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Abstract

Bitcoins' technology brings a new level of innovation to business and communication across the world. However, the advantages of a virtual currency payment system face the threat from criminal activities occurring over a pseudonymous network where there is virtually no current regulation to cover illegal transactions. The current situation in Georgia is as follows: the second Bitcoin's processing datacenter has opened in Georgia. While the virtual money is new even in developed countries, more unusual it is for Georgia, where local economists are more skeptical toward cryptocurrency. Therefore, they believe that electronic money is not controlled by any central bank that gives a lot of opportunities for illegal transactions. According to the Georgian experts, bitcoin is a very risky currency that can be used for money laundering, as it is completely uncontrolled. However, the Georgian central bank system claims that bitcoins are not dangerous, and the lack of awareness gives rise to talk about money laundering. The biggest challenge seems to be regulation of Bitcoin without hindering the potential for growth. While there is usually certainly a chance that Bitcoin could fail or be pushed out of existence by a more innovative technology, policymakers must be careful not to hinder a technology that could change the way global economy functions.

Keywords: cryptocurrency, bitcoin, money laundering, block chain, miners

Introduction

In 2009, Satoshi Nakamoto presented Bitcoin in an essay: Bitcoin, A Peer-to-Peer Electronic Cash System and since then risen to the popular virtual currency in the world. Bitcoin is a so-called virtual currency that has been devised for anonymous payments made independently of governmental or non-governmental institutions. Bitcoin payments are based on a new interesting technical solution and function differently to traditional payments that can bring advantages in the form of lower costs, rapidity or anonymity over traditional payment methods. However, usage can also be more risky because Bitcoin is not directly covered by the laws that govern other payment mediation. Bitcoin is used on a decentralized peer-to-peer payment network that is powered by its users with no authority. Bitcoin has attracted the attention of businesses as well as individuals around the globe. Regulators, including the Internal Revenue Service and the Commodity Futures Trading Commission, have started to pay attention to its anonymous nature as recent years have demonstrated that Bitcoin has played a part in money laundering. Lawmakers must strike a balance between hindering criminal activity and maintaining Bitcoin’s increased advancement. The main purpose of the paper will be to find out the current situation of Bitcoins influencing the Georgia’s economic system and identify potential risks regarding money laundering for developing appropriate measures to prevent the cases associated with the mentioned problem.

Brief History of Bitcoin and Recent Developments in Georgia

1 Satoshi Nakamoto, A Peer-To-Peer Electronic Cash System, Bitcoin Project (2009)
2 Frequently Asked Questions, Bitcoin Project (2016)
3 Bitcoin Price Index Chart, Coindesk (Nov. 30, 2016), webpage: http://www.coindesk.com/price/
5 Jerry Brito & Andrea Castillo, Bitcoin: A Primer For Policymakers 7 (2d Ed. 2016)
In 2008, Satoshi Nakamoto invented the Bitcoin. According to Newsweek (2014), Nakamoto was unhappy with the commissions he had to pay when buying. Therefore, he invented the virtual exchange coin. However, according to El País (2016), it is revealed that the creator of the Bitcoin is an Australian entrepreneur - Craig Steven Wright, and has admitted to act with the pseudonym of Satoshi Nakamoto.

Cinco Días (2013) stated that Bitcoin is a decentralized electronic coin. Each bitcoin has a unique serial number, similar to the bills and coins in use by the Banks. According to Cárdenas, Avellaneda and Bermúdez (2015), to be able to operate with bitcoins one should download a virtual wallet on a computer or a mobile device. This is digital encrypted file composed of a series of exclusive codes. Once the wallet is downloaded, a bitcoin address will be given. This is a large alphanumeric sequence in two related parts within the network system. One part contains the private code for the wallet for each individual subscriber, and there is an account to access to and dispose of any funds they might have in their virtual wallet – it is similar to a credit card PIN number. The other part consists of a public address that makes an individual identifiable, i.e. similar to the IBAN of bank accounts. According to Rose, 2015, the emission of bitcoins is limited, so once the amount is reached it would not be possible to have more. The process itself validates the new transactions, and once they are verified they are recorded in the blockchain.

Bitcoin can be exchanged for a currencies like dollars, lari, or euro. The currency has value because people believe it does. One Bitcoin was only a few dollars until early 2013, and has fluctuated wildly since then but today is worth US$4 674.66.

Graph 1. Bitcoin Price Variation in USD

Source: https://www.coindesk.com/price/

As of today, Bitcoin risen to the status of the most popular virtual currency. The biggest advantage of Bitcoin is the avoidance of the double-spending problem\(^1\). The Bitcoin network is a decentralized network, in which individual has no complete ownership or control. Bitcoin transactions do not require middlemen services, such as PayPal, eliminating the otherwise time-consuming and costly processes. One can send money globally without having to incur additional fee of payment to the third party. These qualities make Bitcoin an attractive payment system for money laundering. Bitcoin’s decentralized network means that users are pseudonymous, while transaction is not tied to anyone’s identity. Users found ways to gain access into Bitcoin exchanges to steal millions of dollars’ worth bitcoins from businesses for online illegal markets. The infamous Silk Road, which was shut down in 2014, was the ultimate black market that traded Bitcoins in exchange for illegal drugs, fake passports, driver’s licenses, and illegal services\(^2\). The severity of criminal activities alerted

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regulators to focus their efforts on formulating an effective solution\textsuperscript{1}. The solution would ideally eliminate Bitcoin's disadvantages and its susceptibility to money laundering while preserving its advantageous payment system.

Over the past year, Georgia has become a player in the international world of bitcoin. While the bitcoin industry is still developing, investors hope Georgia's role, as a mining center will help create a name for the country as a destination for high tech companies. New Bitcoins are created by an electricity intensive on-line computing process called "mining". Bitcoin limits the availability of its currency by requiring new currency generators to run complex algorithms. Processing the algorithms or "mining" costs money, principally in electricity to run and cool the computers, which need extremely fast and powerful processors. If the ultimate value of the bitcoins produced is greater than the electricity running costs, then bitcoin mining is profitable. Georgia is, therefore, attractive more to this sector as it has relatively cheap electricity and an open regulatory environment.

Georgia hopes to be added to the innovative technologies world map and tries to bring modern information technologies into the country. Georgia committed in a signing ceremony in the capital to use the bitcoin network to validate property-related government transactions. In 2016, the government and bitcoin hardware and software firm Bitfury Group launched a project to register land titles via a private blockchain and make transactions verifiable using bitcoin's blockchain, which is public. It is the first time a national government has used the bitcoin blockchain to secure and validate official actions. Having built the software and tested it with land title registrations, Bitfury and the Georgian National Agency of Public Registry have signed a new memorandum of understanding to expand the service to purchases and sales of land titles, registration of new land titles, demolition of property, mortgages and rentals, as well as notary services. While many financial institutions and governments have expressed interest in blockchain technology, the vast majority of them have been pursuing private blockchain, some for reasons of privacy and some because of bitcoin's early reputation as being the currency of choice for online drug dealers. However, Bitfury is working with the bitcoin blockchain both because it is public, for purposes of transparency, and because it is the blockchain that would be most difficult to fraudulently alter. Attractive investment climate and ease of conducting business as well as low energy cost and competitive labour market played a big part in decision-making.

**Bitcoins within Money Laundering Scheme**

Money laundering is “the process of creating the appearance that large amounts of money obtained from serious crimes, such as drug trafficking or terrorist activity, originated from a legitimate source”\textsuperscript{2}. Financial transaction is “a transaction which in any way or degree affects interstate or foreign commerce . . . involving the movement of funds by wire or other means or . . . involving one or more monetary instruments”. Money laundering is a concept that refers to the integration of money or goods into the legal economic system coming from illegal means, although appearing legal through different methods (Tondini, 2006).

Money laundering has different phases before getting integrated and finally deposited as part of the legal financial system. Almost everyone indicates three main stages – placement, stratification/transformation, and integration or investment of funds (Tondini, 2006). Thus, the procedure through which money laundering is done is the following:

Placement stage is the first step within the money laundry process. Here the illegal funds are being introduced into the economic system. Cash funds are deposited in different easy bank accounts with several names; money is also converted to metals or precious stones. Other business that might launder money are casinos, restaurants, hotels, and night business.

Stratification or transformation stage makes difficult to detect the laundering. Money is transferred from one bank account into another, from one business into another, or direct to tax havens – both in cash and electronic means (Brot, 2002). According to the Financial Action Task Force on Money Laundering (FATF), the most important means in the transferring of money is by electronic means.


\textsuperscript{2} Money Laundering, Investopedia, http://www.investopedia.com/terms/m/moneylaundering.asp?ggl=no-infinite
Integration or investment stage is the most difficult stage to detect. Illicit activities are already part of the economy and appear legal, thus they become normal (Tondini, 2006).

These secret activities make it difficult to be detected on time. According to Oroy Finanzas (2016) there are following reasons explaining the anonymity of Bitcoin: Bitcoin addresses are not identifiable with the personal information or with the transactions taking place, no one knows who has transferred them, etc. Nowadays bitcoin is the virtual currency most used on the internet for money laundering (Technoxplora, 2016). Below are presented the most common methods for money laundering by using the bitcoin:

**Mixers** - These are secret organizations that make some difficulties for the government to interfere anti-money laundering actions. They are used to mix money of various individuals, so it is difficult to know what belongs to whom, or where is it coming from. This process starts with sending one’s money to the anonymous service for further returning but mixed with bitcoins from other individuals (Criptonoticias, 2016). This way, the transactions history is hidden. Therefore, it becomes easier to launder money without being detected;

**Deep web** - Deep Web is a space of the internet, including information not obtainable from other search engines like Google, Yahoo, etc. Not all its data is illegal, there can also be censored information from governments and corporations. Some illegal contains that can be obtained are: confidential government files, drugs, arms, etc. For anonymity’s aims, there are some encrypted networks for securing surfing on the net. TOR, for instance, had 2.5 million users by 2014 around the world, according to an article published by EL Pais, A, (2014). TOR allows and helps users to maintain an anonymous link. This makes difficult and almost impossible to detect the origin of the searches done. Therefore, most of the transactions done on the Deep Web are done through bitcoins (CIO, 2013).

**Silk Road** - Silk Road is the largest ever-electronic black market on the net. It started in February 2011. It was created with the objective to trade illegal products worldwide. This net was inside the Deep Web and the Access was through TOR (Barratt, Ferris & Winstock, 2014). Users trading within the Silk Road used bitcoins as their own coin, thus there is anonymity in the transactions. Silk Road functioned as an anonymous middleman for both the buyers and the sellers, without knowing each other. This was the main purpose to use bitcoins as payment money. Silk Road was closed down, on 11 October 2013, after the detention of its founders.

While Bitcoin may have some characteristics in common with what we commonly refer to money, the uniqueness of virtual currency did not fit into the anti-money laundering statutes. Bitcoin cannot always be exchanged for items of value, as some merchants do not accept Bitcoin as payment. In some’s view, it is very clear, even to someone with limited knowledge in economics, that bitcoin has a long way to go to become the equivalent of money. The main thing that distinguishes Bitcoin from other digital currencies is decentralization. Cryptocurrency is not tied to any address, country or company. This decentralization makes the state control almost impossible. Libertarians believe that citizens are not able to trade currencies due to the tight control from the state. According to some Georgian experts, bitcoin is a very risky currency that can be used for money laundering, as it is completely uncontrolled. However, others claims that bitcoins are not dangerous, and the lack of awareness gives rise to talk about money laundering. According to this group, it is impossible to determine how many Bitcoins were used in Georgia since cryptocurrency has no boundaries.

**Regulations regarding Bitcoins within Money Laundering Scheme and Georgia’s Experience**

Financial Action Task on Money Laundering was created in Paris in 1989 by Group of Seven with an aim to avoid money laundering by Banks and Financial institutions (Quirk, 1997). FATF is an independent intergovernmental institution promoting and developing policies for protecting the financial institutions of money laundering, the promotion of terrorism and the financing of arms of mass destruction (GAFISUD, 2012). Bitcoin is relatively new and users as well as regulators are constantly uncovering new ways the technology can be used. Therefore, the government struggles to find a way to fit Bitcoin into the statutory definitions of currency and other financial instruments. In recent years, several federal regulatory bodies, e.g. the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, the IRS, and the CFTC have released statements regarding the regulation of virtual currencies, including Bitcoin in response to the rise in criminal activities. On March 18, 2013, FinCEN issued a guidance clarifying the differences between currency and virtual currency,
including Bitcoin\(^1\). It clarified the differences between entities and persons involved in virtual currency transactions in an effort to clarify which Bitcoin participants can be defined as a money transmitter. The guidance defines virtual currency as a medium of exchange that operates like a currency in some environments, but does not have all the attributes of real currency. In September 2015, the CFTC issued an order finding that Bitcoin should be defined as commodity\(^2\). Currently, trading Bitcoin is less accessible because there are dozens of Bitcoin exchanges, a trader has to set up an account on each individual exchange, and many are hesitant to trade Bitcoin because of its past involvement in illegal activities. However, in case of transparency of the virtual currency, there is a possibility of contracts that would make it easier for both professional and individual investors to trade bitcoin that in turn will help Bitcoin gain more credibility as a viable virtual currency and open the door for other avenues of positive influence. Bitcoins are treated as property for tax purposes rather than actual currency. Any gain made from selling Bitcoins is taxable income\(^3\). This notice has less impact than expected, as users use Bitcoin to make money while evading taxes\(^4\). Bitcoin transactions do not go through a third-party, which means there is no real way to report the transactions and thus makes it easier for someone to evade taxes\(^5\). This recent discovery will most likely urge the governmental bodies to further define Bitcoin to close the gap of illegal activities. European Union (EU) legislators and governments have not yet applied any clear law regarding the business done with bitcoins and other crypto-exchange. There is no clarity in the existing law, there are doubts about creating a new normative. This is something to be solved. Currently, the European Union (EU) has only applied the following norm: In Bitcoin chaser (2016) it is mentioned that the European Court of Justice (ECJ) declared, in 2015, both sales and purchases with bitcoins would be exempt of VAT within the European Union countries. Thus, bitcoins get the same status as do the foreign exchange traditionally encounter in the article 135\(^6\).

The amendments to the legal framework enacted between 2008 and February 2012 have improved Georgia’s technical compliance with the FATF recommendations, in particular with respect to the criminalization of ML and FT and the preventive measures for financial institutions. Significant progress has been made since 2007 with regard to the effective use of the ML criminal provisions and international cooperation. A combination of technical deficiencies, poor implementation, and limited resources undermine the effectiveness of the financial intelligence unit (FIU) and AML/CFT supervision. However, there are still major loopholes in terms of transparency of legal entities, domestic cooperation, and preventive measures for designated nonfinancial businesses and professions. Issues regarding customers that are, or are owned by, offshore companies for which the identity of their beneficial owners is unknown, a rapid and ongoing increase of nonresident deposits, the development of private banking activities, the rapid growth of the casino business and rising number of non-face-to-face transaction as well as domestic statistics demonstrating the existence of major proceeds-generating crimes are included in the concerning topic list. Based on statistics provided by the authorities, the ML provisions do not seem to be applied effectively to combat the most prevalent proceeds generating crimes, or to combat transnational organized crime. The modest number of legal persons investigated or prosecuted for ML raises concern since the authorities indicated the widespread use of companies in ML schemes. Some sectors are not under a legal obligation to report suspicious transactions, e.g. real estate agents, lawyers, trust and company service providers, and electronic money institutions; hence, bodies are not capable of requesting additional information from them. The quality of analysis of suspicious transaction reports is poor, mostly due to lack of analytical tools and weak quality of reporting. Only a small percentage of inbound and outbound movements of currency and bearer negotiable instruments are actually declared. Additionally, credit card services are not properly covered, as well as electronic money and investment funds. Some forms of money value transfer operators are not subject to regulation and supervision. They include electronic money institutions, casino accounts operated to move value within Georgia, and self-service terminals accepting cash and providing transfer

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3 Rebecca Campbell, IRS At A Standstill With Bitcoin; Users And Tax Professionals Remain In The Dark, Cryptocoins News (Oct. 8, 2016), https://www.cryptocoinsnews.com/irs-standstill-bitcoin-users-taxprofessionals-remain-dark/
6 Block 1, letters from d) to f) pertained to Directive, 2006/112/Counsel, 28 November, 2006
facilities. In addition, implementation is generally poor regarding the identification and verification of beneficial owners, documentation of the purpose and nature of the account business, ongoing customer due diligence, and the application of risk-sensitive measures to customers. The National Bank of Georgia exercises regulatory and supervisory oversight over the financial institutions (around 1,700 institutions) but with only a staff of five for onsite AML/CFT inspection. Electronic money institutions are not yet subject to AML/CFT supervision. Given its limited resources, the supervisory cycle has been quite long for some institutions, such as currency exchange bureaus and money remittance operators.

The Future of Bitcoin

Bitcoin attempted to grow since its inception in 2009 to become a mainstream crypto-currency that goes beyond the sphere of what paper currency offers to the world. The biggest issue facing Bitcoin is anonymity and their speed and global reach attract criminal actors engaged in illicit financing". It is necessary for regulators to focus on the proper classification of the virtual currency within the money laundering scheme in order to combat illicit activities associated with Bitcoin. Clarity will definitely benefit the world, as Bitcoin has the potential to improve human welfare if the criminal consequences are minimized by appropriate regulation. Proponents of this solution are more concerned about the anonymity of the decentralized network enabling criminals to easily launder money with Bitcoin. The development of digital currencies in general, or more broadly any new technology for making payments, is also subject to considerable uncertainty. One reason is the rapid evolution of technology. For instance, agents maintaining the Bitcoin network are trying to improve its transaction processing capacity, which is a necessary condition for Bitcoin to handle any nontrivial fraction of the realistic volume of transactions routinely processed by networks such as Visa and MasterCard. In addition, how the legal and regulatory system will react to the changes is equally hard to predict. Regarding specific aspects of the Bitcoin network, there will be further consolidations in the mining community, ending in a few coalitions that dominate the network. There may also be consolidations among digital wallets: those able to offer desirable services at a competitive price and demonstrate superior security should win market share. There may even be mergers across exchanges, if some can execute trades faster, at a lower cost, or with greater security.

As soon as cryptocurrency has appeared, the online gambling industry faces fundamental changes. It is cryptocurrencies, bitcoins in particular, that will play a significant role in this process. Bitcoin gambling will be a common phenomenon - almost all online casinos will start accepting bitcoin bets and allow withdrawing won money in digital currency. Additionally, gambling transactions will be conducted in bitcoins. Moreover, online casinos will give bonuses for bitcoins as they are interested in implementing cryptocurrencies bringing more income because of lower transactional expenditures. Nowadays, the bitcoin exchange rate is unstable, but everything will change as soon as cryptocurrency becomes more popular and high-demand. To motivate players to shift to bitcoins, casinos will offer protection from cryptocurrency volatility: the price of bitcoins on user accounts will remain unchanged and developed countries will officially permit bitcoin operations. They will be followed by other developed countries soon. In Georgia, bitcoins are already available through Liberty Bank EMoney as there are over 4,500 bitcoin-driven startups around the world and 9 million bitcoin users. Additionally, more than 100K merchants accept bitcoin today, an increase from 5,000 a year ago. Hundreds of retailers accept bitcoin as payment for goods and services, including such large merchants and websites as overstock.com, Dell, Wikipedia, Virgin Galactic, Expedia, Newegg, Bloomberg, OkCupid, cheapair.com and Reddit. It is popular because the transaction fees charged to retailers are much less than that with Visa or MasterCard. It is believed that bitcoin adoption will continue its upward trajectory.

Another source of comparative advantage that may emerge is regulation. Exchanges domiciled in countries with lighter digital currency regulation should attract more agents who are suspicious of the establishment, or are keener to chase the technology frontier, or less risk averse. In contrast, exchanges that are more regulated, and therefore more secure, should attract more agents, to the extent that digital currency becomes a class of contingent claims absorbed into the mainstream financial system. If the current price of bitcoin is sustained over the next year or two, more competing alternative digital currencies, so called altcoins may emerge, especially since the barriers to entry in virtual currency are low. The growth of altcoins depends inversely on Bitcoin's first-mover advantage, such as the network effect of the breadth of acceptance for conducting transactions, the strength of which is uncertain. To differentiate themselves from bitcoin, these altcoins will offer different features along various dimensions, such as in transaction validation schemes, fees, supply growth, etc. By comparison, more regulation is almost inevitable. For example, bitcoin wallets must already comply with anti-money-

laundring rules, and the Internal Revenue Service has just issued a ruling regarding how bitcoin earnings should be taxed. Agencies such as the Financial Industry Regulatory Authority and even the Securities Exchange Commission may issue rulings about the safety and soundness of exchanges.

Some group of experts think that the Bitcoin network as originally designed, and especially its associated digital currency, will probably not survive in the long run. Some serious design flaws of the current Bitcoin system have been identified, and some of them may eventually prove fatal. First, realistic growth projections of the scale of the blockchain indicate that it will likely become infeasible for individual users to store the data on their personal computers, and this may happen as soon as within a year or two. Second, the resource cost of mining is becoming increasingly unaffordable, not to mention the inefficiency associated with this aspect of the system design. Again, it is possible that within a few years it will become infeasible to rely on this distributed model, however consolidated, to verify transactions. Nevertheless, there is growing recognition that the lasting legacy of Bitcoin most likely lies in the technological advances made possible by its protocol for computation and communication that facilitates payments and transfers. The revolution in payments technology pioneered by Bitcoin helps to accelerate the development of better technologies for making payments and transfers cheaper, faster, and more secure.

For most people Bitcoin will not matter very much any time soon, the same way the internet did not matter very much for Georgia in the 1990's. However, the internet matters now as Georgia would get a head start in the region if parliament were to pass some carefully considered regulation about it connected with tax and other issues. Bitcoin will make transferring money across borders much cheaper, in fact free. That could be useful for those who work abroad and the relatives they help back home. Credit cards and buying things on-line can be a challenge for people in Georgia. However, more and more catalogues and websites are accepting Bitcoin and the transfer costs are zero. So those who figure out bitcoin and what it means for their life and their business will benefit because this movement will only grow stronger. Moreover, there will be people who fear it but in several years, it will be integrated into their lives just the way it will be integrated into everybody else's lives, just like the internet. Taking into account the recent development of cryptocurrency mining in Georgia, one could argue that Georgia might find a niche in providing technological services in the long run, which in fact might lead to an increase of exported service. At the same time, the Georgian market should maintain a competitive advantage on the global market in order to attract foreign investors.

**Conclusion**

There are some benefits that should be mentioned, e.g. bitcoins are rapidly evolving and the contours of the future landscape are difficult to predict, bitcoin can offer many potential benefits, including rapidly increasing speed and efficiency in making payments and transfers, and deepening financial inclusion. At the same time, bitcoins pose many risks and threats to financial integrity, consumer protection, tax evasion, exchange control enforcement, and effective financial regulation. While risks to the conduct of monetary policy seem unlikely at this stage given bitcoin’s very small scale, it is possible that risks to financial stability may eventually emerge as new technologies come into more widespread use. The development of effective regulatory responses to the development of bitcoin is still at an early stage. Regulators in some areas, i.e. AML/CFT have made considerable progress in developing effective responses. However, a great deal of work remains to be done to put in place effective frameworks to regulate bitcoins in a manner that guards against the risks while not stifling financial and technological innovation. Bitcoin represents a disruptive financial technology that many AML and money transmitter statutes are ill prepared to deal with. Virtual currencies in general have broken the trend of physical, government-backed coin and paper currencies, and it is unlikely that any new law will capture all iterations of emerging technologies for any significant period. However, this does not mean that Bitcoin and similar virtual currencies should be deemed illegal or should be onerously regulated to compensate for the lack of initial oversight. In an increasingly digital world, it makes perfect economic and societal sense to allow digital currencies, government-backed or otherwise. Regulation of such currencies should occur at the point where law enforcement can most effectively punish civil and criminal violations with the least overhead. Because Bitcoin is a decentralized, peer-to-peer virtual currency, it makes little since to regulate entities other than Bitcoin currency exchanges. Increased pressure on users will only serve to increase the cost of enforcement in the long run. Instead of increasing regulation and trying to predict the next generation of disruptive technologies, it would ultimately be better to understand the technologies and police the points of public contact with existing legal schemes.

For Georgia, bitcoins' revolutionary technology certainly brings a new level of innovation to business, payment systems, and communication across the world. However, just as many technological developments from the past, the advantages of
a virtual currency payment system also faces the threat from criminal activities occurring over a pseudonymous network where is no current regulation to cover illegal transactions. Legislative changes are certainly forthcoming. The biggest challenge will be to regulate Bitcoin without hindering the potential for growth. While there is almost always certainly a chance that Bitcoin, could fail or be pushed out of existence by a newer, more innovative technology, policymakers must be careful not to hinder a technology that could change the way global economy functions. Instead, the better option is to bring more transparency to Bitcoin so that regulators and potential users better understand and appreciate this technology.

Bibliography

[15] Block 1, letters from d) to f) pertained to Directive, 2006/112/Counsel, 28 November, 2006
The Impact of Social Capital on FDI in Georgia

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Abstract

FDI brings capital, innovation exchanges and new employments and administration aptitude. In numerous nations, FDI inflow is lower than anticipated. In spite of the inclination for more extensive large scale level examinations of the particular social developments inside which financial exercises happen, a considerable measure of national-level investigations of the determinants of outside contributed firms have given careful consideration to the parts played by social capital and its unexpected incentive in influencing remote direct venture inflows. Drawing on the rationale of social capital and institutional hypothesis, this article looks to offer a correlative clarification of FDI by inspecting experimentally the national-level effects of social capital (trust and affiliated action) on FDI and the directing part of administrative quality in its connections. FDI is the essential part for an open and fruitful global monetary framework and a noteworthy instrument for improvement. In this condition, the paper looks at the advantages of FDI as a key segment for fruitful and feasible financial development and as a piece of a strategy to social change. The point is to feature the most vital channels through which FDI makes a huge and uncommon effect on the monetary advancement of the host nations.

Keywords: FDI, Social capital, Social trust, Host country, Location factor

Introduction

It has just been realized that the expanding advantages of FDI for the host nation can be huge, including human capital arrangement bolster, upgrade of focused business condition, commitment to global exchange joining and change of big business improvement. Also, more remote than monetary advantages FDI can help the change of condition and social condition in the host nation by migrating "cleaner" innovation and controlling to all the more socially capable corporate arrangements. Multinational ventures have turned out to be one of the key drivers of the world economy and their significance keeps on developing far and wide. Today, creating nations represent very nearly 33% of the worldwide supply of internal FDI, contrasted with marginally more than one fifth in 1990. This paper researches the significance of social capital in conjunction with the regular area factors that are known to impact the area choices of multinational firms inside Georgia. "Trust and Norms" part of social capital affects locational choices than does the "Interpersonal organization" segment. We will survey the nations what are described by an abnormal state of "Trust and Norms" draw in more information based FDI firms than those with bring down levels of trust and standards. What's more, positive agglomeration externalities are all the more capable in locales with a larger amount of trust and standards. Another critical aftereffect of our investigation is the revelation that the areas with high joblessness levels and union exercises are less appealing to outside speculators. In view of the outcomes, we reason that measures that reinforce the trust and standards segment of social capital ought to be cultivated alongside conventional cost-sparing strategies, which are utilized to draw in FDI in Georgia.

Social Capital – Key to Success

Social capital may be defined as those resources inherent in social relations which facilitate collective action. Social capital resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose. A norm of a culture high in social capital is reciprocity, which encourages bargaining, compromise, and

1 Selma K. (2013) The Effects of FDIs for Host Country’s Economy,
pluralistic politics. Another norm is belief in the equality of citizens, which encourages the formation of cross-cutting groups.

1 “Social capital” may first have appeared in a book published in 1916 in the United States that discussed how neighbors could work together to oversee schools. Author Lyda Hanifan referred to social capital as “those tangible assets, that count for most in the daily lives of people: namely goodwill, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit”. That gives some sense of what’s meant by social capital, although today it would be hard to come up with a single definition that satisfied everyone. For the sake of simplicity, however, we can think of social capital as the links, shared values and understandings in society that enable individuals and groups to trust each other and so work together.

There is much debate over the various forms that social capital takes, but one straightforward approach divides it into three main categories:

Bonds: Links to people based on a sense of common identity (“people like us”) – such as family, close friends and people who share our culture or ethnicity.

Bridges: Links that stretch beyond a shared sense of identity, for example to distant friends, colleagues and associates.

Linkages: Links to people or groups further up or lower down the social ladder. The potential benefits of social capital can be seen by looking at social bonds. Friends and families can help us in lots of ways – emotionally, socially and economically.

Social capital is defined by the OECD as “networks together with shared norms, values and understandings that facilitate co-operation within or among groups”. In this definition, we can think of networks as real-world links between groups or individuals. Think of networks of friends, family networks, networks of former colleagues, and so on. Our shared norms, values and understandings are less concrete than our social networks. Sociologists sometimes speak of norms as society’s unspoken and largely unquestioned rules. Norms and understandings may not become apparent until they’re broken. Values may be more open to question; indeed, societies often debate whether their values are changing. And yet values – such as respect for people’s safety and security – are an essential linchpin in every social group².

Importance of FDI

FDI is an integral part of an open and effective international economic system and a major catalyst to development. The benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them. Developed countries can facilitate developing countries’ access to international markets and technology, and ensure policy coherence for development more generally; use overseas development assistance to leverage public/private investment projects; encourage non-OECD countries to integrate further into rules-based international frameworks for investment.³

Creating nations, rising economies and nations experiencing significant change have come progressively to consider FDI to be a wellspring of financial improvement and modernization, wage development and work. Nations have changed their FDI administrations and sought after different arrangements to draw in speculation. They have tended to the issue of how best to seek after local approaches to expand the advantages of remote nearness in the household economy. The general advantages of FDI for creating nation economies are much recorded. Given the fitting host-nation approaches and a fundamental level of improvement, a prevalence of studies demonstrates that FDI triggers innovation overflows, helps human capital arrangement, adds to global exchange reconciliation, makes a more focused business condition and upgrades venture advancement. These add to higher monetary development, which is the most powerful apparatus for reducing destitution in creating nations. In addition, past the entirely monetary advantages, FDI may help enhance

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2 OECD Insights: What is social capital? https://www.oecd.org/insights/

ecological and social conditions in the host nation by, for instance, exchanging "cleaner" innovations and prompting all the more socially dependable corporate strategies.

Most experimental examinations infer that FDI adds to both factor efficiency and salary development in have nations, past what residential venture regularly would trigger. It is more troublesome, in any case, to survey the greatness of this effect, not minimum since huge FDI inflows to creating nations regularly agree with abnormally high development rates activated by irrelevant components. A few analysts have discovered proof of swarming out, while others reason that FDI may serve to expand local speculation.

Social Capital and FDI - The Truth Behind

In this section, we will discuss that host countries' social capital in the form of trust and associative activities positively affect FDI inflow. We base these relationships on the premise that a society's social capital endowment plays a determining role in shaping the investment environment. Social capital is considered multidimensional. It is conceived as associative participation¹, norms of civic behavior,² perceived corruption,³ trust ⁴. Relating to our research interest in FDI inflow as an economic activity, we focus specifically on trust and associative activity and regulatory quality since the social embeddedness of economic activities is the defining characteristic⁵ that can shape the perception and behavior of the economic agents and the regulative dimension as the key determinant of high quality-institution ⁶is particular relevant to the primary concerns of foreign investors regarding rule implementation and legal protection of proprietary assets. Extending reasoning from the social capital perspective, we argue that given other favorable conditions, national markets would present themselves as ideal markets for FDI that is embedded in a congenial social fabric that is built on trust and associative activities.

Trust is a key component of social construction⁷ and is a "manageable act of faith in people, relationships and social institutions" ⁸. It has long been considered an essential component for most forms of social exchange⁹. Viewed from the research on the impacts of social capital on economic development and the multiple lines of research documented in the international business literatures, we draw out two particular benefits of trust in its positive impacts on FDI: cooperative business environment and reduction of transaction costs. First, FDI activities are embedded in host countries' economic and social contexts, unavoidably interacting with local business, government, and individuals. Because FDI involves extensive social exchanges through managing business relationships with local partners and employees, suppliers and buyers, it follows that having an honest and trustworthy relationship is critical for successful investment. In selecting national markets for foreign investments, multinational enterprises as agents of FDI would prefer national markets exhibiting cooperative milieu that potentially enhances the easiness to build and foster beneficial business relationships. Prior studies show that a society with a high "trust culture" where individuals tend to hold positive attitudes towards each other¹⁰, is easier to enable cooperative behavior¹¹ that leads to economic gains¹². Conversely, it is also found that when a society is

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pervaded by distrust, cooperative arrangements are unlikely to emerge. Second, the high level of trust in a national market offers a favorable business environment that helps curb transaction costs by reducing monitoring costs.

Early research showed that trust facilitates successful negotiations, promotes adaptive organizational forms, reduces harmful conflict and transaction costs, and encourage compliance with business rules and norms that results in costs associated with formal control in the organization. Additionally, high levels of trust in a society makes possible the reduction of transaction costs in markets where there is high information ambiguity due to the institutional void.

Both Putnam in 1993 and Coleman in 1990 refer to associative activity as another manifestation of social capital. It is a social network activity that provides individuals with contact opportunities in organizations of various backgrounds and professions. Prior studies have shown that the presence of dense network of association in a country can help increase entrepreneurial and other economic activities. Early studies indicated that the entrepreneur’s professional relationship with influential people helped significantly in locating capital for project funding. Putnam in 1993 attributed the economic success and government efficiency of northern Italy partly to its richer associational life. Evidence documented that owners of small businesses used their contacts in organizations such as Chamber of Commerce and Small Business Federations and more informal organization to provide a source of useful ideas and business relationships. Consistent with the resource dependency theory, studies of interlocking directorates showed that board member that belong to a variety of external organizations and associations help to link firms within a society to their external environment thereby providing access to novel information and other critical resources. Along these same lines, Carroll and Teo in 1996 found that the widely dispersed managerial social networks were associated with higher accessibility to resources.

The positive impact of associative activity offers benefits to foreign investors in many ways. First, a national market possessing dense association among individuals offers a valuable alternative source of market information. Foreign investors tend to suffer “liability of foreignness” that they bear the risks in foreign market without proper and timely access to local market information, thus, accessing market information is critical for them. A market characterized with extensive associative activity is attractive since it offers alternative informal access to local market information in addition to other formal channel of information. The second benefit is that associative activities represent valuable social resources. A society with a high level of associative activity presents itself with richer relational capital. The high level of associative activity can benefit foreign investors by offering easy access to this distinct social resource that may potentially facilitate the identifying talents, advertising products and services through mouths of words.

The impact of regulatory quality on the relationship between trust and FDI Regulatory institutions are clusters of rules and resources that are sustained across time and space within and among social systems. It is one of the three keys ‘pillars’ of social institutions.

A well-functioned high-quality regulatory environment exists when rules and laws are formulated and are effectively enforced to ensure both the stability of economic transactions and order of a society. High-quality regulatory systems affect the social capital effects on FDI by providing the basis for the development of social capital. Though economic exchanges are embedded in reciprocal social relations, these exchanges cannot rely exclusively on the

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social resources, since weak regulative environment gives rise to the potential of opportunistic behavior that constitutes uncertainty for social and economic exchanges.

In a weak regulatory environment, distrust is likely to occur and institutional environment with low regulatory quality cannot effectively contain opportunistic behavior that undermines the value of social capital. However, the high regulatory quality ensures the stability and formation of social capital that is conducive to the economic exchanges, because it constitutes the institutional condition that deters the possible breach of trust resulting from opportunistic behavior, whereby the benefits of social capital to the economic endeavors such as FDI can be enhanced. Hence, the regulatory system as a key component of social institutions can act as broad supports for the critical mass of trust, and amplify the general benefits of social capital such as the protection of individuals’ rights and property.

The recent work by Zaheer and Zaheer (2006) and Arino, Torre, and Ring (2001) also propose the conditioning role of institution in the effects of social capital in terms of building trust and relational quality of partners in international alliances. In the same vain, Bhardwaj et al. (2007) showed the contingent value of trust on uncertainty avoidance in FDI determinants.

**FDI and Social Capital: Evidence from Georgian Reality**

Georgia is situated amongst Asia and Europe and involves a land territory of 69,700 sq. km. It neighbors Turkey toward the southwest, Azerbaijan toward the east, Russia toward the north and Armenia toward the south. Georgia empowers outside exchange and venture, and laws enable nonnatives to buy organizations and property, repatriate income and benefits, and get pay if property is nationalized. Remote undertakings and people are allowed to claim up to 100% outside responsibility for capital of Georgian organizations. There are a few restrictions on the exercises that might be directed, in any case, and remote interest in the resistance and security parts is not allowed. Georgia offers motivators for organizations situated in free industrial zones (FIZs), and for substances built up as an International Financial Company, Free Warehouse Enterprise or International Enterprise. The administration keeps up a free gliding and uninhibitedly convertible money, the Georgian Lari (GEL).

Georgia is an individual from NATO's Partnership for Peace Program and is effectively attempting to join NATO and the European Union. Georgia is additionally an individual from the United Nations, the OSCE, and GUUAM (Union of Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova) and an onlooker in the Council of Europe. Georgia was once in the past an individual from the CIS (Commonwealth of Independent States). Due to the August 2008 clash with Russia, Georgia formally advised the CIS on 18 August 2008 of its aim to pull back from the association, and that withdrawal happened on 18 August 2009. Be that as it may, Georgia's Ministry of Foreign Affairs has said it will maintain all exchange and arrangement understandings made amongst Georgia and kindred CIS nations. Georgia has an unhindered commerce administration with individuals from CIS including Armenia, Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and Ukraine. This outcomes in obligation unhindered commerce of merchandise and ventures. 40% of Georgia's fares go to CIS nations, and these nations represent 39% of Georgia's remote exchange turnover. On 18 December 2002, the GUUAM (Georgia-Ukraine-Uzbekistan-Azerbaijan-Moldova) unhindered commerce assertion was approved by the Georgian Parliament, the objective of which is to make ideal exchange conditions and to reinforce monetary connections among the part nations. The consent to shape a facilitated commerce zone was come to at the GUUAM Presidents' Summit in July 2003 in Yalta. Uzbekistan has since left the facilitated commerce zone.

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1 Sitkin SB. (1995). On the positive effects of legalization on trust, Research in Negotiation and Organization. 5, 185.217
3 Doing Business and Investing in Georgia, 2013
Graph 1. FDI Flow in Georgia in USD


As should be obvious at diagram 1, FDI stream pay is not steady in Georgia. This reality can be clarified by the social capital hypothesis. As noted over, the photo of social capital in Georgia is blended: Georgia displays high degrees of holding social capital, of trust and of coordinated effort inside firmly weave gatherings. Georgians are liberal in their solidarity between each other, and most Georgians have given and got assistance from family, companions or neighbors, regularly putting the necessities of others before their own. The nation's well-known cordiality features another part of being open and inviting to outsiders: the information demonstrates that Georgians have uplifting dispositions to different nationalities, keeping up great perspectives towards Russians, Abkhaz and Ossetians – even specifically after the August 2008 clash. Whenever required, gatherings can shape – among neighbors or agriculturists, for instance – to settle an especially squeezing issue. Beside this, nonetheless, Georgia still has low levels of spanning social capital – especially of the sort that encourages more efficient co-operation between relative outsiders. Most unmistakably, Georgia has low levels of enrollment in formalized affiliations. As indicated by information from the World Value Surveys, Georgia positions amazingly low in contrast with a wide associate gathering of changing nations. Under five percent of the populace participates in affiliations or other formalized city movement and there are couple of enrollments based relationship in the nation up until this point.

The most visually striking manifestation of the lack of collaboration in Georgia is in housing. Many travelers remark how Tbilisi's neatly-appointed apartments contrast sharply with the dark, often semi-derelict communal areas found beyond their steel doors and the crumbling concrete of the building's foundations. This is not just a matter of poverty, since the same buildings may have stately SUVs parked in their courtyard.¹ While occupants may team up to settle vexing issues, they regularly neglect to address substantive auxiliary issues in the very structures they share, to the disservice of all. There are, as such, couple of regions of financial, political and social life that are not influenced by low levels of formalized joint effort. While the low level of crossing over social capital denies the nationals of Georgia of noteworthy financial, social and social advantages, it likewise represents a critical test to fair improvement – for governments, notwithstanding when completely self-intrigued, can appreciate an advantageous association with the lively respectful society and flourishing monetary circles that broad joint effort makes conceivable. Proficient relationship, for instance, can retain broad administrative obligations, as they do in numerous Western nations, leaving basic leadership and its conflicts with bunches that are learned and influenced. All the more extensively, composed gatherings can turn into a transmission instrument for

¹ An Assessment of Social Capital in Georgia, 2011, Caucasus Research Resource Centers
conveying nationals' worries, and would thus be able to empower the legislature to be more responsive. In these ways, government can decline some of its own issues to others for them to tackle. The low level of connecting social capital likewise makes an issue for benefactors and their projects. Different reasons, numerous improvement intercessions either require or even expect a noteworthy level of joint effort. The determination of a few issues --, for example, the change of instructive projects -- requires broad information and associate surveys. In different cases, picks up in profitability call for foundational coordinated effort in sharing venture and support costs. In these cases, what may look like evident automatic plans may waver, since joint effort is harder to accomplish and considerably harder to keep up than initially foreseen. Advancement experts over and again portrayed in interviews how the aftereffects of specific projects had been frustrating on the grounds that individuals had neglected to draw in and work together. This circumstance has terrible impact of FDI and the low levels of connecting social capital are subsequently an issue that should be completely comprehended and figured into any arranging.

The nature of the "match" between outside administration rehearses and the host nation workforce might be a vital thought for advancement arrangement. For instance, serious preparing rehearses are probably going to be transferable crosswise over national limits, yet the particular sorts of social capital venture that enhance the profitability of the Georgian workforce may not be similarly compelling in other host nation settings.

Conclusion

Grounded in social capital and institutional hypothesis, this examination embarks to widen the logical system of FDI by inspecting the impacts of social capital measured by trust and acquainted movement, and the unexpected impacts of administrative quality. By and large, the consequences of the factual tests bolster the proposed speculations that, everything else equivalent, social capital measured by trust and affiliated movement are critical determinants of FDI inflow and that their belongings are additionally fortified by high administrative quality. Taken together, our discoveries propose that the nearness of rich social capital in a nation manage the cost of its both focused and relative points of interest to pull in outside ventures. It additionally supplements the current examination by Bhardwaj et al. (2007) by affirming positive connections amongst FDI and trust and expands their work by offering an administrative quality based possibility clarification of social capital. Our discoveries propose that social capital epitomized in abnormal state relationship' in clarifying the improvement (Grootaert, 1998; Bebbington et al. 2002) all in all and its part on the planet wonder of FDI has been essentially left unattended in IB inquire about in particular. Filling in this hole, our examination adds to the current FDI writing by offering a corresponding viewpoint to the clarification of FDI. Social capital as 'the magic that binds society' is the 'missing explanation' in clarifying the improvement (Grootaert, 1998; Bebbington et al. 2002) all in all and its part on the planet wonder of FDI has been essentially left unattended in IB inquire about in particular. Filling in this hole, our examination improves our insight about the part of social capital plays in influencing FDI inflows past the supremacy of monetary reason. Our examination additionally expands our comprehension of the FDI impacts of social capital by propelling an unforeseen point of view, predictable with the unexpected viewpoint of social capital proposed by Burt (1997). This possibility point of view major to assisting the hypothesis advancement (Venkatraman, 1989) demonstrates that incorporating national administrative quality into the investigation of a two-variable relationship lessened the potential for deceiving derivations and allowed a "more exact and particular comprehension" (Rosenberg, 1968, p. 100) of the first two-variable relationship. Along these lines, our outcomes shed new light on the parts of administrative condition as an arbitrator that condition the connection between social capital and FDI and add corresponding clarifications to the current FDI writing that is fundamentally secured in the rationales of financial aspects.

References


The Relationship with Ad Clicks and Purchase Intention: An Empirical Study of Online Consumer Behaviour

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Abstract

This study examines the ads on social media and word of mouth marketing lead to ad clicks. Motivation, congruity, attitudes to ad on social media and word of mouth marketing lead to ad clicks, which respectively affect purchase intention in research model. The study aims to develop an understanding of how ad clicks affect to purchase intention on social media. Findings of the study presents the importance of consumer behaviour to use of social media and to purchase intention among Turkish consumers. Consequently, in the study all variables are positively related to each other. These results suggest that marketers need to take into account and manage actively social media and specifically their social network sites.

Keywords: Adclicks, Social Media, Purchase Intention, WOM, Consumption Motivation, Attitudes to Ads

1. Introduction

Consumers once had a limited number of media channels they obtained product information from word of mouth and print media to learn about products. Media channels increase in the 20th and 21st centuries and consumers could access information. Media contains all of the information anywhere, at any time after the advent of radio, television, internet and social media (Woo et al., 2015)

Especially social media affect to consumers’ purchase intentions. Consumers’ purchase intentions are driven by their perceived value. Word of mouth affects the perceived value of goods or services. If consumers consider a product to be of high quality, they will show a higher willingness to buy it (Weisstein et al., 2014). Consumption motivation, congruity, attitudes to SNS advertising are important reasons to click ads on social media.

2. Theoretical Background of Ad Clicks, WOM and Purchase Intention

Tools and technologies for media and communication are undergoing major changes, based on economic transitions and digitisation (Pierson and Heyman). Especially, social media is commanding a larger share of advertising budgets, especially to reach the younger generation and affect their purchase intentions. It has become an imperative conduit for global marketing communications. Therefore, the value of advertising on social network sites such as Facebook, Youtube, Linkedin, Twitter and others is of great interest to companies, managers and academics (Saxena & Khanna, 2013; Duffett, 2015).

Social media enable interactive information, user-created content and collaboration. It is classified social media by social presence and self-disclosure: personal blogs and micro-blogs, social networking sites, virtual worlds, collaborative projects and content communities (Kaplan and Haenlein, 2010). As consumers spend more time on social media, purchase decisions have become highly influenced by interactions through these networks. Thus, businesses are placing more emphasis on marketing strategies using two-way communication platforms to reach online consumers and take advantage of word-of-mouth (Song and Yoo, 2014; Heinrichs et al., 2011).
Social network sites have a cognitive function in product choice. Customers prefer to be guided by information from friends and other personal contacts rather than a company’s advertising department (Palmer and Lewis, 2009; Susskind, 2002; Harrison-Walker, 2001).

More than two-thirds of companies are using social media for marketing and service (Ma et al., 2015). Therefore, social media is exciting tool for marketers and managers. It has become preferred media all around the world and is influencing consumer behavior (Prasad, et al., 2017; Bernhardt et al., 2012). Social media has enabled people from anywhere to access companies any time through electronic devices, such as computers, mobile phones, etc. (Zhang and Mao, 2012). Electronic devices are effective to click ads and purchase immediately as well. With the advance of the internet, through online advertising, companies communicate, interact with, and persuade online users in order to position a brand, which allows a company to promote both consumer awareness and preference in a customized and personalized way, and decrease the time needed to make a buying decision” (Hanafizadeh and Behboudi, 2013). Furthermore, viral marketing uses by companies and defines marketing trend of the decade. Companies build awareness with viral campaigns and promote their products and services (Ferguson, 2008).

Word of mouth marketing has attracted both scholars and practitioners of marketing. It is investigated to understand its effect on companies and buying behavior, both online and offline (Brown et al., 2007). Especially, discussion forums, product reviews, emails and social network sites act as an source of information and opinions for WOM among consumers, serving as an important. These network sites have changed consumers to make purchase decisions, as they can easily and quickly exchange product-related information and opinions with personal contacts without geographic and time constraints (Kudeshia and Kumar, 2015; Graham and Havlena, 2007).

Congruity

The congruency of advertisement, content and social network sites is important. Some kind of information that users do not look for when they visit these sites. Therefore, companies identify key consumers, generate content and prepare ads them to click ads and make purchase decision (Barreta, 20013). On the other hand, companies’ web site congnizant with stores, banks, social network sites and etc. should be easy. Nowadays alluring and confusing applications affect consumer purchase intentions (Cummins et al., 2014).

The relationship congruency and content on social network sites to consumer click ads and comment about companies (Chang and Fan, 2017). Especially, fan page can give rise to hedonic consumption through fan sites (Turel et al., 2010). On the other hand, children and younger people are under the environment effects (Gunter et al., 2002). Therefore, companies have to take in consideration the values of the children and younger people (Furnham and Price, 2006).

Attitudes to Ads

In the literature of advertising it has been proven that viewers show positive attitudes to informative ads on social networks. Entertaining ads also generate positive attitude towards company (Taylor et al., 2011). The entertaining nature of brand-related contents influences people to read or watch and comment (Muntinga et al., 2011). Humour appeal in advertising does attract viewers (Khan, 2016). Attitudes to Ads can be defined as consumer’s overall evaluation of an advertisement or company. The attitude of customer toward an advertisement has a significant effect on its purchase intention, as advertise attitude is the most important determinant of purchase intention (Kudeshia and Kumar, 2015; Olson and Mitchell, 2000). In recent years, social media has become a major factor in influencing various aspects of consumer behavior such as awareness, opinions, attitudes, purchase intention and post purchase communication and evaluation (Mangold and Faulds, 2009). Since consumer accept and have a positive attitudes toward ads (Taylor et al., 2011), company ads should integrate with web site, forums, blogs, word-of-mouth forums and social network sites (Assimakopoulos et al., 2016).

Consumption Motivation

The information play the key role on consumption motivation. Information sharing is motivational factor affecting consumer’s opinions. Therefore, these factors help companies that are planning to use a social network site in information sharing (Vuori and Okkonen, 2012). The basic motivations are the increasing popularity of social media, the congnizant of other companies’s presence and low prices. Interact with companies, increasing new product awareness, payment by installments motivates consumer (Tsimonis and Dimitriadis, 2014). Consumer are motivated with interactive ads strategies. The effectiveness of website and SNSs lead consumer to click ads (Rodgers et al., 2007). Motivation is positively connected
with the loyalty of users. It motivates individuals to share knowledge in traditional way such as by word of month. Besides the engagement in information sharing on the internet or within social media channels motivate them. Social interaction with other users, such as posting, commenting and reviewing maintain relationships among members on SNSs.

3. Conceptual Framework and Hypotheses

Based on the previous research the following hypotheses have been listed to be tested.

H₁: Congruity has an effect on Ad Clicks
H₂: Attitudes to SNS Advertising has an effect on Ad Clicks
H₃: Consumption Motivation has an effect on Ad Clicks
H₄: WOM has an effect on Ad Clicks
H₅: Ad Clicks has an effect on Purchase Intention

![Conceptual Model]

Figure 1. Conceptual Model

Based on these hypotheses, the research model is structured to explain how Congruity, Attitudes to SNS Advertising, Consumption Motivation and WOM affect Purchase Intention through Ad Clicks.

4. Methodology

Measures

A review of the literature yielded a number of measurement instruments that were employed to test the hypothesized model and each scale has a history of reliable measurement (See Table 2). All scales employed in this study were measured on five-point Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree). In the process of translation, the techniques of back translation and parallel translation have been adopted with the help of a group of academicians fluent in English and Turkish. The final Turkish version of the questionnaire was further verified by the authors of this paper.

Table 1. Measurement items

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Measurement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congruity</td>
<td>Congruity_1</td>
<td>While I browse SNS, I usually pay attention to the display ad that matches the content I am browsing.</td>
<td>(Furnham and Price, 2006; Gunter, Baluch, Duffy, and Furnham, 2002)</td>
</tr>
<tr>
<td></td>
<td>Congruity_2</td>
<td>While I browse SNS, I usually pay attention to the display ad that relates to the content I am browsing.</td>
<td></td>
</tr>
</tbody>
</table>
While I browse SNS, I usually pay attention to the display ad that fits well with the content I am browsing.

**Attitudes to SNS Advertising**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude_towards_ads_1</td>
<td>I like banner product and brand advertising on SNS profiles</td>
</tr>
<tr>
<td>Attitude_towards_ads_2</td>
<td>I like SNS profiles created by the sponsor company of the product or brand.</td>
</tr>
<tr>
<td>Attitude_towards_ads_3</td>
<td>I like SNS profiles created by customer/fans of the product or brand.</td>
</tr>
<tr>
<td>Attitude_towards_ads_4</td>
<td>I like YouTube videos created by the sponsor company of the product or brand.</td>
</tr>
<tr>
<td>Attitude_towards_ads_5</td>
<td>I like YouTube videos created by customers/fans of the product or brand.</td>
</tr>
<tr>
<td>Attitude_towards_ads_6</td>
<td>I like Twitter feeds for the product or brand</td>
</tr>
</tbody>
</table>

**Consumption Motivation**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption_Motivation_1</td>
<td>I sometimes use SNS to make a purchase</td>
</tr>
<tr>
<td>Consumption_Motivation_2</td>
<td>I sometimes use SNS to buy things.</td>
</tr>
<tr>
<td>Consumption_Motivation_3</td>
<td>I sometimes use SNS to purchase a product I have heard about</td>
</tr>
</tbody>
</table>

**WOM**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOM_1</td>
<td>I recommend the brands shown in the display ads on SNS to other people</td>
</tr>
<tr>
<td>WOM_2</td>
<td>I introduce the brands shown in the display ads on SNS to other people</td>
</tr>
<tr>
<td>WOM_3</td>
<td>I say positive things about the brands shown in the display ads on SNS to other people.</td>
</tr>
</tbody>
</table>

**Ad Clicks**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad_Clicks_1</td>
<td>I click on the display ads on SNS to understand more about the products.</td>
</tr>
<tr>
<td>Ad_Clicks_2</td>
<td>I click on the display ads on SNS to make a purchase.</td>
</tr>
<tr>
<td>Ad_Clicks_3</td>
<td>I click on the display ads on SNS to get more information about the products.</td>
</tr>
</tbody>
</table>

**Table 1. Measurement items (Continue)**

**Purchase Intention**

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase_Intention_1</td>
<td>I intend to remain loyal to the brands shown in the display ads on SNS in the future</td>
</tr>
<tr>
<td>Purchase_Intention_2</td>
<td>I will not stop buying/supporting the brands shown in the display ads on SNS.</td>
</tr>
<tr>
<td>Purchase_Intention_3</td>
<td>I think of myself as a loyal consumer/supporter of the brands shown in the display ads on SNS.</td>
</tr>
</tbody>
</table>

**Sampling and Data Collection**

Data for this research was collected through a questionnaire survey. The survey screened the participants by asking whether they have used social media before. During six-week period, 350 respondents completed the survey. After sorting and removing duplicate submissions, a net sample of 333 usable questionnaires remained. The major demographics of the respondents were listed in Table 1.
Table 2. Demographic characteristics of survey respondents (N=333)

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>168</td>
</tr>
<tr>
<td>Male</td>
<td>165</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>17</td>
</tr>
<tr>
<td>Single</td>
<td>316</td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>High School</td>
<td>277</td>
</tr>
<tr>
<td>University</td>
<td>48</td>
</tr>
<tr>
<td>Graduate</td>
<td>7</td>
</tr>
<tr>
<td>PhD</td>
<td>1</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>0-1000 TL</td>
<td>194</td>
</tr>
<tr>
<td>1001-2000 TL</td>
<td>72</td>
</tr>
<tr>
<td>2001-3000 TL</td>
<td>25</td>
</tr>
<tr>
<td>3001-4000 TL</td>
<td>19</td>
</tr>
<tr>
<td>4001-5000 TL</td>
<td>13</td>
</tr>
<tr>
<td>More than 5001 TL</td>
<td>10</td>
</tr>
</tbody>
</table>

The sample comprised of 168 Female and 165 Male. Ages of the sample ranged between 18 to 46 with mean 22.12 standard deviation 3.70. Data obtained from questionnaires will be analyzed through the IBM SPSS 23.0 and AMOS statistical programs.

5. Analysis and Findings

The main purpose of the study is structured to explain how Congruity, Attitudes to SNS Advertising, Consumption Motivation and WOM affect Purchase Intention through Ad Clicks. To identify and test the underlying structure of the scales exploratory factor analyses (EFA) were employed to each measurement as the initial step. The EFA results were further validated with confirmatory factor analyses (CFA). Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett test of sphericity tests were performed to test the appropriateness of data for conducting factor analyses (Sharma, 1996)

Table 3. EFA and CFA results

<table>
<thead>
<tr>
<th>Constructs</th>
<th>EFA Loadings</th>
<th>Cronbach's Reliability</th>
<th>CFA Loadings</th>
<th>t value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congruity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Congruity_2</td>
<td>0.941</td>
<td>0.906</td>
<td>0.934</td>
<td>25.072***</td>
</tr>
<tr>
<td>Congruity_1</td>
<td>0.926</td>
<td></td>
<td>0.897</td>
<td>a</td>
</tr>
<tr>
<td>Congruity_3</td>
<td>0.890</td>
<td></td>
<td>0.800</td>
<td>19.148***</td>
</tr>
</tbody>
</table>

Attitudes to SNS Advertising
(KMO=0.790, x² Bartlett test (10) =825.558, p=0.000, VE= 64.512 CR= 0.863 AVE=0.559)

| Attitude_towards_ads_2          | 0.835        | 0.861                   | 0.786        | 11.960***|
| Attitude_towards_ads_3          | 0.827        |                         | 0.776        | 11.844***|
| Attitude_towards_ads_4          | 0.823        |                         | 0.766        | 11.728***|
| Attitude_towards_ads_5          | 0.798        |                         | 0.750        | 11.543***|
| Attitude_towards_ads_1          | 0.729        |                         | 0.653        | a       |

Consumption Motivation
(KMO=0.500, x² Bartlett test (1) =343.036, p=0.000, VE= 90.181 CR=0.891, AVE= 0.804)

| Consumption_Motivation_3        | 0.950        | 0.891                   | 0.915        | 15.008***|
| Consumption_Motivation_2        | 0.950        |                         | 0.878        | a       |

WOM
(KMO=0.767, x² Bartlett test (3) =811.425, p=0.000, VE= 87.964 CR=0.931, AVE=0.819)

| WOM_2                           | 0.941        | 0.932                   | 0.921        | 26.107   |
| WOM_3                           | 0.939        |                         | 0.901        | 24.863   |
| WOM_1                           | 0.933        |                         | 0.893        | a       |
Ad Clicks
(KMO=0.839, \(x^2\) Bartlett test (3) =394.967, \(p=0.000, \text{VE}= 75.629 CR=0.839, \text{AVE}=0.635)\)

<table>
<thead>
<tr>
<th></th>
<th>Ad_Clicks_3</th>
<th>Ad_Clicks_1</th>
<th>Ad_Clicks_2</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.878</td>
<td>0.839</td>
<td>0.823</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Purchase Intention
(KMO=0.754, \(x^2\) Bartlett test (3) =703.432, \(p=0.000, \text{VE}= 85.472 CR=0.915, \text{AVE}=0.919)\)

<table>
<thead>
<tr>
<th></th>
<th>Purchase_Intention_2</th>
<th>Purchase_Intention_3</th>
<th>Purchase_Intention_1</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.938</td>
<td>0.914</td>
<td>0.911</td>
<td></td>
</tr>
<tr>
<td>0.920</td>
<td>0.894</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.916</td>
<td>0.846</td>
<td>(a)</td>
<td></td>
</tr>
</tbody>
</table>

\(x^2 (137, N=333) = 356.960, \ p= 0.000; \text{GFI}=0.896, \text{NFI}=0.929, \text{CFI}=0.955, \text{TLI}=0.944, \text{RMSEA}=0.07\)

VE= Variance Explained; CR= Construct Reliability; AVE=Average variance extracted; *** \(p< 0.000\)

Results of the tests were satisfactory. Principal Component Factoring and Varimax rotation were employed to the data set. Factors with eigenvalues over one were retained and items with factor loadings below 0.50 and items with high cross loadings were excluded (Hair et. al., 2006).

As can be seen from Table 3., reliabilities for factors were 0.500 and 0.839 respectively. EFA results of Congruity, Attitudes to SNS Advertising, Consumption Motivation, WOM, Ad Clicks and Purchase Intention showed that all six scales were uni-dimentional as expected. Reliabilities for each construct were 0.734, 0.790, 0.500, 0.767 and 0.839 respectively. To test the internal consistency of factors, Cronbach’s coefficient alpha reliabilities were estimated. As it is shown the reliability measures of constructs ranged from 0.839 to 0.931, which shows satisfactory levels of internal consistency (See Table 3).

Then confirmatory factor analyses (CFA) were conducted using IBM SPSS AMOS 23.0 program to validate the factors proposed by EFAs. Chi-square test statistics are usually quite sensitive to sample size (Hair et. al. 2006), therefore in this study; Goodness of Fit Index (GFI), Comparative Fit Index (CFI), Normed Fit Index (NFI), Tucker Lewis Index (TLI) and Root Mean Square Error Approximation (RMSEA) were considered.

Results of EFA and CFA for each construct are explained below. The procedures to check for convergent validity and discriminant validity were practiced (Anderson and Gerbing, 1988; Fornell and Larcker, 1981). Construct reliabilities of 0.910, 0.863, 0.891, 0.931, 0.839, and 0.915 indicated high internal consistency of the dimensions (Hair et al. 2006; Netemeyer et al. 2003). Average variance extracted (AVE) values, which reflect the overall amount of variance accounted for by the latent constructs, were all above 0.50 threshold; AVEs ranged between 0.559 to 0.919 (Fornell and Larcker 1981). Items under each construct, factor loadings, Cronbach’s alpha and construct reliabilities are given in Table 3. The various fit indices for the CFA suggested good fit to the data \(x^2(137, N=333) = 356.960, \ p= 0.000, \text{GFI}=0.896, \text{CFI}=0.955, \text{NFI}=0.929, \text{TLI}=0.944, \text{RMSEA}=0.07\).

There is no standard for acceptable GFI, but rule of thumb is GFI greater than 0.90 (Lattin et al., 2003) and RMSEA values of 0.08 and less have been advocated as indicative of acceptable fit (Hu and Bentler 1999; Lattin et al., 2003). Consequently, goodness of fit indexes supported the proposed model as fit.

Structural Model

Since the objective of this study was to identify dimensions that increased Intention to shop online, a structural model was tested. The result of the path analysis showed a good fit of the model \(x^2 (143) = 381.595, \ p=0.00; \text{GFI}=0.903, \text{CFI}=0.936, \text{NFI}=0.903, \text{TLI}=0.957, \text{RMSEA}=0.068\).
As a result of the path analysis it was found that the Congruity, Attitudes to SNS Advertising, Consumption Motivation and WOM affect Purchase Intention through Ad Clicks.

6. Conclusion

The paper finds that congruity, attitudes to ads and consumption motivation are efficient to click ads. Word of mount marketing lead to ad clicks, which respectively affect to purchase intention aswell. The importance of consumer behaviour and advertising on SNSs such as Facebook, Youtube, LinkedIn, Twitter and others come to exist in the study. Companies reserve a share of advertising budgets, especially to reach the children and younger generation and affect their purchase intentions. Consequently, in the study all variables are positively related to each other and shows satisfactory levels. These results suggest that marketers need to take into account and manage actively social media and specifically their social network sites.

References


Adapting New Approaches in Quality Assurance Measurement from the Beneficiary Perspective in Kosovo Higher Education

Bujar Gallopeni
Gjylbehare Llapi

Abstract.
Understanding clients’ needs and adapting the qualitative provision of services has always been a challenge for higher education institutions, particularly in a reforming education context. In a competitive higher education provision, the overall student satisfaction goes beyond a qualitative education, but including also other important aspects, such as catering, study environment, administration and other important issues. The aim of this study was to adapt new tools for quality assurance in higher education in Kosovo from a comprehensive satisfaction perspective. Internal consistency and inter-theme correlations were examined as a form of questionnaire standardization in an Albanian sample of students. In general, most of examined themes showed moderate to high internal consistency. In addition, almost all themes (in exception of one) showed significant correlations among each other. The study further discusses methodological approaches from a piloting study phase, as well as further research prospects.

Keywords: Internal quality assurance, measurement, beneficiary, satisfaction.

Introduction
Quality assurance in higher education has been one of most focused topics in higher education development in the last decades. Today, almost every country worldwide has adapted sorts of quality assurance policy, in order to guide the higher education development towards economic and societal development needs. Recently, global trends of quality assurance at university level have increased interest on university ranking systems, such as Times Higher Education, Shanghai Ranking, and so on, which are seen as a crucial indicator of university quality assurance.

Quality assurance in higher education was initially adapted from the quality assurance practices used in business organizations. In that perspective, quality assurance has been seen in the importance of involvement of stakeholders and the value they bring in the higher education development (Harvey and Green, 2003). Among important stakeholders in higher education are students, in their role as beneficiaries or clients of higher education service.

From the beginning of the current century, the development of quality assurance standards in the European universities has been collectively guided with the introduction of the European Higher Education Area, known otherwise as Bologna Process. Because Bologna process aims to introduce and guide similar and common principles and standards of higher education in the member countries, the policy of quality assurance has been centralized under the umbrella of European Association for Quality Assurance in Higher Education (ENQA). Following up on recommendations deriving from education ministerial meetings of Bologna member countries, ENQA regularly adopts and revises European Standards and Guidelines for quality assurance (ESG), which guides them down to relevant country authorities to translate them in concrete policies and actions thereby being implemented by respective higher education institutions. In Kosovo, as the socio-economic context of this study focus, ESG have been largely adopted in legal and policy framework, being promoted and overseen by established state authorities, such as Kosovo Accreditation Agency.

A major dimension that ESG focuses is the standards and guidelines for internal quality assurance, which basically guide higher education institutions to have internal policy and structures continually ensuring and checking quality assurance internally. These standards invite higher education institutions to work with stakeholders, and particularly with students in...
different areas of higher education development, like for example in the process of curriculum development and revision, and so on. Consequently, higher education institutions in Kosovo have adapted different practices in the involvement of students, as beneficiary stakeholders, in the internal processes of quality assurance. Among most used practices in this direction is the measurement of students’ satisfaction with different aspects of academic life, as a reflection of perceived and experienced qualitative services they receive.

The students’ satisfaction measurement by higher education institutions (HEI) in Kosovo, as an internal quality assurance standard, has not a mature tradition yet. This process started quite recently, respectively as a responsive action from the implementation of external quality assurance measures, which started for the first time in Kosovo in 2008, upon establishment and operationalization of Kosovo Accreditation Agency. In many cases, this process is not part of institutional policy, and quite often happens in ad hoc approaches, and different institutions use different dimensions of measuring student’s satisfaction. As such, there lacks a common understanding among higher education institutions about such measurement. Consequently, HEIs in Kosovo have not managed to establish stable mechanism yet in taking regular measures and collecting relevant information from students in order to continually reflect on the different dimensions of providing services for students. Therefore, relevant measurement approaches considerably lack, but are also necessary to install in the regular actions of HEIs. Therefore, the aim of this study was to provide a more comprehensive approach in Kosovo of students’ involvement in the quality assurance measurement from the beneficiary/client’s perspective. In this dimension, this study has at least two specific objectives. First, we aimed to adapt a common framework for measurement of students’ satisfaction, taking into consideration different dimensions that influence the satisfaction among students, such as teaching and learning approaches, academic personnel, campus infrastructure and learning environment, theoretical and practical learning, dormitory and canteen, and so on. And second, we used a piloting approach in a single HEI in order to undertake norming procedures for the adapted instrument used to validate such framework.

Methodology

In relation to the first objective we adapted two previously established frameworks of measuring student satisfaction. First, we used a European approach, respectively the Student Satisfaction Questionnaire, developed under a framework of European Lifelong Learning project financed by Leonardo da Vinci scheme (Quality in VET schools, 2005), which has more focus on development of skills and competences reflecting on the learning environment and resources put by education institutions. And second, we used the National Student Survey used in the United Kingdom higher education institutions (Higher Education Funding Council for England – HEFCE, 2014), because the first collective quality assurance external and internal evaluation in Kosovo was conducted by British Council, thereby in many of the cases reflecting on the British system of quality assurance.

 Whereas, related to the second objective we used a pilot study perspective, employing quantitative methodology and data collecting from a single higher education institutions, the University for Business and Technology (UBT).

2.1 Sample

In this pilot study phase, we employed a purposive sample method for data collection, in main UBT study areas, and included 300 students of undergraduate studies, mainly enrolled over a five-year period.

<table>
<thead>
<tr>
<th>Sample category</th>
<th>Sample category unit</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Female</td>
<td>111</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>187</td>
<td>63</td>
</tr>
<tr>
<td>Study field</td>
<td>Management, Business and Economy</td>
<td>35</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>Computer Engineering</td>
<td>103</td>
<td>34.3</td>
</tr>
</tbody>
</table>

Table 1. Sample distribution
Data Collection

The adapted framework for measuring student satisfaction in this study has two sections. First section contains individual and program information, such as student’s gender, age, year of enrolment, and study program. The second section contains 54 items clustered in 10 main themes listed below, and scored in a five-point Likert scale: 0 = I do not agree, 1 = I slightly agree, 2 = I agree on average, 3 = I agree, and 4 = I agree a lot.

Questionnaire main themes:
Teaching and staff (7 items)
Assessment and feedback (6 items)
Learning sources and library (4 items)
Academic support and advising (6 items)
Admin support and organization (3 items)
Personal/Professional development (3 items)
Facilities and infrastructure (10 items)
Canteen (4 items)
Practical learning/internship (7 items)
Overall satisfaction (4 items)

In this piloting phase, the questionnaire was prepared in the form of paper-and-pencil, and administered by two trained students from the Faculty of Management, Business and Economy.
Data Analysis and Results

We followed a four-step methodological approach of questionnaire adaptation and testing.

In the first step, using the two indicated frameworks we adapted the study questionnaire framework, with relevant themes related to student satisfaction, as well as the measurement scale, as described in the previous section. In the second step, we translated the questionnaire in Albanian using a double-checking approach from two independent translators. The third step followed with data collection. And in the fourth step finally, reliability and correlational analysis were performed.

Reliability analysis (as presented in table no.2) show a relatively high internal consistency, except a few themes, respectively assessment and feedback, admin support and organization, and teaching and staff, which showed moderate consistency.

Table 2. Reliability analysis

<table>
<thead>
<tr>
<th>Theme</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practical learning/internship</td>
<td>0.99</td>
</tr>
<tr>
<td>Facilities and infrastructure</td>
<td>0.94</td>
</tr>
<tr>
<td>Canteen</td>
<td>0.94</td>
</tr>
<tr>
<td>Personal/Professional development</td>
<td>0.92</td>
</tr>
<tr>
<td>Overall satisfaction</td>
<td>0.83</td>
</tr>
<tr>
<td>Learning sources and library</td>
<td>0.83</td>
</tr>
<tr>
<td>Academic support and advising</td>
<td>0.83</td>
</tr>
<tr>
<td>Assessment and feedback</td>
<td>0.79</td>
</tr>
<tr>
<td>Admin support and organization</td>
<td>0.74</td>
</tr>
<tr>
<td>Teaching and staff</td>
<td>0.64</td>
</tr>
</tbody>
</table>

Almost all inter-theme correlations are statistically significant, with the exception of practical learning/internship theme, which does not give any significant relationship with other themes, except with themes of canteen, and overall satisfaction. In addition, the dimension of overall satisfaction show in general low correlation values, but in many cases statistically significant, except with two themes, such as teaching sources and library, and academic support and advising, which has no significant relation. Interestingly, the theme of overall satisfaction has significant and stronger relationship only with the theme of practical learning/internship, which one has no significant relations with none of other themes. These results suggest that particularly the themes of overall satisfaction, and practical learning/internship needs some or major revision in terms of adaption of included items in Albanian population and the measurement context.
Table 3. Inter-theme correlational analysis

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
</table>
1. Staff and learning                     |   | .392** |     |     |     |     |     |     |     |
2. Assessment and feedback                |   |     |     |     |     |     |     |     |     |
3. Teaching sources and library           |   |     |     | .331** | .539** |     |     |     |     |
4. Academic support and advising          |   |     |     | .316** | .465** | .435** |     |     |     |
5. Admin. support and organization        |   |     |     | .318** | .437** | .368** | .608** |     |     |
6. Professional/ personal development     |   |     |     | .212** | .346** | .241** | .516** | .698** |     |
7. Facilities and infrastructure          |   |     |     | .232** | .255** | .233** | .446** | .697** | .728** |
8. Canteen                                |   |     |     | .258** | .279** | .264** | .360** | .564** | .431** | .530** |
9. Practical learning/ internship         |   | 0.073 | 0.004 | 0.008 | -0.063 | 0.064 | 0.086 | 0.108 | .144* |
10. Overall satisfaction                  |   | .133* | .122* | 0.111 | 0.089 | .189** | .188** | .261** | .258** | .483** |

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Discussion

In the time of diversification of higher education provision, as well as taking into consideration the developing dimension of higher education sector in a rapidly changing socio-economic context, such as Kosovo’s, focusing on the provision of education services taking account for client’s needs is more than necessary. To the knowledge of authors, this study provides first efforts regarding adaption of measurement approaches of student satisfaction in the Kosovo context, using testing standardization methods.

As a first step to adapt new methodological approaches in this direction, we provide an initial framework to measurement of student satisfaction in an Albanian population and socio-economic context. In this direction, however, the results in this pilot study show that in general the adapted framework has good a ground of reliability and validity of the measurement instrument, therefore slight changes should be considered in the future use of this measurement instrument, particularly in the dimension of validity.

Nonetheless, future research should consider the use of this framework in a larger population sample and in a high number of higher education institutions, as well as in all study cycles.
References


Renewable Energy - a Great Energizing Potential that Eliminates Environmental Pollution

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Abstract

Renewable energy, efficiency energy, green industries and the development of the green economy are generally attracting attention all over the world. Albania needs investments for this type of energy, given that, in the 21st century, is still unable to fulfill the minimum needs of energy. The aim of this study was to identify the use of solar panels in the Kombinat area by completing a questionnaire. Residents of this area who were equipped with a solar panel are asked about how they used and the benefits that they have from the solar panel, indicating that warm water is widely used in their home. Another purpose of this study was to inform the residents of this area about the economic and environmental benefits to use the solar panels. Interviewers are asked what kind of energy use to heat their homes. Arguments have been that most of them use electricity then gas. They also use woods in chimneys or stoves more over most of them said that they save 30% of the previous amount of the electricity bill. We also informed and aware the public about the negative impacts in the environment, agriculture and the economy of the country from the use of non-renewable energy. Sun light energy is absolutely free and can be utilized by all without exception and keep the environment clean during use and is also controllable by humans.

Keywords: solar panel, renewable energy, Kombinat, questionnaire, benefits.

1. Introduction

The purpose of this study was assessing the potentials of solar energy as an alternative source of energy for the conditions of Albania. This data (to have a general overview about solar panels) are collected at the Kombinat / Tirana area. Investments in solar photovoltaic capacities produced globally are growing rapidly, roughly sevenfold in the last decade (Sawin, 2008). Solar production has been a reliable source for power supply. Many Americans view solar energy as an environmentally friendly substitute for traditional energy sources. If solar power is not reliable, it is illogical to mandate its use and to invest billions of tax dollars in it (U.S. EIA., 2015). On a long-term view, the use of solar water heaters will significantly reduce greenhouse gas emissions, CO₂ in the atmosphere as one of the main causes of global warming and will contribute to mitigating it (Ecoinvent Centre, 2007). The Intergovernmental Panel of Climate Change (IPCC) considers sulfur hexafluoride to be the most potent greenhouse gas per molecule; one ton of sulfur hexafluoride has a greenhouse effect equivalent to that of 25,000 tons of CO₂ (Alsema et al., 1996). To identify the environmental impacts due to the large-scale solar installation and operation we have reviewed scientific literature and have found approximately 32 impacts, which are divided into the sections: land use, human health and well-being, wildlife and habitats, geohydroelectric resources, climate and greenhouse gases (US-EIA 2010).

Albania, according to experts, has considerable potential to develop its renewable energy sources, particularly in solar energy. Albania is a special case, because about 10-13% of the total primary energy source (TPES), including imports, is provided by biomass, especially by firewood (ECS, 2013). By comparing the global renewable energy consumption over the last 15 years, the changes are quite noticeable. Although the global energy transition towards a cleaner power generation is not progressing at the right place, it should definitely be stimulated.
The production of renewable energy in Europe during 2005 was 20.1%, in 2010 this percentage changed to 25.7%. While in 2015 energy production fell to 34.2% in different regions of Europe. These changes are good signs of replacing electricity with renewable energy (IEA, 2013).

![Pie chart showing energy consumption]

**Figure 1. Total World Energy Consumption, (IEA, 2013)**

Global capacity has replaced solar energy in exponential growth, reaching 227 GWe by the end of 2015, producing 1% of all electricity globally used. Large solar installations have been in the regions with relatively less solar resources (Europe and China), while potentials in high resource regions (Africa and the Middle East) remain untapped. China has led PV capacity installations over the last decade and continues as a leader, followed by Germany, Japan, Italy and the United States (REN21, 2016).

![Pie chart showing cumulative global PV installations]

**Figure 2. Cumulative Global PV installations 2016. (C.I.I., 2016).**

In Tirana dominates a sub-tropical - Mediterranean climate with winter sludge and average annual temperature in July + 24 °C and in January + 7 °C. In the year falls 1 189 mm rain (AIDA, 2016). These temperatures are quite optimal and favor perfectly the use of solar energy by placing solar panel dwellings.
These panels make it possible to heat water which can be used in many different forms. Also, it can be used to heat the indoor environment (through boilers). In May 2013, the Albanian parliament adopted a new Law on Renewable Energy Sources, making electricity produced from wind, solar, geothermal and biomass eligible for a feed-in tariff. It is important to note that the development of solar energy and large-scale use has a great influence on the environment, connected not only to energy, but also to water and land. For example, in Europe, 20-20-20 legislation normatives European countries to reach a share of 20% of renewable sources in total final energy consumption by 2020 (WERS, 2016). The installation of solar panels at home and business in Albania is constantly increasing. According to INSTAT, (2014) the import of solar panels reached 379 million Albanian lek, an increase of 129% compared to the previous year, although their use remains low in relation to the great potential they have. Various companies have expressed interest and have submitted to the Ministry, the application for construction of a photovoltaic park for the production of energy from renewable sources in different areas of Albania. One of these projects is designed in the Plug, Lushnja Municipality with a capacity of 2 MW, on an area of about 2 hectares, with an investment value of about 1 million euros (Energy.al, 2016). Albanian General Electricity SH.A. (AGE, 2016) and A.E. Distribution sh.pk, applied to build a photovoltaic park in the area of Topoje in the Municipality of Fier with an investment value of 2 million euros. In August 2016, the company "Novoselë Photovoltaic Power Plant" has requested a prior authorization from the Ministry of Energy to build a photovoltaic park aimed at producing electricity from solar radiation. The park is planned to be built in the Novosela area in Vlora. Sun and Wind Energy Corporation (2016) applied to the Ministry of Energy for the construction of two wind and sun energy production parks counting in total 45 million euros in the Pilur area in the Municipality of Himara with an investment value of about 27 million euros.

2. Material and Methods

The study focuses on identifying the main categories of energy users (namely, potential market), using primary solar energy sources by means of panels to be used in indoor environments but also the use of other types of energy (electrical, wood fire, gas, coal etc.). The assessment of the study covered various categories such as public buildings, health centers, offices, cultural services, schools, commercial buildings such as small supermarkets, and tourist facilities such as hotels, restaurants, agricultural facilities (greenhouses, storage) as well as other types of agro-industrial companies. This assessment was made by completing a questionnaire in the Kombinat area (Tirana) during the period May-April 2017. The questionnaire was in a
draft form and interviews on various questions to get more information on how to use other types of energy (electricity, firewood, gas, coal etc), use of solar panels, the benefits they have and so on.

Albanian map

(2) Kombinati map

Figure 4. Area taken in study

3. Results and Discussion

Climate change has resulted in irregular rainfall for Albania, longer and drier summers and less snowfall in the mountains (Bruci, 2008). The use of energy has increased as a result of the numerous buildings and the number of electrical appliances which are expected to increase too.

![Figure 5 a) Interviewers were asked what type of energy they use to heat water in their homes. From the interviews feedback, hotel businesses have declared they would like to use solar panels for central heating, but this was not realized due to the high cost and the management developed so far. Also there are families who use more than two sources causing pollution to the environment. At Figure 5 b) is showing that residents use more electricity and gas than wood for cooking. In this area we have a shortage of using solar panels in the form of electricity.](image-url)
In Figure 6, 33% households use electricity and gas, and 60% of them use solar panels to heat the water which it is used for bathing. In fact we are focused on those families who are equipped with the solar panel therefore the number of users is significant. On the other side there are families who use this source in alternate maner.

Most of them said that they saved about 30% of the previous of electricity bill. The average on the basis of the calculations was 7-8 thousand Albanian lek per month. We can emphasize that higher value savings have been made by restaurants and hotels that have a greater use of water quantity.

4. Conclusion

Albania needs to make voluntary commitments because not only developed countries that have historic responsibility for global warming and climate change, but also the developing countries need to be active. Energy obtained from solar panels keeps the environment clean and contributes to the elimination of carbon dioxide, nitrogen oxides, sulfur dioxide, and other pollutants that can be caused by the debris generated during the local service.

Also, it is economically affordable and manageable by people. Albanian has a perfect geographic position and climate conditions which favors the installation of solar panels in every home, institutions and businesses. According to the questionnaire, the people were pronounced that they have saved almost 30% of the previous total electricity bill.

References


Do Macro-Economic and Technical Indicators Matter?- a Principal Component Analysis Approach for Equity Risk Premium Prediction

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Dr. Bilal Aziz
Maryam Mushtaq
Dr. Sadia Farooq

Abstract

Equity risk premium contains the property of reflecting the fundamental judgments of individuals regarding risk that might exists in the economic market and the price associated with that risk. For ERP forecasting, attention is also devoted to technical indicators apart from the macro-economic variables. A set of 14 technical and 14 macro-economic variables is selected for this purpose and based on a standard predictive regression framework; all forecasts are generated by regressing ERP on a constant and a lag of macro-economic or technical indicator. It is found that as compared to macro-economic variables technical indicators provide better indications about ERP estimates. By using National Bureau of Economic Research (NBER) data of business cycle expansion and recessions, relative strength of ERP predictability is also investigated and it is found more than twice for recessions as compare to expansions.

Keywords: Equity Risk Premium; Macro-economic Indicators; Technical Indicators; Forecasting. Field of Study: Finance JEL Classification: G00, G12, G17

1. Introduction

In the field of financial economics, equity risks are considered as central components of every risk and return model. Considering the above statement being true; the question which arises is that why equity risk premium (ERP) matters? The major reason of this important concept is that the equity risk premium contains the property of reflecting the fundamental judgments of individuals regarding risk that might exists in the economic market and the price associated with that risk. The expected return of every risk is affected during the process and so does value of a particular investment. As a result, it makes difference in allocating wealth across different classes of assets and the selection of such particular assets in each class of asset wherein we intended to invest. It has been theoretically proven that a positive correlation exists between risk and return at the market equilibrium where the expected return of high risk investments is higher which is equal to the total of risk free (Rf) rate and extra return that balance risk.

What is the equity risk premium?

ERP is a broad term and it has been defined by number of authors in different ways. Annin and Falaschetti (1998) defined equity risk premium as "the reward that investors require to accept the uncertain outcomes associated with owning equity securities. It is an extra return on average that equity holders expect to achieve over risk-free assets." Pratt y Grabowski (2008) described equity risk premium to be an additional compensation demanded by the investors for investing their resources in a diversified portfolio. If the relevant data is available, Equity risk premium can easily be calculated over any period of time. Talking about the U.S stock market we can find 100 years data to measure the equity risk premium.

Equity Risk Premium Puzzle

The equity risk premium puzzle was started and sketched by (Mehra & Prescott, 1985). A number of researchers have utilized their methodology to measure equity risk premium i.e "Historical returns, an appropriate proxy for expected returns." Constantinides, Donaldson, and Mehra (1998) depicted that 6.9 percent deviations in average real annual returns on U.S...
stock market and relatively riskless assets that is considered as equity risk premium and high rate of this premium is labeled as equity premium puzzle.

Recently, different researchers have tried to test the rational expectation models for long term asset prices. These models depicted deviations among the rationally expected returns across assets that have been calculated over a time interval and the difference is because of constant. Typically, the minor returns of one of the asset in the group is already known, thus intuitively, expected return on remaining assets presented by the model is equal to the calculated return by adding the constant in it. The variance among two expected returns is named as risk premium and the expectation model depicted that the risk premia are constant over a time interval1.

Empirical Solutions to Puzzle

The empirical approach has raised the issue regarding method of equity premium estimation. The historical risk premium that are based on the assumption that believes and attitudes of the investors have changed over time has been criticized time and again. According to assumption believes and attitudes of investors at the start of the 20th century was inclined towards more risky investment than these are currently. Elton et al. (2009) and Damodaran (2011) presented another argument that investors may have sensibly forecast stock market crashes which proves wrong but the lack of signals of these crashes in previous data does not indicate that these could not happened. The volatility that can be observed in the equity market cannot properly represent the strength of the volatility in case of any crash that might significantly decrease consumption and wealth.

Fama and French (2002) advocated that the use of fundamental methods for equity premium estimations is more precise in comparison to historical averages method. Donaldson, Kamstra, and Kramer (2010) took another step forward and created a complex system of consistent conditional models. They used financial statistics like interest rates, price-dividend ratios, Sharpe ratios, growth rate of dividend, volatilities and excess return. With the help of this approach they found the equity risk premium in USA to be between 3% - 4%, and standard deviation calculated by approach has been the lowest as compare to any other approach. It is worth noting that the concluded this equity risk premium to be conditionally varying. Most of the empirical solutions provided so far have the tendency to get halfway between the equity premium estimated by (Mehra & Prescott, 1985) and the equity premium values provided by asset pricing models. Therefore, it can be said that these solutions are not sufficient to fully solve the Equity risk premium puzzle.

Theoretical Solutions to the Puzzle

Elton et al. (2011) pointed out that in order to find possible theoretical solutions for the equity premium puzzle there is a need of developing more sophisticated models of investor utility functions keeping in view how investors perceive risk. Campbell and Cochrane (1999) came up with a different idea which merely changed the perspective on equity risk premium. They formed their model on the basis that investors are not actually afraid of higher risks attached with the stocks, in fact, they are afraid about poor performance of stocks in times of recessions. As per them during such time the consumption of investors also drops significantly. This model however, matches the historically observed equity premium values; nevertheless it fails to be considered as a solution to equity premium puzzle.

Guvenen (2009) came up with an asset pricing model. The estimates of this model are quite similar to the ones observed in historical data. He actually implemented two key properties a) restricted participation in equity market and b) restricted heterogeneity in the in the elasticity of inter-temporal substitution in consumption. His model produced an equity premium of 5.45% with a volatility of 21.9%. He suggested that both of these values can be compared to historical data and are huge step forward towards solving the equity premium puzzle. Apart from that he also mentioned that the model has some shortcomings like it has been abstracted from long-run growth and it would eventually complicate the already complex model. Elton et al. (2011) suggested that utility analysis should be utilized before understanding the divergence between data and theory as there is a lack of understanding regarding real level of aggregate investor risk aversion.

Equity Risk Premium – Estimation

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1 Expected equity risk premium in Short horizon, intermediate or mid horizon and long horizon is stock market return over 1 month T-bills, over 5 years government bonds and over 20 years government bond respectively, subject to the definitions of Ibbotson yearbook.
In spite of the great importance of equity risk premium in finance it is quite surprising that how haphazardly its estimation has been remained in practice. ERP estimation is one of the most integral components while calculating business firms’ cost of capital. It is essentially used in financial decision making. Investors require this estimation for the valuation of stocks, to predict expected returns from the feasibility of investment project, to manage firms from the viewpoint of value creation, and hence to find out the optimal capital structure of firms.

A huge amount of literature has been written on the estimation of equity risk premium. Damodaran (2011) described that there are three broad approaches for estimating equity risk premium. First and the most popular approach is calculating equity premium using historical data. Second is the method of estimating implied equity premium (sometimes called supply side approach e.g. (Goetzmann & Ibbotson, 2006). And the third approach is to conduct survey and obtain “survey” equity premium. Another method or fourth possibility of obtaining equity risk premium is “Demand approach”, an investor utility model (Goetzmann & Ibbotson, 2006). However, due to the additional complexity connected with this approach it is not convenient for practical use to extract equity risk premium. This thesis will focus on the historical equity premium approach since it is considered to be the most popular approach.

1.5.1 Historical Equity Premium

This approach uses historical data to estimate equity premium and considered to be the most popular approach. In this approach, difference between the actual returns earned on stocks over a long period and returns earned on a default-free asset, usually government security is taken. It is expected that the historical equity premium estimations can significantly differ between each other. In order to compare different estimations, one has to take into account some of important factors. Fama and French (1996) suggested seven factors: Geometric or arithmetic averaging, Short or long investment horizon1, Short run or long run expectations2, Unconditional or conditional on some related variable3, USA or International market data, Data sources and periods, Real or nominal returns4.

It is considered that the estimation results of equity risk premium through geometric averaging are usually low as compare to arithmetic averaging. Especially in case, if there are negative returns in the data set of stock market returns. However, the literature suggests that many estimations services and academics support the use of arithmetic average (Damodaran, 2011). Campbell and Cochrane (1999) and Damodaran (2011) are of the belief that there is a long term negative autocorrelation in equity returns which in turn will overstate the results of equity risk premium. As economic and financial environment is changing so it can be assumed that the investor preferences also change over time along with the equity risk premium. This belief is also shared by (Arnott & Bernstein, 2002; Brown & Otsuki, 1993; Campbell & Cochrane, 1999; Chan, Karolyi, & Stulz, 1992; Donaldson et al., 2010; Gameiro, 2008; Graham & Harvey, 2005; Lettau, Ludvigson, & Wachter, 2008; O’Hanlon & Steele, 2000).

Using estimates or market projections

In this method it is assumed that equity risk premium can be predicted from surveys or some other projection models. In majority of cases, equity risk premium models use historical data and assume that some past time span explain the best predication of the future. There are certain limitations of this approach even in the markets of long historical data like United States and is entirely useless in the emerging markets with limited or noisy data. There are others ways that can be suggested in which equity risk premiums can be estimated for these markets by using a base equity premium and country risk premium.

Using implied premium

---

1 Even if the objective is to approximate current of future (i.e. for the next ten years) equity risk premium
2 Short term forecasts are generally conditionally estimated
3 This is not of concern if risk free asset returns and equity returns are computed in same term. Usually, equity premium calculated via real returns are biased downward with 30 basis points (McCulloch & Leonova, 2005).

4 Technical indicators are often computed using monthly, weekly, or daily data. Technical indicators are estimated by use of monthly data. So, to put the forecasts based on macroeconomic variables and technical indicators forecasts can be applied on more equal footing.
There is another approach for calculating ERP that uses the premiums implicit in current prices, usually in stock market. Goetzmann and Ibbotson (2006) suggested a possible solution to obtain up-to-date and current estimation of equity risk premium, referred to as the supply side approach. As per this model all of the asset prices actually represent the expected future cash flow from the asset. For example, the Gordon growth model states that

\[ E_0 = \frac{Div_1}{k_e - g_t} \]

Where;

\( E_0 \) = Current value of equity
\( Div_1 \) = Expected dividend in the next period
\( k_e \) = required rate of return for equity investors
\( g \) = growth rate in dividends forever

Assuming the stable growth scenario the expected growth rate should be equal to risk-free rate, hence the dividend yield on equities would become a measure of the equity risk premium.

\[ \frac{Div_1}{E_0} = Dividend \ Yield = Equity \ Risk \ Premium \]

Rozef (1984) named this rule as “The Golden Rule of Accumulation”. He presented a model on the assumption where economy maximizes the consumption per capita, in such case the rate of growth of output equals the physical marginal productivity of capital, which in turn equals the rate of interest. Hence the real dividend growth approximately equals the real rate of interest. Thus, he concluded that this method of using dividend yield as an estimate of equity risk premium is unbiased and has a significant edge over the historical risk premium estimates. Fama and French (2002) argue in favor of calculating equity premiums using supply-side approach. He wrote that in order to estimate expected stock returns, the expectations of the investor can be judged well by using fundamental variable i.e. dividends and earnings. These approaches are based on the statement that average stock return is the average dividend yield plus average rate of capital gain.

Assuming that the dividend price ratio is stationary means in the samples that include long time periods, the compound rate of dividend growth become equal the compound rate of capital gain hence leading to dividend growth model.

\[ A(RD_g) = A\left(\frac{D_t}{P_{t-1}}\right) + A(GD_t) \]

Practical implications of this model are same as of the model put forward by (Damodaran, 2002). Equity premium can be estimated by subtracting risk-free rate from the stock returns. But this approach only works as a long-term approach. Campbell and Cochrane (1999) found the correlation between consumption growth and dividend growth (thus growth of the whole economy) to be low as 0.05 in short term and 1 in long term. Dividend yields have some predicting power on stock returns and this power increases on longer time horizon (Kurz, Jin, & Motolese, 2005).

Damodaran (2002) and Fama and French (2002) suggested that assuming a stable future growth and earnings-price ratio to be constant, the above given approach can be reformed to focus on company earnings instead of dividends. If the equation of sustainable growth is taken and substituted in dividend growth model, the implied equity premium can be written as:

\[ IERP = \frac{E}{P} - R_f \]

Where;

IERP – implied equity premium; E – expected earnings in the next period, P – value of equity; Rf – risk free rate.
Apart from incorporation of stable growth in these models several stages of growth can also be accounted. However, there is a danger associated with such models i.e. at any time period markets can be mispriced. Current implied equity premiums can be obtained but this does not mean that the premiums are long term equilibrium premiums (Goetzmann & Ibbotson, 2006).

