not have the need to use this kind of tool, and only 9% of the surveyed answered that they used other kinds of tools for planning. In Figure 4 below the answer of this question is presented through the three consecutive years.

Figure 4: Results from the question *If you haven't used this tool what was the reason?*



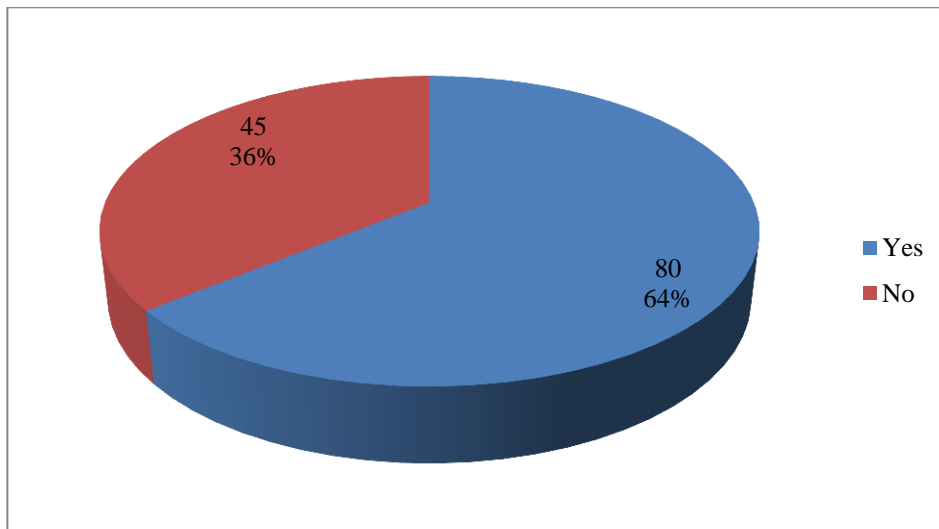
Source: Own Research

Figure 4 shows that the larger part of the surveyed owners of small and medium businesses did not know how to use the tool – business plan. The larger difference between the answer given to the same question over the period of three years can be seen in the need to use this kind of tools. Meaning, 41 of the surveyed owners in 2012 did not find necessary to use this kind of tool for planning a beginning or expansion of their businesses. In 2013, the number of surveyed owners who did not have the need to use this kind of tool fell by 31%. This number has also fallen in 2014, reaching only 25 surveyed owners who answered that they had no need for this kind of tool.

This figure also shows very critical data i.e. that the largest percentage of the surveyed owners did not have the knowledge for using this specific planning tool. A general conclusion can be drawn from the analysis of this question i.e. the awareness for the importance of the business plan as a planning tool has risen over the years, but still, the people lack the sufficient knowledge to use it properly. The next question directly concerns the foreseen benefits of the business plan by the owners of small and medium enterprises. The results of this question (question number 3 in the survey) are presented in figure 5 and 6.

The number of surveyed on this question for the years 2012, 2013 and 2014 is 128, 130, 125 respectively. In 2014, according to the survey, 64% of the owners gave a positive answer to the question “Do you know the benefits of using a business plan?”.

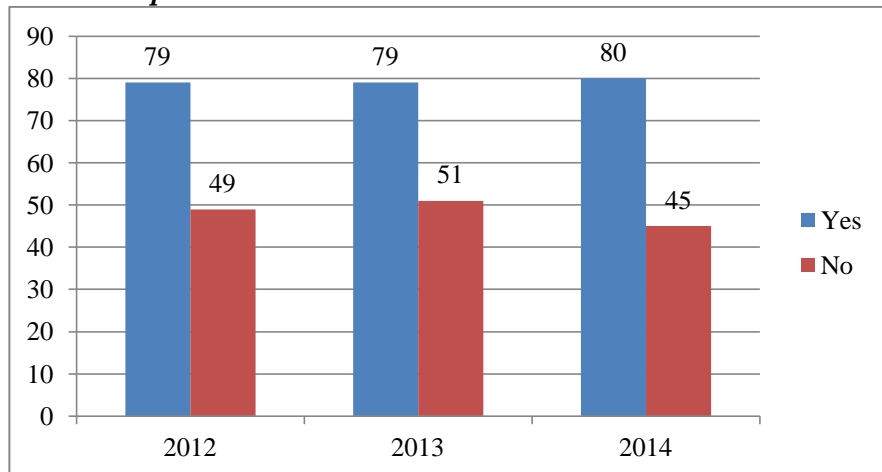
Figure 5: Results from the question *Do you know the benefits of using a business plan?* from 2014



Source: Own Research

The analysis of the answers of question number 3 show that the majority of the surveyed owners of small and medium business know the benefits of preparing a business plan for starting or expanding their businesses. As we can see on the graph below, the number of positive answers remains constant over the selected period for analysis. This can be interpreted as a status quo situation for the awareness of the benefits offered by preparing a business plan.

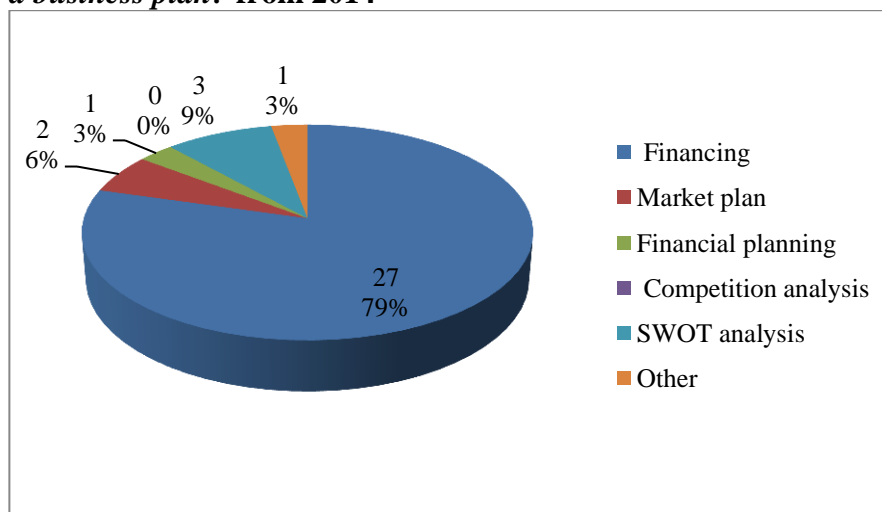
Figure 6: Results from the question *Do you know the benefits of using a business plan?*



Source: Own Research

The next question concerns the reasons behind the usage of the business plan by the surveyed owners of small and medium companies. According to Figure 7, the majority, or more accurately, 79% of the surveyed owners who have prepared a business plan stated the financing as the main reason for using this tool. Not one of the surveyed owners stated competition analysis as the reason for preparing a business plan.

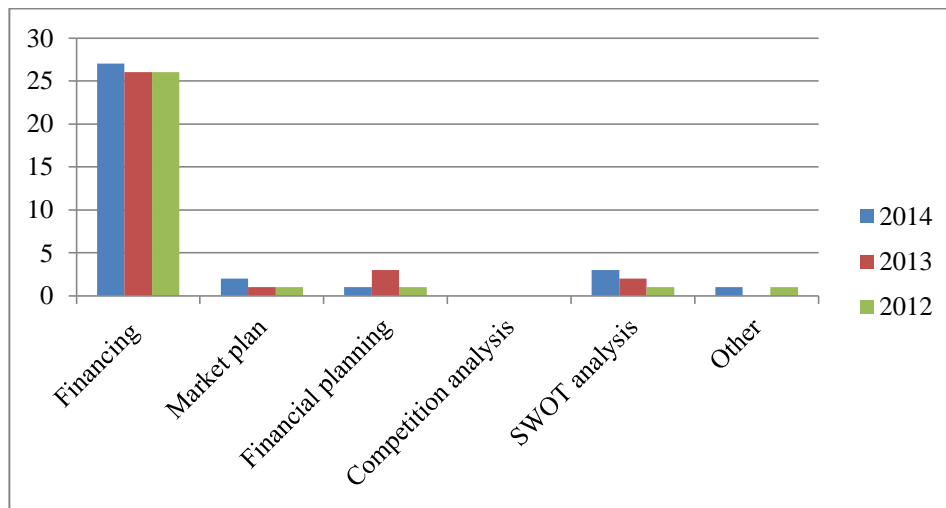
Figure 7: Results from the question *What was your purpose for using a business plan?* from 2014



Source: Own Research

Approximately the same situation concerning the reasons behind the usage of the business plan can be seen through the research period of three consecutive years.

Figure 8: Results from the question *What was your purpose for using a business plan?*

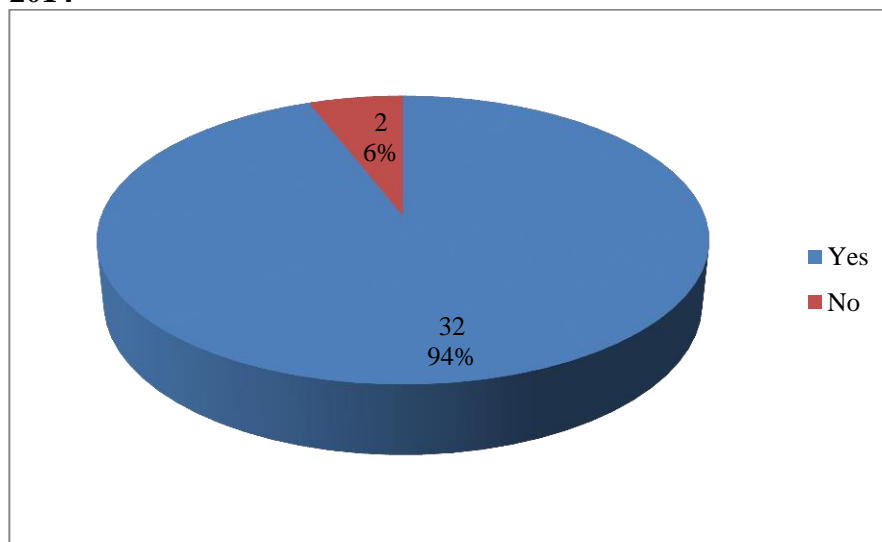


Source: Own Research

The main conclusion that can be derived from this question is that the business plan as a tool in the Republic of Macedonia is mainly used for a sole purpose, i.e. financing. Nearly 80% of the surveyed owners of the small business have declared that their purpose for using a business plan is getting to a suitable source for financing their business. This is one of the main reasons for using this tool. However, the lack of other relevant purposes for using the business plan can again suggest that the people have insufficient knowledge about this tool. According to that, the owners of small and medium businesses are focused on one purpose when preparing a business plan, and that is financing.

The next question concerns the usefulness of a business plan as a tool. The results of the question number 5 in the survey are presented Figures 9 and 10.

Figure 9: Results form the question *Did you find using a business plan as a tool for starting or expanding your business helpful?* from 2014

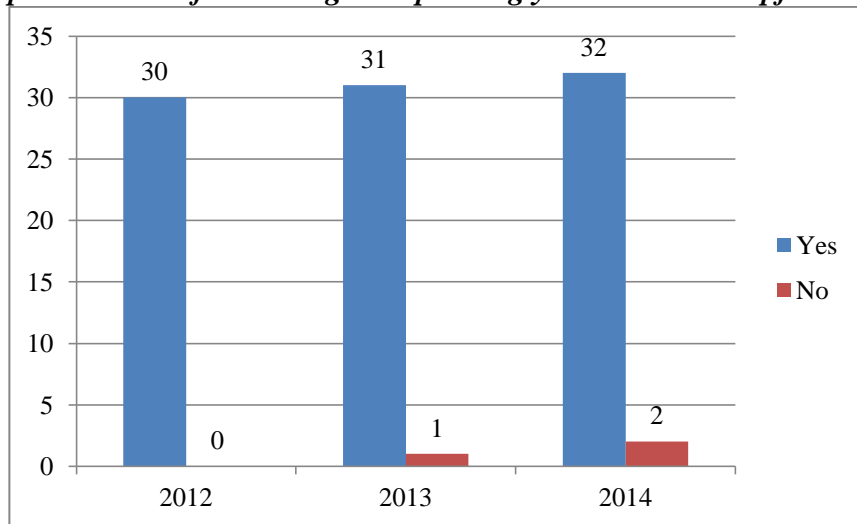


Source: Own Research

From the results of question 5, it can be seen that the majority of the owners who used business plan as a tool for starting or expanding their businesses find it useful. The positive result from this question shows the general usefulness of the business plan as tool. More so, the positive experience of using the business plan can accelerate the growth of awareness for the usefulness of business plan as a tool, thus making it more used by the owners of small and medium business in the future.

The results shown in the graph below confirm the usefulness of the business plan as a tool for starting or expanding the business. The survey in three consecutive years starting form 2012 till 2014 shows that the majority of the surveyed owners of small and medium business who have used the business plan find it helpful and useful. From the corresponding figures 9 and 10 it can be concluded that the business plan helped the owners of small and medium businesses acquire sufficient funds for financing their business. Because the main reason for using business plan as a tool among the surveyed was financing, and also they find the usage of this tool helpful, it can be speculated that the business plan helped the surveyed owners finance their businesses. This positive experience can be seen as an additional stimulation towards increasing the usage of this tool in the years to come.

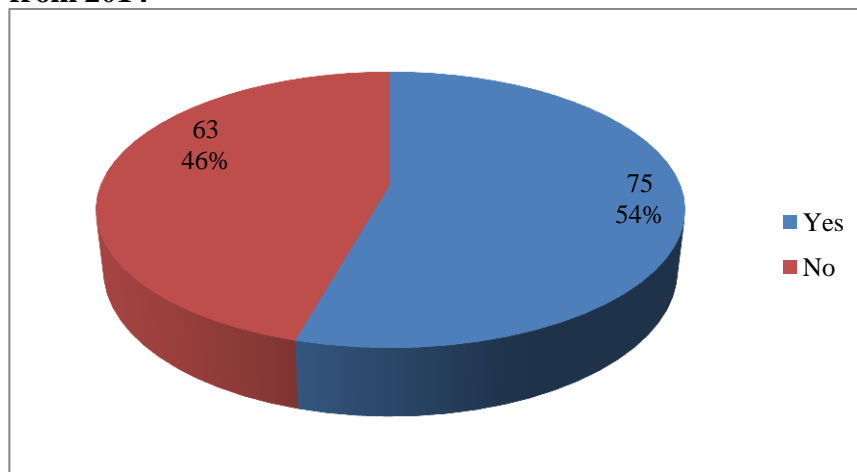
Figure 10: Results from the question *Did you find using a business plan as a tool for starting or expanding your business helpful?*



Source: Own Research

The last question of the survey treats the usage of the business plan as a tool for starting or expanding a business in the future. The results given in Figure 6 show that around 50% of the surveyed owners tend to use business plan in the future.

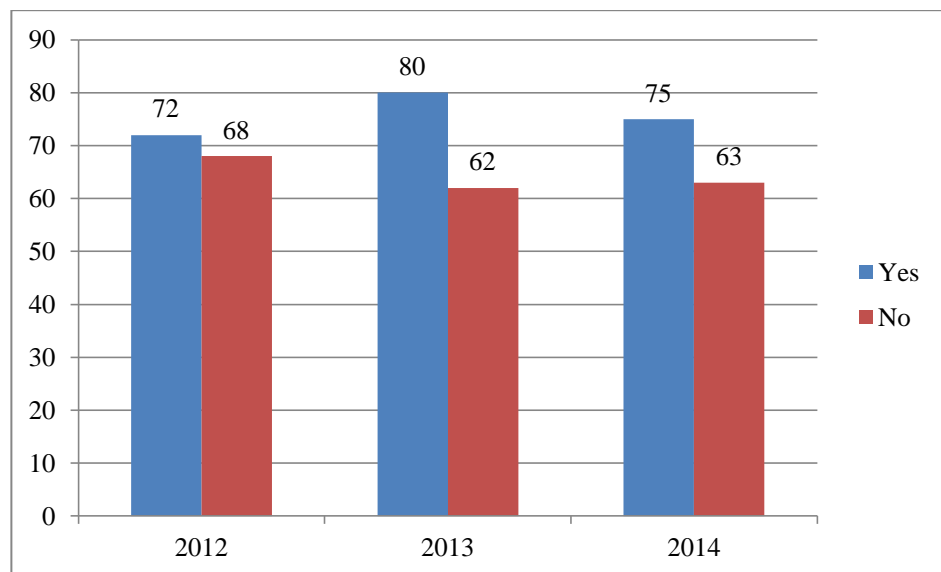
Figure 11: Results from the question *Do you plan to use a business plan as a tool for starting a new or expanding the existing business?* from 2014



Source: Own Research

The presented results from question 6 of the survey come as a result of the lack of knowledge for the possibilities of the business plan as a tool. As seen in question 4, the main use for the business plan as a tool is considered to be acquiring finances for the business. The supporting facts claim that acquiring financial assets is one of the main reasons for the usage of business plan, but as presented before, the benefits of using the business plan as a tool are numerous. According to that, the lack of sufficient knowledge for the possibilities of the business plan as a tool and financing, as the main reason indicated from the surveyed owners, the business plan gets minor usage credibility for the existing businesses. The previously stated reasons can be seen through the whole period of research as shown in Figure 12. Increasing the awareness for the necessity of using business plan or similar tools for planning would possibly increase their usage, thus making the businesses more successful.

Figure 12: Results from the question *Do you plan to use a business plan as a tool for starting a new or expanding the existing business?*



Source: Own Research

Conclusion

The business plan as a tool for planning the starting or expansion of a business has numerous benefits. Its usage can make the start up or expansion phase of the business more successful. Although the main reason for using this tool is considered to be acquiring finance, there are plenty aspects of the business where the business plan can make contribution, such as:

- Financial planning
- Marketing research and planning
- Risk analysis
- Competition analysis etc.

The research presented in this paper shows the use of the business plan as a tool for starting and expanding the businesses on the territory Republic of Macedonia. For the purpose of the research, an online survey was made covering 150 small and medium business owners of Republic of Macedonia. The survey was conducted in three consecutive years starting from 2012 and ending in 2014, and was constructed from 6 different questions all concerning the usage of the business plan as a tool.

The results from the research clearly state that the majority of the surveyed owners of small and medium business have never used business plan as a tool. Although the surveyed owners have declared that they know all the benefits of the business plan, they have used this tool solely for the purpose of acquiring finances. Therefore, the ones that have already used the business plan have no intention of using it again for different purposes. According to the results of the survey it can be concluded that the owners of small and medium businesses lack the general knowledge of using the business plan and the benefits that it can provide for the business.

The process of planning the starting or expansion of the businesses can bring numerous benefits to the business owners. It can make the business more successful in the prime years of their expansion or starting. Using planning tools such as business plan can make the process much easier. Its wide recognition throughout the world makes this tool more suitable for implementation in the business sector in Republic of Macedonia. According to the conducted research, in order to increase the usage of the business plan, the knowledge about the business plan as a tool must be increased, as well as the awareness of the benefits that business plan and other similar planning tools can bring to the

businesses. Planning in general can bring sustainability and effectiveness to the business, so usage of tools for planning should become an immanent characteristic of business owners in Republic of Macedonia, thus following the world trend. However planning can be used in whatever form suitable for the owners of small and medium businesses, because *“the business that fails to plan, plans to fail”*.

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UDC 654.197:658.14(497.7)

Original scientific paper

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CHARACTERISTICS OF THE TV MEDIA FINANCIAL OPERATIONS IN MACEDONIA

Abstract

For many years, there was only one medium in Macedonia which was functioning as a public service. However, along with the development of the pluralism, numerous private media appeared and this has resulted in a strong competitive media market. Hence, a great number of questions and problems emerged concerning electronic media, TV and radio stations, their functioning and existing on the media market. One of the key problems that media generally face in their work is the question of supplying funding, necessary both for current functioning and future development, in order to keep pace with the audience's needs, as well as with the new technical-technological innovations and modifications in this scope of socioeconomic living.

This thesis explores the financial outcomes of TV media's work of the Public service broadcasting, or the Macedonian National Television (MTV) on one hand, and the private TV media on the other hand, considering the different structure of funding sources of the public broadcasting services and the private TV stations, that primarily results from the legal provisions for funding methods of these two types of televisions.

Key words: TV media, financial outcome, revenues, expenditures, broadcasting tax.

Jel classification: M20; M30

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Introduction

The functioning of the TV media is generally determined by a lot of factors, such as programme quality, informing method, funding sources, advertising and sponsorship, functioning expenditures etc. Undoubtedly, all these factors are special segments and subject of interest to the TV media's performance in Macedonia.

One of the key problems which the media generally face in their work is the question for providing the necessary funding assets for continuous media functioning.

In order to acquire better financial funding, it is necessary to assess the consistency between the functioning models and the financial work of the TV media in Macedonia, the possibilities, and the methods for increasing the revenues in the part of the existing funding sources, finding new funding sources, as well as decreasing the expenditures to improve the whole media functioning.

1. Analysis of the financial outcomes of TV media in Macedonia from 2007 to 2012

In order to see the results from financial work of TV media, it is necessary to see the revenues as well as the expenditures of that work. The total revenues and expenditures, which TV media in Macedonia had made during 2007-2012, for both MTV and private TV stations, are segmented on 4 levels: national TV service offered through terrestrial transmitter, national TV service through a satellite, regional and local, which are analyzed in this part of the thesis.

From the data shown in Table 1, it can be seen that in the TV industry, the TV media made variable outcomes in their financial working during the analyzed period. It may be stated that there were periods when the financial outcome had negative trends on the TV industry level. For example, in 2009, the cumulative loss was in the amount of 307,550,478 MKD. The best financial outcome was made in 2011, and it was in the amount of 499,430,000 MKD.³

³ Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje.

Table 1: Financial outcomes of TV media in the period from 2007 to 2012

TV medium	2007	2008	2009	2010	2011	2012
Public service (MTV)	-52,723,595.00	55,408,515.00	-95,543,789.00	20,540,000.00	382,290,000.00	118,350,000.00
TV on national level	64,232,683.00	176,617,216.00	-17,963,229.00	-23,530,000.00	280,360,000.00	165,020,000.00
TV on national level satellite	non-existent	5,114,308.00	-106,730,506.00	-122,680,000.00	-122,200,000.00	-37,960,000.00
TV on regional level	-15,756,115.00	-82,677,680.00	-103,005,683.00	-41,400,000.00	-68,100,000.00	-29,980,000.00
TV on local level	-230,765.00	7,445,201.00	15,692,729.00	6,030,000.00	27,080,000.00	18,980,000.00
Profit/Loss in the TV industry	-4,477,792.00	161,907,560.00	-307,550,478.00	-161,040,000.00	499,430,000.00	234,410,000.00

Source: Assessed values from the Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje

The revenues and expenditures of the TV media are also analyzed on different bases, so we can have a better view of the the reasons for financial outcomes in the last period. According to the data shown in Table 2 and Table 3, the loss made in 2009 was primarily as a result of the increased expenditures in the work of TV media (highest in the analyzed period) in relation to revenues, because there were years when the revenues were lower than those made in 2009, but still the loss in those years is lower.

Table 2: Revenues structure of the TV market for the period from 2007 to 2012

Type of revenue	2007	2008	2009	2010	2011	2012
Broadcasting subscription	6,018,184.00	8,116,765.00	39,725,868.00	145,850,000.00	474,460,000.00 * ⁴	724,360,000.00 * ⁵
Advertisements and teleshopping	1,104,001,161.00	1,667,361,080.00	1,562,890,819.00	808,910,000.00	1,480,180,000.00	1,478,010,000.00
Sponsorship	2,421,638.00	3,187,897.00	2,276,512.00	3,280,000.00	360,000.00	38,960,000.00
Revenues from other programmes	8,084,311.00	13,122,356.00	10,461,359.00	9,570,000.00	7,050,000.00	260,000.00
Donations and grants	23,066,857.00	11,501,310.00	7,502,128.00	6,650,000.00	5,030,000.00	2,190,000.00
Sale of programmes	2,574,601.00	10,762,065.00	9,128,479.00	8,960,000.00	7,320,000.00	5,240,000.00
Projects of public interest	7,253,665.00	683,496.00	2,289,571.00	1,350,000.00	650,000.00	0.00
Other undeployed revenues	471,259,327.00	587,693,474.00	335,440,732.00	622,410,000.00	517,180,000.00	381,540,000.00
Revenues from operating activities	1,624,679,744.00	2,302,428,443.00	1,969,715,468.00	1,606,980,000.00	2,492,230,000.00	2,630,560,000.00
Revenues from other activities	42,109,452.00	34,515,279.00	28,173,327.00	22,900,000.00	29,310,000.00	29,010,000.00
Extraordinary revenues	7,752,617.00	4,171,031.00	34,619,615.00	30,670,000.00	6,820,000.00	7,870,000.00
Total revenues	1,674,541,813.00	2,341,114,753.00	2,032,508,410.00	1,660,550,000.00	2,528,360,000.00	2,667,440,000.00

Source: Assessed values from the Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje.

⁴ This amount is the invoiced value of the revenues from the broadcasting subscription. According to the data filed by the Macedonian television to the regulatory body – the Broadcasting Council, the paid amount is 232.09 million MKD.

⁵ The invoiced value of the revenues from the broadcasting tax as well. The paid amount was 265.93 million MKD.

Table 3: Total expenditures of TV media on TV market made in the period from 2007 to 2012

MTV	2007	2008	2009	2010	2011	2012
MTB	525,242,960.00	556,444,315.00	444,350,096.00	527,780,000.00	571,180,000.00	923,920,000.00
National level terrestrial	994,349,846.00	1,305,674,921.00	1,395,451,291.00	848,560,000.00	921,370,000.00	1,041,620,000.00
National level satellite	Did not exist	44,439,213.00	194,581,038.00	221,330,000.00	287,740,000.00	222,340,000.00
Regional level	65,127,739.00	163,758,235.00	191,231,224.00	127,280,000.00	123,810,000.00	87,370,000.00
Local level	94,299,060.50	108,890,509.00	114,445,239.00	96,640,000.00	124,830,000.00	126,410,000.00
Total	1,679,019,605.50	2,179,207,193.00	2,340,058,888.00	1,821,590,000.00	2,028,930,000.00	2,401,660,000.00
Public service (MTV)	525,242,960.00	556,444,315.00	444,350,096.00	527,780,000.00	571,180,000.00	923,920,000.00
Private sector	1,153,776,645.50	1,622,762,878.00	1,895,708,792.00	1,293,810,000.00	1,457,750,000.00	1,477,740,000.00
Total	1,679,019,605.50	2,179,207,193.00	2,340,058,888.00	1,821,590,000.00	2,028,930,000.00	2,401,660,000.00

Source: Assessed values from the Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje.

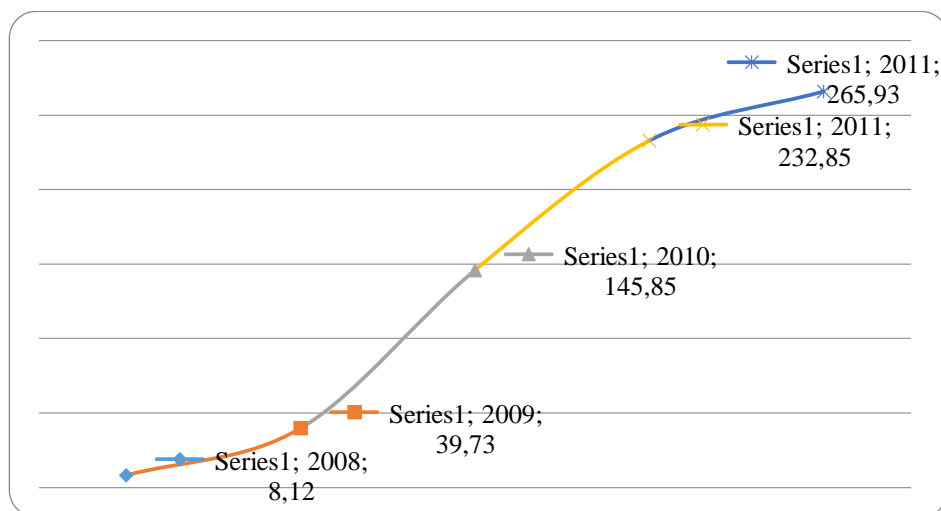
2. Financial outcomes of MTV for the period from 2007 to 2012

MTV, as a public broadcasting service, was reporting a loss at the beginning, as it can be seen from the data in Table 1, due to low revenues made from the broadcasting subscription (tax),⁶ insufficient assets from other undeployed revenues, in other words – lack of opportunity for gaining assets from the Budget of the Republic of Macedonia, (see Table 2)⁷ as well as high expenditures for payments and other compensations to the employees, i.e. over-employment and improper allotment of the working places.

⁶Analysis of the broadcasting activity market for 2012, 2013, Broadcasting Council, Skopje.

⁷Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje.

Graphic 1: The flow of the revenues made from the broadcasting subscription in 2008, 2009, 2010, 2011 and 2012



Source: Assessed values from the Analysis of the broadcasting activity market for 2012, Broadcasting Council, Skopje.

Since 2010, MTV has started working with profit, which increased progressively from year to year. It is due to the fact that the broadcasting subscription, as a main source of financing of the public service Macedonian Television, has begun to increase (see graphic 1), through the help of assigning certain financial assets by the Government of Macedonia, from the Budget of Macedonia, in accordance with the amendments of the Law on Broadcasting Activity (Article 145 Paragraph 2)⁸. Considering the fact that the market share in the field of advertising and the sponsorship of programmes was very low, it was necessary to adopt legal measures in the form of broadcasting subscription payment, which have led to strengthening and improving of the financial work of MTV. In October 2010 amendments were made in the provisions of the

⁸ Amendments in the Law on Broadcasting Activity, Official Gazette no.07-3406/1 from 01.08.2008.

A new paragraph 2 was added, according to paragraph 1 in article 145: "To achieve and maintain higher level of programme and technical-technological development of the public broadcasting service, assets from the Budget of Macedonia can be allocated";

Law on Broadcasting Activity (Article 147 Paragraph 4)⁹, so that the obligations for assessing, determining and payment of the broadcasting subscription were overtaken by the Public Revenue Office.

3. Financial outcomes of the work of private TV media for the period from 2007 to 2012

The analysis of the financial working of private TV stations is segmented on 4 levels: national through terrestrial transmitter, national through satellite, regional and local.

When analyzing the financial outcome of national TV stations (at first five of them, and later in 2011 just four national TV stations), we encountered variable financial outcomes (see Table 4). They made the best positive outcome in 2011 (profit) of 280,360,000.00 MKD, while the worst financial outcome was in 2010 (loss) of 23,530,000.00 MKD.

Table 4: Financial outcomes of the national terrestrial TV media for the period from 2007 to 2012

TV medium	2007	2008	2009	2010	2011	2012
Al	20,214,630.00	32,076,964.00	21,508,675.00	No data	No data	does not exist
Alsat M	912,220.00	14,240,966.00	-67,640,149.00	-77,810,000.00	460,000.00	1,290,000.00
Kanal 5	731,903.00	87,284,216.00	22,179,549.00	20,110,000.00	91,940,000.00	25,810,000.00
Sitel	42,034,464.00	41,546,343.00	2,898,115.00	33,390,000.00	187,280,000.00	137,740,000.00
Telma	339,466.00	1,468,727.00	3,090,581.00	780,000.00	320,000.00	180,000.00
Total	64,232,683.00	176,617,216.00	-17,963,229.00	-23,530,000.00	280,000,000.00	165,020,000.00

Source: Assessed values from the Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje

If we look at the results of each TV station separately, it is clear that TV Sitel made the highest profit compared with the other TV stations, except in 2008 and 2009, when the highest profit was made by TV Kanal 5. The only TV medium which showed negative outcome

⁹Amendments in the Law on Broadcasting Activity, Official Gazette no. 07-4451/1 from 28.10.2010.

Article 147 Paragraph 4 is amended as following:

“The Public Revenue Office determines the monthly compensation on the basis of the data from the register of broadcasting subscription obligees, so they have to pay the subscription for the current month by the 15th of the next month, in contrary, for every delay they are obliged to pay interest determined by Law.”

(loss) from all TV media was TV Alsat M. Due to the negative outcome of this television, a negative outcome was also made by all national terrestrial TV media in 2009 and 2010, (see Table 4). The total outcome made by the national terrestrial TV media depended on the high revenues made from advertizing and from other undeployed revenues.