Determinants of Equity Risk Premium

Many authors have used macro-economic variables to explain level and variations in the market risk premium as the ERP represents rate of return required by the investors currently. In spite of the fact that technical indicators are being widely used by the practitioners as (A. Lo & Hasanhodzic, 2010); technical indicators have been given less attention in the literature for evidencing the stock predictability relative to macro-economic variables. Some of the existing studies analyze the profitability of the trading strategies based on a variety of technical indicators, including moving averages (Brock et al., 1992; Zhu & Zhou, 2009), momentum (Ahn, Conrad, & Dittmar, 2003; Conrad & Kaul, 1998) etc. These studies however, do not specifically analyze the predictability of EPR, which has been the focus of literature on ERP based on macro-economic variables.

The Forecast Ability of the Market Risk Premium

It is documented that stock returns are predictable to some extent, e.g., (Campbell, 1987; Elliott & Müller, 2006; Fama & French, 1988a, 1988b, 1989; Ferson & Harvey, 1999; French, Schwert, & Stambaugh, 1987) and the literature generally shows an agreement that expected returns are time varying, e.g., (Campbell, Lo, & MacKinlay, 1997). By definition, the Equity risk premium is the reward in terms of extra return that investors demand for holding risky assets rather than short term nominal risk-free assets. These risk free assets are proxied by short term T-bill rates, and are not constant over time. The volatility of short term nominal risk free rates calculates time variation in the ex-ante nominal risk free interest rate, not risk, since these securities have no default. Therefore, those variables that have forecast abilities for stock returns also forecast the time varying excess stock returns, which is the market risk premium. This is the reason that many researches on the predictability of the stock returns i.e (Campbell, 1987; Campbell et al., 1997; Elliott & Müller, 2006; Ferson & Harvey, 1999) also use the same set of explanatory variables to predict the market risk premium.

"Uncertainty about the change in the spot rate creates more uncertainty in a bill's premium the longer the maturity of the bill. If this source of uncertainty is positively associated with the types of risks that the market compensates, then expected premiums on bills will be an increasing function of maturity, and any changes through time in the degree of uncertainty about changes in spot rates will have a greater effect on a bill's expected premium the longer the maturity of the bill."(Fama, 1976, p. 436)

Macro-economic Indicators:

A number of authors have tried to use macro-economic variables to explain level and variations in the market risk premium as the ERP represents rate of return required by the investors currently. Economic indicators are taken on the basis of economic reasoning. Economic indicators ability to predict equity risk premium directly impacts the economic value of investment strategies (Baetje & Menkhoff, 2015). Different set of economic indicators are used by different researchers such as dividend price ratio, inflation rate, interest rates, market volatility etc. Macro-economic variables have this power to predict equity risk premium sue to their ability to capture fluctuations in macro-economic conditions (Cochrane, 2011).

In this paper the authors has devoted his attention apart from macro-economic variables to technical indicators as well for the purpose of forecasting the ERP. Further, in this paper performance of both macro-economic variables and technical indicators for predicting ERP is compared. In comparing the technical and macro-economic predictors, all forecasts are generated based on a standard predictive regression framework, where ERP is regressed on a constant and a lag of a macro-economic variable or technical indicator.

To prudently incorporate information from many predictors, predictive regressions are estimated based on a small number of principal components extracted from the entire set of macro-economic variables and/or technical indicators. This study used the data spanning from December 1992 to December 2013 for 14 well known macro-economic variables suggested
by (Welch & Goyal, 2008) and 14 technical indicators from the existing literature based on moving averages, momentum and volume.

**Technical Indicators of Market:**

Technical analysis is considered as a persistent activity for security market and future market. As the technical analysts rely on price and volume data that provides indication of future price movements and through examining these one can extract the information on the fundamentals driving. On technical analysis, classic work is generally considered to (Edwards, 1957). Neftci (1991) empirically tested some of the common rules used in technical analysis for price change.

Moving average rule is regarded as one of the common component of technical rules. It includes calculation of moving average from raw data and most common form of it shows buy and sell signal. Whenever the price climbs above the moving average it gives a buy signal and whenever the price drops below the moving average its gives sell signal. The basic idea behind this rule is that it is helpful in providing means of determining the direction or trend of a market by analyzing the recent history. There are different rules of moving averages based on the time horizon. 1-200 rule of moving average is considered as the most popular rule, where the short period is of one day and the long period is of 200 days. Some other popular rule are 1-50, 1-150, 5-200 and 2-200 rules (Brock, Lakonishok, & LeBaron, 1992).

Apart from moving averages of the stock returns, technical trading rules are also closely related to Momentum strategies. These strategies involve buying winner stocks and selling looser stocks. The academic authors think that momentum is an enduring anomaly which led (Fama & French, 2008, p. 1653) to describe it as “pervasive”. The two factors i.e. buying winner stocks and selling looser stocks have resulted in a large amount of research being conducted in investigating whether technical trading rules are profitable. Both kinds of views can be extracted from the literature demonstrating that technical analysis does not add value in the US equity market, but several authors have presented supportive evidence in emerging markets (Bessembinder & Chan, 1995; Ito, 1999).

Another type of technical trading rule which has been widely used by the technical analysts and professionals is Volume. Volume has a significant part in markets and has long been an area of empirical research, as Gallant, Rossi, and Tauchen (1993) and Karpoff (1987) presented a quality review of earlier studies.

**Research Objectives**

The study is carried out to analyze the equity risk premium forecasts by using technical and economic fundamentals i.e. technical variables and macro-economic variables. Further, the study aims to compare the capacity of technical indicators to forecast equity risk premium with that of macro-economic variables. This ability of both indicators (macro-economic and technical) is also assessed over the business cycle.

Following are the main objectives of this study:

To forecast Equity Risk Premium by directly relying on macro-economic variables
To forecast Equity Risk Premium by directly relying on technical indicators
To compare the capacity of both indicators in predicting Equity Risk Premium
To determine the incremental role of both indicators
To predict Equity Risk Premium over the business cycle (peaks and troughs).

**Significance of Study**

The premium has principle importance and plays an integral role in finance and is the basis of various applications. This precise technique is used by many financial managers for estimation of cost of capital, investment appraisal and financing decisions. The overall cost of capital of the firm is used when the company is going to undertake some future project plans and mostly for the evaluation of present value of future cash flows. Equity premium is equally important for corporate managers for financial decision making as it’s a main determinant of cost of equity and it assists in selecting debt and equity proportion suitable for the firm.
It is also significant for the investment analysts, for using in portfolio asset allocation and evaluation of investment performance. As normally equities are among the most risky type of assets and so the Equity Premium. Performance evaluation of individual equities, portfolio or funds is also dealt with equity premium by investment analysts. Fund managers also required to consider performance evaluation as relative to the benchmark and hence evaluated to what extent they are successful to manage and to make value for their investor relative to what was expected. It is also essential for the Actuaries to know exact measure of Equity Premium for the purpose of long-term financial planning mainly of personal pension funds.

2.0 Methodology

The literature of Equity Risk Premium is hard to absorb. As in earlier studies; different methodology, variables, techniques and time period has been used. Findings of those studies which were written in the past may be changed when latest data is used. It has also been evidenced that the findings of such studies contradict others. Still, most of the readers have think that prediction works even if it is not clear that what really works. However, the established tendency in literature is possibly best summed up by Lettau and Ludvigson (2001).

“It is now widely accepted that excess returns are predictable by variables such as dividend-price ratios, earnings-price ratios, dividend-earnings ratios, and an assortment of other financial indicators.”

Data Collection Sources and its Structure

As the study aims to check the capacity of economic and technical indicators to predict equity risk premium, so the study use two sets of independent variables i.e. 14 macro-economic variables and 14 technical indicators respectively against one dependent variable i.e. Equity risk premium. Detail description of all these variables is given in this section.

Dependent Variable - Equity Risk Premium

The main concern of this research is predicting the equity risk premium i.e. dependent variable. Different researchers have given different methodologies to calculate Equity Risk Premium. But, the author has used the widely accepted methodology which is total stock market’s rate of return less the existing short term interest rate.

Stock Returns

In this research Standard & Poor 500 index return has been used. The month end values have been retrieved from CRSP (Center of Research in Security Press) from 1926 to 2013. Stock returns used in this study are the continuously compounded returns on the S&P 500 index, including dividends.

Risk-free Rate

Literature on risk free short-term debt prior to 1920s was not available; hence the risk-free rate has been used from 1920s onward till 2013. The first set of independent variables in this research is mainly the stock characteristics. So, the ERP is taken as the difference of continuously compounded return on S&P 500 together with dividends and log return on a risk free asset.

Independent Variables

Two types of Independent variables have been taken in this study. First type of independent variables include 14 Macro economic variables which are taken from the study of (Welch & Goyal, 2008) and represent the set of Xi,t variables; applied for the prediction of equity risk premium. Second type of independent variables includes 14 technical indicators consisting of Moving averages, Momentum and Volume.

Macro-economic Variables

Following are the 14 macro-economic variables, representing the literature of (Welch & Goyal, 2008) and (Neely, Rapach, Tu, & Zhou, 2014) used to predict equity risk premium:

Dividends are 12 months moving sums of dividends paid on the S&P 500 index. The data regarding this has been retrieved from Shiller’s website from 1871 to 1987.
Dividend-Price ratio: Dividends from 1988 to 2013 are taken from S&P Corporation. The dividend price ratio is taken as the difference between dividends (log) and prices (log).

Dividend yield: Dividend yield is the difference between the log of dividends and the log of lagged prices (Ball, 1978; Campbell, 1987; Fama & French, 1988a; Hodrick, 1992; Rozeff, 1984; Shiller, Fischer, & Friedman, 1984).

Earning is taken as the moving sums of 12 months earning on S&P 500 index. This data is retrieved from the Shiller’s website from 1871 to 1987 whereas earnings from 1988 to 2013 are taken from (Welch & Goyal, 2008).

Earning price ratio: It is taken as the difference of log of earnings and log of prices. In this research, distinction has also been considered in which the researcher explored multiyear moving averages of numerator or denominator that is moving ten years average of earning divided by price.

Dividend payout ratio: Dividend payout ratio is taken as difference between dividends (log) and earning (log) as used in (Campbell & Shiller, 1988).

Equity risk premium volatility: To avoid the problems due to outliers in October 1987, Neely et al. (2014) used the volatility measure recommended by (Mele, 2007) that is based on 12-month moving standard deviation estimator. So, the proxy used to measure equity risk premium volatility is defined as:

$$\hat{\sigma} = \frac{1}{2} \sum_{i=1}^{12} |r_{t+1-i}|$$

$$rvol_t = \sqrt{\frac{\pi}{2}} \sqrt{12} \hat{\sigma}_t$$

Book-to-market ratio: It is taken as ratio of book value-to-market value for the Dow Jones Industrial Average.

Net equity expansion: It is a ratio of 12-month moving sum of net equity issued by New York Stock Exchange (NYSE) listed stocks to the total (end of year) market capitalization of NYSE stocks.

Treasury bills: Treasury bill rates are the yields on short term U.S Securities from 1920-1933, treasury notes and certificates of three to six months and treasury series in the NBER for three months Macro History Database. Treasury bill rates from 1934 to 2005 are the three month treasury bill; secondary market rate from the economic research data base at the Federal Reserve Bank at St. Louis (Campbell, 1987).

Long term yield: The long term government bond yield data from 1919 to 1925 is the U.S Yield on long term United States Bonds series in the NBER’s macro history database. Yield from 1926 to 2013 are from Ibbosto’s Stock, Bonds, Bills, and Inflation yearbook.

Long term rate of return: Long term rate of return data is retrieved from the Ibbotson’s stock, bonds, bills and inflation yearbook. It is the long term government bond yield. This data starting from 1919 to 2013 has been taken from (Welch & Goyal, 2008).

The term spread: It is the difference between the long term yield on government bonds and the Treasury bill (Fama & French, 1989).

Default yield spread: It is the difference between BAA and AAA rated corporate bond yields.

Default return spread: It is taken as the difference of long term corporate bond and long term government bond returns (Keim & Stambaugh, 1986).

Inflation: Inflation is a macro-economic indicator and is the consumer price index for urban consumers from 1919 to 2013 and has been taken from Bureau of Labor Statistics (Campbell & Vuolteenaho, 2004).

**Technical Indicators**

To compare the technical indicators with macro-economic variable, the researcher has used 14 technical indicators which are based on three trend following strategies.
The complete set of 14 technical indicators is based on three types of famous technical trading strategies. At the completion of each period, all of those indicators give a buy/sell signal according to recent price movements.

Moving Averages
The moving average of some specific time period is calculated as; adding up the most recent data and then divided by time period. The moving average is calculated every time by omitting old values and adding up the most recent values. Hence, average shifts as the data moves but doesn’t have enough variation and is smoother than the p-period moving average where p=5n and calculate longer trend. Based on moving average, six technical trading strategies are generated i.e. MA(1,9), (1,12), (2,9), (2,12), (3,9) and (3,12) as used in (Brock et al., 1992; Zhu & Zhou, 2009). These trading strategies compare short (1-3 months) and long (9-12 months) moving averages to forecast the stock price trends.

Momentum
There are two technical trading strategies retrieved by comparing current prices with past prices of the stock i.e. MOM(9) and MOM(12) momentum rules as used by (Ahn, Conrad, & Dittmar, 2003; Conrad & Kaul, 1998). If stock’s current price increases than the level of 9 to 12 months before then trading rules recommend buy i.e. a trend following perspective.

Volume
The third category depends on volume rules. These six technical trading indicators associate volume to price changes in which short term is considered as one to three months and long term is considered as nine to twelve months for detecting strong price trends as suggested by (Granville, 1963). This forms VOL(1,9), (1,12), (2,9), (2,12), (3,9) and (3,12) trading volume strategies.

Volume is important because price movements are confirmed by high trading volume that generates signals regarding stock price trends. Grundy and McNichols (1989) and Blume, Easley, and O'hara (1994) proved that such trading volumes provides valuable information that is beyond the prices.

Empirical Estimations
OLS is used to estimate the base regression coefficients; however, bootstrapped F-statistics has been calculated to compute the significance of variables by taking into account correlation of the independent variables.

3.1 Bivariate Predictive Regressions
The author has used the following predictive regression model for analyzing ERP predictability based on the macro-economic variables:

\[ R_{t+1} = \alpha_i + \beta_i x_{i,t} + \epsilon_{i,t+1} \]  

(1)

In the above equation, rt+1 shows the return of large stock market index from the period t to t +1, in excess of (Rf) risk free rate. Further, xi,t shows the predictor presented at time t; and \( \epsilon_{i,t+1} \) is zero-mean disturbance term under Null hypothesis of no predictability \( \beta_i = 0 \). So, we can infer that \( \beta_i \) being the Alternate hypothesis will be positive. As per Inoue and Kilian (2005) a one-sided alternate hypothesis increases the power of in-sample tests predictability. As a result, equation (1) reduces to the constant expected ERP model. In the paper H0: \( \beta = 0 \) against HA: \( \beta > 0 \) has been tested using a heteroskedasticity consistent t-statistic related to \( \hat{\beta} \) that is an OLS estimate of \( \beta \) shown in equation (1). But it has been evidenced that bias potentially inflates the t-statistics for \( \hat{\beta} \) of equation (1) and distorts test size when xi,t is highly persistent, as is the case for a number of popular predictors (Stambaugh, 1999). To cater this issue we used wild bootstrap process to compute p-values (Neely et al., 2014). This process is known for accounting the regressors’ persistency along with the general forms of heteroskedasticity and correlations between equity risk premium and predictor innovations.

Strategies to Estimate Technical Indicators
For technical indicators we composed dummy variables using the following strategies. The first strategy is the use of moving averages that helped to generate a buy or sell signals of a stock (Si,t = 1 or Si,t = 0) respectively by comparing two moving averages at the end of time t.
\[ S_{it} = \begin{cases} 1 & \text{if } MA_{s,t} \geq MA_{l,t} \\ 0 & \text{if } MA_{s,t} \geq MA_{l,t} \end{cases} \] (2)

Where;

\[ MA_{j,t} = \frac{1}{j} \sum_{t=0}^{j-1} P_{t-1} \quad \text{for } j = s, l; \] (3)

Pt in the above equation, represent stock price index level and s(l) denotes length of the short (long) moving averages MA(s<1). This indicated about the changes in the stock price trend because short moving average is very sensitive to recent price movement of stock than long moving averages. In the research MA indicator has been denoted with MA lengths and 1 by MA (s,1) where s=1,2,3 and l=9,12. The researcher calculated monthly signals from moving averages.

The second strategy that has been employed is based on momentum and its equation is

\[ S_{it} = \begin{cases} 1 & \text{if } P_t \geq P_{t-m} \\ 0 & \text{if } P_t \geq MA_{t-m} \end{cases} \] (4)

If stock price is higher than its previous period, it indicates positive momentum and generates buy signals. In the research the monthly signals have been calculated. Intuitively a “positive” momentum is when price of current stock is more than the level in m periods before, this leads to higher expected excess returns, thereby generating a buy signal. Momentum indicator is denoted by MOM(m) and by this indicator Pt is compared with Pt-m, and monthly signal for m(9,12) is computed.

As per the technical analysts, market trends are identified by volume data in conjunction with the earlier prices. In light of such intuition, the technical strategy of On-balance volume is considered e.g., (Granville, 1963).

\[ OBV_t = \sum_{k=0}^{t} VOL_k D'_k \] (5)

In the above given equation VOLk measures the trading volume during period K. As per this strategy Dk is a binary variable that acquires value of 1 if the value of Pk-Pk-1 is greater than or equal to 0 and -1 otherwise.

So, trading signals from OBVt are formed as:

\[ S_{it} = \begin{cases} 1 & \text{if } MA_{s,t,OBV} \geq MA_{l,t,OBV} \\ 0 & \text{if } MA_{s,t,OBV} \geq MA_{l,t,OBV} \end{cases} \] (6)

Where;

\[ MA_{j,t,OBV} = \frac{1}{j} OBV_t = \sum_{t=0}^{j-1} OBV_{t-1} \quad \text{for } j = s, l \] (7)

Let’s assume that there is a recent price increase along a high volume. This indicates a strong positive market trend and it will generate a buy signal. We denoted the corresponding signals by VOL(s,l) while computing monthly signals of s=1,2,3 and l=9, 12. Sullivan, Timmermann, and White (1999) observed that MA, momentum and volume based indicators represent trend-following technical indicators considered in literature. The lags have also been accounted for constructing the technical indicators and found that observations of all of the indicators are available from 1992:12. The technical indicators generate buy signals (Si,t=1) between 66% to 72% of the time. We then transformed the technical indicators by substituting xi,t in (1) with Si,t from equation (2), (4), or (6) to forecast equity risk premium. The sole purpose of this activity is to make comparison of technical indicators to ERP forecasts on the basis of macro-economic variables.

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1 The data are available from Amit Goyal’s webpage at http://www.hec.unil.ch/agoyal/.
\[ R_{t+1} = \alpha_i + \beta_i S_{i,t} + \epsilon_{i,t+1} \]  

(8)

Because \( S_{i,t} = 1 \) (\( S_{i,t} = 0 \)) represents a bullish (bearish) signal, we again test \( H_0: \beta_i = 0 \) against \( H_a: \beta_i > 0 \).

4.0 Empirical Results and Analysis

The data for this research has been taken from (Welch & Goyal, 2008). The authors estimated the predictive regressions using this data where the ERP is the difference between the continuously compounded return on the S&P 500 (including dividend) and the log return on a risk-free bill.

**Bivariate Regression Results**

Table 4.2 provides estimation of \( \beta_i \) for the bivariate predictive regression explained in equation (1) and (8). Further you can also see the heteroskedasticity-consistent t-statistics and R2 statistics in the same table. The researcher has taken the data from 1951 to 2013 which comprise of 757 observations. Among 14 variables, six of the variables showed significant results which are DY, RVOL, TBL, LTY, LTR, and TMS. Among these six significant predictors the dividend yield, Treasury bill rate, and term spread. According to bivariate regression, R2 value seems very low which in turn lead to rejection of the model. But as a matter of fact, monthly stock returns inherently contain substantial unpredictable component. Campbell and Thompson (2008) stated that a monthly R2 near 0.5% can depict economically significant degree of equity risk premium predictability. R2 of Five variables are exceeding the benchmark of 0.5%. The result of technical variables depicted that 13 out of 14 variables showed significant results and R2 of ten variables are more than 50 percent. The coefficient estimates presented that a buy signal estimate that the next month’s equity risk premium is higher by 48 to 94 basis points than when there is a sell signal. The results showed that technical indicators are giving better indications about equity risk premium estimates as compared to macro-economic variables.

The scope of this paper is not limited to just ERP predictability as the researcher also investigated the relative strength of equity risk premium predictability by using National Bureau of Economic Research (NBER) data of business cycle expansion and recessions. Researcher computed the following intuitive versions of the conventional R2 statistics for comparing the degree of return predictability across expansion and recessions.

\[ R_c^2 = 1 - \frac{\sum_{t=1}^{T} I_c e_{t}^2}{\sum_{t=1}^{T} I_c^2 (r_t - \bar{r})^2} \text{ for } c = EXP, REC \]  

(9)

The dummy variable was created in a way where \( I_c^{EXP} \) value of unity when month t is an expansion and \( I_c^{REC} \) takes value of zero when month t is a recession., \( e_{t} \) is the fitted residual based on the full-sample estimates of the predictive regression model in (1) or (8), R is the mean value of rt here t is the number of usable observations for the sample. Observe that, unlike the full-sample R2 statistic, the R2EXP and R2REC statistics can be negative.

Table 4.1 depicted the ERP predictability and it has been observed that ERP predictability for the following variables is higher for recession vis-a-vis expansion for a number of the macro-economic variables, including DP, DY, RVOL, TBL, LTR, TMS and DFR whereas predictability of technical indicator is high in recession.

**Table 4.1 Bivariate Predictive Regression Results**

<table>
<thead>
<tr>
<th>MACRO-ECONOMIC VARIABLES</th>
<th>Slope coefficient</th>
<th>t-statistic</th>
<th>One-sided (upper-tail) wild bootstrapped p-value</th>
<th>R2, expansion</th>
<th>R2, recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bivariate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DP</td>
<td>0.5692</td>
<td>1.0397</td>
<td>0.8970</td>
<td>0.0029</td>
<td></td>
</tr>
<tr>
<td>DY</td>
<td>0.6501</td>
<td>1.2000</td>
<td>0.1160</td>
<td></td>
<td>0.0037</td>
</tr>
<tr>
<td>EP</td>
<td>0.3812</td>
<td>0.6475</td>
<td>0.4410</td>
<td></td>
<td>0.0015</td>
</tr>
<tr>
<td>DE</td>
<td>0.1413</td>
<td>0.1953</td>
<td>0.4650</td>
<td></td>
<td>0.0001</td>
</tr>
</tbody>
</table>

1 (Ludvigson & Ng, 2007, 2009) estimate predictive regressions for excess stock and bond returns, respectively, based on principal components extracted from macroeconomic variables.
### Principal Component Regression Results

After testing for the bivariate regression analysis of 14 macro and 14 technical indicators we moved to predictive regression based on principal components. Below given equation represents the Principal component predictive regression (PC-ECON model). Assuming $x_t = (x_1,t, ..., x_N,t)$ denote the N-vector of all the 14 macro-economic variables ($N=14$). Similarly assuming $\hat{F}_1^{ECON}$ to $\hat{F}_K^{ECON}$ symbolizes vector containing first K principal component extracted from $x_t$ (where $K<<N$).

$$r_{t+1} = \alpha + \sum_{k=1}^{K} \beta_k^* \hat{F}_k^{ECON} + \epsilon_{t+1}$$  \hspace{1cm} (10)

One of the major attributes of principal component analysis is that it prudently incorporates the information from a large number of predictors in a predictive regression. However, it has been evidenced that the first few principal components identify the key co-movements among the entire set of predictors. This characteristic filters out noise in individual predictors and guards against the in sample over fitting. Due to this we standardized the individual predictors before the computation of principal components.

The authors estimated the equation (10) via OLS and computed heteroskedasticity-consistent t-statistics shown in the table 4.1. However, the inference has been derived on the basis of wild bootstrapped p-values. This has been estimated with

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1 The Akaike information criterion also selects $K=3$. To keep the model reasonably parsimonious, we consider a maximum $K$ value of three, given the 14 macroeconomic variables. Note that we account for the "estimated regressors" in (10) via the wild bootstrap procedure.
K = 3 and the value has been selected on the basis of adjusted R2. The table 4.2 shows that the first two components of the estimate are insignificant however the third principal component is highly significant at 1% level. Further, the R2 for the PC-ECON model is 1.09%. The table 4.3 also shows the R2 results of expansion and recession i.e. R2 EXP is .76% and R2 REC is 1.86% statistics, thus we can say that equity risk premium predictability is more than twice for recessions as compare to expansions.

Below given equation represents the Principal component predictive regression (PC-TECH model) Assuming \( x_t = (x_{1,t}, \ldots, x_{N,t}) \) denote the N-vector of all the 14 Technical indicators. We replaced \( \hat{F}_t^{ECON} \) with \( \hat{F}_t^{TECH} \) in equation (10).

\[
F_t^{TECH} = \hat{F}_1^{TECH}, \ldots, \hat{F}_k^{TECH}
\]

symbolizes vector containing first K principal component extracted from Xt (where \( K \ll N \)).

\[
r_{t+1} = \alpha + \sum_{k=1}^{K} \beta_{k} F_{kt} + \epsilon_{t+1}
\]

(11)

Regarding the amount of principal components used in the predictive setting, we employ the Schwarz information criterion (SIC), assuming a maximum number of three common components based on the set of 14 economic variables and technical indicators, and four based on the full set of 28 predictors.

Table 4.2 Predictive Regressions Based on Principal Components

<table>
<thead>
<tr>
<th></th>
<th>Slope coefficient</th>
<th>t-statistic</th>
<th>One-sided (upper-tail) wild bootstrapped p-value</th>
<th>R2</th>
<th>R2, expansion</th>
<th>R2, recession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MACRO-ECONOMIC VARIABLES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal components</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F1-ECON</td>
<td>-0.0177</td>
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<td>0.5280</td>
<td>0.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F2-ECON</td>
<td></td>
<td></td>
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<td><strong>MACRO-ECONOMIC VARIABLES &amp; TECHNICAL INDICATORS</strong></td>
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<td>F1-ALL</td>
<td>-0.1184</td>
<td>-1.2458</td>
<td>0.8650</td>
<td>1.9122%</td>
<td>0.2251%</td>
<td>5.8366%</td>
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<tr>
<td>F2-ALL</td>
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<td>F3-ALL</td>
<td>-0.0527</td>
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<td>F4-ALL</td>
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<td>F5-ALL</td>
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<td>0.8650</td>
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<tr>
<td>F6-ALL</td>
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<td>0.3290</td>
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Table 4.2 represents the estimation results of equation (11) with K=1. In case of technical indicators the coefficient estimates on the first principal component becomes significant at 5% level. Further the R2 of the model is 0.86%. So, we can infer that the technical indicators taken as a group can significantly predict the equity risk premium. Further, the table also reports the return predictability of technical indicators for expansion and recession. The result shows R2 results of recession as 3.32%.

The author also investigated the predictive power of all 28 variables i.e set of 14 macro-economic variables and 14 technical indicators by estimating predictive regression based on \( \hat{F}_t^{ALL} \) (PC-ALL-Model).

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1 The K value of four is selected by the adjusted R2. We consider a maximum K value of four since we now extract principal components from 28 potential predictors. The value of four is also the sum of the respective K values selected for the PC-ECON and PC-TECH models.
\[ r_{t+1} = \alpha + \sum_{k=1}^{K} \beta_k \hat{F}_k^{ALL} + \epsilon_{t+1} \]  

(12)

where \( \hat{F}_1^{ALL} = \hat{F}_1 \) \ldots \( \hat{F}_K^{ALL} \) denotes Vector containing first K principal components extracted from \( zt = (x'_t, \ldots, S'_t) \), the 2N vector of 14 macro-economic variables and 14 technical indicators.

Panel C of Table 4.3 reveals that the coefficient estimates of \( \hat{F}_{1,t}^{ALL} \) and \( \hat{F}_{6,t}^{ALL} \) are significant in the PC-ALL model at the 1%, and 5% levels, respectively.1 However, coefficient estimates of \( \hat{F}_{2,t}^{ALL}, \hat{F}_{3,t}^{ALL}, \hat{F}_{4,t}^{ALL} \) and \( \hat{F}_{5,t}^{ALL} \) were found to be insignificant. If we look at the R2 value of PC-All model we find the value to be 1.91% which is almost equal to the sum of R2 statistics of PC-ECON and PC-TECH models2. One can infer from this that both macro-economic variables and technical indicators contain complementary information. The table 4.3 also shows the R2 results of expansion and recession i.e. R2 EXP is .23% and R2 REC is 5.84% statistics, thus we can say that the equity risk premium predictability in PC-All model is much stronger for recession as compared to expansions3.

Behavior of Expected Equity Risk Premium around Cyclical Peaks and Troughs

The following regressions provide further insight into the behavior of the expected equity risk premium around business-cycle peaks and troughs.

\[ r_t = \alpha_A + \sum_{m=4}^{-2} b_{A,m} l_{t-m}^P + \sum_{m=4}^{-2} b_{A,m} l_{t-m}^T + u_{A,t} \]  

(13)

\[ \hat{r}_t = \alpha_{FC} + \sum_{m=4}^{-2} b_{FC,m} l_{t-m}^P + \sum_{m=4}^{-2} b_{FC,m} l_{t-m}^T + u_{FC,t} \]  

(14)

Where \( \hat{r}_t \) is the equity risk premium forecast for all three models i.e. PC-ECON, PC-TECH and PC-ALL model. \( l_{t}^P \) (\( l_{t}^T \)) is an indicator variable equal to one (unity) month t is NBER-dated business-cycle peak and zero when month t is NBER-dated business-cycle trough. As per the given equation (13) \( b_{A,m} \) \( (b_{A,m}' \) \) coefficient measures the average change in the actual ERP m months from a cyclical peak and trough. Similarly, \( b_{FC,m} \) \( (b_{FC,m}' \) \) coefficient follows the same methodology given above. Equity market intuitively is a forward looking market therefore we used an asymmetric window including four months before and two months after a peak or trough. Results presented in tables above also show that equity risk premium predictability is more than twice for recessions as compare to expansions.

5.0 Conclusion

Equity premium prediction has been remained in focus of research. Welch and Goyal (2008) have revealed the high predictive capacity of standard economic variables till 1970s subsequently extinct. It is noticeable to check the predictive ability of technical indicators, after such viewpoint. Therefore, adding to the literature and to complement earlier work of (Baetje & Menkhoff, 2015; Neely et al., 2014; Welch & Goyal, 2008), this study compares the predictive competency of technical indicators and macro-economic variables. Complementing to this; possible instability is also considered to examine the forecasting ability.

Same set of 14 technical and 14 macro-economic variables are considered as by (Neely et al., 2014) to estimate predictive regression. Study endorses the economic indicators’ instability by using different techniques and more data, as it was directed by (Welch & Goyal, 2008). On the other hand, technical indicators are found less instable that signifies economic value of technical indicator-based forecasting.

1 We checked this result for various subsamples and found that the R2 for the PC-ALL model is not always equal to the sum of the R2 statistics for the PC-ECON and PC-TECH models, but they are always quite close.
2 We tested for structural breaks in all of the predictive regression models using the (Elliott & Müller, 2006) qLL statistic, which is asymptotically efficient for a broad range of persistent breaking processes and has good size and power properties in the presence of heteroskedasticity. Overall, there is little evidence of structural instability in the predictive regressions.
Regression results of Principal components that are taken out from PC-Tech and PC-Econ models (comprises of 14 technical indicators and 14 macro-economic variables respectively) disclose that these technical indicators and macro-economic variables, both as a group predict equity risk premium significantly. It also shows that both these indicators hold different facts or information pertinent to equity risk premium prediction and therefore signify complementary perspectives to equity risk.

Expected equity risk premium estimations of PC-Econ and PC-Tech models, exhibit compatible counter cyclical patterns. As the downturn in actual equity risk premium nearly at the peaks of business cycle is better spotted by technical indicators, whereas the rise in actual equity risk premium nearly at the troughs of business cycle is well spotted by the macro-economic variables. Expected equity risk premium estimated by Principal component model of all indicators (PC-ALL model) shows more clearer countercyclical pattern. Expected equity risk premium estimated by PC-ALL model can better follow the sizable fluctuations in actual equity risk premium around peaks and troughs of business cycle through the highlighted countercyclical pattern.

In this study, technical indicators are used to forecast equity risk premium directly and to compare it with macro-economic variables and found that technical indicators have significant predictive power (statistically and economically) for the monthly ERP. Further, the study also aims to check the predictability of equity risk premium over the business cycle and found that the predictability is more than twice for recessions as compare to expansions.

Even, the role of technical indicators has been explained by various theories but yet not much is known about their capacity to explain the conventional facts about stock market returns, as equity risk premium puzzle (explained in introduction).

On the other hand, more traditional asset pricing models as the habit model of Campbell and Cochrane (1999) and long-run risks model of Bansal and Yaron (2004) can describe significant stylized facts but these models leave no role for technical analysis. It is important to link the gap between traditional assets pricing models and theoretical technical analysis models as the empirical evidence developing supports the technical indicator's predictive power. By exploring the association between these two types of models, our understanding of economic forces that drive equity risk premium and cross-section of the expected asset returns can be improved significantly.

References


The Cross Thai-Cambodian Border’s Commerce Between 1863 -1953 from the View of French’s Documents

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Abstract

The purpose of this research aims to study and collect data with detailed information of the cross Thai-Cambodian border’s commerce in the past from French’s documents and to provide information as a guideline for potential development of Thai-Cambodian Border Trade. The method used in this research is the qualitative research. The research instrument used historical methods by collecting information from primary and secondary sources, then to analysis process. The research discovered the pattern of trade between Cambodia and Siam that started to be affected when borders were established. Since Cambodia was under French’s rule as one of French’s nation, France tried to delimit and demarcate the boundary lines which divided the community that once cohabitated into a community under new nation state. In each area, traditions, rules and laws are different, but people lived along the border continued to bring their goods to exchange for their livings. This habit is still continuing, even the living communities are divided into different countries. For such reason, it was the source of “Border trade” in western concept. The Thai-Cambodian border’s trade during that period under the French protectorate of Cambodia was effected because of the rules and law which illustrated the sovereignty of the land. At the same time, customs have been defined including several details that have affected the traditional trade. The border’s commerce was more sophisticated. The products had transformed according to the needs of the developed world market and social conditions.

Keywords:  Border’s commerce, Thai, Cambodia

Introduction

Trade or commerce occurs with the evolution of human society. In Southeast Asia, people exchange their goods between ancient kingdoms for over centuries, as the same as the Thai-Cambodian trade, through various trails or routes which connects two lands together. However, when Cambodia became a part of French Protectorate in 1863 under Indochinese Federation, French imperialism arrived with the idea of nation state, which claimed absolute sovereignty within its borders. They delimitated and demarcated state boundaries. The research aims for the awareness of the changing dynamics of border trade, after the birth of Southeast Asian nation states by using French documents from Center of Archives nationales d’outre-mer in Aix-en-Provence and Center of Archives diplomatiques de La Courneuve. In which they had fulfilled some details which could not be found in both Thai and Khmer documents and other secondary sources for completed information with types of merchandise, trade routes, the adaptation of merchants and people at the border, which are the basis of the relation development with neighboring countries in terms of aspects of international relations, apart from political context. In addition, due to the fact that Cambodia was under French’s rule, the official information or documents on border information were recorded in French. The French documents open up the perspectives or helped to educate the Thai-Cambodian border trade, and provide a basis for understanding the economic situation between the two countries in preparation for membership of the ASEAN Economic Community later on.

Background

The Thai-Cambodian trade relations dated back in the 16th century from Ayutthaya period. Ayutthaya was one of the major important seaports of the region, many western countries made journeys to trade. Trade’s role of Ayutthaya can divided into two parts: seaport and entrepot. The kingdom was the center to buy or exchange wild products from interior area of the continent, which were highly demanded in the global markets, also to distributed goods and products along the shipping route. Cambodia paid tribute in the form of such goods as well. Pepper was one of the most important spices to trade...
between Ayutthaya-Cambodia-France. Cambodia was the area where pepper was popularly farmed. In Chou Ta-kuan’s report described “pepper planted in Kampot and sold in Ayutthaya with France as a monopoly, the pepper’s trade made France a huge beneficiary”.1

As mentioned above, Cambodia has been important to Siamese trade since ancient period. It is located along the Mekong River, a major trade route in the past. Cambodia links with the rich interior of forests and coastal trade. Trading network brought together Siam, Cambodia, Laos and Vietnam along the Mekong River basin.

In Cambodia, there were many trade routes. People can crossed between Vietnam and the left bank of the Mekong River, along the three little rivers to Mekong and the Northeast of Siam. From the right bank of the Mekong River, traders can travel straight to Korat Plateau into Nakhon Ratchasima, but through the dense jungles filled with wild animals and the disease of Dong Phaya Yen mountains before entering northeastern Bangkok.2

Another route that connects to the inner Bangkok is Mekong river cruise from the south of Luang Prabang and made journey on foot through the mountains, follow by boat to Pichai. It took another twelve days by boat to Bangkok. The Phuan used this route to bring expensive exports goods to sell in the lower lands, such as ivory, gold, cinnamon, cardamom and rhinoceros horns. On the trip back, they bought salt from the Annam coast and Luang Prabang. Some merchants bought salt from Vietnamese merchants who crossed the mountains to distribute in the Mekong and the southern part of the Korat plateau. Products from Bangkok were shipped from China, Europe, India and Siam were then shipped to Laos via the Puans. Laotian merchants who trade and export goods such as frankincense, honey and gold woul bring cotton and opium rom back to India. Traders from Laos and Korat Plateau who often trade to Bangkok chose to travel through Prachin Buri and the Phanom Dong Rak mountain range (Surin), Tako (Sa Kaeo), Samied (Surin), instead of the mountains of Dong Phaya Yen which was more difficult.3

The Alternative way was through Samed (Surin) and Tako (Sa Kaeo), which was also a tract of merchants who trade in Cambodia. Silk from the east of Pak Thong Chai District, Nakhon Ratchasimawalk to Nangrong district, Buriram, went through south east of Bann Pra Kham or Bann Pha Kham and went southward to Som Poi. This is a difficult channel and a steep hill, when it reached the low land, merchants would walk to Ta Phraya in the Aranyaprathet border into Cambodia, across Angkor Thom.4

In addition, Cambodia is also a route for goods from the Central Mekong to coastal cities. There are records of trade along the Mekong basin between Laos and Cambodia. Sombok, which is located between Laos and Cambodia, was a trade city in the 17th century when Cambodian merchants bought wild products from the highlands. Normally, the cargo were loaded into a boat or rafts until reached to Li Pee waterfall in the south of Laos, where the boat could not accessed, and then they changed to the land route with carts to Cambodia. These trade routes were used until in the late 19th century. Products from Laos and hill tribesmen were brought to Khmer merchants in Phnom Penh before being transported to the junk at Haitian.5

In the northeast of Cambodia (Battambang and Siem Reap), was another route for transferring goods from Laos and hilltribes. Although there was an obstacle from Li Pee waterfall, but native traders often chose trail Battambang - Prachin - Bangkok more than the route that passes through Phaya Yen Mountain. Products from the eastern Cambodia also entered the seaports of Siam, Chanthaburi and Trad which is the hub for wild products from Cambodia and Vietnam before being sold to China.

Internal trade routes also helped to make the trade along the seashore bustling. John Crawford described the trade routes throughout the Gulf of Siam in the early 19th century, from Bang Saphan, Banglamung, Rayong, Chanthaburi and Thung Yai (Trad) in Siam until Kampot in Cambodia and Rach gia, Camau or Long Xuyen and Saigon in Vietnam. It was estimated that in the early 19th century, there were about 40-50 Siamese junk ships traded on this route. Most of them were small

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2 Ibid
4 Puangtong Pawakapan, op.cit.
boats with a tonnage of 60-100 tons. The Siamese junk that travels to China often visited these coastal ports such as Hue and Fofai to buy cardamom, ivory, leather, deer, and salted fish. On the other hand, they brought Chinese West and Indian goods to sell in Cambodia and Vietnam. There were also products made in Siam such as steels, wood, pans, tobacco, opium, and Cambodian rice. Foreign trade in the coastal cities of the port city was not very active; Henri Mouhot stated that the flourish trade in Kampot was not comparable to the port in Bangkok. Kmapot has about 300 residents, which were less than Chanthaburi province alone because this city was located far from the source of goods. Traveling from Kampot to Phnom Penh took up to 12 days using carts and was convenient only in the dry season. The trade in Kampot consisted of products such as ivory, rice, fish, cotton and rare woods.1

Trade networks in the Mekong region have resulted in both Siam and Vietnam trying to gain commercial advantages from Cambodia. During the political turmoil in Vietnam, the Tayson rebel (In the early Rattanakosin period) was affected to uncomfortable situation and faced problems in Vietnamese trade routes. Siam has benefited from such political turmoil. The hill tribesmen who imported wild products to export to Vietnam can not send their goods. French missionary record described that Vietnamese merchants in Tonkin had to trade with Laos instead to avoid the routes danger affected by the fighting in Vietnam. In such situation, Local traders, both Lao and Cambodians preferred to sell their goods in the Chao Phraya River basin instead, which was more peaceful.2 At that time, Bangkok royal court became a monopoly on wild products in the Mekong region.

When Vietnam was able to restore its political and economic power, Vietnam's important sea port is Huatian or known as Banteay or Phatthamas Mas among Siamese, became the hub of the goods until the 1820s. Haitian was the port of Siamese junk ships to buy goods from Cambodia. Vietnam prohibited foreign ships traveling to Cambodia; also, they must do business deals through Vietnamese agents only. The French document stated that in 1862, goods leaving Phnom Penh paid a tax of 20 percent, half of the tax paid to the Khmer court. Once again, it has to be paid to the Vietnamese taxpayer at Chau Doc. The Siamese ships had to pay more for the Khmer and Lao goods that passed down the Haitian. Products from Phnom Penh became major export commodity of Vietnam to the Chinese market, including cardamom, fang, cotton, rice, ivory and leather. They were sent from cities in Cambodia, Northeast of Siam, South of Laos and South of Vietnam because Phnom Penh is located on the intersection of four rivers, which was more convenient to transport goods.

From the booming era of trading, traditional trade patterns were appeared to be the movement of traditional trade in this region eventually. They started to trade products which related to living and occupation. These goods were needed in the general market as in 1884, two Ubon merchants bought the buffaloes and sold them to Phnom Penh in the big caravan. They divided buffalos into herd of 200 and 300 respectively, controlled by 76 and 93 men guards. In addition, the currency of Vietnam and Laos was widely used in Cambodia and Thai currency is also used in Khmer Lake area.3

Discussion

In the early Rattanakosin period, Siam started war with Vietnam with political and economic reasons. This area was then a significant hub as a fertile food resource of the region. There were rice growing areas and the Khmer Lake, which was a large freshwater fishery. The economic benefits of the land was what the French visioned for. French evidence has highlighted Cambodia's bustling trade, "Each year, there are eight million kilograms of fish exported, worth about two million dollars in that city. These fish are sold to markets in the Far East", "Cambodia's location is strategically important especially to Phnom Penh," and "It's located at the southern end of the four rivers." The city is thus connected to the Great Lake by the Mekong River to Cochinchina. The Quatre-bas point became entropot and natural military base at the same time.4

After seizing Vietnam, France has a policy of expanding its influence in the Indochina region. In French's perspective, Khmer region was important to France. On February 9, 1861 the French consul insisted on the need to make a treaty with the Khmer. With the cause from the stated record "Firstly, Khmer is a land with the Mekong flowing through, France hoped that the river might be the way from France to China, especially to Yunnan where France is expected to locate as the major

1 “Chotmaihet khong phuak bathluang farangset ton phandin phrachao ekkathat, khrang krong thonburi lae khrang krong rattanakosin ton ton” (Records of the French Missionaries during the Periods of King Ekkathat, Thonburi and the Early Bangkok), in Prachum Phongsawadan Part 39 (Collected Chronicles), pp. 93-94.
2 AOM, Indochine, Amiraux 12705, “Rapport sur le Cambodge, Voyage de Saigon à Battambang par Spooner”, le 30 decembre 1862
3 Ibid.
4 Ibid.
trading market. Second reason, large-scale fishing activities made Khmer an important economic center. Last reason, Cambodia would help promote South Vietnam, which was annexed to France in 1862 and officially in 1867 to be more stable and as a way for France to expand its territory to the north. Cambodia is also a major food hub. Because of the abundance of animals such as cattle, buffaloes, fish, this species will be used as a good food for French soldiers in the South.”1

As a result, in September 1862, General Bonard was the leader to explore water route in Tonle Sap, along with two small boats, not far from Angkor Wat. In his point of view, the Cambodian construction of the economic prosperity of Angkor Wat has made Cambodia a very attractive economic destination for France.2 He referred to a report by Spooner, a trader who surveyed in November 1862, claiming that Cambodia deserved restoration and effective governance which made France’s trade effectively flourished in cotton, silk, indigo, turmeric, ivory and rubberwood. Bonard pointed out the importance of Cambodia trade in the Mekong delta as Cambodia was strategically essential in commerce with the junction of the Mekong, Bassac, Chi, Moun.3 Gabriel Aubaret, the political secretary of Bonard, showed his opinion, ”Trade in Cochinchina in the future depends on the Cambodian lowlands. With its flat geographic, interspersed with beautiful mountains and covered with abundance of natural resources, it will help Europe to prosper. Cambodia is at the center of its production”.4

Bonard saw Siam as a major obstacle to the French advantage of trade in the region, because Siam occupied the territory that was considered to be the most fertile: Battambang and Siem Reap, which adopted the same culture and religion. Siam can easily assimilate their culture to Cambodia. Siam also took advantage of the possession of the Cambodian territory to use northern Cambodia as a trade route linking Mee Tho and Saigon. In addition, at that time, Siam was close to the British, in the French’s view. It may have made British influence over Cambodian territory through the Siamese court as well. The French analyzed that they need political control in the Cambodian territory. Bonard’s idea was approved by Chasseloup-Laubat, Minister of French Naval who considered it was necessary for France to extend its influence over Cambodia to eliminate Siam power out of the country.

However, the purpose of General Bonard was unsuccessful. He was retired in 1863. General Pierre Paul de La Grandiere, the French Governor (Indochine francaise), took responsibility from him. De La Grandiere has appointed Doudard de Lagrée to explore the geography of Cambodia. He created a report on the prosperous trade of the land: "From Cochinchina, goods sent to Phnom Penh were sugar, beet, weapons, medicinal materials, and Chinese goods and Cambodians sent rice paddies, cotton, woven fabrics made of silk, turmeric mat, hornbeam and salted meat back".5 On August 8, 1863, he brought two warships in order to make Cambodia a French protectorate. Norodom signed the agreement. Finally, Cambodia became a protectorate of France on August 11, 1963, except for Battambang, Siem Reap and Srisophon which were under Siamese rule.

Battambang, Siem Reap, a city rich in resources and a major freshwater fishery, still remained with Siam. Thais called this area the "Inner Khmer”. The abundance of this area shown that "In the water there are fish, in the field there are rice; in the forest there are cardamom".6 The product of rice in Battambang is enough for their own population. From the French documents stated that in 1862, Battambang was more densely populated than Phnom Penh. According to a survey of French colonial officials in 1862, they said that it was rich in wild cardamom and was located near Cardamom Mountain. Cardamom was regularly sent to Bangkok. Although Chanthaburi is another place that wasa source of cardamom to the Siamese court, but their quality was not good enough compared with Pursat.7

French Documents in the 1860s indicates that caravan trips between Battambang and Siem Reap to the Thai’s border was tax free. But on the other hand, goods leaving Battambang to other cities of Cambodia and Vietnam were subjectd to a 10

1 AOM, Asie, Indochine V (1862-3), Lettre du Contre-Admiral Bonard au Phya Phra Klang, le 10 debembre 1862.
2 AOM, Indochine, Amiraux 12705 "Rapport sur le Cambodge, Voyage de Saigon à Battambang par Spooner", le 30 decembre 1862
3 AOM, Indochine, Carton 45, Dossier C1 (222), Contre-Amiral Bonard au Ministere de la Marine Chasseloup-Laubat, 7 janvier 1863.
4 AOM, Indochine, Siam (1863-1864), B. 3 (1), Lettre du Contre-Admiral de la Grandière au Contre-Amiral Chasseloup-Laubat, 27 septembre 1863
5 Puangthong Rungswasdisab, Battambang kab polprayot tang setthakit kong Siam yu k ton Rattanakosin (Battambang and economic interest of Siam in the early Rattanakosin) in journal of Thammasat, 19 (3), 1993, p. 29.
6 AOM, Indochine, Amiraux 12705 "Rapport sur le Cambodge, Voyage de Saigon à Battambang par Spooner, le 30 decembre 1862
percent tax, which was not excluded from taxation at several points until to Vietnam, making taxation a major barrier trade between Battambang and other areas.

While trading in the Indochina region using the Mekong is more convenient and economical. Traveling from Battambang to Prachinburi required a cart that was only available during dry season and then cruised in Bang Pakong River for no less than 15 days, while cruising from Battambang to Tonle Sap took only 2 days. With no tax border, the cost of goods closed to the price of goods which were sent to sell or buy from Phnom Penh and South Vietnam.

The French documents of 1897 and 1906 indicated that the main export commodities of Battambang were rice, dried fish, buffalo, cotton and textiles. Import products included iron and steel shipped from Singapore and Hong Kong, purchased through Bangkok, Phnom Penh and Saigon. In addition, Battambang also collected taxation followed the Siamese policy, from ship which came from other parts of Cambodia and Vietnam to fishing in Tonle Sap. In 1868, King Norodom of Cambodia pleaded to France to allow Siam to abolish the fishing tax on the lake because the tax were troublesome for merchants and fishermen.

The boundary line came with the concept of modern nation state, followed by the exploration of area to created map and define the boundary lines to limit their sovereignty in each state with the application of Western-style modern law. The boundary line in Southeast Asia, especially the Thai-Cambodian border, was just happened in the modern state, but it showed the pattern of the border trade and movement of peoples and goods related to the history and the relations networks of people and goods before the birth of modern state.

When France occupied Cambodia with the concept of modern state, the boundary line between Siam and Cambodia, under French Indochina Federation was created. The border line conflicts has became a major problem in the history of Thai-French relations, and also linked to the Thai-Cambodian relations after the Independence of Cambodia. In 1877, France offered to construct telegraph line in Battambang and requested Siam to hire Mr. Pavia, French colonial officer in Cambodia to execute a survey with an agreement that after the end of this survey, Siam has to continue to employ France for telegraphe operation system. On October 3, 1893, there were issues related to the 25-kilometer boundary. The treaty stipulated the 25-kilometer at the right bank of the Mekong River, Siem Reap, Battambang and Tonle Sap and delimited this area as a tax free zone, and for security issue to continue to do as previously. France asked Siam the requirement of consular in Battambang and Siemreap with the same consulate. Siam gave authority to France according to treaty of 1893, because of the unrest situation was due to often robbery escape to hide in the area. This led Siam to committed more intensive surveillance. Also, Siam insisted that in the treaty determined only the import and export goods between two countries.

In the negotiations for the treaty in 1902, France began to pay more attention to the inner Khmer which Thai refused to give up this territory to France. However, the problem of Khmer territory was related to the withdrawal of troops from province of Chanthaburi. In April 1903, France demanded to resolve the border issues from the Tonle Sap to the coast because of the confusion over the boundary territory. The border line conflicts has became a major problem in the history of Thai-French relations. The treaty stipulated the 25-kilometer at the right bank of the Mekong River, Siem Reap, Battambang and Tonle Sap and delimited this area as a tax free zone, and for security issue to continue to do as previously. France asked Siam the requirement of consular in Battambang and Siemreap with the same consulate. Siam gave authority to France according to treaty of 1893, because of the unrest situation was due to often robbery escape to hide in the area. This led Siam to committed more intensive surveillance. Also, Siam insisted that in the treaty determined only the import and export goods between two countries.

In addition, border issues were also related to other problems. France wanted to build a railroad in the Mekong River Basin; Battambang area was under Thai sovereignty in 1901. Until 1903, France officially proposed a railway project to Siamese government, France wishes to build the line of Battambang-Phnom Penh. France insisted that the creation of railways was for trade interests, not only for France’s benefits, but also Siam would gain benefit from this railway line. The transportation between Battambang-Phnom Penh mostly used by water way, it was not only convenient because they can use only in rainy season, in contrary, the railway can be used every seasons. This line will helped Battambang more prosperous and became more urban, but Siam was suspicious of French’s policy. France assured that this railway will be built for commercial reason, and allow Siam companies to build railway in their territory or hire Thai-French to show the sincerity of France.

1 AOM, Indochine, Gouvernement General 47453 *Monsieur Breucq à Monsieur le Gouverneur General de l’Indochine Hanoi, le 30 mars 1906
2 AOM, Indochine, Amiraux 10120° Lettres du roi Norodom a.s. du Grand Lac, le 16 septembre 1869
Besides the railway, the water transportation between Battambang and Tonle Sap was one of the issues. In the late January 1904, France requested Siamese government to facilitate the navigation of the area. In Siamese view, they responded quickly to this issue. They believed that if the water way was more convenient, it may not be necessary to build a railroad.

However, even the attitude of the Siamese government was compromised, but the French trade commissioner, more aggressively, has appealed to the French government asking to annex Battambang and Siemreap into protectorate. The Battambang - Phnom Penh Railway will instantly belong to France. Normally, Cambodian in this area preferred to send goods to Siam more than Phnom Penh or Saigon. They pressured the French government to take over the lands around Tonle Sap into French Indochina, because this land was abundant and rice in the area would not be sold in Bangkok.

France demanded heavily to control Battambang, since they found that Trad, where they occupied did not provided sufficient economic benefits. Battambang was a fertile region. It was the most successfully area to produce rice in Cambodia and was an economic center for fishing around the Tonle Sap, also, population immensely lived in the area. While Trad, most of the population is Thai and the population was not too much. France would like to exchange Trad with the Battambang area. In February 1907, Siam agreed and signed on the treaty to exchange Battambang, Siem Reap, Si Sophon with Trad.

After Siam lost territory of Battambang, trade between the Siamese and Cambodian states under France has become more tangible, apparent and organized, as the new national state borders became nation after Cambodia's independence by demarcation and delimitation the borders and mapping separated clearly nation between Cambodia and Siam. The ethnic problem was decreased as well. Customs system was created in ancient Thai territory of Battambang, from tax free to be taxable. However, the rules that follow the modern framework did not enormously change the way of life of border trade. It was just a pattern of change that is subject to more regulation. The emergence of boundary lines led to the determination of the extent of sovereignty, which defined spatial authority in a border trade pattern.

The emergence of boundary lines led to cross-border trade, which was moving across between people and goods in established boundaries. This territory has a historical development and network of people and goods relations since pre-modern state border town continued as a commercial center. The new patterns did not destroy relation of people’s who live or trade near border. On the other hand, border trade continued as a way of border's people, goods were not limited to the laws and powers of the modern state, but trade was more universal and more complex. However, local structures have been affected by the arrival of colonialism, or can be said of the concept of modern Western states. There were rules that regulate the crossing or passing of the lands, people and goods in each states. The emergence of rules, regulations and laws, affected to people in border regions who try to change and adapt new way of trade or commerce. The emergence of a modern state border happened along with the symbols of the state, such as police officers, customs officers were portraying a new regime. In addition, the authority of officers or people in the border became more complex in social context and indistinguishable

In the past, Dong Rek Mountain or the people living on the both sides of Thai-Cambodian border were considered as a mountain of combination between two parts of Cambodia (lower and upper). Along this mountain, there were many large cities such as Phimai, Korat and also the junction between Siam, Laos, Vietnam and Cambodia. Many historical accounts referred to trade routes in the Mekong River basin that used in peace situation. In addition, Cambodia also traded along the coast, where Sombok was the center for collecting goods from the land.

Most Thais and Cambodians along the border exchanged trade and kinship relations. Commodities traded was often daily consumer goods, including fish, salt, and livestock as a means of equipment in the profession. In the 1990s, there were published stories about the lives of people on both sides. Apart from of the way of life, similar culture and religion between two sides of Dong Rek, they also mentioned trading network throughout Dangrek. Each year, there were Cambodians traveling by carts across the mountains, taking products such as fish, dried fish, rattan products to sell in Thai side. The main trade along the Thai-Cambodian border, for example, consisted of three parts:

1. Cattle Trade - Most of the people in both countries are in agriculture sector. Buffalos or cows are valuable tools for farmers. Livestock farming is done along with rice farming. Northeast of Thailand is Cambodia’s largest livestock market and neighboring country. There are traders from Vietnam buying cattle in Khukhan (Sisaket) and selling them to Phnom P Estimate: Expected Output: 5,444
Penh. On the other hand, some merchants crossed over to pick up cattle in Cambodia near Dongrek Mountains. Khmers liked to sell cattles to Thai traders because they can sell high prices. The cattles are often stolen from the Cambodian side to the Thai side.

2. Fish and Salt Trade – Fish and salt are one of the basic foods. Tonele Sap is one of the largest freshwater fisheries in Southeast Asia, while Northeast of Siam is a large salt producer. Salt, which is used to preserve and cook fish out in various forms, dried fish, salted fish, especially fermented fish. Therefore, salt is the most important ingredient. The growing of fisheries around Tonle Sap is like the small household industry. Salt from Northeast of Thailand has played a role in helping Cambodia’s fish industry since from the past. November to April is a season in which fish are abundant. During this period, there will be many immigrants from other areas, especially in neighboring around the lake. Caught fish will made to be dried. Villagers from Surin and Buriram will travel by carts to buy these fish for their own food supplies throughout the year. Each year, caravans carrying wagons of salt from two provinces crossing to Cambodia, to the Tonle Sap for salt to be sold and dried fish and fishes return. The Importance of salt and fish trade of both Thai and Cambodian are remain trace until present. The largest Thai-Cambodian border trade market: Rong Klua in Aranyaprathet, Sakeow Province. It is the central market for border trading and as a salt storage.3

3. Gems trade - The creation of boundary lines as a whole did not created any barriers to trade between Siam and Cambodia. On the other hand, they found new products such as the discovery of gemstones in Pailin during the 20th century. Pailin has grown rapidly since the late 1950s after the First World War. Pailin has become a gem trading center in Cambodia and is a major exporter of gemstones to other urban markets. Pailin town is located in the east of Battambang Province, at the foot of the Dong Rek Mountain, adjacent to Thailand, and is located on a natural communication route between Battambang and Chanthaburi, the coastal city of Siam and Bangkok. Pailin is connected to Battambang by Highway No.2. The city’s major resource is the gemstone, which consists of Sapphire, Ruby and Zircon that make Pailin’s people can live apart from other parts of Cambodia. The importance of sapphire in relation to Thai-Cambodian trade was began in 1872. When the Shan people from Burma began to dig for minerals, after the success of the discovery of many minerals in Chanthaburi and Trad, they figured that maybe they can find Ruby and Sapphire in Pailin, which are in the same line of gems. Pailin at that time, was in a dense forest and abandoned. Among all the stones, sapphire is the most discovered gemstone in this area and has a very fine texture.4 Pailin prospered rapidly, just like gold rush period in California. The major markets for gemstones are Bangkok and Calcutta, India through Chanthaburi. According to French documents, "Chanthaburi is full of sapphires. Some shipped to Europe make merchants are rich". Cambodian ruby and sapphires are in demand around the world because of the good quality and color. These gems originated from Cambodia, but most people often call these gems as "Sapphire from Thailand" or "Siam Ruby", because part of the smuggled out to market in Thailand.5

Pailin has economic growth and can be self-dominant from the power of the state. This is an example of how spatial authority can not expand or tighten its power in that area. In 1915, Pailin was in a privileged state and autonomous city, even though Cambodia was under control of France according to the Treaty of 1907, but the Siamese court still demanded a tribute from Pailin. When the border line up with the cost of transportation, gems trade was a case to concern. Geographically, Pailin is closer to Chanthaburi than Cambodia's Battambang province. The close relation between Pailin and Chanthaburi became huge concern to France. According to a report by French government official, Burnet in 1941, it stated that France had lost many profits from gems trading because road connecting between Pailin and Battambang was in bad condition and not convenient. Many gems traders choose to buy their gems in Chanthaburi. In his view, the route between Pailin and Chanthaburi took a long time and unsafe, sometimes carts could not travel. If France developed the road to be more convenient, it would make gemstone in Battambang cheaper than in Thailand. Also, it may helped traders turn to buy gemstones from Battambang instead of paying for traveling and customs duties in Thailand. The importance of the gemstone
in the border trade has begun to decreased as the sapphires in Pailin start to become increasingly rare. Since the 1970s, the gemstone trade market has been declining, and it has been virtually ineffective.1

Conclusion

The pattern of trade between Cambodia and Thailand began to change when borders were established. The delimitation of boundary lines devided the community that once cohabitated into a new community in established countries, but trade or commerce still continued. For such reason, "Thai-Cambodian trade" during the French was portrayed as a change of style with clearly defined rules and procedures, in accordance with the law, which demonstrated sovereignty. At the same time, customs tariffs have been set which have affected some traditional trade with new pattern and more complex. There are more characters associated with border trade. Products changed according to the needs of the developed world market according to the current social conditions.

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For more on concepts of time throughout history cf. Klein (2009a: 5-38).
Negotiation Processes as Success Factors in Supply Chain Transactions

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Abstract

The topics raw materials, waste and energy will be the top economic issues of the future, or influence and affect all other subjects (human resources, culture, society,...); all combined with technology, IT and Tech Communication. The shortage of raw materials is one of the central issues in the future perspective and this fact is already influencing the relationship between buyer, producer and supplier. and producers respect to the procurement of raw materials, goods and products are examined specifically in terms of their economic and psychological satisfaction.

Keywords: Negotiation Processes as Success Factors in Supply Chain Transactions

Introduction

In this title and thesis summary follows the point, that world population is steadily increasing, yet raw materials, especially consumer goods, are distributed unequally and raw material prices keep growing at a disproportionate rate. A large share of the world population has no access to adequate consumer supplies or simply cannot afford basic goods since their prices keep rising beyond their reach. It simply cannot be that so many countries have no access to global commodities. Humans cannot tolerate that an all-powerful minority controls the distribution of basic commodities and is profiteering at the expense of the less fortunate majority. Procurement markets need more knowledge and tools for both the procurement and the allocation of goods, for a common and transparent review, as well as analysis tools with regard to the future procurement situation, because if people do not get enough consumer goods and commodities, they are technically deprived of one of their basic human rights. In consequence they will lack ambition for any meaningful development and they will further lose faith in ideals and standards. The UN Food and Agriculture Organization (FAO) in early June 2010, in their semi-annual “Food Outlook”, recognize that the cost of consumer goods and commodities are rising, particularly in the world’s poorest countries. Scarcities in the supply chain transactions and the daily procurement of supply chain transactions are certainly topics that should concern us all, since the consumption of all kinds of all articels of the human needs and therefore concerns us all. This sector has undergone drastic changes over the last couple of years, both locally as well as globally. Humans have to clearly distinguish, however, among end consumer purchases, the procurement of commodities by the wholesale trade, the distribution of goods through dealers and distributors, all of which can be operated in different ways and their negotiation process in the supply chain transactions. Likewise, the role of the producer and the role of the supplier respectively will be addressed in chapter two, since their current roles have also undergone dramatic changes, regionally, nationally and globally. The supply chain transactions of commodity resources, in particular consumer goods, is not the same for everyone worldwide. Trading companies have begun to notice the changes and have thus set out new intern
targets for the annual Negotiation and Partner Meetings between buyers and suppliers. The demands with regard to the supply chain transactions are as follows: product prices must drop, quantities (or: output) must increase in the following year. The reality in trade shows that individual product quantities have remained stagnant and only grown as regards product range, while prices keep steadily rising due to increasing, direct and indirect stringency.

Decade-long and familiar patterns have become outmoded, so stress scenarios affecting all parties involved in negotiations and annual appraisal meetings have become a regular feature in natural consequence.

The familiar culture of conversation between the negotiation parties have changed or rather must change – a common set of goals must be the natural consequence, so as to ensure supplies to the utmost satisfaction of all parties concerned.

There are no instruments or tools for future-oriented negotiations, or that is to say they are still in a developing phase and the data generated therefrom is usually past-oriented or present-oriented.

**The object of the research** deals with the evaluation and analysis of direct and indirect factors influencing the negotiations between procurers and suppliers in the supply chain transactions. On the basis of the “Efficiency Model of Negotiation”, it will be reviewed how negotiations between purchasers and sellers should be conducted on an optimal level. For this, the Harvard Negotiation Project is applied in a query to analyse the derived ideal negotiating situation.

**The subject of the research** is to analyse the procurers and suppliers, who are evaluated specifically in terms of their economic and psychological efficiency and if it is possible to achieve equal economical and mental satisfaction for all parties involved in the negotiating process, all along, there has usually been a loser, sometimes a winner, at the end of negotiations.

**The Aim of the thesis** is to look at the current situation and draw conclusions in order to improve relations and cooperation among all parties involved. If we could resolve the "fronts" between "the procurement side" and "the supply side" and convert these 'hostile stand-offs' into mutually beneficial cooperation through more trust and transparency, it would help the entire cycle. Evaluation of the procurement market and sources of supply in view of the new approach, direct and indirect influences on trust and transparency during negotiations and the effects of the current shortage rate. Procurement policies and practices of today will not work in the future, because already experiencing shortages and in consequence drastic cutbacks in purchasing volumes.

**Actuality of the research** is that Trading Companies have begun to notice changes in the efficiency of negotiation process in supply chain transactions and have thus set out targets. The problem field is that the usual negotiation processes are not longer working in a satisfactoring way and the procurement markets and their negotiators are searching for new forms of negotiation processes in the questions of the supply chain transactions. Here comes the input of this study, which shows a new form of negotiation, empirically evaluated in a postfactum self-reported field study and documented in the “Efficiency Model of Negotiation”. The main themes for the supply chain transactions in the future are, that the interplay in the questions

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7 Peter Schnedlitz et al., “European Retail Research,” ed. Thomas.rudolph@unisg.ch Dirk Morschett, University of Fribourg, Switzerland, Dirk.morschett@unifr.ch Thomas Rudolph, University of St. Gallen, Switzerland et al., *Journal of Retail Research* 24, no. II (2010): 205.
of procurement is the completely changing and for that reasons there different and various reasons that this thesis will evaluate.\(^1\)

The research question of this thesis deals with the analysis of direct and indirect factors influencing the negotiations between procurers and suppliers in the in the world of trade and wholesale market.\(^2\)

It is requested on the basis of a structural equation model “Efficiency Model of Negotiations”, such as the negotiation processes between purchasers and sellers in the optimal case expire have and how to create an optimal situation and a common result in supply chain transactions.\(^3\)\(^4\)

These changes mean that the procurement market is emerging in accordance with new rules for supply chain transactions and that this places then volved negotiation parties in new negotiating situations and their processes.

The interaction between procurers and suppliers is analysed specifically in terms of their economic and social-psychological efficiency. Stress scenarios affecting all parties involved in negotiations and annual appraisal meetings have become a regular feature in natural consequence.\(^5\)

There is no known study with future-oriented negotiation processes in supply chain transactions, or that is to say they are still in a developing phase and the data generated therewith is usually past-oriented or present-oriented.\(^6\) The procurement market and the supply chain transactions needs more knowledge and tools for the procurement and allocation issues.

For a common and transparent review and also analysis tools in regard to the future procurement situation, a new tool for knowledge in supply chain transactions is the “Efficiency Model of Negotiation” pictured in this thesis.

**Purpose of the research** is for these reasons that the author of this thesis has been posing the question what the future of trade in general and procurement of food products in particular is going to be like, or rather how suppliers and sales staff are going to co-operate and which areas still leave room for improvement.\(^7\) Co-operation between trade and consumers manifests itself in the sales market which strongly revolves around marketing and strategic brand management. Co-operation between trade (wholesale and retail) and suppliers is strongly rooted in the negotiation processes.\(^8\) Which products are to be marketed and sold and are they worth ordering and if so, at what prices and quality and in what quantity. At this point we are addressing the doctrine of efficiency in negotiation theories, focal points this dissertation is centred on.\(^9\)

What are the procurement procedures among the various structures and organisations like, and what can be done in an effort to improve and optimize these interactive processes between wholesalers and suppliers, producers, middlemen and other trade partners. And how can we secure efficient and sustainable long-term supplies in the future.\(^10\)

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The task of the research is in this study to examine and illustrate the processes among negotiation parties and negotiators and it also look into how and what common interests meet, if single individuals attempt to reach a compromise and further elaborate on the question as to when a compromise reached may actually be adopted as a commonly reached compromise that constitutes a fair compromise which can be positively received and accepted by all parties involved in supply chain transactions. Is there such a thing as a positive compromise and if so when can we talk about efficiency. At this point we obviously have to ask all the same if there is such a thing as a negative compromise and if so, when or in what situation are we faced with a negative compromise. Also, how does a compromise affect the negotiation parties, and is everyone equally affected or is there such a thing perhaps as a single/individual compromise. There’s renewed need for mutual trust and transparency. The major question that begs to be answered is: where should it come from. At this point in particular the importance of economic science truly becomes evident. It is the responsibility of economic science to develop credible explanatory models for existing problems, as well as a new overview, one that is capable of restoring trust and transparency in the economic mechanisms to ensure that people will, in their own best interest, feel remotivated to do business again which will in turn give fresh impetus to the micro- and macroeconomic dynamics. At present, no solutions have been found as yet, and it will probably require a fair amount of effort of being willing to ‘forgive and forget’, before renewed confidence and trust can be built. Nonetheless, we should not allow ourselves to be discouraged. All it takes in the long run is trust and transparency in the sustainability of human creativity and the ability for continuous renewal. Already Alois Schumpeter realized that there are good reasons to believe that this is quite possible: “We are no closer to exhausting the endless possibilities today than we were during the Stone Age.” As can be seen from previous sentences, synergies among people in negotiations in supply chain transactions have been addressed. Various forms of negotiations have also been dealt with in detail, what is left to be addressed is the topic of „trust and transparency“, which basically covers and explains the ideal scenario of negotiations. That way the theoretical background has been created against which we can now focus on the approach, since all previously covered topics are reflected in this paper.

The main hypothesis of research is formulated as “The scrutiny and analysis of annual negotiations between procurers and suppliers for supply chain transactions. How will complete trust and transparency in negotiation processes and be perceived by all negotiating parties with regard to their economic and social-psychological efficiencies.”

MetaH. The more closely negotiations comply with the variables of the model of the “Harvard Negotiation Project” and the more “Degree of Trust and Transparency” are ensured, the higher the economic and social-psychological efficiencies will be.

H1. The more strictly the Harvard Concept is applied in conducting the negotiations, the higher the efficiency of the outcome of the negotiations.

H2. The more trust and transparently the negotiations are conducted, the higher the efficiency of the outcome of the negotiations.

1 Rolf Weber and Daniel Mühlhaus, Strukturgleichungsmodellierung [Structuralequationmodeling] (Springer Verlag Berlin Heidelberg, 2010), p. 7

2 Jens Vollmar and Isabella Hoffend Roman Becker, Macht Des Vertrauens [Power of Trust], ed. Schweiz Universität St.Gallen (Springer Fachmedien Wiesbaden, 2013). Vorwort: Prof. Dr. Peter Leibfried, KPMG- Professor an der Universität St. Gallen


4 By the Author
Theses presented to defend with the creation of a model that investigates empirically, both the economic and the psychosocial factors of efficiency in negotiation processes between buyers (procurers) and suppliers (producers) in supply chain transactions. In particular, it examines the economic and mental satisfaction in the negotiation processes for efficient supply chain transactions. It examines how trust and transparency in negotiations and at annual meetings can achieve a satisfactory result for both negotiating parties.

The novelties of the research and the authors research question deals with the following topics:

This thesis deals with research question of analysis of direct and indirect factors influencing the interaction between procurers and suppliers in the trade and wholesale market. It is requested on the basis of a structural equation model, such as the negotiations between purchasers and sellers in the optimal case expire have and how to create an optimal situation and a common result. For this, the Harvard Negotiation Project is used to query the derived ideal negotiation situation. Respectively the focus of this study on the aspect: The interaction between procurers and suppliers is analyzed specifically in terms of their economic and social-psychological efficiencies.

On the basis of a structural equation model “Efficiency Model of Negotiation”, it will be reviewed how negotiations between purchasers and sellers should be conducted on an optimal level. How are optimal negotiation processes created and how can negotiations become conducive towards a common result in supply chain transactions.

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The procurement market and so the supply chain transactions needs more knowledge and tools for the procurement and allocation issues, for a common and transparent review and also analysis tools in regard to the future procurement situation. A new Model for Negotiation processes in Supply Chain Transactions is as the “Efficiency Model of Negotiation” pictured in this thesis. The “Efficiency Model of Negotiations” developed by the author is the most comprehensive model in the area of negotiation processes, combining with “Degree of Trust and Transparency” in one model, to explain the impacts of economic and social-psychological efficiency as result of negotiations in supply chain transactions.

In this thesis it is identify that trust and transparency strongly impacts economic and mental outputs positively, if it is part of the negotiation processes in supply chain transactions and annuel and all negotiations between the negotiation parties. Prior research was mainly focusing on negotiation processes combined with trust and transparency and their impact on performance in combination with the Harvard Negotiation Project. In this form and complexity this has not yet been considered - trust in the negotiation of the parties among themselves and transparency for the clear depiction of all supply chain transactions and all processes and thus also full transparency to the consumers. The intensive study was carried out by evaluating journals, research papers, scientific reports, important books and empirically in the form of a field study.

The key contribution of the author to science is that the form and the prescription of the negotiations have a great influence on how the parties behave in the negotiations of the supply chain transactions and whether prescriptions are implemented and lived. This model developed here, together with the observed data, is fundamentally different from the previous evaluations, as the author has identified in an in-depth analysis. Past negotiation practices with trust and transparency methods have a great impact on the various efficiencies of the negotiating parties. Most authors have focused on established practices and strategies, such as the in this thesis presented Harvard Negotiation Project, and analyzed the impact of negotiations primarily on their impact on economic efficiency, such as price, quantity and quality, or their monetary competitiveness. This study, on the other hand, analyzes the impact of negotiation processes in supply chain transactions, taking into account trust and transparency, their economic and social-psychological efficiencies of the parties after negotiations. Statistical analysis in the form of a field study supports the view that trust and transparency has a clear impact on the economic and mental efficiencies of negotiation results. But this form of negotiation through trust and transparency requires a clear support of all negotiating parties to be successful and efficient.

The author’s work shows that a higher level of trust and transparency in negotiation processes in supply chain transactions maturity leads to higher efficiency in form of economic efficiency - price, quantity, quality and socio-psychological efficiency - intellectual sensibilities, opinion and image by both sides of negotaiation parties the suppliers and buyers.

Research Methods used scientific databases, research reports and papers and an empirical research investigation by interviews in a postfactum field study per selfreporting - cause-effect relationship - negotiation processes with empirical relining, for a discussion about the efficiency degrees, depending on trust and transparency in the communication skills in discussions between two control groups buyers (procurers) and suppliers (producers). It also should be mentioned that the questionnaire has been carried out completely anonymous. Questionnaire to establish the level of efficiencies, depending on trust and transparency and the communication skills in discussions between buyer side and supplier side in supply chain transactions. Investigations through interviews carried out in a field study the negotiation processes with empirical relining with real negotiators from the buyer side and the supplier side in supply chain transactions and the situations of real annual meetings in the years 2015 and 2016 as a postfactum selfreporting study, so measurement of real and past events and facts is given. The feasibility of measurability was thus ensured, that usually to measure efficiency is not the want, but the negotiation success, but what is success in negotiations, because there is no objective unity for success. This study measures efficiency, because we measure the degree of own goal achievement questionnaire, which target the two parties of the negotiations had set themselves and which target was reached at the end. In this way, we define the goal and the result, which results in a value that identifies the path, and therefore we measure efficiency in relation to the fact that negotiation is not objectively measurable or objectivizable.  

By sending invitations for interviews in the years 2015 and 2016 to 500 decision makers in the germanspeaking area of wholesalers and tradinghouses with a return of real interviews of total 218, partial 61, fully 157 completed questionnaires

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1 Great East (Büyük Doğu) is a literary journal, published by Necip Fazil Kisakurek, in different periods between 1943 and 1978. The journal with an Islamist point of view included those many of which were close friends of Necip Fazil and housed the famous intellectuals of the period. The journal, led by Necip Fazil, attracted the reaction of the ruling power both in the single party period and DP government, with the violent opposition it carried out.
remained at our disposal for assessment, which, in a possible number of 500 addresses, means a positive and usable response rate of 31.4 percent. In sum 50 questions, so the collection ran over real and virtual questionnaires, which were recorded on the system LimeSurvey.org and also been prepared for the calculation in IBM SPSS Statistics, Version 22.

Introduction and explanation of the issues - Respondents will be explained in a short text, which content and which target this survey has GQ – General questions, where in this part of demographic and personal data were queried with 13 questions and 3 open additional questions and here the distinction between buyers and sales has been made; here was also queried whether it is the buyer or supplier. DV – Dependent variables, where the dependent variables were queried with 10 questions and it was discussed whether the respondents perceived by negotiations in the economic and social-psychological efficiencies improve, or how they would evaluate the outcome of negotiations. IDV – Independent variables, where the dependent variables were monitored via 24 main questions and the dependent variables of the groups “Harvard Negotiation Project” and “Degree of Trust and Transparency” were discussed and monitored here and this part had the aim how Harvard Negotiation Project is previously installed in negotiations, or been practiced and applied and this part had the aim how Trust and Transparency concept is previously installed in negotiations, or been practiced and applied. Which negotiation technique with respect to mutual trust and transparency must be applied in future to optimize the negotiating process between the two control groups "givers and takers" – “buyers and suppliers” due to the increasingly difficult procurement scenario. What form of negotiation needs to be created, in order to improve the situation and to achieve the highest possible degree of satisfaction in both an economic and a mental sense. What changed the level of disclosure and transparency of all proceedings variables and an open discussion (full transparency) the design of negotiations in respect to economic satisfaction as price, quantity, quality or the social-psychological efficiency regarding fears, nervousness, satisfaction level, the impact and image of the acquirer regarding trade outwards.

Main results describe that the procurement market needs more knowledge and tools for both the procurement and the allocation of goods, for a common and transparent review, as well as analysis tools with regard to the future procurement situation. Total transparency of prices, amount and quality must be ensured in an approach to meet everyone's interests and expectations and thus consequently raise the economic and social-psychological efficiencies of all parties. If we could resolve the "fronts" between purchasers, suppliers and producers and instead promote co-operation through improved trust and transparency during the negotiating process, this would help the entire cycle. This scientific study has resulted in an extension of the Harvard concept by adding trust and transparency as an additional key factor for economic and mental satisfaction for all negotiating parties. Full trust and transparency applied in an open and fair discussion unarguably has a positive impact on the conduct and outcome of negotiations in respect of the economic satisfaction through contentedness with price, quantity, quality, as well as the psychological satisfaction.

List of References


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Memory, Marketing and Economic Performances in USA Symphony Orchestras and Opera Houses

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Abstract
When resources are scarce at crisis times and when competition is intense with other creative supplies, USA symphony orchestras and opera houses memorize and perform their repertoires (or repertories), so that seasons are crucially bundled between tradition and innovation. Since the beginning of the latest financial and real crisis (2007), USA classical music has seen different levels of funding from the federal government and businesses have encouraged more nonconventional programming (Pompe, Tamburri, 2016; Turbide, Laurin, 2009; Ravanas, 2008; Rushton, 2008; Turrini, 2006; Smith, 2007). On one side, fundraisers have stressed bundles (contemporary music with tradition) to sponsors; on the other side, marketing officers have emphasized the repertoire memory to audiences who constantly love Traviata, Boheme and Don Giovanni with echo of famous regisseurs, scenographers, etc. This is quite the same worldwide (Cancellieri, Turini, 2016). Fundraising and marketing affect economic performances of classical music, also thanks to social media and networks. Consumers have access to information about ticketing, rehearsals, present and past performances, etc. Art organizations strive to manage communication via social media to create brand values. Social media support both fundraising and marketing, as they mediate to sponsors and audiences: values, advocacy, videos and photos of the repertoire and nonconventional programming, which continually increase trustworthy relationships and nurture memories. This paper investigates 200 USA symphony orchestras and opera houses according to repertoires, revenues, expenses and gains in 2008 and 2015. With cluster analysis, three profiles emerge with different strategies, performances and emphasis on memory or innovation.

Keywords: Memory, Marketing and Economic Performances in USA Symphony Orchestras and Opera Houses

Introduction
When resources are scarce at crisis times and when competition is intense with other creative supplies, repertoire is a very important asset for USA symphony orchestras and opera houses. Since the beginning of the latest financial and real crisis (2007), USA classical music has different levels of funding from the federal government and businesses have encouraged more nonconventional programming (Pompe, Tamburri, 2016; Turbide, Laurin, 2009; Ravanas, 2008; Rushton, 2008; Turrini, 2006; Smith, 2007). While public supports for contemporary performances are substantially weakening, fundraisers of symphony orchestras and opera houses have, as a matter of fact, stressed bundles (contemporary music with tradition) to sponsors, while marketing officers of the same classical music have stressed the repertoire memory to audiences who constantly love Traviata, Boheme and Don Giovanni, Mozart’s, Beethoven’s and Tchaikovsky’s concerts together with the echo of famous interpreters, conductors, directors and other creative ‘voices and hands’.

Repertoire is here meant as well-known and constantly-seasoned performances, also remembering famous bundles of star-interpreters, conductors, directors and other creative roles in opera and symphony. Theaters are supposed to balance past and present (Ross, 2017), though experimentation can be difficult to audiences as they have to be educated about it. Above all, today’s audiences rarely subscribe. They prefer spot experiences and novelty may be excluded from the spot experience. Their risk aversion for surprise and ‘revolution’ does result in their looking for repertoire and their being disinclined for subscriptions, which include the past and the present they do not know about.
Audiences prefer standard repertoire (Tamburri, Munn, Pompe, 2015; Pompe, Tamburri, Munn, 2011). Repertoire consists of Beethoven, Mozart, Verdi, Puccini and other few composers, whose music is regularly performed. Repertoire memory also refers to recalling (revivals) of famous and in-house productions, with stars. A fixed assortment of works for the age of compositions and versioning with top musicians and the other creative roles.

The League of American Orchestras and operabase.com collect data on audiences’ preferences, engagement (from communities to visitors) and composers, who are constantly present in season. If the League of American orchestras count an audience of more than 20 million in 2015, statista accounts on the number of people who visited symphony concerts and operas within the last 12 months in the United States recorded 14.49 million in spring 2008 and 17.58 million in spring 2015 (https://www.statista.com/statistics/227502/symphony-concert-opera-etc-visitors-usa last accessed on the 24th of July 2017). This is an evidence of a growing audience, which can include communities, subscribers (though drastically fallen during the latest financial and real crisis), single donors (increasing during the latest financial and real crisis), who profit by the fringe benefit of a free performance and tourists, who are today paid attention, if it is considered that 25 percent of income derives from services like parking, rentals, presentation activities and other contents of the latest bundle ‘plan your own experience’ (Guachalla, 2012; Boerner, Moser, Jobst, 2011; Woosnam, McElroy, Van Winkle, 2009). This audience can be well-educated. Nevertheless, this audience’s memory relies on some famous composers before or just at the beginning of the twentieth century.

If program decisions are influenced by various factors, repertoire memory has been leading the planning of USA symphony orchestras and opera houses for decades. According to the latest repertoire report of the League in 2013, only 4.1 percent of seasons were contemporary (Ross, 2017). The propensity for standard repertoire has been confirmed since 2008, when the real and financial crisis hit availability of resources, from money to in-kind, together with keen competition with other entertainment, falling donations, subscriptions and international tours. Since 2008 seasons have been, as a matter of fact, enriched thanks to well-managed approaches to edutainment, community engagement, technological innovation like appealing social media, for the attraction of communities and non-communities (tourists). Repertoire has remained a gainful factor, while experimentation and contemporary music are still encouraging new directions in the art and appreciation by sponsors and public administrations (from government to local authorities, looking for native and contemporary music). Repertoire memory does not exclude innovation, if increasing subsidies, government support, competition and education increase experimentation (Cameron, 2016; Ravanas, 2007 and 2008; Borgonovi, 2006, Bennett, 2005).

Audiences do not resist temptation of contemporary music, when they are well-educated. At the same time, they do not resist revival of operas and concerts, which have been absent in seasons for decades. They need education in all hypothesis of repertoire, ‘recovered’ repertoire (revivals) and innovation. The USA classical music is therefore committed to Education and Community Engagement Programs, they are fully dedicating resources with detailed reports and analysis to. They work with schools and non-schools (health and wellness organizations, senior service providers, organizations focused on racial diversity and inclusion, organizations working to address poverty, homelessness, domestic violence and abuse in their communities, etc.). This trend confirms attention for different audiences, their empowerment and engagement, their being ready for repertoire or native music (for senior audiences) and contemporary or non-classical series (millennials).

As a matter of fact, this duality repertoire/experimentation is strategically nurtured by the duality marketing/fundraising. Marketing is supporting the promotion of standard and non-standard repertoires. Who is gaining the highest earned income, this opera house or symphony orchestra is profiting by a gain in 2015. Repertoire memory is leading revenues at the box office, though fundraising is pivotal for the most gainful organizations.

Marketing and fundraising do not necessarily generate a trade-off or separation of resources and goals (Besana, 2012; Song, Yi, 2011; Borner, Moser, Obst, 2011; Turbide, Laurin, 2009; Borgonovi, 2006, Bussell, Forbes, 2006). For Education and Community Engagement Programs, Marketing Experts are segmenting audiences (Kemp, Poole, 2016; Radbourne, Johanson, Glow, White, 2009; Turbide, Laurin, Lapiere, Morissette, 2008; Johnson, Garbarino, 2001), while Fundraisers (of the same classical music) are targeting grant-makers like community and family foundations for their advocacy to local communities empowerment and sensibility for these programs, to be funded.

Marketing and fundraising can differently affect economic performances of the USA classical music (Voss, Voss, Yair, Lega, 2016; Bussell, Forbes, 2006; Bennett, 2005). On the one hand, these strategies can have different objectives but complimentary financial results, on the other hand, thanks to social media and networks, consumers have access to...
information about ticketing, giving options and their benefits, rehearsals, live and past performances, downloads, etc. Social media support both fundraising and marketing, as they mediate to sponsors and audiences: values, advocacy, videos and photos of the repertoires and nonconventional programming, which continually increase trustworthy relationships and nurture memories. Strategies can be offline and online developed with common goals, with different impacts on revenue diversification and gains of the USA classical music (Kemp, Poole, 2016; Jeannotte, Duxbury, 2015; Pierotti, Risaliti, Cestari, 2014; Hong, 2014). The ultimate goal, marketing officers and fundraisers join their efforts for, refers to an entertaining and educating creative supply of repertoire and non-repertoire, increase and diversification of audiences and stakeholders, financial soundness.

This paper investigates 200 symphony orchestras and opera houses according to their repertoires, revenues, expenses and gains (or losses) in 2008 and 2015. Thanks to cluster analysis, three profiles will emerge with different strategies, performances, emphasis on memory or innovation and social media. Contributions are the prevailing revenue source and the Fundraiser profile shows the highest gain both in 2008 and 2015. Marketing affects program service revenues, 43 percent for the most crowded cluster in 2008 and 39 percent for 31 organizations with a gain of 1.33 percent in 2015. In these clusters with the highest percentage of program service revenue, repertoire is a leading asset, both for community engagement and any other visitors.

Fundraising and marketing of the USA classical music: social media si può? More than a prologo!

As above-mentioned, fundraising and marketing are essential in the USA classical music. Strategic scenario has changed considerably over the last decade. After draft and encouraging experimentation, technology, the Internet and the WEB 2.0 have really reshaped the way audiences and organizations interact, communicate and join for the common goal of the survival of music. The USA classical music is more than in a prologo-phase. Digital communication has granted new opportunities and challenges both for organizations and their stakeholders for more than a decade (Lewicki, 2016; Kornum, Mülbacher, 2013; Liang, Turban, 2011; Neslin, Shakar, 2009). For-profit and not-for-profit organizations, cultural and creative organizations, they are all profiting by the digital society and the classical music 'hits high notes' with targets as regards both marketing and fundraising.

On the one hand, thanks to social media and social networks, stakeholders have access to large amount of information about organizations and the creative supply, they can be educated about. On the other hand, symphony orchestras and opera houses strive to manage marketing and fundraising via social media to create customer and brand value. Social media, as internet-based application Web 2.0, allows the creation and exchange of User Generated Content (Kaplan, Haenlein, 2010) that are leading a transformation in the management of relationships with customers (Moretti, Tuan, 2014; Kietzmann et al., 2011): contents are not simply delivered to audiences and friends, but they are also discussed, further promoted to new audiences, ranked in comparison with benchmark initiatives (education and community programs), so that they gain new willingness-to-pay and new willingness-to-donate.

Orchestras and opera houses, in order to grasp the attention of customers, friends and boost online B2C sales/donations, they are investing in social media marketing. Social media marketing strategies are designed to offer customer new experiences, and to enhance customer participation and engagement (Corbitt, Thanasankit, Yi, 2003; Brodie et al., 2011; Huang, Benyoucef, 2013; Ceruti, Mazzucchelli, Di Gregorio, 2015). Especially, when experiences can be enhanced with music, videos, downloads, recordings, virtual participation to rehearsals and primas, very next to the stage, offline and online: memory of sounds, voices, music is here playing a key-role and ‘repertoire memorabilia’ are leading contents in social networks.

Social media marketing strategies allows organizations to hear and talk with prospects and customers, to develop and deepen the relationship with all stakeholders. Marketers are aware that social media marketing can bring organizations near customers, and doing so, generate knowledge and brand values that help to increase revenues, decrease costs and improve efficiency: a content, when it is engraved and recalled on memories (repertoire, above all), it is granting advocacy, willingness and trustworthiness. Consequently, organizations can achieve a greater economic value (Michaelidou et al., 2011; Huang & Benyoucef, 2013).

As can be understood, social media marketing implies a new way to manage relationships with stakeholders, from audiences to donors, sponsors and grant-makers, and, according to Moretti and Tuan (2014), it can be considered as an evolution of Relationship Marketing concept and practice (Vivek et al., 2012). In s-commerce, customers, audiences and
philanthropists have to be engaged more and more via appealing, social, and interactive ways in order to build trust, that is a crucial factor in the success of a life-long relation. Trust leads to relationship commitment that is really important in the social media environment, where normally online communities generate conversations and relationships, which are no longer monitored by companies (Mangold, Faulds, 2009; Kim, Park, 2013). For art organizations, online communities are an opportunity to find volunteers, too. In addition, these interactions can affect the very next marketing (Pastore, 2009; Sashi, 2012), making customers to become co-producers and co-creators of the value of the organizations, and finally, consumers. Trustworthy and co-creative relations can evolve in friendships and marketing can be complimentary with fundraising, in order to exploit both willingness-to-pay and the willingness-to-donate.

To successfully exploit the potential of social media, organizations need to facilitate collaborative experiences and dialogue, to become part of the conversation and design experiences that deliver tangible value in return for customers' time, attention, endorsement and data (Baird, Parasnis, 2011). Revival of past performances and repertoire can enhance relations. Furthermore, they can integrate the experience with other customer-facing initiatives. Maestros, orchestras and singers’ engagement become essential to personalize relationships and cultivate customers’ tastes, emotions and advocacy.

Social media marketing managers must strengthen social experiences with time-sensitive offers or discounts that motivate customers to act (Naadem, 2012), and incentives for people to share content with friends to capitalize on the viral benefits a network offers. Regarding social media platforms, Facebook and Twitter are the top choices. But as marketers gain experience with all senses, feelings and skills their arts can affect, their marketing efforts seem to expand across all major social platforms such as Google+, YouTube, linkedin, Pinterest and Instagram. Social media are useful to facilitate prospect and customer transition from the social platform to the organization website and viceversa, and they participate in all stages before and after product or service purchase, before and after donation, before and after experience as a musical tourist, too.

Concluding, in the above depicted scenario, marketers and fundraisers have great opportunities to boost online business, advocacy and willingness-to-pay and to-donate integrating social networks and e-commerce platforms. On the one hand, social media marketing conveys also promotional messages, transforming social media in effective and powerful advertising channels, able to engage, motivate and convince users to seek and share information about products or services, including those relating to their online purchases. Merchandising can be shopped on the main website, after advertising in social networks: this merchandising can concern specific performances. Nevertheless, repertoire and revivals of famous and past performances, they are successfully printed on several gadgets and they are regularly downloaded as trailers, memorabilia and edutainment.

On the other hand, social media marketing is able to solve one of the most important problems which are connected to e-commerce research phase, when user tends to get lost, bored, and often does not finalize the purchase. E-commerce must be an environment, where everything user needs can be found easily. Social media could be the solution transforming e-commerce in social commerce (Stelzner, 2015; Xu, Forman, Kim, Van Ittersum, 2014; Zhou, Zhang, Zimmermann, 2013; Rigby, 2011). Prospect and customers can use the social media platforms on which they spend most of the time to go through all the steps before and after the purchase without never get out of there.