Table 5: Financial outcomes of the national satellite TV media for the period from 2007 to 2012

TV stations	2008	2009	2010	2011	2012
TV Sonce	No data	-2,552,279.00	-9,530,000.00	-12,410,000.00	-15,310,000.00
TV AB Kanal	-300,000.00	-23,382,823.00	-27,690,000.00	-22,660,000.00	No data
TV 24 Vesti	did not exist	did not exist	No data	-16,280,000.00	-33,490,000.00
TV Nasha	9,541,955.00	-11,502,253.00	3,280,000.00	31,720,000.00	12,830,000.00
TV Sitel 3	-330,000.00	-3,249,600.00	-10,674,958.00	-23,590,000.00	-2,480,000.00
TV Jangal	-673,066.00	-5,920,181.00	1,240,000.00	No data	No data
TV Era Sat	9,200.00	-9,200,570.00	did not exist	did not exist	did not exist
TV Alfa	-540,300.00	-34,583,795.00	-76,300,000.00	-50,710,000.00	-10,730,000.00
TV Kanal 5 Plus	-1,146,850.00	-13,657,433.00	-7,694,338.00	-16,520,000.00	11,430,000.00
TV Pink	did not exist	did not exist	8,210,000.00	-11,750,000.00	No data
TV Perspektiva	-1,096,631.00	-270,230.00	-3,520,704.00	No data	No data
Total	5,114,308.00	-106,730,506.00	-122,680,000.00	-122,200,000.00	-37,960,000.00

Source: Assessed values from the Analysis of the broadcasting activity market for 2007, 2008, 2009, 2010, 2011 and 2012, Broadcasting Council, Skopje

In terms of the working of private national satellite TV stations, according to Table 5 we can see that all private national satellite TV media on the TV market had negative financial outcomes, except for the period at the beginning of their working in 2008, when they had a small positive financial outcome.

If we observe each TV station separately, according to Table 5, we can notice that all TV media continuously reported loss in this period. The highest loss during the analyzed period was made by TV Alfa. They sometimes reached over 50% from the total loss of the other TV media. The best financial outcome was made by TV Nasha, which had negative financial outcome only in 2009.

The regional TV media had been reporting increasing loss from 2007 to 2009, when the highest value of 103,005,683.00 MKD was made. Afterwards the trend was decreasing. Unlike the regional TV media, the local TV media worked with profit in the analyzed period. The highest profit was reported in 2011 in the amount of 27,080,000.00 MKD (see Table 1), except in 2007 when they worked with loss.

Conclusion

Based on the analysis in the thesis, it can be concluded that the TV media in Macedonia faced difficulties in their work in the analyzed period, and in certain years they were even unable to make the sufficient amount of revenues in order to pay for their working expenditures (2007, 2009, 2010). If we observe particular types of TV media, it is obvious that the situation is worst at the national TV stations that continuously work with broadcasting programmes through satellite and the regional televisions working continuously with loss. The main reason is that the national TV media began working as a new type of medium on the media market and adapted successfully, while the regional TV media faced stronger competition on the media market when the national TV stations broadcasting through satellite appeared. In that period, the regional TV media broadcasted only in the Skopje region, where part of the revenues from advertising and teleshopping were transferred to the revenues of the national TV media which broadcasted through satellite.

Positive mark has been the improved financial working of MTV since 2010. It is mainly due to the amendments in the Law on Broadcasting Activity regarding the payment method of the broadcasting subscription, with defined strict penalties for non-compliance and obligation for the payment to be controlled and performed by the Public Revenue Office.

The low financial outcomes seen on the level of TV industry state the need for taking into action certain measures for improving this situation in the following directions:

- The public service provides revenues from advertisements on the basis of the popularity of the offered programme (no matter if it is the medium's production or ordered from independent producers). It will provide a way for MTV to make revenues from advertisements within the set time and other limits in the new Law on audio and audiovisual media services, as a replacement of the existing Law on Broadcasting Activity. The popularity of the before mentioned programme should be based on the quality and the public interest, which should be satisfied from the programme's content broadcasted on the public broadcasting service. More qualified production will attract the viewers. In other words, the ratings of the programme contents broadcasted on the public service will increase, which will provide the sector obliged for advertising in the public service a better sale in the advertising period. The opportunity to

use all possible capacities offered by the public service should not be excluded. In this context, there is the opportunity to make additional revenues, leasing the capacities which MTV has, such as leasing its own studios for recording programme contents to other TVs or production companies. The mentioned capacities can also be used by the public service itself for particular quality recordings on programme contents which will be used in the medium's programme. Afterwards the recorded programme contents may be sold to other TV media in and out of the country. The public service can use the recording of a certain TV series or a certain TV movie for a hidden advertising – certain products and services offered and sold by the companies may appear in the mentioned programme contents.

- Private TV media should focus on the production of more qualified production which will attract viewers and provide increased rating of the programme contents. It will provide bigger sale in the advertising period for the sector obliged for advertising. All capacities can also be used in the context of realization of certain quality recordings of programme contents, which will be used in their own programme (their own production) and allow advertisements in it. The recorded programme contents can be sold to other TV media in the country and abroad, and there is the possibility for exchanging certain programme contents, which will enrich the programme scope and there will be variety in it.

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UDC 334.722.012.63/.64:658.14(497.7)

Original scientific paper

Aleksandar KOSTOVSKI¹

Klimentina POPOSKA²

**FORMAL VERSUS INFORMAL SOURCES OF SME FINANCING
– THE CASE OF THE REPUBLIC OF MACEDONIA**

Abstract

SMEs play crucial role in the economy through promoting competition, technology transfer and regional trade. Their major advantages imposed by innovations, filling the unemployment gap and flexibility have been promoted through many practical examples in various economies. Yet, making decision regarding the input of formal and informal sources of financing SME operation has been a crucial topic for many researchers. The proper and adequate input of SME finance design the future operation, costs, development, ownership and other major questions in SME. The paper addresses the comparative analysis between various formal and informal sources of financing. Furthermore the empirical analysis of the explored SMEs in the Republic of Macedonia identify the current situation of employing formal versus informal sources of SME's financing, deriving obstacles for wider use of formal sources of financing, which can be aligned to the traditional approach in SME's financing in RM with the dominant role of informal financing sources.

Key words: formal sources of financing, informal sources of financing, SME's financing

JEL classification: G21, G23

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Introduction

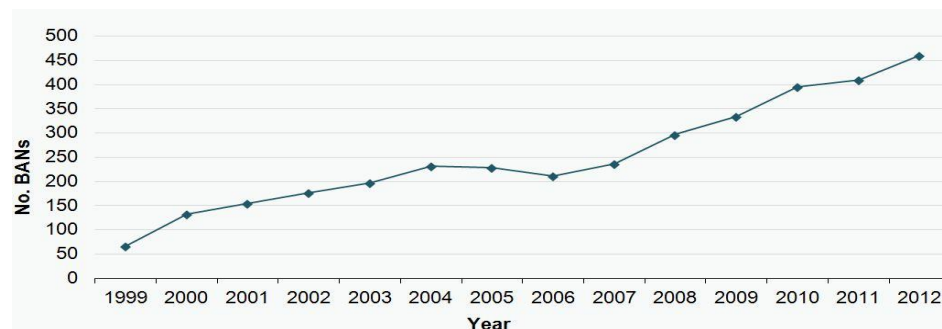
One of the key element in SME operation is financing and the type of resources obtained by the SME. It has extraordinary importance in the phase of establishment and development, and adequately as important in the higher stages of a company's lifespan. Financing is a challenge that entrepreneurs are facing on a daily basis and finding the best additional sources is their main focus. Without proper financing, the development of enterprises could be in danger. Hence, the ability of the entrepreneurs to receive the proper source of additional finance has great importance. In order to make the right decision, entrepreneurs should be aware of the existence of more than one source of additional financing (Brus R. Baringer, R.Djuan Ajrenlend, 2012:315).

Formal sources of financing are focused on formal financial institutions such as banks, formal venture capital, and stock exchange. Those institutions have great importance because they are public and well-known so the entrepreneurs as well. Fundraising, on the other hand could be very challenging and must meet a series of conditions. Venture capital (VC) in the Republic of Macedonia is far from developed. The first formal VC company was founded in 2013 and is still not fully functional.

Unlike formal sources of financing, the informal sources of financing are composed of 3F money and business angels. 3F money refers to founder, family and friends (Colin M Mason, 2005:5) and it is the starting point for all newly established enterprises. Nearly 90% of all new enterprises are founded only with 3F money.³ Investing the entrepreneur's own money has a great importance for the entrepreneur. It will be a sign for other investors that the founder truly believes in the success of the company. This will encourage other individuals, such as family and friends, to invest or borrow money. The pace of development of Business Angels Network in Europe in the period 1999-2012 indicates steady upward trend (Figure 1).

³ <http://www.kauffman.org/what-we-do/research/kauffman-firm-survey-series>. Accessed 15.08.2014.

Figure 1: Registered Business Angels Network in Europe in the period 1999-2012



Source: EBAN European Angel Investment Overview, 2012

Business angels in the Republic of Macedonia are almost gone, at least when it comes to those who professionally perform this activity. The first network of business angels was formed in May 2011 by the USAID. This network represents the first formal network of angel investors willing to invest their own funds, knowledge, skills and social capital in new and innovative business ideas with the potential for future and greater growth. However, this business angel network is still under development and is not yet fully functional.

This paper is structured in the following manner. In part two we make several comparisons between various formal and informal sources of financing. Furthermore in part three we generate the empirical research for SME financing in RM linking to the results, whereas in part four we make final conclusions and further recommendations.

1. Comparison between formal and informal sources of financing

In order to understand the basic differences between selected formal and informal sources of financing, in the following part of the paper the comparisons between them are brought to light. Such processes will force the entrepreneurs to make better choices when obtaining additional sources of financing for supporting growth and development of their enterprises.

1.1. Comparison between 3F money and other sources of financing

When comparing 3F money and the other sources of external financing, there are a few things that entrepreneurs should bear in mind. Starting with the fact that the founders money are already secured, we will put our focus only on family members and close friends. Many of those people would like to support and help the entrepreneur in his/her efforts to start a new company, so with access to this kind of money, it would be a lot easier. It is very important to understand that money could be provided in three forms, such as a loans, investments or even in the form of a gifts (Stjuard Rod, Saras Sarasvati, Nik Dju, Robert Viltbanka, 2012:105).

When a loan is provided, it may or may not include interest. It is highly advised that this form of financing be supported with official agreement, which must be signed by both parties. This will prevent any disagreement between the parties that could happen in the future. It is highly possible that the lenders consider themselves co-owners of the company they had supported in growing into success even if the money where given in the form of a loan or a present. This is a very inadequate situation and could destroy interpersonal relations. However, the advantage is that the family members and close friends will be more tolerant considering the period for which the money needs to be paid back (Dzerom Kac, Richard Grin, 2012:491). The entrepreneurs must be very cautious because if their enterprise does not succeed, they may not only loose the money invested in their company, but also, and sometimes more important, their friends and family.

1.2. Comparison between bank loans and venture capital

Bringing decision for using additional sources of financing in the form of bank loans or venture capital investments depends on varying circumstances. Before one searches for a loan or an investment, they should have on mind few things that distinguish these two sources of financing.

The short comparison between the bank loan and venture capital is presented in the Table 1.

Table 1: Bank loan vs. Venture Capital

	Bank loan	VC
Form of financing	Loan	Investment
Reduction of the influence of the owner	No	Yes
Risk aversion	+	-
Demanded interest	Around 10%	More than 40%
Finance decisions based on	Guaranty for returning the loan	Opportunity for extra profit
Directly involved in the company's activities	No	Yes
Guaranty for returning the money	Yes	No
Direct interest for the company to be more successful	No	Yes

Source: Authors' own preview

Table 1 clearly indicates the major differences between the above mention sources of financing. First, we should mention that money received from venture capital is an investment, not a loan. That means that when venture capital enters in a company it automatically reduces the influence of the initial owner, because in a return for the money VC gains equity of the company. Because venture capital does not have any guaranty for returning the invested money, the only thing they could do in order to secure their investment is to get involved in the company management. Therefore, the venture capitalist will have direct interest for the company to be as successful as possible, so that they will make everything they could in order to support growth and development. Venture capital is likely to invest a larger amount of money so that they will also expect bigger returns. For example, the banks will not ask for more than 10% interest, but the venture capital will expect to receive more than 40% of the invested money. In the process of making a decision about financing, a venture capitalist will base it on the opportunity to make a profit. On the other hand, banks will make decisions based on the collateral guaranty that the company could offer.

1.3. Comparison between formal and informal venture capital

Even if they look similar, there are a few differences that entrepreneurs should know about formal and informal venture capital (Table 2).

Table 2: Informal VC vs. Formal VC

	Informal VC	Formal VC
They are investing	Own money	Other people's money
Lifespan stages in which they invest	Lower	Higher
Risk they are ready to accept	Higher	Lower
Amount of each investment	10,000-500,000 EUR	Over 1,000,000 EUR
No. of investments	Higher	Lower
Level of professionalism	Mainly unprofessional	Professional organizations
Investment motive	Financial gain but also personal satisfaction	Financial gain
Visibility of the investment	Latent	Visible

Source: Authors' own preview based on http://www.eban.org/the-7-things-that-you-should-know-about-business-angels/#.U2eLj_mSzyF. accessed 15.07.2014.

Informal venture investors invest their own money in lower lifespan stages. Except for financial gain, many of them are driven by the satisfaction of helping younger entrepreneurs and involving in new businesses. However, those investors do not expose themselves in the public, so they are hard to find and negotiate with.

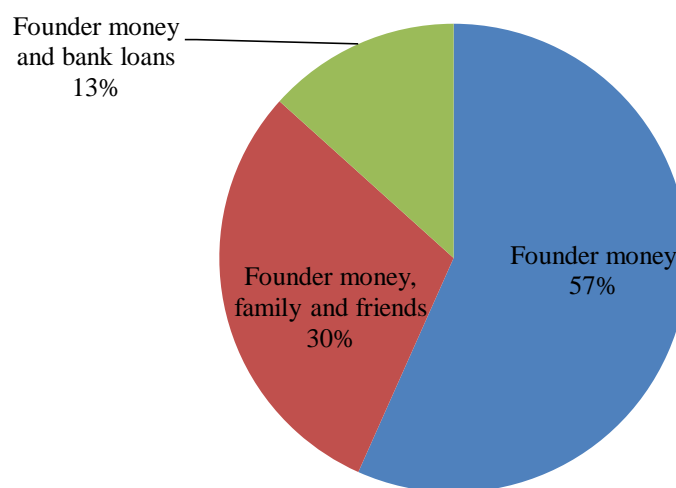
2. Empirical research – Case of the Republic of Macedonia

SMEs in the Republic of Macedonia represent the major vehicle for economic growth. Having in mind the importance of financing and its input in the company's strategy and costs, we aim to observe the formal

and informal sources of financing the SMEs in the Republic of Macedonia via research of 30 SMEs through a questionnaire. The structure of researched SMEs corresponds with the real economic situation in the country regarding employees, core business and city of origin. The collected data enabled us to make a solid base for particular statements and directions that are common for the entrepreneurs in the country.

Analysis of the initial financing during the startup phase of the SMEs has been presented in the Figure 2.

Figure 2: Sources of financing used in the startup phase

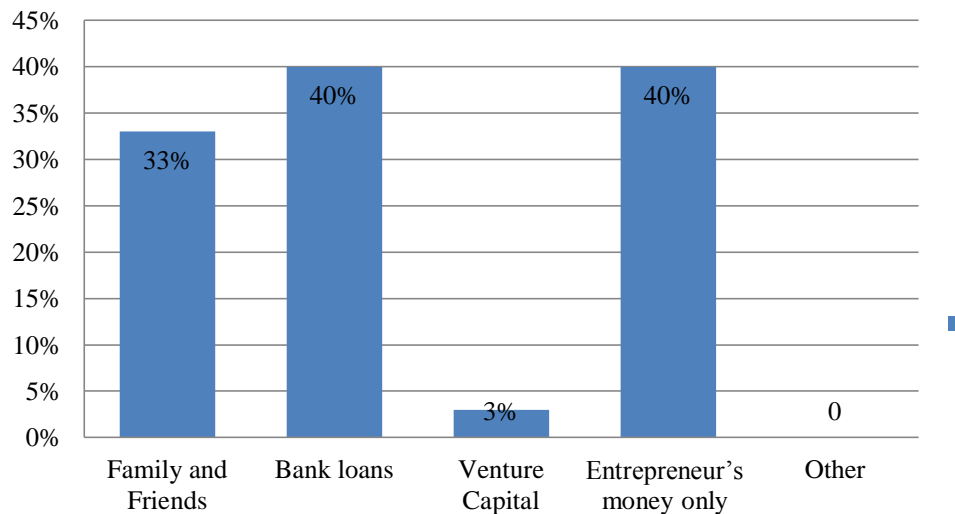


Source: Based on the empirical research

Figure 2 clearly indicates that almost 90% of all new companies have started working only with 3F money. Nearly 60% of the entrepreneurs have relied only on their own money. Such results demonstrate that the banks are not so interested in supporting and working with startup SMEs. Hence, a new company can rely mostly on informal sources of financing, more specifically on 3F money.

Analysis of the various sources utilized by SMEs is represented in the Figure 3.

Figure 3: Sources of financing used by SMEs

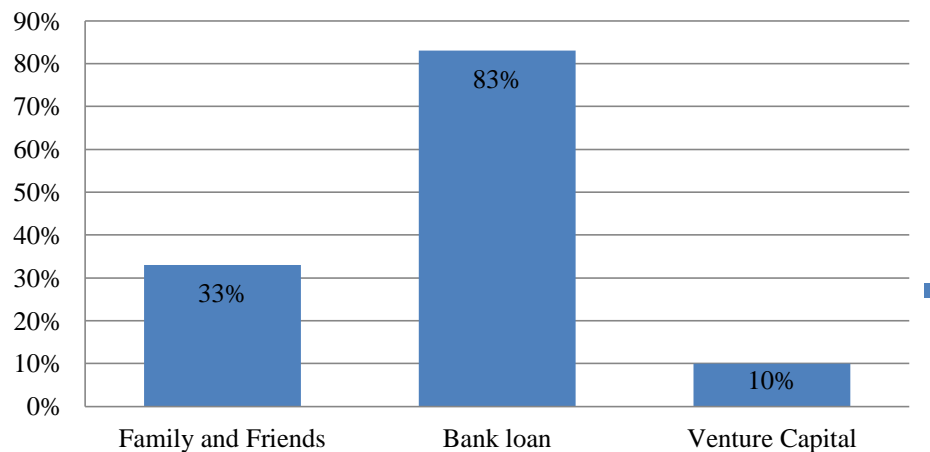


Source: Based on the empirical research

The results indicate that 40% of all SMEs in RM were using only their own money. This gives us a clear base that many entrepreneurs are strictly traditional, but at the same time their companies do not have potential for the above average growth. Nevertheless many of those entrepreneurs did not apply for bank loan not because they did not need it, but because of the high interest rates. We have also come to the conclusion that 40% of the SMEs have taken bank loans at least one time in their lifespan. This can be also defining as a relatively low participation of all the formal sources of financing. Venture Capital almost does not exist. From the data we can conclude that SMEs in the Republic of Macedonia in the upper stages of the development only rely on 3F money and bank loans.

In order to understand how entrepreneurs look at different sources of financing, we asked what they will rather do if they needed additional financing in the future (Figure 4).

Figure 4: Sources of SMEs' financing that are likely to be used in the future



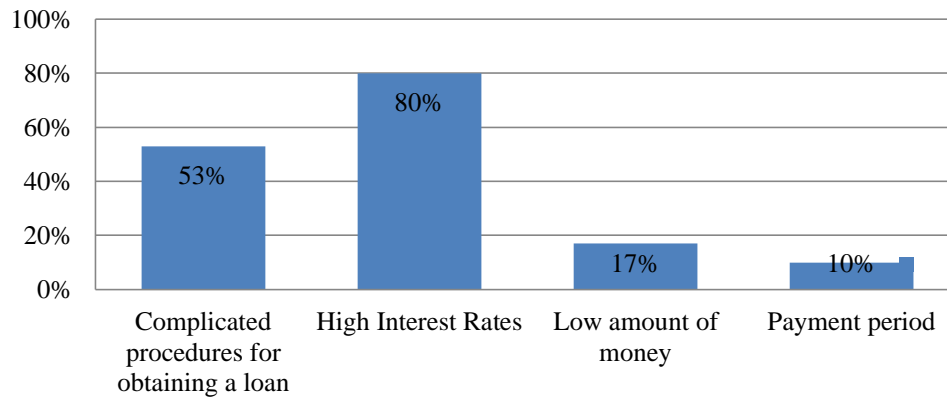
Source: Based on the empirical research

The results in Figure 4 indicate that 83% of SMEs would rather use bank loans in the future and one-third will ask for help from their family or friends. It is highly important to emphasize that only 10% of them will search for venture investors.

In order to determine the financial gap that occurs in funding the companies, entrepreneurs were asked whether their company is currently experiencing the need for additional external financial capital. Sixty percent of them responded affirmatively. Many of them are unable to obtain loans from the banks, while the rest have not applied due to the high interest rates. Regarding the question whether they believe that small and medium sized enterprises in the country have easy access to bank loans, the opinions of entrepreneurs are literally divided. Half of them stand on the claim that access to bank loans is quite simple, while the other half does not agree with this opinion.

As a major shortage of bank loans, entrepreneurs specifically indicated the high interest rates. Even 80% of respondents agree that the interest rates demanded by banks are too high so many of the companies are giving up their previous intention to use credits, while to the other companies loans are a large burden. The second biggest drawback is complicated procedures that banks imposed as a condition for raising the loan. For most small businesses this is a great obstacle that comes in the way of the intention to run up a credit debt (Figure 5).

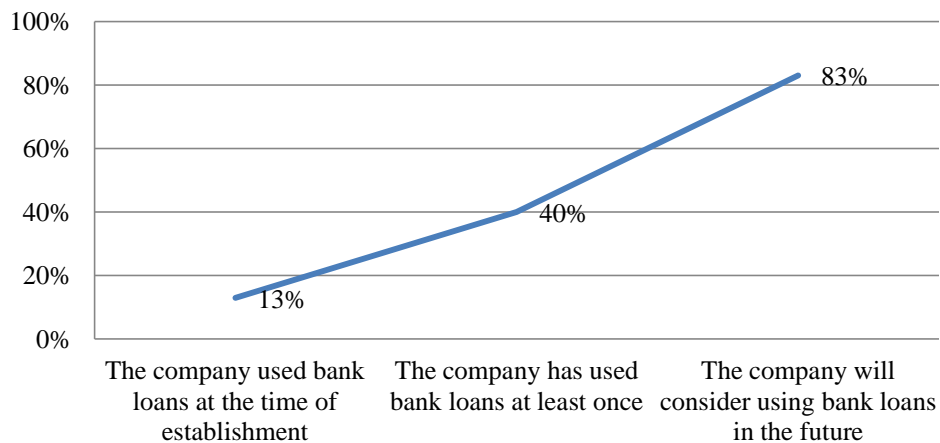
Figure 5: Major bank's shortcomings pointed out by SMEs



Source: Based on the empirical research

Although as much as 60% of enterprises need additional financial capital, loans are used only by 40%. We can conclude that there is not a small number of SMEs that are unable to fulfill the conditions imposed by banks for a loan.

Figure 6: Tendency of cooperation with banks

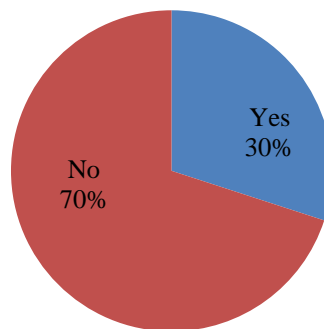


Source: Based on the empirical research

Realizing that only a fraction of entrepreneurs declare positively in relation to risk capital, investors give us the right to think that most of the SMEs are not even informed on their existence and activity. More than half of the respondents in the survey did not know about venture capital investors or business angels.

After we had explained the term “venture capital”, the percentage of the entrepreneurs who would eventually accept it in the future raised from 10 to 30%. However we can freely say that when it comes to sharing ownership, entrepreneurs in the Republic of Macedonia are pretty traditional.

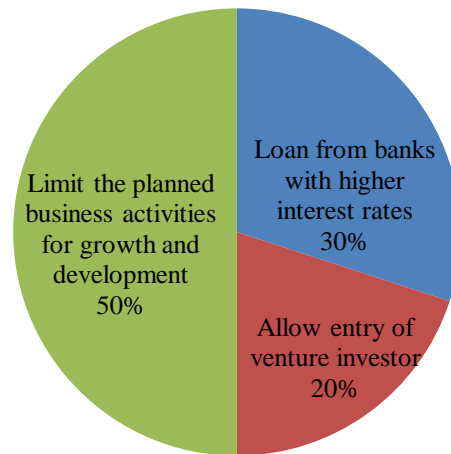
Figure 7: Would you allow entrance of VC in your company



Source: Based on the empirical research

It is very important to note the fact that 50% of entrepreneurs would rather limit the planned business activities for growth and development of their company than for the same purpose to take the necessary loan from banks with higher interest rates or allow entry of venture investors. These figures are a proof that entrepreneurs in the Republic of Macedonia have a greater aversion to risk, and that 80% of them would not share the ownership at any cost. This situation is particularly devastating for the overall Macedonian economy where instead of stimulating growth and development, the main priority is to stay on a sole ownership company, even if it meant limiting business activities, and thus limiting the prospects for further growth of the company.

Graph 8: Additional financial capital for support SME growth



Source: Based on the empirical research

It is known that the government can properly affect the sources of funding thereby making them somewhat more accessible to enterprises. Here we specifically refer to bank loans. Guaranteeing part of the loan, as well as offering loans with low interest rates and favorable repayment terms through cooperation with international financial institutions are just some of the activities that can positively affect the overall operation of enterprises. Evaluating the efforts of the Government in order to facilitate access to financing for SMEs, two thirds of entrepreneurs say that it is necessary in the future to pay more attention to specific issues. Greater access to loans and lower interest rates can have particularly positive impact on the overall economy of a country.

Conclusions and future recommendations

Based on the empirical research conducted in this paper, we can conclude a few things when it comes to the financing of SMEs in the Republic of Macedonia. Almost 90% of all entrepreneurs start their enterprises with their own funds or through loans from family and friends (3F money). The absence of formal sources of funding is especially true in the phase of establishment of new enterprises. In subsequent phases of development, increasing the participation of formal sources of financing is quite evident, more specifically - bank loans. Forty percent of the

active SMEs had borrowed money from the banks, making this source of funding become increasingly dominant.

Venture capital in the Republic of Macedonia is almost completely absent, so this once again confirms the dominant role played by 3F money and bank loans when it comes to external sources of funding for the enterprises in the country. Analyzing the views of entrepreneurs on what funding sources would they use in the future, almost 90% of them would consider bank loans. This gives us the right to conclude that entrepreneurs in the RM are looking at the banks as the main source of external financing.

Regarding bank loans, entrepreneurs agree that high interest rates were their main drawback. Eighty percent of them agree with this conclusion. More than half of the entrepreneurs put direct attention to complicated procedures for approving loans citing in particular the barrier for smaller companies. Eradicating these two major shortages will contribute in the future to increase the participation of SMEs using bank loans, and thus to reinvigorate the economy in the country as a whole.

Trying to determine why only 10% of the entrepreneurs would accept venture capital investments in their company, we came to the conclusion that more than half of them had not even heard of the term "venture capital investors." After we explained the term, this figure tripled. However 70% of Macedonian entrepreneurs do not want to share their company with anyone, even though they would have benefit from it.

In order to determine the thinking of entrepreneurs about growth and development of the company, we came to the conclusion that half of them would rather limit the growth of the enterprise than to allow entry of VC investors or borrow money from banks with higher interest rates. This is particularly detrimental thinking, which is not aimed at the development of the overall economy in the country. "It is better to have part of the orchard than to be the absolute owner of an apple" apparently does not apply for Macedonian entrepreneurs. Most owners do not want to share ownership even if the growth and development of their company is put into question.

As we have seen earlier talking about the sources of funding that are available to small and medium enterprises in the country, they mostly come down to just two sources, 3F money and bank loans. This situation will generally remain unchanged in the near future. There are some initiatives and announcements regarding the development of formal and informal venture capital in the country, thus making it available for

certain innovative and primarily export-oriented companies. However in the short-term it will not change the picture regarding external sources of funding. Certainly these initiatives are welcomed and should be encouraged and supported as would have inspired and encouraged entrepreneurs to direct their activities towards research and development of new products and services that would have added value and would have benefit for the Macedonian economy.

Although most of the entrepreneurs indicated that the procedures for obtaining loans is quite complicated and that the interest rates required by banks are high, banks remain the dominant source of additional external financing of enterprises in the Republic of Macedonia. The expectation is that in the future banks will become more affordable for small and medium enterprises, and the newly created situation will have positive impact on the operation of enterprises while reducing their costs.

Even though entrepreneurs have some cooperation with banks regarding the use of bank loans, there are a number of things that could be improved in the future as they would be more accessible for the companies. The government should find the right way to facilitate access to bank loans to small businesses, like for e.g. investing efforts in guaranteeing loans in order to allow access to bank loans for many SMEs which have sufficient collateral to guarantee them. This will increase the number of companies that will be able to attract additional capital financially necessary for their growth and development. Moreover, in order to promote entrepreneurship and self-employment in the country, the state alone, but in cooperation with the international financial institutions, has continued to provide adequate funds offered to SMEs with low interest rates. This step is especially motivating for entrepreneurs amateurs and young people, who would have more likely to engage in entrepreneurship, and also for existing companies which would be encouraged to further grow and develop. Clearly, some of these processes occur in the present, and the expectation is that they will continue to happen in the near future with greater intensity.

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UDC 004.7:342.51(497.7)
Original scientific paper

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**E-GOVERNMENT INFORMATION COMMUNICATION
SYSTEM AND TRANSPARENCY: AN OVERVIEW OF THE
SITUATION IN THE REPUBLIC OF MACEDONIA**

Abstract

The modern benefits that result from the introduction of the latest technological advances in the management process in the state are certainly associated with the introduction and principles of e-Government information communication system.

The Republic of Macedonia is a developing country and it makes efforts to catch up with modern trends and enable more responsible governance, which will be in accordance with the principles of good governance, which are incepted and based on the highest constitutive act of the state as well as on the relevant legislation, which addresses the issues of good governance of the administrative bodies. This paper gives a review of the implementation of the concept of e-Government in the Republic of Macedonia. The main goal of this paper is to present the projects implemented under the “National Strategy for e-Government 2010-2012” and its benefits in terms of improving transparency of government institutions. Based on a review of the legislation, strategic government documents and projects, it can be concluded that the

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implementation of e-Government offers great opportunities for increasing the level of openness and transparency of government in order to establish better communication and flow of information.

Key words: *information, transparency, openness, e-Government, communication.*

JEL classification: *D8, D83*

Introduction

Open government, as a value of highly developed democratic societies, and an extremely important standard in the functioning of the administration, means a high level of transparency.

Modern technological advances have enabled governments to better manage communications and the flow of information, using e-Government information communication system.

The terms electronic administration, e-Government and e-administration mean intensive use of the information technology for electronic work in the administration, the administrative bodies, communication between bodies, communication between institutions and citizens, businesses and other organizations using the services. According to the United Nations, e-Government is defined as “the use of ICT and its application by the Government for the provision of information and public services to the people. The aim of e-Government therefore is to provide efficient government management of information to the citizen, better service delivery to citizens and empower”⁵.

The definition of the World Bank (AOEMA report) is: “E-Government refers to the use by government agencies of information technologies (such as Wide Area Networks, the Internet, and mobile computing) that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information or more, efficient government management. The resulting benefits can be: less corruption,

⁵ Definition taken from United Nations E-Government Development Database (UNeGovDD), Available at: http://unpan3.un.org/egovkb/egovernment_overview/ereadiness.htm

increased transparency, greater convenience, revenue growth, and/or cost reductions”⁶.

For the purposes of this paper, the author agrees with the following definition given by Zhiyuan Fang: “E-government is defined as a way for governments to use the most innovative information and communication technologies, particularly web-based Internet applications, to provide citizens and businesses with more convenient access to government information and services, to improve the quality of the services and to provide greater opportunities to participate in democratic institutions and processes”⁷. This includes communication between government and business, government and citizen, government and employee, and also among different units and levels of the government. According to Fang, “the e-Government presents a tremendous impetus to move forward in the 21st century with higher quality, cost-effective, government services and a better relationship between citizens and government”.

As pointed out by a group of authors, “New challenge in 2000s is to create an e-Government (electronic government) which reflects the ultimate visions for governments to modernize and change the way their administrations work - that in general, is organized in a rather rigid and bureaucratic manner - in order to move forward in the 21st century with higher quality, cost-effective, government services and a better relationship between citizens and government”⁸.

In the Ministerial Declaration: e-Government, A Priority for Europe since 2001, there are emphasized principles particularly important for the development and implementation of the e-Government in Europe. Among them is the principle of Encouraging Participation. In relation with it, it is stated that the “Information and Communication Technologies (ICTs) are a powerful tool for good governance, and that the Ministers endorsed five key principles: Openness, Participation, Accountability, Effectiveness and Coherence. The transition to e-Government must improve all of these dimensions”⁹.