As above depicted, the relationship between social media and classical music is close and full of interesting and engaging ideas, opportunities and promising scenarios. E-commerce, s-commerce and above all, relations can grow with positive impacts on economic performances.

Research Method

Methodology

In order to investigate economic performances, 990 forms from the fiscal years 2008 and 2015 are here analyzed with the Internal Revenue Service (IRS), categories ‘A69-Symphony Orchestra’ and ‘A6A-Opera’: 100 organizations for each category, from the highest to the lowest total income. These reports can be downloaded from the Guidestar website www.guidestar.org and the main websites of the organizations themselves. The Guidestar website contains 990 forms from nonprofits, such as detailed statements of revenues and expenses and financial statements. The sample adds up to 200 organizations, whose 990 forms were downloadable at www.guidestar.org or at their own websites at the end of 2016.
As reported in the 990 form glossary revenues of a nonprofit organization in the USA may include: Direct public support: contributions, gifts, grants and bequests received directly from the public. It refers to amounts received from individuals, trusts, corporations, estates, foundations, public charities or raised by an outside professional fundraiser; Government contributions or grants: payments from the Government to a nonprofit organization to further the organization's public programs. Direct public support, Government contributions and grants are summed so that the whole extent of Contributions can be estimated. The other revenue categories are Program service revenues: fees and other monies received by an organization for services rendered.

If contributions and program service revenues constitute more than 90% of the sample, ancillary revenues derive from Investment income and other revenues. Revenue diversification will be here analyzed as concerns main categories: Contributions with the target of willingness-to-donate and Program Service Revenue with the target of willingness-to-pay. The weight of investment gain and other revenue will also be counted, as it was previously considered that 25 percent of earned income can derive from services like parking, special events (with orchestras, the conductor or/and singers), tours (though diminishing internationally) … so that the USA classical music target different segments, tourists included.

Expense categories include: Program Service Expense related to marketing and production of the core business; Fundraising expense and Management and general expense, a miscellaneous cost that is not related to the previous accounting lines. According to IRS standards, if the fundraising expense must be separately reported, the marketing or advertising expense can be included in the other expenses. The personnel expense will also be calculated here, in order to appreciate the magnitude of the internal labour intensity of employees (administrative and creative) and their engagement in repertoire and non-repertoire.

Next to the analysis of revenue and expense categories, the (Net) Gain or Loss of the year as the difference -- positive or negative -- between revenues and costs, it is also here analyzed.

Economic analysis is here connected with the season details for repertoire and non-repertoire. These contents and data can be found in mission statements, annexes of 990Forms, websites, conferences highlights and reports of networks of the USA classical music (orchestra ‘facts’ of the League of American Orchestras and statistics of www.operabase.com).

First of all, accounting data are entered into Excel and indexed to total revenues – for revenue categories – and total expenses – for expense categories -. Gain or loss is also included in the analysis, indexed to total revenues.

Secondly, these ratios are clustered, in order to obtain meaningful groups with relevant and separating features in 2008 and 2015.

Cluster analysis is the process of dividing a set of observations into a number of groups. In particular, K-means clustering is an iterative follow-the-leader strategy. First, the number of clusters, k, must be specified. Then a search algorithm finds k points in the data, called seeds, that are not close to each other. Each seed is then treated as a cluster center. The routine goes through the points (rows) and assigns each point to the cluster it is closest to. For each cluster, a new cluster center is formed as the means (centroid) of the points currently in the cluster. This process continues with an alternation between assigning points to clusters and recalculating cluster centers until the clusters become stable. Cluster means show the average performances of significant groups.

After having detected significant and the most crowded clusters as concerns economic performances, the content check of repertoire, the most supplied composers and operatic towns in USA, they are all considered in order to connect financial viability with repertoire and non-repertoire. The link is the profiling for prevailing strategies and revenues: if marketing is positively affecting program service revenue, repertoire is supposed to be one main goal of marketing with maximization of the program service revenue; if fundraising is positively affecting revenues, repertoire can be next to experimentation which is supported by courageous and non-cyclical public and private supports and contributions, as a consequence, prevail.

Findings. Ed al vero ispiravasi...

Apart of outliers and small clusters, the k-means analysis of 2008’s data gives evidence of three clusters. The most crowded one shows the highest percentage of program service revenue, 43.26 percent. Table 1 shows percentages of revenue diversification, costs and gains for three most crowded clusters.

Table 1. 2008’s average performances of the USA classical music between repertoire and nonrepertoire (percentages)
Number of organizations in clusters

<table>
<thead>
<tr>
<th>Labels</th>
<th>Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 organizations</td>
<td>The Marketing Expert for Repertoire</td>
</tr>
<tr>
<td>51 organizations</td>
<td>The Fundraiser with the highest gain for Repertoire and Non-Repertoire</td>
</tr>
<tr>
<td>44 organizations</td>
<td>Fundraiser</td>
</tr>
</tbody>
</table>

| Contributions/Total Revenues | 47.01 | 69.43 | 55.68 |
| Program Service Revenue/Total Revenues | 43.26 | 25.19 | 35.80 |
| Investment Gain or Loss/Total Revenues | 4.24 | 3.97 | 2.01 |
| Other Revenue/Total Revenues | 5.48 | 1.39 | 5.49 |
| Program Service Expense/Total Expenses | 82.95 | 74.75 | 64.70 |
| Management and general Expense/Total Expenses | 11.85 | 17.21 | 28.97 |
| Fundraising Expense/Total Expenses | 5.19 | 8.02 | 6.31 |
| Gain or Loss/Total Revenues | -1.04 | 12.07 | 1.06 |
| Personnel Expense/Total Expenses | 45.81 | 48.55 | 42.69 |

Source: elaboration with JUMP Software

Contributions are the prevailing revenue for all clusters. The program service revenue is high when repertoire is emphasized by marketing, with the highest sum of program service and management (and general) expenses. The strategy mix does not exclude common goals. For the most crowded cluster with 60 organizations, 10 percent of revenues are investment income and other earnings, too. For all clusters, for more than 40 percent of costs, the personnel expense gives evidence of the effort, in order to provide excellence in production (repertoire, revival of past repertoires, contemporary productions, etc.) and proficiency in marketing and fundraising.

With Metropolitan Opera, the Carnegie Hall, Chicago organizations like Symphony Orchestra, Sinfonietta, Opera Theatre, Lyric Opera, Houston Symphony Society, Pocket Opera in San Francisco, Lyric Opera San Diego, New Mexico Symphony Orchestra, Opera Company of Philadelphia, Saint Louis Symphony Orchestra, San Diego Symphony Orchestra, Boston Youth Symphony Orchestra, etc., the Marketing Expert for Repertoire, shows the highest Program service revenue, other revenue, program service expense, the second highest personnel expense, the lowest fundraising expense and a very modest loss of 1.04 percent, on average. Repertoire is here constantly present for the appreciation of national and international audiences in tourist attractions like New York, Philadelphia, Boston, Saint Louis, etc. Verdi, Mozart and Puccini dominate listings of operabase.com for above-mentioned cities, which are the most operatic ones in the USA: New York in the first place, followed by San Francisco, Chicago, Houston, etc. At a very early beginning, social media and networks supply music and theatrical contents, promotion details for communities and tourists, so that they inspire advocacy and they support marketing of the USA classical music. This confirms results of the audience demographic review of the League of American Orchestras of December 2009 (LAO, Audience Demographic Research Review, December 10th): classical music audiences are adopting digital more rapidly than the overall USA population and marketing directors are suggested to consider how much internet, blogs, downloads and chats are becoming where, how and what of music consumption. Marketing officers seek to better understand digital communities, as they are relatively new in 2008. As a consequence, they enter these communities and monitor comments and feedback.

With 51 organizations, the Fundraiser with the highest gain for repertoire and non-repertoire is affected by the highest contributions, the highest fundraising expense, the highest gain and the lowest program service revenue. Fundraising is connecting this classical music to grant-making foundations, sponsors, donors, local government and other stakeholders, who can deliver grants for community programs. Marketing goals are never separated from fundraising ones. Grants support marketing goals, too. Cincinnati Opera, Dallas (the 16th operatic city) Opera, Delaware Symphony, Kansas City Symphony and Lyric Opera, Los Angeles (the 7th operatic city) Opera, Nashville Symphony and Opera, San Francisco (the second operatic city) Opera, Santa Barbara Symphony, Seattle Opera (the 11th operatic city) are in this cluster included. Social media are here engaging multiple audiences. In 2008, social media and networks represent an opportunity for storytelling of local projects with foundations, local governments and other stakeholders, too.
With 44 organizations, the Fundraiser is an intermediate profile between the previous clusters. This cluster includes Atlanta Opera, Baltimore Opera Company, Boston Lyric Opera, California Symphony, El Paso Symphony, Jacksonville Symphony, New Orleans Opera, Portland Maine Symphony, Portland Opera and other organizations whose connections with local communities, governments, sponsors are well-nurtured thanks to social media, where intermediate and final results of projects are meant for emphasis and benchmarking.

In 2015, after the crisis, fundraising is the leading strategy. Program service revenue are not more than 40 percent of revenues. Contributions are more than 50 percent for three significant and most crowded clusters in Table 2.

### Table 2. 2015's average performances of the USA classical music between repertoire and nonrepertoire (percentages)

<table>
<thead>
<tr>
<th>Number of organizations in clusters</th>
<th>Labels</th>
</tr>
</thead>
<tbody>
<tr>
<td>68 organizations</td>
<td>The Fundraiser</td>
</tr>
<tr>
<td>52 organizations</td>
<td>The Fundraiser with the highest gain for Repertoire and Non-Repertoire</td>
</tr>
<tr>
<td>31 organizations</td>
<td>The Marketing Expert for Repertoire</td>
</tr>
<tr>
<td>Contributions/Total Revenues</td>
<td>56.34</td>
</tr>
<tr>
<td>Program Service Revenue/Total Revenues</td>
<td>36.43</td>
</tr>
<tr>
<td>Investment Gain or Loss/Total Revenues</td>
<td>2.08</td>
</tr>
<tr>
<td>Other Revenue/Total Revenues</td>
<td>5.13</td>
</tr>
<tr>
<td>Program Service Expense/Total Expenses</td>
<td>74.78</td>
</tr>
<tr>
<td>Management and general Expense/Total Expenses</td>
<td>17.45</td>
</tr>
<tr>
<td>Fundraising Expense/Total Expenses</td>
<td>7.75</td>
</tr>
<tr>
<td>Gain or Loss/Total Revenues</td>
<td>0.16</td>
</tr>
<tr>
<td>Personnel Expense/Total Expenses</td>
<td>49.38</td>
</tr>
</tbody>
</table>

Source: elaboration with JUMP Software

The fundraiser profile is prevailing with a fundraising expense for more than 7 percent for two clusters. The Marketing Expert, with the highest program service revenue of (only) 39.86 percent, the highest sum of program service and management (and general) expenses, the lowest fundraising expense and the second highest gain of the compared clusters, includes 31 organizations. This cluster is not more the most crowded one as it was for 2008’s data. The personnel expense still shows the in-supplied creativity for the whole sample. If social media were in start-up in 2008, their use evolved and mature in 2015.

In the Marketing Expert cluster (31 organizations), the Carnegie Hall can still be found. Apart of this organization, no other opera house and symphony orchestra of this cluster is in the most operatic cities in the USA. Repertoire is here meant to support communities around the classics, the native music and the tradition, they have grown up for the cultural dialogue with (African American, Hispanic Latino, Asian American, American Indian, ...). At the same time, some mid- and small-sized organizations of this cluster may show ‘more freedom to experiment, since audiences are less likely to associate them with tradition and propensity for classics’ (Ross, 2017; Yi, 2010; Poon, Lai, 2008). Fundraising is indispensable for more than 50 percent of revenues.

In the Fundraiser with the highest gain (52 organizations), we can find New York, Chicago, San Francisco, Houston and Los Angeles (the most operatic cities in 2015) symphony orchestras and opera houses, whose fundraising is supported not only by the story-telling of social media but also the discussion thanks to social networks of reports, redemption of economic and social performances in local communities, partnerships with foundations and sponsors, special fundraising events. The highest gain of the sample can nurture seasons with repertoire and non-repertoire.

In the most crowded cluster (68 organizations), the Metropolitan Opera is included. Organizations are in big and operatic cities like Boston, San Francisco, Houston, Saint Louis, Milwaukee, Seattle and Boston according to operabase.com. Fundraising is here meant as key-strategy. Program service revenue is still more than 36 percent of all revenues. Social
media both support discussions, suggestions, dialogues with musicians, singers, conductors, regisseurs, etc. and tell about partnerships, special programs for communities, quarters, citizens and not-citizens.

In comparison with 2008, fundraising became a must in 2015. Marketing can generate revenues, repertoire can be an asset. Nevertheless, ticketing is not solving for the financial soundness of these organizations.

Results and Discussion

Audiences love repertoire. Nevertheless, paying audiences are not more sufficient for financial soundness of USA symphony orchestras and opera houses (2015). Fundraising has helped the USA classical music out of the crisis and it is today generating revenues more than marketing. Both for the cluster analysis in 2008 and in 2015 (for Fundraisers with the highest gain), when program service revenues are the fewest ones and contributions are the highest ones of the sample, profits are the highest ones, too. The highest program service revenue is combined with the second highest gain in 2015.

Repertoire plays a key-role for recalling of masterpieces, well-known compositions and revivals, which are appreciated by audiences. Marketing officers are fully aware that repertoire memory must be constantly paid attention. At the same time, grant-makers and sponsors are fully aware that they are vital for the survival of tradition and experimentation. Balance between the past and the present would not be possible, if contributions were not available. Marketing officers play in teams with fundraisers, in order to maximize program service revenues and contributions of the USA classical music. The duality marketing/fundraising can be given evidence with separate profiles according to economic performances both in 2008 and 2015, but this duality must not be magnified.

Social media can support these organizations both for fundraising and marketing goals, though experimentation might be more communicated than in the past. This might be, in order to educate audiences, visitors and any other stakeholders to new tastes. Past and new tastes can generate increasing program service revenues, which could return to 2008’s percentages, for more than 40 percent.

Some mission statements (in summary on the first page of 990 forms) of the organizations in the most crowded 2015’s 10% cluster can give evidence to this multiple attention and commitment for different audiences and contents, the community issue, the classical series and experimentation: ... to encourage musical excellence in a professional and supportive environment by providing the highest quality orchestra training and performance opportunities... and making its programs accessible to undeserved communities through financial assistance (Boston Youth Symphony); ... the Buffalo Philharmonic Orchestra Society produce symphonic music for the cultural benefit of the Buffalo, New York area, including artistic education programs for area youth; ... production of symphony performances for the benefit of the local community (Cheyenne Symphony); ... the New Mexico Philharmonic is committed to inspiring audiences of all ages and backgrounds through its artistic excellence, innovative programming and education and community engagement; the mission of Pensacola Opera is to enrich the culture of northwest Florida by producing professional opera performances, educational programs and other opera-related community events for people of all ages, interest and backgrounds; the mission of San Diego Opera is to deliver exceptional vocal performances and exciting, accessible programs to diverse audiences, focusing on community engagement and the transformative power of live performances; the mission of the St Louis Symphony is to enrich people’ lives through the power of music; the Seattle Youth Symphony Orchestra provides life changing musical experiences for talented students in the Pacific Northwest, regardless of their financial resources. SYSO students develop their relationship to great music, expand their capacity to self-discipline and focus, learn the value of community and teamwork, and continuously acquire new musical skills with professional artist teachers. SYSO’s goal is to transform students’ lives by positively shaping the artistic, social, emotional and intellectual development of young people. We will be recognized as a leader in classical music education locally and nationally. Our programs and performance will be celebrated for their innovation and excellence. We will be a model of financial sustainability and we will enjoy generous, committed and broad-based community support. ...

Conclusion

For more than two decades, community engagement with multiculturalism, digital revolution with information overload, audiences’ preferences and segmentation, public and private philanthropy have been evolving in the strategic scenario of
the USA classical music. Today marketing and fundraising of USA symphony orchestras and opera houses, they both include diversified tactics and strategies: audiences and philanthropists are investigated as for their willingness-to-pay and willingness-to-donate and they are paid attention for their tastes, feelings, visions and engagement. While tourists can represent the frontier of their flexible pricing, social media are levers of all their audiences and stakeholders and they can invite and ‘consolidate’ younger audiences with flexible subscriptions in comparison with 2008, when the median age of a classical music concertgoer was 49. Economic performances, financial viability and robustness follow, as a consequence and the here investigated sample shows that fundraising is the leading strategy.

As a matter of fact, apart of a price strategy that implies discrimination for segmented audiences and a prevailing taste for repertoire, symphony orchestras and opera houses innovate their communication thanks to social media and these networks may be the very next frontier to educate for nonrepertoire and experimentation, in order to increase the creative bundle and packaging, they regularly supply and they innovate.

The duality marketing/fundraising cannot be thought as a trade-off. Fundraising is supplying resources for both repertoire and nonrepertoire. For spot visitors and for communities, fundraising and marketing are separate in literature and they can give evidence of separate performances as it is in this investigation. Both of them, they work for the same goal.

Considering the period 2008-2015, it can be confirmed that fundraising is evolving with a much more impressive and economic weight than in the past. Nevertheless, as revenue diversification can be more successful than focus on one type of revenue and it is complementary with business diversification, repertoire and nonrepertoire can balance with balancing different marketing and fundraising efforts. Marketing and fundraising do not have, otherwise, to assault newcomers, who often suffer for poor parking and difficulties for tickets change (Rosen 2017). Marketing and fundraising should inspire a gentle mixing with sense and sensibility towards audiences and stakeholders who are targeted with multiple and creative contents.

Revenue management implies the key-consideration fundraising performances can support or compensate marketing ones, especially when marketing suffers of losing subscriptions and increase of spot-sales. Focus on several and multiple stakeholders is the next frontier, where social media can lead the USA classical music.

Research limitations refer to boundaries and small dimension of the sample, which concerns orchestras and opera houses in very different cities in North America: some of them are very big, operatic and tourism destinations, some of them may not be considered as main attractions for leisure tourists. The duality marketing/fundraising can stress economic performances and profile poles. Nevertheless it is the mixing, which must be paid focus on in order to investigate both economic and social impacts. At the same time, the international financial and real crisis was dramatic for USA performing arts both on the demand and the supply side, so that average performances of clusters could be partially compromised by the bias of the general lack of resources for the investigated period (2008-2015).

Managerial implications include that orchestra and opera managers should intensify their focus, much more today than in the past, on new audiences like millennials, tourists, natives and ‘social groupings’ according to the evidence of social media on the marketing side and international friends, foundations and sponsors with different propensities for supporting repertoire and nonrepertoire on the fundraising side. Today, much more than in the past, the USA classical music should be committed to Education and Community Engagement Programs with dedication of resources, monitoring, analysis and redemption with detailed reports and focus on benchmarks. Above all, managers should continually balance propensities for both past and present music, offline and online marketing and fundraising with a high-lighted focus on the added value of dialogue and participation to creativity.

References


Measuring the factors that contribute to the quality of services in the restaurants in Republic of Macedonia

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Abstract

The study examined the consumer behavior in the restaurant businesses in Macedonia. Aside from the data analyses for the differences of the perceptions of the factors that contribute towards the decision for visiting the restaurants among restaurant’s employees and consumers, this paper contains the data about the factors that influence the customer satisfaction. Additionally, the research provides information about the main tools that customers use in order to inform themselves for different offers and services in different restaurants. The research has been based on the measurements for making analyses of the following factors: Quality, Accessibility, Food Decoration, Customer Care, Innovation, Taste of the food, Price, Hygiene, Ambience and Promotion. Based on the founding’s, the data gives clearer picture for the focus, opportunities and challenges for developing the marketing strategy in the restaurant businesses in Macedonia. Additionally, the conclusions give directions for implementing advanced knowledge, techniques and methods for marketing analyses in the field of restaurant businesses. Finally, the study provides critical evaluation for the current situation of the marketing in restaurant businesses in Macedonia. The founding’s give further recommendations for the development of the suitable marketing strategy in order to increase the customer satisfaction.

Key words: bringing decision, customer behavior, customer satisfaction, restaurant businesses

Introduction

The restaurant service is a complex category that integrates quality of the food, quality of the service, the atmosphere as well as the professional behavior. The restaurant businesses are organizationally, functionally and technically adapted to the food sector and integrate food preparation, food production and serving of the food, drinks and beverages. The restaurant businesses in Macedonia become very popular in the latest years since people start using the restaurant services more often as a result of the dynamic lifestyles and European working time.

It is expected that the today’s customers in the restaurants will expect more sophisticated and specific food (Brady & Cronin, 2001). The most of the people have access to many web pages and TV channels where they can educate themselves about the quality of the food as well as the different combinations of nutritive values that should satisfy their specific needs. Therefore they constantly expect different offers and services in order to have new experiences of the healthy and tasteful food (Стаменковска & Јаковски, 2013). Additionally, people travel abroad and visit different international restaurants that are offering food with different specific flavors and use products from different parts of the world. The restaurant businesses have a high market competition from one side and very well educated customers with very specific expectation for the food and restaurant services from the others (Wishna, 2000).

Today’s restaurants should pay attention to many aspects of their work in order to satisfy the senses of the customers (Stack et al., 2006; Kotler, 1999; Andaleeb & Conway, 2006). Having a satisfactory customer’s experiences is crucial for attracting new customers and having a profitable restaurant business. In order to develop the restaurant business, the owners and managers must follow the global trends and implement the satisfactory standards of quality of the services (Kotler, 2002; Salai & Bozidarevic, 2001). The main goal of this study is to investigate the factors that contribute to the customers decision to visit certain restaurant and use its services. Furthermore, the research provides very important data for the perceptions of the employees and customers regarding the factors that influence the customer satisfaction. The
The service is defined as the activity or benefit that one person/group/entity can offer to the others. The service is nonmaterial and it does not offer visible product. The difference in offering services compared to the offering products is that the service cannot be separated, it is produces and consumed in the same time, and it is variable and heterogeneous (Brown at al., 1993; Skallerud at al., 2009; Kotler at al., 2009). The specificity of the services rely on the fact that they are not presented as physical material products which means that the services cannot be valued on any way before the its consumption. Additionally, the production and consumption is conditioned from the personal presents of the customers of the services. The heterogeneity of the services means that there is a big number of the independent subjects in the process of production of the certain service. The variability of the services is presented into the fluctuation of the inquiry in different periods of the day, different days during the week or moths as well on the different seasons (Блекев ат. ал., 2009; Стојковска & Јаќовски, 2013).

The restaurant service is a complicated activity since it includes the production of the food, the service of the food and drinks, the organizational activities as well as the trading activities. In order to be able to offer the restaurant services with the high quality, the restaurant should pay a special attention to the personnel, customers and technological support (Kotler, 2009; Laketa, 2000; Howard & Sheth, 1969). The interest for the quality of the restaurant services is rapidly increasing in the latest 30 years. Therefore, today, there are many different definitions and different explanations that contain very subjective point of view. In order to define the quality of the restaurant services, we must take into consideration the fact that what is evaluated as high quality from customer can be considered as average quality by the other (Cobb, 1986; Dhar, 2000; Garvin, 1984). Therefore, the most of the studies that measure the quality of the restaurant services as well as the customer’s satisfaction actually measure the customer’s perceptions of the quality of the services. In order to be able to provide satisfactory customer experience, different sum of factors should be taken into consideration (Cousins at al., 2002; Ha & Jang, 2010).

Many years, the researchers are trying to identify the suitable models for measuring the quality of the services in the restaurants Brown at al., 1993; Beatty & Ferrell, 1998; Hirschman& Holbrook, 1982). The focus in the most of the studies, is to compare the perception of expected quality with the perception of received quality from the customer’s point of view. The restaurant’s customers usually combine different visible and invisible factors in order to evaluate the dining experience. The main element is the offer of food and drinks combined with the atmosphere and professional behavior of the employees. The quality of the restaurant services usually includes the quality of the offer, the quality of the ambient and the customer care. It represents the difference between what have been expected and what have been experienced into the selected restaurant. If the customers have an internal feeling of satisfaction from the services offered in the restaurant, they will constantly visit the place and will recommend in to the other customers. To satisfy the customers is the best way to attract new customers. The customers visit the restaurants that are aware about their expectations and are able to satisfy their specific needs (Стојковска, 2014; Сениќ & Сениќ, 2008; Seth at al., 2005).

The customer satisfaction represents the subjective feeling of the customer's experiences. Even though there are many factors that influence these experiences, the mostly investigated are the quality of the food, the quality of the service and the physical environment (Bitner, 1992). The quality of the food usually is experienced by using all of the senses: taste, smell, visual impression, temperature and sound. The physical environment is crucial for creating the first impression for the restaurant. The customers are expecting to the able to easily access to the restaurant, to have a parking place, than they become aware about the facility aesthetics, ambience, lighting etc. (Bitner, 1992; Babin & Attaway, 2000; Kollat& Willet, 1967). The hygiene is another important factor that contributes towards the decision for visiting certain restaurant and using its services. The safety and security of the food becomes the new base for the perception of the quality of the service in the restaurants (Маринковиќ, 2007). The customer care is another aspect that can increase or decrease the satisfaction of the customers. Taking care for the customers, following their specific needs and caring about their requirements in many cases is more important than the quality of the food and external environment (Namkung& Jang, 2008; Popesku, 2005).
Regarding the results from the previous research studies (Anderson & Mittal, 2000; Bienstock et al., 2003; Dulen, 1999; Garvin, 1984), the high quality of the service is positively correlated with the high customer satisfaction. According to Zeithaml at al. (1996) the perception of the customers regarding the received services is the main factor that increases their satisfaction. The modern marketing literature differentiates two types of customer satisfaction: customer satisfaction based on transactions and overall satisfaction. The first type represents the perception related to the certain service related to the latest experience. The overall satisfaction is based on the overall experience and is not based on the single transaction (Gronroos, 1984; Kacen & Lee, 2002). The process of measuring the customer satisfaction sometimes can be very challenging because of its changing character. Therefore, the most of the studies do not measure the customer satisfaction towards the certain service, nevertheless they measure the satisfaction from the attributes of its service.

The ability of the restaurants to recognize and satisfy the customer need is the main key for long term business development. The satisfied customers are loyal customers that send the positive message to the other potential clients. The factors that contribute towards the satisfaction of the customers may vary from one restaurant to another since the perception of quality is a subjective category and is contributed from the environment, culture and personality ( Јовановска & Јаковски, 2009; Косар, 1998; Kotler, 1973). Many times the behavior of the employees have been recognized as the main factor for developing the relational dimension with the customer. According to many studies (Strack et al., 2006), the kindness, friendliness and willingness to help customers are the main skills and competences that restaurant’s employees should develop in order to have a satisfied customers.

**Research methodology**

Taking into consideration the fact that the statistical data and marketing research for consumer behavior in the restaurant business in Macedonia is lacking, the main goal of the this research is the following: Analyzing the factors for bringing decision for visiting the restaurants and using restaurant services, and measuring the employees and customers satisfaction in the restaurants in Tetovo, Republic of Macedonia. The main questions that have been answered in this study are the following:

1. Which are the main factors for bringing decision for visiting restaurants and using its services?
2. Which are the key needs of the customers that are using the restaurant services?
3. Which factors influence the customer satisfaction in the restaurants in Macedonia?

The main subject of the research is to detect the key factors that influence the decision for visiting the restaurants and using the restaurant services, with additional analyses of the restaurants advantages and disadvantages. Additionally, the research is investigating the differences of the perceptions among the employees and customers for the following factors:

- Quality
- Accessibility
- Decoration of the food
- Customer care
- Innovation
- The taste of the food
- Price
- Hygiene
- Ambience
- Promotion

Finally, the research contains the statistical data for the perceptions of the employees and customers regarding the factors that contribute to the customer satisfaction.
Participants

This research has been done on the data collected from 94 participants divided in 2 groups: Employees and Customers. The employees work in 10 different restaurants in Tetovo, Macedonia. From them 34 (72,34%) are employees that serve customers while 13 (27,66%) are managers of the restaurants. The most of them (24-54,1%) are on the age of 20-30 years, 12 (25,5%) are on the age of 30-40 years, 8 are on the age of 40-50 years and 3 of them are on the age above 50 years. Only 6 participants from the group of employees are females while 41 are males. The majority (51,1%) have high education while 34% have finished high school. Regarding the working experience, the most of them have 5-10 years working experience (34%), 29,8 are with working experience in the range of 1-5 years, while 25,5 % are with working experience from 10-15 years. The most of the participants are Albanians (89,36%) while 5 of them (10,64%) are Macedonians.

The majority of the customers that participated in this research are on the age of 30-40 years (36,2%), 34% are on the age of 20-30 years and 29,8% are on the age above 40 years. There are 32 male customers and 15 female customers. Only 12,8% have finished the high school while the 87,2% have finished faculty or master degree. The most of the customers are Albanians (89,36%) while 5 of them (10,64%) are Macedonians.

Questionnaires and procedure

The data for this research has been collected by using the combination of questions that have been separately created for the employees and customers. The author created the new questionnaires on Macedonian and Albanian language. The questionnaires for the employees and clients contain 10 questions. By using the scale of 1-5 the participants are evaluating the factors that are crucial for bringing decision for going in the certain restaurant as well as their perceptions for the factors that contribute to the customer satisfaction. The data has been collected in the period of July-September 2017. The questionnaires have been distributed in the hard copies by the researchers. The participants filled in the questionnaires individually. The total number of the distributed questionnaires was 103.

Results and discussion

According to the analyses of the data collected from the employees and customers in the restaurants in Tetovo, Macedonia, the main factors for bringing decision for visiting certain restaurant are the Hygiene, Quality of the food, Customer care and the Taste of the food. From the other side the Promotion and Accessibility have the lowest scores for both of the groups. The scores of the employees for all of the factors for bringing decision for visiting restaurants are higher than the scores of the customers. However, all of the factors have been evaluated with higher scores than the expected average in both of the groups. Based on the results received from the analyses on the mean differences (t-test), the differences in the perception of the factors that contribute towards the decision for visiting restaurants and using its services among employees and customers, are statistically important for the factors Hygiene and Accessibility. Therefore, it can be concluded that employees have a perception that the Hygiene and Accessibility are more important factors for visiting the restaurants and using its services in comparison to the perception of the customers.

Based on the analysis of the answers of the question: Which are the advantages and disadvantages of the restaurants that you are visiting/in which you are working compared to the other restaurants?, the main advantages are Quality of the food and Customer care in both groups the employees and the customers. From the other side, the main disadvantages for the employees are Customer care, Accessibility and Promotion. The customers consider that Innovativeness, Taste of the food, and Hygiene are the main disadvantages of the restaurants that they are visiting.

The additional analyses of perception of the factors that contribute towards customer satisfaction confirmed that both employees and customers consider that the Tasteful food, Professional service and Customer care are crucial factors for customer’s satisfaction. However, the employees evaluated all of the factors higher than the customers. The received means of the scores for both groups are higher than the expected mean.
According to the results received from the analyses of the scores of the employees, the main factors for customer satisfaction are Professional service, Tasteful food and Customer care while the lowest scores are given to the factors: Personal parking, Easy access to the restaurant and the Promotional packages. From the other side, according to the perceptions of the customers, the most important factors for customer satisfaction are Tasteful food, Optimal hygiene and Customer care. The lowest scores evaluated by the customers are given to the Personal parking, Different methods of food promotion and Promotional packages.

The analyses of the differences of the means among employees and customers are presenting that there are statistically important results for the factors Tasteful food, Professional service, Quality standards, Eco standards and Price. Hence, it can be concluded that employees consider the Tasteful food, Professional service, Quality standards, Eco standards, and Price as more important factors that influence the customer satisfaction than the customers.
The results from the analyses of the scores for the question: Do you have marketing strategy?, present that 80.9% from the employees have answered that they have their own marketing strategy while 17% have answered that they do not have the marketing strategy in the restaurant in which they are working. Concerning the most used tools for informing the customers for the offers and services in the restaurant, 23 employees (48.9%) have answered that they use the recommendations (friends) in order to promote their offers and services. Additionally 36.2% use the internet tools while 8.5 use the TV as the main tool for promotion. Only 4.2% use printed materials as the tool for informing the customers about their offers and services. From the other side, the most used tool that customers use in order to inform themselves for the offers and services in the restaurants is the recommendations (friends) 51.1%, 27.7% from the customers use internet while 6.4% inform themselves from the TV.

Table 2: Descriptive statistics and t-test for the advantages and disadvantages of the restaurants based on the perceptions of the employees and customers

<table>
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<tr>
<th>Group</th>
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<th>Disadvantages Frequency</th>
<th>Advantages Percentage</th>
<th>Disadvantages Percentage</th>
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<td>Yes</td>
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Table 3 Descriptive statistics and t-test for the perception of the factors that contribute towards customer satisfaction

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<th>F</th>
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<td>0.81</td>
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<tr>
<td>and lightening</td>
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<td>0.99</td>
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<tr>
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<td>Food serving innovativeness</td>
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<tr>
<td></td>
<td>Customers</td>
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<td>3.89</td>
<td>1.09</td>
<td>0.16</td>
<td>0.49</td>
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</tr>
<tr>
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<td>1.03</td>
<td>0.16</td>
<td>0.49</td>
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<tr>
<td></td>
<td>Total</td>
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<td>4.21</td>
<td>1.02</td>
<td>0.16</td>
<td>0.38</td>
<td>3.31</td>
<td>92</td>
<td>1.92</td>
<td>0.07</td>
</tr>
<tr>
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<td>0.13</td>
<td>0.26</td>
<td>2.29</td>
<td>92</td>
<td>1.38</td>
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</tr>
<tr>
<td></td>
<td>Customers</td>
<td>47</td>
<td>4.36</td>
<td>0.92</td>
<td>0.13</td>
<td>0.26</td>
<td>2.29</td>
<td>92</td>
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<tr>
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<td>4.49</td>
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<td>2.29</td>
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</tr>
<tr>
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<td>4.23</td>
<td>1.10</td>
<td>0.16</td>
<td>0.39</td>
<td>4.30</td>
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<tr>
<td>New innovative offers</td>
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<td>0.14</td>
<td>0.62</td>
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<td>3.57</td>
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<td>Total</td>
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<td>3.88</td>
<td>1.16</td>
<td>0.18</td>
<td>0.62</td>
<td>2.40</td>
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</tr>
<tr>
<td>Modern models of equipment</td>
<td>Employees</td>
<td>47</td>
<td>4.19</td>
<td>0.99</td>
<td>0.14</td>
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<tr>
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<td>1.06</td>
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<tr>
<td></td>
<td>Total</td>
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<td>3.96</td>
<td>1.04</td>
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<td>0.47</td>
<td>0.07</td>
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<tr>
<td>Modern techniques of food</td>
<td>Employees</td>
<td>47</td>
<td>4.23</td>
<td>0.87</td>
<td>0.13</td>
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<td>preparation</td>
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<td>1.03</td>
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<td>1.51</td>
<td>92</td>
<td>3.03</td>
<td>0.22</td>
</tr>
</tbody>
</table>
Taking into consideration that the most of the participants still use the recommendations (friends) as the main tool for informing themselves and there are still restaurants that do not have their own marketing strategy, it can be concluded that the awareness for using different marketing tools is on the very low level. Only 36.2% from the employees are using the internet as a tool for informing their customers regarding their offers and services. It can be concluded that in the future, there should be a further research regarding the functionality of the web portals as well as the presence of the Macedonian restaurants on the social network. Additionally, the focus of the managerial teams into the restaurants should be on strengthening the capacities of the human resources through training and education for using social media as the tool for marketing and sales.

Furthermore, it is very important to invest into the infrastructure of the restaurants. According to the results, the most of them may increase their potential for development if they invest in personal parking and if it is easier to access to them (Bitner, 1992; Babin & Attaway, 2000; Kollat & Willet, 1967). Additional aspects that should be developed in the future are the Eco standards as well as the standards for Professional behavior (Kotler, 2002; Salai & Bozidarovic, 2001). The restaurants should offer the tasteful food with high quality adapted to the needs of the clients. The customer care has been detected as one of the most important factors for bringing decision for visiting the restaurants as well as for the customer satisfaction. The restaurant personnel should be proactive and able to constantly recognize the needs of the customers in order to be able to offer the most suitable offer and service (Namkung & Jang, 2008; Popesku, 2005).

The management of the restaurant should constantly investigate the level of satisfaction of the customers. The main focus should be the customers that are loyal and are coming often into the restaurant. The obtained results can be solid information for bringing better decisions and creating marketing strategy that is adapted to the needs of the customers. In order to create the marketing strategy adapted to the needs of the customers it is very important to take into consideration that the same message will be accepted differently from different groups of customers. The customers will be selective and their perception will be in line with their expectations based on the previous experiences (Brown at al., 1993; Beatty & Ferrell, 1998; Hirschman & Holbrook, 1982). Therefore, they will refuse and forget all of the messages that do not correspond to their personal beliefs. Hence, it is very important to create the marketing strategy that will offer an opportunity to educate the customers during the process of consumption that will create new perceptions for the needs of certain services. During this process, the restaurant’s employees should be skilled for customer relation management in order to be able to interactively communicate with the clients and continuously educate them. The educated customer is aware about the new trends of the food consumption and its effects on the eating habits and environment. The key influences in this process have the media especially the internet (Стојовска, 2014; Сеник & Сеник, 2008; Seth at al., 2005).

The questionnaires used in this research study are measuring 10 factors; however it does not cover all of the factors that are crucial for the success of the restaurant business. The future research should include new constellations in order to
provide more detailed results for different aspects of the customer satisfaction. Furthermore, more restaurants from different parts of Macedonia should be taken into consideration in order to be able to provide results for the whole country. Finally, the sample of participants should include more participants with different demographic characteristics (gender, age, ethnicity, education, experience etc.), in order to be able to create more different groups and make further in-depth analyses.

Conclusion

Based on the founding’s, the following can be concluded:

The awareness for the marketing strategy adapted to the needs of the clients as well as the investment in developing and using different marketing tools is still on the low level and requires additional research in the future.

The managerial teams in the restaurant businesses in Macedonia should strengthen the capacities of human resources through increasing the knowledge for consumer behavior as well as the skills for professional service and customer care.

The employees in the restaurants in Macedonia should be encouraged to use modern marketing tools (online marketing and social media) for informing the customers.

The employees in the restaurants in Macedonia should be trained and educated for the newest trends in the food industry, they should develop their capacities for implementing creative technologies of food preparation and to use the innovative approaches or serving the food.

Literature


Stock Allocation in Turkish Capital Markets: Industry and Firm Level Perspectives

Ozlem KUTLU FURTUNA
PhD Center for Finance, Governance and Sustainability (CFG), Business Administration Department, Yildiz Technical University, Turkey

Abstract

Investors’ trading patterns has been an intensively researched topic in emerging markets depending on their significant role and power in the capital markets. This paper provides what global and domestic factors have driven the stock allocation of investors in Turkey and how has the crisis changed investors’ attitude toward stock allocation between the years 2006 and 2016. Year-end stock allocation data are obtained from the Central Securities Depository Institution of Turkey. Stock allocation has been investigated mainly in terms of the domestic and foreign stock investments. A detailed classification of investors as individual and institutional investors in terms of investment funds, corporate and investment trusts with firm and industry levels has also been evaluated. The variations on stock allocation has been examined in BIST Industrials, Financials and Services Industries. Additionally, this paper gives an insight about the firm and industry level stock allocation in Turkish Capital Markets considering the responsible stockholders. Corporate governance practices are considered to be strengthened with the growing role of institutional investors in the financial system, which provide insights about the investor profile of BIST Corporate Governance Index in the related period.

Keywords: stock allocation, institutional investors, industrial classification, corporate governance, responsible stockholder, Turkey

Introduction

The last two decades have witnessed an enormous trend allowing foreign investors to invest in the stock securities of domestic firms in many emerging countries and there have been various studies undertaken to investigate this hot topic. Turkey has become one of the focuses of these inquiries. Turkish government has made several amendments on that respect. Turkey has introduced auto enrolment in private pension system beginning from 1 January 2017 and another attempt for Turkey is the Turkish Wealth Fund which has been established in 2016 for effectively managing the selected assets. This fund is expected to contribute to the development of the domestic capital markets. All these initiatives have a significant role to gain attendance of foreign investors.

According to Turkish Capital Markets Association Report (TCMA Report, 2017), financial savings in Turkey decreased by 6 % to US$ 644 billion from US$ 685 billion in 2016. Although the total savings increased by 13.8 % in Turkish Lira terms, the deterioration of the Turkish Lira versus the US Dollar depressed the financial savings. Share of stocks in investors’ portfolio constitute only 9 % of financial savings. In that respect, total number of identified and active accounts have declined from 1,059,313 units in 2015 to over 1,040,794 units as of the end of 2016 with a decrease of 1.7 %. The portfolio size of active accounts has declined from US$ 78 million in 2015 to US$ 70 million as of the end of December, 2016 with a decrease of 11 %. In the same report investors are first segregated as domestic and foreign investors. The portfolio size of stocks allocated by foreign investors are US$ 48 million in 2015; the portfolio size of this decrease to US$ 40 million in December, 2016 with a 17 % (TCMA 2017, p.38). Second portfolio segregation shed light on the individual and institutional stock holders. While the domestic individual investors constitutes nearly the half of all individual stockholders, as a result of the low amount of foreign individual investors, total individual investors constitutes only 19 % of total investors. This gives the dominance of institutional investors 81 % of total portfolio in 2016. These numerical expressions indicate that in emerging markets, foreign institutional investors are more sophisticated and have an information advantage of global information (Kim and Yi, 2015).
As financial development is strongly correlated with the capital allocation (Levine and King, 1993), through long-term view of institutional investors may make a significant contribution to the growth of capital markets. Ferreira and Matos (2008) study the role of investors’ profile around the world using a detailed data set of stock holdings from 27 countries between the years 2000 and 2005. They state that all institutional investors eager to hold share a preference for the stock of large firms in countries with strong disclosure standards. However, while foreign institutional investors prefer to invest in firms that are cross-listed on a U.S. exchange, domestic institutions underweight these same stocks.

As in the previous studies, domestic and foreign investors typically include institutions, corporations, investment trusts, other institutions and individual investors. That segregation points out the distinction between the sophisticated and informed institutional investors and the less sophisticated and less informed non-institutional investors, like individual stockholders (Covrig et al., 2006).

Industry characteristics may also effect the stock preferences of the investors. Zou et al. (2016) study the stock preferences of domestic and foreign investors and exhibit that foreign institutional investors prefer to invest in sectors such as financial, transportation, professional services, and technology in Chinese capital markets. This paper gives insights about firm and industry level perspectives since the effects of institutional investors can be observed both in capital markets and directly the growth of the firm and hence the growth of industry incorporating in the economy (Railo, 2000).

Brancato (1997) indicates for maximizing shareholder value, corporate governance is essential for institutional investors. Additionally, these investors have to take responsibility not as a trader but as a firm owner. From that point of view, this paper gives a view of what attracts foreign - domestic and individual - institutional investors to hold stocks in Turkish capital markets. What extent the industrial breakdown, strong governance indicators and sustainable firms have been preferred for the stockholders in Turkish Capital Markets? Stockholders are eager to focus on investing in specific industries which accomplish their ultimate goal of shareholders’ wealth maximization. This paper also gives an insight about the domestic, foreign, individual and several types of institutional investors’ attitudes on investing strategies on industry.

The following section provides the yearly breakdown of stockholders in Turkey, followed by a section describing the database employed. The following sections contains interrelationship among stock allocation, industrial characteristics and responsible investments in Turkish capital markets. The final section concludes the paper.

### Breakdown of Stockholders in Turkish Capital Markets

Data has been taken from Turkish Capital Markets Association (TCMA) and Central Securities Depository of Turkey (MKK). Additionally, the database of Borsa Istanbul (BIST) and BIST Public Disclosure Platform (KAP) are used for the determination of industry breakdown. Since the stockholders allocation data can be obtained only in the form of yearly end, the sample is comprised of all stocks listed on BIST between the years 2006 and 2016. The final sample is made up of 252 stocks resulting in a total of 2.772 stock-year observations during eleven years.

In line with investor classification of MKK, which provide categories of domestic and foreign stockholders in addition to the individual and institutional stockholders. Institutional stockholders are classified as investment funds, corporates, investment trusts and others. Table 1 exhibits the breakdown of the data and variables used in that study. Fractional institutional ownership represents the ratio of number of shares held by institutional investors to the numbers of shares outstanding following the studies of (Falkenstein 1996, Nofsinger and Sias, 1999).

<table>
<thead>
<tr>
<th>Table 1: Breakdown of Stockholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic Investment Fund</strong></td>
</tr>
<tr>
<td><strong>Domestic Corporate</strong></td>
</tr>
</tbody>
</table>

101
Domestic Investment Trusts  The ratio of the number of shares that are held by investment trusts to total shares outstanding at year $t$ for stock $i$

Domestic Other Institutions  The ratio of the number of shares that are held by domestic other institutions in terms of charities, associations and cooperatives to total shares outstanding at year $t$ for stock $i$

Foreign Investment Fund  The ratio of the number of shares that are held by foreign investment funds in terms of mutual funds and private pension plans to total shares outstanding at year $t$ for stock $i$

Foreign Corporate  The ratio of the number of shares that are held by foreign corporates in terms of banks, financial intermediaries and corporations to total shares outstanding at year $t$ for stock $i$

Foreign Other Institutions  The ratio of the number of shares that are held by foreign other institutions in terms of charities, associations and cooperatives to total shares outstanding at year $t$ for stock $i$

Institutional  The ratio of the number of shares that are held by institutional investors to total shares outstanding at year $t$ for stock $i$

Individual  The ratio of the number of shares that are held by individual investors to total shares outstanding at year $t$ for stock $i$

Table 2 exhibits yearly stock allocation in terms of fractional domestic, foreign, individual and institutional investors’ ownership. As foreign and institutional investors have a predominant share in the total stock portfolio, movements of the BIST index are mainly driven by stock transactions on behalf of the foreign institutional investors.

On the other hand, the share of individual investors in the stock market is very limited in comparison to the other stock holders. These results evidence that the stock ownership is not the preferred way of domestic investors in Turkey and Turkish individual investors seem to be reluctant to invest in capital markets.

Table 2: Yearly Stock Allocation of Investors in Turkish Capital Markets (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Foreign</th>
<th>Individual</th>
<th>Institutional</th>
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<td></td>
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</tr>
<tr>
<td>2008</td>
<td>0.3105</td>
<td>0.6895</td>
<td>0.1727</td>
<td>0.4900</td>
</tr>
<tr>
<td>2009</td>
<td>0.3101</td>
<td>0.6899</td>
<td>0.1961</td>
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<td>2010</td>
<td>0.3169</td>
<td>0.6831</td>
<td>0.1926</td>
<td>0.4897</td>
</tr>
<tr>
<td>2011</td>
<td>0.3387</td>
<td>0.6613</td>
<td>0.2079</td>
<td>0.4871</td>
</tr>
<tr>
<td>2012</td>
<td>0.3048</td>
<td>0.6952</td>
<td>0.1692</td>
<td>0.5111</td>
</tr>
<tr>
<td>2013</td>
<td>0.3360</td>
<td>0.6640</td>
<td>0.1777</td>
<td>0.5097</td>
</tr>
<tr>
<td>2014</td>
<td>0.3258</td>
<td>0.6742</td>
<td>0.1649</td>
<td>0.5070</td>
</tr>
<tr>
<td>2015</td>
<td>0.3529</td>
<td>0.6471</td>
<td>0.1798</td>
<td>0.4573</td>
</tr>
<tr>
<td>2016</td>
<td>0.3457</td>
<td>0.6543</td>
<td>0.1791</td>
<td>0.4472</td>
</tr>
</tbody>
</table>
After 2008 global financial crises, a decline has been observed in terms of the foreign stockholders with the average falling to 68.95%. Additionally, this variable have declined to 65.43%. This exhibits that more robust policies should be formulated to attract foreign portfolio investors for attaining a suitable investment climate in the following years. Furthermore, Huang and Shiu (2005) posit that foreign investors can actually be better informed than domestic investors.

A current work belongs to Ferréira et al. (2017) who investigate a list of all firms covered in the Datastream and WorldScope database for 32 countries between the years 2000 and 2010. They state that domestic investors on average seem to trade in countries with high levels of corruption, weak investor protection and less efficient stock markets. They interpret that finding as where information asymmetry is likely to be more severe, increases in the holdings of domestic investors are followed by higher future returns, while increases in holdings of foreign investors are followed by lower stock returns. From this perspective, after 2008 global financial turmoil, an increase has been observed in domestic and individual investors' stockholders in Turkish capital markets.

The average values of institutional stockholders which is documented to be the dominant investment style in terms of investment horizon is reported to be an average of 81.91% for the eleven year period between 2006 and 2016. Yearly institutional stockholders follow the same pattern, the average values have been declined in recent years.

Industry Characteristics and Stock Allocation
Apart from the macroeconomic factors, firm specific determinants and additionally industry characteristics may influence the investment opportunities and their expected returns closely add value the investment strategies of stockholders. Table 3 gives an insight about whether the industrial breakdown differ in stock allocation decisions in Turkish capital markets in the related period.

Foreign and institutional stockholders have also seen a predominant effect rather than domestic and individual stockholders for all types of industries. Moreover, BIST Services industry and Retail Service sub industry seem to have the highest average institutional stockholders as well. This may be the result of having more growth prospects in Turkey in the related industries. This similar pattern has also seen in that same industry and sub-industry having the highest foreign stockholders.

Following the BIST Services industry, BIST Financials industry and Banks sub industry have the second highest average foreign and institutional stockholders ownership. Stock allocation has followed a different trend in sub industries of that industry. For instance, in Textile and Other sub industries have the highest average domestic and individual stockholders rather than the all sub industries.

Real Estate Investment Trusts (REITs) have been more popular in Turkey and attract several investors in recent years. As an emerging economy, Technology industry has been still in the relatively early stage in Turkey which is expected to drive future growth.

Food, Beverage and Tobacco sub industry can be considered to be non-cyclical and regardless of the economic conditions, products and services may have a constant demand. Therefore, this industry may be considered as less volatile for investors. It is well known that Materials sub industry may be deeply cyclical closely tying with the low cost and high cost producers. In robust macro-economic conditions, investors can earn money however in downturns, the stocks can immediately fall.

Zou et al. (2016) state that domestic funds tend to over-invest in the following industries; Food Beverage and Tobacco, Household and Personal Products, Retailing, Pharmaceuticals, Biotechnology and Life Science, Health Care Equipment and Services, Software and Services, Commercial and Professional Services, and Consumer Services respectively.

Table 3: Industry based average Stock Allocation in Turkish Capital Markets

<table>
<thead>
<tr>
<th>Industry Categories</th>
<th>Domestic</th>
<th>Foreign</th>
<th>Individual</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIST Financials</td>
<td>0.2956</td>
<td>0.7044</td>
<td>0.1483</td>
<td>0.8517</td>
</tr>
</tbody>
</table>
Institutional investments heavily belong to BIST Financials and BIST Services industry. Taking everything into account, stock allocation on BIST is characterized by the dominance of the foreign institutional investors in the total equity portfolio. Domestic investors are characterized by the dominance of domestic individual investors but the share of them is very limited comparing with the other countries.

**Responsible Stockholders in Turkish Capital Markets**

European Fund Asset Management Organization (EFAMA Report, 2016) defines Responsible Investing as *it is any method of selecting investments where both financial and non-financial considerations, such as standards, ethical or social norms are taken into consideration*. From that respect, responsible stockholders have a tendency of the firms’ social, environmental, governance considering the financial and economic issues. This term has become a significant part in the agenda in the last decade and BIST has made several amendments on that respect. Launching BIST Corporate Governance Index and BIST Sustainability Index has changed the way executives do business in Turkey and the attitudes of investors on that corporations.

BIST Corporate Governance Index has been launched in 2007 and aims to measure the price and return performances of companies traded on BIST with a corporate governance rating of minimum 7 over 10 as a whole and minimum of 6.5 for each main section. The score includes four main sections: Shareholders, Public Disclosure and Transparency, Stakeholders, Board of Directors. The corporate governance rating is determined by the rating institutions incorporated by CMB in its list of rating agencies as a result of their assessment of the company’s compliance with the corporate governance principles as a whole. As at the end of 2016, there has been 50 firms listed on that index with six of them unlisted and one of them is nongovernmental organization.

BIST Sustainability Index has been launched which is comprised of the firms that are traded in BIST and have high sustainability performances in 2014 with 15 listed firms, 29 firms in 2015 and increasing to 43 firms in 2016.

**Table 4: Stock Allocation on behalf of BIST Governance Index and BIST Sustainability Index**

**Panel A: BIST Governance Index**

<table>
<thead>
<tr>
<th>Category</th>
<th>REITs</th>
<th>Holdings</th>
<th>Banks</th>
<th>BIST Industrials</th>
<th>Construction</th>
<th>Food, Beverage &amp; Tobacco</th>
<th>Chemicals</th>
<th>Materials</th>
<th>Paper Industry</th>
<th>Textile</th>
<th>Other Industrials</th>
<th>BIST Services</th>
<th>Electricity, Gas and Water</th>
<th>Technology</th>
<th>Retail Service</th>
<th>Construction Service</th>
<th>Hotels</th>
<th>Wholesale</th>
<th>Mining</th>
<th>Sports Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.4213</td>
<td>0.5787</td>
<td>0.2379</td>
<td>0.7621</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.2813</td>
<td>0.7187</td>
<td></td>
<td>0.3025</td>
<td>0.8525</td>
<td>0.5080</td>
<td>0.9174</td>
<td>0.5866</td>
<td></td>
<td>0.8438</td>
<td></td>
<td>0.3808</td>
</tr>
</tbody>
</table>
Table 4 states stock allocation on behalf of BIST Governance Index and BIST Sustainability Index and gives an insight on the effect of responsible investments of firms on the investor portfolio in the related period. While the average of foreign stockholders is 68.09% that have been reported in Table 2, this variable has been increased to 72.01% in BIST well governed firms and 72.15% in firms listed on sustainability index. Findings reveal that foreign and institutional investors are eager to invest on stocks with better corporate governance and sustainability efforts.

According to McKinsey Company 2016 Global Investor Survey, institutional investors are found to prefer investing in firms with robust corporate governance practices. This paper tries to provide additional insight by analyzing the percentage of foreign and institutional stockholders that are listed on the Corporate Governance Index and Sustainability Index. It has to be stated that foreign institutional investors play crucial roles in bringing about change in corporate governance systems (Gillan and Starks, 2003) and sustainable firms attract more foreign investments than the others. Aggarwal et al. (2011) also evidence the significant role foreign institutions play in attaining the improvement of corporate governance practices as well. Furthermore, for Turkey Gurbuz et al. (2010) state that the impact of institutional investors has been more strongly pronounced on firms listed on the BIST corporate governance index than non-listed firms between the years 2005 and 2008.

Conclusions

Investors’ place in the pattern of capital markets development has been a crucial debate in contemporary economics. This study gives and understanding of the interrelationship among stock allocation, industrial characteristics and responsible investments in Turkish capital markets. The investor profile on the BIST is characterized by the dominance of the domestic and institutional investors in the total equity portfolio. The share of domestic individual investors in the stock market is very limited in comparison to the other capital markets. Additionally, domestic investors are mainly composed of individuals with small portfolio holdings.

Industrial breakdown indicates that industry characteristics matter on the stock allocation and seem to be important drivers of investments in Turkish capital markets. Results suggest that there are significant differences in industry allocations between the domestic and foreign and individual and institutional stockholders in Turkey. Specifically, investments into the services industry and retail service sub industry seem to have the highest average institutional and foreign stockholders. Findings reveal that foreign and institutional investors are eager to invest on stocks with better corporate governance and sustainability efforts. The stock allocation on responsible investments demonstrate that international portfolio investments by institutional investors is associated with enhanced monitoring leading to more effective corporate governance practices and sustainability efforts.

This paper gives an insight about the firm and industry level stock allocation in Turkish Capital Markets considering the responsible stockholders. The extent to what firm characteristics that the foreign and institutional investors preferred, will have significant implications for the ability of firms in emerging markets to raise capital and hence impact the growth of
Institutional Investors have an impulsive effect on the development of capital markets with professional portfolio management and with their ability of creating long term resources. Thus, policy makers have to take into account the dominance of these types of investors in the financial markets as they develop rules and regulations. Consequently, it would be interesting to explore the interrelatedness of investment characteristics and stock characteristics in terms of market value, profitability, and capital structure considering the governance and sustainability efforts of the firm around the emerging markets with a large dataset as a further study.

References

Stress Analysis of Composite Materials Used for Yacht Production Through Solid Work Simulation

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Abstract

In recent years, considerable progress has been made in understanding the characteristic of composite materials and their tailored structures in the marine environment. Processing and production sectors also have received more attention resulting in the potential for the construction of complex, large assemblies capable of withstanding heavy loads. However, the key challenges involved in employing composites for marine applications include the need for optimization of capital expenditure and operating costs of boats, ships and other marine artifact's constructed using composites. Materials science and composite technology are advancing rapidly, and new composites such as epoxy mixtures including the application of carbon nano tubes are becoming more popular with ever growing concern for high performance marine structures. Indeed, lightness, ease of production, durability and strength enable composites to play a vital role in marine applications. As the Marine sector continues to look at improving efficiency and reducing overall costs, Composite materials will play a huge part in the future of Marine construction. The paper is focused to the static linear simulation of elastic bodies using Solid Works Simulation. Stresses analyses have been developed in the static analyze which provide tools for the linear stress analysis of parts and assemblies loaded by static loads, taking in consideration for the analyze the most stressed part of the bottom, board and desk of the yachts.

Keywords: Static analyze, stress, composite materials, optimization, marine sector, leisure yachts.

1. Introduction

The advantage of material properties and flexibility of choosing material have made composite materials a primary preference for structural application. Unlike isotropic materials, the parametric study of composite beams for optimized design is complicated due to high number of parameters involved in designing like lay-up sequence, and layer configuration. Moreover, the limitations of FEA techniques in designing have created a need for an analytical closed-form solution for stress analysis of laminated composite beams.

The objective of this study focuses on the development of an analytical method for stress analysis of composite beam. This method includes the structural response due to unsymmetrical and/or unbalanced of laminate as well as unsymmetrical I-beam cross-section. These structural characteristics are often ignored in the most published studies.

Analytical closed-form expressions for the Von misses indicator, stress and strain coefficient, and URES parameter are generated from the different simulation with different composite materials for the three main parts of the ship, hull, board and deck using Alfa Solid Work commercial soft.

2. Coordinate System for Lamina and Laminates

A laminate is made up of perfectly bonded layers of lamina with different fiber orientation to represent an integrated structural component. In most practical applications of composite material, the laminates are considered as thin and loaded along the plane of laminates. A thin orthotropic unidirectional lamina as depicted in Figure 2.1 has fiber orientation along the 1-direction and the direction transverse to the fiber along the 2-direction. The x-y coordinates represent the global coordinate system for the lamina.
Since each lamina has individual coordinate system, the strain-displacement relation for a laminate is represented easily along a convenient common axis in the reference plane. The reference plane is selected along the mid-plane of the laminate for simplicity. Moreover, the laminate are assumed to be bending without slipping over each other and the cross-section of the laminate remains unwrapped. Transverse shear strain are also considered to be negligible. Considering these assumptions the in-plane displacement at any point with coordinate z can be written as (see Figure 2.2)

$$u = u_0 - z \frac{\partial w}{\partial x}$$

3. Narrow and Wide Beams

The structural response of the beam is dependent on the ratio of the width to height of the beam cross section. For a beam subjected to bending, the induced lateral curvature is insignificant if the width to height ratio is large. This kind of beam is so-called "wide beam". Conversely, if the width to height ratio of the cross section is small, the beam is called "narrow beam". For this case, the lateral curvature is induced due to the effect of Poisson's ratio. As the result, lateral moment is zero.
4. Stress and Strain in Laminates

Stress and Strain are the two building blocks of structural analysis. They are what we use to understand where a component is in relationship to material failure, sharing a close relationship. So close that sometimes their definitions both contain each other making it difficult to understand them individually. What they have in common is:

Stress and Strain are both responses to applied loads on a structure.

Stress and Strain are both measurements to determine material failure criteria and behavior.

The methodology of the study include the stress analyzing of the most loaded panels for hull, board and decks for a small composite vessel with 5.5 m length based on the respective designs.

5. Panel Analyses Based on ISO 2008 Standard
Vessel’s parameters
LOA = 5,457 m
LWL = 5,040 m
BWL = 1,912 m
Bmax = 2,243 m
DWL = 0,357 m
Δ = 756,652
Navigation speed V = 40 nyje.

Hull panels

<table>
<thead>
<tr>
<th>Dimensions for hull panel (mm)</th>
<th>Panel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td>L</td>
<td>1160</td>
</tr>
<tr>
<td>B</td>
<td>1041</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pressure in the panel Pbm</th>
<th>2</th>
<th>4</th>
<th>6</th>
<th>8</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40,21208</td>
<td>39,25379</td>
<td>30,515535</td>
<td>42,8477</td>
<td>73,93265</td>
</tr>
</tbody>
</table>

The panel 4 is the most stressed panel, so every simulation on Solid Work will be done for this panel taking in consideration two types of composites composite with plains and sandwich composites.

Simulation of hull panel in Solid Work Software

The simulation of panel 4 for hull has been done for 6 composite materials respectively: Composite EPOXY-Rubber, E-glass-EPOXY, PVC – Natural Rubber, Resin-Rubber, Polyester resin – Natural Rubber, Custom plastic- Rubber. The composite was composed from 16 plains of the above mentioned materials symmetric ones.

Simulation process start with panel design that can be done on CAD and transported on Solid Work or designed directly there.

Simulation of EPOXY- RUBBER panel

Geometric modeling of the panel 4 for the hull of small vessel 5.5 m length

New static study, define the type of composite, entered the parameters for it, thickness for every plain, angle, volume, density of material, mass and weight. It has been chosen the composite with 16 combined plains in a symmetric way.
Defining the materials selected from the library of Solid Work software. In our case has been chosen Epoxy Unfilled and Rubber. The model type was chosen Linear elastic Orthotropic with the respective tensile strength in x, compressive strength, elastic modulus and Poisson's Ratio according to the material.

Fixture and Loads of the plan has been done in all directions taking in consideration that we are developing a static study. The value of the maximal pressure on the panel 4 is the load applied in the panel in each piece of it.
Mesh and run the study is the final process, before the software generates the report. Report results create the possibility to receive the appropriate data that can help for the definition of the appropriate composite material which can satisfy the necessary parameters for durability and weight.

Based on the same methodology has been generated from the software the respective reports for every composite applied.
The table 1. below shows the most important parameters that can be used to analyze which composite material is more appropriate for the yacht hull construction.

<table>
<thead>
<tr>
<th>The material</th>
<th>Material mass in (kg)</th>
<th>Thickness (mm)</th>
<th>Von misses stress N/m²</th>
<th>URES (mm)</th>
<th>ESTRN</th>
<th>Deformation scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epoxy unfilled – rubber</td>
<td>18.375</td>
<td>13.74</td>
<td>9.786e+007</td>
<td>1.701</td>
<td>2.563</td>
<td>0.8</td>
</tr>
<tr>
<td>Resin-natural rubber</td>
<td>17.59</td>
<td>13.74</td>
<td>1.011e+007</td>
<td>2.125</td>
<td>3.14</td>
<td>0.64</td>
</tr>
<tr>
<td>E-glass – epoxy (sandwich)</td>
<td>39.9</td>
<td>13.76</td>
<td>9.64e+007</td>
<td>3.688</td>
<td>5.599</td>
<td>5.52</td>
</tr>
<tr>
<td>PVC – Natural rubber</td>
<td>18.75</td>
<td>13.74</td>
<td>9.786e+007</td>
<td>1.701</td>
<td>2.563</td>
<td>0.8</td>
</tr>
<tr>
<td>Polyester resin – Natural Rubber</td>
<td>18.65</td>
<td>13.74</td>
<td>1.14e+007</td>
<td>2.463</td>
<td>3.711</td>
<td>5.52</td>
</tr>
<tr>
<td>Common Plastic - Rubber</td>
<td>18.4</td>
<td>13.76</td>
<td>9.599 e+007</td>
<td>1.691</td>
<td>2.39</td>
<td>0.8</td>
</tr>
</tbody>
</table>

The same simulation methodology is going to be used for the most stressed panel of board nr 3 and the panel of deck nr 5 in the below designs respective design No1 for the board (panel 3) and design No 2,3 for the deck (panel 5)

Based on the same methodology has been selected between six different composite materials the composite EPOXY-Rubber as the most appropriate for the construction of the panel 5 for the deck and the same material for the construction of panel 3 of the board.

Conclusions:

Composite materials are the most appropriate materials for the construction of yachts and small boats due to the very good parameters in weight and durability.

Solid work simulation static stress analyze offers the possibility to apply different composition of the materials and select the most appropriate material based on weight, tensile stress and deformation.

The composite EPOXY – Rubber is the most appropriate material for the construction of board and deck panels, instead of other composites taking in consideration the static analyze

Polyester resin – Rubber Composite is the most appropriate composite to be recommended to the constructors of yachts for the hull construction.

Sandwich materials are not recommended for the hull construction due to the very high weight they have.
Variables that affect the purchase intention of Peruvian gastronomy

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Abstract
The purpose of the research is analyze the association of the purchase intention of Peruvian gastronomy with the following set of variables: the country image of Peru, the gastronomy's product image, the familiarity with Peru, and the gastronomy's product familiarity. Such association has not been studied for country familiarity variable, and for Peruvian gastronomy. A qualitative method to compile the primary information and the survey technique was used. Additionally, a questionnaire of closed questions was applied to undergraduate and graduate students in two selected samples that correspond to the consumers of two countries with different levels of familiarity with Peru: United States whose level of familiarity is high and France whose level of familiarity is low. It was concluded that there is a positive relation between the intent to purchase of Peruvian gastronomy with the country image of Peru, the gastronomy’s product image, the familiarity with Peru, and the gastronomy’s product familiarity. In addition, the country image of Peru is statistically significant associated with purchase intention of Peruvian gastronomy for the case of foreign consumers with high and low familiarity with Peru.

Keywords: purchase intention, familiarity, gastronomy, Peru.

1. Introduction
According to Khan et al., (2012), Fishbein & Ajzen (1975), purchase intention is the individual and subjective decision that consumers make towards a brand, product or service which has been selected by them after a certain level of evaluation. Additionally, Huy & Svein (2012) affirm that it is essential to analyze the purchase intention of goods and services offered by a company, since marketing managers are involved to analyzing it with the aim of predicting sales, estimating the demand for their products and services, segmenting the market and designing promotional strategies.

Similarly, Madahi and Sukati (2012) point out that purchase intention is an increasingly critical element for studies on consumer behavior; consumers will decline in their purchase based on their evaluation and appreciation of the product or service bought. According to Keller (2001), the purchase intention can be affected by many external factors; however, the ultimate decision between accepting or rejecting a product or service will depend on the purchase intention of the consumer.

The general objective of the present investigation is analyze the association of purchase intention of Peruvian gastronomy with country image of Peru, gastronomy’s product image, familiarity with Peru and gastronomy’s product familiarity variables. In addition, specific objectives are following:

I. Analyze the association of the country image of Peru with the gastronomy’s product image.
II. Analyze the association of the country image of Peru with the purchase intention of Peruvian gastronomy.
III. Analyze the association of the gastronomy’s product image with the purchase intention of Peruvian gastronomy.
IV. Analyze the association of familiarity with Peru with the purchase intention of Peruvian gastronomy.
V. Analyze the association of gastronomy’s product familiarity with the purchase intention of Peruvian gastronomy.
VI. Analyze the effect of country image of Peru, gastronomy’s product image, familiarity with Peru, gastronomy’s product familiarity with the purchase intention of Peruvian gastronomy.
2. Literature Review

It's analyzed the main models that explain the relationship between the variable purchase intention with image country, image product, country familiarity and product familiarity variables.

Han - Construct Summary (1989) proposed a model that researched the variables that influence the consumer purchase intention, identifying as main variables: country image and product familiarity. Han concluded that when the consumers doesn't have knowledge of a specific product; the image country of this product impacts on the consumers purchase intention through their perceptions and beliefs relative to the product.

In addition, Han - Halo Effect (1990) developed a new model that analyzed the consumer's perception of product quality through evaluation of the product's country of origin. His model studied the impact of this evaluation on their purchase intention. The main finding was that the country of origin may affect the perception of product's quality; and it influences the consumer purchase intention. However, country image isn't the unique variable that can impact on the perception of product's quality.

Other perspective was researched by Hong and Wyer (1989) who proposed a model that demonstrated that the information relating to product's country of origin generates more awareness in knowing information regarding the other attributes of the product by the consumers. Subsequently, the information of product's country of origin stimuli the final evaluation of the product. However, the analysis of this model doesn't allow to conclude when it is wise to promote product's country of origin.

In contrast, Roth and Romeo (1992) studied a model integrating the country image and product image, with purchase intention. They defined country image in terms of four dimensions, which are evaluated at the same time when the consumer analyze a specific product. This lets determining when it is advisable to promote the product's country of origin and when not, it allows prioritization of the dimensions of the country image that require greater care.

In addition, Papadopoulos and Heslop (2000) presented the model based on Roth and Romero (1992) research, however, it focused on a multi-country study. Consequently, they were able to study the influence of product's country of origin on the consumer purchase intention. Similarly, Lin and Kao (2004) developed a model based on Roth and Romeo (1992). However, they model analyzed the relation of the variables concerning to the brand and country image and its influence on the consumer purchase intention. They found that the country of origin impacts positively the intention purchase of consumer.

On the other hand, Long Yi and Chun-Shuo (2006) suggested a model that studied the effect of the country and product image, the degree of product's entailment and knowledge on the consumer purchase intention. They main finding was that product's knowledge and entailment moderate the final impact that the country of origin has on consumer purchase intention. Although this model studied in greater depth variables concerning to the product; it doesn't test the brand effect on consumer intention of purchase.

However, Wang and Yang (2008) proposed a model that studied the impact of brand personality and the country of origin on the consumer purchase intention. They concluded that the brand personality and product's country of origin produce combined effect that favor the consumer purchase intention. In addition, Khan, Ghauri and Majeed (2012) analyzed the impact of product's country of origin on the consumer purchase intention. They main discovery was that the impact of the product's brand on the consumer intention of purchase is directly and determined by the brand components: brand awareness, past experiences of the brand, and the association between brand awareness, and past experiences of the brand.

Xianguo, Yang & Wang (2012) evaluated the influence of the country image on the perception of product quality; and the impact of ethnocentrism and customer animosity on such association. They concluded that ethnocentrism impacts positively on the consumer purchase intention of national products, unlike, with imported products. A new viewpoint was presented by Guina and Giraldi (2012) who appraised the impact of product's country image and familiarity with the country of origin of the product on the consumer purchase intention. The authors concluded that the country familiarity impacts positively on the country image, and consumer purchase intention.

Correspondingly, Sinrungtam (2013) analyzed the effect of product's country of origin on the consumer's purchase intention. Additionally, the author studied in depth the country of origin developing six dimensions to study it, and concluded that four
of the dimensions that form country of origin impact directly on consumer purchase intention; while the country of assembly and country of design dimensions are not associate with the consumer purchase intention. Similarly, Ortiz (2014) studied the association between the product's country of origin and brand personality; as in besides, its impact on the consumer purchase intention. His results specified that country of origin image has a direct and significant impact on the brand personality; and this interaction has a positive effect on consumer purchase intention.

On the other hand, Liu and Guo (2016) studied the effect of product's access, satisfaction, reputation and familiarity on consumer purchase intention. Their results showed that both product's familiarity and access don't directly impact on the consumer purchase intention; highlighting that both variables indirectly impact consumer purchase intention through product's trust and social benefit variables.

A critical finding in the review of the literature is the scarcity of studies on the consumer's purchase intention for agricultural and gastronomic products from emerging countries. Additionally, country's familiarity was studied in the model, such variable have not been analyzed in the literature frequently. As a result, the following are the hypotheses (see figure 1):

**Hypothesis 1 (H1):** The better the country image of Peru is, the better the gastronomy’s product image is.

Numerous researchers have analyzed the relationship between country image and product image. Nevertheless, other researchers have associated these two variables with others in their studies, as Nagashima (1970); Narayana (1981); Agarwal and Sikri (1996); Roth and Romeo (1992); Martin and Ergul (1993); and Kotler and Gertner (2012).

**Hypothesis 2 (H2):** The better the country image of Peru is, the higher the intent to purchase gastronomy will be.

Various authors researched the association between the country image and consumer purchase intention. However, others have studied the relationship between both variables with others in their research, as Han - Construct Summary (1989); Hong and Wyer (1989); Roth and Romeo (1992); Papadopoulos and Heslop (2000); Long-Yi and Chun-Shuo (2006); Wang and Yang (2008); Xianguo, Jing, and Da Xia (2012).

**Hypothesis 3 (H3):** The better the gastronomy’s product image is, the higher the intent to purchase gastronomy will be.

According to the review of the literature, several authors analyzed the correlation between product image and consumer purchase intention. Nevertheless, other authors have researched both variables with others in their studies, such as Han - Halo Effect (1990); Roth and Romeo (1992); Papadopoulos and Heslop (2000); Long-Yi and Chun-Shuo (2006).

**Hypothesis 4 (H4):** The better the country familiarity with Peru variable is, the higher the intent to purchase gastronomy will be.

According to the review of the literature, Guina and Giraldi (2012) and Roth and Romeo (1992) researched the country familiarity and consumer purchase intention with other variables in their analysis.

**Hypothesis 5 (H5):** The better the gastronomy product familiarity is, the higher the intent to purchase gastronomy will be.

Han - Construct Summary (1989); Han - Halo Effect (1990) and Lin and Kao (2004) studied the association between product familiarity and consumer intention to purchase, with other variables in their researchers. Particularly, Roth and Romeo (1992) made a short comment of products familiarity and its association in the consumer purchase intention, however, they didn't study it in their model.

**Hypothesis 6 (H6):** The country image of Peru, the gastronomy’s product image, the country familiarity with Peru and the gastronomy’s product familiarity used together have a significant impact on the intent to purchase gastronomy.

Han - Construct Summary (1989); Han - Halo Effect (1990); Hong and Wyer (1989); Papadopoulos and Heslop (2000); Lin and Kao (2004); Long-Yi and Chun-Shuo (2006); Wang and Yang (2008); Xianguo, Jing, and Da Xia (2012); Khan Ghauri and Majeed (2012) and Sinrungtam (2013) studied the association between the following variables country image, product image, country familiarity and product familiarity with the consumer purchase intention, with other variables in their studies.

3. Method

A descriptive confirmatory study was carried out studying the variables analyzed in the literature review. It is possible to conclude their associations (Kumar, 2000). It was used a qualitative method to collect the primary information and the
survey technique was performed. Additionally, a structured questionnaire of closed questions was formed organized into five sections; adapting the questionnaire designed by Roth and Romeo (1992).

Two samples were studied for data collection, each sample was formed by countries with different levels of familiarity with Peruvian gastronomy. The first sample was acquiesced of undergraduate and postgraduate students from the United States (U.S.) whose familiarity with Peru is high; while the second sample was acquiesced by undergraduate and postgraduate students of France whose familiarity with Peru is low, based on the research of Verbeke and Vackier (2004).

It was selected a non-probabilistic sampling for convenience, according to Douglas and Craig (2007), this sampling is suitable in international marketing research, given the time and money limitations and restricted access to the population analyzed, see table 1.

The selection of the components of country image of Peru and gastronomy’s product image were based on the items of the country image and product image analyzed in the review of the literature. The items studied by Roth and Romeo (1992); prestige, design, innovation and manpower were used, while country familiarity, product familiarity and consumer purchase intention were measured through a single item.

The interval method was performed to measure the various categories of response by consumers to the items analyzed. For this reason, the semantic differential scale was useful as a measurement scale based on response categories ordered on a seven-point scale. It's represented the degree of acceptance, preference or agreement with each of the items studied, given their simplicity, speed of application and tabulation of results (Kineear & Taylor, 1999).

Preliminary analysis

Table 2 shows the statistical reliability for country image of Peru and the gastronomy’s product image scales. The individual corrected item-total correlations and the total value of Cronbach’s alpha are extensively satisfactory according to Nunnally (1967).

Tables 3, 4, 5 and 6 shows the outcomes of dimensionality for the country image of Peru and the gastronomy’s product image. The first factor of the Principal Component Analysis (PCA) explains much more variance than the second, and this more than the third; additionally, the first factor of the PCA is the unique that has an eigenvalue greater than one, in both cases. As a result, both scales are one-dimensional (Carmines & Zeller, 1979).

Table 7 shows ANOVA test of equal means for France and U.S. samples, it was made for each analyzed variable, results indicates that the null hypothesis of equal means isn’t accepted in any case based on F values, since p <0.000 in all the studied variables. Similarly, Turkey test was carried out in order to analyze the homogeneous subsets of samples. Table 6 shows that the mean of French sample is significantly less than the mean of the U.S. sample for Peru country image, familiarity with Peru, and purchase intention of Peruvian gastronomy. Specially, for the gastronomy product image and familiarity with gastronomy; samples of USA and France determine a homogeneous group.

4. Conclusions

It was analyzed the peer correlation of the country image of Peru with the gastronomy’s product image. Additionally, it was studied each of the four variables researched with the purchase intention of Peruvian gastronomy, through bivariate analysis.

Study of H1: The better the country image of Peru is, the better the gastronomy’s product image is.

In the sample of France, country image of Peru is directly and non-significantly correlated with the gastronomy’s product image (r=+0.106; p=0.272). In contrast, in the U.S. sample, the correlation is direct and significant; the country image of Peru is significantly correlated to the gastronomy’s product image (r=+0.324; p=0.001), at 5% level of significance; see table 8. This outcome of the empirical part confirms what was studied in the literature concerning the relationship between the country image and the product image researched by Nagashima (1970), Narayana (1981), Agarwal and Sikri (1996), Roth and Romeo (1992); and Martin and Eroglu (1993).

Study of H2: The better the country image of Peru is, the higher the intent to purchase gastronomy will be. In the sample of France, there is a positive and significant relation of the country image of Peru with the intent to purchase gastronomy (r=+0.334; p=0.000), at 5% level of significance. Similarly, in the sample of U.S., the association of the country
image of Peru with the intent to purchase gastronomy is direct and significant (r=+0.489; p=0.000), at 5% level of significance; see table 9. This empirical result validates what has been analyzed in the literature, relative to the association between the country image and the consumer intention to purchase, as studied by Roth & Romeo (1992); Papadopoulos & Heslop (2000); Lin & Kao (2004); Long-Yi & Chun-Shuo (2006); Wang & Yang (2008); Xianguo,Yang & Wang (2012); Khan, Ghauni & Majeed (2012) and Sinrungtam (2013), see table 9.

Study of H2: The better the gastronomy’s product image is, the higher the intent to purchase gastronomy will be. In the sample of France, it was found a positive and significant correlation between the gastronomy’s product image of Peru and the intention to purchase gastronomy from Peru (r=+0.259; p=0.007), at 5% level of significance. Similarly, in the case of the US sample, the correlation between the gastronomy’s product image of Peru and the intent to purchase gastronomy from Peru is positive and significant (r=+0.471; p=0.000), at 5% level of significance; see table 10. This finding in the empirical part corroborates what has been researched in the literature, concerning the existence of an association between the product’s image and the purchase intention, as can be observed in Han - Construct Summary (1989); Roth and Romeo (1992); Papadopoulos and Heslop (2000); Long-Yi and Chun-Shuo (2006).

Study of H2: The better the country familiarity with Peru variable is, the higher the intent to purchase gastronomy will be. In France sample, the correlation between country familiarity with Peru and the purchase intention of gastronomy is positive and significant (r=0.511; p=0.000), at 5% level of significance. Similarly, in the case of the US sample, the correlation between the country familiarity with Peru and the purchase intention of gastronomy is positive and significant, (r=0.511; p=0.000), at 5% level of significance; see table 11. This insight in the empirical part represents scientific contribution, since there aren’t studies that incorporate an association between the country familiarity with the consumer’s purchase intention. Specially, the model of Roth and Romeo (1992) is the unique research that mentions country familiarity, but doesn’t include this variable in its study.

Study of H2: The better the gastronomy product familiarity is, the higher the intent to purchase gastronomy will be. In the sample from France, it was found that the correlation between the familiarity gastronomy product of Peru and the purchase intention of gastronomy from Peru is positive and significant (r=0.111; p=0.250), at 5% level of significance. In contrast, in the U.S. sample, the correlation was found to be positive and significant (r=0.599; p=0.000), at 5% level of significance; see table 12. This finding in the empirical part corroborates what has been studied in the literature, as Han - Halo Effect (1990); Roth and Romeo (1992); Lin and Kao (2004)

Study of H2: The country image of Peru, the gastronomy’s product image, the country familiarity with Peru and the gastronomy’s product familiarity used together have a significant effect on the intent to purchase gastronomy.

In equation 1, the dependent variable is the intent to purchase gastronomy from Peru and the independent variables are gastronomy’s product familiarity, country familiarity with Peru, country image of Peru and gastronomy’s product image. All these variables have a quantitative nature and form the regression equation; it was used the intro method. The purpose of this regression was identify which independent variables are significant in the intent to purchase gastronomy from Peru. In consequence, the null hypothesis to test was: $H_0: \beta_1=\beta_2=\beta_3=\beta_4=0$.

Equation 1: Regression equation of $H_0$.

$\text{Intent to purchase gastronomy from Peru} = \text{Constant} + \beta_1 * \text{Gastronomy's product familiarity} + \beta_2 * \text{Country familiarity with Peru} + \beta_3 * \text{Country image of Peru} + \beta_4 * \text{Gastronomy's product image} + \text{error}$.

Where:

$\beta_1 = \text{Regression coefficient of gastronomy's product familiarity}$,

$\beta_2 = \text{Regression coefficient of country familiarity with Peru}$,

$\beta_3 = \text{Regression coefficient of country image of Peru}$,

$\beta_4 = \text{Regression coefficient of gastronomy's product image}$.

As a preliminary analysis to test $H_0$, it was identified the presence of extreme cases or outliers. The outcomes presented that there isn’t residue with standardized value lower than -3 or higher than +3 in both samples. Additionally, it was identified
that no factor variance inflation was greater than 5, and the condition indexes were all under 30. Therefore, there isn't multicollinearity in the regression variables for both samples.

Table 13 presents the regression results for the sample of France, it’s identified that R squared corrected is 0.139. Additionally, table 14 shows that the amount of variance explained by the regression model for the sample of France is significant (p=0.001). In consequence, it is not accept the null hypothesis (Ho: β1=β2=β3=β4=0). It means that all beta coefficients of the regression equation are not zero.

Table 15 indicates which regression coefficients are significant to explain the intent to purchase gastronomy from Peru, it allows contrast the null hypothesis, H0: β1=β2=β3=β4=0; for the sample of France. The results indicate that the null hypothesis isn’t accepted for the country image of Peru variable (p = 0.001). As a result, country image of Peru is a significant variable to explain the purchase intention of Peruvian gastronomy. Moreover, the relationship of this variable with the purchase intention of Peruvian gastronomy is direct, since it was found that β4> 0 (B4=0.304). In contrast, gastronomy’s product familiarity (p=0.617), familiarity with Peru (p=0.369) and gastronomy’s product image (p=0.055) aren’t significant variables to explain the purchase intention of Peruvian gastronomy.

Table 16 presents the regression results for the sample of U.S., it’s identified that R squared corrected is 0.445. Additionally, table 17 shows that the amount of variance explained by the regression model for the sample of U.S. is significant (p=0.000). Therefore, it isn’t accept the null hypothesis (Ho: β1=β2=β3=β4=0). It means that all beta coefficients of the regression equation are not zero.

Table 18 indicates which regression coefficients are significant to explain the intent to purchase gastronomy from Peru, it allows contrast the null hypothesis, H0: β1=β2=β3=β4=0; for the sample of France. The results indicate that the null hypothesis isn’t accepted for gastronomy’s product familiarity variable (p=0.000) and country image of Peru (p=0.008). As a result, gastronomy’s product familiarity and country image of Peru are significant variables to explain the purchase intention of Peruvian gastronomy. Moreover, the relationship of these variables with the purchase intention of Peruvian gastronomy is direct, since it was found that β1 > 0 (B1=0.357) and β3> 0 (B3=0.008). In contrast, familiarity with Peru (p=0.251) and gastronomy’s product image (p=0.089) aren’t significant variables to explain the purchase intention of Peruvian gastronomy.

In the table 19, summary of the H0, it can be seen that all correlations are positive. However, there are differences between the variables that are significant and those that are not significant to explain the intent to purchase gastronomy; from one sample to the other. When the four variables are studied together to explain the purchase intention of Peruvian gastronomy, it was found that country image of Peru is significant for both samples. As a result, gastronomy’s product image, familiarity with Peru and gastronomy product familiarity are not significant for both samples.

5. Discussion

Regarding the H1, according to the review of the literature, several researchers were found a positive and significant relationship between the country image variables and the product image. The results obtained in this research partially confirm this relationship; according to the results, the image of Peru affects the image of Peruvian gastronomy product when the consumer has high familiarity with Peru, but not when the consumer has low familiarity with Peru. As a result, there is a partial acceptance of the H1.

Relative to H2 studies which analyzed the association between country image and the purchase intention were carried out in several researchers, and therefore, is the country image is the variable used with greater frequency in the literature of the purchase intention of the consumer. Accordingly to the results of the empirical part, the H2 should be widely accepted in cases when the consumer has high familiarity with Peru, as well as, in cases when the consumer has low familiarity with Peru. Therefore, there is wide acceptance of H2.

Analyzing the H3 a low presence of the product image variable associated to the intention to purchase was observed in the review of the literature, in comparison with to the country image variable. The results widely confirm this association, according to the results, the gastronomy product image of Peru affects the purchase intention of Peruvian gastronomy when the consumer has high or low familiarity with Peru. Therefore, there is a wide acceptance of H3.

Similarly, studying the H4 it was found that Peru familiarity affects purchase intention of Peruvian gastronomy when the consumer has high familiarity with Peru; and when the consumer has low familiarity with Peru. In consequence, it is
concluded that there is a wide acceptance of the H4, which constitutes an important contribution to the academy, since the familiarity of the country, has not been associated by the literature with the consumer's purchase intention.

With respect to the results of H5, a low presence of the product familiarity variable related to the intention to purchase was identified in the review of the literature, in comparison with country image, and product image variables. The results partially confirm this relationship; the familiarity with gastronomy product of Peru affects the purchase intention of gastronomy from Peru, when familiarity with the consumer has high familiarity with Peru; in contrast, when the consumer has low familiarity with Peru. Therefore, there is partially acceptance of H5.

Finally, regarding H6, when the bivariate analysis is carried out and then the multivariate analysis, it is possible to study the effect of the four variables simultaneously in the purchase intention. The results present that the behavior of the four variables studied changes for each sample; specially, it was found that Peru country image is significant associated with the intention to purchase of Peruvian gastronomy, for both samples. In consequence, H6 is partially accepted.

6 Limitations

The reliability of the results is low since the size of each of the samples is reduced due to budgetary and time constraints. Additionally, the small sample size doesn't allow a study by gender, age and socio-economic level of the consumers to determine the existence of differences in their purchase intention based on these variables. Similarly, the results obtained are not extrapolated to the universe since the sampling method used was convenience sampling (non-probabilistic method).

Furthermore, the sample used was composed by master's students from universities in the two countries where the research was conducted (France and U.S.). However, they didn't represent the universe, they have postgraduate studies and labor experience. As a result, they have greater international exposure as well as a higher cultural level that allows them to have a better knowledge of Peru and its gastronomy.

On the other hand, it wasn't possible to use structural equations to perform the validation of the model because only two variables used in the research were constructs (country image and product image) composed of four dimensions. While the other three variables (country familiarity, product familiarity and purchase intention) were one-dimensional.

Finally, four identical items (Innovation, Design, Prestige and Handmade Design) were studied in order to measure the country and product image, according to the methodology proposed by Roth and Romeo (1992). Nevertheless, the multidimensional country image construct could have been used.

References


Tables

<table>
<thead>
<tr>
<th>Table 1: Technical sheet of the study carried out</th>
<th>France</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universe</td>
<td>Persons over 18 years of age with higher education, resident in France.</td>
<td>Persons over 18 years of age with higher education, resident in U.S.</td>
</tr>
<tr>
<td>Method of sampling</td>
<td>Non-probabilistic; for convenience.</td>
<td>Non-probabilistic; for convenience.</td>
</tr>
</tbody>
</table>

121
Sample size | 109 surveys
techique used for the survey | Self-administered questionnaire

Source: Own elaboration

### Table 2: Reliability results for the multi-item scales

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalue</th>
<th>Total % of Variance</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.876</td>
<td>71.894</td>
<td>71.894</td>
</tr>
<tr>
<td>2</td>
<td>0.492</td>
<td>12.300</td>
<td>84.195</td>
</tr>
<tr>
<td>3</td>
<td>0.381</td>
<td>9.537</td>
<td>93.731</td>
</tr>
<tr>
<td>4</td>
<td>0.251</td>
<td>6.269</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Own elaboration

### Table 3: Dimensionality results for Peru Country Image scale

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalue</th>
<th>Total % of Variance</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.876</td>
<td>71.894</td>
<td>71.894</td>
</tr>
<tr>
<td>2</td>
<td>0.492</td>
<td>12.300</td>
<td>84.195</td>
</tr>
<tr>
<td>3</td>
<td>0.381</td>
<td>9.537</td>
<td>93.731</td>
</tr>
<tr>
<td>4</td>
<td>0.251</td>
<td>6.269</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Own elaboration

### Table 4: Component Matrix (1 component extracted)

<table>
<thead>
<tr>
<th>Item</th>
<th>Component 1</th>
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</thead>
<tbody>
<tr>
<td>Innovativeness Peru</td>
<td>0.832</td>
</tr>
<tr>
<td>Design Peru</td>
<td>0.834</td>
</tr>
<tr>
<td>Prestige Peru</td>
<td>0.901</td>
</tr>
<tr>
<td>Workmanship Peru</td>
<td>0.823</td>
</tr>
</tbody>
</table>

Source: Own elaboration. Extraction Method: Principal Component Analysis

### Table 5: Dimensionality results for Gastronomy Product Image scale

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalue</th>
<th>Total % of Variance</th>
<th>Cumulative %</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>2.906</td>
<td>72.661</td>
<td>72.661</td>
</tr>
<tr>
<td>2</td>
<td>0.474</td>
<td>11.858</td>
<td>84.519</td>
</tr>
<tr>
<td>3</td>
<td>0.382</td>
<td>9.546</td>
<td>94.065</td>
</tr>
<tr>
<td>4</td>
<td>0.237</td>
<td>5.935</td>
<td>100.000</td>
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Source: Own elaboration

### Table 6: Component Matrix (1 component extracted)

<table>
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<tr>
<th>Item</th>
<th>Component 1</th>
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<tbody>
<tr>
<td>Innovativeness Gastronomy</td>
<td>0.809</td>
</tr>
<tr>
<td>Design Gastronomy</td>
<td>0.869</td>
</tr>
<tr>
<td>Prestige Gastronomy</td>
<td>0.903</td>
</tr>
<tr>
<td>Workmanship Gastronomy</td>
<td>0.825</td>
</tr>
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Source: Own elaboration. Extraction Method: Principal Component Analysis

### Table 7: Descriptive ANOVA results for the comparison of means

<table>
<thead>
<tr>
<th>Item</th>
<th>F</th>
<th>p</th>
<th>Turkey post hoc comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru Country Image</td>
<td>60.653</td>
<td>0.000</td>
<td>$\mu_{\text{France}} &lt; \mu_{\text{USA}}$</td>
</tr>
</tbody>
</table>
Gastronomy product Image  21.288  0.000  $\mu_{\text{France}} = \mu_{\text{USA}}$
Familiarity with country Peru  197.703  0.000  $\mu_{\text{France}} < \mu_{\text{USA}}$
Familiarity with product Gastronomy  12.316  0.000  $\mu_{\text{France}} = \mu_{\text{USA}}$
Purchase intention (Peru Gastronomy)  126.934  0.000  $\mu_{\text{France}} < \mu_{\text{USA}}$

Source: Own elaboration

Table 8: Summary of the $H_1$

<table>
<thead>
<tr>
<th>Sample from France</th>
<th>Sample from U.S.</th>
<th>Sample from France</th>
<th>Sample from U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country image of Peru Gastronomy's product image</td>
<td>0.106</td>
<td>0.324*</td>
<td>0.272</td>
</tr>
</tbody>
</table>

Source: Own elaboration. *Highest correlation. **Significant correlation at 5%.

Table 9: Summary of the $H_2$

<table>
<thead>
<tr>
<th>Sample from France</th>
<th>Sample from U.S.</th>
<th>Sample from France</th>
<th>Sample from U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country image of Peru</td>
<td>Purchase intention of Peruvian gastronomy</td>
<td>0.334</td>
<td>0.489*</td>
</tr>
</tbody>
</table>

Source: Own elaboration. *Highest correlation. **Significant correlation at 5%.

Table 10: Summary of the $H_3$

<table>
<thead>
<tr>
<th>Sample from France</th>
<th>Sample from U.S.</th>
<th>Sample from France</th>
<th>Sample from U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gastronomy’s product image</td>
<td>Purchase intention of Peruvian gastronomy</td>
<td>0.259</td>
<td>0.471*</td>
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</tbody>
</table>

Source: Own elaboration. *Highest correlation. **Significant correlation at 5%.

Table 11: Summary of the $H_4$

<table>
<thead>
<tr>
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<th>Sample from U.S.</th>
<th>Sample from France</th>
<th>Sample from U.S.</th>
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<tbody>
<tr>
<td>Familiarity with Peru</td>
<td>Purchase intention of Peruvian gastronomy</td>
<td>0.111</td>
<td>0.511*</td>
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</table>

Source: Own elaboration. *Highest correlation. **Significant correlation at 5%.

Table 12: Summary of the $H_5$

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<th>Sample from France</th>
<th>Sample from U.S.</th>
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<tr>
<td>Gastronomy’s product familiarity</td>
<td>Purchase intention of Peruvian gastronomy</td>
<td>0.155</td>
<td>0.599*</td>
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Source: Own elaboration. *Highest correlation. **Significant correlation at 5%.

Table 13: Summary multiple regression model of purchase intent for gastronomy for sample of France.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>R squared corrected</th>
<th>Standard error of the estimate</th>
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<tr>
<td>1</td>
<td>0.413</td>
<td>0.171</td>
<td>0.139</td>
<td>1.448</td>
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Source: Own elaboration

Table 14: Breakdown of the sum of squares of the regression for the intent to purchase gastronomy for Sample of France.

<table>
<thead>
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<tr>
<td>Table 14: Breakdown of the sum of squares of the regression for the intent to purchase gastronomy for Sample of France.</td>
</tr>
<tr>
<td>Sum of Squares</td>
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<tr>
<td>Regression</td>
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<td>Residual</td>
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<tr>
<td>Total</td>
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Source: Own elaboration

Table 15: Significance of the regression coefficients for the intent to purchase gastronomy for Sample of France

<table>
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<tr>
<td>Table 15: Significance of the regression coefficients for the intent to purchase gastronomy for Sample of France</td>
</tr>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Gastronomy’s product familiarity</td>
</tr>
<tr>
<td>Familiarity with Peru</td>
</tr>
<tr>
<td>Country image of Peru</td>
</tr>
<tr>
<td>Gastronomy’s product image</td>
</tr>
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</table>

Source: Own elaboration

Table 16: Summary multiple regression model of the intent to purchase gastronomy for sample of U.S.

<table>
<thead>
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<tr>
<td>Table 16: Summary multiple regression model of the intent to purchase gastronomy for sample of U.S.</td>
</tr>
<tr>
<td>Model</td>
</tr>
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Source: Own elaboration

Table 17: Breakdown of the sum of squares regression of the intent to purchase gastronomy for the sample of U.S.

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<td>Table 17: Breakdown of the sum of squares regression of the intent to purchase gastronomy for the sample of U.S.</td>
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<tr>
<td>Total</td>
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</table>

Source: Own elaboration

Table 18: Significance of the regression coefficient effect for the intent to purchase gastronomy (Sample of U.S.)

<table>
<thead>
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<th>Source: Own elaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 18: Significance of the regression coefficient effect for the intent to purchase gastronomy (Sample of U.S.)</td>
</tr>
<tr>
<td>Variable</td>
</tr>
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<td>-----------</td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Gastronomy’s product familiarity</td>
</tr>
<tr>
<td>Familiarity with Peru</td>
</tr>
<tr>
<td>Country image of Peru</td>
</tr>
<tr>
<td>Gastronomy’s product image</td>
</tr>
</tbody>
</table>

Source: Own elaboration
Table 19: Summary of the H6

<table>
<thead>
<tr>
<th>Country image of Peru</th>
<th>Gastronomy's product image</th>
<th>Familiarity with Peru</th>
<th>Gastronomy's product familiarity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>0.001*</td>
<td>0.008*</td>
<td>0.055</td>
<td>0.089</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.369</td>
<td>0.251</td>
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<td></td>
<td></td>
<td>0.617</td>
<td>0.001</td>
</tr>
</tbody>
</table>

Source: Own elaboration. * Significant.

VIII Figures

Figure 1. Diagram of proposed hypotheses

Source: Own elaboration based on adaptation of Roth and Romeo (1992)
The impact of training / education on business results and employee satisfaction

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Abstract:
This research starts from the existing theoretical assumptions that education is a good investment for the employer and positively affects employee satisfaction. Our intention was to test this hypothesis through appropriate research in Serbia and to identify which factors and to what extent it influences. We started from the fact that HR is a complex process and influenced by various factors. In this context, special attention is paid to the integration of training and education into other HR processes, as one of the most important conditions for influencing business results and employee satisfaction. In doing so, it is especially true that the HRM concept in Serbia has been accepted with great delay and only with the arrival of foreign investors. The main goal of this research is to identify and examine the factors that influence the effects of training/education in the organizational context, and to determine under what conditions education can be an investment rather than an expense. This work is methodologically based on the analysis of the available literature and the results of the research of the authors statistically processed based on the survey on the example of 187 respondents from companies selected by random sample. An appropriate model is presented that in a simple way shows the factors influencing the cost-effectiveness of investment in education/ training.

Key words: human resource management, employee, satisfaction, training, investment, business results

Introduction
Today it is not even debatable that the most profitable investment is the one in education and that it pays off to the investor in the span of a couple of years, ensuring capital and profit. People as their organization’s potential are its biggest driving and creative power. They have the decisive role and importance in the production process, they are the bearers of change implementation, additional value creation, business efficiency advancement, and the driving force behind its future performance. The realization of the organization’s set goals and mission ultimately depends on the degree of the employees’ competence for the job, state of their work habits, creativity and motivation.

However, we have seen that the investment in education is not an investment in its own right, because it can be an expenses if the appropriate conditions for the use of education results are not fulfilled. The main objective of this paper is to identify factors that influence the effects of training/education in organizational context and to examine their effect on the company’s performance and its employees’ satisfaction. Within this objective, we have found it important to look into the relation between certain influential factors, costs and business results, in order to determine under which conditions education can be an investment and not expenditure. Our intention was to test this assumption through the appropriate research in Serbia and identify which factors exert influence and to what degree.

We have begun with the assumption that this is a complicated HR process affected by various factors. In this context, we have carefully examined the integrity of training and education within other HR processes as one of the most important conditions of influencing business results and employee satisfaction. Having said that, it is important to note that the HRM concept has been accepted in Serbia with a huge delay, and it’s mostly related to the arrival of foreign investors. Training used to be seen as an independent activity in relation to other HR processes, and the prevailing belief was that this activity had unconditionally positive effects on business success in its own right, and that it was even redundant outside of formal education.
Based on the gathered and presented results it has been confirmed that education and training affect business success and employee satisfaction, provided that there exists the influence of certain factors that are especially related to HRM. This research has enabled us to identify the appropriate model which easily demonstrates the factors of influence on the profitability of investments in education and training. It has been confirmed that both employees and training will be treated as a cost as long as there is no clear connection between them and business results. The findings of this research contribute to the testing of the assumption of the importance of training for modern organizations and its effect on their practice.

**Literature Review and Theoretical Framework**

In the existing extensive literature on HRM there is a consensus that all the processes within HRM are interconnected and have the function of human potential enhancement, and that employee training is the developmental function of HRM. Having said that, it is important to underline that training can achieve the desired results only in the context of other processes. Through their policies, practice and processes with HRM, organizations encourage its employees’ development and search for methods and instruments that have strong motivational and identity effects on employees. Different training and development programmes are becoming ever more important, and they serve to advance knowledge, competence, capabilities, motivation and satisfaction of employees.

Especially important is the fact that education/training is a human need since through learning one improves their personal development, develops their own potential, knowledge, interests, personal satisfaction, influencing their organization’s performance, and in a broader sense, the whole society.

Education and training have been recognised as important factors of personal and organizational development ever since the first papers in the organizational, management and behavioural theories were published. On the one hand, theoreticians were interested in its importance for the individual, their motivation and development, and on the other hand, in the importance for the development and success of the organization itself.

We can recognise the need for education within the need for respect and self-actualisation starting with Maslow’s works. Alderfer, however, considers this need as the human need of the highest order, and McClelland’s need for achievement is human’s need to achieve success in their field. Motivational aspect of training is reflected in employees’ direct gain from learning and knowledge, which can be seen in the way they use the acquired knowledge as a lever for development and achievement of other (including material) goals.

In their research, Lee and Bruvold (2003) have proven that investment in employee development is positively correlated to job satisfaction and fluctuation. More recent research indicate that the “high commitment” from HR, in fields like employee development, affects organizational results in shaping employees’ behaviour and their attitudes. (Arthur, 1994; Huselid, 1995).

Although motivation as an energizing (driving) and satisfaction as an emotional component cannot be seen as one of the same, and even though one cannot claim with certainty that satisfaction warrants higher productivity, one can also not deny the importance of satisfaction in the relation employees have with their organization and work results. Employee satisfaction can be influenced by various practices. Basically, human resource practices which enable positive working environment for their employees, and offer them the right to vote, participate, have the autonomy and power of decision, have positive effect on employee satisfaction (Ostroff&Bowen, 2000). The same authors believe that, next to their influence on qualities, attitudes, motivation and behavior of their employees, some human resources practices can advance structural and operative aspects of work, such as work force flexibility and employee behavior control. These processes can enhance operative efficacy.

Training and development didn’t use to be considered as activities that could help companies achieve “additional value” and face their competitors successfully. Today, companies use training as a weapon in achieving competitive advantage. Some more recent theoretical views on correlation and strategic role of HRM have contributed to this. Backer & Huselid (2008) underline the necessity of organizing human resource management in a way that would enable it to play a decisive role in organization’s strategic planning, and ensure the efficient alignment between human resources and company’s strategy. The entire HRM system is the core of competence and it is increasingly acquiring new roles that are of key importance for conducting business, such as the development of policies and strategic business partnership. Barney& Wright (1997) likewise stress that a system of human resources has to be set up that will create a synergetic effect, and not a set of independent individual human resources functions. These authors emphasize that the work results should be
bigger than the sum of individual results, and that combining individual capabilities should bring qualitatively new organizational capabilities. This requires a change in the traditional views on HRM practices (recruiting, selection, training, assessment, development, benefits, etc.) and these independent practices should be seen as related components in a co-dependent system, that are complementary and not opposed to each other, that cannot be identified and copied by the competition, so in this relation they would be a competitive advantage (Noe, Hollenback, Wright, 2006). Barney & Wright (1997) presented six theoretical models for studying HRM, three out of which (resourced based view; sybernetic system; behavioral perspective) are relevant for understanding the relation between training and organizational performance. These theories indicate that the effect of training on organizational level results is mediated by the direct influence of training on employees’ attitudes, behavior, knowledge, skills and capabilities. Kozlowski et al. (2002) suggested a multilevel developmental framework, where the efficacy of training entails the relationship between micro training results and macro goals on higher organizational levels. They focused their attention on the transfer of training “since this is the main point of training which affects the efficacy of an organization” (2000:159) and constitutes a theoretical framework for directing research towards vertical transfer (e.g. top-bottom transfer), where they showed the organizational factors that can have a direct and governing effect on learning. All the described theories indicate that the effect of training on the results of organizational level is mediated by the direct influence of training on employees’ attitudes, behavior, knowledge, skills and capabilities. Training can affect the results of human resources, which can be measured by both financial and non-financial results. In the financial sense, results are reflected by: Return on investment (ROI), return on assets (ROA), return on equity (ROE), return on sales (ROS), improved productivity, sales growth, etc. Tharenou, Saks and Moore (2007) conducted a meta-analysis of 67 research papers (which is at the same time the first research on the results of training at organizational level), about the relation between training and organization performance. The results have shown that training is positively correlated to human resource results and organization performance, which is shown in picture no. 1.

![Picture 1: The effect of training on human resources results and organization performance](source: Author of the text)

The system of human resources is a very complex seth of practices and policies that affect skills, behaviour, motivation, satisfaction and dedication of employees. These employee attributes can serve as a vicarious mechanism that connects human resources practices and organization performance. Although research has shown that training affects organization performance, as one of the human resource practices it cannot act independently without the support of other practices, because only when mutually connected can human resource practices contribute to a company’s competitive advantage.

The existing theoretical findings indicate that training influences organization performance and employee satisfaction, provided it is integrated within the function of human resource management and alligned with strategic goals. Therefore, the intention of this research will be to examine these assumptions.

**Methodology**
In the process of proving, that is, testing the set hypotheses, confirmative research was conducted, based on a survey that encompassed indicators that were important for examining the influence of education/training on organization performance and employee satisfaction. The research utilized a comparative analysis of the characteristics of the theoretical concept and human resource management practice. It was conducted during the period from Jun-October 2014 on the territory of Serbia. The examinees were guaranteed anonymity, that is, high confidentiality in the respect of personal identity and their organization’s name. The sample was random, and 187 examinees participated in the research.

The survey has 43 questions, the answers to which are distributed on a five degree Likert type scale, and they are used to assess different attitudes important for examining whether training is an investment or expenditure, and what effect training has on organization performance and employee satisfaction. The statistical methods utilized for data processing within the SPSS package v.19 are: descriptive statistics, variant analysis and Pearson correlation coefficient. The results of Cronbach’s alpha Test have shown that there is a high degree of reliability (0,973) when using Likert type scale for measuring attitudes in the conducted survey. The survey encompassed the following variables:

- sociodemographic variables (sex, age, education, position within the company, time in the company)
- company’s ownership structure
- human resource management function structure and development
- employees’ attitude towards the company’s management
- employees’ attitude towards the company’s goals
- employees’ attitude towards training – seen through the average value of the total score of examinees’ assessment in the five segments of training in the company they work in. This variable was tested with the help of 29 questions in the survey (including, among other things: the adequacy of the training, its effect on motivation and business performance, training program compatibility, training opportunities).

**Results and Findings**

The research has confirmed the influence of all the above mentioned variables, but in this paper we will closely examine those that hold more importance for the assessment of our assumptions. Having said that, what we find important are certain results from descriptive statistics. One of the main variables in our research is the development of HRM function, and a large number of employees in the research sample (74%) work in companies that have a separate human resources department, while 7% work in companies that have at least one person employed in this field. Only 2% work in companies that use the services of professional human resource management agencies, while 17% state that the job of human resource management in their company is performed by their top management. This data serves to show that free market economy has encouraged Serbian companies to accept human resource management as an institutional form, regardless of its size, industrial sector and ownership structure. This is a huge step, considering that the practice of human resource management was underdeveloped in Serbia until recently, and mainly directed to administrative tasks with a traditional approach. The activities of these departments were mostly concerned with the ‘personnel function’, that is, with personnel records management, managing work relations, recording employee presence and absence etc. The main activities of human resource management such as recruiting, selection, training, career planning, compensation, performance assessment and employee development were pretty under-developed. Accordingly, most human resources departments in transition economy were not involved in strategies, policies or operative decisions related to human resources. Today, many Serbian companies have introduced human resource management function with all its practices that take part in planning company’s goals and strategies, just like in developed countries, which is something that might have been influenced by foreign companies that conduct business in Serbia. 60% of examinees agreed that human resources management function contributes to better business results of the company, which leads us to conclude that the participants of the survey can see clearly, through their experience in the organizations they work for, that policies and practices of human resources are considered as a means of improving profit, business result, quality, satisfaction, etc.

The way of including human resources function in formulating, planning and implementation of organizational goals tells us about the relation between top management and this function, and of its position within the organization itself. Sixty per cent of examinees believe that human resource function is involved in planning company goals, which leads us to the
conclusion that this function has positioned itself well within companies, and that top management has recognized its contribution in achieving business results.

The compatibility of training with a company’s vision and strategy is one of the main preconditions for training’s effect on organization performance. However, only slightly above half of the examinees, 54.5% to be precise, believe that this is standard practice in their companies, while 24.9% are non-decided, and 20.5% do not have a positive opinion about this. Positive opinion (from more than half of the examinees) regarding the realization of training in compliance with company’s strategy and vision demonstrates that human resource management function has full legitimacy with the top management to conduct and implement business strategy through educational activities, that is, training.

Forty-six percent of employees believe HRM function in their company to be well developed, 31% see it as moderately developed, and 23% as poorly developed. This means that 46% of examinees concluded that HRM function contributes to their company’s business results, that it is involved in goal planning, training/education implementation in accordance with the strategy and vision, that it regularly assesses the need for training and follows and encourages its employees’ career development. The examinees who believe the function/department of HRM to be moderately developed (31%) probably think that their department does not perform well when it comes to certain activities. One might assume that in the organizations where the examinees believe the function/department of HRM to be poorly developed (23%), this function is still performing activities in the role of “personnel” function, and that it should start working on activities that include a developmental and not administrative component.

The examinees have expressed their experience regarding their notion of motivational aspect of training based on the following claims: education helps me to understand the contribution of my work activities; my salary is higher than the one of my colleague who performs the same job because of the given education/training; my job is more secure because of the training/education I have participated in; my work satisfaction has increased after training/education; training/education has a positive effect on my motivation. The answers on whether training has a motivational aspect to it are almost identical. This is shown by the average value of 3.0718 of responses to this question.

It can be concluded that only 35.9% examinees feel they are motivated to participate in training, and a slightly lower percentage thinks that the motivational effect is average or they cannot see it at all. The percentage of those who cannot see the motivational aspect of training is 30.9%, constituting one third of all the people who filled in the survey, which indicates that employees do not see the positive effect of training on salary increase, job security, personal motivation and satisfaction, which will in turn be reflected on their performance.

Assuming that it is important for employees to understand what benefit they can gain from learning, that is, why they need to learn something before they decide whether they will invest effort in it, the survey examined the attitudes of employees related to how adequately trained they are for performing tasks that are expected of them; whether the training is in accordance to the company’s strategic goals and if it helps in their better understanding; whether the training is conducted with the expectations of the working positions in mind; whether the management wants to utilize training in order to affect employee satisfaction. The average value of these responses is 3.3401 on a scale of 1 to 5, which is a pretty low result that might be compared to other developed countries, although this wasn’t comparative research.

Only 40.4% of examinees believe that companies have created conditions for training their employees in financial and strategic sense, that there is an established plan for employee training and education, that the implementation of training is compliant to its participants and their needs, that management supports training/education and individual development of its employees, that training is an investment, and not a costs, and that the superiors support the employees who attend trainings. As many as 30.4% of examinees are not sure how much this has been achieved in their companies. On the other hand, 29.2% of examinees believe that their companies have in no way created opportunities for employee training. This is almost one third of companies from our sample, and based on this, one could not say that training has been understood as an investment, and knowledge as competitive advantage.

Employees’ attitude towards training, as seen through the average value of 3.2547 of the total score on examinee assessment pertaining to the adequacy of training, motivational aspect, its effect on job performance, training compliance and opportunities for training in the companies they work for, is as follows: only 40% of examinees have a positive attitude towards training, 34.5% of them are ambivalent, while 24.8% have a negative attitude. The results are really discouraging
for a developing economy that is trying to "catch up" with its surroundings. On the other hand, a correlational analysis confirms our assumptions regarding influential factors on examinee attitudes.

Namely, the results of this research (table 1) confirm that education and training influence organization performance if its employees believe that training is in accordance with the organization’s strategic goals and integrated with human resource management function. In the companies whose employees have a clear idea about the main strategic goals and that have function/department which deals with the development of its employees, nurtures training and learning environment, the employees have a positive attitude towards training and believe that training and education can significantly improve productivity and organization performance. What was also confirmed was our assumption that human resource function should be in a holistic relation with all its functions, in order for us to expect a positive outcome of the performance, that it should be supported by the top management, and that it should work in accordance with the strategy and take part in goal planning.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Attitude towards training and its role</th>
<th>Attitude towards company goals</th>
<th>Development of HRM function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude towards training and his role</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.726**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>154</td>
<td>153</td>
</tr>
<tr>
<td>Attitude towards company goals</td>
<td>Pearson Correlation</td>
<td>.726**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>153</td>
<td>181</td>
</tr>
<tr>
<td>Development of HRM function</td>
<td>Pearson Correlation</td>
<td>.675**</td>
<td>.492**</td>
</tr>
<tr>
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<td>Sig. (2-tailed)</td>
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<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>153</td>
<td>178</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Table 1: Correlation coefficient between the attitude towards company goals, attitude towards training and his role, and development of HRM function.

The gathered results (table 2) also indicated a relationship between development of HRM and attitude towards training and its role. The examinees stated that HRM in their companies is well developed, that it works in accordance with the strategy and takes part in its planning, that it enjoys the support of the top management that had organized adequate trainings which had a motivational aspect, which in turn lead to higher salaries, career development, and improved satisfaction. They also stated that the trainings were in compliance with organizational goals and it had an effect on performance improvement. The assumption that training/education of employees can be an investment and not an expenditure for the company, provided that it is in compliance with organizational goals and employee needs has been confirmed, as shown in table 2.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Management sees training/education as an investment and not an expenditure</th>
<th>Attitude towards training and its role</th>
<th>Attitude towards company goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management sees training/education as an investment and not an expenditure</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.740**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
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<td>0</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>183</td>
<td>154</td>
</tr>
</tbody>
</table>

Table 2: Correlation coefficient between management sees training/education as an investment and not an expenditure and attitude towards training and its role and company goals.
Table 2: Correlation between the way how to management sees training, attitude towards training and goals

A well-organized educational process, which takes into account the individual characteristics and trainees motivation, the content and the selection of training methods, when the organization encourages and favors knowledge, when creating the conditions for the transfer of learning, creates preconditions for greater employee motivation and higher job satisfaction, which our survey confirmed, as shown in table 3.

Correlations

<table>
<thead>
<tr>
<th>Attitude towards training and its role</th>
<th>Pearson Correlation</th>
<th>N</th>
<th>Sig. (2-tailed)</th>
<th>1</th>
<th>Pearson Correlation</th>
<th>N</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.740**</td>
<td>154</td>
<td>0</td>
<td>0</td>
<td>.726**</td>
<td>153</td>
<td>0</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3: Correlation between attitude towards training, job satisfaction and influence on motivation

In the processing of data gathered in this research, factor analysis was used, providing us the opportunity to determine which factors are decisive for accepting the assumptions that training influences organization performance, job satisfaction and is an investment for the company.

By using factor analysis based on mutual dominant characteristics, we discovered three factors that explain 65.207% variance, as shown in the image that follows (picture 2).
Picture 2. An example of factor analysis

Having this in mind, we can form the conclusion that training will have better results and investment effects if employees believe that their company’s management is more willing to present goals, provide the opportunity for them to contribute to the realization of business strategy with their work, create an environment that will influence motivation and job satisfaction, and be consistent in implementing training.

It has also been confirmed that the companies that have a developed human resource management function that directly influences implementation of all the steps in education programs realization have better preconditions for their employees to equate their own goals with company goals, and in this way these activities can be seen as an investment (both personal and company’s). By the same token, employees will be more satisfied with their job, they will have a more positive attitude towards training and be more willing to develop and give higher contribution in their work, because their needs will also be adequately met and contribute to better performance.

Conclusion and Recommendations:

This research has confirmed our assumptions based on the existing literature – that training has influence on an organization in its entirety, and that its advantages can be seen in improving organization performance: profitability, efficacy, productivity, cost reduction, quality and quantity enhancement, employee fluctuation, company’s reputation etc.

The results clearly indicate that training will have a bigger influence if it is integrated with other human resource management practices, while human resource management function should be a part of the top management and included in planning the strategy and setting up company goals from the very beginning. The value of the given results should be seen from the perspective of it giving relevant information to scientific and professional public, which can contribute to one developing a better understanding of the importance of training for a company’s success.

The importance of this research, the first whose topic was examining the influence of training/education on performance and employee satisfaction in companies in Serbia, lies precisely in the realization that training will influence performance and employee satisfaction if it is compliant with strategic goals and is integrated in human management resource function. Based on the observation gathered by the analysis of the research conducted in Serbian companies, the following needs to be done:
educate managers with a view to understanding the importance of training and professional development of employees, since the lack of it can negatively impact an organization’s competitiveness.

train employees in human resource management function in accordance to their competence and implement training in HRM processes in order to gain positive outcome of individual and organization performance.

strengthen the role of human resource management function at organizational level, by making it a part of management structure and enabling it to participate in creating strategy and organizational goals.

thoroughly organize and implement every step (as explained in the theoretical part of this thesis) in educational process so that it would give results.

provide adequate training to participants, based on their needs, and explain the purpose of their attendance.

create an environment that will favor and reward the employees who participate in training and motivate them before, during and after training.

With this in mind, these recommendations can serve as a first step in helping companies in Serbia to find ways for better use and development of human capital with the help of training and human resource function practices, which would also improve their competitiveness in the difficult conditions both domestic and world economy are facing.

References


The Necessity of Regional Economic Integration: a Lesson for South Asia?

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Abstract

ASEAN and the European Union have showed this world the privileges regional economic integration provides the states. Although Greece and Italy might be the torchbearers of criticism against regional cooperation and integration, these two organizations tend to be some prime examples of necessity of regional economic integration. This dissertation thus focuses on the privileges and advantages that regional economic integration system and organizations deliver to the states aligned within. With the possible and crucial criticisms on mind, the discussion moves forward analyzing if this system is making the countries perform better economically and advance towards domestic development. The dissertation further intends to find out why the South Asian nations might need similar kind of cooperation and why these countries should act more sensible to make the economic integration possible. While remarking the recommendations, the discussion also draws the barriers and problems that this region might face in order to integrate their economies or enhance their trades. The core argument of this dissertation therefore lies in analyzing the importance of regional economic integration and liberal economics in this modern world and if the South Asian countries need economic integration to develop their domestic economies. The recommendations are to provide the possible ways to run the process and the drawbacks portion mentions the difficulties and barriers to be faced whilst all of these countries' ongoing strict policies. The argument tries to find out the significance of liberal economics and tribulation of realism in the contemporary world.

Keywords: ASEAN, EU, Liberal, Cooperation, Failure, Protectionism

Introduction

What could be the absolute necessities for a country to follow in order to develop itself in this modern world? The answer to this question might end up being contested by various scholars. Different scholars and intellectuals have different opinions about the ways to live in the world. Countries of different regions and varying resources are not supposed to adopt similar ways in order to develop themselves. While having these thoughts in mind, it is very evident to seek the answer of the question of whether there is a general framework for development. A general framework can also be regarded as a way of policymaking in economic aspects that guarantees development. Certainly there is no criterion or a general framework for development. The two main approaches to explain trade are considered as Liberalism and Mercantilism (Goldstein & Pevehouse, 2009, p. 278). Mercantilism aligns with realism in the belief that states must protect its interests through exploiting others or anyhow getting benefitted from others (Goldstein & Pevehouse, 2009, p. 278). Mercantilism believes that states do not need international organizations for their development rather saving its gains is more necessary (Goldstein & Pevehouse, 2009, p. 278). On the other hand, Liberalism is the alternative approach that promotes creation of international organizations, institutions and norms (Goldstein & Pevehouse, 2009, p. 278). Liberalism believes in markets and economic globalization through interdependence thus economic integration evidently originates from the trade theory of Liberalism (Goldstein & Pevehouse, 2009, p. 309). The paper further focuses on exploring the privileges and challenges regional economic integration provides in the modern world. Case studies on ASEAN (Association of South East Asian
Nations) and EU (European Union) are done on extensive efforts with a view to discovering the reality. It’s an attempt to find out a role model if one exists there. Barry Buzan (2016, p. 190) states that “the international economy is the main component and also the main consequence of the rising density and interdependence of the international system.” As interdependence exists to a great extent from the opinion of scholars, is it really necessary for every country to follow economic integration and regionalization in order to maintain a perfect balance in the economically interdependent world? The argument thus focuses on deriving information from ASEAN and European Union’s experiences and tries to implement its results on the case of South Asian countries.

2. The Idea of Regional Economic Integration

Regional integration is a process that provides a peaceful atmosphere where sovereign countries can voluntarily merge their efforts for obtaining mutual concern, regional interests and objectives (Roy & Dominguez, 2005, p.7). It is supposed to be “a space of conciliation between the creation of regional common goods and national interests, cultures, practices and policies (Roy & Dominguez, 2005, p. 7).” However the process of integration includes a series of necessary steps (McKay, Armengol & Pineau, 2004 p. 15). It is firstly necessary to find out what level of integration is wanted (McKay, Armengol & Pineau, 2004 p. 15). Secondly it is to be found out who are to be the participants of the integration (McKay, Armengol & Pineau, 2004 p. 15). In the third step, the participants will seek the degree of convergence needed for integration (McKay, Armengol & Pineau, 2004, p. 15). According to Karen Mingst (2001, p. 225), European Union has followed the path of functionalism in order to bind itself with regional integration. Goldstein & Pevehouse (2009, p. 353) also aligned with Karen Mingst to insist that regional integration is followed by the idea of functionalism. David Mittrany (1946, p. 7) stated that “The problem of our time is not how to keep the nations peacefully apart but how to bring them actively together.” The idea of integration is thus clarified by the above mentioned statements and definitions. When this integration is done in a specific region consisting of a bunch of specifically cited countries, it is called regional integration (mentioned as the definition of Roy & Dominguez). Economic integration follows the path of functionalism where “states form supranational institutions and create an economic society to promote free trade and coordinate economic policies (Goldstein & Pevehouse, 2009, pp. 352-353).” Prime examples of regional economic integration can be found out in the existence of NAFTA (North American Free Trade Agreement), EU (European Union) and APEC (Asia Pacific Economic Cooperation Forum) (Cole, Lyons & Cary, 1999, p. 70). Although not all scholars admit of ASEAN (Association of South East Asian Nations) as an example of regional economic integration, some acknowledge it as one (Fujita, 2007, p. 3). ASEAN has not yet developed a full regional integral framework as the EU, but it is on the path to do so in the future (Menon and Melendez, 2017). Regional free-trade areas, an aspect of regional economic integration, constitute a major part of world trade (Goldstein & Pevehouse, 2009, p. 293). A regional trade agreement allows the states to cooperate among themselves and therefore enables them to increase their wealth even if the rest of the world is standing still (Goldstein & Pevehouse, 2009, p. 293).

Regional economic integration, from the above definitions and statements, can be therefore derived as the creation of an economic community among specifically selected or enlisted countries who willfully participate to form supranational institutions in order to promote free trade and coordinate economic policies among themselves. Integration supposedly challenges the assumption which Realism provides that states are strictly self centered and they long for individual hegemony and power (Goldstein & Pevehouse, 2009, p. 353). Most policymakers deem that governments should embrace trade because it earns benefits for the nations and also the global economy including the individuals (Moon, 1998, p. 81). The concept suggests that exports provide employments for workers, earnings for business firms and profits that can be utilized for buying imports whereas the imports enhance the well being of civilians as it enables them to acquire more for their money and unavailable domestic resources only to be found out in foreign areas (Moon, 1998, p. 81).

3. East Asian Miracle and the Tiger Economies

According to Masahisa Fujita (2007, p. 4), East Asia has had the fastest economic growth from 1970 to 2000. In the 1970s, it was seen that most of the global south countries had enjoyed a real per capita GDP growth of almost 3 percent per annum where the per capita GDP is counted as the simplest measure of economic development (Goldstein & Pevehouse, 2009, p. 463). This economic development did not stall only in one region during the 1980s – Asia (Goldstein & Pevehouse, 2009, p. 463). From 1981 to 1991, China had an annual growth of 7 percent (Goldstein & Pevehouse, 2009, p. 463).

Before China’s sudden growth, some poor states known as Newly Industrializing Countries (NICs) started to attain self-sustained capital accretion whilst having an extraordinary economic growth (Amsden, 2001, p. 131). The export of light
manufactured goods by these countries generated a solid economic development in the 1980s and early 1990s although it was harmed by the 1997 Asian Financial Crisis (Goldstein & Pevehouse, 2009, p. 465). Nonetheless the crisis was soon recovered by these countries at a faster pace than the most global south countries (Goldstein & Pevehouse, 2009, p. 465).

Goldstein & Pevehouse (2009, p. 465) identifies the most successful NICs as the ‘four tigers’ or ‘four dragons’ – South Korea, Taiwan, Hong Kong and Singapore. All of these tiger economies were successful in creating development of particular competitive industries and sectors in the world market to make an impact in the world economy as a whole (Goldstein & Pevehouse, 2009, p. 465). A distributive to all economy was developed by these countries but scholars still engage in debate about whether these tiger economies’ achievement is a hoax or it was done under a systematic approach (Goldstein & Pevehouse, 2009, p. 465). For South Korea, the key resource was iron and coal – a more similar one like the three European giants as we would see in this paper later (Goldstein & Pevehouse, 2009, p. 465). Hyundai, Kia, Daewoo and other industries of South Korea has generated a huge amount of money from the world market through the export of cars and trucks while the South Korean government showed extreme strictness to the firms that were poorly administered (Amsden, 1989, p. 15). The example is shown by Amsden (1989, p. 15) as the major automobile industries share holder Shinjin’s disappearance from the market after the Oil shock of 1970s.

Construction firm of Kyungnam and the electronics firm of Taihan group had to be either merged with or sold to Daewoo (Amsden, 1989, p. 15). The South Korean government dictated industrial policy strongly in an attempt to promote and protect the successful industries while showing stringency to the poorly managed firms (Amsden, 1989, p. 15). By the middle of the 1990s therefore, South Korea had earned a per capita income level equal to the per capita income of Spain (Goldstein & Pevehouse, 2009, p. 465). South Korea later decided to move its production factory to Britain where the costs are lesser and cooperate with the United States to form a free trade area in order to sustain its growth through free economic movement which contributed to its sustainable economic growth (Goldstein & Pevehouse, 2009, p. 466).

Taiwan also followed a strong industrial policy and it has been enriched with successful electronics and computer firms that have helped Taiwan to possess one of the largest hard-currency reserves of the world (Goldstein & Pevehouse, 2009, p. 466). Hong Kong, another tiger economy, had its rise to a developed economy through its electronics and other light industries but most contribution came from the banking and trade between Southern China and the rest of the world (Goldstein & Pevehouse, 2009, p. 466). Singapore is geopolitically considered a trading hub and similar to Hong Kong, it also drew MNCs to set up headquarters there on the basis of its trading hub identification (Goldstein & Pevehouse, 2009, p. 466). South Korea and Taiwan both have sprinted towards a higher economy despite their political conflicts at the borders (Goldstein & Pevehouse, 2009, p. 466). Hong Kong and Singapore are merely city-states and are considered essential as trading ports and financial centers (Goldstein & Pevehouse, 2009, p. 466).

Other Southeast Asian countries – Thailand, Malaysia and Indonesia have endeavored to follow the track of these four Asian tigers from the 1980s (Goldstein & Pevehouse, 2009, p. 466). Under Deng Xiaoping in 1976, China adopted capitalism as the economic institution system through individual farming of peasants and allowing foreign direct investment through an open trading system (Goldstein & Pevehouse, 2009, p. 467). China’s economic growth has been miraculous comparing to the previous times since the adoption of these new policies (Goldstein & Pevehouse, 2009, p. 467). Inflation and corruption erupted revolutions and later subsequent economic reformations contributed to a 12 percent annual growth of China by 1994 (Goldstein & Pevehouse, 2009, p. 467). China was able to sustain itself during the 1997 Asian Financial Crisis when most of the countries succumbed to depression and by 2006 it had an annual growth of 10 percent under the rule of invigorated leaders like Hu Jintao (Goldstein & Pevehouse, 2009, p. 467). The economic development of the four tigers and the three other Southeast Asian states in the late twentieth century alongside the Chinese economic revival after the 1980s is collectively termed as the East Asian Miracle.

4. The Path that Realism Shows

Liberals perceive peace as the general state of affairs (Burchill, 2001, p. 33). Mercantilism, the economic idea of Realism, is intimately tied with the emergence of modern sovereign state (Jackson & Sørensen, 1999, p. 178). It is the first view of trade other than liberalism (Goldstein & Pevehouse, 2009, p. 278). Mercantilism bases its idea on creating a strong powerful state with great prowess (Jackson & Sørensen, 1999, p. 179). It is however the oldest approach to international political economy (Mingst, 2001, p. 184). According to the traditional mercantilists, “A Surplus balance of payments is critical to protect the national interest (Mingst, 2001, p. 185).” Mercantilists view economy as ‘low politics’ (Steans, Pettiford, Diez & El-Anis., 2010, p. 65). As the features of high politics, war and diplomacy determine economics (Mingst, 2001, p. 185). The view of trade and interdependence is seen through two visions (Nye & Welch, 2015, p. 275). These two visions are
conveyed as ‘zero-sum’ game and ‘non-zero sum’ game (Nye & Welch, 2015, p. 275). Mercantilists view trade as a zero-sum game where one side gains the amount the other side loses (Jackson & Sørensen, 1999, p. 178). Liberals view trade as a non-zero sum game where both parties win and thus make it a positive sum-game (Jackson & Sørensen, 1999, p. 183). Another aspect suggests non-zero sum game where both parties lose and therefore make it a negative sum game (Nye & Welch, 2015, p. 275). The idea of interdependence and trade therefore varies within these two perceptions. Mercantilists view trade and interdependence skeptically while liberals view them as beneficiary according to the perceptual varieties.

Mercantilism can be followed in two ways (Jackson & Sørensen, 1999, p. 178). The first way is called ‘benign mercantilism’ where states only look further to save and protect their national interests keeping the realist assumption intact that individual development is the key goal according to Jackson & Sørensen (1999, p. 178). The second one is called ‘aggressive or malevolent mercantilism’ by Jackson & Sørensen (1999, pp. 178-179) where states attempt to exploit other states or international economy through protecting its own interests, gaining the maximum advantage and creating an expansionary strategy to be more powerful.

According to Goldstein & Pevehouse (2009, p. 279), the mercantilist view stands correct as in international trade, one or the other party benefits more from a trade. Realism thus shows the path of protectionism in an extensive aspect as it contradicts with the ideas of liberalism (Goldstein & Pevehouse, 2009, p. 287). Under the conditions of protectionism, states seek to benefit the domestic industries or companies through preventing import of competing foreign goods (Goldstein, 1986, p. 161). When a government follows protectionism, it might be a fact that the policy was taken owing to a lobbying by a domestic industry (Goldstein & Pevehouse, 2009, p. 287). It is however sometimes evident that temporary protectionism for infant industries has been proved to be successful in the cases of South Korean automobile manufacturers (Goldstein & Pevehouse, 2009, p. 287). The core component of realism found in the idea of protectionism is the fear of the state which can be derived from the aforementioned statements. Realism views the world surrounded by anarchy and thus the states fear each other and distrust prevails (Steans, Pettiford, Diez & El-Anis., 2010, p. 57). Deriving from this, from the perspective of realists, the world is in an anarchic condition and the states vie with each other for power and they are always indulged in a vicious quest of maneuvering power (Steans, Pettiford, Diez & El-Anis., 2010, p. 57). Protectionism mainly covers four aspects or versions which have been or are still being followed by various states (Goldstein & Pevehouse, 2009, p. 288). The first is known as a tariff, which defines a tax entailed upon certain imported goods to enter the buyer country (Goldstein & Pevehouse, 2009, p. 288). The second one can be derived as non-tariff barriers which imply a limit on imports by forming a quota system and binding import of the good to a specific or limited number (Goldstein & Pevehouse, 2009, p. 289). The third way is called the system of subsidizing where the government provides an amount of security money or resources or somehow subsidize the loss faced by an industry to compete with the importer foreign industry (Goldstein & Pevehouse, 2009, p. 289). Subsidies sometimes make the domestic industries complacent and this inflicts the industry’s competitiveness to a great extent and it is more or less ineffective to make a domestic industry win against a foreign importer (Goldstein & Pevehouse, 2009, p. 289). The fourth way is known as restriction and regulations which affect the foreign importer to face many restrictions and difficulties to transfer or market his product (Goldstein & Pevehouse, 2009, p. 289). Mercantilism was previously known as Economic nationalism in the late 1800s and early 1900s (Steans, Pettiford, Diez & El-Anis., 2010, p. 66-67). Economic nationalism had previously followed a strict posture of protectionism and the examples of protectionism can be found in the ‘beggar thy neighbor’ policy taken by the United States government prior to the World War II (Steans, Pettiford, Diez & El-Anis., 2010, p. 67).

Another aspect of mercantilism is autarky which makes the weak states prevent becoming dependent on stronger ones (Goldstein & Pevehouse, 2009, p. 286). Autarky is the idea where states produce every good by itself and it denies trade to obtain self-reliance (Goldstein & Pevehouse, 2009, p. 286). The state of Albania had followed autarky and it found itself economically naive in the early 1991 when its autarky had ended due to the fall of communist rule (Goldstein & Pevehouse, 2009, pp. 286-287). China under Mao Zedong and the current flows of North Korea follow self-reliance or autarky (Goldstein & Pevehouse, 2009, p. 287). Autarky has been proven ineffective historically and evidence of Albanian development after 1991 and the Chinese economic miracle after opening up in the 1980s shows the inefficiency of autarky (Goldstein & Pevehouse, 2009, p. 286-287). The idea of autarky therefore is derived from mercantilism that the strong states exploit the weaker states through trade and instead of trading to gain comparative advantage, it rather suggests on obtaining self-reliance. The aspects of comparative advantage are discussed in the latter portion. Protectionism does not always cause harm (Goldstein & Pevehouse, 2009, p. 289). Most often it helps producers and affects customers (Goldstein & Pevehouse, 2009, p. 289). One problem of protectionism suggests that it makes industries ineffective and less competitive which in turn
affects the state (Goldstein & Pevehouse, 2009, p. 289). However, some scholars suggest that temporary protectionism can stabilize one industry which benefits the domestic producers and this thought is proved by the example of Harley Davidson industries (Goldstein & Pevehouse, 2009, p. 289). The US government had subsidized the Harley Davidson Motorcycle company by imposing tariffs upon Japanese motorcycles to compete with the Japanese manufacturers where the company was threatened with losing its market to the Japanese industries and further it improved its quality (Goldstein & Pevehouse, 2009, p. 289). This helped the company to sustain itself in the market and a domestic industry was saved from going astray.

This is the path that Realism shows with the ideas of autarky and protectionism alongside the zero sum measurement. The aforementioned statements show that protectionism does not deny trade but it obviously hampers the harmonious idea of trade. Realism’s skeptical view is not shared by most but internalized by many countries in the contemporary world through protectionism (Moon, 1998, p. 86). Many forms of protectionism have been introduced in the world in the past decades as governments have reacted positively to the requests of threatened industries (Moon, 1998, p. 86). Even the United States and its newly elected President Donald Trump promoted an idea of ‘Buy American’ which was evidently a sign of protectionist policy (Waldmeir and Donnan, 2017). Mercantilists are afraid that massive amount of imports allow foreigners to consume more employment and revenues from production that would have gone to citizens of the home country if trade was not allowed (Moon, 1998, p. 84). From an economic nationalist or mercantilist view, a regional free trade area is seen as a source that augments a region’s prowess at the losing or expense of other areas of the world (Goldstein & Pevehouse, 2009, p. 293). Autarky’s history leads us to the firm belief that it’s inefficiency and its experience is tormented with failure. Thus it does not remain as an option for a country’s economic development. With these aspects of this discussion, a question evidently appears. The question can be identified as – ‘Does Liberalism and Regional Economic Integration provide more amount of benefits than protectionism and mercantile exploitation?’

5. European Union

What was Europe doing back in the previous centuries? Europe has been the birthplace of Protestantism – a counter revolution to the Holy Roman Empire’s religious-political hegemony; the bloody Thirty Years War; the French Revolution; the Industrial Revolution and Capitalism; 1848 People’s Revolutions; the ideologies of Marxism, Fascism, Nazism, Social Darwinism, Racial Greatness, Liberalism and modern statehood; Colonialism and Imperialism; the most contentiously gory wars of all time – World War I and World War II (Mason, 2011). During the Cold War period after the World War II, Europe was divided into two parts – the capitalist bloc and the communist bloc, the first led by the United States of America (USA) and the latter one led by the United Soviet Socialist Republic (USSR) or, more clearly known as the Soviet Union (Mason, 2011, p. 143). The Cold War began centering on the German city of Berlin where a wall was constructed and it demarcated the borderline of the two blocs (Mason, 2011, p. 143).

With these new structural conditions and ruined geographical situations, Europe’s capitalist bloc attempted to demonstrate the century-old idea of a united Europe of Immanuel Kant and Jean-Jacques Rousseau into reality through forming institutions and trading communities (Mingst, 2001, p. 196). According to David S. Mason (2011, p. 179), the EU’s current embodiment is the successor of an idea occasionally called the European Common Market. Destructed by the vicious war, Europe was assisted with aid from the United States through the initiation of Marshall Plan (Goldstein & Pevehouse, 2009, p. 354). Two French leaders Jean Monnet and Robert Schuman initiated the plan of executing the idea of functionalism which would tie the states altogether politically for economic interests and collective development eventually preventing war and competition among themselves (Goldstein & Pevehouse, 2009, p. 354). Schuman planned to integrate German and French steel and coal industries as coal and steel was deemed important for European recuperation (Goldstein & Pevehouse, 2009, p. 354). The integration formed a single framework able to efficiently use the two states’ necessary resources and eventually the Schuman Plan in 1952 led the emergence of European Coal and Steel Community (ECSC) (Goldstein & Pevehouse, 2009, pp. 354-355). ECSC consisted of Germany and France – the two previously mentioned countries and Italy (the third huge industrial country of continental Europe), Belgium, Netherlands, Luxembourg (altogether known as BENELUX) (Goldstein & Pevehouse, 2009, p. 355). Previously in his famous ‘Iron Curtain’ speech, Winston Churchill wished for a United Europe but he did not wish the Great Britain to be included in the union rather he focused on the seventy five years power feud between Germany and France to be eliminated (Mason, 2011, p. 180). The incentive of the formation of ECSC was followed by an idea where elimination of barriers to trade of coal and steel was at the core of the formulation (Mason, 2011, p. 181). The ECSC followed a core liberal assumption that the best producer owns the market and a fully competitive market should emerge in order to have the best outcome of all the producers. A quality
production could save the downed economy of the Europe and this is what was at the focus of this integration. Coal and steel were backbones of the industrial economies of Europe and abolition of trade barriers would thus provide efficient production of these two products which might create a path for European recovery (Mason, 2011, p. 181). The facilitation of this process was organized by the ‘High Authority’ – a supranational controller of the coal and steel industries of all these six states with its headquarters in Luxembourg (Mason, 2011, p. 181). Representation from all states was confirmed and decisions were taken on the basis of majority votes where it could create norms going against interests of one or more countries, but the liberal idea bound everyone to that obligation (Mason, 2011, pp. 181-182). Alongside administering production, marketing and prices, the administration also aided weaker producers with modern technologies, readapting and conversion (Mason, 2011, p. 182).

However, in 1957, the same six countries signed the Treaty of Rome that created two new organizations – European Economic Community (EEC) and the EURATOM (Mingst, 2001, p. 196). The reason behind this was probably ECSC’s huge success in both economic and political aspects (Mason, 2011, p. 182). The aim was directed at free movement of capital and labor within the member countries (Mason, 2011, p. 182).

The triumph of EEC ultimately led to the integration of all these institutions in 1967 (Mason, 2011, p. 182). The integrated institutions were named ‘European Community (EC) and within 1968, all internal tariff barriers were eliminated (Mason, 2011, p. 182). In between mid 1960s and mid 1980s, economic development was dormant which ultimately led the institutions to some reformations (Mingst, 2001, p. 197). As a part of this reformation, the original six countries saw expansion of the community – Denmark, the United Kingdom and Republic of Ireland attached to the EC in 1973; Greece in 1981; Portugal and Spain in 1986; and Austria, Finland and Sweden in 1995 (Mingst, 2001, p. 197). The greatest expansion was seen in 2004 with the joining of 10 new countries to the European Union - Poland, Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia, Lithuania, Malta and Cyprus (Goldstein & Pevehouse, 2009, p. 364). Bulgaria and Romania joined the organization in 2007 (Goldstein & Pevehouse, 2009, p. 366).

Political union of these countries was sought and through the signing of Maastricht Treaty in 1992, the formal emergence of European Union happened replacing the previously European Economic Community where the founding of common foreign and defense policies, a single currency and a regional central bank were at the focus of the discussion (Mingst, 2001, p. 197). This treaty ultimately made the European Union a complicated organization with three key pillars (Mingst, 2001, p. 200). As Karen Mingst (2001, p. 200) put up many questions about the European Union’s ultimate future and its possibilities, it can be asserted that only the economic union was well desired by all the member states. The want of a political union made these things diversely complicated. The questions of ethnicities, integrating key policies and the question of what kind of integration therefore appeared at the face of European Union (Mingst, 2001, p. 199). One example of the problem of political union can be drawn from the event of 2008, when Kosovo declared its unilateral independence from the former Yugoslavia dividing the EU into two parts (Simms, 2014, p. 521). 22 member states affirmed the recognition whereas Greece, Cyprus, Spain, Romania and Slovakia refused to recognize Kosovo owing to their own demographic diversity and separatist rebel group problems (Simms, 2014, p. 521).

6. Wonder at Hand?

The positive sides of this economic integration are many. From the theoretical analysis and explanations from the previous parts, we can say that free trade and competition makes the market better and the most effective one. When there is competition among the sellers or the producers, they have to perform the best in order to survive in the market. He, who fails to intensify and improvise his products at the best of costs, fails to survive in the market. Survival of the fittest in this case is exemplary. Free trade also contemporizes us with the concept of comparative advantage. Comparative advantage means specialization of production according to the distribution of resources. States do not possess the similar natural resources to produce certain goods (Goldstein & Pevehouse, 2009, p. 282). Thus in order to maximize the all over creation of wealth, every state individually should focus on producing certain goods that delivers it a comparative advantage and trade with others in order to fulfill the deficit of other necessary goods (Goldstein & Pevehouse, 2009, p. 282). The European Union or say any regional economic integration is therefore the tool to promote free trade and have comparative advantage of every country in a single market without any trade barriers or tariffs. The idea of infinite resources in economics has long gone by and it is now universally acknowledged that resources are finite in this world. In this world of finite resources where all individual countries possess different sorts of natural resources, comparative advantage is the best solution for all. European Union specializes on doing that. Through the promotion of comparative advantage, it also eliminates the less competitive and less productive sellers who do not stand to deliver the best services and utility for the combined European
citizens. Goldstein & Pevhous (2009, pp. 282-283) explains the benefit of comparative advantage through the example of Saudi Arabia and Japan and the products of oil and cars. Saudi Arabia has a specialization in oil production whereas Japan can efficiently produce cars. Now if Saudi Arabia delivers oil to Japan through free trade and Japan trades cars with Saudi Arabia, Japan can fulfill its lack of oil production and Saudi Arabia’s demand for cars also gets complied. If Saudi Arabia, instead of trading oil and cars, intends to produce cars by themselves, they will be able to produce it, but it would cost a lot of money. If Japan wants to produce oil, Japan would also face an economic downfall overall because they don't have the resources and the industries to produce the goods at the quality of what their opposites can and also at the price or cost of Saudi Arabia. So trading is the best option here to avoid the cost inefficiency. Similarly, if Germany supposedly is better at producing cars or electric utilities, it is somewhat poor in raw materials. If the Baltic countries can export their raw materials to Germany without a tariff barrier, the Baltic countries can have a good amount of profit at a less amount of selling price to Germany. Later these Baltic countries can have the cars that have been produced by Germany. If the Baltic countries moved towards producing cars, a secondary level of industry, their economy might succumb to an economic destruction. Thus this idea of comparative advantage is realized thoroughly in the European Union and EU actually makes countries better through free trade, utilization of finite resources and efficiency of producers through providing perfectly competitive market.

However, according to Daron Acemoglu and James A. Robinson (2013), inclusive institutions are the key to sustainable economic development. Many countries have developed for a limited time with an imperfect growth that has later experienced a sudden downfall. European Union, through its transparent bureaucracy and structures, provides an inclusive economic and political institution system for all the EU member states’ citizens making them European citizens. This is also a positive aspect of why regional economic integration with an inclusive and transparent institution system is necessary. Interests in the European Union are therefore intertwined and no country dares to act on its own, making the countries care for others for the sake of their own interests. Participation of all countries are necessary with a voting system and without one country’s ratification, the decisions do not get completed and every single member of the union matters in the decision making process.

In the events of environmental issues and other aspects, the multilateralism of EU is very effective to save everyone’s interests and thus to act as a single actor. We have seen the emphasis of a European integration in the words of Rousseau and Kant. George Kennan (Simms, 2014, p. 381) insisted that “If there is no real European integration and if Germany is restored as a strong and independent country, we must expect another attempt at German domination. If there is no real European federation and if Germany is not restored as an independent country, we invite Russian domination... This being the case, it is evident that the relationship of Germany to the other countries of western Europe must be so arranged as to provide mechanical and automatic safeguards against any unscrupulous exploitation of Germany’s pre-eminence in population and in military-industrial potential.” His emphasis on a European integration for preserving peace in Europe was voiced in the 2012 Nobel Peace Prize winning of the European Union (Epatko, 2012). The historical rivals France and Germany cooperated with each other for about sixty years and no further conflict ever escalated between them. Peace could be retained because of this economic integration and integrated development of the two countries altogether. If these two countries had to compete against each other for economic superiority (as economy is the key instrument that can guarantee defense, welfare and all other expenditures), the scenario would have been similar to the Cold War. When included in an integrated economy, the interests of the member states are interweaved and all countries aim for integrated development, leaving the idea of individual betterment aside.

7. Fate of the Forlorn Sons: Story of Greece, Ireland and Others

Europe faced a big crisis in 2010, when Greece was hit by a financial crisis frightening it with a permanent destabilization (Mason, 2011, p. 189). Greece had to cut its expenditure on welfare, social services and retired employees to overcome its debts (Mason, 2011, p. 189). This infuriated the public of Greece and the EU allotted 80 billion Euros to stabilize Greece (Mason, 2011, p. 189). This bailing out of Greece was also skeptically assumed by the leaders in different EU states as pointing out to why would the Germans, the British, the French and the others would have to compensate for the vice of Greece. The collective effect of the economic crisis, governmental ineptitude, lower tax submissions, organized tax fudging and huge euro-dominated debts swelled owing to lower interest rates by the monetary union that affected the ‘PIIGS’ – Portugal, Ireland, Italy, Greece and Spain (Simms, 2014, p. 525). While Greece scrambled over the social service cuts, Ireland was more submissive to the EU austerity measures in a hope that it would bail them out if it cut its expenses (Simms, 2014, p.
525). Portugal, Italy and Spain stood on the brink of collapse while there was also dubiety against the core country of Belgium (Simms, 2014, pp. 525-526). Owing to these events, the EU was at a diffident position and by 2011 Europe had began to experience a financial meltdown (Simms, 2014, p. 526).

Euroskepticism also mounted in the countries of Hungary, the UK, the Netherlands, and France as Janos Kadar conquered Hungary’s politics but Geert Wullders failed to garner votes through populist agendas of EU exit (Boffey, 2017). As such, economic integration is currently threatened with the ideas of self-interest, individual development and survival of individual. The Europe, which was pioneering and making others learn about collective development and free trade, now seems to be in decay with a protectionist agenda in advent.

8. The Progress of ASEAN

ASEAN is considered as the leading organization in the Asia Pacific for Free Trade Area (FTA) formation (Tangkitvanich & Rattanakhamfu, 2017). The ASEAN FTA was initiated in 1993 and the year 2015 saw the emergence of ASEAN Economic Community (AEC), a similar version of EEC (Tangkitvanich & Rattanakhamfu, 2017). While ASEAN’s success in managing regional conflicts and organizing regional cooperation has been very much applauded, its EC still has a long way to go in order to fulfill the procedure (Tangkitvanich & Rattanakhamfu, 2017). In 1967, ASEAN was formed by Indonesia, Singapore, Malaysia, the Philippines and Thailand (Blaxland, 2017). It was expanded to consisting of 10 member states during the 1980s and the 1990s – Brunei, Vietnam, Cambodia, Laos and Myanmar as the new members (Blaxland, 2017).

Till now from economic perspective and for development purposes, ASEAN has been triumphant in only one aspect – elimination of tariff barriers (Tangkitvanich & Rattanakhamfu, 2017). The signing of CEPTA (Common Effective Preferential Tariff Agreement) in the 1990s ultimately led to the reduction of 99 percent tariff lines to 0 (Tangkitvanich & Rattanakhamfu, 2017). However the existence of Thai-Cambodian border skirmishes and other interregional conflicts makes the future of ASEAN look more pale (Acharya, 2011). According to Amitabh Acharya (2011), surviving is not the same as thriving and till now ASEAN states have some conflicts with each other going on, a very unusual practice than the EU.

The 1997 Asian Financial Crisis hit the East Asian countries hard; although China was able to escape the negative impacts of the crisis, the Asian crisis left Thailand, South Korea and Indonesia incapable of defending their currencies from collapse (Drysdale, Armstrong, Ascione, Manuel & Mowbray-Tsutsuimi, 2016). This crisis taught the East Asian countries a proper lesson and thus these economies moved toward amassing a huge foreign exchange reserve of USD 11 Trillion known as - Chiang Mai Initiative (CMI) (Drysdale, Armstrong, Ascione, Manuel & Mowbray-Tsutsuimi, 2016). The East Asian countries successfully survived the 2008 financial crisis and till now no country has been forced to draw funds from the CMI (Drysdale, Armstrong, Ascione, Manuel & Mowbray-Tsutsuimi, 2016). Although the fund consists of USD 240 Billion as of 2012, it is not sufficient to overcome a financial crisis (Drysdale, Armstrong, Ascione, Manuel & Mowbray-Tsutsuimi, 2016).

The dominance of the East Asian Newly Industrializing Countries has grown by time to time. They have dominated the manufacturing and export of products for the less developed countries (Haggard, 1995, p. 46). Developing countries can be enjoined through a group or integration and deep integration agenda mostly dominates the group of advanced developing countries – in this case the East Asian region (Haggard, 1995, p. 8). Korea, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and Thailand (Only the Philippines stands out) has been following an export oriented development trajectory since the 1990s following the path of the four Asian Tigers (Haggard, 1995, p. 9). The export success of these countries has ultimately bred conflicts with their major trading partners – specially the USA and this success has undoubtedly moved them upwards in the course of economic development (Haggard, 1995, p. 9).

The colonial experience is not a forgotten one for these countries yet overcoming the colonial exploitation that left them unstructured, uncivilized and destructed was possible for them. Despite the political turmoil and scarcity of resources and proper institutions, the lesson that these countries learned and the quick counter they poised towards the Western and developed countries is undoubtedly a phenomenal experience for the economic history of the world.

ASEAN now stands with a collective GDP of USD 2.5 trillion and Intra-ASEAN trade is 545 billion USD (Blaxland, 2017). However, the limited success of the AEC (only tariff reduction) makes everyone including scholars and analysts very much skeptic and doubtful about its success in the future. It is to be mentioned that only one of the ASEAN countries - Singapore belongs to the Asian tigers group. Rest of the countries are still counted as emerging economies rather than advanced developed economies.
9. South Asian Dilemma

The fear of losing national industries and home grown companies in the domestic market itself has been evident in the previous discussions and the procedure of following ‘protectionism’ has also been mentioned. When governments panic due to the appearance of new sellers from outside countries and their efficiency of providing much better quality than the domestic sellers, they impose tariffs on the specific products which are needed to protect the domestic businessmen or companies. The trade dilemma of India has been regularly hampered by this fear and protectionism is a regular activity of India being the world’s most eminent safeguard measures user (Park, 2016).

India is a similarly large state like China and it therefore earns a special attention (Goldstein & Pevehouse, 2009, p. 470). India’s yearly growth in 2003 was measured to be around 8 percent (Goldstein & Pevehouse, 2009, p. 471). The South Asian economic integration lacks pace because of the existence of historical rivals of Pakistan and India which has underpinned tariff barriers between these two states (Iqbal & Nawaz, 2016). As previously explored in the paper, comparative advantage benefits the smaller countries relatively more as the bigger the country, the more the resources. Despite being a huge country, India aimed at cooperating with Pakistan through providing it the MFN (Most Favored Nation) status in 1995 and Pakistan did not cooperate until 2011 (Iqbal & Nawaz, 2016). While India has recently strained its relations with Nepal, it moved forward to economically cooperate with Bangladesh (Maini, 2016). Bangladesh therefore imports energy and power production from India (Maini, 2016). Smaller countries of this region – Bhutan, Nepal and Sri Lanka can also benefit from the powerhouse of this region - India. The recent developments in Bangladesh-India trade relations provide the proof that both countries are opening up to bilateral trade denying protectionism (Maini, 2016). Under the current governments, Bangladesh and India have significantly advanced on trade, investment and communication cooperation (Zaman, 2017). The barrier which comes in front now is the stringent Indo-Pak relations.

10. What Lies Ahead

The discussion on the historical evolution of the European Union shows us one similarity or continuity - the expansion of the union. Time and again, we can see that new members for the union have arrived. The Union started with only six members and currently it consists of 28 members. Although the Great Britain is leaving the union making it a union of 27 countries through the procedure of Brexit Referendum, more countries are still interested to be included in the union (Nougayrède, 2017). In 2013, Croatia was the last country to enter the union (Bilefsky, 2013). In 2007, Ukraine was interested in reforming its economics and civil society to deliver a membership bid for the union (Simms, 2014, p. 520). In April 2008, Macedonia was promised to be counted for an invitation if it could have ended its dispute with Greece (Simms, 2014, p. 521). Bosnia and Montenegro alongside Ukraine and Georgia were also told that new membership in the future for these countries is possible (Simms, 2014, p. 521). Bosnia and Montenegro were thus invited to start intensified dialogues to prepare for a future membership through restructuring the country (Simms, 2014, p. 521). Turkey has also been very keen to join the union although the Europeans have been cyncic about the Turkish inclusion (Mowat, 2016). George Friedman’s prediction (2010, p. 116) however seems irrelevant now as it was the UK, not Germany who sent troops to Estonia to engage in power politics and deter the Russian federation (Willets, 2017).

The argument for EU to consider it as a wonder of economic development can be found in the British insertion into the union. In 1950, Britain was plagued with expenditure on international crises (Simms, 2014, p. 416). The World War II left the UK economically depressed and this was not the ideal time to engage in liberating people from the clutch of communism. Expenditures on defense fearing a Soviet invasion of Europe, the UK had to cut its domestic spending (Simms, 2014, p. 416). The massive defense expenditure caused a balance-of-payments crisis in the UK and saw the Minister of Labor, Aneurin Bevan resigning from the office (Simms, 2014, pp. 416-417). In 1956, the loss of the Suez Canal also caused a Pound Sterling crisis in Britain and France was also hit hard by the loss which ultimately provided an impulse to European integration project (Simms, 2014, p. 426). In 1973, after the Yom Kippur War between the Arabs and Israel, the oil producer Arab countries decided to reduce their oil production and announced an oil embargo against the collaborators of Israel (Simms, 2014, p. 456). This financial recession of 1973 ultimately saw Britain devastated and it then realized that it couldn’t walk the economic path alone. Great Britain’s great realization and eventual inclusion into the union gives us ample thoughts to recognize the positive side of European economic integration or in simple words, the European Union.
The future of AEC is very much ambiguous and it is very tough to be predicted as explained in the previous parts. However, South Asian economic integration might see sunrise as Bangladesh and India, both the countries are moving towards economic cooperation which in turn may inspire the other countries. SAARC is not the only hope in the region as the desire is also evident in the newly formed BIMSTEC. Narendra Modi’s arrival in India is also inspiring new South Asian regional and global integration (Gupta, 2015).

11. Conclusion

It is very much evident from the history that the reason of forming an economic union eliminating trade barriers was the lesson learnt from the harrowing memory of the Second World War that left the whole Europe devastated both economically and structurally. The trade union helped it recover its economy and through the economic integration, it was about to fight back in this world. But looks like people tend to forget the mischief and sorrows of themselves which ultimately leads them to be suicidal about the peace that they had garnered owing to that sorrowful experience of mischief. Similar thought was explored by Brendan Simms (2015, pp. 508-509) – ‘As the memory of the Second World War and the Soviet threat faded, peoples of Europe were becoming increasingly suspicious of EU ‘bureaucracy’, and sceptical of the need to sacrifice their national sovereignty’. This thought might have been criticized by many but the thought looks a very real and prudent one as we have already witnessed the Brexit or Great Britain’s exit from the European Union. The economic union may brace decay in the coming days owing to the growing skepticism about the long peace it has provided but it might be too late to realize the benefits the union had provided. The final line thus may surprise all – no EU member has fought against each other in a violent armed conflict so far but things don’t look like to acknowledge this wonderful fact. However, the tribulation of Realism doesn’t seem to be evident rather regional economic integration creates regions as individual states and the realist view on regional integration is rather found to be prominent in the existence of EU and ASEAN from the collected information as countries do not intend to scamper towards an integrated world economy, rather regional cohesion for self-economic development through realizing comparative advantage.

References:


Development and Structure of the Bulgarian Export After the Country’s Accession to the EU

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University for National and World Economy, Bulgaria

Abstract

Nowadays the European Union includes 28 countries. The last country that has signed an accession treaty was Croatia in 2013. The previous enlargement of the Union was in 2007 when Bulgaria and Romania became members. The accession process for these two countries took some time and was related to quite a lot of changes in the economic practices of both countries. The present article reviews the changes that occur in the Bulgarian foreign economic practice, more particularly in the export activity after Bulgaria’s accession to the European Union in 2007. The paper analyses the trends in the development, structure and geographical distribution of the country’s export during the 10-year period of the country’s EU membership (2007-2016). The main reasons and factors for the main trends are outlined. On the basis of a detailed comparative analysis of the situation before and after the EU accession, the authors try to assess the impact of European integration on the Bulgarian export practices, highlighting both positive and negative results. The paper also elaborates specific recommendations for improvement of the competitiveness of the Bulgarian economy in the context of the country’s export changes.

Keywords: competitiveness, export activities, EU membership, impact of the EU accession on the national economic development

Introduction

Development and structure of a country’s export largely reflects the general state of its economy and particularly the parameters of the country’s existing production potential and the quality of its export output. Export structure is directly related to the country’s participation in the international division of labor and international competitiveness of the national economy.

Major changes in the structure of Bulgarian export until the country’s accession to the European Union (1990-2006)

The economic reform carried out in the early 1990s has a strong influence on the commodity structure of Bulgarian foreign trade, and specifically on the country’s export. There has been a significant restructuring of commodity exchange in relation to the re-direction of commodity flows mainly to the markets of the developed Western countries and the need to adapt the commodity structure to the requirements and capabilities of these markets.

In the 90s of the previous century a number of changes in the development and structure of the Bulgarian export can be highlighted:

Some of the goods which previously had a limited place in the country’s export such as metals, chemical and mineral products (raw or primary processed goods with low added value that usually are sold at low prices) now take front positions in the country’s export;

There is permanent trend in increasing the export of a number of products from the light industry, mainly toll manufactured, such as clothes, shoes and furniture;

The export of leading in the past commodity groups such as machines and equipment as well as goods like tobacco, cigarettes, fresh and processed fruits and vegetables etc. have been essentially reduced;
The presence of highly-technological products in the country's export has been extremely limited - only about 3% of the export or it is more than 7 times less than the average for the developed EU countries\(^1\).

The reasons for these changes in the Bulgarian export during the 1990s should be sought mainly in the critical situation of the Bulgarian economy at that time. A major role also has been played by the radical change in the orientation to the foreign markets – from the Soviet Union countries markets suddenly priority has been given to the EU countries' markets.

**Since the beginning of 2000**, during the pre-accession period when Bulgaria was actively negotiating and preparing for full membership in the EU, additional changes to the Bulgarian export happened. The share of higher added value goods realized on the demanding Western European markets constantly increased. Nevertheless, on the eve of our accession to the European Union, despite some single progressive trends, there were no radical qualitative changes in the structure of Bulgarian exports.

Actually in the last seven years before the full membership of Bulgaria in the EU (2000-2006), there was a relatively stable trend by major commodity groups and items, divided by using mode [Tables 1 and 2]

**Table 1. Bulgarian export by groups of goods, differentiated by using mode, in the period 2000-2006 (share in %)**

<table>
<thead>
<tr>
<th>Groups of goods / Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Потребителски стоки</td>
<td>Billion</td>
<td>1.56</td>
<td>1.92</td>
<td>2.13</td>
<td>2.44</td>
<td>2.62</td>
<td>2.73</td>
</tr>
<tr>
<td>%</td>
<td>29.8</td>
<td>33.4</td>
<td>35.3</td>
<td>36.6</td>
<td>32.8</td>
<td>28.9</td>
<td>24.6</td>
</tr>
<tr>
<td>Суровини и материали</td>
<td>Billion</td>
<td>2.32</td>
<td>2.33</td>
<td>2.54</td>
<td>2.76</td>
<td>3.48</td>
<td>4.06</td>
</tr>
<tr>
<td>%</td>
<td>44.2</td>
<td>40.7</td>
<td>41.8</td>
<td>41.3</td>
<td>43.6</td>
<td>42.9</td>
<td>45.7</td>
</tr>
<tr>
<td>Инвестиционни продукти, включително машини и оборудване</td>
<td>Billion</td>
<td>0.60</td>
<td>0.70</td>
<td>0.80</td>
<td>0.91</td>
<td>1.07</td>
<td>1.46</td>
</tr>
<tr>
<td>%</td>
<td>11.5</td>
<td>12.4</td>
<td>13.1</td>
<td>13.7</td>
<td>13.5</td>
<td>15.4</td>
<td>14.2</td>
</tr>
<tr>
<td>Енергийни ресурси</td>
<td>Billion</td>
<td>0.77</td>
<td>0.76</td>
<td>0.59</td>
<td>0.56</td>
<td>0.81</td>
<td>1.22</td>
</tr>
<tr>
<td>%</td>
<td>14.5</td>
<td>13.5</td>
<td>9.8</td>
<td>8.4</td>
<td>10.1</td>
<td>12.8</td>
<td>15.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>Billion</td>
<td>5.25</td>
<td>5.71</td>
<td>6.06</td>
<td>6.67</td>
<td>7.98</td>
<td>9.47</td>
</tr>
<tr>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: **Foreign Trade Statistics: electronic sites of National Statistics Institute (NSI), Ministry of Economy of Bulgaria (MIB), Bulgarian National Bank (BNB), Eurostat and own calculations**

As Table 1 shows, the first place at that time was firmly occupied by raw materials (the average share is 42.9%). This was due to the stable export of mainly non-ferrous metals, chemical products and fertilizers, raw materials for food production, timber etc. After that came the consumer goods (with an average share of 31.6%) with exports of clothes and shoes as a main item. Investment goods and energy resources had almost equal position - the difference between their average shares as also seen from the above table was only 1.3% (investment goods - 13.4%, energy resources - 12.1%). Machines, appliances and equipment accounted for only 4.5% of the export with a tendency their relative share to be even less after 2002. In total, the export of machines (including machinery, equipment, transport equipment and spare parts) accounted for only about 10% of the total export of Bulgaria at that time (for comparison 20 years ago it was over half of it).

---

Table 2. The first 10 commodity positions in the export of Bulgaria for the period 2000-2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Clothes and shoes</td>
<td>€1,344.9</td>
<td>18.0%</td>
</tr>
<tr>
<td>2.</td>
<td>Non-ferrous metals</td>
<td>€772.6</td>
<td>10.2%</td>
</tr>
<tr>
<td>3.</td>
<td>Petroleum products</td>
<td>€635.4</td>
<td>8.4%</td>
</tr>
<tr>
<td>4.</td>
<td>Cast iron, iron and steel</td>
<td>€600.5</td>
<td>7.9%</td>
</tr>
<tr>
<td>5.</td>
<td>Machines, appliances and equipment</td>
<td>€338.2</td>
<td>4.5%</td>
</tr>
<tr>
<td>6.</td>
<td>Foods</td>
<td>€303.2</td>
<td>4.0%</td>
</tr>
<tr>
<td>7.</td>
<td>Raw materials for food production</td>
<td>€279.6</td>
<td>3.7%</td>
</tr>
<tr>
<td>8.</td>
<td>Textile materials</td>
<td>€263.4</td>
<td>3.5%</td>
</tr>
<tr>
<td>9.</td>
<td>Chemical products</td>
<td>€246.3</td>
<td>3.3%</td>
</tr>
<tr>
<td>10.</td>
<td>Furniture</td>
<td>€239.1</td>
<td>3.2%</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>€5,023.2</td>
<td>66.7%</td>
</tr>
</tbody>
</table>

Source: Foreign Trade Statistics: electronic sites NSI, MIB, BNB and own calculations

In the pre-accession period, the export of commodity items such as non-ferrous metals, petroleum products, raw materials for food production very dynamically increased. There was also a significant increase in ore, vehicles, spare parts and equipment. These commodity positions demonstrated strong export potential and fairly good market presence. The indisputable leader in Bulgarian export during the period under review remained, however, the light industry products - clothes and shoes, textiles, furniture. In this respect, the export of most chemicals, machinery, appliances and equipment, tobacco, cigarettes, and timber was quite unsatisfactory. The main reasons for their limited export lied in both the lagging of Bulgarian production against the requirements of the international markets, as well as the high competition that the Bulgarian exporters faced abroad. An important factor determining the composition of the export was also the strategic orientation of the country mostly to the EU countries.

This analysis allows us to emphasize that the commodity aspect has its regional characteristics, which in our case outlines priorities with European or non-European orientation. In the period 1990-2006, in the Bulgarian trade with all categories of goods there is a clear trend of high presence of the EU countries. The enhanced access to the European market, which Bulgaria receives as a result of the Association Agreement, results in a significant change in the territorial direction of the Bulgarian trade and makes the EU member states major trade and investment partners of Bulgaria. [Table 3]

Table 3. Share in % of EU in the Bulgaria external trade 1990-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Import</th>
<th>Commodity exchange</th>
<th>Coverage export / import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>5.0</td>
<td>9.6</td>
<td>7.3</td>
<td>0.53</td>
</tr>
<tr>
<td>1995</td>
<td>39.3</td>
<td>37.2</td>
<td>38.2</td>
<td>0.98</td>
</tr>
<tr>
<td>2000</td>
<td>51.1</td>
<td>44.0</td>
<td>47.0</td>
<td>0.86</td>
</tr>
<tr>
<td>2005</td>
<td>56.5</td>
<td>49.7</td>
<td>52.3</td>
<td>0.73</td>
</tr>
<tr>
<td>2006</td>
<td>56.5</td>
<td>47.3</td>
<td>50.9</td>
<td>0.78</td>
</tr>
</tbody>
</table>

Source: NSI, BNB and own calculations

For the period 1990-2006, until the country's accession to the EU, the average annual growth rate of commodity exchange between Bulgaria and the EU countries is about 20 per cent. In absolute numbers, trade with the EU during this period grew 10 times, reaching 15.5 billion. EU share in the Bulgarian commodity exchange from 7.3% at the end of the 1980s,
already exceeds 50% in 2006. The share of the export is respectively 56.5% and that of the import is 47.3%. However, according to Eurostat data, Bulgaria accounted for only 0.4% of total EU trade.

In the first third of the period - until 1995, export and import to and from the EU grew almost equally and had almost full coverage of the export with the import. Between 1995 and 1998, the increase in trade was mainly due to the rapidly increasing Bulgarian export. From 1998 to 2007 there was some export retention and a surging increase in import. This deteriorated both the import-export coverage and the "trading conditions" with the European partners and caused a substantial increase in the trade deficit: from minus EUR 105 million in 1998 to minus EUR 2 billion in 2006. The highly increased negative trade balance was largely due to the liberalization of trade and tariffs reduction, which mainly favored our Western partners. At the same time, the increased competition as well as the lack of manufacturing, technological, financial and managerial experience of the local companies, relevant to the new market requirements, restricted their ability to benefit from liberalized access to the EU market. Therefore, Bulgaria not only failed to take advantage of the asymmetry principle but, on the contrary, allowed the EU countries to gradually conquer the Bulgarian market due to their more prestigious, higher-quality and more competitive goods. The principle of asymmetric liberalization enshrined in the European Accession Agreement has been in fact transformed into a "reverse asymmetry" effect.

In respect to the exporting partners, during the period under review, the leading partner country in the export from Bulgaria is Italy. It was only in 2006 that it backed its leading position in Turkey, with the value of exports in 2006 amounting to over 1 billion and 300 million euros. The other countries for which Bulgaria exports during these years change their positions, but whether they are second, third or fourth in the year, its main exporting partners are Germany, Greece, Turkey. France is Bulgaria's permanent trading partners and occupies a permanent sixth place in the export of our country (Graphic 1). Apart from EU Member States, the country also has export relations with countries outside the Union. One permanent partner is the United States, which over the years has maintained a steady trend in its trade relations with Bulgaria. Another country with which Bulgaria has trade relations is Russia. It is noteworthy that since 2000, exports to this country have also kept steady values, but they are not particularly high compared to EU countries and Turkey. It should be noted here that this is a significant change in the relations between the two countries, given that before the democratic changes in Bulgaria and in the years of transition to a market economy the two states maintain very active trade relations.

Source: the authors, based on data from NSI and BNB

Despite the existing difficulties and problems, the overall increase in the share of the Bulgarian export to the EU (2006 - 56.5%) might be seen largely as a successful adaptation of Bulgarian production to the requirements of the Western European market. This process has not been easy and smooth mainly because of the impossibility to eliminate the negative impact of unfavorable external factors (mostly the high raw material dependence on Russia) and the delay in the internal
economic reforms. A rapid shift in export priorities had to be done that would pave the way for new export-oriented high value-added industries. This implied pursuing an active policy of attracting foreign investments as well as accomplishing manufacturing integration with leading global companies, especially in the new technologies field.

**Main trends in the structure of Bulgarian export after the country’s accession to the European Union (2007 - 2016)**

In the first year of Bulgaria's full EU membership, the country's export continued to grow at an accelerated pace. Under the impact of the global financial and economic crisis, however, from the second half of 2008, it began to lose its acceleration and in 2009 cut its value by 23%. This trend was stopped in 2010 and the export showed a relatively good increase of about 33%, which allowed it to return to the level of 2008. Similar, though more abruptly, were the trends in the development of Bulgarian import. Along with the negative fluctuations in export and import another extremely negative consequence of the crisis was the enormous decrease (more than 5 times) of the foreign direct investments in the country - from 9 billion in 2007 to 1.7 billion in 2010. All this had its effect on the export capacity and the export structure of our country.

During the ten years after the accession of Bulgaria to the EU (2007-2016), despite the registered fluctuations in the main commodity groups, the overall pattern of the export structure remained almost the same as before the country's entry into the EU, although some specific commodity positions shuffled their seats into the general arrangement\(^1\). It should also be noted that the increase in export values do not always contribute to the reciprocal increase in the relative share of the commodity group and / or the specific commodity. [Table 4]

**Table 4. Exports of Bulgaria by group of goods, differentiated by use, in the period 2007-2016**

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</tr>
</thead>
<tbody>
<tr>
<td>Биллион</td>
<td>3.25</td>
<td>3.42</td>
<td>3.29</td>
<td>3.95</td>
<td>4.51</td>
<td>4.82</td>
<td>5.21</td>
<td>5.74</td>
<td>6.10</td>
<td>6.28</td>
</tr>
<tr>
<td>%</td>
<td>24.0</td>
<td>22.5</td>
<td>28.1</td>
<td>25.4</td>
<td>22.3</td>
<td>23.2</td>
<td>23.4</td>
<td>26.0</td>
<td>26.6</td>
<td>26.7</td>
</tr>
<tr>
<td>Потребителски стоки</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>45.2</td>
<td>44.5</td>
<td>42.7</td>
<td>43.9</td>
<td>46.4</td>
<td>43.2</td>
<td>41.3</td>
<td>41.0</td>
<td>39.3</td>
<td>43.1</td>
</tr>
<tr>
<td>Суровини и материалнi</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw materials</td>
<td>2.16</td>
<td>0.70</td>
<td>2.52</td>
<td>1.00</td>
<td>2.67</td>
<td>3.53</td>
<td>3.49</td>
<td>3.97</td>
<td>4.30</td>
<td>4.88</td>
</tr>
<tr>
<td>Billion</td>
<td>5.18</td>
<td>16.5</td>
<td>6.56</td>
<td>16.2</td>
<td>17.1</td>
<td>17.4</td>
<td>16.9</td>
<td>19.5</td>
<td>21.2</td>
<td>23.6</td>
</tr>
<tr>
<td>%</td>
<td>16.0</td>
<td>5.18</td>
<td>16.5</td>
<td>6.56</td>
<td>16.2</td>
<td>17.1</td>
<td>17.4</td>
<td>16.9</td>
<td>19.5</td>
<td>21.2</td>
</tr>
<tr>
<td>Енергийни ресурси</td>
<td>2.00</td>
<td>2.50</td>
<td>1.51</td>
<td>2.11</td>
<td>2.82</td>
<td>3.48</td>
<td>3.39</td>
<td>2.91</td>
<td>2.55</td>
<td>2.45</td>
</tr>
<tr>
<td>Billion</td>
<td>14.8</td>
<td>16.5</td>
<td>13.0</td>
<td>13.6</td>
<td>13.9</td>
<td>16.7</td>
<td>15.2</td>
<td>13.2</td>
<td>11.2</td>
<td>10.4</td>
</tr>
<tr>
<td>%</td>
<td>14.8</td>
<td>16.5</td>
<td>13.0</td>
<td>13.6</td>
<td>13.9</td>
<td>16.7</td>
<td>15.2</td>
<td>13.2</td>
<td>11.2</td>
<td>10.4</td>
</tr>
<tr>
<td>TOTAL EXPORTS</td>
<td>3.51</td>
<td>5.20</td>
<td>1.69</td>
<td>5.55</td>
<td>0.26</td>
<td>0.76</td>
<td>2.25</td>
<td>2.07</td>
<td>2.94</td>
<td>3.53</td>
</tr>
<tr>
<td>Billion</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** BNB data, NSI, MIB and own calculations. **Note:** In calculating the Relative share of the stock split is not taken into account so-called. "Other not included" equalization section, since it occupies a very insignificant place in exports and imports.

Raw materials, despite a slight but permanent reduction of their share in the first three years of membership, in 2010 and 2011 again reached their average level of before our accession to the EU due to the significant value increase of about 2 billion euro per year. However, the increase was in short-turn period and in the last 5 years the trend of their share has been towards a sustainable reduction. Nevertheless, this commodity group still preserves its leading export position with almost the same average share as pre-accession period - 43.0%, but with 2.5 times increase in absolute value.

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\(^1\) Economic Policy Institute, 2012, Bulgarian competitiveness in the Central European region and Eastern Europe, 7th edition
After the group of the raw materials again comes the group of consumer goods. This group is the only one that, during the 2009 crisis, although with a formal decrease in absolute value, sharply increased its relative share by 5.6 percentage points. This commodity group thus interrupts the long-lasting downward trend in its export share that had started back in 2003. In 2010, the share of consumer goods again began to decline, accounting for about ¼ of the export. After 2013, however, the absolute volume and relative share of this commodity group again has recorded a modest increase. At present, compared to the pre-accession period, the value of the exported consumer goods is twice as large and their average share in the Bulgarian export is lower by 7 percentage points.

Investment goods and energy resources in the first years of membership followed fully synchronized one-way trends in its export – both in absolute values, and in relative shares. In the first two years, the data in both directions showed a tendency to increase, after which (in 2009) there was a visible decrease, followed in 2010 by a new upward trend. For the investment goods the upward trend continues even today, while in the case of energy resources, the peak was in 2012, after which there has been a steady downward trend. As a result, the investment goods in 2016 steadily took third position in the Bulgarian export, outpacing more than 2 times the energy raw materials in both value and relative share. At the averages for the period after 2006, the difference is EUR 1 billion and 4.3 percentage points.

In the other leading commodity positions, ten years after Bulgaria’s accession to the EU, export structure, albeit with a different weight again are the petroleum products, non-ferrous metals and raw materials for food production. The machines, spare parts and equipment, ready-made food and the furniture reinforce their leadership. The export of ferrous metals, clothes and shoes, textiles, chemical products sharply decreases. [Table 5]

Table 5. The first 10 commodity groups in the export of Bulgaria for the period 2007-2016

<table>
<thead>
<tr>
<th>No</th>
<th>Commodity groups</th>
<th>Осреднена стойност за периода 2007-2016 г. Average value for 2007-2016</th>
<th>€ million</th>
<th>% Of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Petrol products</td>
<td></td>
<td>2 058.7</td>
<td>11.0</td>
</tr>
<tr>
<td>2.</td>
<td>Non-ferrous metals</td>
<td></td>
<td>1 993.7</td>
<td>10.6</td>
</tr>
<tr>
<td>3.</td>
<td>Raw materials for food production</td>
<td></td>
<td>1 514.1</td>
<td>8.1</td>
</tr>
<tr>
<td>4.</td>
<td>Clothes and shoes</td>
<td></td>
<td>1 486.0</td>
<td>8.0</td>
</tr>
<tr>
<td>5.</td>
<td>Machines, appliances and equipment</td>
<td></td>
<td>958.1</td>
<td>5.1</td>
</tr>
<tr>
<td>6.</td>
<td>Foods</td>
<td></td>
<td>955.5</td>
<td>5.0</td>
</tr>
<tr>
<td>7.</td>
<td>Spare parts and equipment</td>
<td></td>
<td>849.1</td>
<td>4.5</td>
</tr>
<tr>
<td>8.</td>
<td>Furniture</td>
<td></td>
<td>722.6</td>
<td>3.9</td>
</tr>
<tr>
<td>9.</td>
<td>Cast iron, iron and steel</td>
<td></td>
<td>664.9</td>
<td>3.6</td>
</tr>
<tr>
<td>10.</td>
<td>Medicines and cosmetics</td>
<td></td>
<td>655.0</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td>11,857.7</td>
<td>63.3</td>
</tr>
</tbody>
</table>

Source: Foreign Trade Statistics: electronic sites NSI, MIB, BNB and own calculations

In comparison to the pre-accession period there is some shift in the leadership positions. Before the country’s accession to the EU, looking at the average shares, the first place convincingly was occupied by clothes and shoes with 18%, followed by non-ferrous metals (10.2%) and petroleum products (8.4%). Currently, the first two places are taken by petroleum products with 11% and non-ferrous metals with 10.6%, followed by raw materials for food production (8.1%) and clothes and shoes (8.0%). In the list of the 10 leading export products the place of the textile materials and chemical products is taken by spare parts and equipment and medicines and cosmetics.

Regardless the positive trends in the product structure of the Bulgarian export within the EU membership, in general the structural changes are not entirely oriented to the high added value export industries (Zhelev, Tzanov, 2012). In this situation, it is difficult to expect a rapid change in the area of main commodity groups and positions, so the existing old problems will most likely continue over the coming years. It is quite problematic to increase the positive trade balances in the leading goods in order to compensate the negative energy and machine-construction imports. At present the existing

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commodity structure of Bulgarian trade is unable to change the long-term trends. A radical qualitative change in the competitive level of export is needed, but this can only be achieved by an effective technological change of the overall national production (Inotai, 2013). Such steps, however at this stage are not seen.

Regarding the regional characteristics of the export commodity structure of Bulgaria after the EU membership, it should be noted that the high presence of the EU countries in principle stays the same (Lozanov, 2009). The deepening of the European trade orientation is underlined by the fact that export to non-EU countries in the first year of membership has fallen by nearly 5%, and the import by 22%. Despite some fluctuations in the different years, the overall trend for the share of EU in the three directions - export, import and trade – is well noticeable, especially after the financial and economic crisis [Table 6]

Table 6. Share in % of EU in Bulgaria’s external trade 2007-2016

<table>
<thead>
<tr>
<th>year</th>
<th>export</th>
<th>import</th>
<th>The stock exchange</th>
<th>Coverage export / import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>60.8</td>
<td>51.8</td>
<td>55.3</td>
<td>0.72</td>
</tr>
<tr>
<td>2008</td>
<td>59.9</td>
<td>50.7</td>
<td>54.1</td>
<td>0.71</td>
</tr>
<tr>
<td>2009</td>
<td>54.8</td>
<td>53.3</td>
<td>58.0</td>
<td>0.84</td>
</tr>
<tr>
<td>2010</td>
<td>60.8</td>
<td>51.1</td>
<td>55.5</td>
<td>0.96</td>
</tr>
<tr>
<td>2011</td>
<td>62.2</td>
<td>48.5</td>
<td>64.8</td>
<td>1.11</td>
</tr>
<tr>
<td>2012</td>
<td>58.5</td>
<td>47.6</td>
<td>52.5</td>
<td>1.00</td>
</tr>
<tr>
<td>2013</td>
<td>60.0</td>
<td>48.7</td>
<td>53.9</td>
<td>1.06</td>
</tr>
<tr>
<td>2014</td>
<td>60.2</td>
<td>50.6</td>
<td>55.9</td>
<td>1.04</td>
</tr>
<tr>
<td>2015</td>
<td>64.6</td>
<td>53.0</td>
<td>58.4</td>
<td>1.06</td>
</tr>
<tr>
<td>2016</td>
<td>57.6</td>
<td>54.9</td>
<td>60.9</td>
<td>1.11</td>
</tr>
</tbody>
</table>

Source: according to BNB data and own calculations

In recent years the number of Bulgarian companies that executed foreign trade activities has amounted to little more than 40,000, exporting companies - about 12000, and importers - nearly 30,000. There is a trend of faster growth of the importing companies. About half of the Bulgarian companies have export and import operations amounting up to 25,000 euros\(^1\). The companies that pass the limit of EURO 1 million are only 7-8% of the total. Most companies are exporting to leading European partners (Germany, Italy, France, UK) and neighboring countries (Greece, Turkey, Romania, Macedonia and Serbia).

\(^1\) World Bank, 2015, Productivity in Bulgaria, Trends and Options
The highest remains the percentage of companies that deal with export of machinery and equipment, plastics, electrical machinery, textiles and clothing products, metallurgy goods, paper, wood and furniture. Therefore, in terms of the corporate structure of Bulgarian export, ten years after the accession to EU, the situation remains without significant changes compared to the pre-accession period. Limited strengths of the Bulgarian producers to compete with EU producers do not allow them to make the most of the favorable conditions that the free market access offers (Beleva et.al., 2017).

The problem with the structural asymmetry in production and trade between Bulgaria and the developed EU countries strongly hinders the effective development of mutual economic cooperation. The country’s production and export structures are very different from those in the EU and developed countries as a whole. This limits the potential for intersectoral and intra-product specialization and cooperation - the most advanced and most promising forms of industrial cooperation. This also influences the acceleration of trade development especially of parts and components from high-tech industrial products. The existing export specialization of Bulgaria for the EU is strategically unviable and inevitably positions the country in unfavourable situation within the European integration process.

It is not a secret that the labor-and material-intensive nature of Bulgarian industry is quite different from the structure of the EU industry or at least from the leading member states. There is inter-sectoral specialization between Bulgaria and the leading EU countries related to the development of capacities for raw material extraction and labor-intensive production\(^1\). This specialization of Bulgarian industry is unprofitable for the country, because it keeps the salaries lower than in the other EU countries and increases the gap in the trade conditions between Bulgaria and the EU. This requires accelerated step-by-step approach for beginning of the process of forming a complex intersectoral specialization by attracting well-known strategic investors from the EU and other developed industrialized countries.

Certain problems arise also from the territorial focus of the Bulgarian export. As concerns the geographical distribution there is not only a relative stability, just like in the commodity structure, but also an excessive concentration of our trade with a limited number of EU countries. These are our traditional trading partners such as Germany, Italy, Greece and now Romania. These four countries in total hold two-thirds of the total volume of our trade within the EU, respectively 68% in the export and 63% in the import. In the future it is necessary to do everything possible for a diversification and intensification of contacts with the other 23 countries of the Community in order to optimize the trading partners and to achieve a greater supply balance. Of course, we have to constantly keep in mind that the economic cooperation between Bulgaria and each of the member states is being built on two levels simultaneously. It reflects both the general relations of Bulgaria with EU

\(^1\) https://en.wikipedia.org/wiki/Personalized_learning
and the peculiarities in the bilateral relations, which are determined by the specific economic, historical, political and geographical conditions.

Conclusion

The conclusion from the above analysis is that despite the difficulties, the highlighted problems, the impacts of the economic crises etc., yet there are certain positive trends, particularly with regard to quantitative changes in export volumes. The qualitative changes happen with difficulty and very slowly but still they are happening. The majority of the Bulgarian industrial goods are still uncompetitive in the European markets. The agricultural export of the country is significantly below its potential. Insufficient financial resources of Bulgarian companies hinder the adoption of modern production technologies and effective export marketing approaches. Bulgaria in the European market offers mostly raw materials. This significantly limits the potential for future accelerated growth in the export. It is necessary to achieve quality improvement, introduction of new technologies, modern production certification and to provide support to the small and medium enterprises in the country to be able to withstand the competitive European pressure.

The future development of Bulgaria will depend mostly on how the country benefits from its membership in EU. The risks in this regard have not yet been overcome. Because of the difference in economic levels between Bulgaria and the other EU member states practically our integration is very skewed and "inhomogeneous" accompanies by a lot of difficulties and problems. The last is a result mainly from the major structural and technological disparities, differences in the maturity of the market relations, shortcomings in institutional mechanisms and the further increase in the competitive pressure on the Bulgarian market.

The final conclusion from the above analysis of the modern development and structure of the Bulgarian export is that the economy of a country that produces and exports mainly raw materials and low-tech goods can not be competitive. Export of such country, although impressive in volumes, does not contribute to the achievement of rapid economic growth. On the contrary, it hinders the optimal development of trade relations and inhibits growth. On other hand the slow growth and low production efficiency restrict export and contribute to increasing the gap in terms of trade balance. Severe structural problems of Bulgarian export impose the need of restructuring and technological upgrading of national production as quickly as possible. For achieving this purpose it is necessary to have an adequate state policy with the active participation of the private sector and in close cooperation with leading high-tech companies from developed countries. Unfortunately, such a comprehensive, process oriented, consistent with the current requirements of the international market structural and technological modernization is still missing in Bulgaria.