⁶ Definition taken from World Bank, Available at:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/EXTGOVERNMENT/0,,contentMDK:20507153~menuPK:702592~pagePK:148956~piPK:216618~theSitePK:702586,00.html>

⁷ Fang, 2002:2.

⁸ Soumia A., Rabah I., Mouhamed M., Abdelaziz K., 2011.

⁹ Ministerial Declaration, 2001:3.

However, everywhere in this modern life, information technology plays a vital role and e-Government is the gift of information technology, which is contrasting itself with ordinary government whose basis is bureaucracy - a fear of red lace¹⁰.

In this context, the most important is that the application of the latest advances in information technology have rejected the old way of communicating with government (sending written requests or questions and lengthy wait for the response), and allowed quick and easy way of contacting, asking questions and getting answers. These technologies promise important changes in the working of the government, as well as the communication processes. Selective provisions and retrieval of information is easier and more cost effective, while asynchronous and synchronous communication methods have the potential to revolutionize relationships between citizens and government¹¹.

Developing countries are faced with the challenge of achieving a higher level of democracy, transparency and openness in their governments. In that direction, each of them, according to their own capacities, implements the concept of e-Government.

1. Macedonia's efforts toward e-Government and transparency

1.1 Constitutional and legal fundamentals

The Republic of Macedonia is a developing country and its efforts to catch up with the modern trends and to establish more responsible governance, which will be in accordance with the principles of good governance, are incepted and based in the highest constitutive act of the state, as well as in the relevant legislation which addresses the issues of good governance of the administrative bodies.

The legislative in the Republic of Macedonia emphasizes the principles of legality and transparency in the work of the public administration. According to Article 16 of the Constitution of the Republic of Macedonia, "the freedom of personal conviction, conscience, thought and public expression of thought is guaranteed." Article 24 provides that "every citizen has a right to petition state and other public bodies, as well as to receive an answer. A citizen cannot be called to

¹⁰ Bashar et al, 2011.

¹¹ Shi et al, 2000.

account or suffer adverse consequences for attitudes expressed in petitions, unless they entail the committing of a criminal offence".

Related to the Government, Article 88 of the Constitution states that the executive power is vested in the Government, and under Article 91, the Government, among other things, "lays down principles on the internal organization and work of the Ministries and other administrative bodies, directing and supervising their work".

These constitutional provisions are incorporated in the legislation of Macedonia, which emphasizes the principles of legality and transparency in the work of the public administration. The Law on Organization and Operation of the State Administration Bodies from 2000, in Article 9 states that "administrative bodies are obliged to inform the public about its work in accordance with the Constitution and law."

In the same Law, Article 3 states that the state government bodies should "perform their competencies established by law on the basis of the principles of legality, accountability, efficiency, cost effectiveness, transparency, equality and predictability."

The transparency of the administrative bodies was addressed in the Law on Civil Servants in 2010. According to Article 21 of this Law, "the civil servant shall, in accordance with law, be obliged to provide information upon request of the citizens required for exercise of their rights and interests, except the information referred to in Article 20 of this Law¹²."

Apart from the legislation relating to administrative bodies, transparency as a duty and obligation of civil servants is also listed in the Law on Local Self-Government from 2002, which precisely enumerates the obligations of the municipal bodies, committees of councils and public services established by the municipality, to inform citizens about their work without compensation, as well as about plans and programs that are important for the development of the municipality (Article 8). The municipality is obliged to allow citizens access to basic information on the services they provide, in a manner and under conditions determined by statute.

To fully implement the constitutional provision related to free access to information and the freedom to receive and transfer information, as specified in Article 16 of the Constitution, the Assembly

¹² Article 20 which refers to the obligation of the civil servant to keep a state secret and an official secret in a manner and under conditions stipulated by law and other regulation.

of Macedonia in 2006 adopted the Law on Free Access to Public Information, which defines the procedures for the exercise of this right. This Law emphasizes the obligation of institutions to provide accurate information with precise deadlines. It provides transparency in the work of holders of information and enables individuals and legal entities to exercise their right of free access to public information, and holders of information¹³ are required to provide information to the public about their work.

All these legal foundations laid the pillars for the advancement in accordance with the challenges of the age of e-Government. In this framework, the adoption of a national strategy for implementing the criteria of e-Government was a necessary segment of the application of the principles of good governance.

1.2. Snapshot of Macedonia's e-Government Strategy

According to the "National Strategy for e-Government 2010-2012", in pursuit of efficient and effective operation of public administration, Macedonia "is at a point of interaction of existing e-Government policies and strategies with policies and strategies for successful transformation and implementation of the new concept of e-Governance".

In the Strategy, the vision for e-Government is formulated as "Providing integrated, efficient and modern operation of public administration and providing services that are fully tailored to the needs of citizens and businesses". The goals that will be achieved through building an e-Government are:

- Improved offer of the government services through completely coordinated and integrated activities of the public administration;
- Improved interaction with the business sector and the industry;
- Quality and fast response to citizens' needs and requests;
- Participation of the citizens and the academic sector in building an informational society;
- Efficient government management;

¹³Holders of information are state administration bodies and other organizations and institutions, which are determined by law, bodies of the municipalities, bodies of the city of Skopje, bodies of the municipalities of the city of Skopje, public institutions and services, public enterprises, legal and physical entities who perform public jurisdictions and services of public interest, established by law.

- Increased number of ICT experts and an increased level of ICT literacy in the public administration;
- Open, participative and democratic government;
- Decreased corruption;
- Increased transparency;
- Increased income and decreased expenditure;
- Increased energy effectiveness;
- New forms of evaluation and improvement of the work of public administration and creating values for the society as a whole.

With the implementation of the strategy for e-Government, conditions for new opportunities, new services and new work models will arise. The citizens will have open access to government information and services, will have an opportunity to participate in the building of a democratic society in Macedonia, through using Internet, phones and other types of technologies, and this will also contribute to the decrease in corruption, increased transparency and increased information safety while exercising their rights and obligations.

Defined for a country, the basic processes related to the e-Government information communication system are: the use of information and communication technologies combined with organizational change processes, acquiring new knowledge and skills in public administration in order to improve public services and to strengthen the democratic process.

1.2.1. Principles of e-Government and their meaning

The Strategy for e-Government is based on principles including the principles confirmed in the Declaration of Ministers of the EU Member States and applicant countries:

- E-Government which is completely focused on the needs of citizens. A principle that is formulated in this manner means that the services of e-Government should be constantly available, to be easily accessible and fully adapted to the needs of the citizens.
- Confidentiality and safety. This means that citizens must have confidence in the electronic government as much as they have in the traditional one.
- Transparency. The new technological advances will be accepted only if those who are completely affected by them, from the employees in the public administration to the citizens and

businesses, are fully involved in the processes and activities carried out in a transparent manner.

- Quick, cost-effective and efficient. The use of new information and communication technologies and the appropriate organizational structures will enable fast acquiring of e-services and information. The more effective functioning of the entire state administration will contribute for the electronic services and information to be cheaper and better for citizens than the classical communication channels (counter, phone).
- Accessibility and Inclusion. The services of the public administration must be available to everyone without any discrimination. The digital gap, which means division between those who have no problem using the new technologies and those who have difficulties, should not exist.
- Usefulness and simplicity. The offered electronic services must be structured in an easy, clear and simple way.
- Cooperation. There should be cooperation between government agencies at all levels and in all segments, as a basis for the introduction of new technological solutions.
- Standardization. The state administration will function as a coordinated mechanism at a central and local level. This will allow users to communicate with the authorities and to use their services with the same quality, speed and through the same medium, regardless who provides the specific service.
- Interoperability. Different types of systems to be able to communicate with each other, regardless of their platform. E-Government solutions will be designed in accordance with generally accepted standards.
- Participation in decision-making, i.e. e-democracy. E-Government takes into account the needs and wishes of citizens, businesses, NGOs and other institutions, and includes all parties in their work. The Government will develop tools for effective public debate and participation in the democratic process of decision making.

Thus, formulated principles standardize the manner of operation in administrative bodies, which in their basis includes openness and transparency, and responsiveness in accordance with the needs of the citizens. Moreover, what is essential is that people are put in the role of

active subjects and participants in the process of deciding and decision-making.

2. Overview of e-Government projects and risks for their implementation

Macedonia is in the process of moving towards efficient and effective operation of the public administration, i.e. in the process of building the e-Government concept - strengthening the relations between public administration and society, which will ultimately result in a stronger, more transparent, more accountable and inclusive democracy.

Within the concept of e-Government, the following projects have been planned:

- A system for managing documents in the public administration bodies (DMS): Development of an integrated e-Government system for document management, which will enable the processing of documents to be 100% electronic. The system will be positioned as an e-Government spine, which will involve all relevant institutions. This will enable the Government to automate key administrative processes and introduce an electronic flow of documents in the process of creating and approving in every government institution as well as between institutions. The strategic objective of the project is increased efficiency and effectiveness in the operations of the state administration. The expected outcomes are efficient, effective and transparent execution of administrative processes; automated and controlled processing of work documents in and between institutions.
- A system for issuing digital certificates to public administration in order to increase the security in ICT systems and the information flow.
- Interconnection and use of registries and databases between state bodies and institutions (interoperability). This project means interconnection between registries and databases in ministries and other state institutions. With this solution, the institutions will not collect information that other institutions already possess, which will reduce duplication of data.
- E-documents. The project e-documents for citizens is aimed at significantly reducing administrative barriers. In practice, when a

citizen requests a service from any institution, the institution itself will need to request electronically all the necessary information and documents for the citizen from other institutions. Therefore, the implementation of this project is related to the Project for interconnecting registries and databases between state bodies and institutions.

- Electronic identification cards: Introduction of electronic identification cards based on public-key infrastructure which will incorporate a qualified digital certificate for all citizens and which will be used for any electronic service.
- Web portal for e-democracy: Creating a web portal for citizen participation in creating the public policies, which will allow the application of information and communication technologies in improving the democratic processes of the country
- Manage relationships with citizens (CRM): Delivering services to citizens in an effective and efficient manner, which will be completely tailored to their needs. This will be achieved through a range of government services through call centers, web portals, SMS, offices for citizen services, and by establishing the concept of "one-stop-shop government" in which citizens will have an opportunity to receive the necessary services through the channel of communication they prefer.
- Information safety: Adopting a legal solution for measuring and standardization of information safety, which will establish the minimum criteria for the protection of classified and unclassified data in information systems in Macedonia.
- IT Standards in state institutions: Establishing safety measures and recommendations for the protection and development of IT systems, where application will be mandatory by the state institutions. The goal is increased safety of ICT systems and information flow.

Other projects listed in the Strategy are: the Project for electronic payment of administrative fees, the Project Complete e-Treasury system, the project e-Cadastre and the Project One-stop-shop for import and export.

The main objective of these projects is to establish an infrastructure that will be the basis for the implementation of e-services. The implementation of most projects is provided in the period from 2009 to 2012.

The Strategy for e-Government lists the following as potential risks that slow down the implementation: resistance towards change of the current mode of operation, dual mode of operation, or parallel operation (on paper also), lack of IT staff in state administration bodies that will maintain and upgrade the system, insufficient funds for expanding and upgrading the solution; insufficient cooperation and coordination between different government departments and agencies; unpreparedness of state bodies to accept electronic payment of administrative fees; distrust of citizens in the new ways of payment of administrative fees, rejection of the importance of the introduction of IT standards and disrespect of established IT standards, inefficient reorganization of state bodies.

The following risks for implementation of a Web portal for e-democracy are listed: resistance of institutions to actively participate in the project, usage of the portal as a political medium, lack of confidence by citizens in the usefulness and importance of the portal.

Conclusion

The basic processes related to the e-Government concept are: the use of information and communication technologies combined with organizational change processes, acquiring new knowledge and qualifications in public administration in order to improve public services and strengthening the democratic process.

The concept for e-Government represents much more than just a support in the work of administration and an important factor for a sustainable development of the entire society in the country. Furthermore, the e-Government concept can be characterized as a central dimension of the global capacity, to collectively address the challenges of sharing information, knowledge and capacities for action. The real benefits of the e-Government do not consist in the use of technologies, but in the application of technologies in the transformation of processes.

The implementation of the "National Strategy for e-Government 2010-2012" in Macedonia resulted in increased transparency and accountability in the work of state institutions. However, the Republic of Macedonia still has challenges to face in the implementation of the overall principles set in the Strategy. This will require not only the overall commitment of government institutions, but also encouragement

and raising awareness of citizens about their rights and possibilities to use the benefits of the e-Government and participate in the decision-making process.

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**CREDENCE ATTRIBUTES OF AGRICULTURAL AND FOOD
PRODUCTS AND THEIR IMPLICATIONS ON MARKETING**

Abstract

Nowadays, consumers are increasingly sensitive to the conditions under which the food they purchase and consume is produced, cultivated and processed. Furthermore, consumers also incorporate environmental impacts, animal welfare concerns and other process attributes into food purchase decisions. More specifically, increased interest in production practices and technologies used in food production has been seen, specifically concerning irradiation, use of antibiotics, hormones, special feeders, synthetic fertilizers, herbicide and pesticide use. In the past years, perhaps one of the most controversial technologies employed in the food production is the use of genetic modification of food. These concerns are even bigger regarding practices or technologies and materials used in the produced food,, specifically for infants or young children, making labeling and marketing of products for such special-interest segments of the population an area of continued controversy. As a result, growing segments of world consumers seek improved quality, healthiness and variety in the food they are consuming. Accordingly, the demand of agro-food products possessing these characteristics is rapidly increasing, and the food marketing sector is responding to an increased level of interest to the consumer demand for products with an increasingly wide array of attributes. The needs of differentiation include factors related to experiential eating quality as well as credence attributes related to environmental and other social outcomes. But consumers often do not have enough information when buying goods with attributes that are aligned with the above mentioned issues, and it is often difficult for

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them to check the honesty of these claims. It seems that it is necessary to adapt marketing practices, since consumers demand the food to have certain credence attributes, and often, are willing to pay more for such food. In global agri-food markets, products marked as "organic", "eco-friendly", "safe", "natural", "locally grown", "place-of-origin", "animal welfare" and "kosher" are just a few examples of "credence attributes" food. Consumer preferences, concerns, fears, politics and beliefs seem increasingly to govern new food marketing opportunities based on the nature of food production systems.

This paper attempts to advance knowledge in credence attributes for agricultural and food product, as well as to address the need of developing appropriate marketing approach in order to meet the increasing market interests in these products.

Key words: credence attributes, food and agricultural products, consumer preferences, marketing

JEL classification: M3,Q13,Q19

Introduction

Credence attributes are product features that consumers are not able to verify before, during or after the consumption, but still they can perceive and value them. The credence attributes are desirable product benefits like nutritional value and wholesomeness that cannot be experienced directly.² In the agri-food market, "organic", "eco-friendly", "safe", "natural", "locally grown", "place-of-origin", "animal welfare" and "kosher" are examples of credence attributes that consumer segments across the world increasingly value when making their food product choices. Over the past two decades, consumer demand for such products has grown substantially.

Generally speaking, consumers' perception of quality is influenced by the product's intrinsic attributes as well as by extrinsic indicators and information provided by the seller.³ Intrinsic food

² Oude Ophuis, P.A.M. & Van Tripp: Perceived quality: a market driven and consumer oriented approach; Food Quality and Preference, H.C.M., 1995, p.177-183.

³ Caswell, Julie A., Corinna M. Noelke, and Eliza M. Mojdzuska: Unifying Two Frameworks for Analyzing Quality and Quality Assurance for Food Products; *Global Food Trade and Consumer Demand for Quality*, ed., B. Krissoff, M. Bohman, and J. A. Caswell, New York, NY: Kluwer Academic/Plenum Publishers, 2002, p.43-61.

attributes are mostly related with the nutritional characteristics and health issues, while most of the extrinsic properties of food are related with the production environment, production practices employed or technologies and materials used, and are difficult to verify at the point of sale. According to the level of quality that can be discovered by the consumer at different stages, food as a merchandise good can be classified into:⁴

- Search-when consumers can evaluate relevant attribute information before the purchase (e.g., price, dimension, size, color),
- experience-when relevant attribute information can be determined only after consumption (e.g. eating quality such as taste and convenience), and
- credence goods-those whose relevant attribute information is difficult to ascertain directly by consumers at any stage of purchase, even after consumption of the food.

Given the unique nature of credence attributes, it is not easy to assess them and consumers often rely on the judgement and information of others that the product contains the desired attribute, or on the certification by an authority institution such as a governmental agency, or organizations that consumers trust to lend information on credence attributes. Needless to say, many agricultural and food products fool into the category of credence goods.

Since the credence attributes play an increasingly important role in consumer preference formation, understandably, the set of the attributes desired for the "good food" is dynamically evolving in the food system. Thus, it is not exaggerating to say that the future of many agribusinesses lies in understanding patterns and consistencies of consumer values for these credence attributes, as well as on applying adequate marketing approach, based on product differentiation.⁵ Namely, food with credence attributes generates differentiation under the presumption that utility-maximizing consumers derive utility from product attributes, not from the product itself, and thus, they are willing to pay more for such products. Subsequently, credence attributes

⁴Darby Kim, Marvin T. Batte, Stan Ernst, and Brian Roe.. Decomposing Local: A Conjoint Analysis of Locally Produced Foods. *American Journal of Agricultural Economics* 90(2), 2008, p.476-486.

⁵ Traversi, Chiara M., and Peter Nijkamp: Valuing environmental and health risk in agriculture: A choice experiment approach to pesticides in Italy; *Ecological Economics* 67(4), 2008, p.598-607.

complicate consumer valuation of products because pre and post-consumption values may not coincide. From a marketing point of view, the lack of consistency between pre and post-consumption valuations can significantly affect repeating purchase decisions. From an economic perspective, this lack of consistency complicates predictions of market demand and also may affect welfare measures arising from valuation exercises. It is obvious that credence food purchases require to be embedded in trust, confidence and ethical traceability, both in the product and in the systems of supply.

The paper is divided into two sections following this introduction. The first section is dedicated to the factors influencing the costumers' decision to purchase food with credence attributes and their willingness to pay more and thus, it gives an overview of various studies and research which have examined the influence of important attributes on consumers buying behavior of food. The second section examines the possible implications these factors can have in marketing agricultural and food products with credence attributes. We conclude by drawing some directions for sustainable development of production of food and agricultural products with credence attributes and pointing out limitations and issues that could be subject of future research.

1. Factors influencing the costumers' food purchases and willingness to pay more

So far, both the agricultural economics and marketing literature have largely examined the impact of several credence attributes on consumers' intentions of buying products, as well as the factors influencing customers' willingness to pay more. Being that agricultural and food products are exchanged on a perfect market and are really hard to standardize, we must underline that experience related attributes that are clearly present in all foods are common, as are credence attributes. This factual situation is affecting the categorization of attributes, given in Table 1, where findings from data base of 40 studies are summarized and presented.⁶

⁶ Riccard Moser, Roberta Raffaelli and Dawn Thilmany-McFadden: Consumer Preferences for Fruit and Vegetables with Credence-Based Attributes: A Review; *International Food and Agribusiness Management Review Volume 14, Issue 2*, 2011, p.125.

Table 1: List of attributes, including credence subset, and frequency of inclusion

Attributes List	Studies that considered attribute	Studies with econometric model	Studies reporting attribute significant at 5% level
Visual, smell and taste	24	3	1
Quality	6	1	1
<i>Credence attributes</i>			
Health	27	11	8
Pesticide free	14	2	2
Organic	16	6	3
Environment	17	9	5
Support to farmers	5	1	-
Job creation	2	1	1
Origin	8	1	1
Local	9	-	-
Certification	11	8	6
Price	16	5	5
Brand	10	1	1
Packaging	2	1	-

Source: Riccard Moser, Roberta Raffaelli and Dawn Thilmany-McFadden: Consumer Preferences for Fruit and Vegetables with Credence-Based Attributes: A Review; *International Food and Agribusiness Management Review Volume 14, Issue 2*, 2011, p.121-142.

In Table 1 we can see a list of all attributes, the number of studies that have considered a particular attribute, how many of them have used an econometric model and how many found that the attribute is statistically significant at 5% level (or higher). In general, the results show that the significance of attributes does not change the practice of using different evaluation techniques, which suggests that methodology affects the magnitude of these attributes, but not their significance.

Regarding visual, smell and taste components, it is noticeable that they are often top rated among attributes listed. This is also quite predictable and expected since they are the basic components of eating experience and the most relevant and valued reasons for buying and being willing to pay more. In fact, these components are commonly used as indicators about the overall product quality, being that their relative importance varies with the product. Namely, the main components of food quality are the taste and aroma (sweetness, acidity, astringency, and bitterness), the texture (perceived as firmness, juiciness, succulence) and the color and shape of the product.⁷ However, since information on visual, smell and taste attributes is obtained and updated by consumers at each time of purchase, they are of less importance for marketing professionals, so we will focus our discussion on the subset of credence attributes, which will be described in details in the next paragraphs.

Health is a typical credence attribute that is becoming perceived by consumers as the most significant reason to buy sustainable food. This credence attribute is often connected to particular food ingredients (artificial additives, genetically modified organisms), to the presence of nutritional components (vitamins and minerals), and to the perceived risk associated with the use of synthetic fertilizers, pesticides, herbicides and other agrochemicals. The reason behind this association lies in the customers' believe that modern conventional food production practices may harm their personal health, or the public health (children, ill and elderly people, development of allergies). In order to reduce the perceived direct and societal risk, costumers are willing to pay more for their food. For example, one study shows that the risk concern "pesticide free" is perceived as another important attribute in the consumer buying behavior as respondents were willing to pay a premium averaging 15% above the regular price to buy pesticide-free fresh fruits and vegetables.⁸

Organic production could refer simply to a credence of production method, and the literature shows that this credence attribute has mainly positive influence on customer purchasing decision. One study on consumer behaviour in relation to the credence attribute "organic" has found health to be the primary reason for consumers

⁷ Tan, S. C.: Determinants of eating quality in fruit and vegetables. Proceedings from the Annual Conference of the Nutrition Society of Australia, 2000, p.183-190.

⁸ Onozaka, Yuko, David Bunch, and Douglas Larson: What exactly are they paying for? Explaining the Price Premium for Organic Fresh Produce; *UPDATE Agricultural and Resource Economics* 9(6), 2006, p.1-4.

buying organic foods, followed by taste.⁹ But in practice, organic farming consists of a whole set of attributes ranging from food safety, nutritional aspects, ethic values, health and environmental concerns to more production-specific issues such as pest management, fertiliser usage and soil treatment and has to be supported by a specific label or certification. Thus, more informed customers, familiar with the complexity surrounding organic certification processes, often doubt the existence of „truly organic” fresh fruits and vegetables¹⁰, suggesting that education of the customers is quite relevant factor affecting their purchasing decision. Overall, regarding the credence attribute “organic”, we may say that it primarily signalises a better taste to the consumer, but remains to be determined whether there are any actual sensory differences between organic and conventional food, which could verify or disprove the common claim that “organic tastes better”.

Environmental credence attributes are again mostly linked with the production process and suggest to the costumers the increased biodiversity, the ecosystem protection and the natural system conservation. Among the analysed literature, this credence attribute ranges from somewhat important to important. There are studies that show that consumers with strong environmental awareness demand food grown by producers that use environmentally friendly practices.¹¹ However, other studies suggest that the environmental concern is the least important or even insignificant when making purchasing decision, especially when considering consumption behavior and demographic characteristics of the customers.¹²

Next on the list presented in Table 1 are credence attributes in relation with job creation and support of farms, also commonly known as socially oriented attributes of the production systems. The conducted studies in the past few years report that socially oriented attributes do not

⁹ Hughner, R. S., McDonagh, P., Prothero, A., Shultz II, C. J., & Stanton, J.: Who are organic food consumers? A compilation and review of why people purchase organic food; *Journal of Consumer Behaviour*, 6, 2007, p.94-110.

¹⁰ Boccaletti, Stefano and Michele Nardella: Consumer Willingness to Pay for Pesticide-free Fresh Fruit and Vegetables in Italy; *International Food and Agribusiness Management Review* 3, 2000, p.297-310.

¹¹ Loureiro, Maria L., Jill J. McCluskey, and Ron C. Mittelhammer: Will consumers pay a premium for eco-labeled apples? *Journal of Consumer Affairs* 36, 2000, p.203-219.

¹² Hamilton, Stephen, David L. Sunding, and David Zilberman: Public goods and the value of product quality regulations: the case of food safety. *Journal of Public Economics* 87, 2003, p.799-817.

seem to affect the consumer decision in a significant way, causing the magnitudes of the marginal effect of such factors to become smaller¹³ or insignificant¹⁴. Namely, customers willing to pay more for a food product with credence attribute do not prioritize their concern about the sustainability of local or small farmers and the creation of employment and better living conditions in rural areas.

It is generally accepted that, as a credence attribute, a country or region of origin of agricultural and food products has an effect on consumers' product evaluations. Since the food origin is tightly connected with consumers' quality experiences, in a majority of the studies it was found to be either important or somewhat important. In close relation to the origin is the attribute "local", that is considered a clear tendency that domestic, or regional, products are favoured over products from elsewhere. One of the specifics of the credence attribute "local" is that it appears to be crucial to the decision to buy fresh fruits and vegetables. Namely, costumers believe that locally grown products are fresher and better tasting.¹⁵ Moreover, according to one study, the shorter the distance between producer and consumer (geographically and culturally speaking), the higher the effectiveness of local geographical indicators, suggesting that a feeling of belonging to a specific region creates positive emotions towards food from that area, enhancing the effect of origin.¹⁶

Finally, the certification of agricultural and food products, as a credence attribute, appears not to be crucial to make the purchasing decision. Several studies report that the lesser importance placed on the certification process could be due to the fact it cannot implicitly

¹³ Akgüngör, Sedef, Bulent Miran, and Canan Abay: Consumer Willingness to Pay for Organic Products Urban Turkey; Paper Presented at the 105th EAAE Seminar 'International Marketing and International Trade of Quality Food Products,' Bologna, Italy, March, 2009.

¹⁴ Magnusson, Erik, and John A.L. Cranfield: Consumer Demand for Pesticide Free Food Products in Canada: A Probit Analysis; *Canadian Journal of Agricultural Economics* 5, 2005, p.67-81.

¹⁵ Midmore, Peter, Simona Naspetti, Anne-Marie Sherwood, Daniela Vairo, Mette Wier, and Raffaele Zanolì: Consumers Attitudes to Quality and Safety of Organic and Low input Foods: A review. Report QLIF-Project No. FP6-FOOD-CT-2003-506358, 2005.

¹⁶ Marchesini, Sergio, Hasimu Hulyeti, and Domenico Regazzi: Literature review on the perception of agro-foods quality; Paper Presented at the 105th EAAE Seminar 'International Marketing and International Trade of Quality Food Products', Bologna, Italy, March, 2005.

guarantee the credence attribute, such as safety, since regardless the production certificate, food can still be contaminated during its transportation and manipulation.¹⁷ In a broader context, the complexity and ambiguity behind a certification process may also be part of the rationale for this consumer response.

Even in the modern food distribution system, brands have become an increasingly important quality signal. The situation presented in Table 1 suggests that it is less important in determining consumer buying decisions. Right next to brand is the packaging that was considered in only two studies and showed insignificant influence upon the costumers' decision to purchase certain food and their willingness to pay more.

Finally, we must comment the obvious fact that the price is still one of the deciding factors on purchasing decision. According to one study, even if a higher prices is perceived as a signal of the higher quality, it is a significant barrier for making the decision to purchase agricultural and food products with credence attributes.¹⁸ It is obvious that price still matters.

2. Implications in marketing of agricultural and food products with credence attributes

The review shows that consumers highly value credence attributes in agricultural and food products that are closely related to their personal health issues or food as enjoyment, while they are less concerned with the issue related to public goods, such as environment and biodiversity conservation, economic support of local or small farmers, job creation in rural areas. The reason for this situation might be the scarce knowledge about public credence attributes, or disbelief that their buying choices will have actual positive effects on these public affairs. This uncertainty surrounding some product attributes at the time of purchase can lead to a

¹⁷ Zanolì, Raffaele, Martine François, Peter Midmore, Katerine O'Doherty-Jensen, and Christopher Ritson: Determining consumer expectations, attitudes and buying behaviour towards "low input" and organic foods. Paper Presented at 3rd QLIF Congress: Improving Sustainability in Organic and Low Input Food Production Systems, University of Hohenheim, Germany, March, 2007.

¹⁸ Silva, Andres, Rodolfo M. Jr. Nayga, Ben Campbell, and John Park: On the Use of Valuation Mechanisms to Measure Consumers' Willingness to Pay for Novel Products: A Comparison of Hypothetical and Non-Hypothetical Values. *International Food and Agribusiness Management Review* 10(2), 2007, p.165-179.

mismatch between purchase and consumption preferences. In order to prevent this, the general direction in marketing of agricultural and food products with credence attributes is to focus promotion on the positive effects, rather than making consumers aware of it. Namely, with pointing out a revealed attribute, such as health issues, quality and environment claims, it will assist consumers by making it easy for them to identify the presence of these hidden attributes at the time of purchase. Thus, the main scope of all marketing activities is to allow consideration of obvious attributes only.

Another implication that credence attributes have on the products marketing is their availability in terms of inconvenience of many retailers to sell them. Being that food with credence attributes often has a higher price, at first blush, it appears as an obstacle to increasing sales. Yet again, on more profound research, higher prices of the products will uncover a complex range of issues which include the problematic issue of “value”. On marketing level, the problem with availability should be solved through distribution of products with credence attributes. Good example of expanded distribution is an increasing offer of organic and healthy foods in supermarkets. The main marketing idea behind addressing the availability issue of agricultural and food products with credence attributes is influencing, and preferably changing customers’ purchasing habits. Namely, most consumers when making regular food purchases, are using simple choice methods, primarily choosing relatively lower priced products. Contrary, when making purchases based on habit, for example every week, customers often use specific choice methods¹⁹ based on habit, that is purchasing the same products every week. It is true that it takes time and effort to change the habit, but from marketing perspective, it is wise to invest in changing customers’ habits, since habits tend to lead to stable purchasing patterns. In the context of habits, we must point out that on some occasion they may vary, when impulsive purchase is made and the customers are buying what they see in the store. Thus, as a marketing tool it is advised that food products with credence attributes be displayed in prominent positions, so they can attract the most impulse purchases.

Apart from habitual and impulsive consumers, food and agricultural products with credence attributes have customers that are

¹⁹ Plassmann, H., O’Doherty, J., Shiv, B., & Rangel, A.: Marketing actions can modulate neural representations of experienced pleasantness. *Proceedings of the National Academy of Sciences of the U.S.A.*, 105, 2008, p.1050-1054.

committed to purchasing them, that is, they are prepared to put serious effort in finding those specific (destination) products.²⁰ However, for many customers food with credence attributes is not a destination product and is regularly substituted with other food products. In those situations, from marketing point of view, it is advisable to prioritise achieving continuity of supply, since that will lead to avoiding substitution.

One of the particularities of agricultural and food products with credence attributes is that they require oversight by knowledgeable experts, and often 3rd party certification and labels on their safety and quality. Unfortunately, presented findings suggest that in most cases, consumers do not put a prime importance on the quality and safety certification processes. In order to increase the value of certifications, it is useful to provide more reliable information on the certification processes' connection to sustainable outcomes.²¹ But, marketing these new generations of grades and standards effectively may be challenging given what consumer research signals about current interest in these programs.

Conclusion

This paper provides a discussion on important consumer research questions regarding credence attributes which are likely to be crucial factors for purchasing food and agricultural products. As a main conclusion that comes out from the analysis provided in the paper, we can say that the decision to purchase food and agricultural products with credence attributes is primarily driven by personally driven attributes such as personal health or experiential eating quality.

Future research should be devoted to understanding the claims used for credence attributes, perceptions about the expected outcomes and marketing strategies that enhance trust and loyalty toward sustainable products. In short, targeting motivated consumers, positioning brands and

²⁰ Roosen, J., Marette, S., Blanchemanche, S., & Verger, P.: The effect of product health information on liking and choice. *Food Quality and Preference*, 18, 2007, p.759-770.

²¹ Zanolli, Raffaele, Martine François, Peter Midmore, Katerine O'Doherty-Jensen, and Christopher Ritson: Determining consumer expectations, attitudes and buying behaviour towards "low input" and organic foods. Paper Presented at 3rd QLIF Congress: Improving Sustainability in Organic and Low Input Food Production Systems, University of Hohenheim, Germany, March, 2007.

communication strategies for organic and low environmental impact food should focus on convincing consumers that these attributes confer an added value to the consumer, even if the value relates to a broader public good aspect of the food and its production system.