References:

Business Strategies Based on Large Sets of Data and Interaction: Business Intelligence

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Abstract.

The dominant perspective in Business Intelligence (BI) projects and applications has been the technological conception, usually focused on the technical-instrumental nature of computing. This conception has avoided the change in the paradigm from a business model based on the use of tangible resources in favour of one based on the exploitation of intangible resources (data, interaction, networks, etc.). This would explain why applied BI projects, remain anchored in the old organization and operational patterns of traditional businesses in most companies. The technological perception of BI gives continuity to the stovepipe activity of companies, both in their management and in their organizational structures, where the impact of interaction as a generator of business opportunities is very limited, and often non-existent; and the effect of large volumes of data as a value generator is reduced to an operational and technical problem. Hence, the importance of considering BI as a new business philosophy that entails new forms of business organization and a new way of management based on the interaction and analysis of large volumes of internally generated data. Our interest is not only to emphasize the nature of the new business philosophy in the application of BI, but to carry out a discussion about the organizational and operational structure of businesses -according to a conception based on interaction and data as generators of business value-, and about actionable intelligence.

Keywords: business philosophy, paradigm, intelligence, stovepipe organization, business opportunities, business value.
JEL classification: G14, J24, M20, M21, M54

Introduction

During the last decades it has become evident that the way the value of a business is measured has changed completely. Traditionally, this valuation has been associated with the tangible assets of the companies, although today this is not exactly like this. Increasingly, a company’s value is measured on the basis of intangible assets whose objective values such as customer satisfaction, process quality, brand image, the company’s intellectual capital, the interaction between their workers, the large volume of data they have, etc. are not easy to assess.

In this context, this study advances in the elucidation of whether the valid conception of Business Intelligence (BI) is a set of technological tools external to the dynamics of the company and that adapts to the circumstances that the company lives or, on the contrary a new model of configuration of the company based on organizational, managerial and actionable intelligence, in which technology plays the role of connector, support and motorway, through which information and transferred knowledge flows.

In addition, in a world where companies change rapidly and business processes become increasingly complex and difficult for executives to interpret, for getting a global understanding of the business environment in which they operate, we propose an organizational structure that responds to the new parameters of actionable intelligence, related to the generalized use
of intangible resources, the configuration of the communication network as information channels, and the use of the company’s collective intelligence.

This research was motivated by the search for answers to questions related to the change in the business paradigm in which BI systems play a decisive role in the organization, operation and evaluation of the company’s activity. The rest of this document is organized as follows. Section 2 addresses the problem of a BI conception in an intangible resource environment. Section 3 analyzes the history and background of business logic in relation to the exploitation of intangible resources. Section 4 presents an approach to the nature of the new business philosophy in the BI environment as a new basis for its organization and operation. In Section 5 we present and discuss the new organizational architecture that responds to the parameters of BI and the exploitation of collective intelligence. In Section 6 we conduct a brief discussion on the future of BI in which we emphasize the new challenges faced by companies in the 21st century, and propose some future lines of research. Finally, we present the conclusions.

1. Problem Statement

Today, both entrepreneurs and their executives have the task of overcoming new challenges. Therefore, they must carry out strategies in line with the changing circumstances that characterize their environment, their resources and capabilities, their internal and external expectations about the organization, and the logic underlying their behavior, usually conflicting with each other. However, the relevant question remains: whether the current business model can respond to the changes brought about by the knowledge and the digital economy.

In this context, the emergence of technological innovation, as a factor of change in the fundamentals of how to create value, has given rise to the predominance of a technological conception of BI projects and applications. This view, that is usually centered on the techno-instrumental nature of technology, has sidestepped the change from the business paradigm based on the use of tangible resources in favor of a business model based on the exploitation of intangible resources (data, interaction, networks, etc.). Additionally, it assumes that technology itself can determine economic and business performance in terms of growth or employment, under the argument that its use will shape the evolution of business architecture.

The effects of this way of understanding business become evident in the limitations in the depth of the companies' processes of change, which are still anchored in the old business organizational and operational ways. Companies continue to fill in their annual reports with information on how they use tangible capital and how they control their workers, but they do not reflect the use they make of their increasingly "knowledge-intensive" employees, that drive the creation of wealth in the current digital economy (Passlick, et. al., 2017; Von Bergen, et. al., 2015; Satiko, et. al., 2015; Khan, 2012).

Moreover, this technological perception of BI has given continuity to business activity by stovepipe segments, both in its management and in its organizational structure, in which the impact of interaction as a generator of business opportunities has been limited, and often non-existent. Similarly, the effect of using large volumes of data as a value generator has been reduced to an operational and technical problem.

These facts raise the need to decipher the nature of BI to make it possible to identify and make explicit the new business philosophy implicit in it, the new business architecture that it suggests and the new management methods which are focused on the interaction and the analytics of large volumes of internally generated data, in addition to the ability to align them with the company's business strategy, goals and targets.

2. History and Background of Business Logic and Intangible Resources

At the beginning of the 2008 crisis we were faced with a picture characterized by the absolute control of short-term strategies, the exclusive use of financial indicators as a criterion for measuring business success and the excessive weight of investors as the dominant group at the expense of customers, employees and society as a whole.

Added to this is the steady increase in the value of the intangible assets and resources in the last three decades. In fact, intangible assets have been behind some of the biggest initial public offerings (IPOs) and the exponential increase in the stock market prices of certain companies over the last few years. Let us think, for example, of Facebook, Uber, or Twitter. None of these companies have tangible assets to back them up beyond a few offices and their information systems. None of these assets reflect a sufficient justification for the value of their stock market prices, according to traditional measurement criteria.
In this environment, the standard microeconomic theory still continues to describe firms as predefined sets of linear relationships, whose operation can be understood as the meticulous assembly of all the pieces of something more complex. According to this theory, the behavior of the productive system can be deduced from a simple aggregation of its tangible components (fixed and/or variable capital and number of hours worked or number of workers). So the system of production will be formally defined by a function showing the relationships between tangible resources, to obtain a product:

\[ Q = f(K, L) \]

where "K" represents the fixed and/or variable capital and "L" the labour used according to previously defined technical coefficients.

This conception of the company has perpetuated the competencies associated with fixed and financial capital throughout the 20th century and part of the 21st century. In fact, it has limited the space of competitiveness, almost exclusively, to the impact of financial variables, thus neglecting the role of other less measurable variables such as intangible assets.

In addition, the new economy, built on the knowledge and digitization of business activities and relations, empowers companies to collect distinctive competencies in certain types of intangible assets, that are totally different to tangible capital or to financial capital, factors that had a key role in industrial capitalism. The intangible-assets-based company refers precisely to the growing volume of investment in intangible assets, -which are often not even included in the corporate balance sheet- such as quality, collective intelligence, brand, reputation, managerial skills, organizational skills, innovative and technological skills, human capital, knowledge of markets, customers and competitors, etc.

Formally speaking, the production model in this environment would be defined by a function whose arguments include the interactive relationships between the different intangible resources and their effect on production.

\[ Q = f(I, GCD, R, \ldots) \]

where "I" measures the effects of interaction, "GCD" reflects the effect of the exploitation of large data sets, "R" registers the reputation achieved by the firm, etc.

This process of change in the relations of production has been made possible by the current digitization process of economies, characterized by the increasing empowerment of public opinion, customers, qualified employees, regulators, shareholders, suppliers, etc. A process of change that has substantially changed the way companies and entities are organized, moving from an asymmetric relationship favourable exclusively to the decisions of senior executives, to another in which relations of interaction and dialogue at the same level predominate (collective intelligence), both in their operations and in the decentralization of decision-making.

Intangible assets, while difficult to isolate and measure, create value and improve the competitive position of the company and its economic results. Intangible assets represent an increasing proportion of corporate value, as financial results and profitability increasingly respond to the interaction and management of ideas, information, knowledge and services, rather than to the control of tangible resources.

According to the latest Global 500 annual reports, the generation of value of the North American companies settled in the United States has been reversed from a ratio of 70%-30% between the value of tangible and intangible assets from 1929 to 1999, to a ratio of 30%-70% in favor of business intangibles. For example, IBM's brand value represents 83% of the total value of the company, Coca-Cola reaches 96% and Kellogg's 97%; and in the internet and telephone companies that proportion exceeds 90%. (Alloza, 2016; Brand Finance Global 500, 2016-17).

The catalyst for the development of this new business model –BI- has been the breakup of disruptive innovation-a term created by Christensen from the Harvard Business School-, which impacts business and/or productive activity, causing drastic changes in the organizational logic and the operating dynamics of companies, motivating in many cases a change in the line of business of the company. These changes allow us to understand the nature and features of nesting the new model of business-intelligent enterprise inside the industry and the knowledge economy.
3. **Nature of the New Business Philosophy in the Business Intelligence Environment**

The company and the market, as the scenario where it operates freely, are facing today a series of challenges and pressures that are reshaping the very nature of the corporate objectives, the organizational functions and responsibilities, the role of physical and virtual markets, the way of doing business, etc. Changes in this environment have been generated by powerful latent forces of very different nature, causing changes in the characteristics of the labour market and the business paradigm, under the umbrella of a series of technological, economic and social vectors; challenges that companies in the 21st century have to face and which are significantly different from the traditional problems encountered over the past century.

The implementation of intelligent business systems, in increasingly digitized economic environments, requires a model and a technology that facilitates permeability, intelligent interactivity, evaluation, diagnosis, and that determines the right level of intelligence\(^1\) for the company. The aim is to improve the decentralized decision-making system based on intangible resources and to gain competitive advantage through the intelligent management of knowledge.

BI is a new business organization system that makes use of analytical and visual technology to facilitate analytical, graphical or actionable intelligence. In other words, it is a conception that, in the first place, explains the characteristics of the new business model and, in addition, shows the advantages of using new technologies to deliver information and/or knowledge, to facilitate reporting and consultation, and to improve decision making (Azevedo & Santos, 2009, Turban et. al., 2008, Clark et. al., 2007, Michalewicz et. al., 2007, Negash, 2004, Raisinghani, 2004, Moss & Shaku, 2003, Kudyba & Hoptroff, 2001 and Thierauf, 2001). In short, they are the two sides of the same coin, in the sense that technological innovation is inseparable from organizational innovation.

Generally, the definition of BI not only makes use of different terms, but also the content of the concept varies, depending on the "theoretical" emphasis or preferences of scholars or professionals in the business world. In essence, and despite the advances in business theory, BI is still considered as an external analytical “tool” and an automatic support for decision making regarding business conditions, sales and customer demand, among many other conditions (Kahraman, et. al., 2011, Ghazanfari et. al., 2011, Berson & Smith, 1997).

This vision emphasizes the technological characteristics that accompany BI projects, although with nuances. Nuances all of them aimed at broadening the range of implementation of the intelligent technological tools (Bose, 2009; Elbashir, 2008; Power, 2008; Ranjan, 2008; Watson & Wixom, 2007; Wu 2007; Ekeerson 2005; Maria, 2005).

In essence, the perception of BI as a set of external support tools is one of the key factors that gives continuity to the traditional organizational architecture of the company and perpetuates traditional business management ways, an issue that we will address in the following Section.

In this environment, the dominant practice has been the use of the term "adaptation" as a "mechanism" for adjusting the technological tools associated with BI to the traditional organizational forms of today's business activities. In this case, the evidence shows that less than 30% of the implemented BI projects have been able to meet the expected benefits of the companies, even though these projects have had almost two decades to be implemented (Von Bergen, et. al. 2015; Saran, 2012). Hence, the importance of overcoming this BI technological vision, which separates the business model and the technology as independent events, to associate it with the new business philosophy that entails new forms of organization of the company and the intelligent use of technology innovation, substantiated on the management and tracking of interaction, collective intelligence and the integration of the analysis of large volumes of data, internally and externally generated.

From our point of view, BI has evolved considerably since its origin and first scientific definition -as an external management tool- that helps the company to manage and redefine business information (Ghoshal & Kim, 1986). Today, BI makes it clear and shows the strong association between knowledge management and competitive intelligence (Azevedo, 2009;

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\(^1\) In this work we talk about *intelligence* in terms of information as opportunity or possibility, that is, knowledge structures that, being contextually relevant, allow an advantageous intervention in reality (to be successful). Thus, it refers to the set of integrated capabilities as a unit: learning, feeling, incorporating, linking, experiencing and communicating.
Zeller, 2008; Turban et. al., 2008; Clark et. al., 2007 and Liebowitz, 2006), in addition to intelligent exploration, integration, aggregation and multidimensional analysis of data from various sources. (Yeoh & Koronios, 2010; Olszak & Ziemba, 2007).

This finding confirms that this is a new business philosophy or a new business model, which involves an organizational architecture that differs substantially from the traditional ways of organization of companies organized in stovepipe departments. This new philosophy is accompanied by a system of business management functions, in which new technologies have the role of facilitators and connectors of the elements of the new organizational model of companies, in contrast to the traditional system based on authoritarianism, the absolute hierarchy of internal relations, and the passive role to human capital in the dynamics of the company.

4. The New Organizational Architecture and Business Intelligence

Business architecture constitutes the way to integrally describe the company, and it involves each and every element that shapes it. The key structure of this architecture is the organizational one, which has the role of organizing all the activities developed by the company, grouping them according to their long-term objectives, in order to respond to the new division of labour, the new immaterial production factors, the modern communication channels and the specification of decentralized responsibilities, in accordance with the long term goals and the strategies defined by the company.

However, traditional business logic has not really become aware of the change in the business paradigm and continues to rely, basically, on maintaining the usual forms of organization, due, in large part, to the difficulties interpreting the impact of the new challenges posed by paradigmatic change, especially when strategic issues are full of complexity and uncertainty. In addition, the inertia that leads executives to resort to proven "solutions", that help them minimize the uncertainty associated with change, must be taken into account; solutions that were successful in the past and were consistent with traditional organizational routines.

This strategy means giving continuity to an organizational architecture that reproduces the departmental structure of business activity, usually following a stovepipe model, as a key factor for carrying out the basic operations of the company. And this has its foundation, in the first place, in the principle of departmentalization which consists of grouping the tasks and functions in functional areas or departments with little permeability, in order to manage the different activities of the company, regardless of the relationships that underlie its operations; examples of this are finance and accounting, marketing and sales, human resources, production, and purchasing departments. And, secondly, in the steering unit principle that establishes the need for a single manager or a single boss (prioritizing the role of executives who occupy the highest positions) who is the only one in charge of defining the goals and strategies of the company, in addition to the control and supervision of the whole system and the achievement of the goals of the company (see figure 1).

![Figure 1. Traditional Organizational Diagram](source: Own elaboration)
In this scenario, the various efforts to adapt these old structures to the new knowledge-based economic environment and to the impact of technological innovation on non-tangible production factors seem to have failed to achieve their main goal: the development of competencies, skills and abilities sufficient to capture the intelligence and the experience of workers and to encourage a strategic business culture of continuous learning, creativity and willingness to change.

Moreover, most executives and scholars continue to insist on the viability of the bureaucratic and rigid structures that characterize traditional companies, believing that overlapping a technological communication structure that speeds up the operations and transactions of the company will be sufficient to align the long-term business strategies with the short-term actions and practices; a strategy that has become one of the limiting factors for the expected change.

The growing application of science and technology in business, through the process of technological innovation, has highlighted the configuration of productive activity around a balance defined by the acquisition of new competencies related to knowledge management, and new operational skills associated with the management of new technological innovations.

This process is twofold; first, the workers of the company acquire business knowledge for a permanent and continuous innovation in environments of risk and uncertainty and, secondly, manufactured goods and services are created with a high added value content.

Within this framework of change of the business paradigm in favour of a flexible business architecture, focused on the exploitation of intangible resources (interaction, large data sets, networks, talent, reputation, brand, etc.), companies should be able to evolve at the pace of change of their environment, not only in their organizational structure, but also in the management systems implemented (intelligent cooperation, interaction and complementarity among teams, decentralization of decisions, etc.).

This new economy built on knowledge and the digitization of business relationships empowers companies to acquire distinctive competencies in certain types of intangible assets that are totally different to tangible capital or financial capital. In this knowledge era, the survival of the company will be linked to its ability to capture people's intelligence and experience and, relying on new technologies and knowledge management systems, transform them into useful knowledge to encourage learning, creativity and innovation, in companies or organizations.

Thus, the 21st century company is increasingly dependent on people's competencies, skills and abilities (talent) compared to the past. BI not only has the ability to capture, process and distribute information and codified knowledge, making use of technology, but it is also able to manage the business demand for greater tacit knowledge, which can only be located in the intelligence and experience of people, and transferred by direct contact.

Today's business organizational design, imposed by the interaction, the automation, the digitization and new analysis and the visualization technologies requires workers with creative abilities, tracking and mapping skills, and with operational aptitudes to use the new technologies in the exploitation and visualization of large datasets, as well as the graphic skills necessary for automatic presentation of results.

In this knowledge economy, organizational design should be flexible and reversible in order to make possible the total transformation of the company, to respond to changes in market conditions and to incorporate the impact of technological innovations. The structure consistent with these demands is based on the formation of highly interrelated and complementary work teams with different mechanisms of network communication (intranet), permeable to brainstorming, and encouraged to decentralized decision-making. This design includes management teams in communication, market and clients, talent and multipurpose staff, creativity and invention, technological innovation, production and logistics, etc., all closely related to the team of analysts, and intelligently managed (See figure 2).
This organizational architecture allows to align processes, data, applications and technological infrastructure with the strategic objectives of the company or with the raison d’être of business organizations. And it meets the requirements of the BI model that acts as a system that integrates the strategic level with the business level of the process. This architecture records all the ways in which the different management teams relate to each other, and how they remain internally united, to generate value-generating projects, manage the asymmetry of customer relationships, and diagnose the financial situation of the company. It also documents the ways of communication of information between clients and suppliers, and inside the company itself.

Table 1 shows the different activities that define the management teams in a flexible and reversible organizational architecture. For example, the impact of technological change on the nature of work, on the usable know-how and on the configuration of labour has stimulated and accelerated the break with the old ways of administering human resources departments. In fact, it has modified the keys to the company's survival by linking them to its ability to capture multi-purpose intelligence and the experience of the new generation professionals by giving way to the formation of a Talent and multipurpose professional management team.

Table 1. Analytics of Management Teams

| Talent and multipurpose professional management team | Determines if the members of the teams are creative and innovative. Estimates the likelihood that teams will implement less innovative solutions. Establishes whether teams include professionals with high theoretical or statistical training and/or mathematical skills. |

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1 In this work we understand that there is a clear difference between the concepts of "Administrator" and "Manager". The first refers to the continuity of a static stewardship of the company based on the absence of substantial changes in the dynamics of the operation of the company and the inefficient use of existing tangible resources, probably eliminating those that are "expendable". On the contrary, the second refers to a dynamic leadership of the company, whose starting point is setting medium and long term targets, and defining the operation of the company based on the efficient use of tangible and intangible resources.
<table>
<thead>
<tr>
<th>Team</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications management team</td>
<td>Indicates the degree of communication reached: one or several sources of information, from news or databases. Presents the information classified by topics/types or areas of knowledge, updated and in real time. Geolocalizes the information or news, and communicates to the list of users of the company’s platform (workers, customers, suppliers, etc.). Validates the information by examining the credibility of the source of the information.</td>
</tr>
<tr>
<td>Market and customer management team</td>
<td>Proposes and formulates marketing strategies targeted to specific groups of customers. Carries out the tracking and mapping of the interaction with customers. Proposes intelligent models for customer loyalty based on the client's experience with the company. Makes future projections of customers' value based on their life cycle and purchase. Manages the shopping experience of digital natives (consumers of the future) and creates portfolios of products and channels.</td>
</tr>
<tr>
<td>Creativity and Inventions Team</td>
<td>Designs projects to create new products and renewes the range of products and services. Designs new strategies to generate a map of business opportunities. Makes proposals for a transversal (or throughout the value chain) innovation and not just on the product. Extends the use of wireless technologies to speed up business transactions.</td>
</tr>
<tr>
<td>Production and logistics team</td>
<td>Maps the quality standards of the products and services manufactured. Monitors the production coefficients used. Manages and optimizes distribution network cycles. Tracks the stocks and product repositories, in addition to the stocking system.</td>
</tr>
<tr>
<td>Technology innovation team</td>
<td>Carries out the monitoring of the technological needs of the different management teams. Maps software update needs and the automation algorithms Designs projects to build ad-hoc algorithms.</td>
</tr>
<tr>
<td>Team of analysts</td>
<td>Coordinates the formation and connection of management teams. Develops its activity in close relation with all the management teams. Tracks the various management teams. Compilates reports and carries out company diagnostics.</td>
</tr>
</tbody>
</table>

**Source:** Own elaboration

The impact of artificial intelligence has revolutionized communications to such an extent that today we speak of intelligent communication, which would be managed by the **communications management team**, and would have the purpose of capturing, analyzing and optimizing the communication of information, both inside and outside the company. The idea is to automatically find the information, treat it, analyze it and find a receiver (customer or professional) who is interested in that information.

Similarly, the **market and customer management team** is responsible for carrying out the tasks related to the marketing of products or services to specific groups, unlike traditional marketing interested in mass or generalist marketing. The real value comes from translating the data collected from the company's transactions into intelligence and then applying that intelligence to developing customer-based strategies (e.g. Banks, Supermarkets, Airlines, Hotels, Car Rental Companies or Taxi Fleets, etc.).

In relation to the **creativity and inventions team**, its activity makes sense when we refer to the abstract world of ideas (creativity) as well as to the successful implementation of these ideas into reality or to the process of materializing those ideas (inventions). In other words, creative intelligence is the input for inventions, and only through the application of intelligence creativity can be made tangible.

Likewise, the **production and logistics team** is responsible for tracking and mapping the process of manufacturing products or services, in addition to the efficient and intelligent use of resources in the production chain. Intelligence in logistics is a way to improve efficiency of the flow of products and inputs. When addressing the classification of the logistics service, the specific characteristics of the company must be taken into account. For example, IKEA divides its products by flow categories: high or low. HOME DEPOT designs different distribution channels for its products based on the circulation
and the size of its products and AMAZON divides customers into different service groups (Highland 2014; Wilding & Juriado 2004; Knemeyer, Corsi, et al., 2003; Bolumole 2001; Rabinovich, Windle, et al., 1999).

Similarly, the technological innovation team is responsible for coordinating the actions related to the support to the different activities of the teams, and for tracking the technological needs of the company.

Lastly, we have the team of analysts whose role in BI is to facilitate decentralized decision making in the company. To do so, it makes use of data exploitation techniques to extract information and convert it into knowledge, which is the true value for the company, so that the rest of the management teams can turn it into action. It also carries out the diagnoses related to the operation of the company in relation to its strategic objectives, as well as detailing the nature of the market fluctuations, to identify and map the new market opportunities. Thus, the team of analysts will have the role of driver and catalyst of the information generated by the different management teams, and synthesizer of the information for the whole organization in terms of actionable intelligence.

In short, the new 21st century company must be equipped with an organizational structure that not only allows to know the needs of the ends of the production-distribution chain, but also the needs of the different stages in the production chain, supported by algorithms capable of translating the data into information and knowledge for decentralized decision making and actionable intelligence.

5. The Future of Business Intelligence

BI understood as the new business model has the task of bridging the gap between business process management and business strategy (Zeller, 2008). So it is necessary to explore how BI helps to learn how to deal with generalized and collective interactions, and the management of incremental technological tools (IPads and Mobiles) that change their characteristics in very short periods of time. This learning spreads to the management of the company's own activities, such as the interactive meetings of different management teams, the channeling of brainstorming and the role of moderator of the debates proposed by the teams. In other words, how good the model of Business Intelligence is to manage these new problems.

In the BI model, strategies allow end users not only to access information, but also to have the technological tools they need to understand the meaning of the information extracted and determine how to use it to achieve the desired result. These strategies require, whether in real time or not, combining and feedback of competencies, skills, and abilities, as decisions are increasingly decentralized. This involves exploring the impact of the decentralization of the access to information, to knowledge and to decision making, on the behavior of the people who make up the company, especially the executives.

In an organizational architecture that allows the permeability between the different management teams, the BI model based on the generalized feedback of all those involved in the business activity and the stimulating and proactive participation in the business project, enables the discovery of what users do, how they do it and where they do it. It would be interesting to know how the user feels when doing it, that is, translate his emotions into data (analysis of feelings). Exploring this trend in the framework of the BI model can tell us if it is really a valuable and complementary knowledge.

6. Conclusions

The economy of intangibles is a great opportunity for companies to successfully and rapidly change their business architecture, by applying intelligence in the comprehensive management of strategic intangibles: interaction, exploitation of large datasets, reputation, and communication and corporate social responsibility.

The "adaptation" strategies implemented by the companies, based on a traditional organizational scheme, present serious limitations to face the new challenges posed by the knowledge economy and the technological revolution: continuous turbulence of the environment in which it operates, new forms of decentralized management and organization, new technological tools, etc.

The ability to change and the flexibility of the company can hardly be developed if the technological approach of the business intelligence model persists. The different manifestations of intelligence have in common that they allow "to know before" (detection, discernment and dissemination) and "to know more" (integration, interpretation, analysis), and generate a competitive advantage based on knowledge and on the capacity of adequate response (prediction and prognosis). Hence,
the survival of the company is linked to its ability to capture the intelligence and experience (talent) of people and, based on new technologies and management systems, transform them into useful knowledge that encourages intelligence in the process of learning, creativity and organizational innovation of the company.

The new architecture of the 21st century company will be formed by multi-purpose, transparent and interrelated teams, articulated by the team of analysts who will have the role of driver and catalyst of the information generated by the different management teams. They will foster horizontal management based on the responsibility and the commitment of the employees and not so much on their control.

References


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Abstract

Pharmaceuticals agglomerations consistently use their brand image and versatile product portfolios to consolidate their position in the financial sector, which is evident in their continuous profit making and expansion in market share. This paper explores the short-term and long-term investment attractiveness through ‘consumer centric decision’ approach in two selected pharmaceutical companies, Renata Limited and Orion Pharma Limited, of Bangladesh over the last three years’ period. This research adopts a systematic approach which primarily addresses the various concerns of investors to illustrate the decision-making process of the existing and future investors. Using primarily domestic transaction data, this study explores how the leading pharmaceuticals companies of Bangladesh effectively use the wide array of drug portfolios mix with appropriate branding techniques to increase their financial profit and market share simultaneously. Both SWOT analysis and Porters Five Forces Model explore the business analysis of Renata Limited in comparison to Orion Pharma Limited that provides a conclusion regarding investors’ decision to invest in Renata Limited. Considering the financial analysis, Renata’s financial liquidity is not very satisfactory and could have been improved further if management is prudent on financial strategy settings. Findings of the business analysis indicate that Renata Limited would be a good investment choice for existing and prospective shareholders based on its opportunities for long term and short term growth and further expansion in developing the market. The results suggest that even lower liquidity coupled with higher interest borrowings can be balanced by posing positive picture to the public shareholders by returning the positive dividend to them.

Keywords: Financial performance, ‘Consumer Centric Decision’ approach, Business Planning

Introduction

The healthcare environment of today’s world needs effective management through integrating both the service providers and service receivers (Herist et al., 2011). In recent time, business research has contributed improvements in users’ decision making ability through comprehensive investigation and examination of various components which has enabled the users to ‘explain and predict’ the reasons behind and the outcomes of an investment decision (Hair et al., 2011). As a matter of fact, that still the basis of financial analysis commonly depends on the analysis of financial information provided by companies and analysis of that information both for stakeholders and companies (McGowan et al., 2015). Notably, financial statements of an organization reveal its financial performance, and carry out analysis and evaluation of business and financial performances that significantly assist the organization’s decision-making process, in particular, the financial investment plan (Koen & Oberholster, 1999); therefore, the regular evaluation of financial performance is necessary for sustaining the business plan. Because wrong investment choice can lead to losses, and in order to avoid those losses, it is absolutely necessary to make a well-informed decision.
Commonly, business is a process that encompasses from analyzing stakeholder to identify potential risk to the business (Sutton & Selznick, 1958). More critically, a business plan does not merely talk about by performing day-to-day operations, but also how closely the different stakeholders intertwined to the business plan process (Reider, 2008; Osterwalder & Pigneur, 2010; Harmon, 2014). Moreover, a business plan is a written blueprint of step-by-step activity with all endogenous and exogenous factors involving starting a new venture. It also integrates different stakeholders such as management, investors, and clients on the different levels (Patrick & Suzanne, 1993; Steiner, 1997; Bradford et al., 2008; Pinson, 2014). Furthermore, business plan corresponds to different stakeholders ranging from management, marketing, and financial viewpoint. It can be an initiating tool for a startup or can be used in an already running business to stimulate and progress further (Pinson, 2014; Quinlan et al., 2015). More importantly, the timeline is one of the key issues, which is commonly 3-5 years in a business plan, because both investors and managers always tend to seek profit maximization with minimum financial risk (Eric et al., 1993; Pinson, 2014).

Several other types of research related to decision making through business planning also strongly support the necessity of having an effective business plan, prior to starting new ventures (Delmar & Shane, 2003; Greene & Hopp, 2017). Sahlman (2010) illustrated four key interdependent factors crucial to every new venture: the people, the opportunity, the context and the risk and reward. However, the process itself widely varies depending on the scale of the business company as well level of detail (hierarchically positioned sub-companies). For instance, small companies do not require to perform portfolio analysis, whereas may require extensive competitor analysis to consolidate market position. Nowadays, managers undeniably using the business plan as a tool for collecting information and disseminating to its shareholders to make a rational decision, and many companies use the business plan and consistently revise to perform better (Wrona et al., 2014).

Consumer-centric decision approach emphasizes the outcomes of business actions holistically in term of environmental, personal and economic well-being of the consumers (Sheth et al., 2010). The application of consumer-centric approach is relatively new in business. However, there is a growing demand to accepting it to accommodate consumers into decision-making process (Payne & Frow, 2005). Advent of information technology with cheap smart devices, business institutions are pushing themselves to connect their consumers through networks to make prudent marketing decisions (Sheth & Mittal, 2004). It is estimated that, by 2020, there will be 20.8 billion connected devices globally, where 63 percent (12.8 billions) of total devices will be used at consumer level (Gartner, 2017). As more consumers, able to access smart devices with internet, business entities are fully focused on forging their business plan combining technology with consumer at center of their business (Hendricks, 2014).

This paper examines the investor’s viewpoint to facilitating investor’s decision making of shareholding in pharmaceutical industries in Bangladesh. More specifically, the research explores the financial performance of a high rated pharmaceutical company over three years’ period and compare the performance of that company with another pharmaceutical company to analyze the financial performance. This paper also analyzes the attractiveness of that selected pharmaceutical company in both short-term and long-term investments to investors. Based on the findings of the financial performance of that selected company, this research evaluates the competitive environment and possible future success of that high rated company through business analysis in order to offer ‘consumer centric decision’ approach for sustaining business activities in pharmaceutical sectors of Bangladesh.

As investors are concerned with a company’s present performance and prospective stability, which is influenced by its specific surroundings (Worthington & Britton, 2006), therefore, this paper encompasses both the financial analysis and the business analysis of the two selected pharmaceutical companies namely Renata Pharmaceuticals Limited, which is termed here as Renata Limited (RL) and Orion Pharma Limited (OPL) of Bangladesh. In examining the business and financial performance of those two selected pharmaceutical companies of Bangladesh, this paper considers three financial years, in particular from 2012 to 2014 to generate comparative scenarios for investment (see Appendix A for selecting the annual report of 2014 instead of the latest ones). In this study, Renata Limited is considered as the prime interest, and to contrast with that primarily interested company, Orion Pharma Limited is selected that also illustrates the detailed evaluation of financial performance. With this research, the authors seek to explore the links between financial analysis and its interpretation with decision making and future business development plan. The overarching question posed in this research is: What financial and business issues are affecting present and prospective profitability and long-term investment attractiveness of Renata Limited to investors through applying ‘consumer centric decision’ approach?

Profiles of Research Sites: Renata Limited (RL) and Orion Pharma Limited (OPL)
In the early 70s, Pfizer Laboratories (Bangladesh) Limited started its operation in Bangladesh as a manufacturer of pharmaceutical products. The company was listed in Dhaka Stock Exchange in 1979 and was renamed as Renata Limited in 1993 after the transfer of ownership by Pfizer Corporation, USA (RL, 2015). At present, the company is ranked as one of the top ten leading pharmaceutical manufacturers in Bangladesh in terms of both market share and revenue. It employs approximately 5002 employees (RL, 2015). Renata Limited has approximately 300 generic pharmaceutical products and about 95 animal therapeutics and nutrition products (RL, 2015; Pharma Mirror, 2013).

On the other hand, Orion Pharma Limited, which is previously known as Orion Laboratories Limited, is a company of Orion Group, incorporated in 1965 as a Private Limited Company (OPL, 2015). The name of the company has changed as Orion Pharma Limited after the conversion into Public Limited Company in 2010 (OPL, 2016). The company has reached a portfolio consisting of 115 brands and 250 presentations of various formulations (OPL, 2015). It has been awarded the ISO-9001: 2000 certificate in January 2003 for serving its valued customers with the excellent quality products, and the company has established itself as a provider of branded generic pharmaceuticals among the doctor's community, healthcare professional as well as the patients (OPL, 2016; OPL, 2015).

At present, around 300 pharmaceuticals companies are operating in Bangladesh, and among those 300 pharmaceuticals companies, the top ten pharmaceuticals companies are holding around 68.1% market share. Being the fourth largest market shareholder, Renata is a significant competitor and contributor in the pharmaceutical industry (RL, 2016; EBL Securities Ltd, 2015). The research is grounded in Renata Limited because it holds 5.1% market share of the pharmaceutical industry. On top of that, Renata Limited has one of the highest sales growth rates in the country’s pharmaceuticals industry, and for the past four years, the company has been besting growth rate of the industry by certain significant margin (EBL Securities Ltd, 2015).

Framework of Research

For conducting the financial analysis of a company or for the comparison of a number of companies, the figures must as far as possible be truly comparable (Vause, 2005). Apart from data availability, data accessibility is another the common challenges related to this type of studies. Again, the collection of information and analysis of information both are crucial in financial analysis because “when in doubt do it yourself” approach can produce misleading meaning of the companies. Considering the prevailing complexities both the data collection and data analysis, the authors have collected and used only those materials that are generated from reliable sources with high accuracy. This paper adopts a systematic approach which primarily addresses the various concerns of investors to illustrate the decision-making process of the existing and
future investors. A forward-backward approach is applied in order to analyze the collected data and to make constant comparative analysis with the secondary published materials from reliable sources. The forward and backward approach for data collection and data analysis is shown in figure 01.

Figure 01: Conceptual framework: The forward-backward approach of data collection and data analysis

In any scientific research, a systematic process is necessary from being objective and gathering multitude of information for analysis so that research can come to a conclusion (Blankenship, 2010). In this research, we have adopted a 4-stage framework, focusing on forward and backward approach to evaluate our business-planning model. Microsoft Excel and SPSS have been used to analyze sales revenue trends, visualizing profit margin, asset turnover and inventory turnover. Moreover, Porter’s 5-forces model, SWOT analysis and Ratio analysis has been used to review the business model and technique.

Data collection

Under the research framework, the authors have explored the appropriate information from reliable sources because information gathering enhances the knowledge of a human being thereby reducing the ambiguity of the seeker (Marchionini, 1995). That is why in an ever changing and rapidly growing business environment, it is vital to identify right information source at right time (Burke, 1995). The authors have collected secondary information for the research, generally considered as the information collected by someone other than the user (Bryman & Bell, 2011). The annual reports issued by the management of a public limited company are the compilation of financial statements of the company and is used to communicate about a company’s activities, financial performance, and direction to shareholders (Stittle, 2003). The secondary information for this study has been collected from the annual reports of Renata Limited and Orion Pharma Limited as well as from various other sources such as company websites, magazines, published articles related to pharmaceutical companies in Bangladesh and other published documents related to business planning and analysis strategies. Both Renata Limited and Orion Pharma are listed among the DS30 companies in Dhaka Stock Exchange, Bangladesh (DSEL, 2016). As a means of calculating relevant ratio and providing the interpretation for the results, appropriate financial and non-financial information has been obtained by the author from the annual reports of Renata Limited and Orion Pharma Limited over the last three financial years.

Financial journalists tend to generate expert opinions in investigating the causes behind management decision and the reasons behind achievements of major companies in the market. So, the reliable newspaper is a good source of information to get the whole picture about a company’s situation in the market or industry. The online archives of the newspaper are easily accessible and full of information of pharmaceutical industries. The authors, however, have consulted the most reliable newspaper such as Financial Express, and The Daily Star within Bangladesh for this particular study as those contain popular and dependable financial and business related information. Apart from the newspaper articles, a lot of information has been gathered about the pharmaceutical companies from online resources because they keep all necessary information on their websites. There are also some financial websites and research firm websites that have also offered the concise or comprehensive view of the company under consideration. But the sheer vast volume of online information demands careful selection of information from reliable plus relevant websites, and in selecting the primary information, the authors have chosen the official websites of Renata Limited (http://renataltd.com), Orion Pharma Limited (http://orionpharmabd.com), and Dhaka Stock Exchange (http://dsebd.org) as the information source for this study. On top, the authors have visited several libraries such as the Central Library of Bangladesh, and Dhaka University Library of Bangladesh located in the capital of Bangladesh as those libraries contain a large number of books and papers on business related issues. The library activities haves enabled the authors to search for books and to conceptualize the fundamental concepts behind the figures in financial statements.

Data Analysis

Among the available many tools for evaluating a company, financial ratios are the most valuable tools because they generate a better view of the company’s financial health than simply looking at the raw financial statements (Mayes & Shank, 2011). On top, with the application of an extensive business modeling process, a more valuable model can be produced (Tennent & Friend, 2005). Therefore, this paper adopts ratio analysis, SWOT analysis, and Porter’s five forces model that are briefly discussed respectively.
According to Paramasivan and Subramaniam (2009), ratio analysis is the key assessor of a firm's financial performance. Financial ratios uncover vital information about a firm that might not have been visible through examination of a firm's financial statements. Ratio analysis helps to determine company's financial position in the industry through ‘standardized comparison’ (Ehrhardt & Brigham, 2011). Accounting ratios illustrate ‘mathematical relationship’ amongst two financial figures that have ‘meaningful relationship’ with one another. The authors have calculated the following ratios to accurately analyze and correctly interpret financial results to meet various concerns of investors: i) Profitability Ratios; ii) Liquidity Ratios; iii) Market Ratios; iv) Efficiency Ratios. This paper accepts that the ratio analysis can be tricky since some ratios tend to appear satisfactory but in reality, careful assessment of particular factors will show a completely new picture. Also, multidivisional companies operate in various industries that make it difficult to set a standard of comparison and as ratio analysis requires standardized comparison it is more suitable for the comparatively small firm (Weston & Brigham, 1979).

SWOT analysis involves the analysis of a company's strength, weakness, opportunities, and threat. This tool also analyzes of its internal and external parameters at the same time. The model includes the analysis of positive and negative factors present within and outside the company (Böhm, 2008). With the SWOT analysis, this paper highlights the perspective of investors that tend to forecast company's future performance and the perspective of management that is an essential part of strategic business planning. As the SWOT analysis is used in any industry as a future trend detector, the authors used the SWOT analysis for both financial evaluation and business planning. This paper accepts that translating strength and weaknesses into opportunity and threat are not as straightforward as it looks in the model. Also, the model is ambiguous in terms that a factor can be doubly classified as strength and weakness or as opportunity and threat at the same time (Henry, 2011).

Porter’s five forces model helps firm managers with analysis of ‘competitive forces’ within the industry settings to pinpoint opportunities as well as threats (Hill & Jones, 2013). ‘One key determinant of profitability is the extent of competition, actual or potential’ (Johnson et al., 2014, p.41). Commonly, in case a company faces the great number of competitors, its profit is likely to rapidly erode. So, for long-term survival of the company with such problems caused by external factors need to be identified properly. As per Porter (1979), there are five forces that affect a company from the outside namely threat of new entrant, bargaining power of consumers, bargaining power of suppliers, the threat of substitute product or service, and the industry rivalry for position among current competitors. This paper considers all these five aspects while analyzing the business planning of the pharmaceutical companies of Bangladesh. This paper accepts that the model of competitive forces only discusses the forces that are negative in nature, but the model fails to identify the existence of such organizations which assist in the success of various incumbent organizations like supplementary organization (Johnson et al., 2014). Also, in this model, an industry is counted as a whole, but an industry can be easily broken down into various layers, and each of these layers can be separately viewed in order to identify the presence of these forces in that individual segment. While analyzing the business performance, in particular, the competitive environment analysis in business planning, the authors considered the above-mentioned limitations to generate reliable and meaningful interpretation in results.

Research Limitations and Ethical Issues

Due to today's highly competitive business environment, management authorities of the company do not circulate all kind of information among shareholders, and therefore, information asymmetry occurs between management and shareholders (Boyes, 2012). Therefore, the authors have faced some limitations in accessing and analyzing the information based on secondary published materials, mostly the free ones. Both companies have extended the accounting period for 2015 to cover the first 6 months of 2016, and they have not published their annual reports of 2015 until 1 October 2016. Therefore, the latest annual reports are not available for the author to use. That’s why this research is grounded on the latest published annual reports such as December 2014. This means the used data is more historic than the authors would have liked. On top, this study uses secondary sources of information that are appropriate for that particular time period and industry context, but continuous change in business settings may have caused the information to become outdated. Also, publishing the financial reports are mostly a yearly event by management; the report provides information of previous 12 months, but shareholders are far more interested in knowing up to date information, and this is one of the limitations of the conclusions the authors tend to bring in this research.

The key ethical issue is objectively analyzing and evaluating the information, and by doing so the authors intend to reach a clear conclusion. Also, the authors need to illustrate the results obtained from the study of the published materials. Therefore, the authors have included certain relevant business models and financial ratios for making a constant
comparison with the published materials. The authors have collected information from online sources and have accessed several companies' websites that primarily explains the interests of the companies.

**Results and Discussions of Findings of Research**

The authors have illustrated the outcomes of the financial and business analysis that offer an opportunity of computing figures and interpreting, comparing and analyzing the underlying causes of either good or bad performance of Renata Limited (RL) and compare the performance with competitor namely Orion Pharma Limited (OPL) (see Appendix B: Appendix of Financial Statements for analysis and calculation in MS Excel).

**Financial Analysis**

**Sales Revenue**

Sales revenue represents the income generated over a specified time period from selling goods and rendering services (BPP Learning Media, 2009). Renata’s performance over the 3-year period has been underpinned by very strong growth reflected through 44.69% increase in sales revenue since 2012. The key reason for this excellent performance, culminating in a year on year increase of 26.75% in just one year between 20013 and 2014, was largely due to concerted efforts on brand building to position itself in the right segment of the market (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). In 2014, there were severe political unstable situation in Bangladesh due to uncertainties regarding the parliamentary election in January 2014. It started in late 2013 and continued in the first quarter of 2014, though Renata Limited experienced developments in that situation. For example, Renata Limited has initiated new product development in pharmaceuticals as well as in animal health, expansion of foreign market and local sales, better performance of subsidiaries (RL, 2015).

![Figure 02: Trends of Sales Revenue](image)


The revenue of Orion Pharma Limited has increased slightly in 2014. The revenue was 1.71 billion in 2012 decreased by 4.00% and stood at 1.64 billion in 2013. Revenue growth started rising in 2014 as well and stood for 1.65 billion, an increase of 0.72% over 2013 (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements). Primary reason for lower sales growth was the political unrest in Bangladesh that seriously hampered the supply chain system (OPL, 2015). However, after having an adverse revenue growth rate in 2013, Orion Pharma was quite successful in 2014 in initiating their new market strategy. This year Orion Pharma achieved significant growth in export sales and has launched 11 different therapeutic medicines as part of their key objective to diversify portfolio. It is highly expected that more revenue will be generated and the revenue growth will be keep rising in the future as a result of these initiates (OPL, 2015). Having achieved more than double the industry average, the year 2014 was an astonishing year for Renata as their growth was 26.1% against Orion Pharma’s sales growth of 0.72% and industry average of 11.37% (EBL Securities Ltd, 2015). Renata has positioned itself as a key player both in terms of revenue with a market share of 5.1% (EBL Securities Ltd, 2015).
Operating Profit Margin

In 2014, the cost of goods sold has increased by 25.53% from 2013, which is lower than the sales revenue growth 26.75%. As a result, the gross profit margin has been improved to 51.21% in 2014 from 50.71% in 2013 (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). The operating profit margin has not been increased in line with the gross profit margin because the brand-deepening efforts and marketing strategies of Renata Limited followed by the increment of 37.56% since 2013 in administrative, selling and distribution expenses, which is much higher than the revenue growth (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). To improve the operational efficiency, the company has made several capital investments to upgrade existing production facilities and relocate some existing unit to new sites (RL, 2015).

Figure 03: Operating Profit Margin


The operating profit margin of Orion has also been declined since 2012. In 2012, operating profit margin was 22.05% and then stood at 20.32% in 2014. From the workings on ratios, Gross profit margin has been declined since 2012 and stood at 55.97% in 2014 compared to 57.95% in 2012 (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements). As the gross profit margin was declining, that also was affecting operating profit margin (Appendix of Financial Statements). However, this year Orion Pharma has expanded the overall production capacity and actual production from 2013 to maintain sustainable growth and increase profitability (OPL, 2015).

Operating profit margin of both Renata Ltd. and Orion Pharma Ltd. have declined from 2012 to 2014. The causes of the declining trend of operating profit margin are also linked with the increased political instability, increased inflation, and higher cost for raw material (RL, 2015; OPL, 2015). However, Renata Limited has much better operating profit margin than Orion Pharma Limited.

Return On Equity (ROE)

The overall ROE of Renata was good over the past years though it has declined from 2012 to 2014. The reason of maintaining overall good ROE is higher revenue growth that helped to increase the net profit over the period up to 1.7 billion in 2014, an increase of 41.66% from 2012. But, the total shareholder’s equity of Renata has also increased substantially since 2012 and stood at 7.75 billion in 2014, that was 52% increment since 2012 (RL, 2015; RL, 2014; RL, 2013, Appendix of Financial Statements).

Table 01: Return On Equity (ROE) per Year of Renata Limited and Orion Pharma Limited

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Return On Equity (%) per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Renata Limited</td>
<td>24.41</td>
</tr>
<tr>
<td>Orion Pharma Limited</td>
<td>3.23</td>
</tr>
</tbody>
</table>

In 2013, the ROE of Orion decreased as the total shareholders’ equity increased by 20% as the number of issued, subscribed and paid-up shares increased. But the net profit increased by only 5.07%. In 2014, ROE showed better result as it increased to 3.14%. The reason was the increase in net profit against total shareholders’ equity. Orion’s net profit was BDT 0.35 billion in 2012 that increased to 0.41 billion in 2014 contributed to better ROE (OPL, 2015; OPL, 2014; OPL, 2013, Appendix of Financial Statements).

**Asset Turnover Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Renata Ltd.</th>
<th>Orion Pharma Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.79</td>
<td>0.13</td>
</tr>
<tr>
<td>2013</td>
<td>0.69</td>
<td>0.11</td>
</tr>
<tr>
<td>2014</td>
<td>0.77</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Figure 04: Asset Turnover


The asset turnover ratio of Renata shows better performance. There was sudden drop in asset turnover ratio from 2012 to 2013 but gradually the company had managed to uplift that ratio in 2014 due to the management efficiency on deploying total assets and achieving higher revenue growth (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). The asset turnover ratio of Orion follows a declining trend. The reason is revenue is not growing in line with the total assets (OPL, 2015; OPL, 2014; OPL, 2013, Appendix of Financial Statements). In 2014, Renata’s asset turnover was .77 whereas Orion held 0.10 that indicates Renata has better revenue generation power than Orion.

**Quick Ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Renata Ltd.</th>
<th>Orion Pharma Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.04</td>
<td>0.46</td>
</tr>
<tr>
<td>2013</td>
<td>1.98</td>
<td>0.29</td>
</tr>
<tr>
<td>2014</td>
<td>2.51</td>
<td>0.49</td>
</tr>
</tbody>
</table>

Figure 05: Quick Ratio


In 2014, Renata has BDT 0.49 of liquid assets to meet the current liabilities of BDT 1. In 2014, the current assets of Renata were 5.29 billion, which was increased from 3.31 billion in 2012 resulting approximately 59% increase over three-year ...
period (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). But, the current liability increased significantly since 2012 and it stood at 5.21 billion in 2014 compared to 2.87 billion in 2012 resulting almost 81% increase due to the short-term bank loan and overdraft increment of 83% over that period (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). The reason of the poor quick ratio of Renata is the continuing increase of current liabilities against the current assets.

Orion had very high quick ratio in compared to Renata. Since 2012 total current assets of Orion has increased by almost 126% and stood at 5.97 billion in 2014. In contrast, the total current liabilities have increased less than 1% since 2012 and have stood 2.26 billion in 2014 (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements). Therefore, Orion Pharma holds better liquidity position than Renata.

**Inventory Turnover Period**

![Inventory Turnover Period](image)

Figure 06: Inventory Turnover Period


The inventory turnover period of Renata was 200 days in 2012. In 2013, it increased 12.5% from the previous year. In compare to 2012, the inventory turnover period further decreased 7% in 2014 and stood 186 days (RL, 2015; RL, 2014; RL, 2013; Appendix of Financial Statements). In 2014, the performance of Renata was satisfactory because the inventory turnover period has decreased sharply, and that is in line with revenue increase and market expectation.

Orion’s inventory holding period followed a gradual decrease trend. Orion’s inventory holding period was 150 days in 2014, which was 36 days lower than Renata in 2014 (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements). Renata has shown better performance in revenue growth but the working capital management was not as efficient in managing inventories, receivables, and payables as Orion (see details in Appendix of Financial Statements).

**Gearing Ratio and Interest Coverage Ratio**

The gearing ratio of Renata was 6.6% in 2012. But since then it increased as the long-term borrowings of Renata have kept increasing and stood at 9.17% in 2014. The long-term borrowings were 0.36 billion in 2012 and since then it increased and stood at 0.48 billion and 0.78 billion in 2013 and 2014 respectively. Total Shareholders' equity also improved because of new share issue, increased retained earnings and other capital reserves. But the increase in long-term loan was around 53% since 2012 and was very substantial against the shareholder’s equity and contributed to higher gearing ratio (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements).

Table 02: Gearing Ratio (%) per Year of Renata Limited and Orion Pharma Limited

<table>
<thead>
<tr>
<th>Name of the Company</th>
<th>Gearing Ratio (%) per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
<tr>
<td>Renata Ltd.</td>
<td></td>
</tr>
<tr>
<td>Orion Pharma Ltd.</td>
<td></td>
</tr>
</tbody>
</table>
Though the gearing ratio of Renata Limited has been inclining over the period, the interest coverage ratio has been also improved during that period with an average 4.03 times in 2014. Both the long-term and short-term borrowings of Renata increased considerably since 2012. The company charged 463 million as interest in 2014 resulting reduction in profit and Earnings Per Share (EPS) (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). The increase in interest coverage ratio indicates that Renata has made profitable capital investments through using its debt and equity financing.

Orion's gearing ratio stood at 1.76% in 2014 compare to Renata’s 9.17%. Orion had no long-term debt in 2012 and 2013, and only 0.23 billion in 2014. However, interest cover of Orion was almost similar to Renata because of high short-term loan i.e. stood at 1.40 billion in 2014 (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements).

**Earnings Per Share (EPS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Renata Limited</th>
<th>Orion Pharma Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6.60</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>7.05</td>
<td>-</td>
</tr>
<tr>
<td>2014</td>
<td>9.17</td>
<td>1.76</td>
</tr>
</tbody>
</table>


Earnings Per Share (EPS) is one of the key indicators for the ordinary shareholders as they can anticipate the total earning attributable to their shareholding after paying all interest and tax (BPP Learning Media, 2012). Renata’s EPS was 43.83 in 2012, and since then it has decreased. Renata had revenue growth of 26.75% in 2014 but net profit margin had declined little bit so EPS had also declined in 2014. EPS was also adversely affected because of the number of new shares issued in 2013 and 2014 (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements).

Orion’s EPS was 2.30 in 2012. It decreased slightly in 2013 but increased again in 2014 and stood at 1.77. EPS drastically differed between two companies because the share capital of Orion was 234 million whereas Renata had only 44 million in 2014. In terms of weighted average number of ordinary shares, Orion is much bigger company than Renata (OPL, 2015; OPL, 2014; OPL, 2013; Appendix of Financial Statements).

**Dividend Payout**

Renata declared 60% cash and 25% stock dividend in 2012 and that kept increasing year on year. The dividend offered by Renata was 75% cash and 25% stock in 2013 and 80% cash and 20% stock dividend in 2014 (RL, 2015; RL 2014; RL 2013). It is a conservative policy by the directors of Renata to retain money in the business to sustain growth (RL, 2015).

On the other hand, Orion offered 20% cash and 20% stock dividend in 2012 and only 15% cash dividend in 2013 and 2014 to support their future business strategies (OPL, 2015; OPL, 2014; OPL, 2013). In terms of dividend payout, Renata was able to pay much better dividend than Orion because of lower capital base and higher revenue growth.
Analysis of Statement of Cash Flow

Cash flow statement identifies the activities whether cash is generated (inflows) or cash is used (outflows). This is an important tool for financial analysis because by analyzing the cash flow statement, the shareholders can understand how the company is generating or using its cash through operating, investing and financing activities (BPP Learning Media, 2009). Renata had generated positive cash flows from operating activities in the last three years. The operating cash flows have increased in 2014 as collection from customers increased from 10 billion to 12 billion over one year (RL, 2015; RL 2014; RL 2013).

Orion’s cash generation from operating activities was positive as well since 2012. In 2014, cash generation from operating activities was positive 0.37 billion that was 0.19 billion in 2013 and 0.32 billion in 2012. In 2014, the operating cash have increased as cash receipts from customers have also increased and payments for operating expenses have decreased (OPL, 2015; OPL, 2014; OPL, 2013).

Both Renata and Orion had positive year-end cash balance in 2014. Though Renata generated more cash from operating activities and had better cash flow position up to investment activities but Orion had higher year-end cash balance due to the better opening cash balance of 2014.

SWOT Analysis

Strengths of a Pharmaceutical Company: Renata Limited

Renata limited is currently holding the forth position in pharmaceuticals industry and leading the animal health product market (RL, 2016). Renata is committed to producing and delivering high quality drugs that has led it to establish permanently as an innovative generic brand name in the industry (RL, 2015). Renata is operating eight manufacturing facilities in three manufacturing sites and nineteen depots throughout the country for distribution (RL, 2016). It has an impressive portfolio consisting of varieties of top class pharmaceuticals products in six molecules out of ten molecules of the industry (RL, 2015). In terms of sustaining the growth rate, Renata is expanding their production capacity through adequate capital expenditure using their internally generated fund and debt capital (RL, 2015). The current growth rate of Renata is far more than the sector average recorded in 2014. The company has been listed for share trading in Dhaka Stock Exchange (DSE) since 1979 with share capital of approximate 50 billion (RL, 2015). Renata has been able to capture the attention of foreign market, followed by its export to 16 countries in 2014 and make 60 filings including 28 Asian Common Technical Documents (ACTD) (RL, 2015). Renata is continuously targeting to reduce the dependency on debt capital reflected through the repayment of 100 corers corporate bond (RL, 2015).

Weaknesses of a Pharmaceutical Company: Renata Limited

Renata is exposed to credit risk in relation to their receivables. The average receivable period of Renata Limited is quite high over the past three years that indicates to inefficient working capital management because it takes longer time to convert the receivable into cash (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). Renata faces diversification risks as the company enters into a new foreign market. Also, a large amount of raw materials used in production, machineries and equipment are imported from foreign countries; therefore, Renata is vulnerable to fluctuation of currency as a matter of fact because of currency fluctuation risk involved (RL, 2015). The operating profit margin and net profit margin of Renata has declined since 2012. This reflects that the cost is increasing more quickly than the revenue generation (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). A major product group namely ‘Sterile dry fill (injectable) / Vials’ of Renata is utilizing only 71.34% of actual capacity. If the company does not increase its production capacity of this group, total revenue from this group do not go up as substantially (RL, 2015).
Opportunities of a Pharmaceutical Company: Renata Limited

Bangladesh is exporting drugs to 87 foreign countries, and the country is aiming to increase its export to 140 countries within few subsequent years (Rahman, 2015). On top, to make pharmaceutical companies self-sufficient in Active Pharmaceutical Ingredients (API) production, Government of Bangladesh has initiated two significant projects for API production domestically, which is going to create new avenue for pharmaceutical industries, in particular for Renata Limited. As a result, it is expected that the production cost is going to be decreased resulting a competitive edge for pharmaceuticals to compete in international market (EBL Securities Ltd, 2015). Government has reduced custom duty on 40 basic raw materials of medicine and withdrawn custom duty on 14 raw materials of anti-cancer medicine to support pharmaceutical industries. Government has plans to boost the pharmaceutical sector by giving 10% cash incentives (EBL Securities Ltd, 2015).

Threats of a Pharmaceutical Company: Renata Limited

Fierce competition from domestic and foreign competitors is increasing cost of material and labor for Renata. Moreover, political instability over the past year has affected operation capacity and profitability of the company as well as the whole pharmaceutical industry (EBL Securities Ltd, 2015; RL, 2015). Around 300 pharmaceutical companies are in operation in Bangladesh, and new companies with capacity to compete are entering into the market regularly. This can affect the profitability of Renata (EBL Securities Ltd, 2015). Another challenging factor is that Renata Limited faces the risk of paying substantial amount of royalty fees after the expiry of WTO/TRIPS (Trade-Related Intellectual Property Rights) in 2016, as expiry of TRIPS will cause cost of sale to increase (EBL Securities Ltd, 2015).

Porter Five Forces Analysis

Porter’s model determines the competitive intensity of firms and the other important factors in determining the attractiveness of any industry such as bargaining powers of suppliers and customers, threat of substitute products, and new entrants in the industry (Johnson et al., 2014).

Threat of New Entrants

Threat of new entrants contain three aspects namely economies of scale, first mover advantage, and access to distribution channel. Renata enjoys economies of scale in production because of its big scale of operation. But new companies and other small companies don’t enjoy economies of scale of their size and have less equity and investment (RL, 2016; EBL Securities Ltd, 2015). Renata has set positive brand image in the industry by standardized production capacity, high skilled workforce and proper quality control procedures. It has established strong customer loyalty over the years. In addition, the company holds the opportunity to use cheap raw materials and enjoys credit facilities from suppliers for long relationships. But new entrant does not have similar facilities that are usually enjoyed by large, established pharmaceutical companies (RL 2016; EBL Securities Ltd, 2015). Renata has set strong distribution channel across the country through their number of depots, and that is not possible for any new entrants to establish such strong network within a short period (RL 2016).
Threat from Substitution Products

The substitute products of pharmaceutical industry in Bangladesh are herbal and homeopathic medicines. Switching cost to the substitute is also very low. However, it is not a considerable threat as Renata maintains proper quality control procedures (RL 2015).

![Threat from Substitution Products](image)

Figure 09: Analysis of Porter Five Forces model of Renata Limited

Bargaining Power of Customers

Customers are more sensitive to price when the products have similar outputs. Renata has many differentiated products where the price is fixed for each product. Strict price control is one of the key features of the regulations imposed by the drug regulatory body of Bangladesh the ‘Directorate General of Drug Administration’ (DGDA). Customers tend to bargain less for pharmaceutical products as they expect quality products. Considering that the bargaining power of customers is low (EBL Securities Ltd, 2015).

Bargaining Power of Suppliers

Renata has positioned among the key players in the domestic market. Renata’s global presence is also growing in exports of medicine. Therefore, as a supplier, the company has higher bargaining power in the pharmaceutical industry. The liquidity risk management policy of Renata ensures that it has sufficient liquid assets to meet the financial liabilities. On top, Renata is consistent in making payment to their payable over the past three years (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements).

Competitive Rivalry

Pharmaceutical industry in Bangladesh is intensely competitive. According to IMS-Health, among the 300 pharmaceuticals the leading ten pharmaceuticals hold almost 68.1% of the total market share, and Renata has gained fourth largest market share in the industry by defeating many of its competitors (EBL Securities Ltd, 2015; RL, 2015). Renata produces diverse pharmaceutical products in huge scale that helps to cut down the production cost and product price. In contrast, small-scale companies are competing in market that is unable to reduce their product price due to lack of economies of scale. Moreover, they are forced to follow the pricing strategies and conventional rules of leading firms to hold their market competitiveness (EBL Securities Ltd, 2015).

Conclusion

The overall research objectives of this research project was to explore the short-term and long-term investment attractiveness of Renata by analyzing and evaluating the financial and business condition over last three years’ period. Renata’s revenue growth in 2014 was 26.75 % and revenue reached to BDT 11.10 billion. Domestic customers have remained a key driver on revenue contribution. Though the company is expanding its overseas market, they are also investing in local market to expand further market share (RL 2015). Renata’s profitability ratio is slightly lower in 2014 in compare with the previous year, but still Renata is able to maintain healthy operating and net profit margin. The profit margin is quite satisfactory as the company perusing growth strategy in local and overseas market (RL 2015). The healthy operating profit margin also indicates that Renata has controlled its expenses better than Orion. Considering the financial

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analysis, Renata’s liquidity is not very satisfactory and could have been improved further if management is prudent on financial strategy settings. The overall ROE of the two companies clearly shows that Renata is in a much better position than Orion to make return using its equity capital. Last three years of financial statement analysis indicates that to continue the operation and develop the market, Renata is heavily depended in short term and long term debt (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). Because of high borrowings, Renata has to bear higher interest payment, and both liquidity and cash flows are more likely to affect negatively in future. The analysis of efficiency and stability ratios has shown very positive results. The company has seemed utilized their assets very efficiently in terms of revenue generation. Renata has also maintained positive investors’ ratio by keeping positive EPS and Dividend (RL, 2015; RL 2014; RL 2013; Appendix of Financial Statements). The business analysis has resulted in an overall positive picture, which indicates Renata’s prospective future growth and supportive competitive environment. Findings of business analysis indicates that Renata would be a good investment choice for existing and prospective shareholders based on its opportunities for long term and short term growth, further expansion in developing market, strong business strategy and brand image. The important thing needs to consider is the market diversification and its associated risks by the management because any failure on strategies would affect liquidity, solvency and cash flows.

References


Environment Impact of Ex-Industrial Areas in Laç and Rubik and the Possibilities for Their Functional Transformation- a Comparative Analysis

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Prof. as. Dr. Sonila Papatimiu
University of Tirana

Abstract

Industrial areas in Albania have had an important role for many years during the communist regime, but their industrial function declined after the 1990s. This study focuses on the industrial areas of Laç and Rubik, two small towns in Albania. The closing of some industrial activities in these towns has increased environmental pollution and health issues of their inhabitants due to the release of toxic substances in the territory. There were chosen these two towns to compare because: First, they are near each other and are part of the same District of Lezha; Second, they both are two ex-industrial towns which were created by the establishment of the industry, former Chemical and Metallurgical Combine in Laç and former Copper Plant in Rubik; third, in both towns the industry has caused environmental pollution in their vicinity, but mostly on the waters of Mat river; fourth, after the year 1990, when the industry that created them has stopped functioning, they have good possibilities to develop religious tourism. In both towns are two important and much-visited churches: the Church of St. Ndout, Laç and the Church of Shelbuemi in Rubik. Another reason is the lack of studies for the ex-industrial areas in Albania, especially for Laç and Rubik. The main aim of this study is to identify and assess the levels of pollution caused by ex-industrial building (actually not functioning) on land, air, water, and human health and to find the best way for their effective reuse and functional transformation.

Keywords: ex-industrial areas, environmental pollution, reuse, functional transformation

Introduction

Kurbin and Mirdit Municipality are part of Lezha District (Map 1). Kurbin Municipality has four administrative units where Laç is the main town (Map 2), and Mirdit Municipality has six administrative units with main town Rërshen (Map 3). The territory of Kurbin extends into two physiographic regions: in the Central Mountainous region and Western Lowland, and it has a very favorable position related to the main roads in Albania and the capital city. Also, the geographical position of Mirdit is very strategic and advantageous for its development. In both directions, the Great and Small Fan River valleys connect the Western Lowland with Kukës and the tectonic fracture Mallë Lurë-Urakë connects the Black Drin River with the hollow of Mati.

This paper analyses the industrial development of Laç and Rubik during the communist regime (1945-1990) and after it (1990 and actually). Some of the advantages of these towns for the development of the industry during the communist regime were:

Firstly: Laç is near to two important ports, port of Durrës which is the largest and most important in Albania and port of Shëngjin a smaller one, but important for the import-export activity. During communist regime and actually, most of the machinery, industrial equipment, raw and finished materials are imported/exported through these two ports and port of Vlora, which is a little farther to these towns.

Secondly: Both Rubiku and Laç town were very close to the raw material sources (copper) found mainly in the northeastern part of the country, which supplied the Copper Plant in Rubik and the Pyrometallurgy Plant within the Chemical and Metallurgical Combine in Laç.
Third: Laç town had an optimal position being very near to the main national road and railway of Albania (The road and railway infrastructure in Albania during the communist regime was very poor and sometimes in very bad condition), while, Rubik was far from these roads, and only after the establishment of industry were constructed some secondary roads and railways to shorten the distances.

Fourth: Rubik and Laç were close to potential customers for agriculture supplies, providing chemicals and pesticides, and for the copper manufacturers, especially for the copper wire plant in Shkodra which is 57 km from Laç and 71 km from Rubik.

Fifth: Both towns were very close (no more than 30 km) to two important hydropower plants (Ulza and Shkopet built on Mat River), which provided energy for the industry. The waters of Mati River were used for the production processes in the industry but also for the inhabitants of the two towns which were growing and expanding after the establishment of industrial facilities (Laç, 2008).

Sixth: Government policy during the communist regime was an important locational factor, which affected many decisions for the industrial factories with the main objective to distribute them all over the country even though some factors were not profitable.

Main Factors For The Localization Of Industry In Laç And Rubik

Albania, during the communist regime, had a centralized state economy with no possibilities for the free initiative. The level of decentralization was very low or almost inexistent and in some cases punishable. The main factor for the localization of every industrial factory, mine opening, industrial combine, hydropower plants, etc., was political. The former communist government of Albania aimed to industrialize the country and to provide equitable distribution of the industry. Although the main factor was political and in many cases resulted not profitable for the economy, other factors influenced the localization of the industry in Laç and Rubik (our study cases).

I.a. Natural Factors

The geological composition was an important factor for the localization of copper mine in Rubik. This area has mostly magmatic rocks (infusive and effusive) rich with two kinds of copper ores: hydrothermal and quartz-sulfuric. The hydrothermal ore (chalcopyrite) are in the peripheral areas of Mirdita tectonic zone, where is Rubiku (Map 4.). The quartz-sulfur minerals are mostly in Kurbnesh and Thirrë. In Laç, the geological construction was not favorable for the location of the industry. The Chemical Metallurgical in Laç was on collusive and proliferative deposits and sloping materials which were highly unstable and endangered by the erosion.

The raw material was the main factor for the localization of the Copper Smelting Plant in Rubik near the copper mine. The lost of minerals and transportation costs were minimal in this case. The copper sources and mines which supplied Rubiku Copper Plant were in Perlati, Kurbneshi, Repisi, Rubiku, Kulmja, Spaçi, all villages of Mirdita (Map 4.). The raw material was an important factor especially for the Pyrometallurgical plant in Laç, which was supplied with copper powder by the Copper Plant in Rubik (distance Laç to Rubik is only 16 km).

Climate, as a locational factor is important because it affects not only the development of industry and other economic activities but has a direct impact on the physical and mental health of workers. In both towns, the climate conditions with annual average temperatures of January from 4°C to 5.5°C and of July from 23.2°C to 25°C, the precipitation from 1100mm in Lacc and 1800mm in Rubik were favorable for the development of the industry.

Hydrography of Rubiku and Lacci is very rich in surface and underground waters which have supported the development of the industry. The main water source is Mati River, which is used not only for the industry but also for power production, urban use and irrigation of agricultural land. The Fushë Miloti and Fushë Kuqe areas in Kurbini Municipality are very rich with underground water, which has been used to supply water for the industry in Laç and for agriculture with pumping stations, drainage canals and wells opened during the communist regime.

Land and soil are also important for the location of industry. During the communist regime, the land was state property, so its price was not a locational factor. In Laç and Rubik the disposibility of land was not favorable for the development of industry because in Laç the industrial plants and factories were constructed on agricultural land, which is not recommended and in Rubik in a not stable land (only 5m above river level).
I.b. Social and economic factors

The social and economic factors are very important in the location of industry. Nowadays with the technology advancement in every economic sector, some of the natural factors are losing importance and instead are gaining the human factors such as labor force price, capital, government policies, market, etc. These factors are influencing the distribution of industry around the world and also in Albania. How were these factors when the industry established in Lacc and Rubik? Were all of them very favorable and profitable or the state had to invest in them?

The government policy, as we mentioned above, was the main factor for the location of industry in Lacc and Rubik as in every part of Albania. Considering this, although some other factors were not very profitable the industry still developed in Lacc and Rubik.

The capital for the development of industry also was state property which was the only one to decide where and in what to invest. All the investments in Lacc and Rubik were from the state capital, and although in the first years the industry was not very profitable they continued functioning. Many investments were made for the opening of mines, construction of industrial buildings, roads, railways, water supplies, residents for the workers and their families, etc.

The labor force was both positive and negative factor for the industry in Lacc and Rubik. The price of the labor force was a positive locational factor as the salaries were uniform in all country and established by the government, but the disponibility of the labor force was negative because both areas were not much populated. The state invested to bring the labor force in these towns and to provide everything for their living. These investments increased the cost of developing industry in these areas. In the Copper Plant in Rubik were employed 700 workers (information from the interviews with engineers of Copper plant in Rubik) and 80% of them were from the other villages of Mirdita which later lived in Rubik while in Laç were almost 1300 workers from near areas and engineers from the capital city which were brought to live and work. Many investments were also made for the security of work, especially in the Chemical Metallurgical Combine in Laç, which was one of the most saved in Albania. The workers had special clothes to protect them from asbestos, gas masks, clothes to protect them from high temperatures, acids, and fire. The accidents on work were rare but not fatal for people. The aspiration system was very good, and every worker had its garderobe and had access to the mensa and the showers in the Combine. The qualification of the population was another factor which in Lacc and Rubik was not favorable as the local population education level was very low. The extraction sector had no specific requirements for the level of education, but other factories needed chemists, metallurgist and different engineers (chemical, electric, construction, mechanical engineers), etc. They were all brought from other Albanian towns and cities, and for the future generation, the state invested in opening professional schools in Laç and Rubik. The salaries were very good compared with other professions and varied from 500 ALL (an acronym for Albanian Lek) to 700 ALL (information from engineers who have worked in the industry) when an average worker in construction in that period was paid around 200 ALL.

The market was another locational factor which was decided by the central government. Most of the copper produced in Rubik (almost 80% of the production) was sent to the Copper Wire plant in Shkodra which produced for the inner and outer market high-quality products. The copper not used in this plant was also exported as cathode copper with a purity of 99.99%. The market was not a direct factor for the localization of the industry in the studied towns, but their vicinity with the ports and other industrial factories was a favorable factor. The copper and its products were exported mostly to Russia, China, Turkey, etc.

Transportation was not favorable for the establishment of the industry in Rubik but was favorable in Laç, which was near the national road and the only railway of Albania. Although the state invested in roads, railways and cable car for the transportation of copper from the mines to the Smelting Plant, there were many difficulties in distributing on time the raw material. The roads were not in very good condition, some of them had many curves, the number of trucks was low, and sometimes they were in bad conditions losing part of the weight on the road.

The Impact Of Industry On Population And Urbanization Of Laçi And Rubik In The Period 1945-1990

Albania is very rich in mineral resources, although it is a small country. Most of the mineral reserves were discovered by foreign researchers, especially Italians. Albania was very poor before and after the Second World War, and it lacked
qualified researchers, equipment, and money to support the exploration of minerals and extraction industry, although the presence of copper in Rubik has been detected from antiquity.

The first to extract copper in Rubik were some Italian mining firms, which built the first nucleus (SAMIA in 1938) and after them, there were Russians and Chinese. The first Copper Smelting Plant in Albania opened in Rubik because it had resources of high-quality copper with silver and gold in it. Most of the copper mines and establishments in Albania were opened after the 1950s and 1960s, which supplied the Copper Smelting Plant in Rubik and the Pyrometallurgical Plant in Laç. Gold and silver production in Rubiku copper smelting plant has been high for almost 20 years and has supported the economy of the country. The collaboration with China from 1960 to 1978 was very important for Albanian economy, especially for Metallurgical industry, which is shown in the growth of gold and silver in this period. This growth continued until 1990 when the communist regime declined, and many former industrial establishments were destroyed and robbed by the people (Graph 1, Graph 2).

Laçi and Rubik are two small towns in Albania that were created and expanded after the establishment of industrial activities in them. From small rural settlements (especially Rubik) they grew in population and size to become important industrial towns (although their modest industry and urban areas, Laçi and Rubik were declared towns according to the administrative organization of the territory of Albania during communist regime). Laçi was ranked the second most important city in Northern Albania by size, population, and economic importance.

The development of industry had its impact mostly on the main economic activities of these two towns which were transformed from rural settlements, focusing on agriculture and artisan activity, into urban areas (small industrial towns) offering industrial, administrative, educational, social and cultural activities and functions. The opening of the Chemical and Technological High School in Laç and Metallurgical High School in Rubik contributed highly in the educational and professional level of their population. As mentioned earlier in this paper Albania had a lack of professionals and educated people and the investments in these two schools related to the professions of the industry in these areas would provide specialists for the future.

The development of industry in Laç and Rubik had a high demand for workers which were brought from the near villages or other cities of Albania. In the first years after the industrial establishments opened, the population of Rubik was very low, with only six houses (48 inhabitants) in 1939 (Picaku, 2012), it reached 822 in 1959 and then 9500 in 1979. In Laç the population changed from 500 in 1959 to 9500 in 1979, reaching almost 30,000 by the end of the 1990s (Laçi, 2008). The direct impact of the industry in population size is more evident in Rubik which almost stopped growing after 1990, and in the period 2001 to 2014 has been growing with only 1147 inhabitants or 88 inhabitants per year (Table 1.). This pattern is also seen in Laç where the population growth rate is getting lower every year. Another impact of the industry on population was also the change in its age and gender structure. The working force brought to these towns was relatively young and mostly men working in mine and heavy industry sector. In Rubik, the gender structure changed in favor of men, but in Laç the gender structure was more equilibrated as it has also developed light industry and other economic sectors.

The urbanization of Laç and Rubik was very fast after the investments in the industry. The working population needed apartments and other services and recreational buildings. Many apartments with 5-6 floors were built for the workers and their families. In Laç was built the Palace of Culture, Town’s Library, some sports facilities for children and youths, some recreational facilities, kinder gardens, schools, etc. Rubik had fewer buildings as its population was not as big as in Laç.

Changes also happened in the economic and employment structure of the towns. In Laç town the population had many other options to work apart from the industrial sector, which in Rubik was not possible as the other economic sectors were not as developed. In Laç, almost in each family, one member was employed in the industrial sector and one in another economic sector, mostly in service and education while in Rubik, most of the population was employed in the industrial sector and only a few in agriculture and other sectors. The employment in industry increased the welfare of the population in both towns as it was one of the most paid sectors during the communist regime, especially the heavy industry. The difference between the families which had at least one employed in the industry with the others who did not have any was noticeable. Actually, in both towns, the employment in the industry is very low compared with other sectors. (Map 5.)

The Decline Of Industry And Its Impact On The Socio-Economic Development Of Laçi And Rubik After The Year 1990
The decline of the communist regime in 1990 was the beginning of many changes in the economic and social life of the people living in Albania. The industry and many other economic activities experience different problems and changes to adapt to the new democratic system established in Albania. The heavy industry, which had had a leading role during the communist period, was the first to suffer the changes resulting in the closing of many mines throughout Albania. The state investments to the industry were very low and not sufficient to keep people working. Most of the heavy industry establishments were closed in the early years of the 1990s and were damaged by the local people. Some chimneys of the Rubik Copper Plant were demolished and then sold for scrap. The same fate also had the Copper Refinery plant which could have been kept in function for many other years. In Laç, the Superphosphate Plant continued its production until 1993 when all the remaining reserves of phosphorus finished. Also, the acid factories were closed and then damaged causing many environmental problems.

The industry in Rubik was experiencing difficulties to continue functioning also because the raw material was impoverished too much and the technology was very old, otherwise in Laç the technology was better, but still it needed some improvements. Nowadays the industry in these towns is not in function, and the possibilities to reactivate it are scarce as most of the ex-industrial buildings are very damaged and destroyed after so many years without working. The most damaged one, causing much environmental pollution is the Chemical Metallurgical Combine in Lac. In last years have been many attempts from the local people to steal the last remaining of the Combine and three persons have even lost their lives.

The ex-industrial areas have been transformed and reused differently in the Albanian towns. In some of them, the population has reused part of industrial buildings to establish small enterprises, some for housing, small shops, etc. Other ex-industrial areas where the contamination and pollution from the industrial activity is high aren’t used for any new function. In Laç and Rubik the situation of these areas is very bad and a source of environmental pollution, but this has not prevented the population to built houses and small businesses near them. These families throw their waste in the surrounding areas increasing the pollution of land, water, and air.

The economic function of Laç and Rubiku changed again after the year 1990, and from industrial towns now they are more focused in the service sector and agriculture. The production capacity of small enterprises opened lately in Laç cannot be compared with the one before 1990. The population is focused now mostly in the service sector, especially religious and environmental tourism.

Laç has always been more developed than Rubik and continues to have an important role in the region, especially after the last administrative organization of the territory of Albania it is the main city of Kurbini Municipality.

**Negative Impact Of The Industry On The Environment Of Lac And Rubik**

Despite its positive impact on the economy and population life, the development of industry in Laç and Rubik had also negative impacts on the environment and population health. The location of the industrial plants in the suburban areas was not a good decision for the environment of the industrial towns and the population in general.

The industrial activity in Laç and Rubik discharged poisonous gases to the atmosphere which were transported by the winds toward the towns exposing most of the population to this pollution. The direction of the winds was a key factor which should have been taken into account for the right location of the industrial plants and establishments. In Laç, where the prevailing southwestern winds during the winter season and eastern ones during the summer season shifted away poisonous gases released from industrial facilities, particularly from the Superphosphate Plant and the copper enrichment to the town. They should have been located in the other part of Laç town to avoid industrial gases. In Rubik, this problem was not very evident and frequent as in Laç. The air pollution in these towns has caused many health problems, especially respiratory and skin diseases, not only for the population working in the industry but also for the other residents which were not in direct contact with the industrial activity. The areas have also suffered quite often acid rain which has damaged the plants and agriculture crops.

The rapid growth of the population in the first years of the industrialization, which continued, had its impact on the increase of the urban waste as well as water and air pollution. This environmental problem is still present and untreated properly in Laç and Rubik where there are only few garbage bins around the towns, and the wastes are collected in landfills near them. The urban waste and the inerts of the ex-industrial buildings augment the pollution of the land, water, and air. Especially, highly polluted from the industrial activity is Mati River which is also the most important one for the region where these two
tours are situated. It has been estimated a reduction of different species breeding in the river and plants due to high levels of heavy metals and BOD in water. (Table 2, 3.)

The industry had a negative impact also on the land and its uses. Most of the land that once was considered agricultural was then used for industrial buildings and for the construction of the apartments for the workers brought from other villages and towns to work in the industry (Table 4.). The expansion of Laçi town especially restricted the agricultural land. After the use for industrial activity, most of this land can no longer gain its previous fertility to be reused for agriculture (Table 5.)

The Importance Of Functional Transformation Of Laçi And Rubik's Ex-Industrial Areas

The development of sustainable industry is one of the 17 objectives of the UN, especially in the developing countries as Albania. The ex-industrial areas not in function are widely known as Brownfields, and in Albania, there are many of them. These areas endanger human health, impede economic development, reduce the value of the surrounding lands, etc. Their functional transformation has economic, social, environmental benefits.

Appropriate reuse or functional transformation of Laçi and Rubik's ex-industrial areas will convert them from heavily polluted and abandoned areas into areas of recreation and leisure. This process is not easy and requires the appropriate human and financial resources. In Laç and Rubik the process may be very difficult because: their ex-industrial areas are very polluted; there is a lack of legal basis for their development as well as regulations on how to develop and support regulatory activities; there is also a lack of researchers and national strategy in these areas; ex-industrial buildings in both towns are very damaged.

Ex-industrial areas and objects have been mostly reused for other industrial functions, for companies' main offices, shopping and entertainment centers, shelters for homeless people, etc. In some other countries, they have been preserved as industrial heritage and used for tourism and research proposes. The Albanian government should take into consideration other countries experience and compile a national strategy on ex-industrial areas functional transformation which should include: a. Identification, mapping and inventorying of ex-industrial areas; b. Classification and valuation of their social, economic and environmental potential for development; c. Recovering and adaptive reuse. As one of the main issues in dealing with these areas in Albania, it is the lack of financial resources to clean them following the appropriate procedures, the government can invite the private companies and businesses to invest by offering them lower taxes for a certain period, low land price, etc. The local government and community have their important role and have to be involved in the whole process from the preparation phase to the implementation of the strategy.

The ex-industrial areas in Laç and Rubik are very small compared with similar areas around the world, and the most appropriate reuse would be transforming them in recreational and industrial heritage areas going through some important steps:

Cleaning the ex-industrial areas and their surrounding from the solid and liquid pollution in land, water, and air;

Restoration of the remaining walls of the ex-industrial buildings, which should match the original style. It is also important to fence in the ex-industrial area to protect their territory from local people who can damage the existing buildings or build houses very near or inside these areas.

After the ex-industrial areas are restored and transformed into recreational areas, it is necessary to put signs near them and around both towns to give directions for people who want to visit and spend some time there. These signs should be in Albanian and English to attract also foreigner visitors. Inside the recreational areas, there should be other signs and tables with information and pictures about their former use and importance. There can also be specialized guides to explain the previous use of these areas and other necessary information about them.

Planting trees, the creation of green spaces for children's entertainment, putting some benches around the area for the visitors, the opening of small cafes and shops (souvenir shops with artisan works from both towns), etc. would help in the fulfillment of the recreational function of these areas.

Laçi town is bigger than Rubik, and it has more visitors, especially during May and June, to the Shen Ndoit church. It would be more suitable to build also a parking lot in its ex-industrial areas to reduce the traffic jam during the pilgrimage days and summer.
The local governments of both towns through following these suggestions and also getting experience from other towns inside or outside Albania can achieve the functional transformation of these areas and all the other benefits: economic, social and environmental. Two 3D maps were prepared in Arc View 10.3 to have a visual image for the propositions given to transform the ex-industrial areas (Map 6, 7). These two maps provide a general outline of how these two areas can be transformed.

The transformation of the studied areas as well of the other ex-industrial areas in Albania which are a permanent source of environmental pollution should start as soon as possible and should be in the program of every central and local government.

References

### Tables

#### Table 1. Changes in population number of Laç and Rubik, 1939-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Town name</th>
<th>1939</th>
<th>1959</th>
<th>1979</th>
<th>2001</th>
<th>2011</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Laç</td>
<td>No data</td>
<td>500</td>
<td>9 500</td>
<td>19 424</td>
<td>17086</td>
<td>30 745</td>
<td>29 422</td>
</tr>
<tr>
<td></td>
<td>Rubik</td>
<td>48</td>
<td>844</td>
<td>5000</td>
<td>6 842</td>
<td>4454</td>
<td>8 143</td>
<td>7 989</td>
</tr>
</tbody>
</table>

*Source: Civil Registry Offices in Laç and Rubik*

#### Table 2. The presence of heavy metals in Laçi and Rubiku waters

<table>
<thead>
<tr>
<th>Heavy metals in water</th>
<th>Cu</th>
<th>Si</th>
<th>Cd</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laç</td>
<td>26.36 mg / l</td>
<td>8.5 mg / l</td>
<td>0.011 mg / l</td>
<td>0.011 mg / l</td>
</tr>
<tr>
<td>Rubik</td>
<td>22.46 mg / l</td>
<td>-</td>
<td>0.012 mg / l</td>
<td>0.04 mg / l</td>
</tr>
</tbody>
</table>

*Source: UNEP, 2000.*

#### Table 3. The Ph and BOD in Mati River

<table>
<thead>
<tr>
<th>River</th>
<th>Station</th>
<th>Date</th>
<th>Ph</th>
<th>BOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>20.09.2002</td>
<td>8.35</td>
<td>1.05</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>19.06.2003</td>
<td>8.46</td>
<td>3.70</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>03.11.2004</td>
<td>8.61</td>
<td>4.80</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>23.08.2005</td>
<td>7.92</td>
<td>1.45</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>20.10.2006</td>
<td>8.45</td>
<td>0.45</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>02.11.2007</td>
<td>8.19</td>
<td>2.0</td>
</tr>
<tr>
<td>Mati</td>
<td>Miloti</td>
<td>01.09.2008</td>
<td>7.93</td>
<td>1.9</td>
</tr>
</tbody>
</table>

*Source: UNEP, 2000.*

#### Table 4. The presence of heavy metals in Laçi and Rubiku land

<table>
<thead>
<tr>
<th>Heavy metals in land</th>
<th>Cu</th>
<th>Si</th>
<th>Pb</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laç</td>
<td>1,422 mg / kg</td>
<td>526 mg / kg</td>
<td>43 mg / kg</td>
<td>-</td>
</tr>
<tr>
<td>Rubik</td>
<td>1,696 mg / kg</td>
<td>-</td>
<td>99 mg / kg</td>
<td>492 mg / kg</td>
</tr>
</tbody>
</table>

*Source: UNEP, 2000.*

#### Table 5. Main polluted industrial and ex-industrial areas in Albania

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Main polluted industrial and ex-industrial areas in Albania</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vlora area: Polluted with Hg and PCB</td>
</tr>
<tr>
<td>2</td>
<td>Fieri area: Polluted with As</td>
</tr>
<tr>
<td>3</td>
<td>Porto Romano areas: Polluted with pesticides</td>
</tr>
<tr>
<td>4</td>
<td>Elbasani area: Polluted by dangerous gases, discharge of industrial water in rivers, hazardous waste, slag</td>
</tr>
<tr>
<td>5</td>
<td>Laç, Kurbin: Polluted from Copper Melting Plant</td>
</tr>
<tr>
<td>6</td>
<td>Elbasan: Smelting plant of Cr and Ni</td>
</tr>
<tr>
<td>7</td>
<td>Laçi area: Polluted with fertilizers and acids</td>
</tr>
<tr>
<td>8</td>
<td>Rubiku area: Polluted by the copper industry wastes</td>
</tr>
<tr>
<td>9</td>
<td>Ballshi area: Polluted by petroleum Industry</td>
</tr>
<tr>
<td>10</td>
<td>Puka area: Polluted by Copper Industry</td>
</tr>
</tbody>
</table>

*Source: SARMa, 2010*
Graphics

Graph 1. Gold production in Rubik 1968-1990 (in kilogram)

![Graph 1: Gold production in Rubik 1968-1990](image1)

Graph 2. Silver production in Rubik 1968-1990 (in kilogram)

![Graph 2: Silver production in Rubik 1968-1990](image2)

Maps

Map 1. Administrative map of District of Lezha

![Map 1: Administrative map of District of Lezha](image3)

Map 2. Administrative map of Laçi town and the location of ex-industrial area

![Map 2: Administrative map of Laçi town and the location of ex-industrial area](image4)
Map 3. Administrative map of Rubiku town and the location of ex-industrial area

Map 4. Copper Reserves in Mirdita till 1990

Map 5. The percent of population employed in service sector in Laç and Rubik, 2014

Source: INSTAT, 2014

Map 6. The functional transformation of former Chemical and Metallurgical Combine in Laç (proposition)

Map 7. The functional transformation of former Chemical and Metallurgical Combine in Rubik (proposition)
The Effect of Organizational Structure and Ngo-Ngo Relationships on Sustainability in NGOs

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Abstract
This study analyses the statistical relation among Sustainability, Organizational Structure and NGO-NGO relationships within the concept of Non-Governmental Organization (NGOs). Sustainability is the dependent variable of the study whereas independent variables are Organizational Structure and NGO-NGO relationships. Sustainability is conceptualized as the survival of the NGOs within the study. Within organizational structure the emphasis is on having either mechanistic or organic structure and finally NGO-NGO relationships refer to the level of closeness to the other NGOs as participation events of the other NGOs, organizing the events together and becoming members of NGO unions like federations and Confederations. Results indicate that both independent variables (Organizational Structure and NGO-NGO relationships) have positive affect on the sustainability of the NGOs. Linear regression has been utilized in order to determine the effect of the independent variables of the study and the dependent variable. Statistical Package for the Social Sciences (SPSS) has been used for the analysis.

Keywords: Sustainability, NGO, Organizational Structure

Introduction
NGOs
Non-governmental organizations (NGOs) are crucial for the society with respect to their humanitarian, political, social objectives they have and the economic activities that take place within them (Metin & Coskun, 2016). The main characteristics of the NGOs are relying on professional staff, involving volunteers, being formally registered, having tax-free status, and claiming applied expertise in social policy in terms of delivering social services or advocating solutions. (Srinivas, 2010, p.119). NGOs have some additional specific characteristics that make them different from governmental organizations (public sector) and private sector such as not seeking profit, having different sources of revenue from profit seeking organizations, having different kinds of objectives, having multiple stakeholders, and working with volunteers.

NGOs are organized, institutionalized that they have boards, as well as professionals working for them. NGOs have written rules and procedures, and they are responsible for their operations to appropriate authorities. (Metin, 2017) They are in contact with other NGOs (Proulx, Hager & Klein, 2014), with governments, (Ramanath & Ebrahim, 2010) with private sector (Borwankar & Velamuri, 2007) and they create networks (Poole, 2008).

Sustainability
Sustainability for the NGOs is important because as contingency approach is strongly linked with open system approach that sees organizations as open systems that are in need of a survival, It is possible to understand survival as sustainability in the NGO literature.

There are various definitions of sustainability. Researches from, environmental studies, social science and management provided the definitions for sustainability.

Table 1. gathers the definitions of the literature.

Elkington’s Triple Bottom Line approach has an influence and conceptualization of sustainability. “Triple Bottom Line” is the most prevalent concept in the literature which considers sustainability at the intersection of economic, social, and environmental goals of a firm” (Taşçıoğlu, 2014, p.32; Wang & Lin, 2007).
Wang and Lin’s (TBL) sustainability index system provides an individual index set not only for the three dimensions of sustainability – economic, environmental and social, but also for the intersecting areas of these three main dimensions, namely eco-environmental, eco-social, socio-environmental and eco-socio-environmental (Turan, 2010).

Since the sustainability is evaluated under performance and effectiveness, the studies to be referred in NGOs context is limited.

Weerawardena, McDonald, and Mort (2010) emphasized the sustainability, strategy relation and stated that “building a sustainable organization has impacted on the strategy focus of the nonprofit organizations” (Weerawardena et al., 2010). Prabhakar (2014) focused on analysis of the sustainability of credit non-governmental Organizations (CNGOs). Besel, Williams and Klak (2011) presented a “theoretical framework to analyze financial sustainability by relating it with the foundations of institutional and population ecology theories. Their study “incorporates the main points of these previous studies in defining financial sustainability as the ability of nonprofits to diversify their funding base” (Besel, et al., 2011). Al-Tabbaa,Gadd and Ankrah (2013) found that quantity models are relevant in the NGO context as with respect to effectiveness, performance and strategy.

Meyer, Emerick and Momen, (2003) due to limitation of fiscal or personnel resources presents “concept of continuity planning” that they think should be applied within the nonprofit sector. “An organization’s long-term financial capacity is sustainable if its rate of change is sufficient to maintain assets at their replacement cost” (Bowman, 2011). Campell (2010) presented NGO related sustainability research involving concepts “disaster, organizational ecology, and entrepreneurship research” (Campell, 2010).

Organizational Structure

Structure is another huge concept of management. Miles (1980, p.18) defines structure as “Features of organization that serve to control or distinguish its parts”.

Mechanistic & Organic forms are other fundamental concept that are to be explained under the organizational structure.

Mechanistic Form: Mechanistic Form is “characterized by precise definition of duties, responsibilities and power, and a well-developed command hierarchy through which information filters up and decisions and instructions flow down” (Miles,1980, p.22)

Organic Form: Organic Form is more flexible and adaptable where communication is present up and down with less formal job definitions (Miles, 1980, p.22). This study focuses on Mechanistic and Organic forms of the structure.

Methodology

The researcher succeeded in contacting 139 Balkans related hometown associations, foundations, federations and confederations in Turkey through his personal network. Data gathering process was dependent on the personal relations. It would be very hard for an outsider to establish the personal relationships with the mentioned opinion leaders of the community and succeed in reaching 139 filled out questionnaires. 16 of the questionnaires were not properly filled out, that is why net properly filled out number of questionnaires is 123. The sample of the research is about 30 percent of the population given the whole population is around 400.

Linear regression has been utilized in order to determine the effect of the independent variables of the study (Organizational Structure more specifically having organic structure and NGO-NGO relationships) the dependent variable (sustainability). Statistical Package for the Social Sciences (SPSS) has been used for the analysis. The hypotheses of the study are as follows:

Hypothesis 1: NGO-NGO relationships has a positive effect on sustainability of the NGOs
Hypothesis 2: Having an organic structure has a positive effect on sustainability of the NGOs

Below are tables derived from the SPSS

Table-1 Model Summary
Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson
---|---|---|---|---|---
1 | .374 | .140 | .125 | 68639 | 1.793

Table 1 indicates that the adjusted R square is 0.125 meaning that the independent variables explain the 12.5 percent of the total effect on quality. Durbin Watson figure will be mentioned below when analyzing the assumptions of regression.

**Table2-ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.030</td>
<td>2</td>
<td>4.515</td>
<td>9.659</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>55.624</td>
<td>119</td>
<td>.467</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64.654</td>
<td>121</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 indicates that the significance of the model in general is .000 which is acceptable at the 99 percent confidence level.

**Table3-Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Zero-order</td>
<td>Partial</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>2.832</td>
<td>.304</td>
<td></td>
<td>9.313</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>.126</td>
<td>.058</td>
<td>.187</td>
<td>2.175</td>
<td>.032</td>
<td>.236</td>
</tr>
<tr>
<td>Performance</td>
<td>.206</td>
<td>.060</td>
<td>.294</td>
<td>3.411</td>
<td>.001</td>
<td>.325</td>
</tr>
</tbody>
</table>

Table 3 indicates that both usage of ICT and Performance have acceptable significant levels at the 95 percent confidence level.

So the regression function is

\[ \text{Quality} = 2.832 + 0.126 \text{ NGO} + 0.206 \text{ Organic Structure} \]

The assumptions of Regression model should be checked as well. The first assumption is normality assumption of the residuals.

Normality
Given the figures above it can be concluded that the residuals are normally distributed.

**Autocorrelation**

The last assumption to be focused on is autocorrelation assumption. If Durbin Watson test is applied the results below are obtained.

<table>
<thead>
<tr>
<th></th>
<th>dl</th>
<th>du</th>
<th>2</th>
<th>4-du</th>
<th>4-dl</th>
<th>4</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>dl</td>
<td>1.59</td>
<td>(from Durbin Watson table)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>du</td>
<td>1.65</td>
<td>(from Durbin Watson table)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-du</td>
<td>2.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-dl</td>
<td>2.35</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Here, our d value of 1.79 is between du (1.59) and 4-dl (2.35) so we don’t reject the Ho which means there is no autocorrelation problem.

**Multicollinearity**

Multicollinearity does not seem to be a problem because the VIF figures are 1.028 (less than 10)

**Conclusions**

**Discussion**

This study tries to comprehend the linear relationship among Sustainability, Organizational Structure and NGO-NGO relationships within the concept of Non-Governmental Organization (NGOs). The regression equation formulates the linear relationship among the dependent and independent variables. The choices of the participants indicate that one unit change towards becoming more organic in structure (1 unit increase refers to 1 level shift of the opinion of the participants with respect to their agreement on the subject matter) will increase the likelihood of sustainability (Sustainability is conceptualized as the survival of the NGOs within the study) by 0.206 units. By the same token 1-unit increase in NGO-NGO relationships (NGO-NGO relationships refer to the level of closeness to the other NGOs as participation events of the other NGOs, organizing the events together and becoming members of NGO unions like federations and Confederations) will increase the likelihood of sustainability by 0.126 units.

In general, the study concludes that both NGO-NGO relationships and having an organic structure have effects on the likelihood of the sustainability of the non-governmental organizations.
Future Research Recommendations

The probable future researchers might focus on different aspects sustainability in the civil society sector and might focus on areas such as environmental dynamism, environmental competitiveness, transparency and strategy in the context of civil society and Non-governmental organizations.

References


An Exploratory Analysis on Entrepreneurial Culture and Financial Education Between Students of the Veracruzana University, Veracruz Region

Prof. Dr. Ignacio Ortiz Betancourt
Universidad Veracruzana, Mexico

Abstract

Entrepreneurial culture and financial education have become two of the most relevant issues on the international agenda, since they are considered as elements in favor of the efficient use of financial resources, as well as they are important for the identification of opportunities which favor the development of self-employment projects, contributing to local economic growth. Nevertheless, Mexican financial authorities note that there is an environment with gaps and deficiencies in terms of financial education, which is more evident among the rural population and sectors of lower education and socioeconomic level, causing inefficient use of resources and a poor culture of financial management, which undoubtedly compromises the stability of most Mexican families. In addition, this lack of financial education has a negative impact on the development of entrepreneurial projects, generating greater economic and social problems, taking into account that entrepreneurship is a mechanism that contributes to the creation of jobs and encourages economic growth. Based on these premises, this study aims to identify the level of entrepreneurial culture and financial education among Universidad Veracruzana students, through a descriptive and exploratory analysis; results shown a high level of entrepreneurial culture and a medium level of financial education but a weak positive correlation among them.

Keywords: entrepreneurial culture; financial education; Latin America university context.

Introduction

According to the OECD (2010), entrepreneurs are participants of particular relevance in innovation; as they help turn ideas into practical applications. In the United States, in 2007, companies under the age of five accounted for almost three-quarters of new net jobs. Successful business creation often comes with practice; hence the importance of experimentation, the entry and exit of the market. However, only a small part of the population receives education for the creation of companies. Education and training policies should help foster an entrepreneurial culture to instill the skills and attitudes necessary for a creative drive.

Among main topics for policy makers, financial education takes an important spot due to its impact among small business and entrepreneurs. This is why international organizations such as OECD, World Bank and International Monetary Fund have developed strategies to increase the levels of financial skills among developed countries, emerging economies and less developed regions. Then, entrepreneurial culture and financial education stand out as two fundamental issues on the international agenda, since elements are considered in favor of the efficient use of financial resources, as well as the identification of opportunities for the development of self-employment projects, contributing to local economic growth.

According to the National Commission for the Protection and Defense of Financial Services Users (CONDUSEF, 2012), financial education can be defined as the set of actions that imply learning to manage money better, being foresighted, consuming in a rational way, and learn to invest, know how to take care of your assets and use financial products and services with responsibility.

Similarly, Smyth (2011) points out that financial education is the process by which consumers improve the understanding of financial products and acquire a greater understanding of financial risks and market opportunities, by making economic decisions with information. In addition, he points out that an important part of our decisions is associated with financial behavior, which directly impacts his personal and family environment, from the search for funding for studies to planning.
for retirement. Thus, having an adequate financial education will favor an intelligent selection of financial products, based on well-informed decisions.

The benefits of having an adequate financial education also extend to the national economic level, since, as BBVA (2015) points out, greater economic and financial education helps explain the level of financial development in the country, and which ultimately leads to lower inequality. In this way, having policies in charge of promoting these issues would contribute to reducing inequality by allowing large groups of the population of a country to access the financial markets to monetize their savings. This can also favor an improvement and development of the domestic financial market and consequently contribute to economic growth.

However, the picture of financial education in Mexico is unfavorable, since as mentioned by BANAMEX & UNAM (2008) in the results of the First Survey on Financial Culture in Mexico, there is, in the majority of the population, a medium- or long-term vision in matters related to finances. In addition, this work identified an incipient "control and expenditure planning" culture. This is because, overall, about one in five households had a record of expenditures or planned income, debt and household savings.

In this sense, it is observed that in Mexico there is an environment with gaps and gaps in terms of financial culture, both training and information, which becomes more evident among the rural population and sectors of lower education and socioeconomic level, causing serious consequences, such as the absence of planning in the control of expenses, income and debt, lack of savings and a culture of foresight, which undoubtedly compromises the stability of most Mexican families.

In addition to this, this lack of financial education has repercussions in the area of business, and especially among the projects of micro, small and medium enterprises (MSMEs) and entrepreneurs, which, according to Carton, Hofer & Meeks (1998) are those people with the ability to identify market opportunities to create companies and thus generate value. Recently, the World Bank (2015a) stated that, until very recently, the motivation to become an entrepreneur was to earn a lot of money to have a relaxed life and full of amenities. But lately a new generation of entrepreneurs has emerged who, in addition to modern and profitable ideas, incorporate social and environmental benefits into their business plans.

This is evident since, as Lederman et al (2014) mention that there is a large gap between the capacity to access financing between large companies and the rest, with larger ones being widely favored. This difficulty faced by MSMEs to raise capital also implies greater demands on their use, which undoubtedly requires an adequate level of financial education. In addition, Lederman et al (2014) point out that it is possible that this barrier of access to financing that new companies experience is negatively affecting the entrepreneurial potential of Latin America and the Caribbean.

Considering the negative effect that credit scarcity produces on entrepreneurship, Cai (2015) states that during last years some financial institutions in African countries have developed strategies to reduce credit rates in order to promote entrepreneurial projects; for example, the Chase Bank of Kenya managed to reduce the interest rate paid by women's companies and works to exponentially increase the size of the loan portfolio for these types of enterprises. All these efforts allow more companies to invest in their businesses with reasonable costs. This creates new jobs and contributes to local economic growth.

In Latin America, the Mexican Federal Government created in 2014 the National Fund for Entrepreneurs which aims to stimulate national, regional and sectoral economic growth, through the promotion of productivity and innovation in micro, small and medium enterprises located in strategic sectors, which promotes a systematic strengthening of entrepreneurship development throughout the national territory, as well as the consolidation of an innovative, dynamic and competitive economy.

Also, Marín (2014) stresses the importance of entrepreneurs have the ability to evidence their knowledge in financial matters, because in this way they can overcome the challenges of the market. Similarly, Di Costanzo (2013) argues that a company that begins operations without basic financial education has a high chance of failure, while those that incorporate good financial practices increase their chances of remaining in the market. Thus, it can be seen that financial education has a great influence on the success of entrepreneurial projects.

Nevertheless, Blasco (2012) mentions that some of the main obstacles for enhancing entrepreneurship are the lack of financial resources or the restrictions to access to credit markets, public policies and a low entrepreneurial skills.
Once the importance of the topics of financial education and entrepreneurship in the national and international agencies has been identified, the need arises to identify one of the main spaces where strategies can be designed and implemented in favor of these topics: the University. This, as mentioned by Neck (2014), education is an essential factor to start a business, and therefore the university gives the student the space where he can practice the venture, and at the same time can learn how to deal and manage the uncertainty of the market, which is part of the world of entrepreneurship.

Thus, universities have a fundamental role in the process of training competent individuals to face the demands of an increasingly competitive labor market, in which they will have to make use of financial tools and entrepreneurial skills. However, Lopez (2010) emphasizes the fact that the level of schooling is not directly related to the degree of financial education of individuals.

Based on the above, there is interest in identifying the level of financial education and how widespread is the entrepreneurial culture among university students in our country. However, given the large potential population to be addressed during this work, we intend to limit our scope to the context of Veracruz (southern Mexican federal entity), in which, the Veracruzana University represents the main house of studies given its presence and coverage in twenty-eight municipalities distributed in five regions: Xalapa, Veracruz, Orizaba-Córdoba, Poza Rica-Tuxpan and Coatzacoalcos-Minatitlán. Within these, the second largest number of students is the Veracruz region, which is limited in our immediate area of study.

Given these premises, the following research question is proposed that will lead to the development of this project: what is the level of financial education and entrepreneurial culture among the students of the Veracruz University, Veracruz region? Next, we present a series of arguments that validate the relevance of this work.

Justification

The close relationship that exists between the level of financial education and the level of success of entrepreneurial projects is very important since they affect the pattern of economic growth in emerging economies. It is for this reason that the Inter-American Development Bank (IDB, 2014) has emphasized among senior officials of ministries and agencies of Science, Technology and Innovation of Latin America and the Caribbean the need to discuss public policies that promote entrepreneurship. In addition, this institution continues to promote the dissemination of financial education programs, since these have a fundamental impact on the well-being of citizens (IDB, 2015). Similarly, the World Bank (2013) notes that the relationship between productivity and economic growth has meant that governments and multilateral agencies in recent years have given more attention and support to entrepreneurship: that is, the ability to turn ideas into products and services. For example, the Mexican government has made legal reforms to encourage entrepreneurship and recently created the National Institute of Entrepreneurs (INADEM) to promote the culture and productivity of entrepreneurs and ease credit access through programs such as "Young Credit" which is designed for different profiles of young entrepreneurs with solid business projects (CONDUSEF, 2015).

As pointed recently, these efforts lie on the widely accepted premise that closely links business to economic growth and productivity (Lupiáñez, Priede and López-Cózar, 2014). In this sense, they emphasize that the business aggregate and the creation of new units represent the engine of the economy of the industrialized countries (García, Martínez & Fernández (2010) and Galindo & Méndez (2011)). Similarly, Álvarez, Giraldo & Martínez (2014) point out that the sum of entrepreneurial projects contribute to social and economic development at local and national level; being the local area where the positive effects are more evident, which translate into an increase in the level of employment and the income of the population.

However, Lupiáñez, Priede & Lopez-Cózar (2014) also emphasize the fact that among the empirical evidence there are no uniform results that allow a strong confirmation of this premise due to results vary depending on the context and the indicators used to quantify this relationship.

In addition, the premise that the lack of financial education has an impact on the development of young entrepreneurs (Singer, 2016) represents another area for further research on this subject, since it is difficult to conclude that lack of access to financing is one of the main constraints to innovation and the development of entrepreneurial projects (Lederman et al, 2014).
Based on the above, the development of this project acquires relevance since, according to CONDUSEF (2013), there is a severe lag in our country in the area of financial education, which is evident since due to the lack of information people do not know the advantages or disadvantages they can get from their use.

Similarly, the National Entrepreneur Observatory (2013) emphasizes that in Mexico, despite the fact that entrepreneurs and MSMEs generate a significant amount of jobs and income for the country, they suffer from a series of weaknesses; among them, the difficulty to credit access, lack of knowledge on the subject and low productivity. Thus, raised these needs; we recognize the importance of continuing and contributing to the analysis with concrete proposals on these issues, since they represent areas of opportunity for economic growth and social development in our country.

In addition, these topics will remain strategic on the international agenda, as the World Bank (2015b) states that entrepreneurship and financial culture represent two of the major development tools. Added to this, in the context of the State of Veracruz, Mexico, there is little to no research regarding the level of financial education and entrepreneurial culture, jointly, among university students, which gives greater relevance to this work.

Objectives

The general objective of this study is to identify the level of entrepreneurial culture and financial education among university students of the different areas of knowledge of the Veracruzana University, Veracruz region. Also, two specific objectives are set: Detect the competencies of university students related to the areas of financial education and entrepreneurship and develop a series of proposals to meet the identified needs, as well as strengthen the strengths in these areas.

In this way, it is intended that this work represents an academic reference for the study of financial education and entrepreneurial culture, which in turn can be reproduced in the national and international context in public and private educational institutions, fulfilling one of the main goals among universities: the generation and dissemination of knowledge to generate social development.

Literature review

Some recent studies among entrepreneurial culture and financial education which are considered for the development of this study are shown in Table 1:

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Main findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oseifuah, E. (2010).</td>
<td>This study considers South African young entrepreneurs; financial literacy seems to contribute in developing better entrepreneurial capacities.</td>
</tr>
<tr>
<td>Bae, T. et al (2014).</td>
<td>Results shown that there is a positive but weak correlation among entrepreneurial education and entrepreneurial intentions.</td>
</tr>
<tr>
<td>Njoroge, R. (2013).</td>
<td>The study, focused in the Kenian context, reports a positive relationship between financial literacy and entrepreneurial skills.</td>
</tr>
<tr>
<td>Musie, L. (2015).</td>
<td>There is a positive relationship between financial literacy levels shown by owners and small business performance; entrepreneurs with higher financial education levels reported greater business profits and higher labor demand.</td>
</tr>
<tr>
<td>Lusimbo, E. (2016).</td>
<td>Micro and small business owners with low financial literacy levels shown less efficient performance and lower profit growing rates.</td>
</tr>
<tr>
<td>Abubakar, H. (2015).</td>
<td>Study shows that there is a strong relationship between financial literacy and small business performance in Africa; lack of credit access or market constrains represent some of main obstacles to promote entrepreneurship in that continent.</td>
</tr>
<tr>
<td>Leifels, A. &amp; Metzger, G. (2015).</td>
<td>Focused on the German context, this study states that lower financial literacy drives to entrepreneurial potential reduction. Nevertheless, coaching and training programs contribute to reduce this problem.</td>
</tr>
</tbody>
</table>

Source: prepared by the author using documents cited above.

Hypothesis

After literature review, a set of hypothesis were stablished to contrast this study results with research in this field developed by authors mentioned in Table 1; these are:
Hypothesis of work (H0): There is a low level of entrepreneurial culture and financial education among the students of the Veracruzana University, Veracruz region, which is reflected in the lack of knowledge of these concepts, as well as in their inability to make correct decisions associated with access and use of financial resources.

Null hypothesis (H1): There is a high level of entrepreneurial culture and financial education among students at the Veracruzana University, Veracruz region, which is reflected in the identification of these concepts, as well as their ability to make correct decisions associated with access and use of financial resources.

Alternative hypothesis 1 (H2): There is a high level of entrepreneurial culture and a low level of financial education among the students of the Veracruzana University, Veracruz region, which is reflected in the identification of concepts related to entrepreneurship, as well as in their inability to make correct decisions associated with access to and use of financial resources.

Alternative hypothesis 2 (H3): There is a low level of entrepreneurial culture and a high level of financial education among the students of the Veracruzana University, Veracruz region, which reflects their inability to identify concepts related to entrepreneurship, as well as their ability to make correct decisions associated with access and use of financial resources.

Alternative Hypothesis 3 (H4): There is a high level of entrepreneurial culture and an average level of financial education among the students of the Veracruzana University, Veracruz region, which is reflected in a satisfactory level to identify concepts related to entrepreneurship as well as an intermediate capacity to make correct decisions associated with access and use of financial resources.

Alternative Hypothesis 4 (H5): There is an average level of entrepreneurial culture and a high level of financial education among the students of the Veracruzana University, Veracruz region, which is reflected in an average level to identify concepts related to entrepreneurship, as well as high ability to make correct decisions associated with access and use of financial resources.

Methodology

Type of study

This work is based on the development of an exploratory, non-experimental and cross-sectional research. This, since it is intended to identify the level of entrepreneurial culture and financial education among the population under study; In addition, this work is non-experimental since the variables involved in its development are not manipulated, and of a cross-sectional type since the data will be collected in a single moment.

Regarding the characteristics of the information expected to be obtained and the techniques for its processing and subsequent interpretation, this study is considered to be of a quantitative and descriptive type.

Study limitations

As an exploratory and descriptive study, this research does not pretend to develop a comparative analysis among five Universidad Veracruzana Regions or other universities (public or private). Also, the characteristics of data do not provide enough information to perform deep statistical analysis. Nevertheless, these limitations are considered as opportunities for further studies which could enrich research in this area.

Population and sample

In terms of population, the universe is represented by the total number of students at the Veracruz University (UV) Veracruz region. In this sense, the latest online report issued by the Directorate of Institutional Planning of the UV for the 2015-2016 cycle, yields a total of 11,181 undergraduate students distributed in thirty educational programs.

To determine the sample size, we adopt the procedure indicated by Aguilar (2005), which uses the following formula:

\[ n = \frac{NZ^2PQ}{d^2(N - 1) + Z^2PQ} \]

Where:
N = population 11,881
n = sample
\( d = \text{error allowed (0.05)} \)
\( Z = \text{reliability level (1.96)} \)
\( p = \text{probability of the event in favor (0.5)} \)
\( q = \text{probability of the event against (0.5)} \)

Once the formula was applied, a sample of 373 students was obtained; these were distributed based on the total enrollment for each of the thirty educational programs that make up the regional offer (check Annex 1). To round up sample size it was decided to increase the number of students up to 388. As inclusion criteria, only students with more than half of credit progress were considered, due to by that point they must have passed some courses which involved topics that promote financial education and entrepreneurial skills; new entry students were not surveyed as part of this research; open education system programs (which are given on an intensive basis during weekends) were not considered. Then, programs were grouped into five academic areas, which are shown in Table 2:

**Table 2: Programs by academic area**

<table>
<thead>
<tr>
<th>Academic Area</th>
<th>Programs</th>
<th>Students (from total sample)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Economic</td>
<td>5</td>
<td>89</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>8</td>
<td>94</td>
</tr>
<tr>
<td>Humanities</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td>Technical</td>
<td>13</td>
<td>123</td>
</tr>
<tr>
<td>Biological Agropecuary</td>
<td>2</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>388</td>
</tr>
</tbody>
</table>


**Research instrument**

The field study lied on the application of a survey composed by 52 items divided in two sections; the first part of the instrument was designed to measure the level of entrepreneurial culture among students and items were based on Tiftik (2014) and Yılmaz & Sünbül (2008), cited in Tiftik (2014); it is important to note that items considered from both cited studies were translated from the English to Spanish and some expressions had to be adapted to make them more appropriated for the Mexican context. The second part of the instrument was design to measure the financial education level and was constructed considering the work presented by Atkinson & Messy (2012).

**Analysis of results**

Beginning with the analysis of the items focused on measuring the entrepreneurial culture among university students, most of them showed results at the high level, representing 54.12% of the total; if you add those located in the category "very high", the percentage increases to 65.46%. On the other hand, it is important to note that 2.84% of the respondents were at a "low" level and 0.26% at a "very low" level. However, it is significant that 31.44% of the sample showed a "medium" level (Table 3).

**Table 3: Entrepreneurial culture- total results**

<table>
<thead>
<tr>
<th>Entrepreneurial culture</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>44</td>
<td>11.34%</td>
</tr>
<tr>
<td>High</td>
<td>210</td>
<td>54.12%</td>
</tr>
<tr>
<td>Medium</td>
<td>122</td>
<td>31.44%</td>
</tr>
<tr>
<td>Low</td>
<td>11</td>
<td>2.84%</td>
</tr>
</tbody>
</table>
According to results shown in Table 3, it is relevant that only 3.1% of students were located on the lowest levels and most of them showed important elements that reflect an entrepreneurial profile. Also, if students are grouped into three categories (high, medium and low), evidence in favor of the good state of entrepreneurial culture are even more robust. This is represented in Chart 1.

### Chart 1: Entrepreneurial culture

In relation to the level of financial education, different findings were found, since 27.32% showed a "low" level and 5.15% "very low", representing 32.47% of the total; On the other hand, 47.43% were in the "medium" category, 18.81% in the "high" category and only 1.29% were "very high" (Table 4).

#### Table 4: Financial education: total results

<table>
<thead>
<tr>
<th>Financial education</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>5</td>
<td>1.29%</td>
</tr>
<tr>
<td>High</td>
<td>73</td>
<td>18.81%</td>
</tr>
<tr>
<td>Medium</td>
<td>184</td>
<td>47.42%</td>
</tr>
<tr>
<td>Low</td>
<td>106</td>
<td>27.32%</td>
</tr>
<tr>
<td>Very low</td>
<td>20</td>
<td>5.15%</td>
</tr>
<tr>
<td>Total</td>
<td>388</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

As done with entrepreneurial culture, results were grouped into three categories and it led us to a very different scenario among topics covered by the instrument; financial education clearly reported lower levels than those related to entrepreneurial culture, as shown in Chart 2.
Chart 2. Financial education

It is important to note that just one student showed a "very low" level of entrepreneurial culture but when it came to financial education the sum in that category went up to twenty. Also, items in this topic were split into three areas: knowledge (items 1 to 9), behavior (items 10 to 15) and attitude (items 16 to 18); among these, behavior got the best scores (68%), followed by knowledge (56%) and attitude (45%). Next, the Table 5 shows both aspects addressed in the instrument, so that they can be compared more easily.

Table 5: Compared results among topics

<table>
<thead>
<tr>
<th></th>
<th>Entrepreneurial culture</th>
<th>Financial education</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level</strong></td>
<td><strong>TOTAL</strong></td>
<td><strong>%</strong></td>
</tr>
<tr>
<td>Very High</td>
<td>44</td>
<td>11.34%</td>
</tr>
<tr>
<td>High</td>
<td>210</td>
<td>54.12%</td>
</tr>
<tr>
<td>Medium</td>
<td>122</td>
<td>31.44%</td>
</tr>
<tr>
<td>Low</td>
<td>11</td>
<td>2.84%</td>
</tr>
<tr>
<td>Very Low</td>
<td>1</td>
<td>0.26%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>388</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Based on Table 5, it can be stated that there is a medium-high trend in the levels of entrepreneurial culture, while it is medium-low in financial education; a deeper analysis from general descriptive statistics reported that entrepreneurial culture items had lower standard deviation compared to those focused on entrepreneurial culture which is congruent with these findings (check Annex 2). Next, Table 6 compares the results by academic area:

Table 6: Results by academic area

<table>
<thead>
<tr>
<th>Academic Area</th>
<th>Administrative Economic</th>
<th>Technical</th>
<th>Humanities</th>
<th>Health Sciences</th>
<th>Biological Agropecuary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>14.61%</td>
<td>1.12%</td>
<td>17.02%</td>
<td>2.13%</td>
<td>3.51%</td>
</tr>
<tr>
<td>High</td>
<td>55.06%</td>
<td>14.61%</td>
<td>54.26%</td>
<td>10.64%</td>
<td>59.65%</td>
</tr>
<tr>
<td>Medium</td>
<td>28.09%</td>
<td>60.67%</td>
<td>27.66%</td>
<td>64.89%</td>
<td>29.82%</td>
</tr>
<tr>
<td>Low</td>
<td>2.25%</td>
<td>23.60%</td>
<td>1.06%</td>
<td>20.21%</td>
<td>5.26%</td>
</tr>
<tr>
<td>Very Low</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>2.13%</td>
<td>1.75%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>


Considering results provided in Table 6, it is clear that only the Biological Agropecuary academic area got students with both high entrepreneurial culture and financial education levels; nevertheless, also a high portion of surveyed obtained low
financial education levels, so it is not possible to identify a really different scenario. Also, it is observed that students from Humanities area got the lowest scores in both dimensions.

As part from data analysis, a correlation test was performed and it was found that there is a positive but insignificant relationship between entrepreneurial culture and financial education levels among students; these results are provided in Table 7.

Table 7: Correlation analysis

<table>
<thead>
<tr>
<th>Financial education</th>
<th>Entrepreneurial culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial education</td>
<td>1</td>
</tr>
<tr>
<td>Entrepreneurial culture</td>
<td>0.12017762</td>
</tr>
</tbody>
</table>

Discussion of results

After analyzing the data obtained from the application of the research instrument, it is observed that the results of this work resemble those presented by Bae et al (2014), considering the positive but weak relationship found among entrepreneurial skills and financial education levels shown by students; also, it could be said that this study sets the first steps to a path to identify if, in our context, financial education leads to higher financial education levels, which could let us to results similar to Njoroge (2013) and Musie (2015). If students surveyed in this research are followed after starting an entrepreneurial project, a further study could provide valuable information to validate the premises set by Lusimbo (2016) and Leifels & Metzger (2015).

Conclusion and recommendations

Definitely, the relationship between variables selected for this study is one of the most important issues in the international agenda, considering the labor market hardness and scarcity of financial products for micro and smalls enterprises; in the context of Universidad Veracruzana, Veracruz Region, students shown a positive trend in terms of entrepreneurial skills, taking into consideration that more than half of them reported high or very high levels; though, when it came to financial education results were less optimistic due to more than half of subjects were located from medium to very low levels; in general terms, it can be said that students in this region present a high level of entrepreneurial skills and a medium level of financial education.

Then, it can be stated that both work hypothesis and null hypothesis are rejected and alternative hypothesis 3 is accepted.

Future studies in this context could lead to identify which factors are enhancing entrepreneurial skills and limiting financial education among students from different areas, considering that a higher level of financial behavior was found among surveyed.

Based on the above, it is suggested that Universidad Veracruzana develop programs focused on materializing entrepreneurial potential into micro and small business, through coaching strategies and technical support to design robust business plans. Then, it will be highly recommended to follow these entrepreneurial projects to identify how these evolve through time, gaining valuable information that could help future entrepreneurs. Also, it is desirable to increase extracurricular activities like workshops or webinars aimed to disseminate the benefits of good practice in financial education.

Finally, it is important to mention that this research marks the path for a series of studies focused in explaining the relationship between entrepreneurial culture and financial skills in the context of Southern Mexico, helping researchers to define better strategies that could turn into public policies related to these topics.

References


Annex 1: Distribution of the sample through educational programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Enrolled</th>
<th>Percentage of total</th>
<th>Sample</th>
<th>Final sample</th>
</tr>
</thead>
</table>


<table>
<thead>
<tr>
<th>Field</th>
<th>Value</th>
<th>Percentage</th>
<th>Mean</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Agribusiness</td>
<td>112</td>
<td>0.94%</td>
<td>3.52</td>
<td>4</td>
</tr>
<tr>
<td>Veterinary Medicine</td>
<td>651</td>
<td>5.48%</td>
<td>20.44</td>
<td>21</td>
</tr>
<tr>
<td>Dentist</td>
<td>621</td>
<td>5.23%</td>
<td>19.50</td>
<td>20</td>
</tr>
<tr>
<td>Physical Education</td>
<td>434</td>
<td>3.65%</td>
<td>13.83</td>
<td>14</td>
</tr>
<tr>
<td>Nursing</td>
<td>590</td>
<td>4.97%</td>
<td>18.52</td>
<td>19</td>
</tr>
<tr>
<td>Medicine</td>
<td>931</td>
<td>7.84%</td>
<td>29.23</td>
<td>30</td>
</tr>
<tr>
<td>Chiropractic</td>
<td>68</td>
<td>0.57%</td>
<td>2.13</td>
<td>3</td>
</tr>
<tr>
<td>Nutrition</td>
<td>529</td>
<td>4.45%</td>
<td>16.61</td>
<td>17</td>
</tr>
<tr>
<td>Psychology</td>
<td>446</td>
<td>3.75%</td>
<td>14.00</td>
<td>15</td>
</tr>
<tr>
<td>Bioanalysis</td>
<td>628</td>
<td>5.29%</td>
<td>19.72</td>
<td>20</td>
</tr>
<tr>
<td>Management</td>
<td>867</td>
<td>7.30%</td>
<td>27.22</td>
<td>28</td>
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<tr>
<td>Tourist Management</td>
<td>451</td>
<td>3.80%</td>
<td>14.16</td>
<td>15</td>
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<tr>
<td>Computer Systems Management</td>
<td>332</td>
<td>2.79%</td>
<td>10.42</td>
<td>11</td>
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<tr>
<td>Accountancy</td>
<td>818</td>
<td>6.88%</td>
<td>25.68</td>
<td>26</td>
</tr>
<tr>
<td>Administration and Business Management</td>
<td>277</td>
<td>2.33%</td>
<td>8.70</td>
<td>9</td>
</tr>
<tr>
<td>Communication Sciences</td>
<td>631</td>
<td>5.31%</td>
<td>19.81</td>
<td>20</td>
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<tr>
<td>Pedagogy</td>
<td>683</td>
<td>5.75%</td>
<td>21.44</td>
<td>22</td>
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<tr>
<td>Architecture</td>
<td>45</td>
<td>0.38%</td>
<td>1.41</td>
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<tr>
<td>Chemical Engineering</td>
<td>313</td>
<td>2.63%</td>
<td>9.83</td>
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<tr>
<td>Civil Engineering</td>
<td>728</td>
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<td>22.86</td>
<td>23</td>
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<tr>
<td>Topographical Engineering</td>
<td>108</td>
<td>0.91%</td>
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<tr>
<td>Engineering in Electronics and Communications</td>
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<td>2.31%</td>
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</tr>
<tr>
<td>Electrical Mechanical Engineering</td>
<td>29</td>
<td>0.24%</td>
<td>0.91</td>
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<tr>
<td>Naval Engineering</td>
<td>204</td>
<td>1.72%</td>
<td>6.40</td>
<td>7</td>
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<tr>
<td>Metallurgical Engineering of Materials</td>
<td>119</td>
<td>1.00%</td>
<td>3.74</td>
<td>4</td>
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<tr>
<td>Industrial Engineering</td>
<td>164</td>
<td>1.38%</td>
<td>5.15</td>
<td>6</td>
</tr>
<tr>
<td>Electrical Engineering</td>
<td>232</td>
<td>1.95%</td>
<td>7.28</td>
<td>8</td>
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<tr>
<td>Mechanical Engineering</td>
<td>284</td>
<td>2.39%</td>
<td>8.92</td>
<td>9</td>
</tr>
<tr>
<td>Informatics Engineering</td>
<td>152</td>
<td>1.28%</td>
<td>4.77</td>
<td>5</td>
</tr>
<tr>
<td>Mechatronics Engineering</td>
<td>160</td>
<td>1.35%</td>
<td>5.02</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>11881</td>
<td>100.00%</td>
<td>373</td>
<td>388</td>
</tr>
</tbody>
</table>


Annex 2: Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>Financial education</th>
<th></th>
<th>Entrepreneurial culture</th>
<th></th>
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<tbody>
<tr>
<td>Mean</td>
<td>2.83762887</td>
<td>Mean</td>
<td>3.73453608</td>
<td></td>
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<tr>
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<td>0.04230771</td>
<td>Typical Error</td>
<td>0.03572656</td>
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<tr>
<td>Median</td>
<td>3</td>
<td>Median</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>3</td>
<td>Mode</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.8333653</td>
<td>Standard deviation</td>
<td>0.70373169</td>
<td></td>
</tr>
<tr>
<td>Sample variance</td>
<td>0.69449772</td>
<td>Sample variance</td>
<td>0.49523829</td>
<td></td>
</tr>
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<td>Kurtosis</td>
<td>-0.1779926</td>
<td>Kurtosis</td>
<td>0.23889786</td>
<td></td>
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<tr>
<td>Skewness coefficient</td>
<td>-0.0916273</td>
<td>Skewness coefficient</td>
<td>-0.2467376</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>4</td>
<td>Range</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>1</td>
<td>Minimum</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>5</td>
<td>Maximum</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Sum</td>
<td>1101</td>
<td>Sum</td>
<td>1449</td>
<td></td>
</tr>
<tr>
<td>Count</td>
<td>388</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-----</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: prepared by author.
Certificate of Ethics in Accounting and Professional Independence of Accountants

Grażyna Voss
University of Technology and Life Sciences, Faculty of Management, Bydgoszcz, Poland,

Abstract

Ethical standards in accounting constitute an important element in the functioning of economic entities and in presenting reliable financial information used by all stakeholders when taking important decisions. In order to analyse the issue of using accounting ethics, a survey which indicated the determinants of unethical behaviour and the possibilities for improving the situation in terms of their observing and ways of strengthening their independence was conducted. Following the study, a concept of implementing an account books certificate which estimates their accuracy in the legal and ethical aspects was formulated.

Keywords: Certificate of Ethics in Accounting and Professional Independence of Accountants

Introduction

When analysing the concept of social responsibility, the issue that constitutes the background for this concept, which is ethics, must be mentioned. Companies which want to be seen as socially responsible should maintain a high level of corporate culture and remember about ethical conduct. Codes of ethics which should include information about the values, convictions and standards of behaviour accepted by a company are the instrument that facilitates observance of ethical standards. Codification of standards of conduct proves that a company observes high ethical standards. It is for the Management Board of a company to formulate the rules of ethical conduct so that employees' attention is drawn to a certain value system and they are also encouraged to create a positive image of their company. Making right business decisions that base on ethical standards contributes to building proper relations with the environment, it inspires stakeholders' trust and creates positive image of a company.

Unethical behaviour of business people observed both in Poland and abroad has practically no negative implications. It may be assumed that the absence of serious condemnation of unethical practices in business as well as their justifying give rise to the low ranking of ethical standards in the hierarchical structure of values.1

The introduction of appropriate procedures should facilitate performing ethical evaluations by persons responsible for the decision-making process. Ethical standards should be clear and comprehensible for everyone and respected in a given entity.2 Introducing internal codes of ethics by modern companies and creating codes of professional ethics has become common, and their analysis and interpretation constitutes a subject of various studies and trainings.

Therefore, the issue of professional ethics of workers of accounting departments is worth considering. It must be emphasised that the issues of ethical conduct in a company should be considered to be a condition of an authentic responsibility in relation to undertaken and performed tasks and their short- and long-term effects. The work of an accountant should be founded on the principles strictly defined in codes of professional conduct. Thanks to the actions taken by the Accounting Standards Committee of the Research Council of the Accountants Association in Poland, “Code of Professional Ethics in Accounting” was prepared. Its main aim is to provide persons engaged in accounting with the knowledge of procedures in the field of professional activities. The code includes not only ethical and moral principles, but

also information on the attitudes and expectations of accountants. It can be assumed that the code constitutes a type of set of values which all persons professionally engaged in accounting should be guided by.\(^1\)

The expectations of persons engaged in accounting are currently very high. Therefore, professional accountants should apply the ethical standards which specify their procedures within specific activities. Taking into consideration the role accountants play in the economic decision-making process, they must be aware of the consequences that can result from not following ethical standards.\(^2\)

Taking into account the above mentioned considerations, it must be emphasised that nowadays accountants act in dynamically changing and competitive environment. Whether or not they act ethically is in a certain way a testimony of humanity, because basic ethical standards were created on the basis of collective moral standards. Taking into consideration accounting failure in estimating ethics of a company, the protection of integrity of content and legibility of accounting play a major role.

The aim of the article is to present the results of a survey and to formulate a recommendation for professional associations and economic entities in the area of observing standards of professional ethics in accounting and of informing stakeholders about the way of implementing and observing the standards.

**The Evaluation of the Use of Ethical Standards in Accounting**

The study was conducted by means of a prepared questionnaire\(^3\) including an instruction concerning the manner of answering the questions. The questionnaire was sent to 272 employed people, 118 correctly completed questionnaires were received, which is 43.4\% of the sent ones. The questionnaire consisted of the following groups of questions:

- questions concerning ethical and unethical behaviour
- questions concerning independence of accountants and accuracy of account books
- questions concerning basic information about the respondent

The study, its analysis and interpretation resulted in creating a concept of introducing a system which would assure quality and observance of ethical standards by accountants in the area of bookkeeping.

All the respondents\(^4\) are employed by economic entities of various organisational and legal types. The group of entities which employed the biggest number of respondents consisted of limited liability companies (39 companies) and natural persons conducting economic activity (36 entities). Moreover, the respondents were employed by the public finance sector entities, joint-stock companies and partnerships as well as non-profit entities. Most of the respondents indicated that they worked in economic entities (82 entities – 69\%) that are not required to audit by statutory auditors. Owing to a vast variety

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\(^{1}\) A person or a business entity interested in becoming a member of SKwP (Accountants Association in Poland) may become an ordinary member or a supporting member of SKwP. Meeting formal requirements specified in the statute is necessary. An ordinary member may be a Polish citizen with good repute and full legal capacity, working as an accountant or of a neighbouring profession connected with accounting; students of finance and accounting or of neighbouring faculties as well as employees of business entities of the Association; a foreigner being a resident of the Republic of Poland under the law Polish citizens have to comply with http://www.skwp.pl/Czlonkostwo,54.html (10.07.2015).

\(^{2}\) Compare, G.Voss, 2016. Kształtowanie norm etycznych a odpowiedzialność zawodowa księgowych, Wydawnictwo Uczelniane Uniwersytetu Technologiczno-Przyrodniczego w Bydgoszczy pp. 163-182

\(^{3}\) Under this agreement, Italy will take most of Kosovo valley, with cit...182

\(^{4}\) For more details see: Arki Arjehet e Shqipërisë (më të: AQSh), Fondi 267, vitit 1945, dos. 46, p. 32; Ali Hadri, Lëvizja Nacionalës së Kosovës (1941-1945), Rilindja, Prishtinë, 1971, p.106; Muhamet Shatri, Kosova në Luftën e Dytë Botërore (1941-1945), Toena, Prishtinë, 1997, p.17;
in the employment of the respondents, both in the area of the organisational and legal form and in the size of the companies employing the respondents, it can be noted that ethics of accounting refers to all economic entities regardless of their size and legal form.

The questionnaire was completed by employees holding independent positions in the accounting departments, the biggest group consisted of people at the age of 30 to 49 (55 people – 46.31%) and workers with many years of experience (56 respondents – 47.46%) with the work experience of at least 20 years. Long-time professional experience indicates extensive knowledge and practice in accounting, so the responses may be a reliable source of information on the examined issues. The respondents also indicated the scope of duties they dealt with most often at work. In connection with the variety of kind of work, they were allowed to choose more than one answer. 118 respondents chose 538 answers altogether. The activities mentioned most often included preparation of financial statements (68.54%) and records and tax settlements (68.54%). Moreover, most of the respondents carry out a few of the presented in the questionnaire duties and deal with various activities, which is presented in diagram 1.

Diagram 1. The scope of duties carried out by the respondents most often (N = 538)

Source: own study

A wide range of duties involves the necessity of professional competence and constant training according to the changing legal and economic conditions.

Almost 85% of the respondents indicated that the economic entity they were employed by based on the rules in the code of professional conduct and they claimed that the regulation it included ensured that an accountant’s work was done in a competent, objective, accurate, professional, honest and responsible way.

The respondents differed when it came to the evaluation of the commonness of unethical behaviour. 57 of them stated that unethical behaviour was common, whereas slightly more of them, 51.69% were of a different opinion. Nevertheless, in over 70% of cases, the individuals responsible for the accounting departments in the examined companies often or rarely noticed unethical behaviour in their work (diagram 2).

Diagram 2. The percentage of encounters with unethical behaviour in accounting (N = 118)
Source: own study

The conducted research indicates that 84 individuals encountered the lack of compliance with ethical standards, which means that the instances of unethical behaviour are not isolated cases, and in the case of every fifth respondent they are often met.

The respondents were also asked to indicate a few examples of behaviour that in their opinion could lead to unethical conduct. Most of the respondents (67.80%) indicated the influence of the persons in charge on their subordinates and the pressure exerted by the management, whose result was to achieve the best results and economic indicators (62.71%). More than a half of the respondents drew attention to the fact that unethical behaviour was accompanied by the fear of losing jobs (55.93%). Another example of conduct considered unethical given by the respondents was the intention to influence financial results (44.92%). The reason for unethical behaviour in the respondents’ opinion was also an attempt to hide past mistakes made in accounting (42.33%) as well as insufficient autonomy of the main accountant (35.59%).

The activities that may encourage violating of ethical standards are of various kinds, but they mostly aim at obtaining benefits resulting from the improvement of results and economic indicators or keeping jobs. The respondents were able to choose more than one answer (118 respondents chose 503 answers), which is presented in diagram 3.

Diagram 3. The assessment of the frequency of the occurrence of certain situations influencing unethical conduct (N = 503)

Source: own study

The respondents are inclined to assume that the introduction of a general obligation to audit financial statements by statutory auditors may contribute to enhancing ethical behaviour in accounting and they also stated that such an audit could be conducted every two years.

Answering another question whether in order to ensure greater professional independence of accountants and a more significant role of ethical standards an “organisation” certifying financial and accounting activities and issuing the certificate of ethics in accounting, which would confirm ethical conduct, needs to be established, 60% of the respondents assumed that establishing such an organisation would ensure more independence of accountants and increase the role of ethical standards in accounting. The respondents believe that the Accountants Association in Poland could be such an institution and certificates should be issued for a maximum of four years.

Introducing certificates would constitute a showcase of a company and a confirmation for stakeholders of its reliability and accuracy in the area of accounting. It would bring numerous benefits for both the interested entities and other stakeholders. Issuing them for the period from two to four years would be justified and would improve the quality of financial and nonfinancial information presented by entities, especially given the fact that in the present situation the entities that are not obliged to audit financial statements are not subject to any form of control (except for controls in the scope of selected legal framework). However, the respondents are inclined to choose the option of a certificate being issued for four years (44.92%) or depending on the level of risk from two to four years, which should be decided by a committee.
The respondents were also asked to answer the question concerning their company being a signatory of the Code of Professional Ethics in Accounting. Over 15% of the respondents (18 people) confirmed the fact that their entity was a signatory (diagram 8). Unfortunately, a hundred respondents are not employed by an economic entity which is a signatory of the Code of Professional Ethics in Accounting. On the basis of the conducted research it is impossible to verify what causes such a low percentage of signatories or what activities can be undertaken in order to change it.

Summarising the results of the research, it is possible to specify the conditions of the functioning and implementing ethical standards in accounting, but a high number of respondents (70%) indicating the existence of unethical conduct that they encounter in their workplace gives rise to concern. The research has also allowed specifying the determinants of unethical behaviour, which include in particular the influence of persons in charge on their subordinates and the pressure of the management on receiving the best results possible. Employees being afraid of losing their jobs is also of significant importance. The study has identified the barriers limiting the observance of ethical standards in accounting, the areas in which actions should be taken in order to strengthen and promote ethical conduct, and the expectations of the respondents in the scope of ensuring compliance with the standards. The results help to formulate recommendations for the economy in the form of creating procedures of obtaining a certificate of accounts and presenting information on implementing the solutions included in the Code of professional ethics in accounting by economic entities.

**System Modification and Corrective Actions – Account Books Certificate**

The aim of the presented concept of account books certificate is the assessment of the compatibility of the application of legal requirements and ethical standards in accounting which is to ensure the continuation of a given entity’s activity as well as guarantee stakeholders reliable and accurate information on the financial condition and the outcome of activities, which allows taking appropriate decisions concerning the future. The assumptions concerning issuing certificates differ considerably from the practices used so far, in which not all economic subjects were subject to supervision and control regarding the accuracy of bookkeeping; the difference results from the fact that the assessment and auditing of accounts and financial reports has not taken into account ethical standards in accounting up till now. Therefore, in the process of issuing certificates the assessment of application of legal requirements with simultaneous observance of ethical standards should be taken into consideration. The starting point of creating the concept of certificate is the assumption that accounting as a source of financial information necessary to take decisions should assume that the persons involved observe the standards of professional ethics and in consequence contribute to building social prestige of the profession.

Creating such a certificate will enable better evaluation of ethical behaviour of people involved in the accounting and financial services, elimination of unethical behaviour, strengthening the role of an accountant as a profession of public trust, increasing its autonomy and creating support for this professional group in its resistance to the pressure of the management, which focuses only on presenting financial results consistent with the expectations of owners and not necessarily with the legal requirements and business ethics. On the other hand, introducing a certificate would be not only a support for people involved in the accounting and financial services, but also a source of information for all stakeholders and market participants.

Introducing a certification system of account books will improve quality and allow defining and supervision of methods and conditions of records in accounts on all the stages of accounting activities basing on legal regulations required for a given (certified) economic entity.

It needs to be observed that in a certification system of account books, developed procedures should relate to all the stages of the work a finance and accounting department, from the moment of organising accounting in a company, through creating documentation required in the scope of bookkeeping, writing reports and declarations including those made for public and legal settlements. Moreover, the procedures need to take into account behaviour required by ethical standards included in the code of ethics. Such a certificate would confirm a high level of professional competence, of the quality of work, and of professional independence, but it would also ensure protection of stakeholders from possible unfavourable events resulting from irregularities and violation of provisions of law. A certificate can constitute an effective tool to control the observance of law in the scope of bookkeeping by economic entities as well as a source of information on the accuracy of account books and observance of ethical standards for both the audited entity, counterparties and other stakeholders. In many cases a certificate can constitute an element of guarantee of choice made by a counterparty and also open the way to cooperation with other entities. It can be an additional advantage which will facilitate applying for EU grants or bank loans.
and trade negotiations. It would constitute a valuable source of information, confirmation of account books accuracy and observance of ethical standards by a professional non-governmental organisation particularly for foreign counterparties.

Summarising, it should be noted that the basic assumptions concerning creating a model of an account books certificate is the evaluation of the following:

- professional competence of accountants
- quality of work verification
- professional independence of accountants connected with creating professional image
- appropriate preparation and presentation of information on accounting
- appropriate treatment of stakeholders
- observing professional confidentiality

Introducing a certificate will not be compulsory, but it can cause an increase in awareness of the finance and accounting environment, reflect the maturity of business ethics among entrepreneurs, increase the independence of accountants and enhance public confidence in the profession of accountant. Similarly, it may increase organisational clarity in an economic entity, influence its prestige and improve its perception among customers and counterparties, which may lead to measurable economic benefits. Such perception of account books certification can be for an entity itself and its environment value added that will enable an entity to limit risk and uncertainty in taking decisions as well as influence the image of an entity and its perception in environment.

**Operational Assumptions in Account Books Certification**

In the process of certification, the certifying entity should act impartially and independently, and all entities wanting to confirm the accuracy of bookkeeping and observance of ethical standards specified by the law will be entitled to use its services. Obtaining a certificate will concentrate on two grounds of assessment nature:

- Ensuring compliance of bookkeeping with legal regulations.
- Assessment of observing ethical standards in accounting.

The assessment of the legal and ethical aspect should give answer whether account books in an entity are kept accurately, reflect the actual situation and fit into wider aspect of business ethics.

Before the regulations of issuing a certificate of account books are established, an analysis needs to be conducted basing on the following questions:

- When conditions should the institution issuing a certificate meet?
- How will the process of certification be conducted?
- What areas will be assessed and examined within the process of certification?
- What mechanisms will be use in order to conduct the examination and error correction?
- How long will a certificate be issued for and how will the information regarding certified entities be accessible?
- How will a certified entity inform stakeholders about their certificate and the way of observing the ethical standards?

The answer to the above mentioned questions will constitute the basis for specifying the path of procedure in the scope of the improvement of account books quality and observing the standards in the code of professional ethics in accounting (drawing 1) and the organisation of certification process (diagram 4).

Drawing 1.
An important element in the process of certification would be the scope of disclosing information on account books certificate and observance of ethical standards in accounting, as it should be made available for users by means of different media, in which way it will be of an informative nature and will allow promoting ethical standards and attitudes. The scope of presenting information is shown in drawing 2. 

Diagram 4. Organisation of account books certification process

1 Thus, on 6 September 1915 in Pile, there was a secret agreement between the Central Powers and Bulgaria for the division of the territories, under which Bulgaria was offered whole Macedonia and Eastern Serbia to the Morava River. According to this agreement in Kosovo and other Albanian territories, two occupation zones were created: the Austro-Hungarian zone and the Bulgarian zone. Within the Bulgarian area were included Podujevo, Pristina, Gnjilane, Kamencica, Viti, Ferizaj, Kacanik, Lipjan, Drenas, Theranda, Prizren and Rahovac. In the south of the Black Mountains of Skopje and the Sharr Mountains, the Bulgarian area included almost all of the eastern Albanian territories, including centers such as Dibra, Ohrid, Struga, Kicevo, Tetovo, Gostivar, Skopje, Kumanovo, Presvevo, Bujanovac. So on October 21, Bulgarians entered the southeastern part of Kosovo, and the next day they took Skopje, where the Serbian divisions were stationed in Macedonia and withdrew to the north of Kosovo. The Bulgarians occupied Kaçanik on 25/26 October, while Pristina was captured on 23 November, Ferizaj on 25 November. With the invasion of Skopje and Kumanovo, they cut off all traffic lines to Serbia. However, by the end of this year, the Austro-Hungarian and Bulgarian ruling circles expressed a desire for even greater expansion. After numerous discussions between the two parties on 1 April 1916, an agreement was reached on the delimitation of the military occupied areas in Kosovo beyond the boundaries, set by the secret agreement dated 6 September 1915. This agreement remained in force until 29 December 1918, when Bulgaria capitulated and, as a result, left the war. For more details, see: Jasha Rexhepagiq, Zhvillimi i arsimit dhe i sistemit shkollore në kumbësisë shqiptare në territorin e Jugosllavisë së sotme deri në vitin 1918, Entli i Teksteve dhe i Mjeteve Mësimore të Kosovës, Prishtinë, 1968, f.252; Limon Rushtiti, Rrethanat politiko-shqëntore në Kosovë 1912-1918, Rilindja, Prishtinë 1986, p. 174; Shaban Hashani, Ferizaj dhe rrethina 1873-1941 (vështruar nga pikëpamja historike), Ferizaj, 1998, f.214; Historia e Popullit Shqiptar III, Periudha e Pavarësisë 28 Nëntor 1912-7 prill 1939, Akademia e Shkencave e Shqipërisë, Toena, Tiranë 2007, p.436; Noel, Malcolm, Kosova një histori e shkurtrë, Koha, Prishtinë 2011, p.336-339.
Preventing regulations, documents and rules of granting a certificate, determining objectives and areas subject to verification, preparing assessment criteria

Appointing a certifying committee and presenting its members

Presenting the schedule of certifying committee

Publication of information about issuing certificates and appointing a committee and informing about the scope of the certified entity (information on the website of a certifying organization and in the trade press)

Submitting an application form by an economic entity

Examination, analysis and evaluation of documents by the certifying committee

Preparing reports and an assessment card, presenting results of examination of an economic entity in order to respond to the comments (a conversation and reasons in the written form)

Making a decision about granting, conditional granting or non-recognition of a certificate and communication information (decision) to the persons concerned

Control of the results of taken decisions (appeals, verification) and preparing a report and a list of entities with a certificate

Source: own study

Drawing 2. The scope of disclosing information on the entities with an account books certificate and observing the ethical standards in accounting

Source: own study
The above drawing demonstrates that every entity that has a certificate and observes ethical standards in accounting should inform its stakeholders about this fact by means of different types of media. Only comprehensively presented information can reach a wide group of people who are interested in financial and nonfinancial information and most of all those stakeholders for whom using ethical standards makes managing an entity better, more rational and more socially beneficial.

Summary
In the modern world certificates are commonly used in various areas of the economic life. Workers of financial and accounting departments can obtain certificates confirming their professional competence, which plays an important role in the recruitment process and in promotion. Still, in the area of account books no certificates can be obtained though they could be a showcase of a company and confirmation of reliability and accuracy of an entity in accounting for stakeholders. Introduction of certification would be beneficial for both the entity and other stakeholders. The process of creating and implementing certificates will not be easy, but good practices could attract interested entities and with time certain types of behaviour will become fashionable and common.

The presented solutions concerning account books certification should be treated as a path of procedure in creating the certification system. The process will not be easy, because it may involve damaging of the currently functioning structure of economic entities, which were not subject to auditing and control by other bodies than national units entitled to control under tax law or social security. On the other hand, it is a way to support for entities which observe the regulations of law and ethical standards in their activity and which receive no feedback concerning their counterparties or competition in the world of financial statements based on financial and nonfinancial data and economic entities creating different explanatory notes and reports on social responsibility of business. The benefits of observing ethical standards in accounting should be reflected in financial reporting. Additional information in the scope of explanation or a separate explanatory note should include information on observing ethical standards in accounting. In this area entities should place data in additional information including:

- information on implementing and using standards defined in the Code of professional ethics in accounting
- information about obtained account books certificates
- the name of the entity that issued such certificates
- the period of time in which a certificate is valid
- information about developed and implemented standards whose aim is to ensure observance of ethical standards in accounting
- control procedure connected with observing ethical standards and creating ethical attitudes among workers

Only multi-directed information on account books certificate and observance of ethical standards will bring the desired effects and reach a wide group of users.

Bibliography
Insurance Sector Analysis in Turkey: An Empirical Study

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Abstract
The purpose of this study is to comprehend the statistical relation between the amount of turnover produced by an employee in insurance companies in Turkey, used as a dependent variable. Whereas, the independent variables are three. The first independent variable is the ratio of number of staff holding a Bachelor (BA) over the number of all employees of each insurance company. The second independent variable is the ratio of the number of sales department crew over number of all employees of each insurance company. The third independent variable is the ratio of number of male salespeople over the number of all sales department of each insurance company. Results indicate that the ratio of the number of male sales department crew over the number of all employees of each insurance company has a negative effect on the average turnover produced by one employee. Moreover, the ratio of number of male salespeople over the number of all sales department of each insurance company is found to have positive effect on the dependent variable. Lastly, the ratio of the number of staff holding a BA degree over the number of all employees of each insurance company has no significant effect on the dependent variable. This study also provides a summary of the basic terms of the concept of insurance and risk. Considering that the profitability is a very crucial issue for the insurance sector as for all other sectors, the profitability ratios of the insurance companies for the last 10 years are provided and analyzed within the study.

Keywords: Employment, Insurance, Profitability, Risk, Turnover

Introduction
THE CONCEPTS OF INSURANCE AND RISK
Since insurance can be understood as transfer of risk (Muller, 1981), it is the main concept to be covered within the insurance literature. There are different ways of explaining the concept of risk, but the conceptualization of the risk within insurance perspective is very crucial for this study. Mowbray and Blanchard (1961) define risk as “uncertainty” (p.3).

Two famous figures of the sector Nömer and Yunak (2000) state that the term risk is used in three different ways in insurance terminology:
1. “Risk is used with a meaning of danger in the sense of the reason of probable loss”
2. “Risk sometimes means the probability of occurrence of the certain danger. For instance, in this sense, we can state that with the advance alarm system the risk of fire in a factory can be brought down”.
3. “Risk can refer the object or the person in case of a danger” (p.7).

Risks in general, as the above mentioned scholars explained, have been classified into two main categories: The first category is actual (Pure) risks and speculative risks in the sense of their occurrence. In actual risks, there cannot be any expectation of income for the party that is subject to the risk. Fire and traffic insurances fall on the actual risks. On the other hand, in speculative risks, considering that there is an expectation of profit, the expectation of loss is there, as well. Gambling and stock market investments fall on the speculative risks. The second category to classification of risk is the fundamental risks and particular risks (Nömer and Yunak, 2000). Fundamental risks are the ones that are far away from being individual such as: Catastrophic disasters, war, and inflation. Particular risks are the ones that have individual characteristic such as traffic accident, theft, and so on.
After clarifying the term risk, various definitions of the term insurance are provided by difference scholars in the following paragraphs.

According to Magee (1947) book that the insurance is defined as follows:

“Insurance is a contract in which the one party in consideration of a price paid in him adequate to the risk, becomes security to the other that he shall not suffer from damage, or prejudice by the happening of the perils specified to certain things which may be exposed to them” (p.43).

Moreover, Magee states that insurance as a business institution has a different meaning. Magee also states that as business institution insurance has been defined as a plan by which large numbers of people associate themselves and transfer, to the shoulders of all, risk that attached to individuals (p.43).

According to Williet (1901) insurance is defined as follows:

“We should define insurance, then as the social device for making accumulations to meet the uncertain losses of capital which is carried out through the transfer of the risks of many individuals to one person or to a group of persons. Wherever there is accumulation for uncertain losses or wherever there is transfer of risk, there is one element of insurance; only where these are joined with the combination of risks in a group is the insurance complete” (p.p. 6-7).

Whereas, the Longman dictionary definition of insurance is: “The arrangement with a company in which you pay them money, especially regularly, and they pay the costs if something bad happens, for example if you become ill or your car is damaged”.

On the other hand Türkiye Sigorta ve Reasürans Şirketleri Birliği defines insurance as “The transfer of risk, for the group of people who are subject to face the same kind of risk by collecting some amount of money which can only be used for the coverage of the probable risk that might occur” (Türkiye Sigorta ve Reasürans Şirketleri Birliği, 2011).

Two famous figures of the sector Nömer and Yunak (2000) define insurance as: “Economic arrangement of the people that are subject to face that risk by paying some amount of money in order to cover the losses of the people only for that risk” (p.10).

Whereas, Davis, Hood and Stein (1997) provide three different definitions about insurance. The first definition is as follows:

“Insurance can be defined from two points of view. First insurance is the protection against financial loss provided by an insurer. Second insurance is a device by means of which the risk of two or more persons of firms are combined through actual or promised contributions to a fund of which claimants are paid. From the viewpoint of the insured insurance is a transfer device. From the viewpoint of the insurer, Insurance is a retention and combination device” (p.1).

Second definition is as follows:

“Insurance can be defined from two points of view. First insurance is the protection against financial loss provided by an insurer. Second insurance is a device by means of which the risk of two or more persons of firms are combined through actual or promised contributions to a fund of which claimants are paid. From the viewpoint of the insured insurance is a transfer device. From the viewpoint of the insurer, Insurance is a retention and combination device” (p.1).

Third definition is as follows:

“It is suggested that a contract of insurance is any contract (Merwe, 1970) whereby one party assumes the risk of an uncertain event, which is not within his control, happening at a future time in which the other party has an interest, and under which the party is bound to pay money or provide its equivalent if the uncertain event occurs” (p.1).

The organization of insurance is mainly made up of the ‘Insurance company’, Insurance Policy and the ‘Insured’.

These terms are defined by Türkiye Sigorta ve Reasürans Şirketleri Birliği (TSRSB) (In English: Turkish Union Insurance and Reinsurance Companies of Turkey) as follows:

“Insurance company is the party that is authorized to issue insurance policy by the appropriate authorities according to related law and legislation” (Insurance, 2011, para.3).
“Insured is the party that might face the risk. Insured as a party of the insurance contract (Insurance policy) is authorized the claim the compensation of the loss in case of an occurrence of it” (Insurance, 2011, para. 3).

Insurance policy is “the written and legal proof of the contract between the insurance company and the insured” (Insurance policy, 2011, para.1).

Park (1809) on the other hand states that “Policy is the name given to the instrument by which the contract of indemnity is affected between the insurer and the insured; and it is not like most contracts signed by both parties but only by the insurer...” (Park, 1809, p.1).

Policy mostly contains the definition of both, insurer and the insurance company, explanation about the subject of insurance, coverage, limits, deductions, duration of the policy, premium to be paid, the issuance date of the policy and other responsibilities and duties of the parts of the insurance policy.

THE HISTORY OF INSURANCE

When we briefly look at the history of insurance we see that the concept itself is very old that it has a history of more than 4000 years. Trennery (1926) states that, “Insurance, develops in connection with Transportation hazards” (Trennery, 1926, p.5).

“So far as extant records furnish evidence, loans of type known during the middle ages by the terms ‘bottomry’ and ‘responlentia’ served as the earliest means of in general commercial use to effect of the burden risk” (Trennery, 1926, p.5).

Magee (1947) brings evidence from Babylon and states that:

“Evidence from Babylon by no means conclusive, warrants a presumption that a contract similar to bottomry was known to the merchants of that country and may have originated with their commercial expansion as early as 4000-3000 BC” (Magee, 1947, p.4).

What TSRSB provides basically coheres with what put forward by Magee (1947). According to TSRSB web page:

“The first insurance like activity throughout the history took place in Babylon four thousand years ago. As the trade center of the period equity owners that awarded a loan to the caravan traders, deleted their debt in case of robbery or ransom payment however they charge a little bit more them when they collected their money as the allowance of the risk that they carried. This became a law during Hammurabi. This is the first example of risk sharing in overland transportation” (Date of insurance, 2011, para. 1).

Hindus historically can be considered as the second nation that seemed to be into insurance, as well. According to Walford (1871) “By the Hindus B.C. or earlier intimates that the insurance feature of the evidence from India that the bottomry was practiced contract was understood” (Walford, Layton and Charles, 1871, p. 334).

What TSRSB provides about the insurance or insurance like activities is below:

“During BC 600 Hindus started signing credit agreements which seemed to be insurance like as well. These agreements set examples for the medieval time transport insurance”

(Date of insurance, 2011, para, 2).

According to Trennery (1926) it is well established that the contract is well understood in ancient Greece as early as the fourth century before he Christian era and was used in connection with maritime loans. Later insurance like activities were observed in regions where sea transport was developed.

Duer (1845) gives the same kind of Information in his book as well.

“The same form of loan agreement was adopted by the Romans in their commercial practice and following them by the Maritime nations of Europe during the middle ages”. The bottomry contract was widely known and extensively used by the ancient Romans in the ordinary course of business, and the contract is its essential the same contracts as that developed by the Greeks” (Duer, 1845, pp. 20-22).
Roby (1902) states the following about the same issue: "Trajectia pecunia, the term applied in Roman law to lent on bottomry referred to money lent in mercantile adventure beyond the sea with repayment conditional upon the safe arrival of the security at its destination" (Roby, 1902, p. 75).

Below can be found the TSRSB explanation of the issue:

"Among Greeks, Romans and Carthaginians there were traders who awarded loan on the amount of cargo that the ship had for not fletching the harbor and when the ship fletched the harbor they received their money back and the charged substantial amount of interest. The amount of interest charged was not favored by the church and was prohibited afterwards. Most probably this prohibition caused the merge of idea of receiving premium on the basis of a probable danger, namely the idea of insurance of modern times" (Date of insurance, 2011, para. 3).

The first premium based insurance was observed in Geneva, Venice and Florence AC during 1250s (Date insurance, 2011, para. 4).

"But still insurance of modern times came to the scene in the 14 century. With the changes in the Economic environment trade developed incredibly stating from the 14.century. Italy as the leading figure in Sea Trade felt the need of the insurance and the sea insurance as a concept emerged there" (Date of insurance, 2011, para.4).

The first agreement which is considered to be the first insurance contract dated October 23rd 1347 and secured the cargo of the ship 'Santa Clara' that left Geneva and fronted Majorca. The first insurance company was established in Geneva in 1424.

The first legislation about insurance was enacted was Barcelona Mandate in 1435. Duer (1845) states that: “The first definite ordinances concerning insurance as a specialized contract come from Spain. Moreover, he says that with the ordinances of Barcelona in the 15th century marine insurance became an established institution After Italy’s startup it is observed that sea insurance developed in England especially in the 18th century” (Duer, 1845, p. 20).

According to Swiss Re (2013) world today spends hundreds of billions of USD in risk protection. Economic development, innovation, industrialization would not have prosper to this stage without the private insurance. Only in 2012 there were 4613 billion of USD spent on insurance, worldwide. Private insurance sector increased by acting cautiously to all challenges and changes. Even in the latest economic crisis the insurance sector was less affected than other businesses. Therefore, today life cannot be imagined without risk protection(Swiss Re, 2013, para. 1-2).

Regarding the private insurance, Turkey is moving towards world's trends. According to Firat (2016) Turkey is placed the 63th in the world in respect to insurance density. “The developed countries are on top rows and the per person premium in these countries are 40-50 times than in Turkey. In terms of total premium to GDP rate, Turkeys stays at near last rows” (p.56).

Types of Insurance

There are different conceptualizations (Bourgin, 1949; Taylor and Murrey, 1982; Stubbart, 2005) and classifications of insurance products in and out of Turkey, insurance will be classified into two main categories in our study:

1. Elementary Insurance (In Turkish: Elementer Sigorta)
2. Life Insurance (In Turkish: Hayat Sigortası)

There are subdivisions under each category and this differentiation is especially very crucial in Turkey. Because insurance companies in Turkey get separate licenses in order to issue policies for Elementary Insurance and Life Insurance.

After providing the names of the types of insurances we will give definitions of the most important ones.

Elementary Insurance

The main types of Elementary insurance are given below:

Auto Insurance (Kasko-Traffic); Home insurance; Health insurance; Accident, sickness and unemployment insurance; Causality insurance; Earthquake insurance; Flood insurance; Marine insurance; Aviation insurance; Transportation insurance; Liability insurance; Credit insurance; Farm insurance; Third party liability insurance; Employer’s liability
insurance; Product liability insurance; Professional indemnity insurance; Personal accident insurance; Financial loss insurance; Loss of profit insurance and so on.

**Life Insurance**

Life insurance category includes:

- Personal Accident Insurance
- Health Insurance
- Life Insurance companies in Turkey can issue the policies below

**Retirement Funds**

Some of the insurance types such as Personal accident, Heath insurance and Health voyage insurance have been stated both under elementary and life insurance but the Treasury authorizes companies of both kind to issue the mentioned types of insurance policies.

Heubnert (1947) states that “Life insurance in its simplest form undertakes to protect the insured’s family, creditors or others against pecuniary loss which may be outgrowth of the death of the insured” (pp. 6-10).

All kinds of insurance rely on the same reasoning which is sharing the risk. Life insurance and retirement funds are considered to be another insurance type and the companies get certification through another process in order to issue Life insurance and Retirement fund policies.

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>ELEMENTARY INSURANCE COMPANIES</th>
<th>LIFE INSURANCE COMPANIES</th>
<th>TOTAL COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>53</td>
<td>26</td>
<td>79</td>
</tr>
<tr>
<td>2006</td>
<td>47</td>
<td>25</td>
<td>72</td>
</tr>
<tr>
<td>2007</td>
<td>54</td>
<td>25</td>
<td>79</td>
</tr>
<tr>
<td>2008</td>
<td>55</td>
<td>25</td>
<td>80</td>
</tr>
<tr>
<td>2009</td>
<td>59</td>
<td>26</td>
<td>85</td>
</tr>
<tr>
<td>2010</td>
<td>57</td>
<td>28</td>
<td>85</td>
</tr>
<tr>
<td>2011</td>
<td>59</td>
<td>27</td>
<td>86</td>
</tr>
<tr>
<td>2012</td>
<td>58</td>
<td>26</td>
<td>84</td>
</tr>
<tr>
<td>2013</td>
<td>60</td>
<td>29</td>
<td>89</td>
</tr>
<tr>
<td>2014</td>
<td>63</td>
<td>29</td>
<td>92</td>
</tr>
<tr>
<td>2015</td>
<td>62</td>
<td>28</td>
<td>90</td>
</tr>
<tr>
<td>2016</td>
<td>62</td>
<td>27</td>
<td>89</td>
</tr>
</tbody>
</table>

*Source: Türkiye Sigorta ve Reasürans Şirketleri Birliği (2011).*

Since Insurance sector is very dynamic it is not easy to measure the written premiums of life insurance companies because they keep changing owners, they merge with each other and law about the retirement funds was declared relatively new it is not easy to get meaningful figures. The top 10 elementary companies have not lost their position to be in the first ten in last seven years. Anadolu and Axa exchanged places so did Yapı Kredi and Ergo but they kept their position in the top 10.

**Profitability Analysis of Turkish Insurance Companies Between 2006 and 2015**
Profitability analysis for the insurance sector is an area that is very crucial for the sustainability of the insurance companies (Duett and Hershbarger, 1992). In this section profitability analysis of insurance companies is conducted. In order to obtain the ratios, the cumulative financial statements of the insurance companies that are on the web page of TSRSB are used.

The data below were obtained from the cumulative Balance Sheets of Insurance companies which were taken from the web site of TSRSB (Table 4 and Table 5). In Table 6, net profits of the insurance companies are presented. In Table 7, the premiums of insurance companies are given.

Table 2
Assets of Insurers in Years 2006-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>Current Assets</th>
<th>Long Term Assets</th>
<th>Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Elementary</td>
<td>30,217,522,420</td>
<td>3,510,526,623</td>
<td>33,728,049,043</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>29,911,860,147</td>
<td>31,934,449,755</td>
<td>61,846,309,901</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>60,129,382,566</td>
<td>35,444,976,378</td>
<td>95,574,358,944</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>25,795,869,499</td>
<td>25,008,408,043</td>
<td>50,804,277,541</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>51,530,503,129</td>
<td>27,497,651,362</td>
<td>79,028,154,491</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>25,067,123,262</td>
<td>13,055,305,103</td>
<td>38,122,428,365</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>46,900,461,633</td>
<td>15,536,590,534</td>
<td>62,437,052,167</td>
</tr>
<tr>
<td>2012</td>
<td>Elementary</td>
<td>16,691,464,378</td>
<td>2,262,849,104</td>
<td>18,954,313,482</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>21,826,383,224</td>
<td>10,676,737,555</td>
<td>31,894,056,779</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>38,517,847,602</td>
<td>12,330,522,660</td>
<td>50,848,370,262</td>
</tr>
<tr>
<td>2011</td>
<td>Elementary</td>
<td>14,363,658,534</td>
<td>1,943,964,837</td>
<td>16,307,623,370</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>16,949,560,377</td>
<td>7,639,031,216</td>
<td>24,588,591,593</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>31,313,218,911</td>
<td>9,582,996,053</td>
<td>40,896,214,964</td>
</tr>
<tr>
<td>2010</td>
<td>Elementary</td>
<td>12,377,771,737</td>
<td>1,905,365,172</td>
<td>14,283,136,909</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>14,644,430,847</td>
<td>6,200,559,284</td>
<td>20,844,990,131</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>27,022,202,584</td>
<td>8,105,924,456</td>
<td>35,128,127,040</td>
</tr>
<tr>
<td>2009</td>
<td>Elementary</td>
<td>12,683,217,225</td>
<td>2,260,382,384</td>
<td>14,943,599,609</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>12,098,308,367</td>
<td>4,212,727,066</td>
<td>16,311,035,433</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>24,781,525,592</td>
<td>6,473,109,449</td>
<td>31,254,635,042</td>
</tr>
<tr>
<td>2008</td>
<td>Elementary</td>
<td>10,456,140,977</td>
<td>2,576,411,006</td>
<td>13,032,551,983</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>10,040,619,764</td>
<td>3,021,121,561</td>
<td>13,061,741,326</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>20,496,760,742</td>
<td>5,597,532,567</td>
<td>26,094,293,309</td>
</tr>
<tr>
<td>2007</td>
<td>Elementary</td>
<td>7,984,068,327</td>
<td>3,375,397,394</td>
<td>11,359,465,721</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>8,151,140,613</td>
<td>2,249,897,483</td>
<td>10,401,038,096</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16,135,208,940</td>
<td>5,625,294,877</td>
<td>21,760,503,817</td>
</tr>
<tr>
<td>2006</td>
<td>Elementary</td>
<td>6,217,402,411</td>
<td>2,838,076,401</td>
<td>9,055,478,812</td>
</tr>
<tr>
<td></td>
<td>Life</td>
<td>6,897,926,015</td>
<td>1,322,904,921</td>
<td>8,220,830,936</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>13,115,328,427</td>
<td>4,160,981,322</td>
<td>17,276,309,749</td>
</tr>
</tbody>
</table>

When we look at the Table 2 we see that the total assets in general are increasing for the sector from year to year. Elementary insurance companies’ total long-term assets figures dropped down till 2010 but starting from 2011 there is a gain increasing pattern in the long-term assets of the elementary insurance companies. Life Insurance companies on the other hand are increasing their both long term and short-term assets every other year.

Table 3. Liabilities, Owners’ Equity of Insurers in Years 2006-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Elementary</th>
<th>Life</th>
<th>Total</th>
<th>Liabilities (S.T)</th>
<th>Liabilities (L.T.)</th>
<th>Owners’ Equity</th>
<th>Liabilities+QE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>19,405,803,710</td>
<td>706,522,861</td>
<td>8,111,550,381</td>
<td>19,405,803,710</td>
<td>706,522,861</td>
<td>8,111,550,381</td>
<td>28,223,876,953</td>
</tr>
<tr>
<td>2011</td>
<td>10,606,450,142</td>
<td>547,190,719</td>
<td>5,153,982,512</td>
<td>10,606,450,142</td>
<td>547,190,719</td>
<td>5,153,982,512</td>
<td>16,307,623,373</td>
</tr>
<tr>
<td>2010</td>
<td>8,942,825,463</td>
<td>311,949,895</td>
<td>5,028,361,551</td>
<td>8,942,825,463</td>
<td>311,949,895</td>
<td>5,028,361,551</td>
<td>14,283,136,908</td>
</tr>
<tr>
<td>2009</td>
<td>7,571,493,896</td>
<td>6,709,937,313</td>
<td>7,162,276,840</td>
<td>7,571,493,896</td>
<td>6,709,937,313</td>
<td>7,162,276,840</td>
<td>14,493,598,099</td>
</tr>
<tr>
<td>2006</td>
<td>4,441,801,045</td>
<td>4,497,337,821</td>
<td>1,152,880,434</td>
<td>4,441,801,045</td>
<td>4,497,337,821</td>
<td>1,152,880,434</td>
<td>10,041,038,096</td>
</tr>
<tr>
<td>2005</td>
<td>3,936,940,796</td>
<td>2,832,611,601</td>
<td>937,228,539</td>
<td>3,936,940,796</td>
<td>2,832,611,601</td>
<td>937,228,539</td>
<td>8,220,830,936</td>
</tr>
<tr>
<td>2004</td>
<td>8,378,741,841</td>
<td>8,354,488,519</td>
<td>5,043,079,389</td>
<td>8,378,741,841</td>
<td>8,354,488,519</td>
<td>5,043,079,389</td>
<td>17,276,309,749</td>
</tr>
</tbody>
</table>

The Table 3 provides similar data with respect to Life Insurance companies again. Life Insurance companies’ liabilities of each kind are increasing from year to year, but the figures of the Elementary Insurance companies are not that linear. Since short term liabilities are increasing linearly for the Elementary Insurance companies especially the Owner’s Equity figure decreased by approximately 25% in 2010. But afterwards there is an increasing trend in the figures of Owner’s Equity for the Elementary Insurance companies.

Table 4. The net profit of insurance companies in years 2006-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Elementary</th>
<th>Life</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>-576,959,559</td>
<td>826,555,204</td>
<td>249,595,645</td>
</tr>
<tr>
<td>2011</td>
<td>-657,768,672</td>
<td>437,078,501</td>
<td>-220,690,171</td>
</tr>
<tr>
<td>2012</td>
<td>-15,429,080</td>
<td>344,549,410</td>
<td>329,120,330</td>
</tr>
<tr>
<td>2013</td>
<td>-185,534,008</td>
<td>300,278,771</td>
<td>114,744,762</td>
</tr>
<tr>
<td>2014</td>
<td>-152,766,945</td>
<td>205,796,266</td>
<td>52,029,321</td>
</tr>
<tr>
<td>2015</td>
<td>-185,534,008</td>
<td>300,278,771</td>
<td>114,744,762</td>
</tr>
</tbody>
</table>

Table 4 shows that in the first three years the Elementary insurance companies had more profit than the Life Insurance companies but in 2009 the amount of profit that the life insurance companies had exceeded the Elementary Insurance companies and at last in 2010 the Elementary Insurance companies declared loss. After 2010 elementary insurance companies declared loss except 2013 and 2014 while life insurance companies declare profit every year.

Table 5

<table>
<thead>
<tr>
<th>Year</th>
<th>Premiums (TL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Elementary: 27,264,486,899</td>
</tr>
<tr>
<td></td>
<td>Life: 3,761,410,730</td>
</tr>
<tr>
<td></td>
<td>Total: 31,025,897,629</td>
</tr>
<tr>
<td>2014</td>
<td>Elementary: 22,709,549,092</td>
</tr>
<tr>
<td></td>
<td>Life: 3,280,003,588</td>
</tr>
<tr>
<td></td>
<td>Total: 25,989,552,680</td>
</tr>
<tr>
<td>2013</td>
<td>Elementary: 20,834,288,077</td>
</tr>
<tr>
<td></td>
<td>Life: 3,395,327,657</td>
</tr>
<tr>
<td></td>
<td>Total: 24,229,615,734</td>
</tr>
<tr>
<td>2012</td>
<td>Elementary: 17,115,934,207</td>
</tr>
<tr>
<td></td>
<td>Life: 2,710,826,393</td>
</tr>
<tr>
<td></td>
<td>Total: 19,826,760,600</td>
</tr>
<tr>
<td>2011</td>
<td>Elementary: 14,479,407,092</td>
</tr>
<tr>
<td></td>
<td>Life: 2,685,674,090</td>
</tr>
<tr>
<td></td>
<td>Total: 17,165,081,182</td>
</tr>
<tr>
<td>2010</td>
<td>Elementary: 11,948,144,242</td>
</tr>
<tr>
<td></td>
<td>Life: 2,181,250,027</td>
</tr>
<tr>
<td></td>
<td>Total: 14,129,394,269</td>
</tr>
<tr>
<td>2009</td>
<td>Elementary: 10,614,317,698</td>
</tr>
<tr>
<td></td>
<td>Life: 1,821,653,559</td>
</tr>
<tr>
<td></td>
<td>Total: 12,435,971,258</td>
</tr>
<tr>
<td>2008</td>
<td>Elementary: 10,203,673,200</td>
</tr>
<tr>
<td></td>
<td>Life: 1,576,208,875</td>
</tr>
<tr>
<td></td>
<td>Total: 11,779,882,075</td>
</tr>
<tr>
<td>2007</td>
<td>Elementary: 9,597,468,685</td>
</tr>
<tr>
<td></td>
<td>Life: 1,412,198,649</td>
</tr>
<tr>
<td></td>
<td>Total: 11,009,667,334</td>
</tr>
<tr>
<td>2006</td>
<td>Elementary: 8,068,170,649</td>
</tr>
</tbody>
</table>
Life 1,385,926,144
Total 9,454,096,793


Table 5 shows that there is a very linear pattern with respect to the turnovers of both Elementary and Life Insurance Companies. Every other year the turnover is increasing with approximately similar ratios.

Profitability Ratios

Based on the financial statements provided in the previous section, three profitability ratios of the insurance companies between 2006 and 2015 are calculated. These profitability ratios are return on Sales (ROS), Return on Assets (ROA) and Return on Equity (ROE). The results are provided in Table 6.

Table 6

Profitability ratios of insurance companies in years 2006-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Elementary ROA</th>
<th>Elementary ROE</th>
<th>Life ROA</th>
<th>Life ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>-1,71%</td>
<td>-7,66%</td>
<td>-2,12%</td>
<td>21,97%</td>
</tr>
<tr>
<td>2014</td>
<td>2,58%</td>
<td>8,99%</td>
<td>3,21%</td>
<td>20,09%</td>
</tr>
<tr>
<td>2013</td>
<td>2,67%</td>
<td>11,08%</td>
<td>3,69%</td>
<td>13,61%</td>
</tr>
<tr>
<td>2012</td>
<td>-3,42%</td>
<td>-12,99%</td>
<td>-3,84%</td>
<td>16,12%</td>
</tr>
<tr>
<td>2011</td>
<td>-0,09%</td>
<td>-0,30%</td>
<td>-0,11%</td>
<td>12,83%</td>
</tr>
<tr>
<td>2010</td>
<td>-1,30%</td>
<td>-3,69%</td>
<td>-1,55%</td>
<td>13,77%</td>
</tr>
<tr>
<td>2009</td>
<td>1,22%</td>
<td>2,54%</td>
<td>1,71%</td>
<td>15,02%</td>
</tr>
<tr>
<td>2008</td>
<td>4,57%</td>
<td>10,61%</td>
<td>5,84%</td>
<td>15,56%</td>
</tr>
<tr>
<td>2007</td>
<td>3,73%</td>
<td>7,44%</td>
<td>4,42%</td>
<td>14,57%</td>
</tr>
<tr>
<td>2006</td>
<td>1,69%</td>
<td>3,72%</td>
<td>1,89%</td>
<td>5,61%</td>
</tr>
</tbody>
</table>


Table 6 shows that the profitability ratios of Life Insurance companies are higher than elementary Insurance Companies in general. In 2010, profitability ratios of the Elementary Insurance companies are all negative due to the declaration of cumulative loss of the sector. In 2009, the profitability ratios are all positive. Life Insurance companies, on the other hand, have positive ratios in 2010. Even if the ratios are positive for Life Insurance companies in 2010, all three ratios are less than 2009’s figures. In 2009, we figure a noticeable decrease in the profitability ratios of the Elementary Insurance companies compared to 2008 ratios. The ROA of 2008 for elementary insurance companies was 4,57% in 2008 and 1,22%
in 2009. ROE of Elementary insurance companies decreased from 10.61% to 2.54% and ROS decreased from 5.84% to 1.71%. There are very obvious decreases. The figures of the Life Insurance companies from 2008 to 2009 have changed very slightly that the ratios of the changes are less than 10%.

In 2008, a positive change is observed when compared with 2007 figures for Elementary Insurance Companies. ROA increased from 3, 73% to 4, 57%; ROE increased from 7, 44 % to 10,61% and ROS increased from 4, 42% to 5,84% for Elementary Insurance Companies. The ratios for Life Insurance companies on the other hand decreased very slightly that, it is possible to say that there is no difference from 2007 to 2008 for Life Insurance Companies with respect to their profitability ratios. In 2007, the ROA and ROE figures of both Elementary and Life Insurance companies increased more than 100% when compared with 2006 figures. But the ROS figures increased even more. Life Insurance Companies' 2007 ROS figure is approximately three times more than 2006 ROS figure. Elementary Insurance Companies' ROS figure again increased from 1, 89 % to 42%.

Starting from 2011 Elementary Insurance Companies ROAs ROEs and ROSs have negative values except 2013 and 2014 while Life Insurance companies had always positive figures with respect to ROAs ROEs and ROSs.

METHODOLOGY

Linear regression has been utilized in order to determine the effect of the independent variables of the study (the ratio of number of BA degree holding staff over number of all employees of each insurance company, the ratio of the number of sales department crew over number of all employees of each insurance company, the ratio of number of male salespeople over member of all sales department of each insurance company) on the dependent variable (the amount of turnover produced by an employee in insurance companies). Statistical Package for the Social Sciences (SPSS) has been used for the analysis. The data were available at the web-page TSRSB. The hypotheses of the study are as follows:

Hypothesis 1: The ratio of number of BA degree holding staff over number of all employees of each insurance company affects the amount of turnover produced by an employee in insurance companies.

Hypothesis 2: The ratio of the number of sales department crew over number of all employees of each insurance company affects the amount of turnover produced by an employee in insurance companies.

Hypothesis 3: The ratio of number of male salespeople over member of all sales department of each insurance company affects the amount of turnover produced by an employee in insurance companies.

The dependent variable turnover is considered as the average amount of premium that one employer can produce. It is calculated by dividing the total amount of turnover by the number of people working within the insurance company. The other figures meaning the independent variables are all percentages. The turnover figures that the study has are mostly six or seven digit numbers that the significance figures of the variables are not in the acceptable interval. That is why the dependent variable has been converted the logarithmic function that the analysis would give more reliable results. Below table 5 presents the coefficients and the significance rates of the variables.

<table>
<thead>
<tr>
<th>Table 5a Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstandardized Coefficients</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>Univ Total</td>
</tr>
<tr>
<td>Males Total</td>
</tr>
<tr>
<td>Males sales sales</td>
</tr>
</tbody>
</table>

As it can easily be seen above the significance rate of the ratio of number of BA degree holding staff over number of all employees of each insurance company is above the acceptable rate that it will be converted to a logarithmic function in order to eliminate the significance problem.

| Table 5b Coefficients |
Even if the ratio of number of BA degree holding staff over number of all employees of each insurance company is converted to a logarithmic function, the significant rate is still not acceptable. Eliminating it from the equation seems to be the best solution.

**Table 5c Coefficients**

<table>
<thead>
<tr>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11,518</td>
<td>1.088</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ln (univ) Total</td>
<td>0.632</td>
<td>0.100</td>
<td>0.631</td>
</tr>
<tr>
<td>Males Total</td>
<td>-0.078</td>
<td>-0.658</td>
<td>-3.492</td>
</tr>
<tr>
<td>Males sales sales</td>
<td>0.016</td>
<td>0.392</td>
<td>2.096</td>
</tr>
</tbody>
</table>

Eliminating the ratio of number of BA degree holding staff over number of all employees of each insurance company overcomes the above problem that the significance ratios are at the acceptable level at the 90 percent confidence level.

**Table 6 ANOVA**

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>10,270</td>
<td>2</td>
<td>6,048</td>
<td>0.006b</td>
</tr>
<tr>
<td>Residual</td>
<td>27,168</td>
<td>32</td>
<td>0.849</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>37,438</td>
<td>34</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 7 Model Summary**

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.524</td>
<td>0.274</td>
<td>0.229</td>
<td>0.92141</td>
<td>1.471</td>
</tr>
</tbody>
</table>

ANOVA table, table 6, presents that our model does not have any significance problems. Moreover, the summary of the model is also given in Table 7.

Therefore, findings of the linear regression indicate the following:

1- The ratio of number of BA degree holding staff over number of all employees of each insurance company has no significant effect on the turnover.

2- The ratio of the number of sales department crew over number of all employees of each insurance company negatively affect the amount of turnover produced by an employee in insurance companies.
3- The ratio of number of male salespeople over member of all sales department of each insurance company positively effects the amount of turnover produced by an employee in insurance companies.

The regression function is Ln (Turnover) = 14.126 - 0.075 (male sales total) + 0.015 (male sales sales)

The equation above means 1 standard unit increase in the ratio of the number of sales department crew over number of all employees of each insurance company causes 0.075 standard unit decrease in Ln of the Turnover, and 1 standard unit increase in the ratio of number of male salespeople over member of all sales department causes 0.015 standard unit increase in Ln of the Turnover.

CONCLUSION

Discussion

This study provides a summary of the basic terms of the concept of insurance and risk from different resources and scholars. Afterwards, historical background of the sector has been provided with the improvement of the sector in Turkey. The names of the existing companies, the numbers of the past companies have been provided as well.

The study also provides the profitability ratios of both elementary and life insurance companies from 2006 to 2015. The life insurance companies in general have positive figures with respect to their profitability ratios. Elementary Insurance companies, on the other hand, do not have a stable profit or loss but in the last five years except 2013 and 2014 elementary insurance companies declared losses.

In the regression analysis, the equation among the mentioned variables above has been determined and it is concluded that employing university graduates does not have an effect on the turnover statistically. Having a high rate male staff on the sales department on the other hand seems to have a positive effect on the turnover, while having a high rate male staff in total has a negative effect on turnover.

Managerial Implications

As mentioned in the discussion part, employing males in the sales department in insurance sector seems to have a positive effect on the turnover, but the ratio of the males over number of all employees of each insurance company negatively affect the turnover that it seems that the female ratio in the other departments should be higher than male ratio.

Limitations

The limitations of the study would be the low R squared score.

Future Research Recommendations

Future Researches might focus on female employment directly.

REFERENCES


Accountancy Performance and Achievement (Accountancy Development Index), Case of Albania

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Abstract
The transparency and quality of audits performed by professional accountants and auditors are of crucial importance for the functioning of the global financial infrastructure. Over the last decade, more and more auditors were confronted with the globalization of their clients and became so-called group auditors responsible for the overall quality of the audit engagement even if other auditors in other jurisdictions may be involved. It goes without saying that auditors around the globe do not work in the same environment, do not have to comply with the same rules and regulations and do not have the same level of education before they can apply for an audit license. The qualification, education, training and experience of professional accountants and auditors are of crucial importance for the functioning of the global financial infrastructure. A wide range of stakeholders, including regulators and standard setters, professional accountancy organizations and accountancy firms as well as issuers of financial reports and users of accounting services depend on their professional expertise. The evaluation of the situation of accountancy education with its components of qualification, education and training in selected countries and Balkan compared with the requirements of the IES. The status of accountancy education with its components of qualification, education and training in Albania (Accountancy Development Index). The (ADI) illustrates how adoption and implementation of international standards can be visualized for all pillars of the global financial infrastructure and how separate pillar scores can be used to clarify results at the sub-pillar or milestone level.

Keywords: Accounting Performance, Accountants and Auditors, Professional Education. Disciplines Accounting JEL classification: M41, M48, I22, I23, I25, A23

Introduction
The transparency and quality of audits performed by professional accountants and auditors are of crucial importance for the functioning of the global financial infrastructure. A wide range of stakeholders, including regulators and standard setters, professional accountancy organizations and accountancy firms as well as issuers of financial reports and users of accounting services depend on their professional expertise. Global financial markets are asking for global financial statements with an opinion of an independent auditor. Over the last decade, more and more auditors were confronted with the globalization of their clients and became so-called group auditor. Still the group auditor remains responsible for the overall quality of the audit engagement the group auditor is assigned to even if other auditors may be involved. It goes without saying that auditors around the globe do not work in the same environment, do not have to comply with the same rules and regulations and do not have the same level of education before they can apply for an audit license. That’s even in the case of audit firms with global connections, strict or loose organized in networks. So as a consequence of globalization a very important question arises namely:

To what extend can an auditor rely on the work performed or an opinion issued by another auditor in another jurisdiction?

This question of globalization was discussed in the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) during the clarity project. At the same time some cases related to this
question were taken to court. The question became one of the leading principles in redrafting the International Standard on Auditing (ISA) 600: Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors).

In foreign jurisdictions there might be a situation of unusual governmental intervention in areas such as trade and fiscal policy, or restrictions on currency. How sure can the group auditor be that the component auditor is knowledgeable of that situation? To rely on the work of the component auditor the group-auditor has to have enough knowledge about the quality of the work of the component auditor. To get those knowledge he should have among others an understanding of the environment the component auditor is working in, the relevant rules and regulations that apply in that jurisdiction and the education required to get a license in that jurisdiction. The last couple of years the accountancy profession stands in the middle of the spotlights when it comes on performing a quality audit. Time after time the group auditor is running the risk to issue his auditor’s opinion whiteout the appropriate high quality audit evidence as a basis.

The need to "Restoring the trust"

As we all know, we are living in a time frame in which boundaries disappear and globalization is the key word. Business is driven by global markets. Global financial markets are asking for global financial statements with an auditor’s opinion. Over the last decade, more and more auditors were confronted with the globalization of their clients and had to rely on the work of other auditors in other jurisdictions than their own. To rely on the work of those auditors the group-auditor has to have enough knowledge about the quality of the work of the other auditor, called the component auditor. To get those knowledge the group auditor should have among others an understanding of the environment the component auditor is working in, the relevant rules and regulations that apply in that jurisdiction and the education required to get a license in that jurisdiction. The predecessors of the Global Accountancy Development Institute started in 1999 to bring together information about the global professional education of accountants and auditors, resulting in 2002 in the first publication. Global Accountancy Transparency Information (GATI) is an innovative look and proxy for the condition of the accountancy development in a country. GATI will be data rich, allows the user to drill down on compliance gaps and will help to inform future actions. GATI will collect relevant data, will maintain the data and will make the data available for auditors in practice to comply with ISA 600 and for all other interested parties. GATI measures eight aspects of a country transparency and accountancy infrastructure, called Pillars, divided into Subpillars, Milestones and Indicators if applicable. Through a quantitative approach the complex, multidimensional economic and social phenomena indices are per Pillar reduced to a level of adoption and implementation in regard to applicable international standards. After all the Pillar data are processed per country an overall level of compliance will be available.