From marketing prospective, it seems that direct marketing is the most appropriate channel to distribute food and agricultural products with credence attribute. However, for further sustainable development of this market segment we must bear in mind that such direct marketing channels represent just a small share of the overall distribution of food and agricultural products with credence attributes. Additionally, the analysis in the paper shows that the attribute “local” has higher relevance when compared to organic, certification, and origin. This finding suggests that consumers accept the attribute local as an implicit quality guarantee. Furthermore, regarding food and agricultural products with credence attributes, customers have greater confidence in local than in certified products. As the attribute “local” is becoming more relevant for purchasing decisions, and possible more challenged new marketing efforts to communicate aspects that may relate to local sourcing, such as nutrition, environmental benefits and the willingness to support the local economy of the home region will be needed.

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UDC 004.738.5:658.1/.5]:334.722

Original scientific paper

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MANAGING WITH ORGANIZATIONAL ENVIRONMENTS - STRATEGY OF E-BUSINESS

Abstract

The last few decades have been very turbulent due to significant growth of the usage and interest in the Internet. Everyday life of each individual has been affected by the development of computers and related technologies, making information more accessible to a wider pool of audience. This, of course, has been significantly changing the way of doing business, emphasizing new possibilities for potential entrepreneurs. Business and companies have been affected by the rising pressure of information and communication technologies, making distances and locations diminish.

The paper is focused on the advantages or opportunities created by the boom of the technology and especially e-business on one side, and of course, the downsides considering the raised exposure in view of the presence of the Internet as a tool in business.

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All the aspects provided should indicate the main influence of e-technology and e-business worldwide, pinpointing the main aspects where especially entrepreneurs need to approach with caution.

Keywords: E-Business, Small Business, E-Shopper, Digital Customer, Average Turnover

JEL classification: L260

Introduction

The last thirty years have been characterized by a rapid development of the information and communication technology. The information and communication technology affects the overall life in total, and in this respect, the behavior of the entrepreneur. Small enterprises apply the appropriate strategy for electronic operations and the use of e-business and the Internet in their work. This paper elaborates the opportunities and threats which could potentially rise for small businesses and entrepreneurs by addressing the benefits that the entrepreneur has by using the Internet and the electronic business. The use of the opportunities of e-business requires caution on the part of small businesses concerning the approach to electronic business. However, any engagement or business has its own weaknesses or threats. The results of the research in this segment indicate that in addition to opportunities, the use of e-technology in the working operations of small businesses also brings certain drawbacks or threats. Therefore, the negative aspects or weaknesses that e-business can cause in the operations of small businesses are also explained in the paper. At the end of the paper an empirical research is made, concerning the number of digital customers and the average sales per customer regarding the period 2011-2016 in the world. Survey results show that the highest average sales per digital customer in the period from 2011 to 2012 is noticed in Asia and the Pacific and the lowest in Eastern Europe.

1. E-business as an opportunity

E-business provides many opportunities for small businesses and entrepreneurs. E-business and e-technology create conditions for improving business performance and business operations. The use of e-business and the Internet in the context of improving performance of small businesses is possible if companies have an appropriate strategy for managing electronic operations and have the sufficient human resources for implementing the strategy. E-business offers many benefits for small businesses and entrepreneurs. Considering all benefits one stands out, that is related to improved business activities carried out by the company and improving the market conditions. (Deakins *et al.*, 2005, p.165)

Improving the activities performed by the company contributes to increasing the internal efficiency of the enterprise. The E-technology and Internet contribute to establishing a precise order of executing the operations, increased control enforcement activities, effective supplying of the necessary raw materials, and efficient distribution of products, effective documentation redistribution and reducing operating costs.

The use of information in e-business also allows entrepreneurs and small businesses to use online channels to find business partners and build good communication channels with relevant international enterprises. The Internet channels provide simple and smooth communication that contributes to lower operating costs and better performance of small enterprises. Numerous studies show that e-business is more frequent among enterprises or popularly called "business-to-business" relations than the one between businesses and consumers, or popularly called "business-to-consumer" relations. How successful the collaboration between enterprises will be, depends upon the strategy of the enterprise. The presence of e-business in small enterprises contributes for the enterprise to have a simple, quick and inexpensive way to "get into the supply chain", which means acquiring easier and cheaper raw materials compared to traditional ways of doing business. Basically that is small businesses opportunity for creating high and rapid growth and development.

Increased networking between companies is a result of the use of e-business where so-called business networks are created. Business networks are not effective with their mere existence, they need to be used for the aims of small businesses. For an effective communication network it is required to have previously constructed immediate direct

relationship of communication. Without prior confidential relationship built on communication between enterprises, a quality business network cannot be established. With the help of electronic channels and the rapid spread of the Internet, e-business has become an effective way of releasing products and services on the market, because they are becoming more visible. (Tse *et al*, 2003, pp.306-320)

E-technology and the Internet help reducing the barriers for achieving business collaboration in terms of establishing communication networks for businesses and consumers.

Improving the market conditions is the biggest benefit for small companies, due to on-line trading that creates conditions for trading on the global market. The number of consumers who trade through on-line networks constantly increases. Through e-business, small businesses and entrepreneurs have the opportunity to improve and expand their business from the local market onto the global market. Potential benefits for small businesses are evident as electronic commerce grows incredibly fast.

The E-marketplace allows increased interaction with customers. Entrepreneurs have the possibility of a simple obtaining information on the characteristics of their customers directly through communication with their customers or by monitoring their habits when buying or electronic trading.

For example, if the entrepreneur who has a small enterprise has the information that consumers have certain habits on making the arrangements for winter break until October at the latest, a proper strategy needs to be applied. Because the company already has information on the time when consumers make those arrangements, there is no need to send e-mails with information about the arrangements, reducing prices, discounts and so on, which will reduce costs and save time and money for the enterprise in general and at the same time will initiate saving consumers' time.

Good communication takes care of helping enterprises determine the profile of consumers. But successful on-line operators have the tendency to manipulate consumers through unrealistic presentations of products and services. It is very important for entrepreneurs to gain loyalty of customers to certain products in order to overcome the possibility of manipulation and false presentation. E-business provides an opportunity to small businesses for cooperation in areas that were previously unreachable due to certain limitations in terms of availability, cost etc. The successful collaboration between on-line promoters and

consumers depends on the strategy of work in terms of establishing a communication network between an enterprise and the consumers. (Evans *et al*, 2000, p.31)

Benefits of e-business for small businesses are seen in the simpler and easier way of trading on the global market. It is the biggest advantage for small enterprises of e-business. Global trade tendencies can be seen through the increasing number of on-line users who trade on the global market. Studies show that there is an increasing number of people who shop online and this helps small businesses to extend their location of work, from the local to the global level.

The presence of the Internet market is forcing small businesses to compete each other on a global, online marketplace. The Internet market is a more equal market. Equal markets remove differences in terms of size of the enterprises. They create equal trading conditions for small and large enterprises. On the Internet market, the size and location of the company are less limiting factors considering performance. If a new, small company has the proper website for online presentation, it can work better than a bigger and more experienced company. The on-line performance of small enterprises creates an opportunity for participating and competing on the Internet market with large, experienced companies.

One of the major advantages of e-business for small companies is the possibility of continuous operation, or non-stop working, 24 hours a day. It allows consumers a large choice in making decisions, like when and from who they want to buy. Consumers spend less time buying and also avoid the stress of crowding and looking for car parks in front of the stores and shopping centers. Internet companies are "open" 24 hours a day, 365 days a year, for all on-line consumers all over the world. The rapid lifestyle concerning consumer buying changes. E-businesses are increasingly replacing the traditional way of purchasing with on-line buying. Studies show that small retail businesses that have a website have a *certain impact of one quarter of offline sales*. (S.M., 2010, *The State Of Retailing Online 2010: Marketing, Social Commerce, And Mobile*. Accessed 18 November 2013).

Through e- business, small enterprises are allowed to access the global markets and global supply chain of materials, and the so-called major customers and the modern ways of marketing and promotion of products and services as well.

2. E-business as a threat

The full introduction to the characteristics of e-business and their impact on small businesses is not possible without showing gaps or threats of e-business. In order to benefit from e-business, companies must approach carefully by reviewing all aspects of e-business. However, any engagement or business has its own weaknesses.

E-business is followed by additional risks or vulnerabilities. Despite the number of advantages, benefits or opportunities that e-business provides to small businesses, certain drawbacks or threats are present as well, which e-business and technology create in terms of entrepreneurs and small businesses. Possible disadvantages of e-business can be distinguished as follows: achieving a level of customer loyalty, maintaining contact with many buyers and suppliers, providing a certain degree of security, availability concerning information for competitors and increased competition.

Achieving a level of customer loyalty through the use of electronic tools allows competing companies to be up-to-date with the business in a very quick and efficient manner at all times. As e-business provides 24-hour service for the customers and continuous availability, at the same time it creates a potential risk to reduce customer loyalty. Customers have the opportunity to choose. They are at the same distance comparing competitive enterprises. Consumers are as close to the company as to other competing companies.

For any lack of satisfaction and resentment to an incomplete service, customers have an instant choice. They can contact the competitors and choose them as their service provider. Their dissatisfaction can take them to the competitors, so that they become their customers. E-business reduces barriers to customer loyalty. Customers are becoming more mobile. Loyal customers can immediately leave the company and become loyal customers to other competitive companies.

The possibility of establishing a connection network creates an opportunity among many customers to maintain contacts with numerous customers and suppliers. For effective networking, direct and immediate communication is not needed because communication is accomplished through electronic access. The electronic access is a potential danger for building trust with many buyers and suppliers simultaneously.

At the same time, small businesses and entrepreneurs should be ready to meet the needs and demands of many consumers. The branched network concerning e-communication by itself is not sufficient for success, but it may represent one of the disadvantages of e-business. A quite wrong perception is that the ability of electronic access in our enterprise means using the benefits of e-business. The ability to have electronic access and network communication does not mean anything. To have effective networking it is necessary to communicate in person, because that builds confidence and also carries implicit knowledge. (Turban, *et al*, 2000)

Providing a degree of security related to on-line operation is an obligation for every e-enterprise. Ensuring the security of an operation provides optimality in terms of using the benefits related to e-business. Security in e-business is provided by a system of rules and procedures for providing protection and safety. Ensuring safety in the use of an e-information limits and prevents the damage that may be suffered by the company from Internet hackers.

Insufficient protection of the e-system, which operates in the company, generates risk and a potential cause for failure of e-business due to the possibility to abuse the use of electronic devices by employees in the company. The employees can waste the resources of the company for personal matters or for fun and not for activities related to the company. The insufficient protection of the system also creates an opportunity for accessing confidential information related to the company or the partners by people who should not have access to that kind of confidential information. With a weak protection of the e-system, business information that have been characterized as a secret can become available to most consumers or competitors. Therefore entrepreneurs have to protect their email systems and web sites.

Protecting the website can be done by installing a network protection. Prohibiting access to certain web portals that can be visited by employees at work can be secured by limiting the access to specific Internet portals. The risk of non-compliance with the rules and procedures for protecting and securing the business system always exists. Small businesses can apply one of the following ways of ensuring an adequate level of protection: limited access to on-line portals for employees of companies who use the Internet during work, limited availability of on-line portals and Internet at a number of computers, selective availability of on-line portals and access to all employees on

specific, selected e-information and data on the company and responsibility of every employee in the company to sign an agreement related to "confidentiality of information" concerning the operation of the enterprise and consumer information.

E-commerce facilitates the availability of information to competitors. The way of informing the competitors is very quick and simple. The availability of information to competitors creates a risk of rapid detection of business strategy and the operations of the enterprise. Small enterprises that use the Internet tools in their work are at risk of early informing to competing companies. Competing companies can use this information in their work and based on that achieve competitive advantage. Also, small businesses are at risk if they underestimate or fail to predict the impact of Internet marketing and e-business, or if they overestimate the ability to determine their own potential and possibilities.

Increased competition, which is expressed by aligning businesses on the global market in terms of size and experience, forces small businesses to jointly compete with larger and more experienced companies. On the one hand, small businesses get the opportunity to play at the open market, and on the other hand they risk working in more competitive environment. Increased competition represents a barrier to growth, faced by small businesses. (Deakins *et al*, 2005, p.165)

This is expressed through increased knowledge of competitors concerning operating small enterprises, because e-business equalizes the market in terms of size enterprises.

3. Empirical research on digital customers and generated average turnover forecast for the period 2011-2016

Using e-technology and the Internet allows better access to the markets. The number of people who use the Internet at home has increased by 76% or a total of 6 million users in the UK in 1998 and the number of people who use the Internet at work has increased by 54% in the same period (Barbe *et al*, 1989). Internet access allows enterprises to strengthen their profile and offers their current information to a much larger pool of consumers. The Internet access provides another channel for creating a brand, advertising and marketing (Fasing, 2000).

The Internet facilitates direct trading on the e-market. The electronic trade is growing with an incredible rate of approximately 50% annually.

Data relating the number of digital customers in 2011 and 2012 and the forecasts for 2013, 2014, 2015 and 2016 in North America, Western and Eastern Europe, Asia, Latin America, Middle East and Africa are indicated in Table 1 below.

Table 1: Number of digital customers and the predictions for the world, in millions

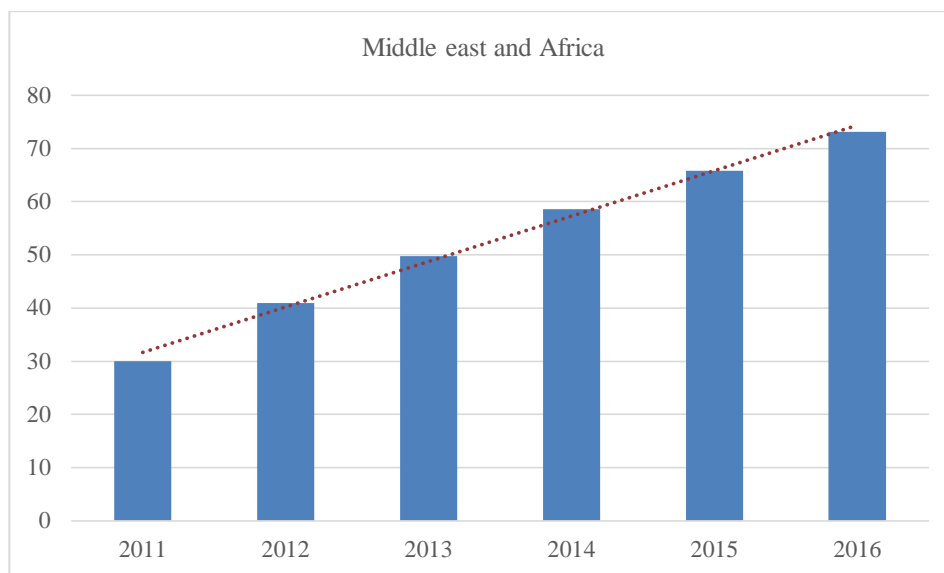
	2011	2012	2013	2014	2015	2016
Asia-Pacific	334.8	391.1	457.6	523.1	591.7	653.5
China	178.4	219.8	270.9	322.1	374.9	423.4
Japan	702	733	756	77	78.2	792
India	145	192	246	30	36.2	418
South Korea	22.2	23.3	24.4	25.4	26.3	26.9
Australia	98	102	106	10.9	112	115
Indonesia	2	3.1	4.6	5.9	7.4	8.7
Other	374	42.2	47	51.8	57.3	62 1
Western Europe	156.8	168.6	178.8	186.1	192.1	197.3
Germany	38.2	41.2	43.3	44.4	45.2	459
UK	33	34.8	36.5	37.5	38.2	38.9
France	24.5	26.5	28.1	29.2	29.8	30.4
Spain	13.4	14.5	15.9	17.2	18.6	19.5
Italy	10.5	11.7	13	14.2	15.4	16.6
The Netherlands	7.3	7.8	8.1	8.3	8.5	8.6
Sweden	4.1	4.3	4.5	4.6	4.7	4.8
Denmark	2.5	2.7	2.9	3	3	3.1
Finland	2.3	2.4	2.5	2.6	2.7	2.8
Norway	2.2	2.3	2.4	2.5	2.6	2.7
Other	18.8	20.3	21.6	22.6	23.4	24.1
North America	156.3	164.2	171.3	178.8	185.8	192.6
US	143.4	149.8	156.1	162.6	168.7	175

	2011	2012	2013	2014	2015	2016
Canada	13.3	14.4	15.2	16.2	17.1	17.6
Eastern Europe	63.9	75.2	85.2	95.2	102.5	107.4
Russia	19.6	23.1	26.2	29.3	31.4	32.7
Other	44.3	52.1	59	65.9	71.1	74.7
Latin America	50.3	63.6	73	82.5	90.6	97.5
Brazil	19.1	23.7	26.7	29.7	31.9	33.9
Argentina	64	8.1	9.2	10.4	11.3	11.8
Mexico	5.8	7.2	8.4	9.6	10.9	12.1
Other	19.1	24.7	28.8	32.8	36.5	39.7
Middle East & Africa	30	40.9	49.8	58.6	65.8	73.1
Worldwide	792.6	903.6	1,015.80	1,124.30	1,228.50	1,321.40

Source: eMarketer, <http://www.emarketer.com/> (accessed 21.10.2013)

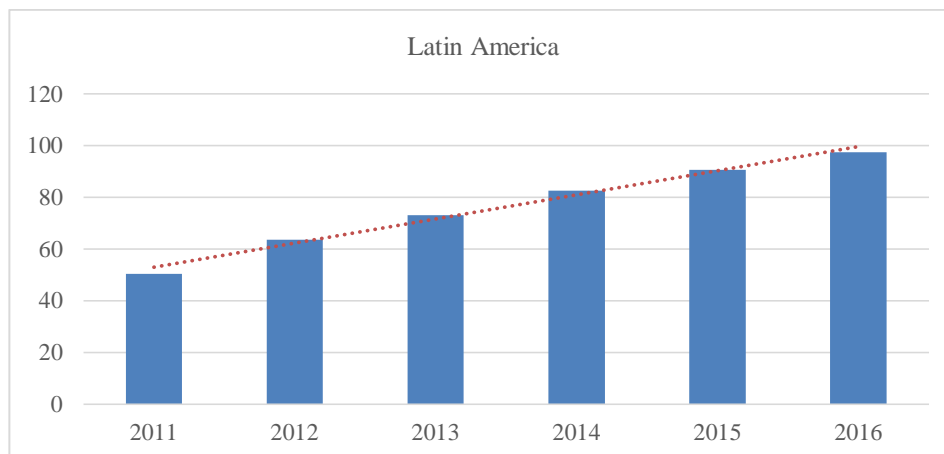
Concerning certain regions of the world, the largest increase in the number of e-consumers in 2011-2012 can be noticed in the Middle East and Africa, where the number of e-consumers increased by 36.3%, followed by Latin America, where e-consumers increased from 50.3 million in 2011 to 63.6 million in 2012 (EMarketer, 2013). It is projected that in 2016 the number will increase by 93.83% compared to 2011. The increase of e-consumers in the Middle East and Africa and Latin America is presented in Figure No.1 and 2.

Figure 1: Number of e-buyers in the Middle East and Africa in the period 2011-2016



Source: eMarketer, <http://www.emarketer.com/> (accessed 21.10.2013)

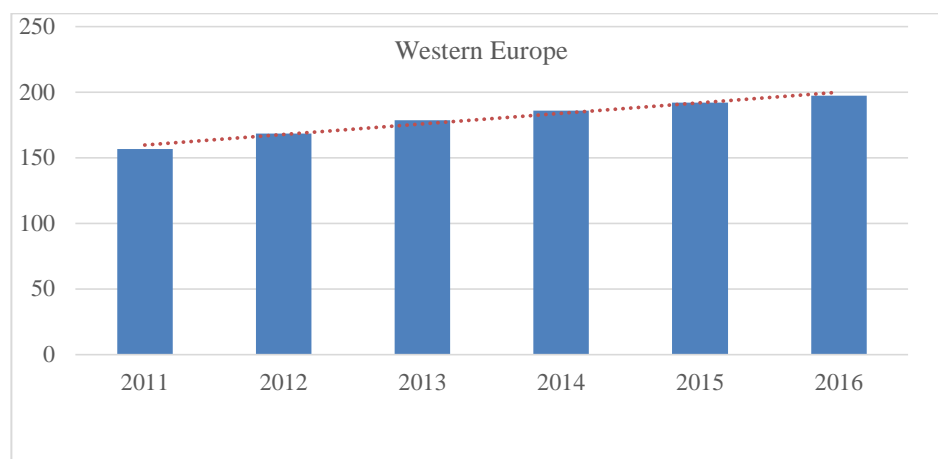
Figure 2: Number of e-buyers in Latin America in the period 2011-2016



Source: eMarketer, <http://www.emarketer.com/> (accessed 21.10.2013)

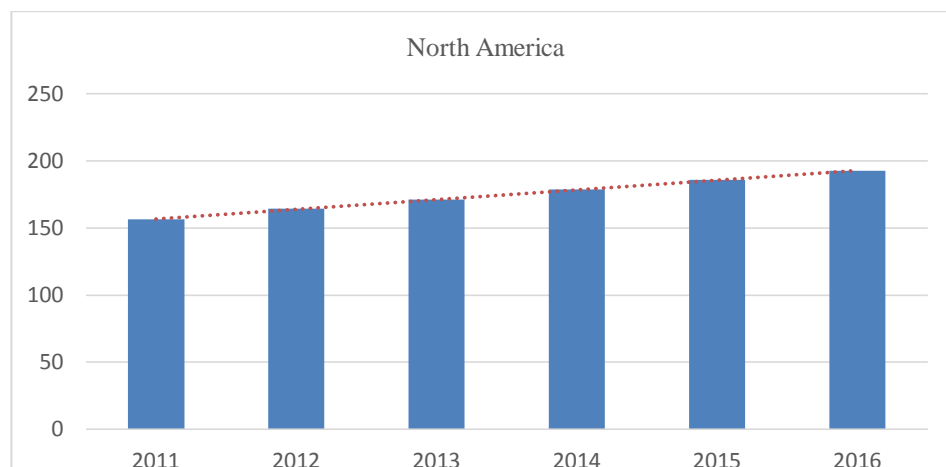
According to the percentage of increase related to the number of e-consumers in different regions of the world, the region of Asia and the Pacific has noticed an increase of e-consumers of 17% in the period 2011-2012 and in Western Europe in 2012 the number of e-consumers has increased by 7.5% compared to 2011. The forecasts for the period up to 2016 indicate that the highest increase in the number of e-consumers should happen in North America and it should be 23.22% followed by Western Europe with the increase of 25.82%. The small percentage of increase in the number of e-consumers in these regions is due to the fact that these regions have already reached a certain number of e-consumers and only some marginal changes are indicated. Figure 3 and 4 present the increase in the number of e-consumers in Western Europe and North America.

Figure 3: Number of e-buyers in Western Europe in the period 2011-2016



Source: eMarketer, <http://www.emarketer.com/> (accessed 21.10.2013)

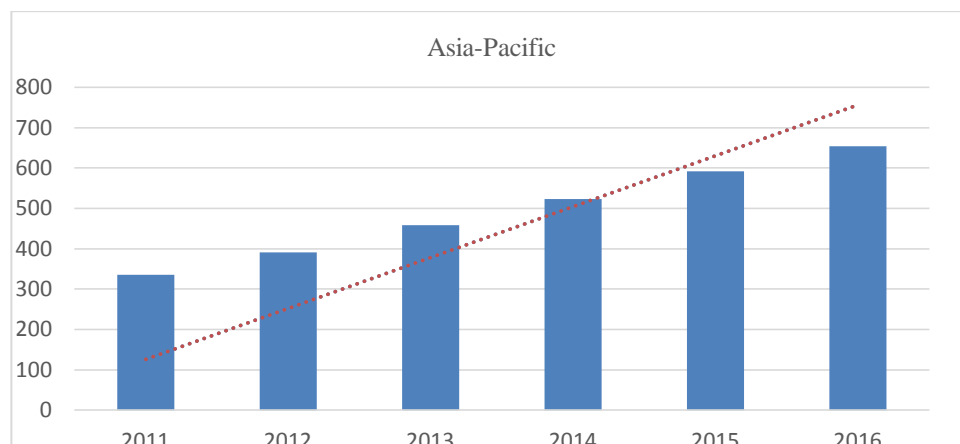
Figure 4: Number of e-buyers in North America in the period 2011-2016



Source: eMarketer, <http://www.emarketer.com> / (accessed 21.10.2013)

Contrary to the regions of Western Europe and North America, the largest increase of the number of e-consumers is predicted to happen in the regions of Middle East and Africa where the projected increase of the number of e-consumers is 143.7%, Asia and the Pacific which indicate an increase in the number of e-consumers by 95.65% and Latin America where the predictions indicate an increase of 93.83%. The largest increase in the number of e-consumers in these regions is predicted to be the result of the accelerated process of digitalization and implementation of e-technology in the period 2011-2016 year. Figure 5 shows the increase in the number of e-consumers in Asia and the Pacific.

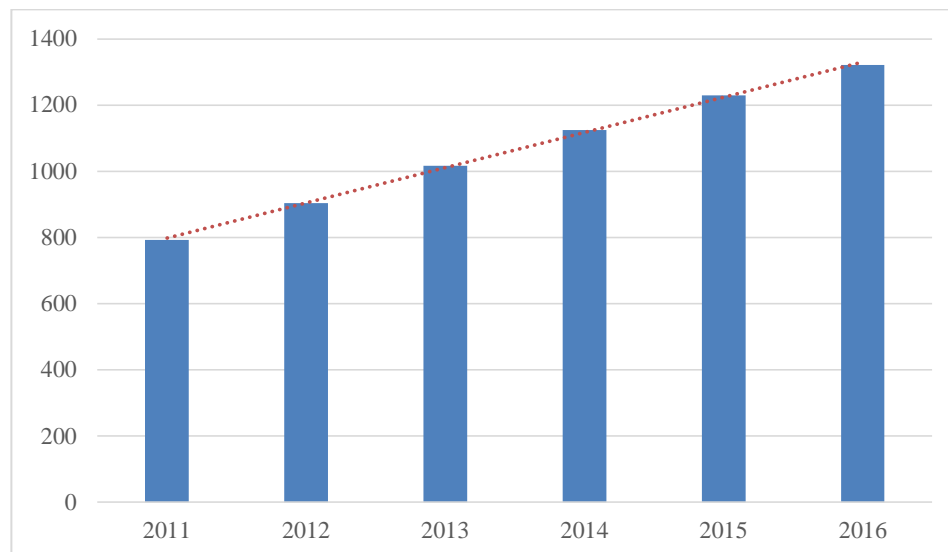
Figure 5: Number of e-buyers in Asia and the Pacific in the period 2011-2016



Source: eMarketer, <http://www.emarketer.com/> (accessed 25.10.2013)

According to the data presented, it can be concluded that the number of digital customers or customers worldwide in 2012 increased by 14% and the forecast for 2013 was an increase of 12%. In the coming period, the number of digital customers is forecast to increase by 10%, next year by 9% and 7% in 2016. Analyzing the period from 2011 to 2016, the number of digital consumers would increase by 66.7%. The largest increase in the number of e-consumers has been noticed in 2012. The growth of e-consumers in the world is indicated in Figure 6.

Figure 6: Number of e-buyers worldwide in the 2011-2016 period



Source: eMarketer, <http://www.emarketer.com/> (accessed 21.10.2013)

In Table 2 below, the average turnover per digital customer is presented for the period between 2011 and 2012 and the forecast turnover for the period 2013-2016 as well.

Table 2: Average turnover per digital customer between 2011 and 2012 and forecast turnover for the period 2013-2016

	2011	2012	2013	2014	2015	2016
North America	\$2.044	\$2.221	\$2.388	\$2.542	\$2.695	\$2.847
US	\$2.104	\$1.293	\$2.466	\$1.626	\$2.785	\$2.937
Canada	\$1.395	\$1.470	\$1.590	\$1.697	\$1.813	\$1.955
Western Europe	\$1.597	\$1.738	\$1.865	\$1.998	\$2.120	\$2.222
UK	\$3.304	\$3.585	\$3.878	\$4.194	\$4.501	\$4.722
Norway	\$2.259	\$2.530	\$2.796	\$3.040	\$3.231	\$3.341
Denmark	\$2.064	\$2.185	\$2.286	\$2.485	\$2.660	\$2.787
Finland	\$1.430	\$1.592	\$1.752	\$1.873	\$3.967	\$2.032
Sweden	\$1.298	\$1.465	\$1.627	\$1.802	\$1.945	\$2.075

	2011	2012	2013	2014	2015	2016
Italy	\$1.230	\$1.380	\$1.522	\$1.678	\$1.804	\$1.885
Spain	\$1.165	\$1.280	\$1.358	\$1.424	\$1.475	\$1.548
France	\$1.211	\$1.258	\$1.316	\$1.382	\$1.462	\$1.542
Germany	\$997	\$1.141	\$1.224	\$1.306	\$1.372	\$1.438
The Netherlands	\$960	\$1.024	\$1.109	\$1.192	\$1.268	\$1.337
Other	\$1.032	\$1.147	\$1.233	\$1.324	\$1.408	\$1.487
<i>Asia-Pacific</i>	\$743	\$850	\$947	\$1.057	\$1.123	\$1.179
Australia	\$3.283	\$3.547	\$3.802	\$4.033	\$4.278	\$4.483
Japan	\$1.407	\$1.743	\$1.857	\$1.953	\$2.050	\$2.140
South Korea	\$783	\$880	\$973	\$1.050	\$1.115	\$1.190
China	\$318	\$501	\$670	\$852	\$956	\$1.039
India	\$597	\$632	\$665	\$691	\$708	\$724
Indonesia	\$282	\$337	\$391	\$437	\$480	\$516
Other	\$545	\$589	\$628	\$657	\$677	\$699
<i>Latin America</i>	\$549	\$578	\$620	\$669	\$686	\$704
Mexico	\$721	\$854	\$952	\$1.030	\$1.049	\$1.065
Brazil	\$730	\$717	\$741	\$792	\$800	\$806
Argentina	\$365	\$380	\$428	\$471	\$508	\$545
Other	\$378	\$428	\$474	\$514	\$532	\$553
<i>Eastern Europe</i>	\$497	\$549	\$587	\$628	\$650	\$665
Russia	\$569	\$628	\$670	\$715	\$738	\$758
Other	\$1.162	\$1.243	\$1318	\$1.399	\$1.459	\$1.513
<i>Middle East & Africa</i>	\$480	\$504	\$542	\$575	\$601	\$6,622
<i>Worldwide</i>	\$1,162	\$1,243	\$1318	\$1,399	\$1,459	\$1,513

Source: Adapted according to eMarketer.com

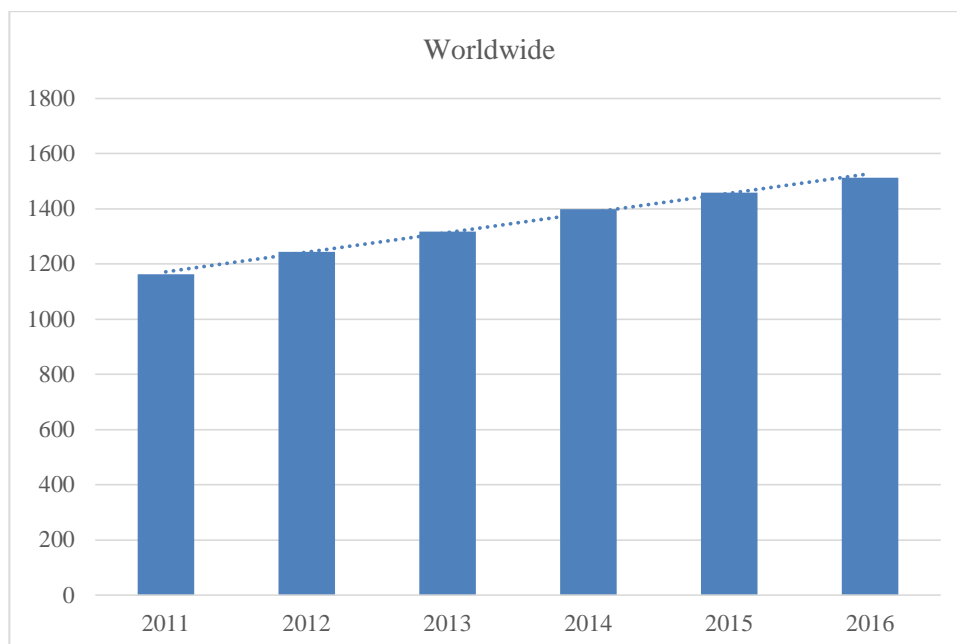
Considering different regions in the world, the highest average turnover per digital buyer between 2011 and 2012 is indicated in Asia and the Pacific, where the average turnover per digital customer has increased by 14.4%. Compared to 2011, it has been predicted that the average turnover per buyer in 2016 in this region increased by 58.6%. Then follows the region of North America, where the average turnover

per digital customer increased from \$ 2,044 in 2011 to \$ 2,221 in 2012, or an increase in turnover related to digital shopper by 8.6%. Considering 2011, predictions related to the average turnover per buyer in 2016 is growth by 39.2%. The smallest increase in e-trading per buyer is indicated in Eastern Europe, from \$5,497 per customer in 2011, to \$5,549 in 2012. Also in this region growth is projected related to the average turnover of 3% for the period 2011-2016, which also has the lowest percentage considering prediction of turnover. Particularly, in countries like China there has been the biggest increase in e-trade, from \$318 per customer in 2011 to \$501 in 2012. Studies conducted by the National Union for Retail in the United States indicate that consumers who visit websites of any company spend 33% more money in that enterprise compared to companies that do not have a website. (Baker P., 1999, pp.26-7)

According to the percentage of increase, considering the average turnover per buyer, the forecasts for the period 2011-2016 show that the greatest increase in e-trade (as percentage counts for 58.6%) are estimated in the region of Asia and the Pacific. The forecasts for the period until 2016 indicates that the lowest increase in the average sales per e-shopper is forecast in Eastern Europe and it is only 3%, followed by the Middle East and Africa with an increase of 29.5%. The small increase in percentage of the average turnover in these regions is a result of poor development of e-commerce, informing customers about the possibilities of this method of trading, and poor digital infrastructure. Worldwide, the average increase in turnover had a tendency to increase from \$1,162 in 2011 to \$ 1,243 in 2012 or 6.9% (EMarketer, 2013).