The eight mentioned not independent but interrelated Pillars are:

Pillar 1, Legal, Regulatory and Institutional Framework

Pillar 2, Audit, Assurance and Quality Control

Pillar 3, Professional Accountancy Education

Pillar 4, International Public Sector Accounting Standards

Pillar 5, International Financial Reporting Standards

Pillar 6, Ethics & Discipline

Pillar 7, Corporate Governance – Integrated Reporting

Pillar 8, Professional Accountancy Association Institutional Capacity

To facilitate more disaggregated analysis, each pillar can be considered separately. This approach is intended to be useful as an aid to decision-making and as an important element of accountancy and transparency, created for the purpose of assisting future change and progress.

Monitoring Country Progress,

Monitoring country progress to meet development goals stands as one of the fundamental processes of evaluation leading to program design and implementation. Performance indicators may be grouped into convenient categories such as
economic growth, economic reforms, democratic reforms, etc. At the heart of these indicators are quantitative measurements, frequently using indices, to measure achievement within the realm of adoption and implementation of pre-determined benchmarks such as internationally recognized standards and best practices.

Incentives for the international community of donors to support development are based on an objective measurement of progress. Critics of development assistance frequently site the diffuse, uncoordinated and unsustained aspects of many reform projects. These same critics suggest that better situation assessments be made, more comprehensive monitoring and evaluation tools be developed and proactive measures taken during projects to adjust for new realities. Measurement can be a tool that quantifies and documents capacity building progress over time, which is a key feature of sustained economic development. Ideally, performance measurement can be used to develop results frameworks and a set of performance indicators at the project level. An action-oriented, results framework that links project level indicators to intermediate and higher level indicators of country progress in building sustainable capacity are imperative in today’s resource allocation decisions.

**Accountancy Infrastructure**

Integral to sustained economic growth is a trusted, reliable financial architecture, and integral to this architecture is an accountancy infrastructure that serves the public interest. It is against this backdrop that the Accountancy Development Index (ADI) was developed. It is an innovative look and a proxy for the condition of the accountancy development in a country. It measures many aspects of a country’s transparency and accountability infrastructure through a quantitative composite index. A balance sheet of a country’s accountancy development - its assets (achievements) and its liabilities (compliance gaps) summarized into its net worth (index). A balance sheet is a “snapshot” in time. The ADI would use this date in time to measure progress as future updates are solicited. It can be used to recognize reformers and conversely, those that regress. As a development tool it will serve as yet another means of focused programming in an era of limited international funds/resources.

Measuring economic growth and accountancy reforms would not be complete without considering the importance of the accountancy profession on capital formation and foreign direct investment. Essentially, at the end of the accountancy value chain is the financial report. In the ADI context, a financial report includes both a private enterprise or of a public agency. It is well recognized that general purpose financial reporting, both public and private, plays a critical role in the financial architecture of today’s global economy. In order to serve the public interest, financial reports (the foundation of information for investment analytics) must provide unbiased, transparent and relevant information about the economic performance and condition of businesses and public entities. Effective financial reporting depends on high quality accounting standards as well as the consistent and faithful application and rigorous enforcement of those standards.

Figure 1: Accountancy Environment illustrates the many facets of the accountancy environment.
practices that may be used by a wide audience. It is flexible because of its design around eight pillars that are independently “scored” with features that grab the audiences’ attention through strong data visualization.

The audience includes donor agencies, standard setters, regulators, professional associations, educators, pundits, and other capital market participants whose use and benefit is illustrated in the following Table 1:

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Primary Use</th>
<th>Primary Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Setters</td>
<td>Determine status of adoption and</td>
<td>Improve standards, communication and outreach</td>
</tr>
<tr>
<td></td>
<td>implementation</td>
<td></td>
</tr>
<tr>
<td>Professional Accounting &amp; Auditing</td>
<td>Inform initiatives to close</td>
<td>Improved financial reporting</td>
</tr>
<tr>
<td>Associations</td>
<td>compliance gaps</td>
<td></td>
</tr>
<tr>
<td>Government Agencies</td>
<td>Identify changes to laws, rules and</td>
<td>More favorable capital markets recognition</td>
</tr>
<tr>
<td></td>
<td>regulations</td>
<td></td>
</tr>
<tr>
<td>Regulators</td>
<td>Identify non compliance</td>
<td>Improve enforcement and reduce negative capital</td>
</tr>
<tr>
<td></td>
<td></td>
<td>markets ratings</td>
</tr>
<tr>
<td>Donors</td>
<td>Identify strategic priorities for</td>
<td>Targeted assistance yielding sustained results</td>
</tr>
<tr>
<td></td>
<td>assistance</td>
<td></td>
</tr>
<tr>
<td>Educators</td>
<td>Improve curriculum and relations</td>
<td>Greater understanding of current financial realities</td>
</tr>
<tr>
<td></td>
<td>with accountability profession</td>
<td></td>
</tr>
<tr>
<td>Investors</td>
<td>Align risks and pricing</td>
<td>Better understanding of country risk profiles</td>
</tr>
</tbody>
</table>

Source: ADI pilot study (Phelps, 2011) performance measurement data and analyses

The ADI took over two years to develop by a dedicated design/research team, guided by a Steering Council of international experts and aided by country respondents, volunteers and funded by USAID. A pilot group of 40 countries were asked to participate in the testing and evaluation. It should be stressed that this was a pilot initiative and was conducted knowing that some design features will require further research and development. For the ADI to continue beyond this pilot initiative, it must be seen by the primary stakeholders as a tool that aids in accelerating the adoption and implementation of international accountancy standards and best practices.

The Eight Pillars of Transparency and Accountability

Recognizing the subjectivity of measurement, the uniqueness of country economic and legal characteristics and the public interest objective of financial reporting, the ADI takes a holistic view of the accountancy infrastructure or more broadly viewed as the accountancy environment. The accountancy environment is defined as the set of institutions, laws, policies, standards, and best practices that determines the quality of financial reporting, both public and private.

The ADI is constructed as a single index drawn from each of eight pillars. However, to facilitate more disaggregated analysis, each pillar is its own index. This comparative set of layered indices is more useful as an aid to decision-making and as an important element of accountability and transparency, created for the purpose of assisting future change and progress.

In reality, the pillars are not independent but are interrelated and reinforcing although there are many benefits to using indices to measure and convey information, there are some areas of concern that must be considered. Indices are much like mathematical or computational models. As such, their design is dictated more by the craftsmanship of the modeler than to universally-accepted scientific rules for their construction. In addition, no index can include every possible variable and therefore, the picture the modeler creates is always relative or somewhat incomplete. Also, improper construction in regards to the inclusion and exclusion of certain indicators and inappropriate choices regarding sensitivity, weighting and aggregation techniques and missing data can result in a distorted picture of a situation.

Observable benchmarks-standards and best practices
The development of the ADI methodology turned initially on the benchmarks that would be used for the framework. Standard setters for the accountancy profession (IFAC and IASB) have developed international standards for accounting, auditing, ethics, education, and discipline. These standards were developed through an exhaustive process of research, consultation, outreach to stakeholders, and oversight. Collaboration, communication and strategic alignment with the public interest are hallmarks of the standard setting process.

In addition to the country’s legal/regulatory environment, the reputation, expertise, and capabilities of the institutions from which these standards and best practices were derived are also important. These include:

- International Federation of Accountants (IFAC) Statements of Membership Obligations (SMO);
- OECD Principles of Corporate Governance – V. Disclosure and Transparency;
- World Bank Public Expenditure Financial Assessment (PEFA) Reports;
- World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSC);
- USAID NGO Sustainability Index;
- EU 8th Directive.

Table 2: Pillar Outline further illustrates the ADI design framework and outlines the pillars and milestones.

<table>
<thead>
<tr>
<th>1.0 Legal, Regulatory and Institutional Framework</th>
<th>2.0 Audit, Assurance, and Quality Control</th>
<th>3.0 Professional Education</th>
<th>4.0 International Public Sector Accounting Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>The legal and regulatory environment as it relates to accountancy.</td>
<td>International standards, procedures &amp; best practices for the provision of high quality audit, assurance, review, &amp; related services.</td>
<td>Adoption &amp; Implementation of International standards for accounting education, practical experience, assessment, and continuing professional education.</td>
<td>Adoption and implementation of IPSAS</td>
</tr>
<tr>
<td>1.01 Accounting &amp; Auditing Framework</td>
<td>2.01 International Standards on Audit (ISA)</td>
<td>3.01 Entry Requirements</td>
<td>4.01 Public Sector Accounting Environment</td>
</tr>
<tr>
<td>1.02 Public Sector Framework</td>
<td>2.02 International Standards on Assurance (IAAS)</td>
<td>3.02 Program Content</td>
<td>4.02 Comprehensiveness &amp; Transparency of IFRS</td>
</tr>
<tr>
<td>1.03 Public Oversight</td>
<td>2.03 International Standards on Review Engagement (ISRE)</td>
<td>3.03 Professional Skills</td>
<td>4.03 External Audit of Government Annual Financial Statements</td>
</tr>
<tr>
<td>1.04 Licensing Arrangements</td>
<td>2.04 International Standards on Related Services (IRS)</td>
<td>3.04 Values, Ethics, Attitudes</td>
<td>4.04 IPSAS Accounting Programs</td>
</tr>
<tr>
<td>2.05 International Standards on Quality Control (ISQC1)</td>
<td>2.06 Quality Control at the Firm Level</td>
<td>3.05 Assessment</td>
<td>4.05 IPSAS Monitoring &amp; Enforcement</td>
</tr>
<tr>
<td>2.07 Quality Control at the Partner Level</td>
<td>2.08 System of Quality Assurance</td>
<td>3.07 Continuing Professional Development</td>
<td></td>
</tr>
<tr>
<td>5.0 International Financial Reporting Standards</td>
<td>6.0 Code of Ethics, Investigation &amp; Discipline</td>
<td>7.0 Corporate Governance – Transparency &amp; Disclosure</td>
<td>8.0 Professional Accountancy Association Institutional Capacity</td>
</tr>
<tr>
<td>Adoption &amp; Implementation of IFRS</td>
<td>Principles of professional ethics for accountancy professionals and processes for bringing to account professionals who fail to maintain high professional standards.</td>
<td>The framework of rules and practices by which firms ensure accountability, fairness, and transparency in its operations.</td>
<td>The efficiency and effectiveness of professional accounting/auditing association operations</td>
</tr>
<tr>
<td>5.01 Private Sector Accounting Environment</td>
<td>6.01 Creation of a Code of Ethics (CCE)</td>
<td>7.01 Material Disclosures</td>
<td>8.01 Organizational Capacity</td>
</tr>
<tr>
<td>5.02 IFRS Monitoring &amp; Enforcement</td>
<td>6.02 The ethical environment</td>
<td>7.02 Annual Audit</td>
<td>8.02 Financial Viability</td>
</tr>
<tr>
<td></td>
<td>6.03 Investigation Process</td>
<td>7.03 Auditor Accountability</td>
<td>8.03 Advocacy</td>
</tr>
<tr>
<td></td>
<td>6.04 Disciplinary Process</td>
<td>7.04 Information Dissemination</td>
<td>8.04 Service Provision</td>
</tr>
<tr>
<td></td>
<td>6.05 Appeals Process</td>
<td>7.05 Provision of Information</td>
<td>8.05 Recognition</td>
</tr>
<tr>
<td></td>
<td>8.06 Public Image</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Measuring Country-Level Accountancy Performance and Achievement Accountancy Development Index
The ADI includes questions that measure a country’s change/improvement in a certain pillar or sub-pillar. These questions are not incorporated into ADI scores as the index is designed to provide a point-in-time measure of accounting environments across countries.

Adoption of international standards is based on a decision that the international standard is appropriate for use in the national financial reporting environment. Implementation is concerned with the practical steps necessary to make use of the standards. As a result, quite different actions are necessary to achieve each step in a meaningful way.

Figure 2 overlays the achievements of developing nations with those of the more developed nations. The differences between the eight ADI pillars are highlighted.

**Figure 2: ADI Developed and Developing Nations**

*Source: Measuring Country-Level Accountancy Performance and Achievement Accountancy Development Index*

The following Figure 3 illustrates the differences, by pillar, of adoption and implementation of standards within the same country.
The case of Albania

Accountancy is the practice of identifying, measuring, and communicating financial information about economic entities to interested persons (users). The ultimate goal of accountancy is the provision of financial information to enhance the economic decision-making of users. As such, it functions to fairly and accurately illustrate the financial position and operations of an entity, and thereby provide information useful in making investment and credit decisions, assessing cash flows, and measuring an entity’s resources. Through the provision of this information and its impact on economic decision-making, accountancy enhances corporate governance, competition, the functioning of capital markets, trade, and anti-corruption efforts. In this way, rigorous accountancy is necessary to further accountability and transparency, as well as to promote economic development.

Source: Measuring Country-Level Accountancy Performance and Achievement Accountancy Development Index
The development of accountancy has not been uniform throughout the world. Just as accountancy influences society, culture, politics, economics and the judicial aspects of a country, these same aspects have influenced accountancy, causing its development to vary country by country this is also the case of Albania in which the implementation and the adoption are illustrated in Figure 4. Although a great degree of variation still remains, the last decade has seen an increased tendency toward convergence among differing accountancy systems worldwide. Globalization, international trade, and supra-national legislation have been powerful forces behind this convergence. The result of these pressures has been the emergence of a generally agreed upon group of norms, ethics, and practices that exist and are recognized as international best practices in the area of accountancy.

Our country, as many reforms undertaken by countries in transition, has started the reforms in accounting field in cooperation with the World Bank, which was first finalised with the creation of the full National Accounting Standards set, which was first implemented in Albania in 2008. These reforms didn't stop but continued to fit EU requirements and directives by improving NAS\(^1\) and suitability with IFRS\(^2\) for SME\(^3\) which started to be implemented immediately.

Certainly that the cooperation of Albanian regulatory institutions is in it's continuity with the World Bank project where actually the cooperation field is accounting education as well.

Measuring and understanding the progress of a country toward international best practices for accountancy is important as this progress may enhance the effectiveness and efficiency of economic flows between countries, the ability of managers and investors to identify and shift resources from failing to successful projects, further good corporate governance by enhancing shareholder monitoring of management decisions and may reduce the external cost of capital\(^4\).

**Conclusion**

The IAESB has developed a comprehensive set of consistent, high-quality standards for educating professional accountants. This effort stretching back a decade or more to the former IFAC Education Committee has strengthened the essential third leg, together with financial reporting and auditing standards, of a strong global accounting profession. Educational programs in compliance with these standards will undoubtedly produce high quality professional accountants.

UNCTAD has produced the Guidelines as a global curriculum and has progressively evolved into an authoritative knowledge-based institution. In recent years it has been working on its Accounting development Tool to support developing nations. The third pillar covers human capacity for which the IES are used as benchmarks.

The process of uniformly implementing education standards globally is a challenging task. The Globalization Roundtables have pointed out many of the practical aspects of implementation. It is clear that implementation in many parts of the world

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1 National Accounting Standards in Albania  
2 International Financial Reporting Standards  
3 Small and Medium Enterprise  
4 Busman and Smith in 2003 noted the three channels through which accounting information enhances economic growth.
Accountancy education has become a multi-year undertaking, requiring communication, resources, training, and benchmarking progress. In many countries, accountancy education is defined much more broadly than preparation for membership in IFAC member bodies. Accountants who become members of member bodies represent a minority of the accountants who graduate from educational institutions. In many countries, a minority of accounting educators are members of IFAC member bodies.

Increasingly research has addressed the global development of accountancy education. In this paper specific reference is made to comparative studies by Karreman and Needles (Karreman, 2002, 2006, 2007; Needles 1994, 2005, 2008, 2010, 2011). This research has identified numerous occasions of internationally compatible development. As such the present study is just another step in academic and professional support for the further development of the global financial infrastructure for which accountancy education of the right level and content is a necessary condition.

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References

[1] IAESB, International Accounting Education Standards Board, International Federation of Accountants, Education
Organizational Commitment Can Be Predicted? Comparative and Descriptive Analysis

Dr. Reka Janos
Dr. Kinga Szabo

Abstract

Organizational commitment has been in researchers' focus for a long period and it is very important for organizational practice. The aim of this study is to investigate the role of situational and personal factors in organizational commitment. 531 job applicants completed the Blau and a demographic questionnaire from different Romanian and Hungarian organizations. The study sample included employees and leaders as well. Differentiated effect and relations, professional and organizational commitment, job involvement and work value were investigated. Results indicate significant differences in level of organizational and occupational commitment based on participants' educational level. Moreover, the status in organization had significant effect on all four commitment dimensions. The cultural effect was not demonstrated. Findings can be useful in practice to keep up proper labor.

Keywords: occupational and organizational commitment, job involvement, work value, demographic factors, employees, leaders

Introduction

Organizational commitment plays an important role in achieving organizational goals. This is a complex construct containing emotional, behavioral and cultural aspects.

Commitment is a psychological state that characterizes the relationship of the worker with the organization. Within the commitment, we can distinguish between emotional and behavioral attitudes. At the emotional attitude side, focus is on the relationship between the individual and the organization, while the behavioral side means action intent or activity (Meyer et al. (2002). Commitment to the organization may be strong or weak. Strong level of it is the most advantageous thing, as this means that a worker is happy with his work, loves it, and does not intend to quit. Workers who have a high organizational affective commitment are emotionally attached to the organization so they have a desire to make a significant contribution to reach the organization's goals. Such individuals have no turnover intentions, work harder, and their overall performance is much better than their low-committed colleagues'. Low level of engagement is against organizational goals (Fornes et al, 2008).

Occupational and organizational commitment are two distinct constructs, but interrelated. Both are positively related to organizational retention (Mathieu and Zajac 1990). An increasing number of studies are concerned on correlates of occupational and organizational commitment, personal factors (e.g. age, gender, and study level), situational factors (e.g. organizational size, ownership) and job related factors. (Eisenberger, Huntington, Hutchison and Sowa, 1986, Aven, Parker, McEvoy, 1993, Cohen, 1993, Lee et al., 2000, Riketta, 2002.).

Among personal factors age is positively related to occupational commitment, but it has no significant effect on organizational commitment. This finding was outlined in two meta-analyses as well (Mathieu and Zajac 1990, Lee et al. 2000). According to Mathieu and Zajac (1990), age is poorly associated with emotional commitment. Results are contradictory for continuous commitment.

Many studies investigated gender differences e.g. the study of Major et al. (2012), where women reported lower occupational commitment than men.

Another factor which can contribute to commitment is education level. Graduation negatively correlates with commitment. If an individual feels that his/her skills and qualifications are not recompensed by the organization, they will not be committed to their organization (e.g. González et al., 2016)

McKinnon et al. (2003) show, that workplace culture also plays an important role in engagement. They found that human-centered leadership has a direct consequence on the commitment of the staff. Based on the theory of situational leadership,
different management style is desirable under different conditions, in this context we can say that there is no leadership style that has a clear consequence on commitment. For fast-running organizational development strategies, it is desirable to have autocratic style; in other cases, it may be more successful to enhance engagement by driving Laissez-faire, for example in sectors such as education. Here, this leadership style provides free development of high-skilled workers in their work.

An examination about influential factors of organizational engagement dealt with the size, structure and centralization of the organization. It has a negative impact on engagement where job roles and tasks are not well defined (Jaros et al., 1993). The other direction of the research investigated the significance and role of leadership style for engagement. The leadership initiative, open communication and attention to colleagues, positively correlate with engagement. In addition, they were looking at the fairness of the orderly justice, how fair their decision-making process was. DeConinck and Stilwell (2004). It was assumed that the degree of organizational commitment was a direct predictor of the intention to change jobs. It was demonstrated that the perception of organizational justice, roles in the workplace - role recognition, role conflicts, satisfaction with earnings and satisfaction with control are directly related to organizational commitment.

Kuvaas (2003) investigated the effect of ownership on performance in the case of profit-oriented companies. He found that change in ownership patterns could be a motivating force for better performance. In the review of the author, the employees received a full-time benefit-based bonus for a year after the company’s shares. This kind of financial participation has led to more favorable employee attitudes and behaviors without causing a lot of problems. The fact of ownership thus strengthens the commitment of the employees to the organization by creating a common interest between the worker and the owner.

In this study, the aim is to analyse how personal (age, gender, education level), organizational (organization size) and job (status) characteristics contribute for commitment.

Methods
Participants
A total of N=531 participants were recruited for this study, mainly from two European countries, N= 106 from Romania, N= 420 Hungary and N=5 mentioned other countries. Ages ranged from 20 to 67 with a mean age of 39.03 years (SD = 10.77) on the whole sample. Distribution by gender was not equal, our sample included 325 females (61.20%) and 206 males (38.80%). The other main descriptive statistics of the participants are shown in Table 1.

Instruments
Demographic questionnaire was completed covering different socio-demographical elements and job related data: age, gender, education level, country, status and organization size. In order to assess participants’ commitment level the Blau (1985) questionnaire was used. In addition to the organizational commitment (OC) this instrument measures three other related factors: occupational commitment (OCC), work value (WV) and job involvement (JI). Response options ranged from 1 (strongly disagree) to 6 (strongly agree).

Procedure
The participants were asked to complete the two questionnaires mentioned in instruments section. Data in this study were collected individually and for analysis IBM SPSS Statistics (20.0) was applied. Descriptive statistics, regression analysis and Anova were used for testing our goals. Significance level was set at p ≤ .05.

Table 1 Descriptive statistics of the participants

<table>
<thead>
<tr>
<th>Demographic Variable</th>
<th>Category</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Employee</td>
<td>437</td>
<td>82.30</td>
</tr>
<tr>
<td></td>
<td>Middle manager</td>
<td>53</td>
<td>11.90</td>
</tr>
<tr>
<td></td>
<td>Top leader</td>
<td>31</td>
<td>6.00</td>
</tr>
<tr>
<td>Education level</td>
<td>6 grades or less</td>
<td>23</td>
<td>4.30</td>
</tr>
<tr>
<td></td>
<td>Baccalaureate</td>
<td>155</td>
<td>31.10</td>
</tr>
<tr>
<td></td>
<td>College or university</td>
<td>223</td>
<td>42.00</td>
</tr>
<tr>
<td></td>
<td>Master degree</td>
<td>91</td>
<td>17.10</td>
</tr>
<tr>
<td></td>
<td>PhD</td>
<td>29</td>
<td>5.50</td>
</tr>
<tr>
<td>Organization size</td>
<td>small</td>
<td>130</td>
<td>24.50</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
<td>264</td>
<td>49.70</td>
</tr>
<tr>
<td></td>
<td>Large</td>
<td>137</td>
<td>25.80</td>
</tr>
</tbody>
</table>

Results
Personal characteristics, organizational and occupational commitment

Based on previous research, firstly the relation between two types of commitment using Pearson product-moment correlation was tested. The correlation coefficient ($r(529)= .50$) shows a moderate uphill association between these two factors, which is statistically significant ($p< .001$) result.

The first set of analyses focused on the relations between personal characteristics, occupational and organizational commitment.

We investigated the differences between Romanian and Hungarian sample in organizational commitment and the other related variables. The analysis did not reveal any significant differences between these two countries ($p>.05$). Therefore further analysis includes the whole sample.

A point-biserial correlation was used to measure the association between gender and occupational and organizational commitment. There was no significant connection either with occupational commitment ($r_{pb}(529) = .001$, $p = .97$) or with organizational commitment ($r_{pb}(529) = -.007$, $p = .87$).

Differences in commitments were tested by the education level. One-way variance analysis demonstrated significant differences between groups in occupational commitment $F(4,526)= 3.72$ $p< .01$ and also in organizational commitment $F(4,526)= 2.70$ $p< .05$. Figure 1 illustrates commitment scores distributed by participants’ education level.

In order to assess where exactly the significant differences were, post-hoc Tukey HSD analysis was run. This highlighted that participants with college or university degree ($M= 47.05$, $SD= 13.28$) had significantly ($p< .05$) higher occupational commitment than those with baccalaureate ($M=42.73$, $SD= 12.98$).

However, participants with PhD degree ($M=19.07$ $SD=8.66$) had significantly ($p< .05$) lower organizational commitment level than people with baccalaureate ($M= 25.15$, $SD= 11.41$) and with college or university degree ($M=24.31$, $SD=9.37$).

![Figure 1](image)

Figure 1 Occupational and organizational commitment means and standard deviations divided by education level

Last, but not least the association between age and OcC level and also with OcC was inspected. Pearson product-moment correlation showed a significant ($p< .05$) but very small positive relation ($r= 10$) with organizational commitment and no association with occupational commitment.

Organizational, job characteristics and OC

One way variance analysis was used to test the influence of status commitments. There were significant differences between the three status groups in terms of their occupational commitment $F(2,528)= 10.21$, $p< .001$, and also in organizational commitment scores, $F(2,528)= 13.72$, $p< .001$. Differences are shown in Figure 2.
These differences were statistically significant (ps < .001 and ps < .05) between employees and middle managers, and top leaders. Surprisingly, this distinctness did not come up between the two types of leaders.

In the next set of analyses, the influence of organizational factors and job related factors on organizational commitment was investigated. Summing up results from previous researches, these analyses were conducted separately by organization size (small, medium and large organization). Multiple linear regression was carried out to determine the effect of occupational commitment, work value, job involvement and status on organizational commitment. Results of these analyses are presented in Table 2-3-4.

**Table 2**
Regression model with OC as the criterion Variable in small organizations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-7.22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OcC</td>
<td>.17</td>
<td>.14</td>
<td>2.43</td>
<td>.016</td>
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<tr>
<td>JI</td>
<td>.16</td>
<td>.12</td>
<td>1.08</td>
<td>.282</td>
</tr>
<tr>
<td>Wv</td>
<td>.83</td>
<td>.65</td>
<td>6.46</td>
<td>p&lt;.001</td>
</tr>
<tr>
<td>Status</td>
<td>-.10</td>
<td>-.01</td>
<td>-.09</td>
<td>.92</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
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<tr>
<td>OcC</td>
<td>.17</td>
<td>.36</td>
<td>5.56</td>
<td>p&lt;.001</td>
</tr>
<tr>
<td>JI</td>
<td>.29</td>
<td>.31</td>
<td>4.36</td>
<td>p&lt;.001</td>
</tr>
<tr>
<td>Wv</td>
<td>.09</td>
<td>.09</td>
<td>1.75</td>
<td>.08</td>
</tr>
<tr>
<td>Status</td>
<td>1.24</td>
<td>.09</td>
<td>2.00</td>
<td>.04</td>
</tr>
</tbody>
</table>

**Table 3**
Regression model with OC as the criterion Variable in middle size organizations

OcC- occupational commitment, WV- work value, JI- job involvement
OcC- occupational commitment, WV- work value, JI- job involvement

Adjusted $R^2$= 72.1 per cent; $F(4,125)= 84.47, p< .001$

Adjusted $R^2$= 47.9 per cent; $F(4,259)= , p< .001$

Table 4
Regression model with OC as the criterion Variable in large size organizations

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>OcC</td>
<td>.09</td>
<td>.19</td>
<td>2.41</td>
<td>.01</td>
</tr>
<tr>
<td>JI</td>
<td>.36</td>
<td>.41</td>
<td>4.26</td>
<td>.001</td>
</tr>
<tr>
<td>WV</td>
<td>.14</td>
<td>.13</td>
<td>1.59</td>
<td>.11</td>
</tr>
<tr>
<td>Status</td>
<td>1.48</td>
<td>1.2</td>
<td>1.87</td>
<td>.06</td>
</tr>
</tbody>
</table>

Adjusted $R^2$=39.9 per cent; $F(4,132)= 23.89.47, p< .001

All the three models were statistically significant (ps< .001). The adjusted $R^2$ indicated that in small organizations 72.1 per cent, in middle organizations 47.9 per cent and in large organizations 39.9 per cent of the variance in organizational commitment score can be explained by variances in the four predictor variables. The most influential predictor was various based on organization size. Work value was the most influential predictor ($\beta =.65$) in the model for small organizations, occupational commitment ($\beta = .36$) for middle organizations and job involvement ($\beta = .41$) for large size organizations. Occupational commitment was significant predictor in all three models. Therefore, work value was a significant predictor for organizational commitment only in small organizations and job involvement in middle and large size organizations.

Further analysis investigated differences in organizational commitment by status. Likewise, in previous analyses these differences were tested separately in small, middle and large size organization groups. A new variable was computed based on the status variable. This included whether a participant has an employee or a leader status. To assess these differences between employees and leaders, independent sample t-test was used. Results from these analyses are presented in Table 5.

Table 5
Differences between employees and leaders in organizational commitment separately by organization size

Status has higher effect on organizational commitment among participants from middle size organizations. Interestingly, in case of large organizations status does not have any effect on this type of commitment.

Discussion and Conclusion
This study was aimed to investigate two types of commitment and how these are influenced by personal, organizational and job characteristics.

In line with previous findings (Lee et. al., 2000), occupational and organizational commitment have a positive moderate relation. These two can be overlapped, but at the same time, they can have different influential factors.
Contrary to this meta-analytic study, age was related with organizational commitment but with occupational commitment no association was shown. However, age has only a small association with organizational commitment. This can be explained by organizational tenure and career stages. People who have spent more time in the same organization can be more committed emotionally to their organization. Further research should take into account these variables as well, controlling them, in order to establish a more clear relation between age and these two types of commitment.

Results indicated that there are differences in commitments based on educational level. These appear mostly between people with PhD degree, those who graduated high school and participants with university degree.

This study showed no significant differences either by genders or by nationalities. With regard to genders, this outcome contradicts the study of Major et al. (2012) that concluded difference between genders in commitment level. Women had significantly lower level of occupational commitment than men.

Due to the differences between smaller and bigger organizations, our data obtained are broadly consistent with the major trends (De Clerq, and Rius, 2007.) Interestingly, organizational commitment in small organizations was predicted significantly by work value. At the same time, this factor was not a predictor in the other two types of organizations. Job involvement was that element, which was significant predictor in middle and large size organizations as well.

Analyzing organizational and job characteristics, it was found that occupational commitment was significant predictor for organizational commitment in all types of organizations based on employee numbers.

Results indicate differences between leaders and employees in organizational commitment in two types of organizations. This highlights how important a status in small and middle organizations is, with regard to commitment. This finding can account for progress opportunities. Employees in a large organization have more chance to develop and to occupy a higher position than people from a small organization.

This study contributes to the broader literature on commitment by demonstrating that personal, organizational and job factors can have different effect on organizational and occupational commitment. From the outcome of our investigation it is possible to conclude that people with higher educational level are less committed to the organizations than those with lower educational level but they are occupationally committed. Furthermore, employees’ and leaders’ commitment can differ, but not in a large size organization.

References


Adapting Legal Culture: Legislation and Interpretation in Tax Law

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Abstract

Legal culture is defined as a way of describing relatively stable patterns of legally oriented social behaviour and attitudes. Adapting legal culture is possible, while the adapted legislation makes a shift in the social reality, especially in transition to democracy. As social behaviour depends on other elements, such as historical and cultural backgrounds of a society, the reaction for the legal adaption may differ from one country to another. So, the legislation in two countries may be the same; but the interpretation and the implementation of the law may be different. As tax norms also have an economic aspect, factors effecting the results of the tax law adaption may be historical, cultural and also economic. Adapting legal culture is more comprehensive than transplanting legal mechanisms and importing other legal systems, it is not only translating legislation but also creating a differential fitness; a different aspect of rights and principles of law design. As tax law includes social norms as well as financial norms and is a multidisciplinary branch of law, the adaption of tax law needs justification of perceived fairness and common understanding of basic law principles and rights. If the perception of law is different, the interpretation of law may create a sui generis version of the adapted law. In this article, the question to be answered is how the historical, cultural and economic factors differ adapted tax systems in practice by the interpretation of law.

Keywords: Adapting Legal Culture Legislation and Interpretation in Tax Law

Introduction

Law derives from the cultural origins of a society internally (Mautner, 2010: 844) while with legal transplants, transferring the legal and cultural perspective to other societies. This external interaction may result in social/legal development or just a shift in the social reality of the interacting culture, or may not be effective (Friedman, 1969: 40). While the success of a legal transplant, depending on the legal system of the receiving country and its culture, not impossible (Legrand: 1997), not easy (Watson: 1993), but evolutionary (Teubner, 1998: 12); it is “sui generis”.

Tax law including social norms beside financial norms both of which effect human rights, reflects a society’s legal culture, that is particularly called “tax culture” in literature. One can understand the perception of human rights in a society, observing the tax law in that particular country as taxation interferes a person’s basic rights as life with dignity and healthy, right of property, freedom of travel etc. Taxation is also an indicator of the concept of the social state in a country, determined in the constitution and tax codes. In literature, the relationship between culture and tax law is rarely discussed while there is a lot of studies about taxation and economy. This missing part of the chain may help to understand the relationship among economy, law and culture.

1. Reading Varga’s Law-Making Cycle with Cohn’s Normative Reality

Varga, describes the creation and implementation of law in “On The Socially Determined Nature of Legal Reasoning”, as (Varga, 1994: 325):
In legal dimension, there are three spheres of relations: substantial generality of social relations, legal norms and concrete individuality of social relations. Legal norms (for example a specific anti avoidance rule) are created deriving from the concrete individual social relations that present “is”, (for example a tax payer’s tax avoidance) while implemented according to general social relations that imply “ought” (tax legislation).

Varga explains that the sphere of social relations and the sphere of norms together form a law-making cycle:

“The motion between the general, the particular and the individual and vice versa is put together of a number of non-stop processes of transitions from the one to the other and that accordingly in this process of motion without a point of rest the segregation of the various components will, surveyed from the point of view the totality of the processes of social motion, become a relative one” (Varga, 1994: 326).

As life is in constant change, laws have to keep up with the actual developments, “law is a constantly developing medium” (Kohler, 1914: 4-7, 32). Tax norms effect people’s economic states and they are always changed according to the economic necessities, they can be called “dynamic rules” (Hage, 2016: 37). As the conditions, people’s choices thus “is” change, the perception of “ought” also change. This interaction creates a cycle of reality between “is” and “ought”. Law in general and tax law in particular, determines a normative reality in between the spheres “ought” and “is” (Cohn, 1967: 68). So, “is” does not stand “versus” “ought”; on the contrary, “is” becomes a “part” of “ought”. When there is a shift in the social reality, for example a social development, transition to democracy, or an economic crises, there is a social pressure for a legal reform.

2. Fact and Value: A Dualism or A Dichotomy

Suggesting that it is not possible to derive ought-sentences from is-sentences; Hume said “there is an unbridgeable chasm between the world of fact and the world of value” (Hume: 1978). Kelsen made the distinction between facts and norms one of the starting points of his pure theory of law (Kelsen: 1934). He also stated that norms belong to the realm of “ought” (Kelsen, 1934: 72). Habermas separated the facts and norms as the duality of modern law and named law as a social mediator between facts and norms (Habermas, 1996: 1). On the other hand, Searle explained how to derive “ought” from “is” (Searle, 1964: 43-58) and Putnam opposed the distinction between facts and values which he called “fact/value dichotomy” (Putnam, 2002: 7-45).

These views may seem in opposition, however, they all accept the relationship among facts, norms and values. For example, Habermas draws a sharp distinction between universal ethical norms and non-universalizable values and argues that only the “norms” are objective. Discourse ethics is characterized by a sharp distinction between values and norms, but not on the level of values (Joas, 2001:3). The problem is where to put “values” in the creation and implementation of law.

Values as well as facts, belong to the “sphere of the concrete individuality of social relations” in social reality and therefore in the realm of “is” in Varga’s picture. Norms and laws belong to the realm of “ought”, deriving from the facts that has an influence of values.

Modern tax law, solid with Kelsen’s pure theory of law and hierarchy of norms (Kelsen, 1934), maintains legality principle. However ethical norms –derive from the values of a culture and do not have a sanction- also exist in tax codes, tax regulations or codes of conduct, in line with taxpayer’s rights. It is common that there are also a lot of social norms in tax codes. Tipke differentiates norms in tax law according to their purpose, as “Finanzzwcknormen” (norms with financial purpose) und “Socialzwecknormen” (norms with social purpose). First are the norms that aim to collect tax where the second type of norms are the results of social, cultural, scientific and health etc. policies (Tipke, 1983: 17-21).
Kohler argued in his major book, *Philosophy of Law*, that the supreme vocation of humanity is to promote and develop culture and the function of law is to facilitate the realization of this human vocation. According to him, law can achieve that function by preserving human values that are worthy of preservation, by creating continuity and stability with regard to such values, by allowing human beings to create viable institutions for cooperative action (Kohler, 1914: 12). Human values are observed in human rights, in principles of national and international law. Equality is a value for example, exists in national and international laws, as well as tax laws, as a principle in the Constitutions and in various legal forms in tax codes such as the progressive income taxation.

### 3. Legal Culture and Legal Transplants

It is an often asked question that, is law derives from the culture or culture derives from the law? It can be said that both proposals are true.

There is an endless cycle between culture and law, internally and externally. It is a dynamic relation that shapes the legal, social and economical system of a society, which also draws the internal evolutional structure.

Van Hoecke & Warrington emphasises that “law is more than just a set of rules or concepts. It is also a social practice within a legal community. It is this social practice which is determining the actual meaning of the rules and concepts, their weight, their implementation, and their role in society” (Van Hoecke & Warrington, 1998: 5)

It is no longer disputed that legal culture is both a cause and effect of law: on the other hand, it shapes the essential basic ideas of a national legal order, while on the other hand it is constantly exposed to legal influences (Gessner, 1993: 5). Legal culture is defined as a way of describing relatively stable patterns of legally oriented social behaviour and attitudes (Nelken, 2004: 1).

Bell defines legal culture as “a specific way in which values, practices, and concepts are integrated into the operation of legal institutions and the interpretation of legal texts” (Bell, 1995: 70). In line with this definition, Friedman describes the legal culture on the components of the legal system (Friedman, 265, 266). According to Friedman, a legal system is formed of three components, which are structural, cultural and substantive components. Structural components refer to the institutions whereas cultural components are the values and attitudes which bind the system together, and which determine the place of the legal system in the culture of the society as a whole. Substantive components are the laws themselves. These three elements together - structural, cultural, and substantive - make up the legal system; while structural and cultural components form the legal culture. Legal cultures differ legal systems which are a part of political, social and economic development (Friedman, 262). So, according to Friedman’s definition of legal culture, we can say that legal transplants harmonize the substantive components, but not legal systems as a whole. As Legrand says, “a rule does not have any empirical existence that can be significantly detached from the world of meanings that characterizes a legal culture; the part is an expression and a synthesis of the whole” (Legrand: 6).

Based on Friedman’s definition, a legal system can be divided into three components, as jurisdiction, law and culture:

![Diagram of jurisdiction, law, and culture](image)

When a new norm is transplanted in the legal system, it makes a shift in both social and normative realities. It both effects the creation and the implementation of the legal system.
In the scheme above, the plane “s” refers to social reality in a society, while the plane “n” refers to normative reality. The creation of law begins with the facts and values of the society and forms a norm (x1) and finds its places in the legislation (n1) according to its hierarchic place. The norm is implemented in line with the constitution and principles of law. If the norm is against the constitution or if the norm does not constitute the social reality, it will be cancelled or deviated in implementation (s3). This is the self-evolution of a legal system, which may be called “internal evolution” (Nelken, 2004: 22).

When a norm (x2) is adapted in a legal system, it will be a norm derived from another culture’s values and facts (s2), subject to another legislative hierarchy (n2) and another social reaction (s4). This “external evolution” (Nelken, 2004: 22) makes a shift in both social reality (s3 to s4) and normative reality (n1 to n2).

The legal transplant may derive from another country’s legislation or an international organization as OECD or EU. Anti avoidance tax programmes of these organizations are very actual; OECD’s BEPS (base erosion and profits shifting) agenda and ATA (anti tax avoidance) Directive of EU are examples of international legislation implemented to national laws. However national legal transplantations are also very common in history. It is not always a norm that is adapted, but mostly codes.

For example, if a developing country’s economy mostly depends on international investment (s1), so it does not have an efficient anti avoidance norm (x1) and a constitutive protection (n1); when it adapts a BEPS rule (x2), changing its constitution (n2), not being a tax heaven anymore may result with a gap in the budget (s4) or a better tax system (s4) (It depends on the circumstances).

According to Legrand, “a rule’s very existence depends on its interpretation and application within an interpretative community and this is historically and culturally conditioned” (Legrand, 1997). This is rather true for national legal transplants. For example, if a tax code is adapted from another country (x2), this needs civil law and constitutional law reforms (n2), too; which will certainly change the social reality (s1 to s4). Even than the “interpretation and application” will not be the same as the original legal culture. However, this legal adaption cannot be called unsuccessful or impossible. It is not the same legal culture that develops, but another version of the donor legal culture; a sui generis legal culture, different than its origin.

4. The Reasons Why Adapted Tax Laws Differ in Implementation

Adapted legal culture is different in the host than the donor, as Watson says, “the legal transplant will take on a life of its own in its new host” (Watson, 1993). What are the reasons of this difference and particularly in the case of tax law?

4.1. Garbarino’s Evolutionary Approach

Garbarino, explains the differences between the tax systems with an evolutionary approach. According to him, “at a given moment in time a tax system has a structure identifiable through a model of tax systems in terms of hierarchies of rules, and the evolution of tax systems is constrained by their structure” (Garbarino, 2010: 773). Based on hierarchies of tax rules, he explains the evolutionary structure of tax systems.

The idea that law has a hierarchical structure is first introduced by Kelsen and typically advanced by legal positivism (Kelsen, 1945). Garbarino bases his argument on formal hierarchy, which he describes as,
“a formal hierarchy” is one which obtains between a rule on production (R1) and a produced rule (R2), when a rule of production (RP) establishes how R2 is produced. R1 is therefore superior to R2. A formal hierarchy is a relation between a (higher secondary) rule R1 and a lower rule R2 . . . Whenever a produced rule R2 is created according to a rule on production, there is a "chain of production" of rules. The process of creation of tax rules occurs through "chains of production" and the operation of formal hierarchies shows that different tax systems share a common structure based on chains of production, regardless of the prescriptive content of the rules and irrespectively of the subtleties of different legal cultures" (Garbarino, 2010: 775, 777)

As the process of creation of tax rules occur through “chains of production”, adapting a norm/code needs a harmonization of other related parts of the legislation chain. If the donor legal system belongs to the same legal family for example, European law family, the adaption will be more successful than in another legal family. A legal transplant should not be against the constitution in the new host, therefore it is not only a norm that is changed, but a constitutive arrangement may be necessary or simply it cannot be transplanted. The lower regulations in the hierarchically order should also be changed according to the new rule. Even if the other parts of the chains are the same, the two legal cultures would not be the “same”; they would be “similar”, because of the differences in practice.

If a tax norm/code is adapted from another country, even if the constitutions have the same taxation principles, with a similar normative structure, the practices could be different, depending the legal cultures of the countries.

Hierarchic structure of legal cultures is insufficient to explain the differences between two legal cultures. Remembering Garbarino’s “evolutionary structure” argument, the question why adapted tax systems differ can be explained by the factors that play role in the evolution of a tax system. These factors can be historical, cultural, economic and institutional.

4.2. The Example of Turkey and Germany

Turkey and Germany is a good example of legal transplantation. Turkey has adapted the Personal and Corporation Income Tax Codes and the Tax Procedure Code from Germany, and has been successful in implementation. However, with the same taxation principles and legal transplantations, these two countries had different implementations of the same legislation, depending on their structural evolution. The factors that differentiate their evolutional structure can be explained on the subject of “ability to pay principle”:

4.2.1. Factors of Differentiation

The Turkish Personal Income Tax Code was codified from the German Personal Income Tax Code in 1961, that is why the concept of income tax is mostly alike. As the main legal structure of these two systems are the same, in implementation, they differ in terms of “non-disposable income” which is also called as “deduction of inevitable personal expenditure" or “safeguarding subsistence level” in literature (Tipke, 1993: 672-692; Tipke&Lang, 1996: 73) and “the taxable income” in jurisprudence (as BverfG of 3 Nov. 1982, I R 3/79) in line with Tipke’s emphasis on the difference between “economic capacity” and “taxable capacity” in the use of ability to pay principle (Tipke, 1993: 480, 481). According to the writer, “economic capacity” is about the total income whereas “taxable capacity” is about the income above the subsistence level; so the ability to pay principle determines “the taxable income".
Since Article 1 of the German Constitution (Grundgesetz) protects human dignity, in 1992 the German Federal Constitutional Court (Bundesverfassungsgericht) ruled that taxpayers have the constitutional right to a basic personal exemption equal to the subsistence amount which welfare services have to guarantee constitutionally to people without income as a minimum civilized standard of living. In German tax law, it is accepted that the expenses for private consumption which are “unavoidable” decrease the ability to pay so only the income above the subsistence amount may be taxed (BVerfG of 29 May1990, 1BvL 20/84).

In contrary with this, in Turkish tax law, “the taxable income” is found at the end of various deductions mostly in commercial business and freelance incomes but a few with the wage income. Cost-of-living allowance is only for wage earners and it is under subsistence level. The expenses for private consumption which are “unavoidable” are included in the taxable income. The progressive income tax tariff begins with a zero-bracket amount and has ineffective ratios. The income tax tariff does not take the marital status into consideration. These factors differ the concept of “taxable income” in these two tax law systems. How did these income tax codes differ on the basic concepts in time, one original and the other one adapted, with the same constitutional principles? Why does a basic taxation principle differ in tax systems in implementation? These questions has three answers, historical, cultural and institutional.

Taxation is regulated in the 73th Article of Constitution of 1982 in Turkey. Although ability to pay principle is clearly maintained in this article, The Turkish Constitutional Court (for ex. 1994/84,18/07/1995) and literature (Öncel&Kumru&Çağan, 2016: 280) mostly explains this principle with social state principle (Art. 2) but not with right to equality (Başaran Yavaşlar, 2011: 62, 63) or with human dignity as in German law. This is because of the judicial minds in these legal cultures are different. Judicial mind and jurisdiction is a part of the legal culture. In this example, after the legal transplantation, German tax system continued its self evolution and a part of its legal system, German Federal Constitutional Court established a connection between human dignity and taxable income, which resulted with a change in the German Income Tax Code. Building this relationship was also about the perception of human rights. So the reason of the differentiation was not only institutional (about jurisdiction), but also about legal history.

The German Federal Constitution was accepted in 1949, after the Second World War, making human rights and human dignity central and core part of a legal reform. The components of the German Federal Constitution were the principles of democracy, republicanism and social responsibility (Seiler, 2016: 21). This emphasis of human dignity in the Constitution and Tipse’s differentiation of “economic income” and “taxable income”, emerged the idea “that taxpayers have the constitutional right to a basic personal exemption equal to the subsistence amount which welfare services have to guarantee constitutionally to people without income as a minimum civilized standard of living”, in judicial mind.

The concept of “protective state” was emphasized by Alex Tocqueville in 1830s and put into legislation in Bismarck Germany in 1800s. This concept was legislated in Turkish law first in 1937 in the Constitution of 1924 as “statism”. This delay of about a hundred years caused a differentiation in the legal culture about the perception of social state. Unlike the first decades of the Republic, the understanding of “social state” developed slowly in Turkey, due to the socio-economic policies, even the social state principle is under Constitutional protection. As a result, progressive income taxation became the only method for the implementation of ability to pay principle, which does not fully establish the principle of equality, used with ineffective ratios and zero bracket amount. Even though human dignity is protected constitutionally in Art. 17 of the 1982 Constitution, it is not systematically in the central; however it was still possible for the jurisdiction to establish this relationship, while it is being discussed in literature (Özdiler Küçük: 2016).

Of course, the perception of ability to pay principle is different, when the meaning of taxable income is different. “The meaning of the rule is an essential component of the rule” (Legrand, 1997: 114); therefore two rules with different meanings are two different rules. Taxable income is the heart of an income tax code. Two income tax codes with different taxable income definitions cannot be called the same, even if one is adapted from the other, they can be called systematically alike. However this does not mean that the adaption was unsuccessful, or adapting legal culture is impossible. It is possible, it may not transform a legal culture but it certainly makes a difference. That is the case for German and Turkish Income Tax Codes. The donor legal system continued its self evolution deriving from its own social and normative realities (war and a major legal reform) while the recipient legal system evolved with its own realities (economic development and legal reforms) in a sui generis way according to the interpretation of its own judicial mind. Today, as the German tax system walked the first steps of dual income taxation by excluding capital income from the income tax tariff and taxing capital income at a
lower final withholding tax rate, Turkey has a Draft Code of Income Tax, which still maintains progressive taxation, but merging personal income tax and corporation income tax in one code, while flat taxation is being discussed in academia.

4.2.2. Interpretation and Judicial Mind

Kelsen, calls interpretation as the “cognitive ascertainment of the meaning of the object” and emphasizes on the limits of interpretation:

“… the result of a legal interpretation can only be the ascertainment of the frame which the law that is to be interpreted represents, and thereby the cognition of several possibilities within the frame. The interpretation of a statue, therefore need not necessarily lead to a single decision as the only correct one, but possibly to several, which are all of equal value, though only one of them in the action of the law-applying organ (especially the court) becomes positive law” (Kelsen, 1967: 351).

Legrand, on the other hand, calls interpretation a “subjective and cultural product” and defines it as “the result of a particular understanding of the rule that is conditioned by a series of factors which would be different if the interpretation had occurred in another place or in another era” which is “the outcome of an unequal distribution of social and cultural power within society as a whole and within an interpretive community in particular” (Legrand, 1997: 115).

Reading these two definitions together it can be concluded that, legal culture is a reason of choice of the interpretation method among the possibilities that exist within the framework of that particular law. The difference between the decisions of German Federal Constitutional Court (Bundesverfassungsgericht) and Turkish Constitutional Court on ability to pay principle may constitute an example for the choice of the interpretation method according to the judicial mind and the legal culture.

The Turkish Tax Procedure Code, originating from the Reich Fiscal Code, but following a different legal development, shows the background and an alternative version of the German General Tax Code. Turkish Tax Procedure Code No. 213 is in operation since 1961, first version of which was mostly adapted from the Reich Fiscal Code. Interpretation was regulated in the Sec. 4 and 5 of Reich Fiscal Code in German tax law, methods of interpretation in the 4th and general anti avoidance rule on the 5th Sections. In Germany, after the Second World War, there was a major tax reform in 1977 which changed the Sec. 5 of the Reich Fiscal Code- that included the general anti avoidance rule- into Sec. 42 of the German General Tax Code. Turkish Tax Procedure Code Art. 3, regulates many important tax law subjects within, which are interpretation, a general anti abuse clause, proof in tax law and burden of proof. Rule of interpretation of tax norms were added in the TTPC Art. 3 in 1980, as “Tax acts are effectual with their literal and spiritual construction. When letters of act are not clear, tax law decrees will be enforced according to the aim they were prepared for, their place in the structure of law and their connection with other articles”; in line with the interpretation rule in traditional German tax law, in Sec. 4 of the Reich Fiscal Code which explained the methods of interpretation as, “when interpreting tax legislation, its purpose, its economic significance and developments in circumstances are to be taken into account” and the general anti avoidance rule representing perspective.

These interpretation methods are in fact parallel with the Kelsen’s methodology of interpretation. Kelsen, in his book Pure Theory of law, describes these methods as;

“The legal act applying a legal norm may be performed in such a way that it conforms, with the one or the other of the different meanings of the legal norm, with the will of the norm-creating authority that is to be determined somehow, with the expression which the norm-creating authority has chosen, with the one or the other of the contradictory norms, or the concrete case to which the two contradictory norms refer may be decided under the assumption that the two contradictory norms annul each other.” (Kelsen, 1967: 351)

In both Turkish and German tax systems the interpretation methods are the same; literal, historical, teleological, systematical interpretation and economic perspective. While the literal interpretation has a priority to other methods, courts may not refer to the wording of a law, consider its purpose with teleological interpretation. Sometimes the court decides...
with the historical development of a legal provision which means the historical interpretation. It may refer to the place of their place in the structure of law as systematical interpretation or to the economic significance with an economic perspective.

So the question is, for the same problem of law, how may the courts of the donor and the recipient legal systems react, how do they interpret for the same case, with the same legislation and the same interpretation rules? In the case of interpreting ability to pay principle, German Federal Constitutional Court and the Turkish Constitutional Court processed systematical interpretation, both referring to their Constitutions, ending with different conclusions. Judicial mind is a part of legal culture, and referring to Kelsen, in the framework of legislation, the possibilities of interpretation is maintained by the legal culture. As Marmor says, “interpretation is a part of the legal practice” (Marmor, 2005: 45).

Conclusion

In the case of legal transplantation, the success of a legal transplant depends on the legal system of the receiving country and its legal culture. As a component of a legal system, legal culture has a determinant character in the development of a tax system. Interfering with a norm externally in a legal system, makes a reaction in both the social and normative realities, in means of law making and interpretation. This reaction is sui generis, according to the legal culture of the country. Historical, cultural and institutional factors are effective in maintaining the interpretation of the legislation and on the judicial mind. As the culture is determinant in the law making process and its validation, law has its shape as a fluid in the glass of culture, while also determining the color of the fluid in the glass.

References


Financing of Social Services Towards the Challenges of the Local and Regional Development

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Abstract

The research focuses on the changes in financing of social services at regional and local level in a market economy in Poland. The important problems are also efficiency issues which can be implemented in public sector entities in the process of supporting social and economic development. In the study there were applied analytical methods relating to the gathered empirical data and research methods related to determining the real impact of the self-government units on the processes of socio-economic development. The key part of the text is analysis of the empirical source data regarding financial potential and directions of expenditures of self-government. Previous research results showed that the development of social services in a market economy in Poland was mainly the result of activities the entities and agencies of the public sector, whose role was to support and stimulate the development. As a challenge for the future it can be indicated strengthening the cooperation with entities of the third sector and sharing the responsibility both for the economic processes and social problems.

Keywords: social services, public finances, local and regional development.

Introduction

In contemporary unstable conditions of global economy, determining more and more volatile market mechanisms in Europe and in the world, it is necessary to verify both possibilities and challenges with regard to supporting social and economic processes in the market economy. In the market economy conditions, the social and economic development is a result of interaction of entities and organizational units of the public sector whose role is to support and stimulate the development, and of the private sector organizational entities, which are responsible for the actual course of economic processes related to market-based production of goods and services. It is even more important to pay attention not only to a significantly diverse scope of tasks and responsibilities of entities and organizational units functioning as the public sector but also to goals of the enterprises operating in the real sphere of market conditions.

It should be noticed that the broader context of development processes, including the role of the public sector and social services, can't be overlooked, especially regarding to global development problems, generally identified in the concept of development economics. According to the concept of development economics it is important to look for optimal resource allocation and support economic growth for poor countries which not always participate in globalization and development processes. Undertaking research on the connections between entities, organizational units being part of the public sector and enterprises operating in the sphere of market conditions leads to establishing the actual cause-and-effect relationship, as well as the role and the importance of particular groups of entities and their impact on the changes in economic processes in the market-based conditions. The principles of providing social services and methods of their financing have a special role here. In the context of the presented study, social services include all administrative activities that address the social needs of citizens, health care services, education, personal social services, care services, housing services, employment services and specialized services and also money transfers for various groups of the society. What should be emphasized is that the level of investment expenditure is the most important factor directly affecting the range and quality of public service delivery, including the level and quality of social services.

The purpose of the analysis presented in the paper is identification an evaluation of current possibilities and limitations occurring in the socio-economic development at the regional and local level processes in the conditions of the market
economy in Poland. The main focus of the research has been directed to determining the role of organizational entities and units of the public sector in the process of supporting the economic development and provision of social services. In the presented scope of the study, there were used analytical methods that refer to the real impact of organizational units of the regional and local self-government on the processes of social and economic development. In addition to a critical analysis of literature on the subject, the essential part of the research was an analysis of empirical data.

Dilemmas concerning the role of public sector in economic development and social services

In the contemporary conditions of the market economy, economic and social phenomena should be studied both in the macroeconomic dimension and from a specific territorial perspective. Analogic methods concern the shape of the abovementioned relations between entities of public and private sector. The significant scope of impact of the public sector on the economy is being implemented at the state level by actions of government administration, including both functions of creating legal regulations at the executive level and a number of activities at the level of public interventions with a strong financial component, as well as control functions. From the point of view of the subject of the presented paper, the particular attention should be paid to activities having a direct financial dimension, implemented through investments financed from the state budget or through a system of project-oriented subsidies addressed to various areas of economy and used for supporting implementation of specified social and economic goals, and especially supporting of the processes connected with delivery of social services.

Important role of the public support given at the central level and the present tendencies of social and economic changes indicate the need for a thorough analysis of the development problems from and local perspective. The essence of regional approach to economic and social processes refers to the identification of development potential of the region itself, external conditions forming the position of the region in respect of the business environment, as well as the determination of competencies and interrelations between entities having access to different economic resources of the region and forming possibilities and forms of their application (Parr, 2001, pp. 11-12). On this background, it is worth indicating a special role of the public sector entities at the regional and local level.

The self-government of the region fulfils important functions at the administrated territory. These are in particular coordination functions of a number of activities focused on development, implemented by local government authorities of communes and districts. From the point of view of shaping future social and economic phenomena at the local and regional level, certain attention should be paid to instruments of strategic management, long-term investment programmes, long-term financial management of material property owned by local government units as a basic sphere of decision-making process whose effects have a direct connection the process of achieving a growth in quality of living for the inhabitants of a given unit (Jarosinski, Grzymala, Opalka, Masloch, 2015, pp. 33-39). The scope of competencies, and the scope of responsibility of the local government may be reflected in many areas of administrative activities, as well as by investment activities, determining to a large extent the efficiency of short-and long-term shaping of development conditions (Wojciechowski, 2003, pp. 136-138). An important task of the local government is to conduct analyses and make decisions with regard to implementation of both investments proposed by social groups, as well as take into consideration initiatives and proposals from potential external investors.

According to investments undertaken directly by the self-government authorities, it is necessary to properly evaluate the rationality of such projects, which may be demonstrated by preparation of each investment project in terms of its scale, by referring to factors, such as the number of future users and features typical for elements of technical and social infrastructure. One of the more important factors may be the massiveness of infrastructure elements, which often determines lack of substantiality for undertaking investment projects of small material, and therefore financial scope, and consequently – imposing the need for implementation of large-scope complex projects with high financial expenses.

The importance of the local government in the context of shaping the development phenomena manifests itself by fulfilment of the planned intentions, describing comprehensively all spheres of functioning and the special character of a given unit, and, at the same time, preserving the scope of competencies that is adequate for the public sector. The present conditions of the market economy force, to a greater extent, the drive to achieve a certain level of economic efficiency of actions undertaken by local communities (Laursen, Myers, 2009, pp. 1-8). Along with civilization progress, the social expectations increase, including both stricter environmental requirements and the need for implementing new technologies, which generates the necessity of providing a bigger volume of funds meant for construction, maintenance and modernization of infrastructure components (Messere, de Kam, Heady, 2003, pp. 44-46). The pursuit of achieving growth in the degree of
social satisfaction in the conditions of market economy in reference to the public sector, corresponds to the development
of new management concepts, including managerialism, based on the analogy between the management of units providing
public services and the company management focused on the profit (Newman, 2000, p. 48-55). It constitutes a part of the
on-going debate on the role that the public sector should play in the economy and on the methods used in the management
processes.

It is necessary to stress that in Poland, like in any other developed countries, the change in ways of approaching a problem
of management of entities and organizational units in the public sector, including local government units, moves towards
improving the effectiveness and efficient functioning and also delivering of social services (Fedan, 2011, pp. 209-216).
Important changes in the sphere of shaping development processes are connected with the increase in the autonomy of
local government units and the popularization, at least in the indicative perspective, of the attitude of "a manager" who
induces greater activity and responsibility for undertaken tasks, including the need for new, more effective solutions of
strategic planning and forecasting the effects of actions for the future periods.

Presented problems have a broader social and economic character, because it goes beyond the borders of states and
regions. This manifests itself in a number of problems in the varied forms of organization and functioning of the state and
society, in many demographic problems, and in many problems of delivering of public services. There are many examples
where these problems have led to a number of dangerous tensions in the world. One of possible solutions is to refer to the
concept of development economics.

Financial determinants of development at the local and regional level

In self-government units the important problem remains the function of the system of pooling resources and financing
diverse public tasks. In this aspect, this is a problem of both decisions concerning global size of public funds, and decisions
regarding their detailed use (Flynn, 2012, pp. 59-62). It is also related to the issues of financial independence of local
government, and therefore the level of independence of particular units in respect of state authorities of the central level.
To a great extent, the independence and financial stability of local government, and thus, the capacity to provide a proper
process of public services provision and possibilities of long-term approach in shaping the development of a given
administrative unit, are determined by the structure of budgetary income resources (Spearman, 2013, pp. 221-226). At the
same time, it is worth emphasizing that the basis of financial economy of local government units is constituted by the
budget, which is a decentralised plan of income and expenses, as well as of revenue and expenditures.

Provided considerations indicate a critical problem of systemic shaping of budget income sources of local government
units, particularly including the search for optimal relation of income referred to as own and external income, including in
case transfers from the state budget and subsidies from public funds. A high level of own income, assuming at the
same time their stability, can be considered one of vital determinants of financial independence of the local government
(Swianiewicz, 2011, pp. 39-43). This does not diminish, at the same time, the importance of external income, because,
despite its undoubtedly limiting nature of financial independence, this income constitutes an important element of regional
policy, performing the support function in selected areas and, at the same time, being in control of selected domains of
financial economy of a local government through public institutions of state administration. While analysing the problem of
independence, we should thus define the scope of freedom that local government units actually possess, not only with
regard to pooling the budget funds, but also with regard to spending them (Knox Lovell, 2002, pp. 11-32). The greater the
scope of such independence of local government units, the more autonomous the entities that participate in the process of
development become.

According to a simplified approach towards the issue of financial independence, based on characteristics of the
aforementioned category of income, it can be stated that independence as to the income may be ensured only when the
dominant role in financing local governments is played by own income. As for the autonomy of expense, it will increase
along with the increase in share of own income and general subventions within the structure of income of local government
units. It would be much easier to ensure the autonomy in terms of expenses, because both own income and the general
subventions are disbursed on the basis of decisions made by legislative and executive authorities of local government
units. However, such an approach would be too simplified due to the fact that income originating from their own sources,
as well as subventions, should be allocated for the implementation of the own tasks of a commune that rarely have a
facultative character. The actual level of disbursement independence depends therefore on the degree of regulation of
those actions by legal regulations and on the scope of competencies being the responsibility of a local government.
The data concerning the actual degree of financial independence of the local government seems to be quite a difficult task while taking into consideration the ambiguous evaluation of the criteria of these problems. Nonetheless, it is possible use the analysis of specified indices, including the assessment index of share of local government units' own income in the income of the sector of public finances units in total or an index of share of local government units' own income in its income in total. The growth in size of the aforementioned indices means the improvement in the financial independence of the local government. For the purpose of the analysis of the aforementioned phenomena, Figure 1 illustrates the percentage share of local government units' own income in budgetary income in total with division into communes (gmina), districts (poviat) and regions in Poland in years 2006-2016.

Figure 1: The index of own revenues in the total revenues of budgets of self-government units at regional and local level in Poland, in the years 2006-2016, in %

Among all the examined groups of self-government units, the highest index values were observed in the communes functioning as cities with the status of a district. This is a specific group of large cities, usually characterized by a strong economic base resulting from a high level of development in the private sector, which makes the units classified into this category the growth centres of different impact range. In the studied period, the index value for the aforementioned group reached the maximal value of 69.5% in 2008, and then experienced a gradual decrease that lasted until 2012 when the value of the index amounted to 61.1% and then again, a slowly growing tendency was recorded in the subsequent years. The index of share of local government units' own income in budgetary income in total determined for all communes reached a definitely lower level, despite the fact that changes in the studied period were similar to the ones in cities with the status of a district. After a period of growth in 2006-2008, the index reached a maximum of 58.2% in 2010. In subsequent years, stable growth was observed, to 55.8% in 2015, but in 2016 the index decreased to 51.6% which was the minimum value in the researched period in that group of self-government units. At the local level the group of self-government units with relatively lowest values of the examined index were districts. In the similar situation like in the case of communes, after the initial fluctuations since 2011, an expressly gradual increase in the value of the index was observed, its maximum value, which was achieved in 2016, amounted to only 35.4%.

During the studied period, the budgetary situation of regions was characterized by significant changes. However, the recorded dramatic decrease of the index value in 2009 resulted not so much from the actual reduction in the volume of own income, as from significant changes in overall structure of the budget funds. A significant role was played by the funds from the European Union budget that were transferred under subsidy development programs prepared by self-governments of regions as components of cohesion policy. It should be noted that in years 2006-2008, the level of the examined index in
the regions was maintained at the level of approx. 60.0%, which would indicate a high level of financial independence. However, it is difficult to directly compare the situation of regions and communes, due to different scope of tasks and structure of budgetary income. It may be stated that in the case of self-government of regions both the scope of budgetary income and the actual possibility to influence economic processes in the region were significantly limited before 2009.

The role of self-government units in financing of development processes and social services in Poland

In case of a deteriorating economic situation and a decrease in revenues in the real sphere cause, as a common consequence there appear limitations of current activities, a cost reduction (often by reducing the level of employment) and a limitation of the scope of investment, as well as an increased frequency of decisions on suspension or total closure of business activity. For the public sector, the aforementioned phenomena lead to a significant risk of reducing the volume of taxes for the state budget from which shares are transferred to budgets of local government units. The characteristic tendency for the contemporary systems of public financing to make budgetary income depend on the volume of public levies, causes an intensification in sensitivity of the public sector both to changes in the real economy, and to cross relations. The example of the economic situation in Poland in comparison to the economic slowdown in many countries of the EU in the period after 2008 indicates the leading role of entities of the public sector in shaping the phenomena of development under conditions of financial crisis, and with the involvement of existing financing sources of public expenses. The lack of activity of the public sector would cause an additional deterioration in the condition of institutional infrastructure, weakening of regulatory functions of public administration and decreasing of quality of public services, including social services – which, as a result, would worsen the management conditions for the private sector.

Concerning the equivalence of the terms of development and investment, the author assumed that the investment expenses can be considered as an equivalent of development. It results from the observation that by means of investment we maintain the economic potential, making it possible to increase its scope, both quantitative and qualitative and also referring to the public services, including also social services. When it comes to self-government units the principle of development is recorded in the strategic planning documents including projects concerning quantitative and qualitative changes in the future. Therefore, in order to indicate the development of the public sector in local and regional economy the following scope of investment expenses within budgets of these units was adopted.

In order to identify general changes in financial potential and investment activity at the regional and local level, the research covered the analysis of index of the share of capital expenditures in total budget expenditures of self-government units, with adopting the division into regions, districts and communes. The results are presented in graphic illustration of changes in the index value in the aforementioned groups of units in Figure 2. During the examined period the highest value of the index of share in investment expenses in expenses budget in total, maintained at the level of more than 30.0% was recorded in the case of regions where, despite fluctuations of the index level, existed a visible growing tendency. Especially interesting was the leap increase in the value of the index which occurred in 2009 (up to 47.3%), and which was related to the intensive use of the funds from the European Union’s budget under organizational solutions, introduced as an element of implementation of the cohesion policy in Poland in the programming period 2007-2013. The reverse tendency was observed in 2016, when the index declined rapidly to 24.4%.

In the case of the above index calculated for districts, there were significant fluctuations, including the growth from 2007 to 2010, when was recorded the maximum value in the audited period equal to 21.7%. However, in the subsequent years there occurred a decrease and then a stable level concerning the value of the examined index did not exceed 14.5%. The situation in gminas, in terms of changes of the index value of participation in investment expenses in total budgetary expenses should be described as the most stable one among the distinguished groups of local government units. During the analysed period, until 2010, there was a gradual increase in the value of the index and amounted to 23.4%. The following years brought, however, a decreasing tendency and in general a significant decrease of the concerned values to the level of even 10.8% in 2016.

Figure 2: Capital expenditures as a share of total budget expenditures of self-government units at regional and local level in Poland, in the years 2006-2016, in %
Financing of self-government tasks is still strictly connected with the need of catching up with the development in the sphere of both economic and social infrastructure. One must also note that the observation of self-government units’ financial involvement in public services tasks might have been distorted during the examined period by frequent cost-saving activities attributable to the global financial crisis and its impact on public finances. On the budgetary expenses side, an important area of change is found in the efforts of the Polish public administration, which indicate that it is joining the path of reform of public finances that is already present in many EU member states. The main direction of organizational changes and the financing of cohesion policy in European Union is a strategic approach, concentrated on social aspects becoming the key factors of long-term development processes (Schiek, 2013, pp. 75-81). However, it is also connected with the concept of new public management and a concentration on outcomes and evaluation of the public tasks' efficiency (Komorowski, 2012, pp. 46-52). New ways of managing financial resources by institutions of the public finance sector should be considered in the context of restructuring the financing system, which is necessary given the deficit of the state budget. It is expected that the newly developed solutions could be applied at the level of self-government budgets and used in various areas of the local economy, for example the development of infrastructure, social and health care policy as well as education (Opałka, 2014, p. 42).

In order to illustrate the problem in the local and regional scale it is worth noting the structure of expenditures for basic activities in the sphere of social services provided by the self-government. During the study extensive empirical data was collected, however, due to the limitations in this paper, the results for the major items of relatively high level of expenditure were presented. The highest share between 2006 and 2016 was related to education expenditure, achieving approx. 30.0% of total budgetary expenditures. This is related to the established systemic solution whereby self-government units at various levels are responsible for governing and financing this part of social services. Another important part of public expenditure was social assistance expenditure. Their share in the budget expenditures of self-government units was also relatively stable, reaching the level of approx. 14.0%-15.0% and is the result of adopted systemic division of the competences between government agencies and self-government units. The empirical results are presented in Table 1.

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<td>Healthcare</td>
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One of the most relevant challenges in the decision-making process concerning started investment projects by local government authorities is the rationality of spending public funds. At the stage of preparation of development plans or investment programs we should therefore perfect the methods of analysis concerning the economic efficiency of particular investment projects, but also the impact of a particular project on the functioning of the local economy (Fuguit, Wilcox, 1999, pp. 38-42). Services of general interest and social services are usually characterized by low price flexibility and an income of demand, which means that both changes taking place on the part of prices and income have little effect on changes in the demand, thus on the level of demand. The phenomenon of low flexibility of demand in this area of services has its specific effects on the whole process of services provision (Stiglitz, 1983, pp. 17-41). In addition, some public services, especially social services, are provided free of charge, which means that their effectiveness cannot be assessed only by using instruments of financial analysis (Jarosiński, 2003, p. 91). Similarly, the investments made in order to increase the fixed assets of serving provision of the aforementioned services should be, to a larger extent, evaluated with the use of tools allowing measurement of not only the financial effects, but also the impact on the condition of natural environment and social effects, which shapes the future attractiveness of the areas of a given territorial unit as a place of residence and development of local entrepreneurship.

Despite a positive situation observed in the previous periods with regard to capacity of generating funds allocated on investment projects, more attention should be paid to the issues of participation of external capital in financing investment expenses, as well as the issues of growth in the public debt, being factors that indicate a presence of structural mismatch of base of budgetary incomes to actually identified ones in new conditions of needs of social services of local communities. Taking into consideration the anticipated limitations of the availability of external investment capital of non-returnable character, in the budget economy of a given local government unit there is an important element which is to maintain the balance of the budget and a safe level of indebtedness (Leithe, Joseph, 1991, pp. 71-87). In the view of an insufficient level of social and technical infrastructure still present in numerous local government units in Poland, and the phenomenon related to this insufficiency, namely expectations with regard to faster satisfaction of collective social needs, many units undertake the implementation of capital-absorbing investments in tangible assets. The excessive level of debt and long-term costs of incurred debt associated with it may significantly block or reduce the capacity of a given unit to make new investment projects. These problems appeared in Poland quite commonly in the past. In the period of transition, it was possible to rebuild the structures of the state and society and to direct socio-economic processes to the development path. Numerous difficulties in the functioning of the state and provision of services within the public sector are still present in poor countries. In broader context, in many poor countries of the world development dilemmas are still waiting for effective solutions.

As it has been stated, in the conditions of market economy, the social and economic development is a result of enterprising tasks implemented in the companies operating on the open market. We can formulate the thesis that a need for interaction of public sector and private sector entities results from the fact that local government units are responsible only for a small scope of tasks, including mainly public ones (Jarosinski, Opalka, 2015, pp. 11-14). It is worth indicating the growing importance of dynamically increasing groups of participants of development processes on a local scale - the cooperation of local government with NGOs with regard to services provision and social investments. These organisations, which are regarded as part of the sector of non-profit organizations and constituting at the same time facilities of social economy, may be considered as an important and still developing group of participants of social and economic processes in Poland, and gradually acquiring a significant part of social tasks, which have traditionally been the state’s domain.
Conclusions

According to the results of the conducted analysis we can state that the role of entities and the public sector entities in the processes of social and economic development is undoubtedly significant and, as it results from a survey, it grew in the years 2006-2016. The self-government units are still responsible for shaping the development phenomena. The role remains limited, while the centre of gravity of economic effects was transferred to the real sphere and to the private sector. The economic independence of local government units was weakened due to the fact that local governments became significantly dependent on external both return and non-returnable sources of financing. In particular, the refundable sources of financing meant for achievement of investment goals have a long-term dimension. The decisions-making processes in many cases may have long-term consequences, exceeding the term of office of a local government authorities. Despite the existing guarantee of decision continuity in the public administration, it is worth highlighting the importance of direct liability for any potential effects of undertaken actions that may negatively affect the budget situation in the future periods.

The conducted analysis shows that the responsibility for the decisions on development and their future economic and social results belong to the most significant in social and economic sense. They are also the most difficult elements of participation of entities of the public sector in the economy at the local level and in the process of shaping and stimulating its development. Among many challenges that are still valid, we must enumerate proper assessment of the needs of the social services, the improvement in processes of preparation of investment projects, including taking into account all the relevant instruments of planning and evaluation of the material and financial scope of the projects, as well as the responsibility of a local government manifesting itself in the implementation of investment projects, describing comprehensively all the spheres of functioning of a given unit.

Taking into consideration all the past experiences related to the functioning of self-government units in Poland it should be stated that these entities are responsible for a considerable scope of delivering process of public services, including social services, that often involve undertaking capital-absorbing investments. In this context there are serious restrictions consisting in mismatching the scope of measures and the scope of tasks. The consequence of this mismatching is the search of local government units for the source of extra-budgetary character, including mainly sources of returnable nature. However, it may constitute a limitation in future possibilities of development financing. Coordination of social services is still a complex process. These services have many characteristic features, for example: high demand for investment capital and high operating costs. A distinctive feature of social services is gratuitousness or a partial charge. In practice it means that all costs related to the provision of services must be financed from the public financial resources.

References


Public Sector and Budgetary Economy in Transition in Poland in a New Context of Development Economics

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Abstract
The subject of the paper is to present selected problems of the budgetary economy of enterprises and organizational units of the public sector. The main focus is to explore the relations between the principles of the budgetary economy of the public sector units against assumptions of new concepts of economic development. This study refers also to the idea of development economics because the systemic transition towards the market economy in Poland required reconstruction of the economy and the creation of new political, organizational and social structures. In the presented study there were applied analytical methods relating to the empirical data and also analytical methods related to the finances of the public sector. Research methods referred to the theoretical analysis of literature and empirical analysis of the relations between phenomena occurring in the real economy and in the public sector. Preliminary studies indicated that it was not possible to conduct economic policies and maximize tax revenue, particularly by escalating tax burden. Budgetary economy should therefore be conducted according to the principles of rationality and efficiency of resource use. The increase of the budgetary revenues of these group of public sector units must lead to negative consequences, and in particular to increase of the range of the shadow economy.

Keywords: budgetary economy, local and regional development, public finances, taxation.

Introduction
The transition period in Poland brought far-reaching systemic changes, focused on versatile changes in the functioning of the state, economy and society. On the one hand, a number of reforms was initiated, aimed at democratization of public life, and on the other hand, the process of changes in the economy's systemic character started. Among these changes, the most important issue were problems related to the reconstruction of elites which could effectively implement the said systemic reforms. Switching the economy to the market rules involved not only determining the new functional mechanisms of economic entities, but was also connected with the establishment of a new social consensus which was the biggest challenge; reforms brought about a number of negative phenomena which, for a part of the society, were not understandable and led to deterioration in the society's living standards.

The beginning of social and economic reforms were also related to the public sector entities and organizational units. In new economic conditions, entities being a part of the public sector, due to the special character and many differences of technical, organizational, spatial as well as financial nature required identification of a new functioning framework and development of adequate management methods, taking account of the special character of public service provision process. One of the most important features of public entities’ and units’ activities is provision of wide range of public services. Such a process has a long-term character of activity. A long-term character results from the need for the sector entities to fulfil the obligations established in legal norms, which clearly constituted the material scope of tasks, principles for their implementation as well as principles of organization and financing of these tasks. The long-term or strategic scope of goals to be met by local government units of various levels seems to be most vital and, at the same time, most difficult problematic scope. Long-term, or rather unlimited character of local government units’ activities means that proper performance of tasks and achievement of goals involves highlighting a considerable number of variables which arise both during the current activities as well as in the course of formulating future goals, including new investment projects on local and regional levels.
The development processes remain a main problem of public entities and also of the enterprises functioning in the real economy. It means that it is necessary to combine and correlate individual goals of inhabitants, economic goals of entities functioning in market economy conditions, social goals of the state and goals of other units functioning in the society. An important problem of long-term perspective on development processes is uncertainty as to the events for future periods and difficulty related to expectations or forecasting of phenomena which are always burdened with risk elements affecting possible achievement of the set goals. It is particularly important to make a reference to the future budgetary income of the public sector entities and units, which in the long term perspective, is customarily connected with financing of the investment and indebtedness service, if a given unit is liable for past periods.

The important subject of the study was to present the selected economy problems of organizational units in the public sector, in particular to examine relations between principles of generating revenue for budgets concerning the said units as part of the optimum tax concept. The main analytical problem is the issue of gathering public income and generating revenues of organizational entities and units in the public sector on the basis of the existing tax system. Responsibility for the implementation of long-term sustainable budget economy is connected with the provision of broadly understood public services at the state and at the local and regional level. It is necessary to pay attention to the problem connected with a long-term maximization of budgetary incomes and therefore, with the possibility of tax burdens growth. Supporting local and regional development can not ignore the main principles of the concept of development economics. The economy of development puts the main emphasis on seeking ways to improve the economic and social situation in poor and developing countries, bearing in mind the evolutionary changes in theoretical approaches to the development. It is therefore proposed to use a wider recognition of the concept of development economics, which in some areas may also have a positive influence on the processes in Poland. This concerns the allocation of own public resources and the EU public resources provided to Poland in the form of support. It is therefore necessary to expect and strive for the best use of resources and to follow the principles of optimization in economic decision-making.

Condition of the budgetary economy and the regional and local development

In the market economy conditions it is not possible to implement a social and economic policies which could be expressed by the rapid growth of budgetary incomes, in particular through the increasing of tax burdens of local and regional communities. Development scenario connected to the maximization of tax incomes could not be accepted due to the possibility to distort balance between incomes in the private sector and personal incomes of citizens in the market economy conditions (Mirrlees, 2006, pp. 23-35). Social expectations are oriented rather towards the growth in importance and growth in benefits in the private sector. However, an important question still remains: what relations should be shaped in the future to make it possible to assume that the subject scope and streams of income in the public sector aim at socially acceptable values, that the state budgetary income in the public sector is connected with tasks and financial needs for these purposes, as well as that the tax burden can aim at optimum values (Boadway, 2012, pp. 185-202).

The budgetary economy of the public sector entities and organisational units should be carried out according to the principles of rational and effective use of possessed resources. Such an approach enables to achieve relatively better results, maintaining the present volume of budgetary income. Maximization of budgetary income of above units in the public sector can lead to negative phenomena, in particular to negation of implemented economic programs, aversion to take risk, drop in entrepreneurship as well as to avoidance of taxation and a shift to the grey market. Optimal taxation can be understood as seeking a level of taxes which would ensure an appropriate level of income of budget entities in the public sector and, at the same time, would not cause negative effects on the part of household budgets as well as negative effects on the economy (Tuomala, 2016, pp.1-14). Searching for an optimum taxation should be a generally adopted principle leading to improvement in the effective utilization of public resources and to a greater surplus in the real economy which could be used for development purposes (Stiglitz, 2010, pp. 11-28). An alternative outlook on the problems of effective use of public resources and budget economy of organizational units in the public sector is to draw the attention to management efficiency in the public sector which directly involves better use of possessed resources and, as a consequence, may lead to the reduction of the pressure on the growth in budgetary income and demand for the external funds of refundable character justified by the need to search for sources of financing for increasing tasks, including especially investment tasks.

In the whole economy, including the public sector with local government units, the taxation problem plays a key role. A normal trend is to seek methods leading to the improvement in the income situation of the units which, under such direction of activities, look for possibilities to strengthen their economic and social position. It seems that such direction can be considered completely justified, the more so that units in the public sector, including also local government units at the
regional and local level, are still undergoing implementation of their scheduled development paths which involves the need to provide proper financing sources. Practice and conducted research proved that the main barrier for the fulfilment of many tasks of local government units were insufficient resources of own budgetary funds. Such units very often turn to other external sources of financing their tasks including, both those of refundable character, but also such of non-refundable character. It is also possible to observe adverse effects concerning the excessive use of credits or loans during financing of tasks, including investments. As a consequence of use of the described solutions, we can identify a new problem related to excessive deficit, both at the state budget level and at the level of the abovementioned local government units at various levels.

One of the basic methods to solve the problem of budget funds’ deficiency could be a growth in taxation rate which could, over a short time, result in a clear improvement in the income situation. The question is if such reference to taxpayers’ income may effectively improve the budgetary situation in the long term, what is important during the implementation of various development investments. It seems that the question formulated in this way can be answered affirmatively. A growth in the tax rate may result in a short-term income effect, however, in the long term, the maintenance of stable higher budgetary income is not possible, for various reasons. In the longer period, a clear drop in budgetary income is to be expected, which would be caused by economic and non-economic factors.

The problem of high tax burden can be analysed in theoretical terms, referring to the theory proposed by A. Laffer. According to the cited study, a growth in tax burdens can lead to growth in income only to a limited extent. In the first phase, a growth in a tax rate actually leads to a growth of budgetary income both for the state budget and for the budgets of self-government units. Starting from a certain point, however, despite further growth of tax rates, budgetary incomes will not be growing. In such situation it is possible that the tax incomes will stay at the same level or even will absolutely drop. The course of this phenomena has been illustrated graphically in Figure 1.

Figure 1: Tax rates and the tax revenues, the Laffer curve


The course of the Laffer’s curve shows that the initial growth in income taxation rate leads to a systematic growth in tax revenue which in point \( t_k \) achieves their maximum, namely the condition in which tax income are the largest compared to all possible combinations of the tax rate amount. In the range \( t_0-t_k \) we can observe a growth in tax revenues. Starting from point \( t_k \), regardless of the further growth in tax rate amount, the growth in tax revenue is no longer observed. Next we can see a reverse phenomenon, the tax revenues upon exceeding \( t_k \) tax rate point are gradually reduced. This phenomenon shows the behaviour of taxpayers in the event of continuous growth in tax rates. The normal reaction of taxpayers is the aversion towards making efforts to achieve higher revenues. It results simultaneously in limitation of economic activity and entrepreneurship. A potential and particularly unfavourable problem can be here a moving of business activities to the "grey market". It could lead to the reduction in the effective individual tax rates of a particular entrepreneur. Such a situation may result in shaping and popularizing fixed negative behaviours of taxpayers, and they may not respond to system changes with regard to taxation.
Concerning the correctness of tax effectiveness implied on the ground of analysis of the theory proposed by Laffer, it is also necessary to refer to main problem associated with tax division of surplus and further allocation of public goods. The question is whether, in a future perspective, is it possible to increase budgetary income of the state and local government units as a systematic growth, relating to the future needs and social expectations. The question also is whether it is possible to seek adaptation of the budgetary income size which would be conducted through the growth in tax burdens, even if it is connected with the growth of the economic basis. Therefore, is it possible in the market economy, to create such a proportion of division of total economic surplus in the society, where the significant position would be taken by subsequent expenses related to financing of various public tasks.

Various unexpected changes of tax systems may cause major risks for the economic development and social sphere, especially in the situation of a need to look for maximization of tax revenue. These are currently observed and it seems that through the growth in tax burdens it will be possible to balance cash income streams and expenses implemented under budgetary economy at the state and self-government units level. Difficulties in incomes and expenses balancing become the first symptom of irregularities in the economy. In the long period it must lead to broader negative phenomena. They may appear as growth in budgetary deficit and problems related to the excessive debt and difficulties with the indebtedness service can appear (Carlberg, 1988, pp. 45-62). As a result, a number of negative external effects may appear in the economy, potentially leading to the reduction in investment value. These effects can emerge relatively quickly in the condition of open economy. Such conditions has been appeared within the structures of the European Union and also in economic organizations having much broader, even global dimension.

The concept of optimal taxation with respect to selected public and private sector taxes is in essence a proposal to make more efficient use of the resources available and to reduce excessive fiscal burden. It is also fully compatible with the concept of development economics, where in certain situations entrepreneurs and individuals are not able to accept high tax rates level created in a systemic form. According to the concept of development economics, it is advisable to look for alternative solutions that would allow higher efficiency of the allocation of resources while reducing tax burdens. It is also important that, according to the concept of development economics, it is possible to create new stable economic conditions.

Periodically we can accept excessive tax burdens which would be justified solely by the need to implement development investments in the public sphere over a relatively short period of time. This complex problem could be solved through determination of such tax burdens which, on the one hand, would be accepted by the society and economy and on the other hand, would satisfy demands related to financing of development projects. It would be possible to seek an optimum tax level. Taking into consideration funds disbursed for the implementation of public investments, it would be necessary to determine methods and to monitor the quality and the scope of services and goods delivered to the society under the consensus in the sphere of tax burdens. This solution should be referred to the tasks assigned to the central administration and to the tasks assigned to the units at the regional and local level.

The complexity of financing of public tasks in the market economy conditions needs the best solutions possible in the tax sphere to be implemented. It is a continuous process, which should be cyclically verified towards long term efficacy of used solutions. The optimum taxation, considering many years of experience, is a relatively new phenomenon. The mismatch of the tax rates to the possibilities of economy and society and, at the same time, fast growth in the public sphere expenditures are becoming the reason why problems of macroeconomic character are observed. It is reflected in the excessive budget deficit appearing not only in poorly developed countries, but also in the largest economies of the world (Messere, de Kam, Heady, 2003, pp. 47-51). Looking for the optimum taxation has become a new direction in research, along with seeking fair goods redistribution. The problem of a mismatch between the tax system and the effects related to it was emphasized by N. G. Mankiw, M. Ch. Weinzierl and D. F. Yagan, with a conclusion that a well-built tax system should guarantee maximization of social welfare. Social welfare would be achieved both within personal income, enterprises’ income, but also under the provision of public services provided by entities and organisational units in the public sector, namely under income originating from taxes. This issue seems logical, covering even elements of choosing the best solutions possible (Mankiw, Weinzierl, Yagan, 2009, pp. 147-174, Heady, 1993, pp. 17-41).

Tax rates in the market economy still remain an important sphere of activity of private entities, and of various entities and organizational units of public sector. Tax rates and tax revenues are instruments of development of effective demand on the market, as well as an important instrument of the financing of projects in the framework of various forms of public intervention. It is believed that these financial flows are also by now an important field of activity in the conditions of the social market economy in Poland.
Empirical study on budgetary economy of self-government units

In practise, we can observe various conditions concerning construction of the tax system, ensuring fulfilment of social welfare maximization. Growth in the wealth level must be developed by new investments, both in the sector of enterprises of the real sphere as well as in the sphere of entities and organizational units in the public sector. New investments require to ensure within the tax system sufficient funds for their financing.

Investments in the public sector are usually realized in the long-term perspective. Such investments always are connected with the removal of development barriers in changing social and economic conditions or increasing of public services quality. Especially important role is played by self-government units as the entities responsible for the creation of conditions and supporting development at the local and regional level (Ruśkowski, Salachna, 2007, pp. 98-102). Thus the scope of responsibility assigned to local government units and their possibility of supporting development processes is considerable. However, it is limited and focuses on cases of public nature, excluding the possibilities to conduct business activities in various forms typical for enterprises operating on the open market. The provision of public services is also important for the support of widely understood economic processes and for the creation of good business conditions for entities belonging to the private sector.

The activity of self-government units must be focused also on correctly conducted long-term budget management and on implementation of recognized and hierarchized development objectives. It needs to provide sources of financing of the goals in the current perspective, as well as in the strategic perspective. In case of self-government units, the scale of the problem is extensive and includes a number of issues related to new investment projects (Siuda, 2009, pp. 136-144, Jarosiński, Opalka, 2014, pp. 13-28).

At this point, it is worth noticing the changes in budget income situation of local government units, with changes in the situation of population's income which occurred in Poland in the years 2004-2015. The comparison aims at analysing changes which took place in Poland in the market economy conditions it personal income per capita as well as in budgetary income of communes, districts and local provinces. Empirical data gathered in Table 1 show that personal income per capita, in the years 2004-2015 grew by 87.8%, whereas at the same time, self-government units’ budgetary income per capita grew by 117.5%. However, it is limited and focuses on cases of public nature, excluding the possibilities to conduct business activities in various forms typical for enterprises operating on the open market. Therefore, it is important for the support of widely understood economic processes and for the creation of good business conditions for entities belonging to the private sector.

Table 1: Budgetary revenues of gminas, poviat and regions per capita vs. personal income in Poland in the years 2004-2015 in thous. PLN

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<tr>
<td>Personal income per capita</td>
<td>8.88</td>
<td>9.12</td>
<td>9.96</td>
<td>11.16</td>
<td>12.6</td>
<td>13.32</td>
<td>14.28</td>
<td>14.76</td>
<td>15.36</td>
<td>15.6</td>
<td>16.08</td>
<td>16.68</td>
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<tr>
<td>Budgetary revenues of gminas per capita</td>
<td>1.89</td>
<td>2.15</td>
<td>2.43</td>
<td>2.73</td>
<td>2.93</td>
<td>3.02</td>
<td>3.28</td>
<td>3.44</td>
<td>3.62</td>
<td>3.75</td>
<td>3.97</td>
<td>4.11</td>
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<tr>
<td>Budgetary revenues of poviat per capita</td>
<td>0.49</td>
<td>0.54</td>
<td>0.59</td>
<td>0.64</td>
<td>0.71</td>
<td>0.79</td>
<td>0.87</td>
<td>0.91</td>
<td>0.87</td>
<td>0.89</td>
<td>0.92</td>
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<tr>
<td>Budgetary revenues of regions per capita</td>
<td>0.18</td>
<td>0.19</td>
<td>0.25</td>
<td>0.30</td>
<td>0.33</td>
<td>0.51</td>
<td>0.37</td>
<td>0.39</td>
<td>0.40</td>
<td>0.42</td>
<td>0.46</td>
<td>0.44</td>
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<tr>
<td>Total budgetary revenues of self-government units per capita</td>
<td>2.56</td>
<td>2.88</td>
<td>3.27</td>
<td>3.66</td>
<td>3.98</td>
<td>4.32</td>
<td>4.51</td>
<td>4.74</td>
<td>4.89</td>
<td>5.06</td>
<td>5.35</td>
<td>5.48</td>
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It should be noted that, apart from the growth rate of budgetary income in the abovementioned groups, we have noticed significant differences in sizes of these incomes. In 2004 personal income of population per capita was higher by 369.8% than the budgetary income of communes per capita. In 2015 the difference between compared income categories was lower and amounted to 305.8%. These numbers indicate that in the market economy conditions in Poland, the income...
situation of natural persons improved and in comparison with budgetary incomes of communes per capita, was significant high. Therefore it should be remembered that, according to the tax system adopted in Poland, income redistribution was also oriented towards achieving objectives and tasks of the local government units as a part of the public sector. A slightly different situation was observed when it comes to budgetary income of districts and provinces per capita. A graphic illustration of changes in the level of personal income per capita comparing to total budgetary revenues of gminas per capita and comparing to total budgetary revenues of all levels of self-government units per capita are presented in Figure 2 and Figure 3.

Figure 2: Personal income and total budgetary revenues of gminas per capita in Poland in the years 2004-2015 in thous. PLN

Source: own based on data in Table 1.

Throughout the whole discussed period, the level of budgetary income of districts per capita as well as the level of budgetary income of provinces per capita was lower than the level of personal income per capita. Over that time, we observed the growth in differences in the level of income. When it comes to the income situation of local government units per capita in comparison with the income situation of inhabitants, in the case of local government units (gminas and poviats), the discussed income category grew by 113.3% with the comparison to personal income growth per capita (87.8%).

Under conditions of the market economy, we can expect that the income situation of population would undergo faster improvement than the income situation of self-government units belonging to the public finance sector. The collected data show, that we were dealing with a reverse trend in the past, the incomes of self-government units grew faster. It resulted from the influence of two groups of factors. The first one covered applicable principles of gathering budgetary incomes of the state as well as the redistribution system of these resources. The second covered low level of social and technical infrastructure development in Poland and the related development needs. The only way to reduce the differences and mitigate disproportions were new investments undertaken during the examined period. Therefore, it can be assumed that the tax system was logically subordinated to higher investment needs which occurred in the public finance sector.

Figure 3: Personal income and budgetary revenues of self-government units per capita in Poland in the years 2004-2015 in thous. PLN
The collected data prove that we have been dealing with clear fiscal orientation of the state which should have temporary character. It should be stated that the removal of the discussed development barriers will create real grounds to mitigate tax burdens and will open a way towards the construction of an optimum tax system, where proportions of income redistribution will be slightly different and more inclined towards personal needs of inhabitants. The current situation may be considered as a temporary condition which should evolve towards mitigation of tax burdens and a gradual withdrawal from the maximization of budgetary income at the level of state and at the level of self-government units.