The forecasts for the period 2011-2016, showed positive tendency by growing 30.2%. Figure 7 represents the average turnover for a buyer in 2011 and 2012 and forecasts for e-trade by 2016 worldwide.

Figure 7: Average turnover per buyer in 2011 and 2012 and forecasts for e-trade by 2016 worldwide.



Source: *eMarketer*, <http://www.emarketer.com/> (accessed 23.10.2013)

Compared with the number of e-buyers in the world, where an increase is anticipated of 66.7%, growth in average turnover per e-buyer has the tendency of growing less than 50%. Considering individual regions, predictions are that the region of Latin America will have a much smaller increase in the average turnover per e-buyer compared to the other relevant forecasts for about 3 times. Predicting the growth of small enterprises can be performed with the method of using standard financial variables (Storey et al. 1987).

This method applies an opposite approach in predicting growth because it predicts failure or success by identifying implications.

Conclusion

E-business involves execution of all business activities through electronic ways. All businesses involved in electronic business processes perform business transactions by electronic means and devices. E-business also involves intensive use of information and Internet technology in the performance of all business activities. The concept of e-commerce is applied by all companies and entrepreneurs. At the same time this concept creates an opportunity and on the other hand it creates certain weaknesses for entrepreneurs and their enterprises. E-business affects the overall operation of the company. Using the benefits of its implementation, it requires change and redefinition of the strategy, changing the whole system and manner of handling information in the enterprise and the use of advanced computer-information technology. By applying the appropriate strategy, companies can increase the positive benefits of this concept with reducing operating costs and transaction costs, expanding distribution channels, the simple approach in its use of technology and, most importantly, Internet access 24/7/365. E-business has replaced traditional working models with new ones - the constant availability of product and service information to customers. E-business involves defining and exchanging information within entrepreneurial companies, or between multiple companies, and exchange of information between entrepreneurial companies and consumers. The exchange of information among companies and consumers is subject to empirical research, indicating that the number of digital customers worldwide in the period 2011-2016 will increase as a result of increased exchange of information and it is also simultaneously expected to notice growth of the average turnover per customer. Apart from the benefits or advantages, e-business is followed by certain drawbacks or weaknesses. The system is complex and requires certain investments to integrate existing business processes into a single system. Nevertheless, the main trends that create an opportunity for rapid development of e-business are also the comfort and integration of e-processes.

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UDC 339.56(497.5:497.11)
Original scientific paper

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**ACCESSION OF CROATIA TO THE EUROPEAN UNION AND
ITS CONSEQUENCES TO SERBIAN FOREIGN-TRADE**

Abstract

The objective of the paper is to analyze economic (financial and foreign-trade diversion) consequences on Serbia by the accession of Croatia to the EU (European Union). The accession of Croatia to the EU in July 2013 has significantly changed the trade flows among the Balkan nations due to its abandoning of the CEFTA membership. This diverted foreign-trade flows among the remaining members of the CEFTA agreement, and will have the financial and macro-economic consequences examined in details in the paper, with special attention on financial and foreign trade diversion of Serbia, as well as the structure of export and import. (Since 2012 the Serbia-Croatia foreign trade in goods has been 699.7 million EUR, out of which 417.9 million EUR of Croatian export of goods to Serbia were mostly industrial products, and 281.8 million EUR of Serbian export to Croatia were mostly agricultural and processed-food products).

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Keywords: foreign trade, balance-of-payment, current account deficit, Croatia, Serbia

JEL classification: F40, F14

Background, Theoretical Basis, Methodology and Hypothesis

CEFTA (Central European Free Trade Association) is archaic acronym for the modern free trade association of South-Eastern Europe (mostly of the Western Balkans) economies that inherited the membership into the Central European countries which formed this free trade association in the early 1990-ies. With the accession to the European Union in May 2004, original member-states abandoned the membership in this free trade association and adopted the common EU (European Union) trade policy and tariffs. At one point, Croatia (that joined this association in 2002) remained its only member state, which was a paradox (having association with only one member). In 2006 all other Balkan member states (except Greece, Slovenia and Turkey) joined this Free trade association that was considered a gateway to the EU.

The Government of Serbia signed the Agreement on Stabilization and Accession, and its Interim Trade Agreement with the European Union in 2008, as part of the negotiation process with the European Union. Despite the fact that the last EU-member state (Lithuania) ratified the aforementioned Agreement in its national parliament in June 2013, the Serbian government has decided, mainly for political reasons, to apply for the Interim Agreement unilaterally started as of late January 2009, with the argument that application for the Agreement will shorten the period between the application for the Agreement and obtaining the candidate status for accession to the European Union. Those who criticized this decision argued that the state of Serbia gave up the budget income of tariffs, and consequently had to increase excise duties for oil and oil derivatives in order to compensate for the lost budget incomes, which happened to occur in the outbreak of the world financial and economic crisis. Another argument of the critics of such decision was

that the reducing of tariffs would stimulate the domestic demand for imported goods. Especially humiliating and hypocritical was the recommendation given by the EU Enlargement Commissioner, Mr. Oli Ren, that Serbia, as a sign of goodwill, should unilaterally apply for the aforementioned Agreement, since at that time (in 2009) the Netherlands and Belgium had blocked application for the Agreement in the European Union due to political reasons (“not satisfied with Serbia’s co-operation with the Hague war tribunal”).

Table 1: Dynamics of foreign trade liberalization of industrial goods in Serbia

	Sensitive products (3 years of liberalization)		Very sensitive products (5 years of liberalization)		The most sensitive products (6 years of liberalization)	
	Dynamic s of tariff reduction	Averag e tariffs (%)	Dynamic s of tariff reduction	Averag e tariffs (%)	Dynamic s of tariff reduction	Averag e tariffs (%)
Prior to 2009	100%	5.02	100%	9.18	100%	15.66
30.1.2009	70%	3.51	80%	7.35	85%	13.34
1.1.2010	40%	2.01	60%	5.51	70%	10.99
1.1.2011	0%	0	40%	3.67	55%	8.63
1.1.2012	0%	0	20%	1.84	40%	6.28
1.1.2013	0%	0	0%	0	20%	3.14
1.1.2014	0%	0	0%	0	0%	0

Source: Milenkovic, D. and Milenkovic, I. (2010).

According to the interim Trade Agreement, Serbia gradually liberalized the trade of industrial and agricultural products by reducing import tariff rates for the aforementioned products by 20% per year. After 5 years of application for the Interim Trade Agreements, all tariffs for imported goods (except several products) should have been gone. According to negotiated terms, four groups of products imported to Serbia were defined: 1) non-sensitive, 2) sensitive, 3) very sensitive and 4) the most sensitive. In the first group of products are those products

that before the implementation of the Interim Trade Agreement had a tariff rate of 5%, and those were tariffs released at the beginning of 2011 (Table 1). The second group of products are the products whose tariffs had been gradually decreasing in phases down to zero-tariffs in 2013. The third group of products are the products whose tariffs will be gradually decreased in phases down to zero-tariffs in 2014. The fourth group of products are those products (approximately $\frac{1}{4}$ of all agricultural products, such as plums, apples, peppers, tomatoes, wheat, etc.) which seasonal, special and ad valorem tariffs will stay in place after 2014, while the tariffs for tobacco, sugar and sunflower oil will not be abandoned. Application for the aforementioned Agreement by Serbia has both advantages and disadvantages, i.e. gradually but relatively fast abandoning of tariffs can be considered to be both advantage and disadvantage. The positive side of it are the cheaper inputs in production, including consumer goods, while the negative side is that more competitive foreign goods overwhelmed the domestic market in relatively short period of time, and they impose threat for the fragile domestic industry in Serbia, as well as reduced budgetary income made by tariffs in the outbreak of the world financial and economic crisis. But unilateral application of the Agreement and gradual liberalization is still better than the rash liberalization happening in Serbia after the political changes in 2000.

Decisions by the Government of Serbia to unilaterally apply the Interim Trade Agreement, i.e. to gradually liberalize its foreign trade, was probably encouraged by the neoclassical theory explanation that foreign trade liberalization within the region should equalize prices and production factors. Increased mobility of production factors in free trade conditions should make the allocation more efficient, which is beneficial for both integrated and world economy. Namely, the bases of both classical and neoclassical economic theories are the following: (1) there is full mobility of production factors in the national economy; (2) there is the so-called perfect competition; and therefore (3) inter-regional movement of labor and capital is achieved based on the demand of those production factors. According to the aforementioned doctrine, regional differences encourage movement of capital from more development

regions, where by definition the rates are higher, to less development regions, where massive demand and scarce of capital insure higher profits. Capital inflow will be faster as differences between national and international profit rates are higher. Consequently, free capital flow ensures faster economic growth of less developed regions, since it releases them from the excess in the workforce, while at the same time additional capital inflow from developed regions is recorded. This mechanism should equalize the regional differences. However, assumptions and terms by neo-classicists expected benefits from the customs union do not match modern conditions, and are rather applicable in developed economies (constant or rising costs, constant scope and/or consumption structure, full employment of the production factors, well-balanced balance of payments) than in developing ones. Since some of the aforementioned assumptions are not real in the case of Serbia, the integration with the European Union cannot be explained by the neo-classical theory. When the decision on unilateral application of foreign trade liberalization is made, it must be considered that the European Union has the population of almost half a billion, while Serbia had more than 50 times less population, and that the GDP of Serbia is only 0.4247% of the GDP of the European Union. Numerous opponents of the neo-classical theory (G. Myrdal, A. Hirschman, F. Perroux) emphasized that economic activities strive to concentrate in countries and regions where economic development had previously been more evident in the past. Even within the individual national economies that rely solely on the common market mechanisms, it did not lead to optimal production factors allocation. (For example, in Italy there is still a present division into wealthy North and destitute South). As a conclusion, the integration of the Serbian economy as well as the other CEFTA-member economies cannot be observed exclusively within the theory on international trade, but must be treated in broader dimensions, by other branches of economic theories, especially by the theory of regional development.

The methodology used in the paper includes comparative analysis examining different scenarios of foreign-trade diversion outcomes due to the different tariffs in the EU in comparison to the present agreement on tariffs-free trade on major goods and services (except the most sensitive

industries, i.e. tobacco industry /export of Croatia to Serbia/, or sugar products /export of Serbia to the EU/), which are carefully negotiated in the process of accession of both other CEFTA members to CEFTA, and of Croatia to the EU. The expected findings i.e. hypothesis are that the accession of Croatia to the EU and its abandoning of CEFTA membership will cause (1) significant changes in foreign-trade flows in the region, mostly in the decreasing scope of the Croatian trade with the remaining CEFTA member-countries; (2) this will further cause increased scope of trade of Serbia and other CEFTA-member countries among themselves, which is analyzed by using different techniques; (3) the aforementioned process will change the balance-of-payments position of Serbia; it will mostly improve the deficit in the current account (since Croatia is the only present CEFTA-member economy that Serbia has deficit in the current account with); (4) further on, changes in foreign direct investment will occur, both in the inward foreign investment to Serbia (from Croatia and other EU member-states), and outward foreign investment from Serbia to Croatia (and remaining CEFTA-member economies).

Consequences in the foreign trade for Serbia with the accession of Croatia to the European Union

Starting on the 1st of July 2013 Serbia has treated trade in goods and services with Croatia equally as the trade with all other EU member states. That implies application of the Interim Trade Agreement, which initially would improve the terms of trade for Serbian export. According to the Interim Trade Agreement, by the end of 2013 Serbia applied tariffs rates for import from the European Union that are planned for the fifth year of liberalization, since from the beginning of the year 2014 it had completely liberalized the trade with the European Union for most of the products imported. But many pressures by the European Commission administration are directed towards the Government of Serbia to revise the Interim Agreement for few agricultural products and cigarettes especially, which became a sensitive issue in the light of the Croatian

accession to the European Union. Namely, Croatia exports respectable quantity of cigarettes to Serbia. Hiding behind the “remaining of traditional trade flows between Croatia and Serbia in the cigarette industry”, the European administration requests Serbia to accept that quota of 25 tons of cigarettes imported from Croatia enjoy tariffs free treatment, while additional 1,600 tons keep the CEFTA-inherited tariff rate of 15%, instead of tariffs rate of 57.6%, which is negotiated for other European Union country members. In 2013 there was a huge pressure by the EU administration on Serbia to preserve the tariffs on cigarettes imported from Croatia by the end of 2013 at the level like when Croatia was a CEFTA-member, and to Bosnia and Herzegovina regarding import from Croatia of certain food-processing products. Although three Serbian tobacco producers (all multinationals: British-American tobacco, Phillip Morris, Japan Tobacco) announced that they will move part of the production of their Serbian branches to the European Union if Serbia succumbs to the EU pressure, which would cause fall in employment and reduction of substantial taxes and excise duties in the Serbian budget, it has not happened so far although Serbia did not resist that pressure and granted reduced tariffs for tobacco, as requested by the European Union. The import of cigarettes from Croatia has been substantial in recent years, i.e. 32% of the Serbian total cigarettes import, while 17% of total Serbian import from Croatia was made of cigarettes.

Table 2: Croatia, main general and macroeconomic data

Total size	81,661 square kilometers
Total population	4.424 million
GDP (2011)	63.896 billion USD
GDP/capita (2011)	13,045 USD
GDP structure	
Services	75.5%
Industry	19%
Agriculture	5.5%
Foreign trade and inward FDI (2011)	
Export	12,288.9 million USD
Import	20,396.9 million USD
Inward foreign direct investment	1,278.6 million USD

Sources: Croatian Chamber of Commerce, Croatian Statistical Office, Croatian National Bank

After the dissolution of the Socialist Federative Republic of Yugoslavia (in 1992), there was no major trade between Croatia and Serbia until 2000 because of political reasons. Namely, the Serbian government (at that time, the government of the Federal Republic of Yugoslavia, consisted only of Serbia and Montenegro) had materially and politically supported the unionist Serbian minority in Croatia. After the year 2000, when both governments from 1990-ties (Serbian hard-line unionist and Croatian separatist) were changed, many positive political signals sent by the new governments caused significant improvement in the mutual foreign trade.

Table 3: Croatia major (top 10) export partners

	2008 (71.8%)	2012 (67.3%)	Cumulative GDP growth 2008-2012
Italy	19.2%	15.3%	-5.8%
Bosnia and H.	15.3%	12.8%	-0.5%
Germany	10.7%	10.3%	2.6%
Slovenia	7.8%	8.6%	-8.3%
Austria	5.8%	6.5%	1.7%
Serbia	5.5%	4.3%	-2.7%
Russian F.	1.3%	3.7%	0.3%
Hungary	2.4%	2.5%	-5.7%
The Netherlands	1.3%	1.7%	-2.2%
UK	2.4%	1.6%	-1.0%
Total CEFTA-members	23.5%	21%	

Source: CBS, Eurostat

Retrieving Croatia from the CEFTA membership that happened due to the accession of Croatia to the European Union on 1st of July 2013 left behind an empty leading position in the trade among remaining CEFTA-member states. Due to the aforementioned fact, Serbia could significantly increase its exports, especially of agriculture products to CEFTA-member markets, since Croatian goods will be more expensive and less competitive due to the higher tariffs. In addition to it, Serbian export to Croatia (as well as exports of other remaining CEFTA-member countries) will remain more or less the same, since according to the Interim Agreement, the European Union allows CEFTA-member states to export to the European Union with no tariffs (except a few exceptions that are regulated by quotas). As the new member of the European Union, Croatia has to adopt the present regulation rules, which will create favorable environment with many opportunities for the CEFTA-member to increase the export. The accession of Croatia to the European Union will increase the Serbian surplus in trade with the remaining of the CEFTA-member countries, and higher rate of inward foreign direct

investments are expected too. Serbian trade with Croatia is not one of the Serbian top priorities due to the fact that Croatia is not among the top three CEFTA-member states measured by the Serbian export (top three CEFTA-member states in 2012 was Bosnia-Herzegovina, Montenegro and Macedonia). On the other hand, Bosnia and Herzegovina is the second most important Croatian export market with 11% of the total Croatian export (See Table 3). Starting as of 1st of July 2013, Bosnia and Herzegovina re-activated the tariffs for goods imported from Croatia, which will affect many Croatian products imported to Bosnia, especially beverages, flour and milk, making those products less competitive on the Bosnian market, which is an additional opportunity for the Serbian food-processing industry to thrive on the Bosnian market. The biggest expected change in the foreign trade-flows of Croatia is expected by its foreign trade with Moldova and Kosovo, since those countries/territories have not signed Agreements on Stabilization and Accession with the European Union (tariffs in Moldova are different for particular products, while Kosovo applies unilateral tariff rate of 10%). Serbia applied tariffs to most goods imported from Croatia according to its Interim Trade Agreement, as a part of the Agreement on Accession and Stabilization with the European Union and its former members, but only until the 1st of January 2014, when trade in most goods with the European Union was completely liberalized.

The opportunities for Serbia that arise from the fact that Croatia accessed to the European Union in July 2013 can be summarized as follows (Krstic, 2013):

1) Substitution of Croatian products on remaining CEFTA-member markets. The Croatian market share as a former CEFTA-member is the main positive possibility for Serbian export. Since Croatian exporters from 1st of July 2013 are imposed to EU-member countries tariff rates, which are higher than the previous CEFTA-member states rates (which mostly were 0), the Croatian exported goods will become more expensive and less competitive. This will especially be important in the meat industry, remaining food-processed industry and tobacco industry, which had represented important part of Croatian products exported to

the CEFTA-member countries. Therefore it can be a good opportunity for the Serbian products in the aforementioned industries to seize bigger share on CEFTA-member countries on account of Croatian products.

2) *Improving of Serbian foreign trade with Croatia*, especially with agriculture products, is one of positive consequences if accession of Croatia to the European Union to Serbia. On one hand, the Croatian products will become more expensive in Serbia, which should decrease Croatian export to Serbia and create opportunity to substitute those products with domestic ones. On the other hand, Serbia will become able to export its agricultural products to Croatia in the same way as it exported to other EU membes – without any customs or quota limitations, except for several exceptions such as beef, trout, and, the one very important for Serbia, sugar. In addition, Serbia has the right to keep customs and quota limitation for Croatian agricultural products. Nevertheless, it should be born in mind that Serbian agriculture producers will face non-tariff barriers such as sanitary and fito-sanitary procedures, which will be imposed by Croatia as a recent member of the European Union.

3) *Transfer of Croatian production facilities to Serbia (and to other CEFTA-member countries)* is another expected outcome of the accession of Croatia to the European Union. The production transfer from Croatia to Serbia and especially to Bosnia and Herzegovina (it is not expected major transfer to other CEFTA-member countries) is possible response from Croatian producers of aforementioned, especially tariffs-affected industry in an effort to preserve presence on the CEFTA-member markets. This outcome is not certain due to the fact that the investment climate in Serbia and Bosnia and Herzegovina is less favorable than in Croatia.

The increase of tariff costs for goods and services made in Croatia, according to some estimation (Uvalic, 2013: 10), will triple tariff-costs for goods and services exported to Serbia, and double the aforementioned costs for goods and services exported to Macedonia, while exports to Bosnia and Herzegovina will increase by 15%, i.e. 10 million euro newly-established expenses. Most changes in the structure

of the trade in the CEFTA region will occur to the Croatian food industry, especially to dairy products, meat, cookies and cigarettes, the products whose competitiveness will be especially decreased. This may be an extraordinary opportunity for the Serbian producers and exporters, as well as all the others remaining CEFTA-member producers, and what is expected is increase of mutual trade of CEFTA-member countries and producers.

Conclusion

Accession of Croatia to the European Union creates many opportunities for the Serbian economy. Starting as of 1st of July 2013 Croatia joined the European Union, but on the same day it abandoned membership in CEFTA (Central European Free Trade Agreement). The future Serbo-Croatian foreign trade relations will be regulated by the Serbian Agreement on Stabilization and Accession and the following annexes to it, instead of the CEFTA Agreement.

Although some economists believe that the foreign trade structure between Croatia, Serbia and other CEFTA-member countries will not change significantly, we discussed in the paper the possible financial and foreign-trade consequences of the accession of Croatia to the European Union. We expect that the aforementioned changes will affect the foreign-trade and foreign direct investment flow to some extent, where major changes are expected in the mutual foreign trade between Serbia and Bosnia and Herzegovina, i.e. an increase. Also, slight decrease of foreign trade between Serbia and Croatia is expected due to the increased tariffs for some products previously traded on favorable CEFTA-membership terms, and increased standards that are expected by the Croatian national regulation as a newly joined European Union member. In addition, some Croatian investors, due to the significantly changed operation terms in their home-countries that joined the European Union and abandoned CEFTA membership will keep high rate of investments (and possibly increase in it) to other CEFTA-member

countries, mainly Serbia and Bosnia and Herzegovina in order to preserve the present market.

All our hypotheses proved to be confirmed. We can conclude that with the accession of Croatia to the European Union there are serious consequences to Serbia and other CEFTA member countries. More advance research using econometric methods will be worthwhile and a challenge for further research.

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UDC 336.76(497.7)''2005/2009''

Original scientific paper

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**DETERMINING THE FACTORS THAT INFLUENCE INVESTORS'
DECISIONS TO BUY OR SELL STOCKS ON THE MACEDONIAN
STOCK MARKET**

Abstract

During the period 2005 – 2009, the Macedonian Stock Exchange (MSE) witnessed its first bull and bear market in its short history. The study aims at identifying the most and the least influencing factors on the MSE small investor behavior. Convenience sample survey was conducted on individual investors in the recession period to discover the influence of economic indicators on the decision to buy or sell stocks on the MSE during the recession period. The findings are that investors are not completely rational as perceived by traditional finance theories. As the most affecting factor considered by the participants is “Neutral information”. Even more, the investment decision process is driven by such factors as: "Reputation of the company", "Acceptable stock price", and “Accounting information” is identified as the second most influencing category for the Macedonian equity investor, which was an unexpected result. The structure and relative weights

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of the chosen categories reflect on the average, which is a still unsophisticated and immature profile of the Macedonian investor.

Keywords: investor behavior; influencing factors; behavioral finance; Macedonian stock market

JEL classification: G10, G11

Introduction

The modern economic research has been built on the notion that human beings are rational agents who attempt to maximize wealth while minimizing risk (Barber & Odean, 2013). The mainstream finance literature is based on the assumption that rational and omniscient investors optimize the risk/return profile of their portfolios. This approach has merits in the development of theoretical foundations like the Capital Asset Pricing Model and the Arbitrage Pricing Theory for a stylized world with efficient markets. However, treating investors as being utility optimizing, omniscient, and unboundedly rational sets limits to understanding and explaining real-life investors' behavior, because the real individual investors behave differently from investors in these models. They are human and humans are not rational agents who attempt to maximize wealth while minimizing risk. However, due to the lack of information and mathematical capacities, the investors are bounded to be rational, since apart from the knowledge they store and experience they have, they are still limited (Hoffmann, Eije, & Jager, 2006). A large body of empirical research indicates that individual investors make systematic, not random, buying and selling decisions and go beyond the rationality. The limitations of mainstream finance are well-known in the field of behavioral finance and the existant literature in this field has contributed to

understanding many facets of investor behavior that were initially inexplicable from a mainstream finance perspective. Research in behavioral finance is relatively new (Rabin, 1998; Shiller, 1999; Hirshleifer, 2001; Hirshleifer et al., 2009; Barberis & Thaler, 2003; Campbell, 2006; Benartzi and Thaler, 2007; Subrahmanyam, 2008). Within behavioral finance it is assumed that the information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. According to behavioral finance, investor market behavior derives from psychological principles of decision making to explain why people buy or sell stocks. Behavioral finance focuses on how investors interpret and act on information to make investment decisions. Behavioral finance is a study which has enlightened the role of behavioral aspects of investment decisions. In behavioral finance, financial markets are analyzed using models which are less narrow than those given by Neumann and Morgenstern (1947). It is a rapidly growing field which focuses on the behavior of financial practitioners' psychology (Merikas et al., 2004; Al-Tamimi, 2006).

Merikas et al., (2004) tested the tenets of the behavioral finance theory on the factors that influence investment choices and the analysis performed on the data collected appears to give a fairly accurate view of the average equity investor in the Athens Stock Exchange (ASE). They found that the most important variables were related to classic wealth maximization criteria. Environmental criteria like "coverage in the press", "statements from politicians and government officials" and "political party affiliation" were totally unimportant to most stock investors. Hoffmann et al., (2006) researched the needs and conformity behavior on investors. The results indicated that besides satisfying the financial needs investors also struggle to satisfy socially oriented needs. Hoffmann, et al. (2006) also found that individual investors give importance to financial gains. Thus, this study followed an "extended" utility approach along with supporting behavioral

finance, which states that investing offers both utilitarian and expressive benefits. Therefore investors display a palette of different needs besides the financial aspects of investing (Fisher & Statman, 1997; Statman, 1999; Statman, 2002; Statman, 2004). Al-Tamimi (2006) researched factors like expected corporate earnings, government holdings, stock marketability, getting rich quickly, and the creation of financial markets using factor analysis.

Sevil, Sen & Yalama (2007) aimed to understand the decision processes of small investors trading on the Istanbul stock exchange and found that investors are not completely rational as perceived by traditional finance theories. Iqbaland & Usmani, (2009) made survey based research on the Karachi Stock Exchange and the findings were similar to Merikas et al., (2004). The wealth maximization criteria on making their stock purchase or making use of the accounting information derived by financial statements and the firms' financial position in general were the most influential factors.

Individual investors participate in the stock market by purchasing and selling different stocks and it is very important to identify various economic and behavioral motivations that affect their purchasing decisions. The objective of this study is to give insight into the behavior of Macedonian individual investors i.e. which factors influence them to purchase or sell the stocks on MSE.

1. Data and methodology

The survey targeted the individual investors who were investing in stocks on the Macedonian Stock Market and who visited brokerage houses in the period of September 2009 to January 2010. The questionnaire was distributed through several brokerage houses to their clients qualified as small investors. Faced by the recession period and lower trading volume, there was

difficulty in surveying, which was caused mostly by the very few clients entering the brokerage houses. 108 clients responded to the questionnaire. The participants were asked to answer the following question: "How do the following factors influence your decision to buy or sell shares on MSE", by evaluating the importance of 25 indicators identified in the literature as potentially influencing stock investment decisions. These variables were ranked in 5 categories: Accounting Information, Personal Financial Needs, Subjective/Personal, Advocate Recommendation, and Neutral Information (Merikas et al., 2004). Participants had to evaluate the relative importance of the 25 variables in their investment decision by marking only one of three choices for each one. If they considered the variable is likely to be the most influential in the decision making process on buying and selling stocks, then they chose to mark: *most influence*. If the variables are of secondary importance in their investment decision making, they chose to mark: *some influence*, and *no influence* if the variables are not at all significant in their investment decision process.

The variables were ranked according to how frequently they were placed in each response category. Reliability of the measures was assessed with the use of Cronbach's alpha. Cronbach's alpha allows us to measure the reliability of the different categories. It consists of estimates of how much variation in scores of different variables is attributable to chance or random errors (Selltiz, et al., 1976). As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of construct reliability (Nunnally, 1976). To identify the similarities among the variables and to group them into identifiable categories, factor analysis was used. More specifically, factor analysis was used to examine how they interact with each other.

2. Results

2.1. Frequency distribution

Frequency distributions of variables that significantly influence investor decisions show which of the variables were identified by the Macedonian investors to significantly affect their individual investor behavior, namely the “most influence” variables (Table 1).

Table 1: Frequency Distribution of Variables that Significantly Influence Investor Decisions

Rank	Item	Frequency	Per Cent
1	Reputation of the firm	70	64.8
2	Affordable share price	68	63
3	Firm status in industry	63	58.3
4	Condition of financial statements	61	56.5
5	Current economic indicators	57	52.8
6	Fluctuations/developments in the indices of the major markets	52	48.1
7	Expected dividends	51	47.2
8	Gut feeling on economy	51	47.2
9	Recent price movements in a firm's stock	47	43.5
10	Brokerage house recommendation	46	42.6
11	Past performance of the firm's stock	45	41.7
12	Protection or not of the investor	42	38.9
13	Opinions of the firm's majority stockholders	42	38.9
14	Feelings for a firm's products & services	39	36.1
15	Diversification needs	38	35.2
16	"Get rich quick"	31	28.7
17	Statements from politicians & governmental officials	30	27.8
18	Perceived ethics of firm	28	25.9
19	Coverage in the press	26	24.1
20	Attractiveness of non-stock investments	25	23.1
21	Ease of obtaining borrowed funds	22	20.4
22	Political party affiliation	20	18.5
23	Environmental record	19	17.6
24	Friend or coworker recommendations	15	13.9
25	Family member opinions	14	13

Source: Author's calculations.

The first conclusion drawn from Table 1 is that most of the variables that were rated most important are standard wealth maximization criteria such as: Reputation of the firm; Expected dividends; Firm status in industry; Condition of financial statements; Current economic indicators. It was generally expected that these factors would be high on the list of criteria considered in choosing stock investments, especially given the fact that the survey was conducted in the recession period. The participants were generally investors who have been hit hard by the “bubble burst” of the Macedonian stock exchange initialized at the end of 2007. It is supposed that the investors despite the big blow in the MSE have not learned the lesson. Speculative factors like “Affordable share price”, “Fluctuations/developments in the indices of the major markets”, “Recent price movements in the firm’s stocks” significantly influenced more than half of the respondents. Secondly, apart from the wealth criteria, surprisingly more than half of the respondents considered no other factor important, indicating that investors truly employ diverse decision criteria when choosing stocks. Finally, environmental criteria like “coverage in the press”, “Statements from politicians and government officials”, “Ease of obtaining borrowed funds” and “Political party affiliation” were either totally unimportant to most stock investors and only a very small percentage of them considered them significant investment decision criteria.

A more complete picture however is shown in Table 2, which presents the same data sorted according to those factors that have the least impact and influence on investor behavior (“no influence”).

Table 2: Frequency Distribution of Variables that Least Influence Investors' Decisions

Rank	Item	Frequency	Per Cent
1	Ease of obtaining borrowed funds	55	50.9
2	Family member opinions	52	48.1
3	Political party affiliation	46	42.6
4	Friend or coworker recommendations	41	38
5	Perceived ethics of firm	34	31.5
6	Environmental record	33	30.6
7	Coverage in the press	28	25.9
8	Statements from politicians & governmental officials	26	24.1
9	Attractiveness of non-stock investments	25	23.1
10	"Get rich quick"	24	22.2
11	Protection or not of the investor	22	20.4
12	Past performance of the firm's stock	19	17.6
13	Diversification needs	19	17.6
14	Opinions of the firm's majority stockholders	17	15.7
15	Expected dividends	15	13.9
16	Gut feeling on economy	15	13.9
17	Brokerage house recommendation	15	13.9
18	Feelings for a firm's products & services	14	13
19	Recent price movements in a firm's stock	12	11.1
20	Fluctuations/developments in the indices of the major markets	12	11.1
21	Firm status in industry	11	10.2
22	Condition of financial statements	9	8.3
23	Affordable share price	8	7.4
24	Reputation of the firm	8	7.4
25	Current economic indicators	8	7.4

Source: Author's calculations.

Table 2 ranks the variables by the frequency which respondents ignore when making stock purchases decision. The criterion "Ease of obtaining borrowed funds" is perhaps the least important criterion driven by the negative experience of borrowing in the boom period. It is interesting that there are self-reliant ignoring inputs of family members, politicians, and coworkers when purchasing stocks.

2.2. Factor analysis

The overall Cronbach's alpha for the 25 variables is (0.78). The Cronbach's alpha for the five categories, namely, Accounting Information, Subjective/Personal, Neutral Information, Advocate Recommendation, and Personal Financial Needs are (0.49), (0.53), (0.57), (0.57) and (0.44), respectively. Cronbach's alpha shows that these categories are not reliable. These ratios show that the scale of measures is not consistent for all categories, which further leads to the realignment of the variables.

The Varimax algorithm of orthogonal rotation is used, which is a commonly used method of factor analysis. The evaluation of the resulting categories and rankings is highly subjective since factor analysis identifies only the homogeneous cluster groups.

Table 3: Factors influencing the Equity Selection Process of Individual Investors

Label	Variables	%
Neutral Information	Reputation of the firm	64.8
3.102	Affordable share price	63
	Current economic indicators	52.8
	Gut feeling on economy	47.2
	Past performance of the firm's stock	41.7
	Attractiveness of non-stock investments	23.1
	Environmental record	17.6
Accounting Information	Condition of financial statements	56.5
1,907	Fluctuations/developments in the indices of the major markets	48.1
	Expected dividends	47.2
	Opinions of the firm's majority stockholders	38.9
Personal Financial Needs	Firm status in industry	58.3
1.685	Protection or not of the investor	38.9
	Diversification needs	35.2
	Perceived ethics of firm	25.9
Subjective/Personal	Recent price movements in a firm's stock	43.5
1.63	"Get rich quick"	28.7
	Statements from politicians & governmental officials	27.8
	Coverage in the press	24.1
	Ease of obtaining borrowed funds	20.4
	Political party affiliation	18.5
	Feelings for a firm's products & services	36.1
Advocate Recommendation	Brokerage house recommendation	42.6
0.695	Friend or coworker recommendations	13.9
	Family member opinions	13

Source: Author's calculations.

The “factor” categories displayed in Table 3 were found to be heavily loaded by a specific subset of the 25 variables in each particular case. The assignment of the factors was undertaken by the factor analysis, but considerable subjective judgment and common sense were also employed to clarify discrepancies. Finally, the percentage frequencies of each set of variables were added together, and the resulting sum serves as a “weight of significance” attributed to each of the identified categories.

It was unexpected that the factor category displaying the highest significance is “Neutral Information” with a weight of 3.10. "Reputation of the company", with 65%, is the variable with the most influence on the decision-making process of the small Macedonian investors with the highest percentage of participation. Probably the next main driver in the decision making process is "Acceptable stock price" with 63%, etc. The factor category displaying the next highest significance is “Accounting Information” with a weight of 1.91. In this category despite the "Condition of Financial Statements" with 56.5%, it is interesting that factor analysis groups as well “Fluctuations/developments in the indices of the major markets" with 48.1%. To follow the fluctuations in the indices of the major markets has become a very important factor for Macedonian individual investors in their investment decision after the crisis.

The next factor category with the weight of 1.69 was the category “Personal Financial Needs”, where the factor “Firm status in industry” is with high 58.3%. In the category “Subjective/Personal” with a weight of 1.63 is noteworthy to mention the fact that only 28.7 percent of the respondents considered their desire to “get rich quick” as a most influence factor. Finally, the last category “Advocate Recommendation” received weight of 0.69. This is a very interesting fact, which indicates that the equity investors in the Macedonian Stock Exchange consider themselves quite independent of any influences outside their own personal feelings, although it is quite a mystery just how the investors’ own subjective judgments were formed.

To check the reliability of the scale of the measures within the categories created by the factor analysis, we find Cronbach's alpha of 0.66 for "Neutral Information" to 0.55 for "Accounting Financial Information", 0.53 for "Personal financial needs", 0.63 for "Subjective/Personal" and "Advocate Recommendation" of 0.57. Cronbach's alpha shows that these categories are reliable.

3. Study Limitations

To enable a correct interpretation of the study's results, it is important to acknowledge its limitations. The convenience sample covered only clients who have visited brokerage houses in this period. The possibility that the other clients who did not participate in our survey can be systematically different from those that did participate, which means that the results can be biased. Yet, for many reasons we can expect that the survey is unbiased for the surveying period, driven by the changes in the behavior of the investors after the bubble busted.

Conclusion

The analysis performed on the collected data appears to give a fairly accurate view of the equity investors on the Macedonian Stock Exchange. The survey based research was done to confirm that there is a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behavior of active investors in MSE influenced by the overall trends prevailing at the time of the survey in the recession period after the stock market busted. The findings are that investors are not

completely rational as perceived by traditional finance theories. This is because the most affecting factor considered by the participants is “Neutral information”. Even more, the investment decision process is driven by the factors as: "Reputation of the company", "Acceptable stock price", “Current economic indicators” etc. Previous empirical evidence identifies “Accounting information” as the most influencing indicator for the average equity investor, which was unexpectedly second most important category in our Factor analysis results. The Macedonian investors, beside the “Condition of financial statements”, consider the second factor “Fluctuations/developments in the indices of the major markets” very important. The structure and relative weights of the chosen categories reflect on the average – a still unsophisticated and immature profile of the Macedonian investor.

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UDC 330.552:331.56].025(497.7)
Original scientific paper

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**ECONOMIC GROWTH AND UNEMPLOYMENT: AN
EMPIRICAL ANALYSIS
(A CASE STUDY ON THE REPUBLIC OF MACEDONIA)**

Abstract

It is a widely accepted view in economics that the GDP growth rate increases employment and reduces unemployment. The theoretical proposition relating output and unemployment is called “Okun’s Law”. This relation is among the most famous in the macroeconomics theory and it holds for numerous countries and regions, especially for the developed ones.

This research investigates the relationship between unemployment and economic growth in the Republic of Macedonia through the implementation of Okun’s law. Using quarterly data covering the period 2005 – 2012, and time series techniques and linear regression between unemployment and economic growth, the empirical analysis shows that a rise of one percentage point of unemployment is associated with a decline of roughly 1.6 percentage points of real GDP growth. The regression also shows that only 17.2% of the changes in the GDP can be explained with the changes in the unemployment. Therefore it can be concluded that the Okun’s concept is not totally prominent for the Macedonian economy.

Key words: *economic growth, unemployment rate, Okun’s law, regression, employment policy*

JEL classification: E 24, O 01

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1. Reasons for unemployment

If the labour market works as a result of the supply and demand of the labour force, than the reasons which affect both sides are leading to increase or decrease of the employment, i.e. unemployment. Their identification is significant to solve the unemployment problem and they can be divided in to two groups: demographic and socio-economic.

On the supply side of the labour force, the existing demographic conditions and movements in one country significantly influence the balance of the labour force market. The intensive natural increase of the population, thereby the increase of the working age population flow, are negatively reflecting on the unemployment. It is typical in terms of insufficient economic growth of the country, since the market does not have capacity to absorb this labour force increase. In that context, a particular problem is the young population who need longer period to get included on the labour force market, since usually these persons do not have enough experience, or do not feel the need to quickly get employed. Also, in historical view, a later more massive involvement of the women labour force has disrupted the relation between labour force supply and demand, which in some countries still has consequences.

The migration movements also are one of the reasons for increase of the unemployment, especially regionally. The migration of the population from the rural to the urban settlements leads to increase of the labour force supply in towns and to rise of the unemployment. On international level, the rise of the immigrants in separate countries of reception causes the same effect.

Large number of countries is facing intensive and uncontrollable transfer of the population from agricultural towards non-agricultural sectors. This transfer is usually a result of the inappropriate treatment of the villages and the agriculture, which is significantly affecting the increase of the labour supply in these sectors. In the transitioning countries additional reason for increase of the unemployment was inadequate ownership transformation of the enterprises, which has contributed to firing the surplus of the labour force.

On the side of the labour force demand, there are also reasons for rise of the unemployment. The meaning of the long-term implications of developmental factors should be specifically emphasized, which impacts the possibilities for greater activation of the working age population. The changes of the economic structure in the underdeveloped and the

transitioning countries are acting as a limit of the absorption power increasing with the expansion of the secondary, especially of the tertiary sector. So, in the countries with relatively high participation of the basic-raw complex and dominant presence of the labor-intensive, but not propulsive branches, solving the unemployment problem is complicating. This has negative effects on the employment, because the persons who are leaving from these sectors cannot easily adjust to the new labour force demand.

The slowed down economic growth further reduces the chances for increase of the employment and creates space for strong social tensions, which very often are extorting irrational and economically unjustifiable decisions regarding new hires. They are implicating inappropriate and irrational use of the human factor, which in combination with other production factors, among the other things, contributes to reducing the efficiency of the overall economic development.

Regarding the rational use of the labour force, as well as the problems related to solving unemployment, within the causes of such unfavorable conditions the role and influence of the economic system and the economic policy measures should be emphasized. To a large extent they are limits in creating the necessary preconditions and opportunities for appropriate and flexible solutions for intensifying the economically justified employment or for increasing the overall demand for labor.

In most of the transitioning countries the big pressure of unemployment had strong influence on disregarding the economic criteria for employment. At the same time, present socio-economic systems allowed administrative solving of the problem, thus increasing the number of oversized employees with direct and indirect consequences on achieving greater economic effects. That led to irrational use of the available labour force. As a result of these solutions, when the countries started the process of socio-economic transformation, they were faced with deepening and increasing of the unemployment problem. The privatization process led to numerous firings of the oversized employees, especially of the persons without the necessary qualifications and knowledge to start working again. It was one of the key determinants for sharp increase of the unemployment.

2. The relation between economic growth and unemployment

The relation between economic growth and unemployment is defined with the Okun's law.³ According to this concept, the increase of the unemployment rate for one percentage point is related with two percentage point decrease of the real GDP. Also, there are other reasons, besides the unemployment, which contribute to faster decrease or increase of GDP compared to unemployment:⁴

- decrease of the multiplier effect as a result of the circulation of the worker's money;
- unemployed persons can exit the workforce (they will stop looking for job) and will not be considered unemployed anymore;
- employees can work less hours;
- the labour productivity can be decreased if the employers decide to keep more workers than they really need.

Very significant implication of the Okun's law is that the increase of the labour productivity or the growth of the labour force scope can mean increase of the real output, but without decrease of the real unemployment rates, which is known as the phenomena "jobless growth".

In fact, the relationship between the economic growth rate and the unemployment rate is the growth rate of the potential output. It is a measure of the economy's capacity to produce goods and services using the available resources such as capital and labour. If the potential output level depends on the level of available capital and labor, the potential output growth rate depends on the growth rates of capital and labor. However, the contributions of capital and labor are not fixed. Any increase of the capital stock is increasing the output to the extent that the labour is able to produce. The technological progress enhances the contribution of the capital and the labor of the production. The growth of the potential output is the sum of the labor force growth and its ability to produce, or of the labor productivity.

The growth rate of the contribution of labor to the economic output is determined by the size of the population, the age distribution of the population, the share of the working-age population that is in the

³ Blinder Alan, *Is There A Core of Practical Macroeconomics That We Should All Believe*, American Economic Review, vol. 87, no. 2, May 1997, pp.240-243.

⁴ Abel, Andrew B. & Bernanke, Ben S., *Macroeconomics* (5th ed.), Pearson Addison Wesley, 2005.

labor force (the labor force participation rate), the share of the labor force that is actually employed, and the hours worked by those who are employed. In the absence of productivity growth, as long as each new addition to the labor force is employed, growth in total output will just equal the growth in the labor force. If growth in the demand for goods and services falls below the rate of growth of the labor force, job creation will not be sufficient to accommodate additions to the labor force. The proportion of the labor force that is employed will fall, and the unemployment rate will rise.⁵

If demand for goods and services grows more rapidly than the labor force, some of the new jobs being created will be filled by drawing workers from the ranks of the unemployed, and the unemployment rate will fall. If there is considerable slack in the economy, and the unemployment rate is relatively high, this does not pose a problem, and moreover would be desirable. But if unemployment is already at relatively low levels, the increased demand for labor is more likely to be satisfied by pushing up wages than by reducing unemployment.⁶

It is very important in creating the labour market policy to determine the economic growth rate. As long as the increase of the real GDP exceeds the labour productivity growth, the employment will rise. If this increase of the employment is faster than the increase of the labour force, it will result in decrease of the unemployment rate. Depending on conditions on the labor market, it might be desirable to strive for actual economic growth at, above, or even below that rate of growth.

3. Employment, unemployment and economic growth in the Republic of Macedonia

Changes in productivity growth tend not to be correlated with changes in unemployment. In the short run, a rise in productivity can produce an increase in the economic growth rate without necessarily pushing down the unemployment rate. This usually happens because the productivity growth offsets the effects of the rise in unemployment with growth of the total output.

⁵ Cashell W. Brian, *Economic Growth, Inflation and Unemployment: Limits to Economic Policy*, CRS Report for Congress, Congressional Research Service, November 20, 2006, p.2.

⁶ Ibidem.

According the data on the GDP growth rate, employment and unemployment rates for the period 1999-2012 in the Republic of Macedonia, i.e. the relation between the changes of the unemployment and economic growth, are not sufficiently expressed (Table 1).

Table 1:

GDP growth rate, employment rates, unemployment rates (in %) and the percentage change in the employment and unemployment rates, for the period 1999-2012

	GDP growth rates	Employment rate*	Employment rates changes (chain indices in %)	Unemployment rate**	Unemployment rates changes (chain indices in %)
1999	4,3	40,2		32,7	
2000	4,5	40,3	0,2	32,5	-0,6
2001	-4,5	42,6	5,7	31,1	-4,4
2002	0,9	40,4	-5,1	32,4	4,3
2003	2,8	38,5	-4,7	37,1	14,6
2004	4,6	36,8	-4,6	37,4	0,9
2005	4,4	37,9	3,0	37,6	0,5
2006	5,0	39,6	4,6	36,3	-3,5
2007	6,1	40,7	2,7	35,2	-3,0
2008	5,0	41,9	3,2	34,0	-3,5
2009	-0,9	43,3	3,2	32,3	-4,8
2010	2,9	43,5	0,5	32,2	-0,3
2011	2,8	43,9	0,9	31,6	-2,2
2012***	-0,4	44,0	0,2	31,2	-1,3

* The employment rate is calculated as participation of the employed persons (15-64) in the working age population (15-64)

** The unemployment rate is calculated as participation of the unemployed persons (15-64) in the workforce (15-64)

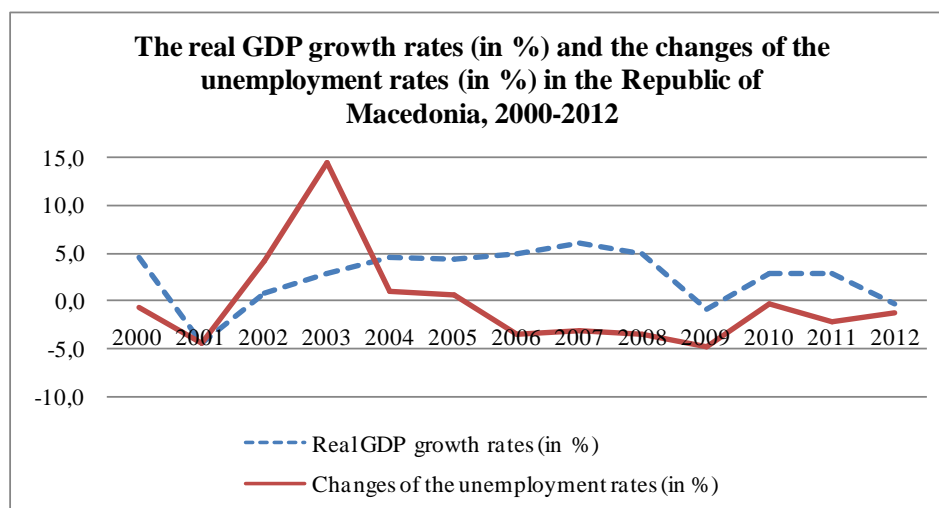
*** The data for the GDP growth rate for 2012 are preliminary data

Source: State Statistical Office of the Republic of Macedonia, Statistical Yearbook of the Republic of Macedonia 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012; Labour Force Survey, Statistical Review: Population and Social Statistics: No. 2.4.06 (1999), No. 2.4.1.03 (2000), No. 2.4.2.08/410 (2001), No. 2.4.2.21/429 (2002), No. 2.4.3.13/453 (2003), No. 2.4.5.02/494 (2004), No. 2.4.6.07/531 (2005), No. 2.4.8.06 (2007), No. 2.4.9.12/632 (2008), No. 2.4.10.04/651 (2009), No. 2.4.11.09/692 (2010), No. 2.4.12.11/727 (2011), No. 2.4.13.06/745 (2012)

The changes of the unemployment show that they are not totally correspondent to the dynamics of the GDP growth (Figure 1). In the period 1999-2001 the decrease of the unemployment rate for 1.6 percentage points was followed with decrease of the GDP growth rate from 4.3% to -4.5%. After that comes a period of continuous rise of the unemployment rate from 32.4% (2002) to 37.6% (2005), although the GDP growth rate in the same period was characterized with significant increase (from 0.9% to 4.4%). The decrease of the unemployment rate

(from 37.6% in 2005 to 31.2% in 2012), parallel with the decrease of the GDP growth rate, especially in the period 2007-2009, depicts that the unemployment did not affect the changes of the GDP.

Figure 1:



Source: State Statistical Office of the Republic of Macedonia, Statistical Yearbook of the Republic of Macedonia 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012; Labour Force Survey, Statistical Review: Population and Social Statistics: No.2.4.1.03 (2000), No.2.4.2.08/410 (2001), No.2.4.2.21/429 (2002), No.2.4.3.13/453 (2003), No.2.4.5.02/494 (2004), No.2.4.6.07/531 (2005), No.2.4.8.06 (2007), No.2.4.9.12/632 (2008), No.2.4.10.04/651 (2009), No.2.4.11.09/692 (2010), No.2.4.12.11/727 (2011), No.2.4.13.06/745 (2012).

Besides the relation between the unemployment and the economic growth, it is very important to emphasize the changes in the employment rate (calculated as participation of the employed persons (15-64) in the total working age population (15-64) in the observed period, also are not following the trend of the GDP growth rates. The data shows that in 2001 there is a negative GDP growth rate (-4.5%) and an increase of the employment rate for 5.7%. Then followed by the period until 2007 (except in 2005), in which the GDP growth rate was positive, while the employment rate till 2004 was decreasing. When in the period 2005-2012 the employment rate was continuously increasing, the GDP growth rates did not follow this tendency, since they were drastically decreasing from 6.1% (2007) to -0.9% (2009). In 2010 the GDP growth rate had relatively increased (2.9%) and then again started to decrease (-0.4% in 2012).

These changes are showing that the changes in the GDP, i.e. the movement of the GDP growth rates are not tracked with relevant changes in the employment rates. It means that in terms of intensifying the economic growth of the country, the employment rate was not registering continuum in the increase.

Labour market conditions are important determinants of the unemployment rate. Changes in the labour market in the Republic of Macedonia may also cause the relationship between economic growth and the unemployment rate to break down. In fact, neither labour force growth nor productivity growth has been constant in the Republic of Macedonia in the last few decades, and it is likely that there have been some shifts in the economic growth rate consistent with a constant rate of unemployment.

4. Regression analysis

Over the years, economists have studied Okun's law in various forms using different models, different data and different time samples. One of their motivations has been to determine whether Okun's law has changed over time. In fact Okun postulated that a one percentage point increase in the growth rate above the trend rate of growth would lead only to 0.3 percentage points in the reduction of unemployment. Reversing the causality a one percentage point increase in unemployment will mean roughly more than 3 percentage point loss in GDP. In general, the relationship has held up with some variation in the responsiveness of unemployment to the deviation of output from its potential.

A number of studies have followed with empirical investigation of the relationship between the unemployment and output in the emerging market and developing economies (Kreishan, 2011; Dumitrescu, Dedu, Enciu 2009). These studies mostly revealed the validity of the relation between output and unemployment rate. However, although Okun's law fits the data for most countries, the coefficient in the relationship – the effects of a one percentage change in output on the unemployment rate varies across countries, ranging from – 0.39 for advanced economies to – 0.17 in emerging markets and developing economies (Davide Furceri, Prakash Loungani, Jair Rodriguez and Hites Ahir 2012).

The theoretical model that is the basis for setting the statistical model for empirical analysis is the interpretation of the Okun's law as a relationship between the deviation of unemployment from its natural rate and the deviation of output from its potential,

$$u_t - u_t^* = a(y_t - y_t^*) + e_t \quad (1)$$

In which u is the unemployment rate, y is output and u^* is a long term natural rate and is potential output level. The assumption behind the equation is that shifts in aggregate demand cause fluctuations in the output, which in turn cause companies to hire and fire workers. The error term e_t captures factors that shift the unemployment-output relationship, such as unusual changes in productivity or in labor force participation. The basic deficiency of this equation is the method of calculating the natural rate of unemployment and potential output. In order to overcome this drawback we estimate a version of Okun's law in first differences:

$$u_t - u_{t-1} = c + a(y_t - y_{t-1}) + e_t \quad (2)$$

In this equation u_{t-1} is the unemployment rate in the previous period and y_{t-1} is the real GDP in the previous period. Here, the change in unemployment depends on the change in output and a constant. This follows from equation (1) with the assumptions that the natural unemployment rate is u^* constant and potential output y^* grows at a constant rate c/a . However, for developing countries and emerging economies these assumptions are not reasonable because of the time variation in natural rate of unemployment and growth accelerations and slowdowns.

In order to empirically test Okun's law for Republic of Macedonia, we have used data for real GDP growth and unemployment in the period 2004Q1-2012Q4. The source of the data is the State Statistical Office, the National Bank and the Ministry of Finance of the Republic of Macedonia.

Assessment of the relationship between unemployment rate and real GDP in the Republic of Macedonia is made by linear regression analysis, using quarterly data for the period 2004-2012 year. The base theoretical model for setting the statistical model for empirical analysis is the version of Okun's law in first differences (equation 2) using the method of least squares (OLS). The calculations of statistical parameters are obtained by the software package XLSTAT 2013.

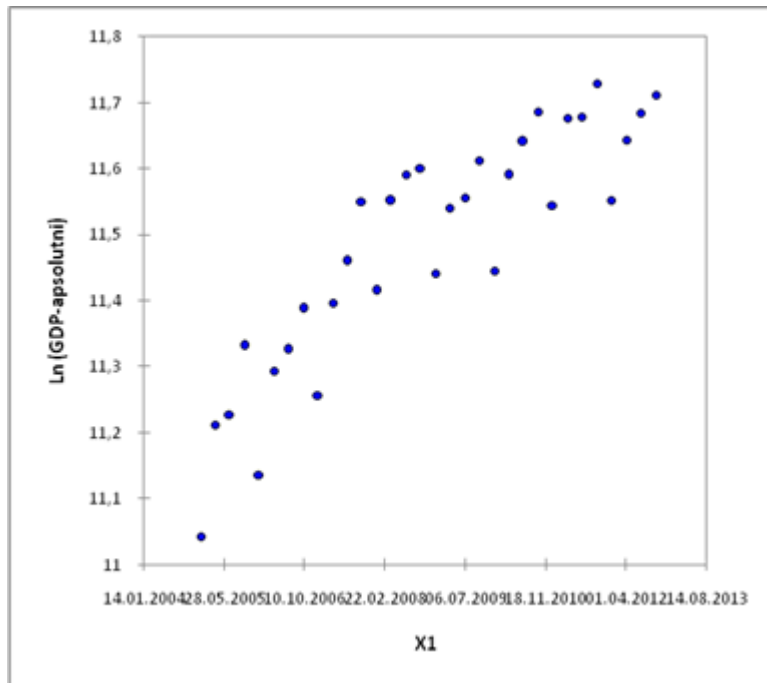
According to available empirical analysis for developing and emerging economies, the results confirm the validity of Okun's law but the strength of the relationship varies. The estimates range for Okun's coefficients are from small positive values to -0.8 , with the majority of the estimates between -0.2 and -0.4 (Davide Furceri, Prakash Loungani, Jair Rodriguez and Hites Ahir 2012). That is because the usefulness of unemployment rates as an indicator of the labor market in these economies is often questioned. One argument is that in low-income countries people cannot afford to be unemployed, everyone is in some kind of job either in the rural sector or in self-employment. Another argument is that many of these economies have large informal sectors, so that neither the unemployment nor the employment statistics have much relevance. Intuitively, countries with larger informal sectors should have smaller Okun coefficient – that is, unemployment should respond less to a given changes in output.

Similarly, some studies (Michael Owyang and Tatevik Sekhposyan, 2012) for the developed countries (USA) confirm these findings, that the relationship described by Okun's law is less stable during times of high unemployment.

In this research for the Republic of Macedonia it is expected for the results of the empirical analysis to confirm Okun's law, but the coefficient should be smaller.

In order to obtain reliable regression results and to make sure that our model could not be subject to „spurious regression”, a series of preliminary tests were made. The first step was to determine whether the variables are stationary or non-stationary. Figure 2 and Figure 3 show the time series for real GDP and the unemployment rate in the analyzed period. These plots (graph) give an initial clue about the likely nature of the time series. Over the period of study the GDP has been increasing, that is, showing an upward trend, suggesting perhaps that the mean of the GDP had been changing. This suggests that the GDP series is not stationary.

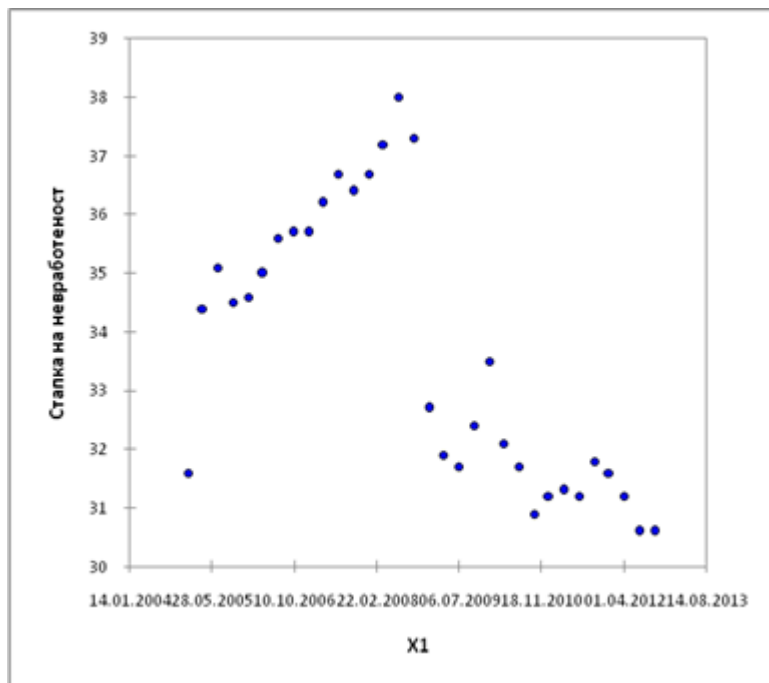
Figure 2:



Source: Authors' calculations using the software package XLSTAT, 2012.

The data for the unemployment rate shows upward and downward trends and the mean values are not constant and have also been changing. These series are not stationary. Both variables proved to be non-stationary, therefore, regression tests were applied to the transformed time series (first differences).

Figure 3:



Source: Authors' calculations using the software package XLSTAT, 2012.

The results of the regression are presented in the next table:

Independent variables - X	Results
Real GDP	-0,160 (-2,498)***
Number of observations (n)	32
R^2	0,172
Adjusted R^2	0,145
Durbin - Watson	0,402

Source: Authors' calculations using the software package XLSTAT, 2012.

The equation has the following form:

$$u_t - u_{t-1} = c + a(y_t - y_{t-1}) + e_t$$

$$\Delta u = 5,35 - 0,16\Delta y$$

The empirical analysis shows that the rise of one percentage point of unemployment is associated with a decline of roughly 1.6 percentage points of the real GDP growth. The regression also shows that only 17.2% of the changes in the GDP can be explained with the changes in the unemployment. Therefore it can be concluded that the Okun's concept is not totally prominent for the Macedonian economy.

5. Expenditures of the unemployment and their influence on the economic development

In the discussion for the consequences and implications of the unemployment for the economic development it is important to point out the inappropriate treatment of the unemployed, who are without working engagement as a development factor, i.e. as human capital, as well as the expenses for the unemployed persons which are made by the state in form of social transfers and active labour market policies. Long-term unemployment, especially the large share of unemployed who are young and with high education, undoubtedly causes unfavorable effects on the economic development. The economic loss is even higher because of the limited possibilities to use the human capital in making new values, as well as big expenditures, which are made for the education of the labour force.

If the GDP is analyzed according to the expenditure approach⁷ in the period 2004-2011, it can be noticed that the allocations for the final public consumption are around 19%. Within the final public consumption in the same time interval (with exception of the period 2008-2010) more than 40% are allocated for education and healthcare. It means that two fifths of the GDP are targeted for education and healthcare, expenses which are significantly intended for normal functioning of the labour force market.

The main problem here is how much of these funds intended for education and healthcare as an investment in human capital are effectively used. If the unemployment in the country is long-term and consists mainly of young people, it means huge lost of human capital. Namely, the government for these persons provides conditions for

⁷ State Statistical Office of the Republic of Macedonia, Statistical review: National Economy and Finances, Gross Domestic Product No.3.4.8.01/582 (2006), No.3.4.11.01 (2009) and No.3.4.13.02 (2011).

education, the necessary healthcare, but without their engagement on the labour force market they cannot give contribution to intensify the economic development. Relatively low utilization of the available human capital is one of the most significant consequences of the unemployment for the economic development.

The problem is getting even bigger if we deepen the analysis with the government costs for social transfers and for active labour market policies. According to the data from the budget of the Republic of Macedonia for 2013, within the social transfers which were planned on a level of 74,340 million MKD, for benefits for the unemployed 2,012 million MKD are going to be used, while for the active labour market policies 322 million MKD.⁸ According to the Operative plan for active programmes and employment measures for 2013, for the implementation of these measures around 555 million MKD were allocated.⁹

The amount of these financial assets shows that the government is planning significant resources to support the unemployed. If these assets can be used for more productive goals, i.e. if they can be invested in more productive projects, their contribution for intensifying the economic development and for improvement of the living standard would be even higher.

Considering the previously stated positions, it can be concluded that in order to overcome the negative consequences from unemployment on the economic development, it is necessary to undertake proper employment policy and labour market policy. It is a way to provide higher level of labour demand, greater utilization of the available human capital and improvement of the socio-economic development of the country.

Conclusion

Providing sustainable economic growth is a key determinant for creation of new jobs and for solving the unemployment problem. This supposes creation of certain macroeconomic preconditions, such as

⁸ Government of the Republic of Macedonia, Ministry of Finance, Budget of the Republic of Macedonia for 2013, p.6.

⁹ Government of the Republic of Macedonia, Ministry for Labour and Social Policy, Ministry for labour and social policy, Operative plan for active programmes and employment measures for 2013, Skopje, 2012, p.28.

economic stability, favorable climate for investments and flexible labour market institutions.

In contemporary terms of globalization, the Macedonian economy works as an open market economy in which the basic preconditions for development are based on increased investment activity and competitiveness, use of highly qualified labour force, development of the country's economic infrastructure and utilization of modern communication and information technology.

In order to intensify the economic growth, the Republic of Macedonia should encourage domestic and foreign direct investments to sustain macroeconomic balance and stability of the national economy. Therefore, the important goals and priorities of the country are: increase of the economic development and competitiveness, increase of the foreign and domestic investments, rise of the employment, improvement of the living standard and life quality.

In the years when the economic growth rates in the Republic of Macedonia were positive, their effect on the employment was limited, because of the short duration of this trend. In order to mitigate the unemployment problem, the Republic of Macedonia needs long-term continuous economic growth, which will be accompanied with greater rise of the real sector as a creator of new jobs and increase of the competitiveness. The experiences are showing that more significant effects on the employment can be expected only with sustainable economic growth which will be maintained for longer time interval. Usually, these effects are manifested after the fourth year.

Macroeconomic indicators of the country are confirming that higher economic growth rates are realized when the investments are increasing. As an example, when in 2007 the economic growth rate in the Republic of Macedonia was 6.1%, the real growth rate of the gross investments was 22.2%. In terms of limited financial capital in the country in the last decade, the attention of the economic policy creators was focused on increasing foreign direct investments as one of the main preconditions to achieve more dynamic economic growth. Numerous measures and activities were taken, but the results stayed relatively modest. Although the investment policy is based on equal treatment of domestic and foreign investors, the state support for domestic companies is relatively smaller, especially if their real possibilities to invest are considered. Regarding this, the economic experts are suggesting to divert

the direct help from the budget to the real sector companies in order to encourage development of the real sector and creation of new jobs.

Alongside the activities for inducing economic growth in the Republic of Macedonia, more serious measures for increasing the competitiveness are necessary as a very important assumption for stimulating the export and decreasing the trade deficit of the country.

The ventures in the infrastructure are important assumptions for increasing competitiveness of the national economy and investments, which will contribute to higher economic development and more balanced regional development, encourage the employment and decrease in the poverty and social exclusion. According to the planned capital expenditures, public investments are directed toward the energy sector, road, rail and utility infrastructure, then in the improvement of the educational and health system, as well as in raising the quality of the social, cultural and sport infrastructure.

Therefore, it can be concluded that sustainable growth and development of Macedonian economy, as important determinant for encouraging employment, can be achieved through maintaining macroeconomic stability, decreasing in the budget deficit, increasing of domestic and foreign investments, as well investments in the infrastructure, development of the real sector and increase of the competitiveness. Every successful policy in these areas will contribute to creation of new jobs as well as in keeping the current jobs in the country.

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UDC 005.642.1:631.147(497.7)
Original scientific paper

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**BENCHMARKING IN ORGANIZING PRODUCERS'
ASSOCIATIONS OF ORGANIC PRODUCTION IN THE
REPUBLIC OF MACEDONIA**

Abstract

The producers' associations of organic production are facing serious problems in performance and continuous presence on the market. Total quality management (TQM) has proven very valuable to companies and organizations as a way to improve the organization of the work. This paper attempts to answer the question how TQM can help in organizing and working of producers' associations of organic production. Specifically, the paper analyzes how the benchmarking method contributes to smooth applicability of TQM in the organization and working of producers' associations of organic production.

Keywords: benchmarking, TQM, producers associations of organic production, Republic of Macedonia

JEL classification: Q12; Q13

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Introduction

One important approach to sustainable development, which at the same time gives us good quality and safe products, and has seen intense growth in the country, is organic farming. The Republic of Macedonia has excellent conditions for the development of organic farming due to the extensive farming mainly in the highlands, as well as the adoption of the Law on Organic Farming accompanied by appropriately defined agrarian policy. In the Republic of Macedonia there is a formal legal framework upon which several associations of producers of organic food have been formed. Nevertheless, associations are characterized with poor market organization and fragmentation, i.e. in one region there are several associations for the same product.² This emerges the need for a new approach to management with its base is multidimensionality of quality, because organic products are result of production with standard procedure, certification and high quality of the products.

The concept of total quality management (TQM) is an integrative approach which works on the principle that long-term success only depends on the commitment to quality in all the departments of an organization. It is the process of creating through quality care and accountability of all that is achieved by total commitment, continuous improvement and advancement in all aspects of operations. The TQM organization develops a wide range of indicators and methods to measure and improve its performance regarding human resources management, leadership, policy and strategy formation, management of processes, material resources management, employees, consumers and society. A method which allows improved performance and continuous measurement process is benchmarking. Benchmarking is a process of continuous measuring and comparing an organization's business processes leaders anywhere in the world to gain information which will help the organization take action to improve its performance. It is a useful management tool with the task to learn, apply and use other positive experiences by achievable standards (benchmarks). The goal is to reduce errors, reduce costs and increase the customer satisfaction which will consequently increase profits and maintain and strengthen market positions.

²Annual report on agriculture and rural development 2012, MZSV, http://www.mzsv.gov.mk/files/GIZRR_2012.pdf, [30.12.2013]

The purpose of the paper is to show how benchmarking can affect the improvement of the work and organization of associations of producers of organic products. The subject of research is benchmarking, types of benchmarking, manner of work of association of producers of organic products regarding the possibility of applying TQM and demonstrating steps in the application of benchmarking in organizing associations of producers of organic products. The research in the paper is based on the analysis of the data obtained through interviews with the members of the associations of producers of organic products in Republic of Macedonia, using a previously prepared questionnaire with qualitative and quantitative data as well as their published information.

1. Definition and types of benchmarking

During the goal setting, the rules and the business plan of a company or organization should answer the questions "Where are we?", "Where do we want to be?" and "How do we get there?" These questions can be answered using a benchmarking method that involves a continuous process of checking of abilities, rivals and continued implementation of improvement or development. Benchmarking is a useful management tool aimed at learning, applying and using other positive experiences by achievable standards (benchmarks). The goal is to reduce errors, reduce costs and increase customer satisfaction which will in return increase profits and maintain and strengthen market positions.

Benchmarking is a systematic and continuous measurement and comparing an organization's business processes against the business process leaders anywhere in the world to gain information which will help the organization take action to improve its performance.³

Benchmarking may form the basis of a renewed development in a company as this tool helps identify the processes in which the best possibilities of improvements lie. The solutions used in other companies, however, can only very seldom be transferred directly to the company in question. Adjustments in some form will be made but the understanding of the "theory" behind the solutions should always form the basis of the current improvements.

³ Dahlgaard J.J., Kristensen K., Kanji G.K., Fundamentals of Total Quality Management, Taylor & Francis, London and New York, 2002, p.197.

Depending on the object of analysis, benchmarking is normally divided into the following four types:⁴

- Internal benchmarking, which means comparing departments and divisions in the same organization or company i.e. the object of analysis are departments, divisions, or sister companies in order to identify the best performances of a given activity within the company. This form of benchmarking opens up the possibility of a deep understanding of how benchmarking can be implemented. The procedure can so-to-speak be practiced internally. Furthermore, experience shows that internal benchmarking improves the internal level of performance and the internal customer satisfaction through reduction of the various quality and productivity and at the same time it improves the ability to communicate and co-operate in the company. This is normally the simplest form of benchmarking because data will always be available for comparison.
- Competitor-based benchmarking is the most difficult form of benchmarking, where the company compares itself with its direct present or potential competitors within the same range of products (e.g. competitors on foreign markets) in order to gather information on the competitor's products, processes and results to be able to compare this information with the company's own results and to learn from the differences. In this case, data can be difficult to come by and must often be acquired by indirect means. The advantages of competitive benchmarking, beside the fact that the company puts itself in a certain position in comparison with its competitors, is that at a very early stage the company's attention is drawn to the expectations which the customers may rightly have. Furthermore, the results have a high degree of comparability as the product and thus the basis production structures are identical.
- Functional benchmarking is based on the functions which the company is especially noticed for, the idea being that the company compares itself with the leading company in these functions. These companies can be direct competitors of the company, but often this does not have to be the case.
- Generic benchmarking includes producers which are common on all types of companies, such as order-taking, payment of wages,

⁴ Ibid, p.21.

word processing and the like. In this type of benchmarking, the potential comparative partner is any company which has obtained a reputation of being excellent within the area which is benchmarked. The advantage of this form of benchmarking is that the probability of finding world class practice grows as the number of potential benchmarking partners is expanded. On the other hand, it is obvious that the possibility of transferring the found practice directly to one's own company is smaller than the possibility of transfer found with the other types of benchmarking. Another advantage is that collection of data in this case is considerably easier than by competitive benchmarking as it is much easier to have co-operation with companies from other lines of business than your own line.

Benchmarking is not just a question of comparing with the competitors, it is a process of understanding and cognition to know one's own strengths and weaknesses, the competitors and the best in the field, learn from the best and achieve leadership.

2. Areas of benchmarking

Research has shown that there are three main areas which can be benchmarked and that all of these can be combined with one or more of the three types of benchmarking. Those three areas are:⁵

1. Quality
2. Productivity
3. Time

However, it can be argued that only two main areas can be benchmarked – quality and productivity – as time will always be a part of either quality or productivity. If we refer to time, despite this fact, as a special area which can be benchmarked, the reasons will be the following:⁶

- The time concept is simple and easy to understand and is thus easily accepted by all employees.

⁵ Karloff B., Ostblom S., "Benchmarking – a signpost to excellence in quality and productivity", John Wiley & sons, New York, 1994, p.35.

⁶ Dahlgaard J.J., Kristensen K., Kanji G.K., Fundamentals of Total Quality Management, Taylor & Francis, London and New York, 2002, p.201.

- The time concept is by definition related to processes and will thus automatically force the participants to focus on processes and process relation. Consequently, it will, by definition, invite a better co-operation between processes and departments.
- Reduction of times (e.g. times of delivery) means increased productivity and increased quality perception by customers.

The benchmarking productivity means identifying potential benchmarking partners. A common productivity measure in this respect is:⁷

$$\text{Ordinary net profit = } \frac{\text{Turnover} - (\text{purchase} + \text{expenses} + \text{depreciations} + \text{interests})}{\text{per employee}} \quad \text{Average number of full-time employees}$$

The application of this productivity measure in connection with benchmarking is often applied by analyzing the results of the following three steps:

1. The potential benchmarking partners can be identified by calculating the ordinary net profit per employee.
2. By comparing the key figures: turnover, purchase, costs, interest and depreciations per employee, it will be possible to minimize the number of potential partners and create the possibility of identifying the processes which will be valuable for benchmarking.
3. A further breakdown of the key figures increases the possibility of identifying the relevant processes for benchmarking.

Benchmarking of quality will either be a natural extension of time or productivity applied first in connection with benchmarking or it can be the area on which for some reason has been focused at first. Benchmarking of quality can be divided into the same main areas which are normally used in connection with the division of the concept of quality:⁸

- a) External quality: customer satisfaction and technical quality of products
- b) Internal quality: employee satisfaction and process quality.

⁷ Ibidem.

⁸ Ibid, p.202.

Benchmarking of process quality can be divided up into a string of key processes, which in relation to a production company may consist of the following: research and development, production and distribution and administrative support processes.

3. Analysis of the work and organization of associations of producers of organic production in Republic of Macedonia

In order to explore the possibility of implementing TQM as a way of successful working and organization of associations of producers of organic products, this survey is conducted on two bases:

- By determining the development of the association by applying the principles of TQM and
- By determining the difference between the principles of operation used by associations, and the principles of TQM

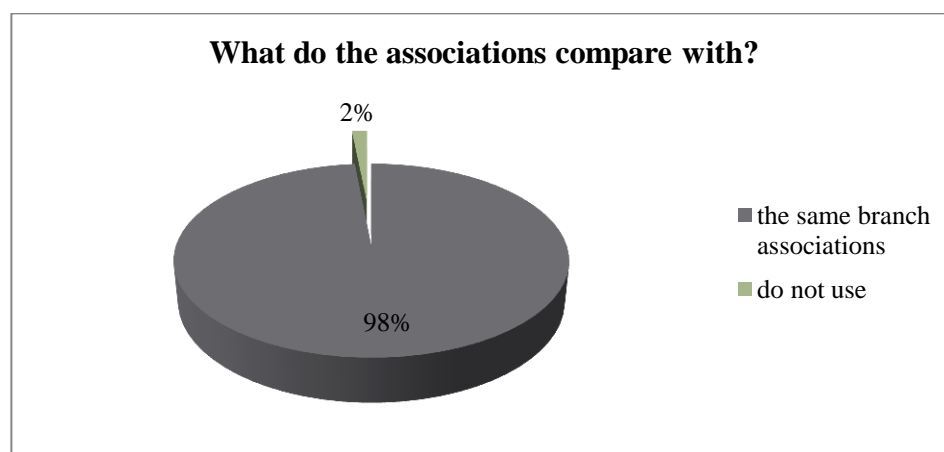
Because the purpose of the paper is to show how benchmarking can contribute to the smooth applicability of TQM in the organization and work of the association of producers of organic production, questions were raised concerning the use of certain principles in the operation of associations and questions in relation to benchmarking of external and internal quality.

According to the Central Registry of the Republic of Macedonia, as the only institution that keeps records of producers' associations of organic food, there is no exact number of registered associations of producers of organic food because they are registered with the Law on Associations and Foundations based on Articles 5, 18 and 20, and belong to organizations and the non-profit sector, where the data of associations are protected in accordance with the regulations on protection of personal data and classified information.⁹ The questionnaire was sent to the highest form of organized associations in the country – the Federation of Producers of organic products, which includes nine regional associations, of which four (4) Associations ("Organik kaki" – Valandovo, "Aronia" - Gevgelija, "Ovcepolški eko-proizvodi"- Sveti Nikole and "Eko-Sar" - Gostivar) and sixty-five (65) members - manufacturers responded to the questions.

⁹ Sluzben vesnik na RM, no.52, 16.4.2010.

To the question, "Do the associations compare among themselves?", sixty-four (64) respondents said that they compare to the same branch associations, and one (1) answered that they did not (Graph 1). The question was asked in order to find out whether the associations used benchmarking as a way to improve performance through comparison with other societies, precisely because benchmarking means comparing with the best. The answers indicate that the comparison as a method for improving the operations exists in alliances, but benchmarking which means comparing with the best is absent.

Graph 1:



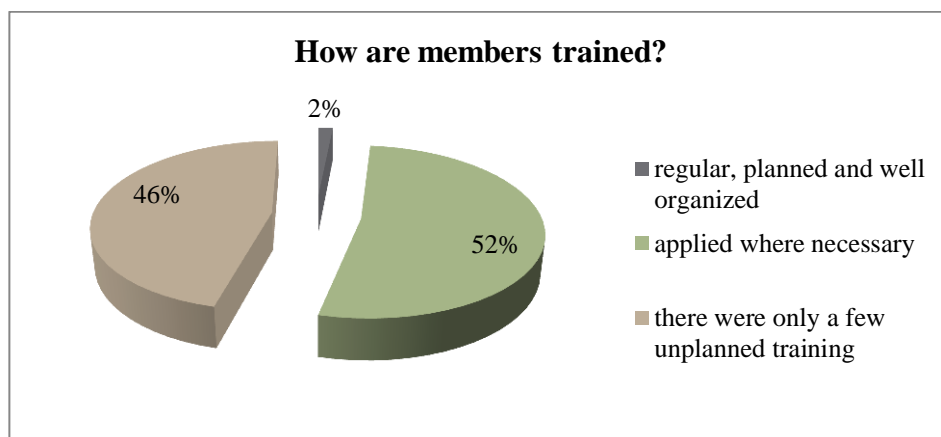
Source: Author's research.

On the question about how members express satisfaction for the work of the association, all sixty-five (65) respondents answered that they do it in meetings, and with discussions they provide suggestions for improvement. It clearly shows that members express their opinions, views and ideas about the work of associations and influence the final decisions and the functioning of the work of the association.

On the question, "How are members trained?", thirty-four (34) respondents said that they applied only when required, thirty (30) that there were several unplanned training sessions and one (1) replied that training sessions were regularly planned and well organized (Graph 2). The responses show that the training is an important segment in the introduction of changes and the new ways of working are conducted in an unstructured way, and, if necessary, which in turn suggests that the willingness of societies to introduce TQM as a new way of working and

organizing they will need to examine the need for the introduction of continuous training to improve the operation of associations.

Graph 2:



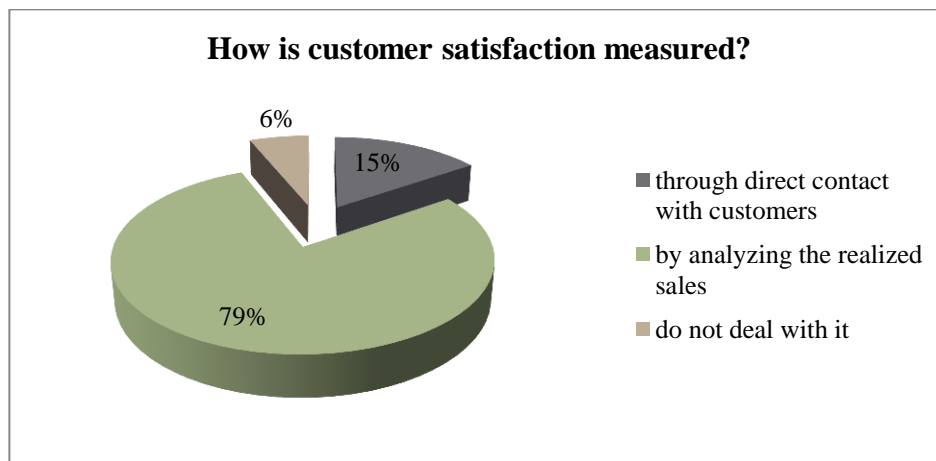
Source: Author's research.

On the question "How is customer satisfaction measured?", fifty-one (51) respondents answered that they did it by analyzing the realized sales, ten (10) of them had direct contact with the customers and four (4) of them did not deal with it (Graph 3). The results show that the association of producers of organic products apply quality measurement in accordance with the principles of TQM, and thus indirectly measuring quality.

Knowing that the customer needs are satisfied has critical importance in the successful implementation of TQM, so the contact with customers and consumers as a direct way of measuring the satisfaction should be more frequent.

Critical to the successful implementation of TQM is the knowledge of whether the requirements and customer needs are met, so that there is more direct contact with customers and consumers.

Graph 3:



Source: Author's research.

From the above mentioned, it can be concluded that in the association of producers of organic products there is an internal benchmarking between the associations in the same branch, but there is no competitor and functional, or more important, generic benchmarking. The positive side is that the members of associations can express the satisfaction of the work, but the organization of training is unplanned and it is not applied when necessary. This shows that there's benchmarking of internal quality, but benchmarking of external quality is absent because measuring of the customer satisfaction is almost absent.

Benchmarking is a useful management tool. In addition, it reveals the internal and external practice and creates the need for change. Also, with benchmarking areas in need of change can be identified, and the understanding the "best practice" will give the idea of what the associations will look like after the change. Therefore, benchmarking is a continuous process of checking their own abilities, rivals and continued implementation of improvements, or development of their methods to comply with their own procedures.

4. Benchmarking as management tool in organization of producers' associations of organic products

Benchmarking is a method for improving the organization. It consists of observing and learning from the best in order to achieve successful operation and a better market position. It can be applied in many ways, but practices show that the best results are achieved with the models based on the Deming cycle or PDCA (Plan – Do – Check - Act) cycle (Figure 1). Firstly, benchmarking is considered to be an eternal process meaning that as soon as the benchmarking procedure is implemented and the improvements started, a new plan and search for improvements starts. Secondly, benchmarking is implemented in four stages:¹⁰

1. Plan. Planning stage comprises of the initial activities regarding benchmarking and consists of:
 - determination of what should be benchmarked;
 - determination of criteria for the selection of benchmarking partners;
 - determination of methods for data collection and
 - determination of the use of resources.
2. Do. The Do stage is searching and observing as per the criteria laid down in the Plan stage and it comprises two steps: the concentrated use of benchmarking partners and data collection. Concerning this phase it may be necessary to return to the Plan stage, as it may be impossible to collect the planned data with the chosen partner(s).
3. Check. The Check stages or the analysis phase consists of these following steps:
 - data correction;
 - identification and quantification of differences in the performances (gaps) and
 - identification of causes for the differences of performances.

Under the first item, the data are corrected because of the systematic errors which make the data not comparable at the same time. They may be corrected with regard to differences in the market condition, level of costs etc. under the second and third item, the differences of

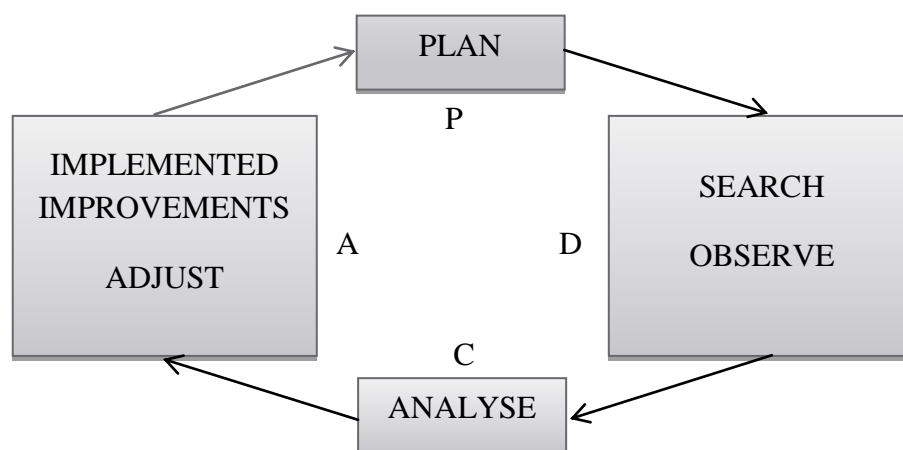
¹⁰ Dahlgaard J.J., Kristensen K., Kanji G.K., Fundamentals of Total Quality Management, Taylor & Francis, London and New York, 2002, p.203-205.

performances in quality and productivity are identified and the reasons for these differences need to be explained.

4. Act. During the Act stage, the results are adjusted to the individual situation and improvements are implemented. This stage consists of the following steps:

- Communication of the results found;
- Ensuring acceptance with the involved parties;
- Adjustment of the obtained results to each individual situation and the arrangement of functional aims;
- Making a plan of action;
- Implementation of the plan of action.

Figure 1: The PDCA circle of benchmarking



Source: Early J. F., Colett O. J., "The Quality Planning Process",
http://hairball.bumba.net/~rwa2/school/ense627/TelecomQuality/4003X_03.pdf
30.12.2013

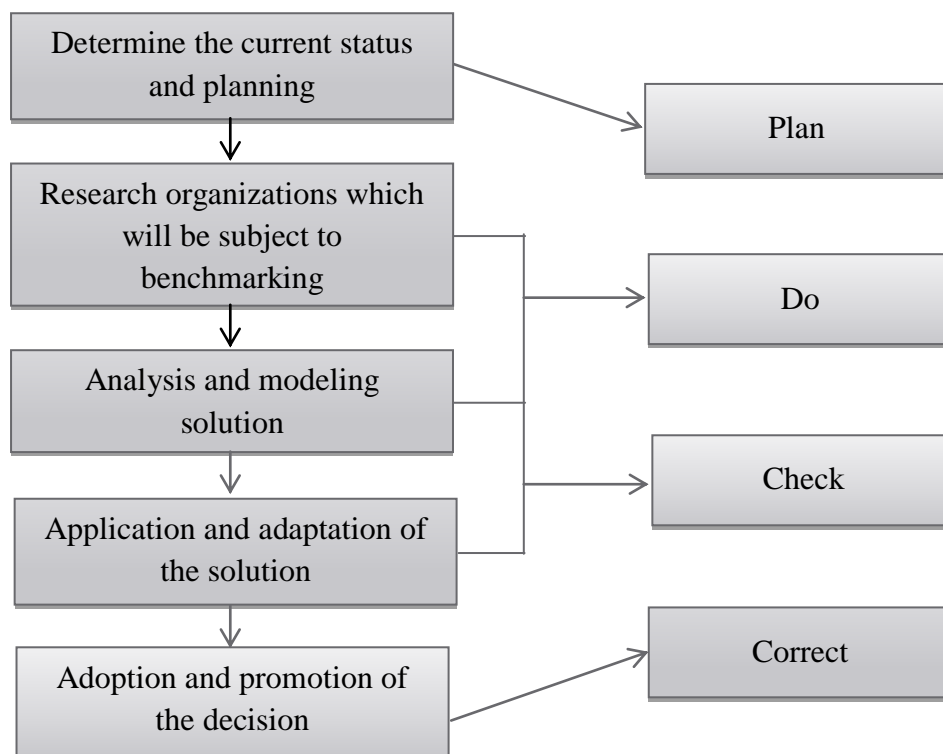
Benchmarking in association of producers of organic production in the Republic of Macedonia can be implemented in the following stages:

1. Initiative – the moment when a decision is made on the introduction of the method. In launching the initiative, attention should be given to identification of the issues that will be subject of benchmarking, forming a team that will introduce and enforce the identification benchmarking partner, i.e. identify the partner-organization for benchmarking.

2. Analysis – a stage in which the present situation is explored and the advantages of others are examined on the basis of comparison so as to decide what changes need to be implemented on the basis of Best Practice. At this stage, the methodology for performing the analysis is data collection, identification and analysis of the best (the subject of benchmarking) by determining and comparing the results.
3. Shaping new solution – is a stage of establishing and adequately preparing the best solution. First the pace of activities is presented or projected, then the decision on the subject of benchmarking is shaped (on the subject of benchmarking or a synthesis of multiple solutions on multiple items on benchmarking or completely new solution) and test solution.
4. Application – a phase in which the tested solution is implemented in practice. It is performed in the following order:
 - a) Developing a plan or setting priorities, defining the final review of plans and priorities;
 - b) Implementation of a decision on the application of best practice in the organization performed in two key phases:
 - Preparation of the implementation of the solution
 - Performance of the implementation or enforcement of the decision as soon as possible;
 - c) Supervision is done in order to timely detect unexpected delays and deviations in order to take corrective actions.

The role of the benchmarking method in organizing associations is visible in the continuous checking of the capabilities, competitive position and continuous improvement. By applying the method of benchmarking, associations of producers of organic products have the possibility of gaining a competitive advantage and successful realization on the market. The formation of benchmarking teams within associations brings potential for developing creativity and entrepreneurship, realizes the vision and objectives of the association and by comparing, the market it is directed towards the association to reach and surpass the best. Benchmarking means using the concept of Deming's quality circles i.e. PDCA circles, hence the associations of producers of organic products start with the application, what it would look like (Figure 2).

Figure 2: Steps in implementing of benchmarking in organizing of producers' associations of organic products



Source: Adapted by Certo S.C., Certo S.T., "Moderni menadzment", 10 izdanje, Mate, Zagreb, 2008, str.301.

Determining the current situation of the associations is the first step as well as the decision on the application of benchmarking as a method to improve the situation. The implementation plan defines targets where benchmarking would be applied: product, process, function etc. Then a selection of organizations that will be compared is made concerning the benchmarking subject. The process involves collecting data, visiting other organization etc. In the phase of analysis and modeling the solution, a systematization of the knowledge and its application is made, in the form of guidelines that should be applied, and thus differentiate the solution. Then the solution is implemented in practice and it should be adopted as a new knowledge and experience and the process on the principle of quality circles should be repeated.

Benchmarking is a useful method because it enables quality feedback early in the project, and is able to create new ideas and solutions.

Conclusion

On the presented data and findings, it can be concluded that benchmarking is useful “management tool” for successful implementation of the TQM as a way of organizing and working in associations of producers of organic production in Republic of Macedonia. It can be said that it is a method which allows improved performance and continuous measurement process by comparing and learning from other positive experiences i.e. from the best in the field.

There are many fields in which benchmarking can be applied. Producers' associations of organic products use internal benchmarking of quality, but there is no competitor or functional or, more important, generic benchmarking. In this paper, the presented model (steps) for the implementation of benchmarking is based on the ideas of the Deming cycle or PDCA cycle. Successful passage through the PDCA cycle of benchmarking means continuous process of checking the abilities, the rivals and the continuous implementation of improvements or development and on that base achieving successful leadership and continuous improvement.

The use of benchmarking is one of the decision of the management of associations which depends to a large extent on the commitments of the management. Naturally, benchmarking leads to changes and it is the responsibility of the management to lead these changes. Understanding of the “best practice” has the virtue of identifying areas in need of change and gives an idea of what the association will look like after the change.

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UDC 331.215.44/.45(497.7)“1999/2013”
Professional paper

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**THE CHANGES OF NOMINAL AND REAL NET SALARIES IN
REPUBLIC OF MACEDONIA IN THE PERIOD 1999-2013**

Abstract

In this article, the movement of nominal net salary and index of the cost of living for the period 1999-2013 will be taken into consideration, with the help of which the actual net salary in the considered period was calculated. For this purpose, the comparability of the data from 1999 was taken as base period. Because of the transition to gross salary after January 2009, the consideration of the increase of nominal and real net salary was made separately for the period 1999-2008 and 2009-2013.

Key words: nominal net salary, real net salary, index of costs of living

JEL classification: E02, E24, E60,

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Introduction

The assessment of the economic development in one country is a complex process that involves real monitoring and evaluation of many parameters, for which a serious barrier may be the quality of the data and the method of their processing. There are several segments for which we have relevant data, obtained by standard methodology and according to which we can give a quantitative assessment of the economic development in the country. In our considerations we will only refer to two data sets:

- the total average paid nominal net salary per employee in the period of 1999-2013, and
- the index of the living cost in the period 1999-2013.

Thus, the nominal average monthly net salary per employee will be addressed on the eleven sectors of activity, for which the State Statistical Office from January 2011 applied *National classification of activities (NACE Rev. 2) for collecting and processing data on employees and salaries* and data that can be comparatively analyzed with the data obtained from the period 1999-2009 (for 2010 the relevant data were processed according to the new classification in the Statistical Yearbook of 2011). Moreover, these eleven sectors include, for example, in 2012, approximately 80% of the total employment in the country.

Furthermore, using the above mentioned data, we will give estimates on the total and average real net salary per employee in the relevant activity sectors, for which it can be said that that is a real parameter by which we can assess some aspects of economic movements in the analyzed period. However, for reasons which will be discussed later, we believe that this parameter could be important in the planning of business activities in certain sectors of activity.

1. Movement of nominal net salaries in the Republic of Macedonia in the period 1999-2013

In Table 1 data for the average net nominal salaries for the period 1999-2013 are provided, which are collected by the State Statistical Office based on the monthly report on employees and salaries. Moreover, we can quite reliably say that they are relevant indicators (not only) for assessment of economic movements in the country for the following reasons ²:

- Monthly statistical report on employees and salaries include enterprises from all forms of ownership,
- Business entities with monthly monitored salaries are selected respecting the criterion of minimum representation of 70% of employees in each department in the National Classification of Activities,
- The term “paid nominal net salaries” means the average realized income in the month (year) per employee, achieved for a fulltime work, longer or shorter than fulltime work (e.g. overtime work), and
- The total paid nominal net salaries includes: reimbursement for net salary from the funds of the business entity for annual holiday, state holidays, paid absences up to seven days, paid absences for professional development, paid absences for sick leave up to 30 days, as well as on the basis of allocation of profit, regardless of the period; reimbursement of net salary charged to other business entities, for time spent on exercise on the invitation from competent state authority, civil protection, for performing civic duties etc., reimbursement of net salary paid for former months during the reporting month (payments overdue).

² Statistical Yearbook of the Republic of Macedonia 2013, p. 263

Table 1: Average paid nominal net monthly salary per employee, total and by sector of the activity, in the period 1999-2013, in MKD

	<i>Year</i>							
	1999	2000	2001	2002	2003	2004	2005	2006
<i>Total</i>	9,664	10,193	10,552	11,279	11,824	12,293	12,597	13,517
Agriculture, Forestry and Fisheries	8,670	9,141	9,400	9,432	9,993	9,692	10,042	10,401
Mining and stone extraction	7,901	9,207	11,096	12,840	13,238	13,826	14,718	16,004
Manufacturing Industry	8,717	9,272	9,577	9,944	10,028	10,486	10,298	10,624
Electricity supply, gas, steam and air conditioning	14,768	15,166	15,981	14,580	15,041	15,410	17,683	22,640
Construction	7,309	7,808	8,056	8,318	8,760	9,353	9,782	9,912
Wholesale and retail trade, repair of motor vehicles and motorcycles	11,684	12,222	10,583	10,758	11,842	12,279	12,920	13,329
Financial and insurance activities	16,930	19,565	21,051	22,281	23,515	25,209	26,095	26,575
Activities related to real estate	15,400	15,813	16,694	17,540	16,673	16,572	16,153	17,042
Public administration and defense, obligatory social insurance	9,971	10,106	10,481	11,606	12,911	13,636	15,392	16,028
Education	9,368	9,454	9,632	10,844	11,544	11,606	11,677	12,437
Activities of health and social care	9,760	9,902	10,115	11,024	11,865	12,042	12,141	12,517

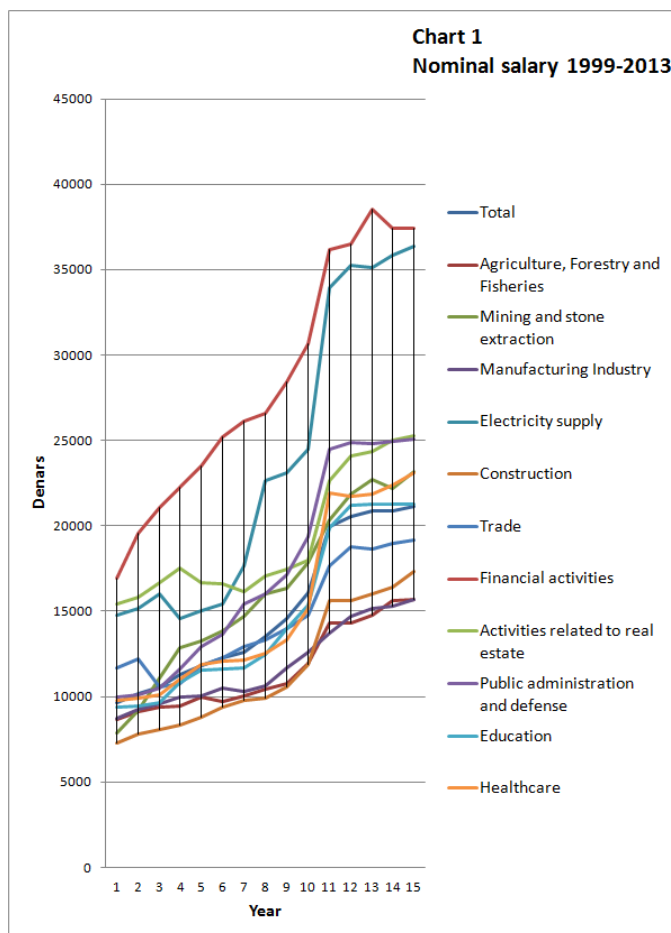
	Year						
	2007	2008	2009	2010	2011	2012	2013 ¹⁾
<i>Total</i>	14,584	16,096	19,957	20,553	20,847	20,902	21,113
Agriculture, Forestry and Fisheries	10,740	11,929	14,273	14,280	14,781	15,641	15,660
Mining and stone extraction	16,327	17,842	20,325	21,870	22,690	22,180	23,181
Manufacturing Industry	11,653	12,613	13,738	14,674	15,176	15,300	15,711
Electricity supply, gas, steam and air conditioning	23,118	24,475	33,916	35,254	35,138	35,818	36,372
Construction	10,564	11,867	15,637	15,614	15,986	16,375	17,312
Wholesale and retail trade, repair of motor vehicles and motorcycles	13,951	14,788	17,632	18,800	18,630	18,982	19,152
Financial and insurance activities	28,419	30,651	36,145	36,470	38,509	37,397	37,408
Activities related to real estate	17,465	17,990	22,663	24,094	24,377	24,998	25,260
Public administration and defense, obligatory social insurance	17,160	19,385	24,484	24,854	24,826	24,966	25,077
Education	13,957	15,381	19,879	21,177	21,292	21,235	21,236
Activities of health and social care	13,320	15,185	21,916	21,737	21,836	22,399	23,087

Source: Statistical Yearbook of the Republic of Macedonia 2000-2013;
www.stat.gov.mk - Announcement of the State Statistical Office from
 28.1.2014: Average monthly net salary per employee, November 2013 (last
 visited 6.2.2014)

1) The reviewed data for 2013 are for the first eleven months

Chart 1 gives a summary of these data. From Chart 1 and Table 1, we can note a significant rise in the paid average net nominal salary per employee in total, and in the sector of activity, when we compare the data from 2008 with 2009. The total average net nominal salary per employee in 2009 increased by 24% compared to 2008; the smallest increase is 8.92% in the sector *Manufacturing industry*, while the largest increase was for a whopping 44.33% in the *Health sector*, and the sectors *Electricity supply, gas and steam* and *Construction* grew by 38.57 and 31.77%, respectively. However, this is only at first overview. The interpretation of this situation is unrealistic, because this is result of changing of legislation. In fact, since January 2009, in the Republic of Macedonia the new Law on Gross Salary came into force, according to which compensation to employees for food and transportation were simply blurred into the net salary. Clearly, if we exclude the other benefits of the introduction of the Law for gross salary, which here we will not comment, in relation to the actual income of the dominant number of employees, this is just an accounting operation. Namely, the compensation for food and transportation had been paid for years, therefore their input in the net salary can not be treated as an increase of the same, although this change of legislation in the longer term has a positive impact, especially on the pension calculation of each individual.

Chart 1:



Considering the previously said, in order to obtain a true depiction of the movement of nominal net salaries, we will look into the periods 1999-2008 and 2009-2013 separately. From the data in Table 1 we can conclude that in the period 1999-2008 there is continuous growth in the total nominal net salary, and in the nominal net salaries in the considered sectors, with the exception of the sector *Activities related to real estate*. Further, in 1999 the total average paid nominal net salary amounted to 9,664 MKD, with the smallest average nominal net salary starting from 7,309 MKD in the *Construction sector*, while the highest average nominal net salary of 16,930 MKD in the sector *Financial and insurance activities*. As we can see, the salaries in the sectors *Electricity supply, gas, steam and air conditioning, Activities related to real estate*

and *Financial and insurance activities* are respectively 2.02; 2.11 and 2.32 times higher than the salaries in the *Construction sector*, while the salaries in the sectors *Public administration and defense, obligatory social insurance, Education and Activities of health and social care* are about 1.3 times higher than the salary in *Construction sector*, where from these three sectors, the lowest salaries are in the sector *Education*. However, due to the already mentioned increase of nominal net salaries, the situation in 2008 changed. So, the total average paid nominal net salary amounted to 16,096 MKD, where again the *Construction sector* had the lowest average net nominal salary from 11,867 MKD, but the three sectors with largest net nominal salaries in 2008 were *Public administration and defense, obligatory social insurance, Electricity supply, gas, steam and air conditioning* and *Financial and insurance activities* with respective salaries 1.63; 2.06 and 2.58 times higher than those one in the *Construction sector*. We will not specifically comment on the meaning of this fact, but it remains unclear what the reasons for increasing the salaries of 94.41% are in the sector *Public administration and defense, obligatory social insurance*, versus the increase of 64.19% and 55.58% in the sectors *Education* and *Activities of health and social care*, respectively, and why in the sector *Public administration and defense, obligatory social insurance* the average net nominal salary in 2008 is approximately 27% higher than in the other two sectors. This means that in the reviewed period extra difference in salaries of these sectors of over 20% was made; data which is quite disturbing, especially if we consider the importance of these sectors, the educational structure of employees in *Education* and *Activities of health and social care* and the fact that these three sectors are under the direct control of the Government. As we saw in the period 1999-2008 there is an increased in the difference between the lowest and highest average net nominal salary by sector, where as a result of the increase of 125.82% the average net salary in the sector *Mining and stone extraction* in 2008 amounted to 17,849 MKD, which means that this sector is on the fifth place by size of the average net salary, even though in 1999 it was on the tenth place, immediately after *Construction*.

From the data in Table 1 it can be noticed that in 2009 the total average paid nominal net salary amounted to 19,957 MKD, where the smallest average nominal net salary of 13,738 MKD was in the sector *Manufacturing industry*, while the highest average net nominal salary of 36,145 MKD was in the sector *Financial and insurance activities*.

Furthermore, salaries in the sectors *Public administration and defense, obligatory social insurance, Electricity supply, gas, steam and air conditioning* and *Financial and insurance activities* appropriately were 1.78; 2.48 and 2.63 times higher than the salaries in the *Manufacturing industry*. Thus, it is important to note that salaries in the sector *Public administration and defense, obligatory social insurance* were higher than salaries in the sectors *Education* and *Activities of health and social care* by 17.36 and 11.72%, respectively. At first glance, this is a positive tendency, but if we consider that since January 2009 the cost of food and transportation are included in the net salary, it is clear that this is not devised policy that will improve the economic position of employees in these undeniably important sectors of activity, but it is a result of legal and accounting action that creates in public an illusion of a serious increase of net salaries happened. As it can be seen, after 2009 there is also a tendency of increase in nominal net salaries, where in 2013 the total average net nominal salary was 21,113 MKD, the smallest average nominal net salary of 15,660 MKD was in sector *Agriculture, Forestry and Fisheries*, while the salaries in the sectors *Electricity supply, gas, steam and air conditioning* and *Financial and insurance activities* again were the largest and they were 2.32 and 2.39 times bigger than the sector *Agriculture, Forestry and Fisheries*. Here we will mention that despite the permanent reforms in the educational system and declarative telling of its importance in society, in 2013 the average net nominal salary in the sector *Education* was 8.72% lower from the one in the sector *Activities of health and social care*, or 18.09% lower than the net salary in the sector *Public administration and defense, obligatory social insurance*.

Detailed observations for the movement of nominal net salary in the reviewed period can be made with complete remake of the data given in Table 1, but by doing that we will not be able to get a realistic picture of the effects of the increase in the net salaries on the standard of the population. Therefore in our further considerations we will review the movement on real net salaries in the period 1999-2008 and the period 2009-2013.

2. The movement of real net salary in Republic of Macedonia in the period 1999-2013

We will make the analysis of the movement of real net salaries in the period 1999-2013 by converting the nominal net salary in the real net salary, so after that we will divide the net nominal salary with the index of cost of living. For this purpose we will use indices of cost of living calculated by the State Statistical Office for the considered period, by which³: *consumer prices* are the prices by which retail trade, individual producers and providers of services sell their products and services to the final consumers, whereby prices include VAT. Further, based on the average monthly consumer prices, i.e. their dynamics, and the structure of the turnover, i.e. the structure of personal consumption, index of retail prices and indices of costs of living are calculated, respectively. The indices are calculated by the following formula: $I_{t/0} = \frac{\sum_{i=1}^n \frac{p_{ti} \cdot w_{0i}}{p_{0i}}}{\sum_{i=1}^n w_{0i}}$, where: I_{t0} is the index that is calculated, p_{ti} is the price of i product / service in the current period, p_{0i} is the price of i product / service in the base period, n is the number of products / services and w_{0i} is the value of trade of retail on i product / service in the base period.

³ Statistical Yearbook of the Republic of Macedonia, 2013, p. 295

Table 2: Indices for cost of living in the period 1999-2013

	Year						
	1999	2000	2001	2002	2003	2004	2005
Index of cost of living, base period previous year ¹⁾	100	105,8	105,5	101,8	101,2	99,6	100,5
Index of cost of living, base period 1999 ²⁾	100	105,8	111,62	113,63	114,99	114,53	115,10

	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Index of cost of living, base period previous year ¹⁾	103,7	106,1	108,3	99,2	101,6	103,9	103,3	102,8
Index of costs of living, base period 1999 ²⁾	119,36	126,64	137,16	136,06	138,24	143,63	148,37	152,50

Source: 1) Statistical Yearbook of the Republic of Macedonia, 2000-2013

2) Author's calculations based on 1)

Table 2 gives us the index of cost of living $I_{t,t-1}$, $t=1,2,3,...,14$ calculated by the State Statistical Office where the indices of cost of living for i period were obtained according to the formula $I_t = \frac{I_{t-1}I_{t,t-1}}{100}$, where $I_0=100$. Furthermore, for the base period 1999, in Table 3 there are the real net salaries which were calculated according to the formula $R_{np/t} = \frac{N_{np/t}}{I_t}$, $t=1,2,...,14$, where $N_{np/t}$ is the nominal net salary in t period and they are also shown in Chart 2, including the anomalies that occurred in 2009, previously discussed. Hence, with the aim to get a true picture of the movement of the the real net salaries we will look at the periods of 1999-2008 and 2009-2012 separately.

From the data in Table 3 we can notice that from 1999 to 2001 there is a decline in the total real net salary, and it is increasing steadily till 2008. Thus, in the period 2002-2006, the total real net salary is increased by 19.79%, which means that the average annual growth rate is 3.68% and it is greater than the total increase of real net salary achieved in the period 2007-2008. For the real net salaries in the considered sectors, we can notice that in the period 2002-200, all of them have positive growth rates, which is not the case in the period 2007-2008,

where the sectors *Agriculture, Forestry and Fisheries, Mining and stone extraction, Electricity supply, gas, steam and air conditioning, Real estate activities* and *Wholesale and retail trade, repair of motor vehicles and motorcycles* have a decrease in the real net salary, where most significant decrease is in the sector *Real estate activities* amounted to 8.13%, and significant decrease of 5.92% in the sector *Electricity supply, gas, steam and air conditioning*. Furthermore, in the period 2002-2006 the sectors *Public administration and defense, obligatory social insurance, Mining and stone extraction, Electricity supply, gas, steam and air conditioning* and *Education* show higher rates of growth of the real net salary from the total for 43%, 34.86%, 32.48% and 20.75% respectively, which means that in these sectors the average annual growth rate of real net salary is 7.42%, 6.18%, 5.79% and 3.84% respectively. But, in the period 2007-2008 these average annual rates of growth were 2.59%, -1.50%, -3.01% and 3.74%, i.e. not only that they were smaller than those in the previous period, there is also a decrease of the average real net salary in the sectors *Mining and stone extraction* and *Electricity supply, gas, steam and air conditioning*. As for the correlations of the real net salaries in the analyzed period, they are the same as the nominal net salaries, so we will only note that in 2006 the total average real net salary was 11,324 MKD and it was 36.37% higher than the lowest average real net salary that is earned in the sector *Construction* and it amounted to 8,304 MKD, while the highest salaries are in the sectors *Electricity supply, gas, steam and air conditioning* and *Financial and insurance activities*, where the real net salaries increased by 2.28 and 2.68 times from those ones realized in the sector *Construction*. In the context of the previously said, we can only note here that in this period the sector *Public administration and defense, obligatory social insurance* achieved higher salaries than the sectors *Education* and *Activities of health and social care* by 28.78% and 28.05% respectively, while the real net salaries in the sectors *Education* and *Activities of health and social care* were almost equal.

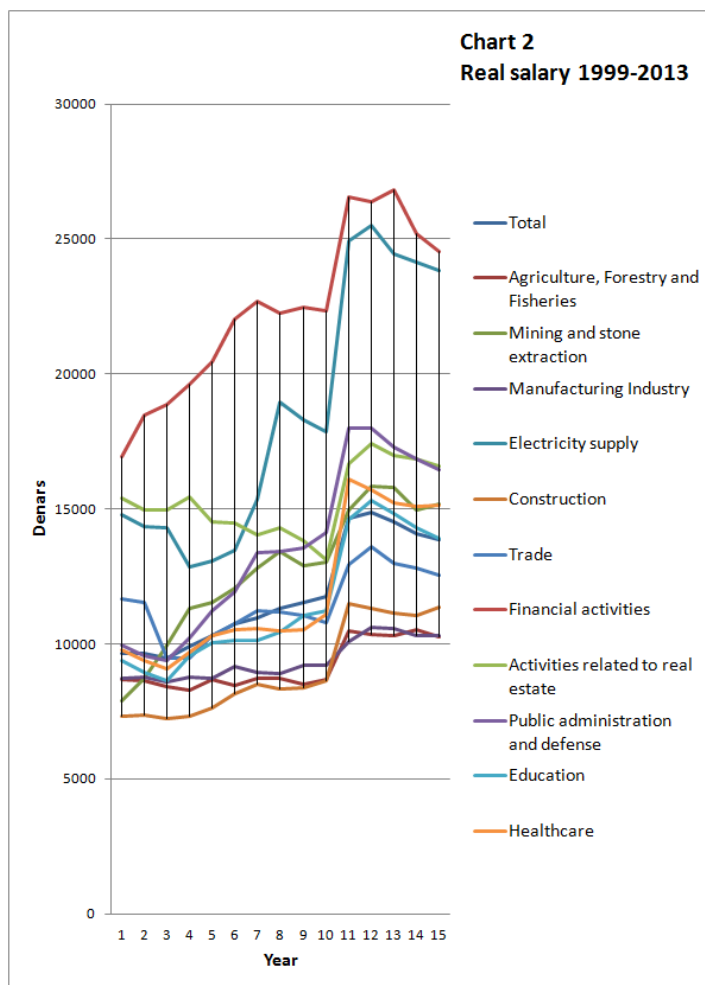
Table 3: The average paid real net salary per employee, total and by sector of activity, in the period 1999-2013 (base period 1999), in MKD

	Year						
	1999	2000	2001	2002	2003	2004	2005
Total	9,664	9,634	9,454	9,926	10,282	10,773	10,944
Agriculture, Forestry and Fisheries	8,670	8,640	8,422	8,301	8,690	8,462	8,724
Mining and stone extraction	7,901	8,702	9,941	11,300	11,512	12,072	12,787
Manufacturing Industry	8,717	8,764	8,580	8,751	8,721	9,156	8,946
Electricity supply, gas, steam and air conditioning	14,768	14,335	14,317	12,831	13,080	13,455	15,362
Construction	7,309	7,380	7,217	7,320	7,618	8,166	8,498
Wholesale and retail trade, repair of motor vehicles and motorcycles	11,684	11,552	9,841	9,468	10,298	10,721	11,225
Financial and insurance activities	16,930	18,492	18,860	19,609	20,449	22,010	22,671
Activities related to real estate	15,400	14,946	14,956	15,436	14,499	14,469	14,033
Public administration and defense, obligatory social insurance	9,971	9,552	9,390	10,214	11,228	11,905	13,372
Education	9,368	8,936	8,629	9,543	10,039	10,133	10,144
Activities of health and social care	9,760	9,359	9,062	9,702	10,318	10,514	10,548

	Year							
	2006	2007	2008	2009	2010	2011	2012	2013
Total	11,324	11,534	11,736	14,668	14,868	14,515	14,088	13,843
Agriculture, Forestry and Fisheries	8,713	8,494	8,697	10,490	10,330	10,291	10,542	10,267
Mining and stone extraction	13,408	12,912	13,008	14,938	15,821	15,798	14,950	15,199
Manufacturing Industry	8,901	9,216	9,196	10,097	10,615	10,566	10,312	10,301
Electricity supply, gas, steam and air conditioning	18,967	18,283	17,845	24,927	25,503	24,465	24,142	23,847
Construction	8,304	8,355	8,652	11,493	11,295	11,130	11,037	11,351
Wholesale and retail trade, repair of motor vehicles and motorcycles	11,167	11,033	10,781	12,959	13,600	12,971	12,794	12,557
Financial and insurance activities	22,264	22,476	22,348	26,566	26,382	26,812	25,206	24,526
Activities related to real estate	14,277	13,812	13,116	16,657	17,430	16,972	16,849	16,561
Public administration and defense, obligatory social insurance	13,428	13,571	14,134	17,995	17,979	17,285	16,827	16,441
Education	10,419	11,038	11,214	14,611	15,319	14,825	14,312	13,923
Activities of health and social care	10,487	10,534	11,071	16,108	15,725	15,203	15,097	15,137

Source: Author's calculations based on data from Tables 1 and 2.

Chart 2:



From Table 3 and Chart 2 we can see the movements of real net salaries in the period 2009-2013, so in the following considerations we will focus only on the growth of the real average net salary in 2013, compared to 2009. So, in 2013, the total average real net salary compared to the same in 2009 is lower by 5.63%, as a result of the reduction in the average real net salary in sectors *Agriculture, Forestry and Fisheries* by 2.12%, *Electricity supply, gas, steam and air conditioning* by 4.33%, *Wholesale and retail trade, repair of motor vehicles and motorcycles* for 3.10%, *Financial and insurance activities* by 7.68%, *Public*

administration and defense, obligatory social insurance by 8.63%, *Education* by 4.70% and *Activities of health and social care* by 6.03%. However, it is important to be noted that between sectors which the Government directly managed in 2013 compared to 2012 in the sector *Activities of health and social care* there is an increase of the real net salary by 0.26%, but for unclear reasons in sector *Education*, where salaries for years are in stagnation, there is again a decrease of the real net salary by 2.72%, which is far more than the reduction in the total real net salary, which in 2013 compared to 2012 was 1.74%.

3. Instead of conclusion

The previous considerations provide a realistic picture of the movement of nominal and real net salaries, total and in the considered sectors of activity in periods 1999-2008 and 2009-2013. From them we can conclude that:

- after the period 1999-2001 despite the increase in the total and by sector of activity, in the nominal net salary there is a decrease of the real net salary, the total, and by sector of activity, except in the sectors *Mining and stone extraction, Financial and insurance activities* and *Activities related to real estate*, which is an indicator of a negative trend in the overall economy,
- for the period 2002-2006 there is a significant increase not only of nominal, but also of the real net salaries, where the total real net salary is increased by 19.79%. The increase in all sectors, except *Manufacturing industry* and *Activities related to real estate*, are over 15%, which suggests a five-year steady growth on the overall economy,
- in the period 2007-2008, despite the increase of the nominal net salaries, there is stagnation of the growth of the total real net salary, where in five of the eleven considered sectors of activity the real net salary declines,
- it is not possible to really compare the nominal and real net income of the employees for 2008 and 2009, because after the Law for gross salary as part of the financial subordination of the employees, food and travel were included in the net salary, which in the view of the current income of the employees is only and accounting operation, which among other things not only

increases their pension basis, but also provides additional funding in the state budget and funds,

- in the period 2009-2013 there is negligible increase in the nominal net salaries, which results with reduction of the real net salary, the total one as well as in most of the sectors, which is an indicator of the negative trend in the overall economy,
- movements of the nominal and real net salaries in the the analyzed period resulted in a situation in which the sector *Education*, which according to the educational level of the employees is at the top sectors that is directly managed by the Government and by the quality of which the incorporation of domestic companies in the knowledge based economies depends, has depressed salaries compared to the sectors *Public administration and defense, obligatory social insurance* and *Activities of health and social care*. It is unclear how the Government would ensure the development of the this sector in the desired direction in future, and
- according to the data from the State Statistical Office for the period 1999-2008 the rate of the growth of the real GDP is 37.19% and in this period there is increase in the total real net salary by 21.44% and at the same time there is increase in the real net salary in all considered sectors of the activity (except in *trade* and *real estate activities*), while in the period 2009-2013 the rate of the real growth of the GDP is 4.41% and in this period there is increase in the total actual net salary by 5.63%, which is at least unreasonable.

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THE IMPACT OF GLOBALIZATION ON THE BUSINESS

Abstract

The modern liberal, capitalistic and economic actions become a conglomerate of factors and reasons, analyses, information, media, skills and predispositions influencing the business. The participation on the world's global markets, the internationalization and the transfer of the business activities on all geographic meridians, encountering different and often uncertain environments has been a constant business story of the international economic activity for at least three centuries. The global economic interaction is as old as society in its more or less organized form. From the industrial revolution until today, there is an ongoing irreversible global economic integration. The reasons are simple, business and profits do not recognize borders, national and cultural unsurpassed characteristics, where more or less a mutual benefit of certain cooperation is recognized, and a business connection is immediately established. Making a decision for investment on a foreign location is a process of extensive analysis, thorough and profound long-term thinking and scanning of the institutional and legal frameworks, which should be provided in advance, and to some extent, guaranteed predictability, in terms of responsiveness to certain dilemmas, how much to be invested, where to direct the capital, what will the economic benefit be and the ability to anticipate the given risks in advance,.

Keywords: internationalization, global markets, economic integration

JEL classification: F2, F6

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Introduction

The global changes in the world, the changes in the political, economic and business activities as well as the development of technology, transport and communications, impose the need for enterprises to change their strategies in their struggle for survival and leave the borders of their own country. The limited market, the competitive pressure, the demand for cheaper resources and the dynamics of the postmodern era force business leaders to change their focus from traditional targets to alternative measures for successful business and enter the global markets with the aim of creating competitive advantage.

Major investments do not tolerate improvisations because the capital and the assets are acquired at the cost of big efforts and hard work, and they must not turn into big losses. Business entities, by definition, always act rationally. First, when choosing a certain environment, they do a detailed scanning of the situation, the political and social dependence of the environment, the cultural identification of the social environment, the geographical position of the targeted environment, the possibility for easier access to existing resources and technologies, the labor force that is compatible with the needs for efficient operations as well as the good infrastructural network of the location, because the goods, the products and the services require mobility, quick transfer and availability at every moment, on every market, in general, anywhere and as fast as possible where there is necessity and need.

1. International business and the global market

International business is a term used to describe all commercial transactions, in general, (private and governmental, sales, investments, logistics and transport) which occur between two or more regions, countries and nations beyond their political borders (Radebaugh & Sullivan, 2007). International business refers to those business activities which include cross-border transactions of goods, services or resources between two or more nations. Transactions of economic resources include capital, skills, people for international production of physical goods or services, such as finance, banking, insurance, construction (Joshi, 2009). According to Rugman and Collinson, international

business analyzes transactions that take place across national borders in order to meet the needs of individuals and organizations. These economic transactions consist of trade (imports and exports) and foreign direct investment (Rugman, Collinson, & Hodgetts, 2006). According to Ball, international business is a business with activities carried out beyond the borders of its country and they do not only include international trade and international production, but also growing service trade in areas such as transport, tourism, advertising, construction, retail and mass communication (Ball, McCulloch Jr., Frantz, Geringer, & Minor, 2002).

The companies that are active in international business are called multinational enterprises. Multinational enterprises are enterprises or corporations that own substantial resources and perform various business activities through a network of branches located in different countries; each branch forms its business strategy based on the different market characteristics (Cavusgil, Knight, & Riesenberger, 2008). Multinational companies are based in one country but have business activities in several countries. There are opinions that multinational companies are structured and conduct business or have property in many countries or companies organized in global production parts.

Ansoff separates the reasons why a company becomes multinational into two categories (Ansoff, 1984):

- Operational needs: providing materials, equipment, technology and release of surplus production;
- Strategic needs: ensuring the inviolability of future changes in the external environment, steady growth (maintaining historic patterns of growth, avoiding stagnation caused by saturation, increasing the volume of business, increasing the rate of growth) and better profitability.

2. Globalization of business

The development of international business activities coincided with the widespread phenomenon of globalization of markets (Cavusgil, Knight, & Riesenberger, 2008). The globalization of markets refers to the growing economic integration and the growing interdependence of countries worldwide. Internationalization of the companies refers to the tendency of the companies to systematically increase the international scope of their business activities, while globalization refers to a

macrotrend, intensive economic relations between the countries in the world. Globalization encourages companies to internationalize and to substantially increase of the volume and types of cross-border transactions of goods, services and capital. Also, the globalization leads to a rapid dissemination and diffusion of products, technology and knowledge in the world, regardless of the origin.

The process of globalization is a natural process that is a result of the growing and accelerated process of generalizing of the character and process of production. The development of science, engineering and technology and the expansion of markets for goods worldwide lead to internationalization of economic and financial developments. If globalization is understood as a process that leads to greater economic integration of national economies, as a process of fragmentation of the world economy and the international economy, than the globalization is a process of opening of national economies through the removal of economic and financial boundaries of national economies and thus their transformation into an international economic and financial market (Jovanovski, 2007).

Globalization is a worldwide trend, through which economies in the world lose their borders and connect to each other. The companies are no longer imprisoned in their borders and can implement a wide range of business activities around the world. Many companies are present in markets around the world, purchase raw products or conduct research and development worldwide. Trade barriers fall and global trade between countries in goods and services is growing faster than domestic production. As a result of this, companies cannot afford the luxury to assume that the success of the domestic market will lead to long-term profitability (Cullen & Parboteeah, 2010). The flow of money across national borders is free; companies seek better financing rates in the world and investors everywhere are looking for a more favorable return on investment.

The globalization from economic aspect has two main components: the globalization of markets and globalization of production. The *globalization of markets* refers to the merging of historically different and separate national markets into one big global market. In recent years, it is constantly discussed that tastes and preferences of consumers in different countries and nations begin to resemble at the global level and in the way they help in creating a global market. The companies that offer standardized products worldwide help

in the creation of a global market. The most common global markets are not the markets for mass consumer products, because there are still differences between countries in terms of tastes and preferences, which still have great meaning and are a sort of a brake on globalization, but these are the markets for industrial goods and materials that have universal needs in the world. The ***globalization of production*** refers to the tendency of the companies to find suppliers of goods and services from locations around the world in order to realize the advantage of national differences in price and quality of the factors of production. Companies do this in order to reduce the overall costs and thereby improve the quality or functionality of their product, thus offering to compete more effectively (Hill, 2008).

The process of globalization, the fight for survival, the constant pressure and the need to preserve and strengthen the market position force the companies to be willing to constantly innovate and explore opportunities for achieving competitive advantage and expanding business activities outside the domestic market.

3. Factors for globalization

Entrance of the companies in the global market becomes inevitable not only because of limitation of the domestic market but also because of the globalization; the domestic market share is under threat from foreign competition (Bartels, Buckley, & Mariano, 2009). There are several specific factors that promote globalization and guide enterprises to strive for business development and growth through the international and global operations and include: political changes, development of technology, international business climate, market development, expenses and competition (Ball, McCulloch, Geringer, Minor, & McNett, 2001).

- **Political changes.** The globalization trend of unifying and socializing the global community as well as forming preferential trade agreements and unions, such as NAFTA and the European Union, which unite more nations in a single market, allow the companies significant market opportunities. Two aspects of this trend, which contribute to the globalization of business operations, are:

- ⇒ Progressive reduction of barriers for trade and foreign investment by most governments, which leads to intense opening of new markets by international companies,
- ⇒ The privatization of most of the industries in the former communist countries, as well as opening of their economies to the global competition.

- **Development of technology.** The development of computing and communication technologies has enabled increased flow of ideas and information across the borders of the countries, providing introduction of consumers to the goods worldwide. The Internet and networking have enabled smaller companies to compete globally as a result of the rapid flow of information, regardless of the physical location of the seller or buyer. Also, they allow international companies to hold corporate meetings among managers from different headquarters and branches online without wasting unnecessary time for travel.

- **International business climate.** The development of communication and information technologies have contributed to the process of globalization, but also provided instruments which facilitated the processes of globalization. Newly emerging markets also recognize the economic benefits, technological development and growth opportunities that globalization provides.

- **Development of markets.** Information and communication technologies, rapid development of international tourism, widespread cultural exchange and improved living standards in many developing countries have contributed to the emergence of a group of consumers in different countries and regions of the world with similar educational profiles, lifestyle, purchasing power, as well as aspirations for high quality products. This scenario in combination with the liberalization of international trade and the availability of global distribution channels opens great opportunities for companies that want to offer their products on global markets. Large market potential exists outside of the domestic market, and it is the reason why companies go out on foreign markets, generate sales and have opportunities for profit that cannot be achieved at home.

- **Expenses.** The liberalization of trade and investment flows that emerged in the 80s of the last century, was a great motivation for globalization of businesses. Trade liberalization, global consumer habits, increasing development costs and the need for economies of scale,

pressure from foreign competitors on the domestic markets as well as the development of information and communication technologies, are considered to be the drivers of globalization. Because of the need to introduce new products and investments in research, development and innovation, achieve economies of scale, reduce costs and access cheaper raw materials; companies are forced to plan activities by taking into consideration the global market. Economies of scale and cost reduction are the main goal of every company's management. That is why companies decide to locate production in countries where the costs of developing and producing are smaller.

- **Competition.** One of the reasons why companies adopt global strategies is the need of maintaining or gaining a competitive advantage on foreign markets and avoiding competition in the domestic market. Competition in international markets is huge and growing, with more multinational competitors who win markets worldwide. The companies improve their competitive position by opposing competitors on international markets, or preventing premature intrusion by competitors into the domestic market.

As globalization increases the speed and progresses rapidly, there are more opportunities for the companies to participate on the international markets. The managers develop and adapt strategies for internationalization in order to transform their organizations into globally competitive enterprises. Managers seek to coordinate the supply, production, marketing and other activities based on international activities. The organization of the company globally is a challenge and requires strategic positioning, organizational skills, a high degree of coordination and integration, attention to the needs of the individual markets and the implementation of common processes.

The strategy, in an international context, is the plan of an organization on positive positioning in regard to its competitors. This plan leads the company to selected customers, markets, products and services on the global markets, not just on a particular international market. The strategy in an international context should help managers to formulate a strong international vision, allocation of resources, participation on the major markets, implementation of global partnerships and involvement in competitive activities opposing global rivals and establishment of activities that add additional value on a global level (Cavusgil, Yeniyurt, & Townsend, 2004).

When companies compete outside their country, they face a number of challenges and pressures. These pressures and challenges to maintain competitiveness require from the companies to cut costs so that consumers do not evaluate their products or services as too expensive. This leads to the need to locate production facilities in places where production costs are lower. Regarding the pressure to reduce costs, managers must strive to be ready to respond to local pressures to adapt products to local market requirements where a company is active. This requires differentiation of their offer and strategies in different countries in order to preserve the tastes and preferences of consumers, but also the differentiation of distribution channels, management of human resources, and government regulations. Because the strategies and tactics for differentiation of products and services on local markets create additional costs, they can also lead to increased costs for the company. These two pressures that enterprises face result in four basic strategies that the companies use to compete on the global market. These strategies are: international, global, multi-domestic and transnational strategy (Dess, Lumpkin, & Taylor, 2004). The strategy that will be chosen by the company depends on the pressure faced by cost-cutting and the importance of adapting to local markets.

Conclusion

Today, the word international company is quite a common phenomenon, which reflects actual business transactions and large expenses between a number of people from different cultures with different approaches. What unites them in the complex network of relationships is the need of development, rapid exchange of resources and tools and integrated cooperation, which should contribute to ensure cooperation and transfer of capital.

It can be concluded that today's decisions for crossing domestic borders and internationalization of the business is essential for serious growth and development of a business entity. To make a decision to invest outside the borders is a complex and comprehensive process. This process is achieved through several stages and approaches that contain a long-term comprehensive analysis as well as through scanning the newly elected investment location. Because every business investment represents economic-political and social interaction, during the decision

making process great attention should be paid on choosing stable political system, with tradition of trade market, functional institutions, good legal system, all of which would be a guarantee against unstable environment and potential risks in the country.

To summarize, the decision making process is time consuming because the analysis of all the factors and potential risks of certain market takes time and resources, but it is necessary for making a good decision and return of the investment.

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