It is necessary to take into consideration the economic and social preferences related to the elimination of the abovementioned development barriers which assumed the form of low level and low quality of social and technical infrastructure. The change in this condition may cause permanent, long term and positive effects to reduce the demand for investment capital in the public sector. The obtained effects may contribute to the maintenance of development impulses in the long term and create new possibilities of income redistribution. Therefore, it can be assumed that with regard to budget economy of local government units, significant changes may occur, consisting in the reversal of the trend observed in the years 2004-2015, involving maximization of budgetary income for the reduction of tax burdens and seeking an optimum tax system.

We can assume that in the future the budgetary incomes of self-government units may be stabilized, slightly grow or, in some cases, even reduce. Such scenarios may be the result of the evolution of the scope of tasks and changes in the needs in the area of public services. It also may be the result of the stabilization of budget economy, improved effectiveness of resource allocation and increased management quality, both in the current and the strategic perspective. Therefore, we can make a hypothetic assumption that the target model of optimum taxation in Poland will create conditions to change the tax revenue redistribution. As a part of the study a simulation was conducted consisting in verification of the existing system of generating revenue of budgets of self-government units. As a result, hypothetic cash flows were adopted which, upon aggregation, gave final results of budgetary income which may be achieved after 2019. Expected changes in relation to the situation observed in the period of 2004-2015 are presented in Figure 4.

Figure 4: Personal income and total budgetary revenues of self-government units per capita projection in Poland in the years 2004-2024. Changes in the level of budget revenues to the optimization of the tax system in thous. PLN
The prospective analysis related to personal income per capita in Poland as well as total budgetary income of self-government units shows that we can expect the improvement in the income situation of population per capita in the period until 2024. It will take place with the simultaneous reduction in budgetary income of self-government units per capita. We should remember that the above considerations are of hypothetical and general character. Expected changes in the level of income in Poland can appear only after the planned reform of the tax system. Such changes require the implementation of a complex legislative process, assuming that that tax burden optimization will be approved by various business, social and political environments.

**Conclusions**

In the examined period, financing of public tasks in Poland was set in different conditions and consisted in various social and economic changes. Firstly, it is necessary to point that in the period of 2004-2015 broad investment program in public finance sector was implemented. For this purpose many sources of financing of new investment were implemented. New financing sources became available as a result of the system transformation in Poland, as well as a result integration processes in Europe, in which Poland also took part. Except own sources, which usually constitute the main basis for financing of investments, significant external funds of refundable and non-refundable character were introduced to the public sector. Such conditions appeared especially after 2004 when Poland accessed European Union. This fact made it possible to activate stable support mechanism for financing of investments in the public sector in the period of 2004-2015. At that time it was possible to increase quantitative and qualitative effects of new investments. It should be pointed out that good financial situation will not be permanent in the future prospect. Better social and economic situation in Poland will lead to reducing of the financial support of the EU. It is necessary to remember that in the long term new development investments will have to be financed only on the basis of own budgetary sources or on the basis of the financial means existing on the open financial market.

It is necessary to consider the need to depart from the maximization of budgetary incomes in self-government units resulting from possible future limitation of the demand for financial resources in the public sector. This phenomenon may be associated with the more effective use of own resources, changes in tax system as well as moving towards the limitation of budgetary income as a result of planned tax reforms. There is no doubt that in the long term according to concept of development economics, the countries covered by the European Union's support program, including Poland, will have to work out and consolidate their own development path in the form of sustainable development. Taking into account a wider context of future development, introduction of such changes may be difficult. These changes will depend on a number of different factors of an economic, political, organizational and legal nature and will depend also on many social determinants. It is also a question of examining the changes of tax system which would allow optimization of a tax system and indicate actions aimed at improving effective use of public resources. The presented scenarios of a possible course of phenomena in the future refer to possibilities of stabilization or even reduction in the demand for budgetary resources under conditions when the existing barriers and development limitations has been removed.
References


Spatial Variability of Soil Aggregate Stability in a Disturbed River Watershed

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Abstract
Analysis of spatial distribution of soil properties like soil aggregate stability presents an important outset for precision agriculture. The study area was classified into different landscape units according to physiographic features namely: mountains, plateaus, uplands, valleys, pen plains, alluvial plains, lacustrine plains and hills and maps were drawn. The objectives of this study were to evaluate the effects of landscape and land use interaction on the spatial variability of aggregate stability. The variability of aggregate stability exhibited spatial dependence (SDP) which helped in the generation of a spatial dependence index (SDI) that was described using semivariogram models. SPD Gaussian (%) ≤ 25% gave a weak spatial dependence, moderate spatial dependence was given by 25% < SDP (%) ≤ 75% and strong spatial dependence by SDP (%) > 75%, while SDI Gaussian (%) ≤ 25% gave a strong spatial dependence index while moderate spatial dependence index was indicated by 25% < SDI (%) ≤ 75%, and weak spatial dependence index SDI (%) > 75%. Mean Weight Diameters (MWD) of 0.25 – 0.45 represented unstable soils mostly found in wetlands occurring in valleys, mountains, plains, and depressions in hills, 0.55 – 0.62 represented moderately stable soils mostly in agricultural and grassland areas which include plateaus, uplands, and plains, while 0.62 – 0.92 represented stable and very stable soils being found in forested areas, mountains and hills. Various interpolation (kriging) techniques capitalized on the spatial correlation between observations to predict attribute values at unsampled locations using information related to one or several attributes that helped in the construction of an aggregate stability prediction map using Empirical Bayesian kriging (EBK) technique.

Keywords: landscape, Spatial Variability, semivariogram, Geostatistics, aggregate stability, kriging

1. Introduction
Spatial distribution of soil properties, techniques such as classical statistics and Geostatistics have been widely applied (Webster and .Oliver, 1990, Wang et al 2009). Geostatistics provides the basis for the interpolation and interpretation of the spatial variability of soil properties (Webster, 1985, Pohlmann, 1993, Cambardella et al, 1994). Information on the spatial variability of soil properties leads to better management decisions aimed at correcting problems and at least maintaining productivity and sustainability of the soils and thus increasing the precision of farming practices (Schimel et al, 2000, Ozgöz, 2009). A better understanding of the spatial variability of soil properties would enable refining agricultural management practices by identifying sites where remediation and management are needed. This promotes sustainable soil and land use and also provides a valuable base against which subsequent future studies can be proposed (Cambardella et al, 1994).

Aggregate stability has been studied extensively since the early 19th century (Yoder, 1936). This sustained interest shows that aggregate stability plays a central role in the behavior of soils and that its role is still not clearly understood. However opportunities arising from spatial dependence of soil properties can be exploited to explain the role of aggregate stability in the behavior of soils. So far a few studies have shown that spatial dependence of soil properties influence weed distribution (Gaston et al., 2001), crop yield (Cassel et al., 2000) and can explain the spatially variable safe sites concept (Zanin et al., 1998).
Several authors have studied the spatial distribution of soil properties like particle size, organic matter, pH and soil microbial activity at different scales ranging from a few meters (Gajem et al., 1981) to several kilometers (Ovalles and Collins, 1988). Among the various soil properties hydraulic conductivity ($K_s$) is reported to have the highest statistical variability (Bigger and Nielsen, 1976). It is evident now that spatial variability of soil properties are scale dependent especially those related to water transport in the soils (Iqbal et al., 2005).

Indeed within the last two decades spatial variability has been studied using technologies such as remote sensing (Viscarra-Rossell and McBratney, 1997) and geographical information systems (Mulla and Schepers, 1997). These technologies have been developed to help land users better manage land resources utilizing spatially varying prescription intensities (Stafford, 1997; Cassel et al., 2000). Soil management practices associated with various land uses may modify the soil behavior for example through additions or withdrawal of organic matter and compaction thereby profoundly altering spatial variability of aggregate stability. Stutter et al., (2004) studied the spatial variability and variance structure of cation exchange chemistry in a granitic, hither moorland site in Northwest Scotland. Their results showed strongly significant short-range vertical and lateral variability. Soil properties vary spatially from a field to a larger regional scale affected by both intrinsic (soil forming factors) and extrinsic factors (soil management practices, fertilization, and crop rotation) (Cambardella and Karlen, 1999). The variation is a gradual change in soil properties as a function of landforms, geomorphic elements, soil forming factors and soil management (Buol et al., 1997). The variation of soil properties should be monitored and quantified to understand the effects of land use and management systems on soils. Geostatistical methods like kriging have been used successfully for predicting spatial variability of soil properties (Trangmar et al.1985; Gaston et al., 2001; Cambardella et al., 1994; Saldana et al., 1998; Zebarth et al., 2002; Lark, 2002; Dercon et al., 2003).

Kriging uses a semivariogram which is a function of the distance and direction separating two locations—to quantify the spatial dependence in the data. A semivariogram is constructed by calculating half the average squared difference of the values of all the pairs of measurements at locations separated by a given distance $h$. The semivariogram is plotted on the $y$ axis against the separation distance $h$. This semivariogram model is then used to define the weights that determine the contribution of each observed data point to the prediction of new values at unsampled locations. There are some statistical assumptions behind kriging. The main assumption is stationarity (spatial homogeneity). If data is stationary, the data mean and the semivariogram are the same at all locations in the data extent. If this assumption is held, just a few kriging model parameters have to be estimated from the data. Indeed it can be concluded from the literature that most soil properties have short-range spatial structure extending only tens of meters and that long-range spatial structure is doubtful (Campbell, 1978; Trangmar et al., 1986; Gaston et al., 2001; Iqbal et al., 2005).

The study sought to establish that land use and landscape interactions had influence on the spatial variability of aggregate stability within the watershed.

2.0 Materials and Methods

2.1 Location and environmental conditions of the study area

The Middle river Njoro catchment is located in Nakuru County within the Kenyan part of the East African Rift System. It lies between longitudes 35˚ 05'E and 36˚ 05'E, and latitudes 0˚ 15'S and 0˚ 25'S. The catchment covers about 8,200 ha and is located about 200km North West of Nairobi in Nakuru County. The catchments lie between altitudes 1720m above sea level (asl) and 3000m asl (Figure 1). The sub watershed has slopes in the range of less than 2% to more than 30 %.( Figure 2). The river has its source from Mau escarpment and drains into Lake Nakuru (Mainuri and Owino, 2014).
2.2 Methods

2.2.1 Soil Mapping

The study area was classified into six (6) different landscape units according to physiographic features namely: mountains, plateaus, uplands, valleys, peneplains, alluvial plains, lacustrine plains and hills (Figure 3).

2.2.2 Determination of Aggregate Stability

Soil aggregate analysis was done following the wet sieving technique of Yoder 1936 with the help of a nest of six sieves (5, 2, 1, 0.5, 0.25, and 0.1 mm). Soil aggregates (>5.0–8.0 mm) were spread on the top sieve and soaked with salt-free water twice at the interval of 5 min. The nest of sieves were then submerged under water and oscillated at 35 cycles/minutes. The aggregates on each sieve was collected, oven-dried, and weighed. The aggregates were treated with H2O2 and HCl and passed through the same sieve and the weights of non-aggregated primary particles were taken after oven drying. Soil aggregate stability was expressed in terms of mean weight diameter (MWD) in millimeters, defined as the sum of the product of the mean diameter, Xi, and the total sample weight, Wi, of each size fraction (MWD = Xi Wi).

2.2.3 Mapping Aggregate Stability

Analysis of spatial variability of soil aggregate stability within the Middle River Njoro watershed was done using two geostatistical methods: (i) investigating spatial autocorrelation in the datasets using a semivariogram/covariance cloud (Cressie, 1985; Cressie, 1988), and (ii) prediction of attribute values at unsampled locations using a generalized linear regression technique called Empirical Bayesian kriging. The structure of spatial variance between aggregate stability observations was derived from the sample semivariogram.
2.2.4 The Semivariogram

A spatial layer of the soil sampling sites with the respective soil aggregate stability was composed using ArcGIS software. The spatial sampling site layer was input as the source of data and the soil aggregate stability as the data field. To explore and quantify the spatial autocorrelation of the soil sampling sites, geostatistical wizard functionality within ArcGIS was used (Isaaks et. al. 1989; Journel and Huijbregts, 1978; Stein, 1999). Empirical Bayesian Kriging linear regression technique was used to generate a soil aggregate stability prediction map.

3.0 Results and Discussions

3.1: Soil Mapping

The soils in the catchments were distinguished on the basis of Physiographic, parent material/ geology and soil characteristics. Six major physiographic units, mountains, hills, plateaus, uplands, plains and valleys (Figure 3) were identified in the area. Mountains (Mo) and major scarps have slopes greater than 30% (Forests). The soils of this geomorphic unit are developed on volcanic ashes and other pyroclastic rocks of recent volcanoes with stable to very stable structures. Hills (Hie) and minor scarps (Forests) have slopes which are greater than 16% with stable structures. The soils of this geomorphic unit are developed on ashes and other pyroclastic rocks of recent volcanoes. The plateaus (PU) (Agriculture and grasslands) are undulating with slopes of between 5–8%. The soils are developed on ashes and other pyroclastic rocks of recent volcanoes with moderately stable structure. The uplands (UP) (agriculture, grasslands and minor forests) are undulating with slopes of between 5–8%. The soils which are moderately stable are developed on volcanic ashes and other pyroclastic rocks of recent volcanoes.

Figure 3: Soil Mapping Units

The plains (PL) (grasslands and agriculture) are flat to very gently undulating in relief with moderately stable structures and slopes of between 0–2%. The soils of this unit are well drained, deep to very deep. Soils of Valleys (VA) (grasslands, agriculture and wetlands) are well drained to imperfectly drained, moderately deep to deep and unstable. As observed from the results, the landscapes where most agricultural activities take place are dominated by soils that have structures that range from moderately stable to unstable making them quite susceptible to soil erosion.

3.2 Mapping Aggregate Stability Using Empirical Bayesian Kriging (EBK)

The selection of sampling sites was based on the physiographic units and sampling points for aggregate stability determination selected at random Figure 4.
The Empirical Bayesian Kriging (EBK) was used to build a valid kriging model due to its ability to interpolate and automate the most difficult aspects of building a valid model (Figure 5). Other kriging methods in Geostatistical Analysis require somebody to manually adjust parameters to receive accurate results, but EBK automatically calculates these parameters through a process of sub setting and simulations. Empirical Bayesian kriging also differs from other kriging methods because it accounts for the error introduced by estimating the underlying semivariogram. By not taking the uncertainty of semivariogram estimation into account, other kriging methods underestimate the standard errors of prediction. EBK differs from other kriging methods in Geostatistical Analyst by using an intrinsic random function as the kriging model. The variability of aggregate stability exhibited spatial dependence that was described using semivariogram models. The degree of spatial dependence for each variable was determined with geostatistical methods using semivariogram analysis and kriging.

The semivariogram for aggregate stability analysis consisted of three basic parameters which described the spatial structures \( \gamma(h) = C_0 + C \). \( C_0 \) represented the nugget effect, which was the local variation occurring at scales finer than the sampling interval, such as sampling error, fine-scale spatial variability, and measurement error; \( C_0 + C \) is the sill (total variance); and the distance at which semivariogram levels off at the sill which was called the range (beyond that distance the sampling variables were not correlated). The variability of aggregate stability exhibited spatial dependence that was
described using acceptable or licit semivariogram models which included Spherical, Exponential, Gaussian and Power models. Each semivariogram had advantages and disadvantages. When choosing a semivariogram therefore, the calculation time and the flexibility of the model (the ability to accurately accommodate a broad range of datasets) was taken into account. The spherical model (Figure 6A) is very fast but the least flexible and actually reaches the specified sill value, c, at the specified range, a. The exponential model (Figure 6B) offers a flexible transformation which is faster but the shape of the semivariogram is not flexible. It is slow compared to Power and spherical models. The Gaussian model (Figure 6C) approaches the sill asymptotically, with a representing the practical range which is the distance at which the semi variance reaches 95% of the sill value. The Gaussian model, with its parabolic behavior at the origin, represented the very smoothly varying properties of aggregate stability (However, using the Gaussian model alone without a nugget effect can lead to numerical instabilities in the kriging process.) The spherical and exponential models exhibited linear behavior at origin, which was appropriate for representing these properties which had a higher level of short-range variability. Models with a finite sill, like the Gaussian, exponential, and spherical, are referred to as transition models and have corresponding covariance functions. The power model (Figure 6D), however, does not reach a finite sill and does not have a corresponding covariance function.

The Gaussian model (Figure 6C) was selected for fitting the data onto the semivariogram as it had a Standard Mean which was most nearest to zero, the smallest root-mean-squared prediction error, the smallest difference between the Average Standard Error (ASE) and Root Mean Squared (RMS), and a Standardized Root Mean Squared (SRMS) prediction nearest to one as recommended by ESRI, 2007. The calculations leading to the choice of Gaussian Model is shown in Table 1.

<table>
<thead>
<tr>
<th>Model</th>
<th>Mean</th>
<th>Root-Mean-Squared [RMS]</th>
<th>Average Standard Error [ASE]</th>
<th>ASE-RMS</th>
<th>Mean Standardized</th>
<th>Root-Mean-Square Standardized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Circular</td>
<td>-0.6075</td>
<td>13.52</td>
<td>13.71</td>
<td>0.19</td>
<td>-0.03936</td>
<td>0.9925</td>
</tr>
<tr>
<td>Spherical</td>
<td>-0.4487</td>
<td>13.57</td>
<td>13.69</td>
<td>0.12</td>
<td>-0.02833</td>
<td>0.9976</td>
</tr>
<tr>
<td>Tetraspherical</td>
<td>-0.4333</td>
<td>13.62</td>
<td>13.74</td>
<td>0.12</td>
<td>-0.02732</td>
<td>0.9969</td>
</tr>
<tr>
<td>Pentaspherical</td>
<td>-0.434</td>
<td>13.89</td>
<td>13.62</td>
<td>-0.27</td>
<td>-0.02677</td>
<td>1.026</td>
</tr>
<tr>
<td>Gaussian</td>
<td>-0.4375</td>
<td>13.35</td>
<td>13.71</td>
<td>0.36</td>
<td>-0.02763</td>
<td>0.9812</td>
</tr>
<tr>
<td>Exponential</td>
<td>-0.434</td>
<td>13.89</td>
<td>13.62</td>
<td>-0.27</td>
<td>-0.02677</td>
<td>1.026</td>
</tr>
<tr>
<td>Rational Quadratic</td>
<td>-0.4303</td>
<td>13.87</td>
<td>13.81</td>
<td>-0.06</td>
<td>-0.02683</td>
<td>1.008</td>
</tr>
<tr>
<td>Hole Effect</td>
<td>-0.4674</td>
<td>13.45</td>
<td>14.05</td>
<td>0.6</td>
<td>-0.03032</td>
<td>0.9615</td>
</tr>
<tr>
<td>K-bessel</td>
<td>-0.1188</td>
<td>13.75</td>
<td>13.93</td>
<td>0.18</td>
<td>-0.004366</td>
<td>0.9917</td>
</tr>
<tr>
<td>J-Bessel</td>
<td>-0.152</td>
<td>13.42</td>
<td>14.18</td>
<td>0.76</td>
<td>-0.008349</td>
<td>0.9514</td>
</tr>
</tbody>
</table>

The spatial dependence in this Gaussian process can also be used in showing the patterns of ridges and valleys. The notion of spatial heterogeneity in current spatial statistics is only used to characterize local variance of spatial dependence or regression. The heterogeneity is power law like rather than Gaussian distribution like. With this broad perspective, both spatial dependence and heterogeneity depicted the true picture of the Earth’s surface. There are far more small things than large ones across all scales or globally, but things are more or less similar at one scale or locally. Empirical Bayesian kriging (EBK) offered the multiplicative skewing normal score transformation.

The new data was transformed and a new semivariogram model was simultaneously estimated from the simulated data. Predictions and prediction standard errors were made using weights and then back transformed with bias correction. When the data distribution is Gaussian, the best predictor is one that uses a linear combination of the nearby data values. For
other distributions, however, the best predictor is often nonlinear and, therefore, more complex. The data can be transformed to follow a Gaussian distribution. Then it is possible to accurately back transform kriging predictions to the original data scale, which can be done in ArcGIS Geostatistical Analyst. Classical kriging also assumes that the estimated semivariogram is the true semivariogram of the observed data. This means the data was generated from Gaussian distribution with the correlation structure defined by the estimated semivariogram (Figure 6C). This is a very strong assumption, and it rarely holds true in practice. Hence, action should be taken to make the statistical model more realistic.

Figure 6: Several Semivariogram models being compared to the Gaussian model.

Spatial modeling to generate empirical semivariogram was computed using the formula below:

\[
\gamma(h) = \frac{1}{2N(h)} \left\{ \sum_{i=1}^{N(h)} [Z(x_i + h) - Z(x_i)]^2 \right\}
\]

Where \( Z(x_i + h) \) and \( Z(x_i) \) are observation positions at positions \( x_i + h \) and \( x_i \), respectively, \( h \) is the distance between observations and \( N(h) \) denotes the number of pairs of observations separated by the same lag distance \( h \). Semivariogram (maximum distance \( h \)) = 0.5 MD* average \([(value \ at \ location \ i - value \ at \ location \ j)^2]\)

The semivariogram for aggregate stability analysis describes the spatial structures:
\[ \gamma(h) = C_0 + C. \]

\( C_0 \) = nugget effect (NE (%))

\( C_0 + C \) = the sill (total variance);

\( a \) = practical range

\[ \text{NE (\%)} = \left(\frac{C_0}{C_0 + C_1}\right) \times 100 \] in which \( C_0 \) is the nugget effect and \( C_1 \) is the contribution, both semivariogram parameters.

According to Cambardella et al. (1994), NE has the following classification: strong spatial dependence (NE (%) ≤ 25 %), moderate spatial dependence (25 % < NE (%) ≤ 75 %), and weak spatial dependence (NE (%) > 75 %).

The second traditional index of spatial dependence (SPD), presented in Biondi et al. (1994), is given by the expression:

\[ \text{SPD (\%)} = \left(\frac{C_0}{C_0 + C_1}\right) \times 100 \] in which \( C_0 \) is the nugget effect and \( C_1 \) is the contribution, both semivariogram parameters like the NE index. Adjusting the classification given by Cambardella et al. (1994), we have the following induced SPD classification: weak spatial dependence (SPD (%) ≤ 25 %), moderate spatial dependence (25 % < SPD (%) ≤ 75 %), and strong spatial dependence (SPD (%) > 75 %). We can observe that \( \text{NE (\%)} = 100\% - \text{SPD (\%)} \), that is, NE and SPD essentially provide the same information. Therefore, because of equivalence between the two indexes, in this article we will not regard the NE index as essentially different from the SPD index.

The spatial dependence index (SDI) is given by the following expression for Gaussian model.

\[ \text{SDI (Gaussian\%)} = 0.504 \times \left(\frac{C_0}{C_0 + C_1}\right) \times \left(\frac{a}{0.5MD}\right) \times 100 \] in which \( C_0 \) is the nugget effect, \( C_1 \) is the contribution, and \( a \) is the practical range, both semivariogram parameters like the NE and 0.5MD is half of the maximum distance (MD) between sampled points, given that in the cases in which the ratio \( a/0.5MD \) results in a value superior to 1, this ratio is then truncated into 1, in order to assume values only between zero and 1. In addition, the 0.5MD factor is inspired on practical recommendations for using pairs of points up to half of the largest sampling distance in order to estimate semi variances (Journel and Huijbregts, 2003; Olea, 2006). The constant 0.504 or 50.4% (for Gaussian semivariogram) is the value of the model factor (MF) of the model that expresses the strength of the spatial dependence that the model can reach.

A run of the data using EBK model derived the empirical semivariogram/covariance spatial dependence (SDP) model:

\[ \text{SDP} = 75.153 \times \text{Gaussian (8711.3, 4525.7, 51.8)} + 158.48 \times \text{Nugget}, \]

Where: Nugget = microstructure = Measurement error

Microstructure = 172.6 (100%) and

Measurement error = 0 (0%)

Given that the SPD for the Gaussian exhibit positive asymmetric distribution, it must be categorized having the median and the 3rd quartile as limits (Table 2), in order to have a classification that is more coherent and in fitting with the distribution form. Thus, based on the results above, we propose the following classification for the SPD and SDI Where SDI = 100 – SPD or SDP = 100 – SDI giving SDI=25% and SDP= 75%

\[ \text{SPD}_{\text{Gaussian (\%)}} \leq 25\% \] will therefore, give weak spatial dependence, moderate spatial dependence 25% < SDP (\%) ≤ 75% and strong spatial dependence SDP (\%) > 75%, while SDI_{Gaussian (\%) } ≤ 25% gives a strong spatial dependence index, moderate spatial dependence index 25% < SDI (\%) ≤ 75%, and weak spatial dependence index SDI (\%) > 75%.

The Gaussian semivariogram model has high spatial dependence, with a high MF which led to a wider scope of values. The semivariogram model was used to derive a soil aggregate stability prediction graph illustrated by Figure 7 and a semivariogram model Figure 8.
The semivariogram models were then used to undertake Empirical kriging to create a prediction map of aggregate stability. A prediction map of the spatial dependence derived from the EBK modeling process is shown in Figure 9 below.

Figure 7: Soil aggregate stability prediction graph

Figure 8: The semivariogram values for the pairs of points (red) and the estimated semivariogram model (yellow line)

Figure 9: Empirical Bayesian Kriging prediction map with sample values.
In the figure above, the mean weight diameters (MWD) of 0.25 – 0.45 represents unstable soils mostly found in wetlands occurring in valleys, mountains, plains, and depressions in hills, 0.55 – 0.62 represents moderately stable soils mostly in agricultural and grassland areas that include plateaus, uplands, and plains, while 0.62 – 0.92 represents stable and very stable soils being found in forested areas, mountains and hills.

3.3: Exploring Data Characteristics

3.3.1: The Histogram

Data was statistically analyzed in two phases: (1) data were described using the classical statistics (mean, mode, median, and standard deviation, coefficient of variation, skewness, and kurtosis); (2) frequency distribution was examined and the test for normality was conducted. Geostatistical methods are optimal when data are normally distributed and stationary that is when mean and variance do not vary significantly in Space as in this case. Significant deviations from normality and stationarity can cause problems, so it is always best to begin by looking at a histogram or similar plot to check for normality and a posting of the data values in space to check for significant trends. Looking at the histogram Figure 10 (with a normal density superimposed) and a normal quantile-quantile plot shows that the aggregate stability distribution does not deviate too severely from normality: Judging from Table 2, the distribution of data is close to normal with an almost zero skew and the mean being equal to the median. Aggregate stability values were collected from 55 sample points distributed throughout the field, which is approximately 8,000 hectares.

Table 2: Distribution of Data

<table>
<thead>
<tr>
<th>Count</th>
<th>Min</th>
<th>Max</th>
<th>Median</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>1st Quantile</th>
<th>3rd Quantile</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>0.250</td>
<td>0.920</td>
<td>0.560</td>
<td>0.557</td>
<td>0.138</td>
<td>-0.011</td>
<td>2.788</td>
<td>0.465</td>
<td>0.670</td>
</tr>
</tbody>
</table>

Figure 10: Distribution of Aggregate stability data in Mean Weight Diameter (MWD)

The determination of aggregate stability through the set of sieves involved the estimation of the amount of intact aggregates against the forces of water entry into aggregates, such as forces related to water entry in soil aggregates. It was generally considered that retention of large aggregates on the top sieve against forces of water entry was indicative of good aggregate stability. Therefore, the aggregate stability of the soil was evaluated as mean weight diameter (MWD) determined by the wet sieving. The MWD of the aggregates was calculated where the number of size fraction = the mean diameter of any particular size range of aggregates separated by sieving = the weight of aggregates in that size range as a fraction of the total dry weight of the sample analyzed. The values ranged from 0.25 to 0.92 MWD. Here are the data values posted at the Sample locations (Figure 11).
3.3.2: Normal Quantile - Quantile Plot

The data was subjected to some normality checks with which Quantile - Quantile plot was a major test of normal distribution in the data. The data in this Q-Q plot appear to be normally distributed, because even though there is a slight, possibly curved trend in the plot, the dots are still pretty close enough to the line to not disqualify these data from being normal. The Q-Q plot (Figure 12) looks alright except for one outlier depicted by the point furthest to the right. All geostatistical methods assume spatial dependence that closer things are more similar than things that are farther away. Spatial dependence is "the propensity for nearby locations to influence each other and to possess similar attributes" (Tobler, 1989). In other words, to paraphrase this famous geographer, "while everything is related to everything else, things that are close together tend to be more related than things that are far apart". Terrain elevations and soil types for instance, are more likely to be similar at points few meters apart than at points several kilometers apart.

4.0 Conclusion

Figure 12: Normal Q-Q plot

Given that geographic data are expensive to create; spatial dependence turns out to be a very useful property. We can sample attributes at a limited number of locations, then estimate the attributes of intermediate locations. The process of estimating unknown values from nearby known values is called interpolation. Interpolated values are reliable only to the extent that the spatial dependence of the phenomenon can be assumed. If we were unable to assume some degree of spatial dependence, it would be impossible to represent continuous geographic phenomena in digital form.
The soils of the geomorphic units of mountains, hills and minor scarps were developed on volcanic ashes and other pyroclastic rocks of recent volcanoes. They had slopes ranging from 5–8% and had stable to very stable soil aggregates. The plateaus (PU) (Agriculture and grasslands and the uplands (UP) (agriculture, grasslands and minor forests) were undulating with slopes of between 5–8%. The soils which were moderately stable were developed on volcanic ashes and other pyroclastic rocks of recent volcanoes. The plains (PL) (grasslands and agriculture) and Valleys (VA) (grasslands, agriculture and wetlands) were flat to very gently undulating in relief with moderately stable to unstable soil aggregates. They had slopes of between 0–2% with well drained, deep, and moderately deep to very deep soils.

The variability of aggregate stability exhibited spatial dependence that was described using semivariogram models. The Gaussian model was selected for fitting the data onto the semivariogram model. The spatial dependence (SPD) for the Gaussian exhibited positive asymmetric distribution giving a strong spatial dependence (SPD) and a strong spatial dependence index (SDI) indicated by SPD Gaussian (%) > 75% and SDI Gaussian (%) ≤ 25%. The semivariogram models were used to undertake Empirical kriging to create spatial dependence prediction map of aggregate stability. The mean weight diameters (MWD) of 0.25 – 0.45 represented unstable soil aggregates, 0.55 – 0.62 moderately stable soil aggregates and 0.62 – 0.92 representing stable and very stable soil aggregates.

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Strategic Management for Organizational Performance: from Which Come the Mistakes of Strategic Decision-Making

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Abstract

The current context of organizations is marked by changes or even dramatic changes. The main function of decision-makers becomes increasingly difficult and complex. At the same time, performance has become one of the most important topics within companies. That is why management and economics have addressed this central issue. Faced with a turbulent environment characterized by rough and fierce competition, guaranteeing performance and above all maintaining it becomes a strategic priority, which is why strategic management will be called upon. So our article will deal first with the performance of companies and the role of strategic management in this sought-after performance; and the precautions to be taken into account in strategic decision-making. To do this, we will begin our research by the conceptual framework of performance, to justify the contribution of strategic management in the performance of the company. The paper will conclude with an analysis of strategic decision-making and recommendations. The methodology used in this paper is a literature review.

Keywords: Strategic management, Performance, Companies, Competitiveness, Information, Environment, Decision.

1. Introduction

It is the environment in which any organization is today, whatever its activity, is complex and constantly changing and requires it not only to evaluate its performance at a given moment but to manage it by aiming for a sustainable performance.

"The management of the performance process must be understood in the long term. Any company operating in a dynamic environment, performance management cannot be repeated identically. On the contrary, it must produce the conditions of its own transformation by providing an organizational learning function"1.

In this context, the need for an organizer over time, the necessary matching between environmental requirements and the company’s capabilities, justifies the use of strategy and strategic management.

In the corporate world, the strategy is generally geared towards achieving a sustainable competitive advantage as a result of harsh and fierce market competition, a strategic area of activity, responsiveness to environmental survival or growth of the company2.

From a chronological point of view, we can divide the emergence of strategy into an enterprise according to the goal and we obtain three main periods:


The sixties when the corporate strategy is aimed at determining development objectives.
The seventies when the strategy integrated competition.
The 1980s when the strategy begins to support the stakeholders.

On the other hand, a typology of the strategy according to the behavior of the organization allows us to obtain two classifications, namely, the reactive strategy which covers a set of action decided in the face of an environmental threat; and the proactive strategy that comes down to an initiation of an autonomous action.

Whatever the strategy, information is the key. According to R. REIX [2000], information is what changes our moral vision, which reduces our uncertainty.

Indeed, the organizations have evolved over time, the strategy will have to take charge of this evolution in order to better adapt and consequently to guarantee the attainment of the expected objectives. Although it is not an end in itself, but a set of paths and options to achieve the organization's goals in the long run, having a strategy seems to be a fundamental element for any organization. It is therefore necessary to have a plan defining the main orientations to be pursued and the action plans to be undertaken to ensure its profitability, continuity and growth that it is developed and put in place. We can say that the essence of the strategy is the taking into account of the future, the will to anticipate and control to better prepare.

In this context, this article aims to re-examine the relationship between strategic management and the overall performance of the company. Two simple and important questions are addressed: does strategic management improve the performance of the company? What are the sources of strategic mistakes?

State of the Art

a. Performance and Key concepts

The performance of organizations is a very answered concept. It has gained momentum, especially with globalization. This importance will be further accentuated by the emergence of the information and knowledge society. The often underwritten performance of the evaluation. Information and its mastery becomes the new crucial element that occupies managers. As with other management concepts, the concept of performance is far from unanimous in terms of definition. The definition of the concept of performance is generally confused with the concept of efficiency and effectiveness.

By distinguishing between individual performance and organizational performance, Turcotte considers that the latter "differs from productivity in terms of the value of a unit of goods and services relative to its cost of production. It is different from the efficiency that is the ability to achieve objectives as well as efficiency that reflects the ability to be effective at the manufacturing level, regardless of whether the products sell well or not".

Several attempts to define performance have been recorded. We quote the one by M. Lebas, who tries to define performance in the management domain by evoking what he called "the common characteristics of performance":

Accomplish, carry out an activity for a specific purpose.
Realization of a result.
Comparing a result against an internal or external reference.
Ability to achieve or achieve an outcome (potential for achievement).
Apply concepts of continuous progress with a view to competing.
Assessment of performance by several stakeholders who may not have the same vision and approach. Hence the need for a multi-criteria approach to performance.
Measure by a digit or a communicable expression.

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3 M. Lebas, The concept of performance, in Revue Travail , n ° 34, spring - summer 95, page 137 to 149.
On his part, A. Bartoli has linked three notions of results, means and objectives by linking them to three logics and which are logic of efficiency, logic of effectiveness and logic of budgeting\(^1\).

Because of the changes already cited in the organization environment, evaluating an organization's performance using relevant and appropriate indicators remains a difficult exercise. It must ensure the success of organizations regardless of their sector of activity, while taking into account the evolution that organizations are experiencing today. This attitude is justified by the presence of many organizations that continue to measure their performance through indicators designed to meet past needs. An effort to adapt is strongly urged so that the indicators reflect the reality sought.

In today's increasingly competitive, turbulent and unpredictable environment, appropriate performance indicators should be developed and, in particular, operational models should be defined to measure them in order to determine the level of performance of the company. This will help to properly manage the overall performance of the company.

b. Strategic management

Decision-making processes that are strongly influenced by the structure of the organization produce the strategy. The manager's job is "strategic management", defined as the management of the interactions between strategy, structure, decision and identity. The latter are the tetrahedron of strategic management.

Strategic management has been the subject of numerous writings, starting with the definition of management according to Peter DRUCKER (1999), which consists of the art of making rational and informed decisions; the strategic management is described as "the organizer, over time, of the necessary matching between the requirements of the environment and the capacities of the company\(^2\).

Strategic management is a top-management assignment, characterized by a long-term commitment, concerns the organization's relations with its environment and engages the entire organization.

Strategic management thus enables an organization to ensure its competitiveness, its security, in addition to its legitimacy by allocating its resources as well as possible in order to create added value. Talking about strategic management is about tackling different notions such as strategic diagnostic, strategic choices and strategic deployment.

![Figure 1. The components of strategic management](image)

The Strategic Diagnostic consists of understanding the strategic impact of the external environment, the strategic capacity of the organization (its resources and skills) and the expectations and influence of the stakeholders. Strategic Choices include the selection of future strategies, both at the organizational level and in the strategic areas of activity, as well as the identification of development orientations and modalities.

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Strategic Deployment involves putting the strategy into practice. A strategy exists only when it is effectively implemented and translated into operational and concrete actions.

The role of managers in strategic management is of such importance that it equals the importance of information and its control in the decision-making process. The latter, by its very nature, proves to be very complex and requires more resources and effort compared to the operational decision-making process.

Clearly, any strategy must be evaluated in order to judge it. The evaluation of a strategy remains crucial; it is limited to three axes, namely:

- **Relevance**: the degree of fit between a strategic choice and the conclusions of the strategic diagnostic.
- **Feasibility**: the expected performance of a strategic choice. It is measured by the gains (expected benefits of this choice), the risks (in case of failure) and the reactions of the stakeholders.
- **Acceptability**: the company's ability to acquire and deploy the resources and skills needed to implement a given strategic choice.

Given the need to optimally allocate scarce resources, to arbitrate and prioritize possible programs and development paths, and to adopt proactive organizational behaviors, as well as a willingness to adjust activities and missions of the organization to the changes of its environment, strategic management has become more than ever a vital necessity.

**Strategic management & Global performance a. The strategic process**

The strategic process consists of an organization in a succession of stages which leads to the definition of a specific identity, its values and to the setting of long-term objectives. The strategic process outlines the steps required for strategic decision-making, and outlines the process.

The strategic process generally takes place in four stages:

1. The definition of the identity of the organization: mission, vision and values.
2. The strategic diagnostic.
3. Strategic choice and target setting.
4. Evaluation and correction of the actions implemented.

Strategic approaches have evolved over time; Jacques SORNET (2010) synthesized them in the following table:

**Table 1. The evolution of strategic approaches**

<table>
<thead>
<tr>
<th>Context</th>
<th>Years 60 – 70</th>
<th>Years 70 – 80</th>
<th>Since</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sustained growth</td>
<td>Industrial</td>
<td>Opening of the stock market</td>
</tr>
<tr>
<td></td>
<td>Establishment of large groups</td>
<td>Innovation</td>
<td>Globalization</td>
</tr>
<tr>
<td>Essential Goal of Strategy</td>
<td>Volume, diversification</td>
<td>Surpassing competition</td>
<td>Economic Emergence of New Countries</td>
</tr>
<tr>
<td>Principles</td>
<td>Determinism</td>
<td>Global vision</td>
<td>Asymmetry, flexibility</td>
</tr>
<tr>
<td></td>
<td>Quantification</td>
<td>Management of uncertainties and crises</td>
<td>Stakeholder Integration</td>
</tr>
<tr>
<td></td>
<td>Optimization</td>
<td>Process vision</td>
<td>Change management</td>
</tr>
<tr>
<td></td>
<td>Diversification</td>
<td>Resources and Skills</td>
<td>Global Approach and Projects</td>
</tr>
<tr>
<td>Contemporary Approaches</td>
<td>SWOT (LCAG – Harvard)</td>
<td>Competitive approach (PORTER)</td>
<td></td>
</tr>
<tr>
<td>Resources and Skills</td>
<td>Strengths - weaknesses - opportunities - threats</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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For a better understanding, one can divide the strategic process into two main phases, one abstract and another concrete. The abstract side encompasses everything that is diagnosis, choice and conceptualization of strategy; as regards strategic control and the operational declination of the strategy, they constitute the concrete side of the process.

b. Management strategic and performance

The strategy intervenes in an organization at several levels:

The first level that of corporate strategy, concerns the purpose and scope of the organization as a whole and how it adds value to its various activities. This includes choices of geographic coverage, diversity of product and service offerings, and how resources are allocated between activities. Generally, the corporate strategy takes into account the expectations of the owners (the shareholders), the government or the stock markets.

The second level is sector-specific strategies, which identify key success factors in a particular market. This usually means defining how an advantage can be obtained in relation to competitors and which new markets can be identified or constructed.

These different orientations must meet market expectations while meeting the organization’s overall objectives, such as long-term profitability or market share growth. While corporate strategy implies choices that engage the organization as a whole, these decisions are relevant to a strategic area of activity. A strategic business area is a subset of business activities that have similar success factors that share resources and know-how.

A key success factor in an activity is "what you need to know how to succeed in a market".

It is usually: - an element of the offer that has value for the customer - and / or a particular know-how - and / or a cost advantage in the design / production-distribution-distribution chain of the product / service.

(3)The third level of strategy lies at the base of the organization. This is where operational strategies are developed that determine how the different components of the organization (resources, processes, individual know-how) actually deploy the strategies defined at the global level and at the Strategic Areas of Activity level.

Coherence between operational decisions and strategy is therefore a determining factor.

3. Strategic decision-making errors

a. The organization, a decision-making center

An organization is a social entity, bringing together people who work together to achieve a specific goal. To reach it, it uses decision-making processes, so the organization is a center of decision-making by excellence.

The word decision is therefore omnipresent in the life of organizations. It is subject to reflection and debate, since it conditions and shapes the very future of the organization. For example, there are decisions of all kinds: financing decisions, investment decisions, or operating decisions.
The main role of any head of an autonomous center is to make decisions. In general, the decision-maker(s) are not autonomous, there are forms of limiting the decision such as market constraints, competition or legislation. In addition, decisions do not have the same importance, nor the same impact. All this makes the area of decision-making very important.

A first typology of the decision highlights the exceptional decisions of repetitive decisions. It is in this sense that it is important to establish a typology that allows each decision to be treated and identified as well as possible.

Depending on the criterion chosen, a typology of the decision can be drawn up. Establishing a typology of decisions involves identifying the main factors that affect decision-making. Reference can be made to the impact of a decision or the decision-making process for that classification.

b. Strategic decisions

The classification according to the purpose of the decision or called according to the importance of the problem is developed by Igor Ansoff [1965], the results of this criterion are a distribution by level and we will obtain:

The **strategic decision** is usually taken by top management. It concerns the main axes of development of the company, and the relations of the company with the external environment. This type of decision determines the future of the company by setting the fundamental orientations that commit it in the long term.

The **tactical decision** is usually taken by the intermediate hierarchy. It aims at implementing the strategy, drawing up action plans and correcting dysfunctions and, as a result, it concerns resource management and the effectiveness of their use in order to be able to monitor in the medium term develop, for example, the improvement of a product.

The **operational decision** is usually taken by the operational managers and covers all the unforeseen events, particular situations that arise during the execution of the operations. The operational decision relates to the day-to-day operation with the aim of making the process of resource transformation as efficient as possible. They are very frequent, their impact is short-term. It should be noted that these decisions are not independent, but only hierarchical. Operational decisions that are the most frequent in nature, concretize tactical decisions, themselves resulting from strategic decisions.

![Figure 2. Strategic, tactical and operational decisions (Anthony, 1966)](image)

In this case, the need for information intensifies each time you climb a level in the pyramid. The characteristics of the requested information are specific to each level. Thus, the information requested for the strategic level is nature:

- Complex.
- Diversified.
- Uncertain.
- Quantitative.
- Qualitative.
- Multiple shapes.

This amounts to saying that, overall, the strategic decision is much more complex than the other two types of decision.
Table 2. Characteristics of strategic and operational decisions (Kalika & Orsoni, 2006)

Strategic decisions are therefore long-term decisions about the existence and identity of the company (they are part of the general policy of the company, are largely irreversible and staggered over time).

Let us recall here that strategic decisions therefore have the following characteristics:
- They are complex by nature
- They are developed in a situation of uncertainty
- They affect operational decisions
- They require a global approach (internal and external to the organization)
- They involve major changes

On the other hand, it is accepted that the decision depends on the set of information we possess. It is a complex decision-making process. Below are some key strategic errors:

Environmental and information literacy for decision-making purposes

The organizational environment has become more complex, inconstant and confusing now that it is becoming increasingly difficult to keep up with changes. The availability of the necessary information, which after analysis will make it possible to draw appropriate conclusions for adaptation purposes and to define a strategy, accordingly becomes necessary for the survival of organizations.

In addition to conventional information on marketing, economics, finance, the analysis of the environment of the organization gradually encompasses new aspects. It is quite common to talk today about the analysis of environments linked to "policy of openness decided by public authorities, regulatory and regulatory aspects, economic conditions, ecology, sociological developments, technological developments and the impacts of competition ... ".

For decades, deep changes have affected the environment of organizations. These mutations are of order:
- Geopolitics, with the break-up of the communist bloc and the increasing role played by other actors than the European Union.
- Economic, marked by both the globalization of trade and a finer segmentation of markets.
- Technological innovations, marked by an acceleration of innovation and competition for the commercial pre-eminence of advanced nations, have led companies and states to rethink industrial strategy and to think about the definition of tools to better cope with these new challenges.

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10 https://managementstrategiqueetperformance.wordpress.com/
At the same time, the development of information and communication technologies, which contract space and time, have led to a dematerialization of the economy, at the same time that they have made markets more competitive and the environment more complex, more shifting, less readable. In this context of profound changes in the organizations' environment, information becomes a strategic raw material in the service of the development strategy, whose management must be optimized by mobilizing all of the organizational forces. Information is thus a strategic raw material for:

**Act:** it is a question of constructing analyzes allowing to have decision arguments in the framework of strategic or operational projects.

**Anticipating:** it is a question of apprehending future changes and changes in the environment and thus feeding forward thinking.

**React:** It is a matter of being alerted in a timely manner to important events that must be responded to in a timely manner.

Monitoring the environment is the first concern of organizations. The gathering, analysis and communication of information relating to this environment is the sinews of war. It nurtures the decision-making process in the company. This attitude represents a radical change in the managerial culture of the company. Information and its mastery thus becomes what makes the difference between organizations, it is the core of the strategic decision that provides competitive advantage.

**Lack of anticipation**

"When one espouses a trend, it is already too late," Robert SALMON, vice president of L'Oréal France, summarizes the philosophy of anticipation. Many large companies have either disappeared or sends to be by the only error that could not anticipate. Example of Kodak that could not clear the turn of digital, or Nokia with the event of tactics. The anticipation is like listening to the voice of the environment, only that way and hardly detectable because of its low intensity.

So companies that happen to detect weak signals emanating from the environment are the only ones who are able to prepare for future events and therefore have the desired competitive advantage.

A caveat is needed because anticipation is not forecasting which is simply the calculation of trends on the database collected in a past period. Rather, anticipation focuses on the events left out by forecasters, as it may be that there are signs of possible disruptions that may be of interest to organizations.

**Threat assessment**

Sometimes, organizations focusing on the defensive dimension alone may be counterproductive. To speak only of dangers, one risks very well to close the organization on itself and to rigidify its behaviors, even though its future rests on its ability to anticipate and adapt to a constantly evolving context.

A correct, fair and balanced assessment of environmental threats strongly influences the decision-making behavior of organizations. It is among the sources of strategic errors that paralyzes the action of undertaking.

**Lack of promising opportunities**

In addition to the overestimation of threats, promising opportunities may arise, but the strategic decision to exploit them is lacking due to a poor analysis of the situation.

The analysis should be fed on the one hand by strategic information and on the other by human, material and organizational means. Seizing opportunities remains the priority; this is what will develop the organization. Do not grasp it means missing an appointment with the future.

**Change management**

Strategic decisions are decisions that lead to remarkable changes in the life of organizations. They are therefore projects of change, and like any project, it must be managed in order to achieve the expected objectives. The success of an organization depends not only on the right strategy and on resources. It also depends on the ability of its management to operate, direct and support teams and individuals to engage in the organization's strategy and objectives.
Not to reconcile particular interests with the interest of the organization is the first side of strategic error; the second is not to have the entire human resources of the organization adhere to either the design and / or strategic objectives of the organization. This attitude, if not resolved, causes resistance to change, which will lead to the failure of strategic decisions.

Human Capital Management

Nurtured by the belief that there is no wealth but for Men, human capital and the intangible play an essential role in the success of strategic decisions. The decision-making process remains subjective and the cognitive aspect is present. Management must be able to consistently deliver performance and results and achieve the best possible performance of the teams and individuals they manage.

The challenge is to benefit the organization and the success of its strategy from the intangible asset it owns. This is to say how to manage all the knowledge and knowledge within the organization? Moreover, how to move from an individual intelligence to a collective intelligence?

The adoption of an integrated skills management culture seems to be the solution

4. Conclusion

The review and analysis have clearly shown the contribution of strategic management to the overall performance of organizations. Performance needs to be manager.

The upheavals in the organizations' environment have shown the weight and the preponderant role of a new element that is "information". The latter has become a particular new commodity. The mastery of strategic information for a decision-making purpose provides every organization with competitive advantage and consequently conditions for development and prosperity.

The decision that is only information plus a skill, mounts the role of the Human component in this process. A set of precautions are necessary to note them, namely the management of people and skills, the importance of the intangible in creating value within organizations, managing change and above all listening attentively to the environment of all stakeholders.

To meet the vital need and the need to adapt to the environment in order to have the competitive advantage, we recommend to all organizations the following axes:

- Monitor its relevant environment,
- Protecting its intangible heritage (knowledge, know-how, image),
- Manage knowledge,
- Influencing its environment,
- Manage change,
- To conclude, we assert that much of the mistakes in strategic decisions stem from a lack of knowledge of the environment.

References


United Notation 2030 Agenda for Sustainable Development Goals: Appraisal and Prospects

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Abstract

United Nations adopted in 2015 seventeen Sustainable Development Goals to be achieved in 2030. The main goals are: ending poverty, ending hunger, achieving equity in health, education, water treatment and sanitation, full and productive employment for all, sustainable economic growth, sustainable consumption and production pattern, combat climate change and other environmental goals. There are many constraints encountering the achievements of these goals. These constraints are basically financial and political. This paper emphasizes that these goals cannot be achieved without large scale of international financial support in term of grants and easy term loans. In addition, UN has to play its role in preserving international peace and security which are the basic elements in sustainable development. Time frame for achieving sustainable development goals should be extended, probably, to the mid of this century.

Keywords: Sustainable Development Goals, Economic, Financial, Political

Introduction

In 25th of September 2015, General Assembly of United Nation adopted A/Res/70/1 Resolution named Transforming Our World: The 2030 Agenda for Sustainable Development. This Resolution contained 17 goals of Sustainable Development to be achieved in 2030. Before we go to describe and evaluate them it is important to give brief outline about the concept of sustainable development.

The Emerg of Sustainable Development Concept

Sustainability is the term chosen to bridge the gulf between development and environment. Originally it came from forest, fisheries and ground water which dealt with quantities such as "maximum sustainable cut, maximum sustainable yield, maximum sustainable pumping rate."[1]

The concept of sustainable development found in the report "Our Common Future" of the World Commission on Environment and Development (WCED). This report was done by the UN General Assembly in 1983 and completed in 1987. The report defined Sustainable Development as a "development that meets the needs of the present without comprising the ability of future generations to meet their own needs."[2]

The report stated that "... part of the environmental problem is that some of (rich) nations are consuming too much, while at the other end of the continuum, environmental problems are caused by people living in poverty who use the environment unsustainably because their own survival is otherwise at stake."[3]

Sustainable development is a dynamic process of change in which the exploitation of resources, the direction of investment, the orientation of technological and institutional change with future as well as present needs.[4]

According to the Commission report sustainable development in the final analysis must rest on political will of the governments as a critical economic, environmental and social decision are made.[5]

The rapid industrialization and economic development took place after the Second World War in the west caused negative socio-disparities and environmental consequences. Wide variation in standard of living, education, health, water treatment and sanitation, unemployment between North and South are are main features of these consequences. Poverty and around 800 million people facing hunger are more acute in the South which require large scale international humanitarian support. Exhausting natural resources basically nonrenewable ones, degradation and pollution of air and soil and increasing atmosphere temperatures are the main part of environmental problems.
Eliminate poverty and hunger are the first priority for UN Sustainable Development. “Within the sustainable development, the Commission recommended that ‘overriding priority’ should be given to the essential need of the world poor”[6]

Our World Today as Described in the UN Adenda

The UN assembly Resolution A/Res/70/1 summarized the current our world situation as follows:"

Billions of our citizens continue to live in a poverty and are denied a life of dignity. There are rising inequalities within and among countries. There are enormous disparities of opportunity, wealth and power. Gender inequality remains a key challenge. Unemployment, particularly youth unemployment, is a major concern. Global health threats, more frequent and intense natural disasters, spiraling conflict, violent extremism, terrorism and related humanitarian crisis and forced displacement of people threaten to reserve much of the development progress made in recent decades. Natural resource depletion and adverse impact of environmental degradation, including desertification, drought, land degradation, freshwater scarcity and loss of biodiversity, add to and exacerbate the list of challenges which humanity faces. Climate change is one of greatest challenges... Increases in global temperature, sea level rise, ocean acidification and other climate change impact are seriously affecting coastal areas and low-lying coastal countries, including many least developed countries and small island developing states. The survival of many societies, and of the biological support systems of the planet”[7]

UN Goals of Sustainable Development For 2030

The assembly of UN adopted the following goals to be achieved in 2030 as indicated in the Resolution A/Res/70/1. These goals are:"

1- Ending poverty in all its forms everywhere, 2- End hunger, achieve food security, improve nutrition and achieve agriculture sustainable development, 3- Ensure health lives and promote well-being for all at all ages, 4- Ensure inclusive and equitable quality education,... 5- Achieve gender equality and empower all women and girls, 6- Ensure availability and sustainable management of water and sanitation, 7- Ensure access to affordable, reliable, sustainable and modern energy for all, 8- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, 9- Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation, 10- Reduce inequality within and among countries, 11- Make cities and human settlements inclusive, safe, resilient and sustainable, 12- Ensure sustainable consumption and production pattern, 13- Take urgent action to combat climate change and its impacts, 14- Conserve and sustainably use the oceans, seas and marine resources for sustainable development, 15- Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forest, 16- Promote peaceful and inclusive societies for sustainable development, provide access to justice for all... , 17- Strengthen the means of implementation and Revitalize the Global Partnership for Sustainable Development.”[8]

Appraisal and Prospect of Achieving UN Suitable Development Goals

The sustainable development goals adopted by UN are highly optimistic, if some of them are utopias, to be achieved in 2030. Without overcoming many constraints and obstacles, these goals will stay just as slogans. The main constraints and obstacles are:

1- Economic and Financial Constraints

Providing Basic Human Needs

“Ending poverty, End hunger, Ensure health lives, Ensure inclusive and equitable quality education, and Ensure availability and sustainable management of water and sanitation”. These goals are essential human need and human rights. Besides, without providing these services as a basic needs, economic growth is not possible in a societies facing hunger, illiteracy is high, unacceptable health services, shortage of potable water, high unemployment and poverty.

Within the constraint of unavailability of financial resources in most developing and underdeveloped countries, achieving these goals are not possible without international financial help.

Food and other basic service have to be highly subsidized, at least in the transitional stage, until economic growth takes place.
International Monetary Fund and other international financial institutions have to modify its criteria of financing. Eliminate all kinds of subsides for goods and services as conditions for providing loans to developing countries should be, postponed. Countries with limited financial resources cannot make these good and service available in subsidized prices for poor people without international financial support.

Iraqi subsidized Food Ration implemented during thirteen years of sanction, saved Iraqi’s from famine. This system provides food basket in nominal prices and still running until now. Similar system is running in India covering 800 million people[9]. This kind of program is required for poor people.

**Economic Growth and Raising Standard of Living**

“Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, Ensure access to affordable reliable, sustainable and modern energy for all, Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Make cities Ensure sustainable consumption and production pattern. Make cities and human settlements inclusive, safe, resilient and sustainable.” These goals cannot be achieved in developing and underdeveloped countries, without international financial loans in acceptable terms. Enhancing foreign investment including helping Governments to creat healthy environment for foreign investment.

**2- Political Constraints**

**Ending Imposing All Forms of Sanctions by United Nations**

Since the formation of United Nations, Security Council imposed several comprehensive and partial sanctions on many countries to achieve certain political objectives set in each resolution. Comprehensive Sanction imposed on South Rhodesia, Iraq, Haiti and former Yugoslavia. The harshest sanction was imposed on Iraq for thirteen years. The object of Sanction Resolution was to force Iraq to withdraw from Kuwait. This resolution prevented Iraq from exporting and importing any commodity including food and medicine. Once Iraq withdrawn from Kuwait, Security Council adopted another resolution (687-1991) to dismantle Iraqi Mass Distortion Weapons (MDW). Sanction continued until US and Britain invaded Iraq in 2003. No MDW were found after the invasion.[10]

Thirteen years of the most pervasive sanction in the history of mankind turn rich country to the poorest as stated by American Professor Joy Gordon in her book published in 2010 named Invisible War. She stated: “What I want to explore now is the question of how a human catastrophe of this magnitude came about: what policies and practices were that caused hundreds of thousands of deaths; decimated the health of several million children; destroyed a whole economy; made a shambles of nation’s education and health care system; reduced the sophisticated country, in which much of the population lived as a middle class in the First World country; to the status of Forth World countries- the poorest of the poor, such as Rwanda, Somalia and Haiti; and in a society notable for its scientists, engineers, and doctors, established an economy dominated by beggars, criminals, and black makers... and by undermining the infrastructure-electricity production, telecommunications, transport, and water and sewage treatment- in an advanced industrialized society that was highly dependent on modern infrastructure.”[ 11]

The only victims of sanctions are people calling for ending imposing comprehensive sanction[12 ]

Therefore, sanctions are working against the sustainable development goals mentioned above.

If there is an urgent need to impose sanction by Security Council, It should not exceed military weapons and MDW. Any restrictions on importing civilian commodities, civilian projects and exporting commodities should be avoided.

**Declining the Role of UN in Maintaining Regional and International Peace and Security**

The failure of UN to prevent invading Iraq in 2003 destabilized the whole region. The consequent interventions in Syria, Yaman and Libya undermined the potential of these countries to keep pace with their previous policies and practices in socio-economic development. Despite lifting sanction in 2003, Iraq still suffering from destabilization. Terrorism absorbed the potential of development and large scale of displaced people still main problem in Iraq. Syria was considered the only Arab country which had self-sufficiency in food production is now importing food. More than have of Syrian population are refugees in Jordan, Lebanon, Turkey, Germany, Austria and other countries. Jordan, a country of limited resources hosted
morn than 1.5 million Syrian refugees. One third of Jordan population are refugees without sufficient international support[13]. Jordan is facing economic difficulties due to consequences of instability in the region as a result of invading Iraq. These are just a few example, as apart of the whole world, which hinder any effort to change the world to a situation desired in the UN 2030 Agenda for Sustainable Development.

Consequently, huge amount of financial and human resource are required not to attain UN Agenda of Sustainable Development for 2030, but at least to go back to situation before 2003 in these Iraq, Syria, Yemen and Libya.

The current international political situation is not in the direction of stability, in contrary its going toward more escalation basically with Iran and North Korea.

Unless UN able to play its role in preserving international and regional peace and security and to prevent bilateral interventions, sustainable development goals cannot be achieved as planned by UN. However, UN should give priority to stable countries.

**Political Well of Governments**

It is very important that the governments of developing and underdeveloped countries have to believe in and support the implementation of the Agenda of Sustainable Development when international financial and economic support become available for their countries. Due to high corruption behavior of large number of these countries, and to secure that any financial and economic support goes directly to the beneficiaries, that support should not be given on cash basis, but should be provided in term of goods and building projects.

**2- Time Constraints**

Assuming that economic and financial resources available, and the designated countries remain stable, is impossible that the goals of sustainable development can be achieved, partially or completely, during the coming thirteen years from now. So, extend time for achieving these goals from 2030 to another year, probably to the mid of this century is required.

**Conclusion**

Large scale of international financial support is required to attain sustainable development goals adopted in 2015 by the Assembly of United Nations. Instability in many part of the world basically in middle east threatening these goals. Invading Iraq in 2003 was the main factor led to destabilize the region. Without international financial support and without strong role of UN to preserve international peace and security, sustainable development goals cannot be achieved. Time span fixed for achieving these goals is limited and should be adjusted, probably, to the mid of this century.

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[8] Ibid.


Sharing Economy: The Establishment of Organizational Identity Overtime, Considering Identify Claims and Legitimacy Granting

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Abstract
The Sharing Economy (SE) has been growing at an impressive rate across the globe (Cohen & Kietzmann, 2014) and emerging as an innovative and rapidly growing sector of the economy (Hira & Reilly, 2017), which attracted the attention of the scientific community. An increasing number of studies have been brought to light helping to document and analyze how SE manifests and evolves across economic systems, thus, contributing to refine and recast existing management theory (Mair & Reischauer, 2017). Nevertheless, there still is a lack of a common understanding of SE and its underlying mechanisms (Knote & Blohm, 2016). As an emergent category, SE has been contoured by being a mutant process, as it has been crafted by multiple and distinct temporal identity and legitimacy events, mechanisms and claims. Showing signs of being an on-going process of evolution, there is a constant need for further research to identify developments in the evolution of SE considering both identity claims (self-referential) and legitimacy (granted by stakeholders), which would offer additional comprehension about the SE phenomenon. The research addresses it by studying what is the role of SE in establishing the identity of organizations belonging to the field, considering both identify claims (self-referential) and legitimacy (granted by stakeholders)? To answer the research question, the research was designed involving two components inspired on category creation studies (Durand & Paolella, 2013; Glynn & Navis, 2010; Kennedy & Fiss, 2013; Kennedy et al., 2010; Lounsbury & Rao, 2004; and Wry et al., 2014): 1) four prototypical SE organizations were selected, each of them belonging to Schor's (2014) four SE archetypes of activities: (i) Airbnb – peer-to-peer, for-profit activity –, (ii) Zipcar – business-to-peer, for-profit activity –, (iii) TimeBanks – peer-to-peer, non-profit – and (iv) Make: makerspaces – business-to-peer, non-profit. The content of the evolution of their identity claims was analyzed, using data from their public available reports, as well as, other secondary data available on-line; and 2) considering the same set of SE organizations, legitimacy evolution was analyzed considering how scientific community, investors, customers, media, other analysts and other interested audiences have been constructing category meaning to them, conferring the formation of SE categorical and organisational identities, and perceptions about the viability of their business models (Tripsas, 2009, as cited in Navis & Glynn, 2010). In short, it was analyzed how stakeholders assess the viability of SE categories and organizations and can grant or withhold legitimacy to SE organizations (Zuckerman, 1999, as cited in Navis & Glynn, 2010). This research presents a new layer on framing a detailed understanding of the SE field in its maturing dimension, thus, meeting Mair’s and Reischauer’s (2017) call for studying the SE, unpack and make sense of an inspiring and complex phenomenon and thereby advancing and sophisticate the existing theory.

Keywords: Sharing Economy; Identity Claims; Legitimacy Granting; Prototypical Organizations; Stakeholders.

Introduction
The Sharing Economy has been having a great boost and attracting great attention over the last few years from a vast variety of stakeholders. Along the process, it has been evaluated as (i) having a huge potential for creating new businesses and services that may allocate value more fairly bringing people together in new ways (Schor, 2014), (ii) involving millions
or even billions of participants and (iii) capitalizing the existing assets while providing spillover effects in the economy (Boncu & Bâlgar, 2016).

This research main objective is to study how has the establishment of SE organizational identities been evolving overtime, considering identify claims and legitimacy granting.

The Theoretical-Conceptual Framework

The Sharing Economy (SE) is a relatively new phenomenon by way of technology standards (Zifkin, 2015), born of the Internet age (Belk, 2014), and in which you are not helping a friend for free but rather providing SE services to a stranger for money (Sundararajan, 2016). The commercial sharing services or “prototypical actors and practices” (Navis et al., 2012, p. 26) of SE allow people share resources in creative, new ways (Cohen & Kietzmann, 2014). It’s a new form of sweating underutilized assets, by building communities around them and turning consumers into providers (Varsavsky, cited in Silver, 2013). Its participants are being labeled as digital matching firms (ESA, 2016) and the sector is perceived to contour four main characteristics (Penn & Wihbey, 2016): (a) they use information technology (IT systems) facilitate peer-to-peer transactions; (b) they rely on user-based rating systems for quality control; (c) they offer the workers who provide services via digital matching platforms flexibility in deciding their typical working hours; (d) to the extent that tools and assets are necessary to provide a service, digital matching firms rely on the workers using their own. It also has been seen by some as a label to broadly define the emergent ecosystem that is upending mature business models across the globe, while analysts argue that no single label can neatly encapsulate this movement, as for some the word “sharing” was a misnomer, a savvy-but-disingenuous spin on an industry they felt was more about monetary opportunism than altruism, while for others, more appropriate titles included the Trust Economy, Collaborative Consumption, the On-Demand or Peer-to-Peer Economy (PwC, 2015). These developments have started to challenge traditional thinking about how resources can and should be offered and consumed, supporting arguments that incremental improvements in our existing production and consumption systems are insufficient to transform our global economy toward sustainability (Lovins & Cohen, 2011; Stead & Stead, 2013).

As we see, SE has a novelty dimension associated with it, in the sense that it is an emergent category. Thus, it should be studied as an important phenomenon influencing the establishment of organizational identity and legitimacy in both for-profit and non-profit businesses/activities. We, therefore, propose a new layer of research on SE that gives light to its category construction, emphasizing the establishment of organizational identity overtime, considering both identify claims and legitimacy granting. This follows below.

The process of categorization has not only a component of “straightjacket” (in the sense of delimiting a particular practice to a narrow group of actors), but also a “generative” component of new identities, practices (Glynn & Navis, 2013). That is, when a new (supposed) category appears, it can also give an opportunity to open a range of new actors, entities and practices. We therefore have two dimensions in this discussion: in the genesis of “categorizing” something, there is both the need to define boundaries very well (who is and who cannot be within that category) as well as the almost intrinsic possibility (just like any other new and emerging process) of being the generator of new ideas, practices, prototypes and actors (the “creativity ingredient”). Further, the greater the uncertainty, the greater the sociocultural “pressure” to find a category for that entity, actor, practice or activity. That is, one of the factors/determinants for categorization is the so-called “sociocultural urgency in reducing identity uncertainty”.

Durand and Paolella (2013), on the other hand, advocate that the process of categorizing / categorization goes beyond the classical prototype theory (Rosch & Mervis, 1975), also known as the model of categorical constraint, where there is a very disciplinary exercise with strict, rigid (like a straightjacket) classification of products/actors/industries depending on their perfect match with the key features of a given category prototype. The authors bring to light Redher’s (2003a, 2003b) causal model and Barsalou’s (1983) goal-derived categories (ad hoc categories) in justifying that categorizing also involves other mediating sub-variables, antecedents coming from external audiences: (i) “cognitive test of congruence” and (ii) “goal satisfying calculus”. In other words, audiences may legitimate a given product as being part of a particular category depending on situational circumstances, and not so much on general pre-conceived constructions of what a category is. Because of this, there may be multi-category memberships, hybrid organizations, which may be classified as being part of multi-categories and not just one. Audiences (consumers), thus, play a determinant part in such process. The process of categorization is much multifaceted with multi-variables. Thus, categories do involve a disciplinary exercise (Rosch’s and Mervis’ prototype theory), but also a cognitive test of congruence (Redher’s causal model theory), and a goal satisfying
calculus (Barsalou’s goal-derived categories theory). In other words, when theorizing on categorization, one should consider the “integration of codes, causal associations, and goals”.

Complementary, Kennedy and Fiss (2013) urge a research that focuses on how categories emerge and fall out of use and acquire meaning and relevance, arguing that research on categories should upstream study how categories emerge and fall out (dissolve). And to find answers to that, it must be taken into account two distinctive but complementary antecedent dimensions: (1) the occasions and motivations for invoking categories (similar to Durand’s and Paolella’s argument is that ad hoc and nascent categories occur when they facilitate goals or explain the causes of specific situations), and (2) their meaning and encompassing ontologies (that is: it involves studying the changing meaning of existing categories or of new categories that are emerging or failing to emerge, and it involves studying the implications for encompassing ontologies).

Kennedy et al. (2010), in turn, stress the importance in this discussion of what they call category currency. Meaning: category construction is a dynamic process, where audiences “buy” or “dismiss” certain emergent category (“alternatives for consideration”) and, depending on these “exchanges” of category acceptance and rejection (or “the changing value of conformity”), category construction takes form. Figure 1 below, illustrates how category meaning is an ongoing/dynamic construction. There are eight possible ways/paths for changing category meaning.

**Figure 1 – Eight Ways Category Meaning Can Change**

<table>
<thead>
<tr>
<th>Focal Categories (Time 1)</th>
<th>Alternatives for Consideration (Time 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>3+</td>
</tr>
</tbody>
</table>

Notes:
1. Lower case letters denote labels for category abstractions; upper case letters denote named entities.
2. A letter followed by an apostrophe denotes a new meaning for the label referred to by the letter.

Source: Kennedy et al., 2010.

The discussion on categorization should also take into account Lounsbury’s and Rao’s (2004) contribution. The authors bring forward a new layer on the topic by introducing a new line of research, a new factor for category construction, durability, change and reconstruction: Political Power (from powerful producers) – “product categories are products of practical politics” (p. 991). Focusing on the role of industry media in institutional change, the authors argue that “industry media are not passive observers but important actors that promote stability by maintaining existing categories or creating new product categories from existing product categories so as to preserve comparability among firms (p. 972)”. Moreover,
they argue that “product categorization is importantly shaped by the politics of markets (...) and when powerful producers dominate a category, they can counteract the effects of performance variability and the influx of new entrants and encourage industry media to preserve the existing structure of categories” (p. 972). The authors’ study suggests that “changes in product categories are not driven merely by technical processes but are fundamentally shaped by the politics of markets (...) product categories are fragile cognitive structures that can be brought down when there is high performance variability and new entrants embody variations and disturb the status quo” (p. 990). Categories are, therefore, just an outcome (like an interface) of the interplay of interests among industry media and producers. In this sense, “producers may pressure editors to locate them in product categories in which they look better (...) and cultural constructions such as product categories are implicated in a system of power” (p. 991-992).

The dimension of hybridization (Wry et al., 2014) should also be discussed. That is: organizations that span mix elements of multiple categories. “The category a firm starts in, how it hybridizes, and the degree to which this affects core versus peripheral identity markers may all affect how it is perceived” (p. 1309). Hybridization, thus, may not necessarily be negative (“overlooked” or “devalued”), but rather, organizations having mixed elements of multiple categories may generate positive reactions from external audiences.

Another component intrinsically associated with the process of categorization is legitimation. That is, how stakeholders confer the formation of categorical and organizational identities, and perceptions about the viability of their business models. Being a complex social process (Fligstein, 1997; Kennedy, 2008; Kennedy, Lo, and Lounsbury, 2010, cited in Navis and Glynn, 2010), it involves both entrepreneurial organizations and prospective resource providers, such as investors, analysts, customers, media, and other interested audiences, in the social construction of a market category's meaning, the formation of categorical and organizational identities, and perceptions about the viability of the business model (Tripsas, 2009, cited in Navis & Glynn, 2010). Legitimating a new (market) category, on the other hand, involves consumers, industry analysts, stock market investors, or other audiences (Meyer and Rowan, 1977; DiMaggio and Powell, 1983, cited in cited in Navis & Glynn, 2010) whose interests transcend individual organizations (Suchman, 1995, cited in Navis & Glynn, 2010). Thus, it becomes critical to study the influence/role of audiences as they assess the viability of categories and organizations and can grant or withhold legitimacy (Zuckerman, 1999, cited in Navis & Glynn, 2010). Also, with respect to the discussion around the SE, it becomes of particular importance to take into account how organizational identity affects audiences' evaluation of organizational performance, as Smith's (2011) study reveals that investors, for instance, are more likely to “allocate capital more readily to nonconforming hedge funds following periods of short-term positive performance”. The more atypical a given organization is, the more likely the audiences to respond to it and, thus, grant it legitimacy, which on the other hand, provides a distinct competitive advantage for that non-conforming organization. For the purposes of the present study, it becomes, therefore, important to understand how SE atypical organizations/entities have been assessed by audiences and stakeholders.

The legitimation of a new category, complementarily, depends on certain key determinants (Navis & Glynn, 2010; Aldrich & Fiol, 1994): (i) Sameness (or Close Substitution) – a new category exists when two or more products or services are perceived to be of the same type or close substitutes for each other in satisfying market demand; (ii) Distinctiveness – not all members are equivalent in the category; (iii) Credibility – given by actors external to the category, i.e., the interested audiences who judge its feasibility, credibility and appropriateness; (iv) Cognitive legitimation – relates to the level of public knowledge about a new activity (the highest form of cognitive legitimation is achieved when a new product, process, or service is taken for granted); (v) Sociopolitical legitimation – relates to the process by which key stakeholders, the general public, key opinion leaders, or governmental officials accept a venture as appropriate and right, given existing norms and laws. (the public acceptance of an industry, government subsidies to the industry, or the public prestige of its leaders).

In terms of the SE, and bearing in mind the determinants of Sameness (or Close Substitution) and Distinctiveness, Schor (2014) describes a number of services that are perceived to be of the same type in satisfying market demand that may be grouped together as members of the same category. She calls this as “four main types of SE activities”. Below follows figure 2, which pinpoints SE activities according to the shared sameness with other category members and the individual distinctiveness from other members.
Figure 2 – Archetypes of sharing economy activities

<table>
<thead>
<tr>
<th>Platform Orientation</th>
<th>Type of Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Profit</td>
<td>Food Swaps</td>
</tr>
<tr>
<td></td>
<td>TimeBanks</td>
</tr>
<tr>
<td>For-Profit</td>
<td>Relay Rides (transportation)</td>
</tr>
<tr>
<td></td>
<td>Airbnb (accommodation)</td>
</tr>
<tr>
<td></td>
<td>Uber (transportation)</td>
</tr>
<tr>
<td></td>
<td>Makerspaces</td>
</tr>
<tr>
<td></td>
<td>Zipcar (transportation)</td>
</tr>
</tbody>
</table>

Source: Schor, 2014.

Methodology

The Methods Used to Gather Data

Bearing in mind the theoretical background exposed above, we pose the following Research Question and elaborate the respective Research Design:

Research Question (RQ): What is the role of SE in establishing the identity of organizations belonging to the field, considering both identify claims (self-referential) and legitimacy (granted by stakeholders, namely scientific community, investors, analysts, customers, media, and other interested audiences)? Is SE constraining the identity claims for the stake of legitimacy granting, or is SE acting as a general ambiguous category enabling divergence in identities and business models?

Research Design: this RQ was answered by a design involving two components inspired on category creation studies (Durand & Paolella, 2013; Glynn & Navis, 2013; Navis & Glynn, 2010; Kennedy & Fiss, 2013; Kennedy et al., 2010; Lounsbury & Rao, 2004; and Wry et al., 2014): 1) four prototypical SE organizations were selected, each of them belonging to Schor’s (2014) four SE archetypes of activities. Respectively: (i) Airbnb – peer-to-peer, for-profit activity –, (ii) Zipcar – business-to-peer, for-profit activity –, (iii) TimeBanks – peer-to-peer, non-profit – and (iv) Make: makerspaces – business-to-peer, non-profit. The evolution of their identity claims were content analyzed, using data from their publically available reports, as well as, other secondary data available on-line; and 2) considering the same set of SE organizations, legitimacy evolution was analyzed considering how scientific community, investors, analysts, customers, media, and other interested audiences have been constructing category meaning to them, conferring the formation of SE categorical and organizational identities, and perceptions about the viability of their business models (Tripsas, 2009, as cited in Navis & Glynn, 2010). In short, it was analyzed how audiences assess the viability of SE categories and organizations and can grant or withhold legitimacy to SE organizations (Zuckerman, 1999, as cited in Navis & Glynn, 2010).

Results

Evolution of Identity Claims (self-referential) of Prototypical SE Organizations

Table 1 below presents the results in a concise timeline of the key events related with the evolution of identity claims (self-referential) of four prototypical SE organizations: Airbnb, Zipcar, Timebanks and Make: makerspaces.

Table 1 – Evolution of Identity Claims (self-referential) of Prototypical SE Organizations

<table>
<thead>
<tr>
<th>Prototypical Organization</th>
<th>Architype of SE activity</th>
<th>Milestone Facts &amp; Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airbnb</td>
<td>Peer-to-peer</td>
<td>FALL 2007</td>
</tr>
<tr>
<td></td>
<td>For-profit</td>
<td>Brian Chesky and Joe Gebbia host the first guests of Airbedandbreakfast.com to make rent money.</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>----------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>MARCH 2008 Airbed &amp; Breakfast officially launches during SXSW 2008 and makes two bookings.</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>EARLY AUGUST 2008 The formal Airbed &amp; Breakfast website launches for the Democratic National Convention to offer a solution for hotel room shortages and makes 80 bookings.</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>FALL 2008 Chesky and Gebbia come up with the idea for Obama O's and Cap'n McCain's and sell $30K worth.</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>MARCH 2009 Airbed &amp; Breakfast changes its name to Airbnb and expands beyond just rooms to apartments, houses, and vacation rentals.</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>NOVEMBER 2010 Airbnb launches the iPhone app and Instant Book feature.</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>SUMMER 2011 Airbnb begins international expansion with opening of German office.</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>MAY 2012 Airbnb introduces the $1M Host Guarantee.</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>JUNE 2012 Airbnb launches the Wish Lists feature.</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>NOVEMBER 7, 2012 Airbnb offers free listings for Hurricane Sandy in partnership with the city of New York - the official launch of the Disaster Relief tool.</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>SUMMER 2013 Airbnb moves headquarters to 888 Brannan San Francisco.</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>JUNE 2014 Airbnb hosts more than 100,000 guests during the Rio World Cup.</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>JULY 2014 Airbnb launches rebranding and introduces the Belo.</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>MARCH 27, 2015 Airbnb becomes the official alternative accommodation services supplier for 2016 Rio Olympic Games.</td>
<td></td>
</tr>
</tbody>
</table>
(continuation of table 1)

<table>
<thead>
<tr>
<th>Prototypical Organization</th>
<th>Architype of SE activity</th>
<th>Milestone Facts &amp; Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peer-to-peer</td>
<td>For-profit</td>
<td></td>
</tr>
</tbody>
</table>

|         |                          |                          |
| APRIL 7, 2015 | Airbnb launches in Cuba. |                          |
| NOVEMBER 12-14, 2015 | Airbnb welcomes 6,000 hosts at the Airbnb Open in Paris. |                          |
| NOVEMBER 17-19, 2016 | At the Airbnb Open in LA, Airbnb announces the launch of Trips and welcomes 7,000 attendees from over 100 countries. |                          |
| FEBRUARY 5, 2017 | Airbnb launches the #weaccept campaign in response to the refugee ban. |                          |
| MARCH 2017    | Airbnb executives travel the globe meeting with the host community and world leaders to expand Trips to 20 more cities. |                          |
| MARCH 21, 2017 | Airbnb launches their Chinese brand, Aibiying. |                          |
| AS PER TODAY, AUGUST 3, 2017 | Airbnb stresses its identity claims in its website, by self-referring itself as: “Founded in August of 2008 and based in San Francisco, California, Airbnb is a trusted community marketplace for people to list, discover, and book unique accommodations around the world — online or from a mobile phone or tablet”; “Whether an apartment for a night, a castle for a week, or a villa for a month, Airbnb connects people to unique travel experiences, at any price point, in more than 65,000 cities and 191 countries. And with world-class customer service and a growing community of users, Airbnb is the easiest way for people to monetize their extra space and showcase it to an audience of millions”. |                          |

<p>| 1999      | Antje Danielson and Robin Chase conceive the idea for Zipcar. |                          |
| 2000      | The first Zipcar logo; JUNE: The first Zipcars debut on the streets of Boston and Cambridge. |                          |
| SEPTEMBER 2001 | Zipcar arrives in Washington D.C. |                          |
| 2003      | The second Zipcar logo; JANUARY: Zipcar reaches 5,000 users. |                          |</p>
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>The third Zipcar logo; &lt;br&gt;APRIL: Launch of Zipcar for Business (to help companies get their innovative ideas off the ground); &lt;br&gt;AUGUST: The first out-of-city campus opens at Wellesley College.</td>
</tr>
<tr>
<td>2006</td>
<td>APRIL: Zipcar reaches 50,000 users; &lt;br&gt;MAY: Zipcar arrives in Toronto and Ontario, Canada; &lt;br&gt;NOVEMBER: Zipcar opens a London office as part of a European expansion effort.</td>
</tr>
<tr>
<td>OCTOBER 2007</td>
<td>Zipcar merges with Seattle-based rival Flexcar, with the resulting company retaining the name and Cambridge headquarters of Zipcar.</td>
</tr>
<tr>
<td>SEPTEMBER 2008</td>
<td>Zipcar reaches 5,000 “Zipcars”.</td>
</tr>
<tr>
<td>JUNE 2009</td>
<td>The Zipcar iPhone app is announced at the Apple Worldwide Developer Conference.</td>
</tr>
<tr>
<td>APRIL 2010</td>
<td>Zipcar buys Streetcar, the largest British car-sharing company, for about $50 million.</td>
</tr>
<tr>
<td>DECEMBER 2010</td>
<td>In a venture funding round, Zipcar raises $21 million from Meritech Capital Partners and Pinnacle Ventures.</td>
</tr>
<tr>
<td>APRIL 2011</td>
<td>Zipcar goes public, earning a market valuation of more than $1 billion; Zipcar reaches 500,000 users.</td>
</tr>
<tr>
<td>2012</td>
<td>MARCH: Zipcar debuts at airports: JFK, Newark and LaGuardia; &lt;br&gt;MAY: Zipcar reaches 10,000 “Zipcars”; &lt;br&gt;JULY: Zipcar expands its European presence; &lt;br&gt;NOVEMBER: Zipcar has 767,000 members, more than 700 employees and 11,000 cars available in the U.S., Canada and Europe.</td>
</tr>
<tr>
<td>2013</td>
<td>JANUARY: Avis Budget Group announces its intent to buy Zipcar. It will operate as an Avis subsidiary. &lt;br&gt;OCTOBER: Zipcar launches its first TV commercial airs; &lt;br&gt;DECEMBER: Zipcar launches their Blog (Ziptopia).</td>
</tr>
<tr>
<td>2014</td>
<td>MAY: ONE&gt;WAY beta launches in Boston. &lt;br&gt;JUNE: Zipcar reaches 900,000 users.</td>
</tr>
</tbody>
</table>
2015
OCTOBER: Zipcar is live in more places and more people than ever: 500+ cities and towns, 500+ universities, 50+ airports;
DECEMBER: Zipcar reaches an ecological footprint: its members reduced their CO2 emissions by over 1.5 billion pounds in 2015.

NOVEMBER 8, 2016
Zipcar gives away free car rentals on American Election Day to encourage its members to vote;
A Zipcar is reserved every 6 seconds.

AS PER TODAY, AUGUST 3, 2017
Zipcar stresses its identity claims in its website, by self-referring itself as:
“We’ve been around since 1999. That was before Wikipedia, the Razr phone, and the iPod. Whoa. With 15 years of collaboration and innovation under our (seat) belts, we’re working to make cities better places to live.”
“It's been more than a decade since our founders sat in a café and decided to bring the European car-sharing idea to North America. Once the wheels were in motion, it was only a matter of time before some major changes helped grow a little car-sharing company into the world's leading car-sharing network. Today, thanks to cool technology, a member-driven user experience, and an amazing team of hands-on car sharing enthusiasts, we are redefining the way this generation thinks about alternative transportation”; “We're not horn tooters, more like ambassadors for change. Zipcar isn’t just about the concept of car sharing; it's about the people who make it a reality: a team that works hard, members who believe, and organizations that are making conscious decisions for the future. We’re gonna keep doing what we're doing, looking for ways to make car sharing easier, faster, and better. We're not trying to rule the world, just trying to give regular people – young and old, business types and family types – the freedom to live life”.

<table>
<thead>
<tr>
<th>Prototypical Organization</th>
<th>Architype of SE activity</th>
<th>Milestone Facts &amp; Events</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1980 (VERY EARLY DAYS)</strong></td>
<td>Peer-to-peer Non-profit</td>
<td>Dr. Edgar S. Cahn creates TimeBanking as a medium of exchange that would act as a way to encourage and reward the work needed to build strong, resilient communities.</td>
</tr>
<tr>
<td><strong>1981 (STILL VERY EARLY DAYS)</strong></td>
<td></td>
<td>Grace Hill Settlement House in St. Louis, MO became the first organization to use TimeBanking.</td>
</tr>
<tr>
<td><strong>1995</strong></td>
<td></td>
<td>TimeBanks USA (TBUSA), a registered 501c3 headquartered in Washington D.C., was formed by Dr. Edgar Cahn to expand the knowledge and field of timebanking and its impact on individuals, youth, families, communities, the environment, and the world.</td>
</tr>
</tbody>
</table>
Having one of its roots in MIT’s Fab Labs (Burke, 2014, as cited in Davis, 2017), the makerspace movement has its first milestone foundation pillar with the launch of Make: magazine with the use of the word “Maker” to name the community.

A further catalyst for the surge of the maker movement was the Launch of Maker Faires. The first was held in 2006 in the San Francisco Bay Area.

There were nearly 200 Maker Faire around the world with four of the events drawing at or above 100,000 people in San Mateo, New York, Rome and Shenzhen.

During this period, Make: has been published bi-monthly in print and featuring dozens of DIY technology projects.
(continuation of table 1)

<table>
<thead>
<tr>
<th>Stakes</th>
<th>Prototypical Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business-to-peer</td>
<td>Non-profit</td>
</tr>
</tbody>
</table>

**AS PER TODAY, AUGUST 3, 2017**

Make: makerspaces stresses its identity claims in its website, by self-referring itself as:

“Makerspaces represent the democratization of design, engineering, fabrication, and education”; “To describe them simply, makerspaces are community centers with tools. Makerspaces combine manufacturing equipment, community, and education for the purposes of enabling community members to design, prototype and create manufactured works that wouldn’t be possible to create with the resources available to individuals working alone”; “These spaces can take the form of loosely-organized individuals sharing space and tools, for-profit companies, non-profit corporations, organizations affiliated with or hosted within schools, universities or libraries, and more. All are united in the purpose of providing access to equipment, community, and education, and all are unique in exactly how they are arranged to fit the purposes of the community they serve”.


**Evolution of Legitimacy Granting by Stakeholders, External Actors, Interested Audiences**

**Scientific Community**

Table 2 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by the scientific community to four prototypical SE organizations: Airbnb, Zipcar, Timebanks and Make: makerspaces.

**Table 2 – Evolution of Legitimacy Granting by Scientific Community**

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Official launch of TimeBanks</td>
<td>considering legitimacy granting as a whole to their field of action</td>
</tr>
<tr>
<td>2000</td>
<td>Official launch of Zipcar</td>
<td></td>
</tr>
</tbody>
</table>

Two of these four prototypical organizations are founded before any scientific studies related to their field of action:
(continuation of table 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Author(s)</th>
<th>Event/Description</th>
<th>Cognitive Legitimation/Credibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td><strong>Official launch of Make: makerspaces</strong></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Botsman &amp; Rogers</td>
<td>Publication of Book “What’s mine is yours: The rise of the Collaborative Consumption”. Introduction of the term “collaborative consumption”.</td>
<td>Early days of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2012</td>
<td>Bardhi &amp; Eckhardt</td>
<td>Introduction of the expression: “access-based consumption”.</td>
<td>Early days of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2013</td>
<td>Owyang</td>
<td>Introduction of the concept “Collaborative Economy”.</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2014</td>
<td>Belk</td>
<td>The author criticizes Botsman’s &amp; Rogers’ approach by defining collaborative consumption as “people coordinating the acquisition and distribution of a resource for a fee or other compensation”.</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
</tbody>
</table>
### (continuation of table 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Authors/Contributions</th>
<th>Main Contributions</th>
<th>Legitimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Frenken et al.; Meelen &amp; Frenken</td>
<td>Further contribution in defining the SE.</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>Hamari et al.</td>
<td>Introduction of an alternative definition of Collaborative Consumption: it’s “a peer-to-peer-based activity of obtaining, giving, or sharing the access to goods and services, coordinated through community-based online services”.</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2016</td>
<td>Cheng</td>
<td>Publication of “Sharing Economy: A review and agenda for future research”.</td>
<td>Consolidation of Cognitive Legitimation; Credibility; Sociopolitical Legitimation discussion.</td>
</tr>
<tr>
<td>2016</td>
<td>Bonciu &amp; Bâlgar</td>
<td>Publication of a study “Sharing Economy as a Contributor to Sustainable Growth. An EU Perspective”.</td>
<td>Consolidation of Cognitive Legitimation; Credibility; Sociopolitical Legitimation discussion.</td>
</tr>
</tbody>
</table>
(continuation of table 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Authors</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Frenken &amp; Schor</td>
<td>Publication of a study &quot;Putting the sharing economy into perspective&quot;.</td>
</tr>
<tr>
<td>2017</td>
<td>Yang et al.</td>
<td>Publication of a study on “Why are customers loyal in sharing-economy services? A relational benefits perspective”.</td>
</tr>
<tr>
<td>2017</td>
<td>Mair &amp; Reischauer</td>
<td>Publication of a study on “Capturing the dynamics of the sharing economy: Institutional research on the plural forms and practices of sharing economy organizations”.</td>
</tr>
<tr>
<td>2017</td>
<td>Muñoz &amp; Cohen</td>
<td>Publication of a study on “Mapping out the sharing economy: A configurational approach to sharing business modelling”.</td>
</tr>
<tr>
<td>2017</td>
<td>Bradley &amp; Pargman</td>
<td>Publication of a study on “The sharing economy as the commons of the 21st century”.</td>
</tr>
<tr>
<td>2017</td>
<td>Hira &amp; Reilly</td>
<td>Publication of a study on &quot;The Emergence of the Sharing Economy: Implications for Development&quot;.</td>
</tr>
</tbody>
</table>

Source: Airbnb, 2017; Zipcar, 2017a; Zipcar, 2017b; TimeBanks, 2017; Maker: makerspaces, 2017; Benkler, 2002; Bawens, 2005; Lessig, 2008; Botsman & Rogers, 2010; Bardhi & Eckhardt, 2012; Owyang, 2013; Belk, 2014; Dubois et al., 2014; Schor, 2014; Schor, 2015; Schor & Fitzmaurice, 2015; Schor et al., 2014; Frenken et al., 2015; Meelen & Frenken, 2015; Hamari et al., 2015; Kim et al., 2015; Knoté & Blohm, 2016; Lee et al., 2016; Cheng, 2016; Boncici & Bălgar, 2016; Frenken & Schor, 2017; Yang et al., 2017; Mair & Reischauer, 2017; Muñoz & Cohen, 2017; Hira & Reilly, 2017; Bradley & Pargman, 2017.
Investors

Table 3 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by investors to four prototypical SE organizations: *Airbnb*, *Zipcar*, *Timebanks* and *Make: makerspaces*.

Table 3 – Evolution of Legitimacy Granting by Investors

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>PROTOTYPICAL ORGANIZATIONS</th>
<th>STAKEHOLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investors</strong></td>
<td></td>
<td><strong>Investors</strong></td>
</tr>
<tr>
<td>Date</td>
<td>Actor</td>
<td><strong>Nature of Legitimacy Granting</strong></td>
</tr>
<tr>
<td>April 2009</td>
<td>Sequoia Capital and Y Ventures</td>
<td>Investment of $600 thousand.</td>
</tr>
<tr>
<td>November 2010</td>
<td>Greylock Partners; Keith Rabois; Y Ventures; SV Angel; Elad Gil; Jeremy Stoppelman; Ashton Kutcher; Sequoia Capital</td>
<td>Investment of $7.2 million.</td>
</tr>
<tr>
<td>July 2011</td>
<td>CrunchFund; Ashton Kutcher; Jeff Bezos; General Catalyst; DST Global; Andreessen Horowitz; Oliver Jung; Sequoia Capital</td>
<td>Investment of $112 million.</td>
</tr>
<tr>
<td>October 2013</td>
<td>Ashton Kutcher; CrunchFund; Founders Fund; Sequoia Capital; Airbnb</td>
<td>Investment of $200 million.</td>
</tr>
</tbody>
</table>
(continuation of table 3)

<table>
<thead>
<tr>
<th>Month</th>
<th>Investors</th>
<th>Investment Amount</th>
<th>Legitimation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2014</td>
<td>Dragoneer Investment Group; T. Rowe Price; TPG Growth; Sherpa Capital; Sequoia Capital; Andreessen Horowitz</td>
<td>$475 million</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>June 2015</td>
<td>Groupe Arnault; Horizons Ventures; Hillhouse Capital Group; General Atlantic; Tiger Global Management; Temasek Holdings; Kleiner Perkins Caufield &amp; Byers; GGV Capital; China Broadband Capital; Wellington Management; Baillie Gifford; T. Rowe Price; Fidelity Investments; Sequoia Capital</td>
<td>$1.5 billion</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>November 2015</td>
<td>FirstMark</td>
<td>$100 million</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>June 2016</td>
<td>JP Morgan Chase &amp; Co.; Citigroup; Morgan Stanley; Brand Capital</td>
<td>$1 billion</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>September 2016</td>
<td>Altimeter Capital; Glade Brook Capital Partners; Geodesic Capital; TCV; CapitalG</td>
<td>$555.46 million</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>March 2017</td>
<td>Jeff Jordan; Alfred Lin; TCV; CapitalG</td>
<td>$447.8 million</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
</tbody>
</table>
(continuation of table 3)

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>Nature of Legitimacy Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2002</td>
<td>Name of entity(ies) not available $4.7 million raised in a venture round (Series B).</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>November 2006</td>
<td>Greylock Partners; Benchmark; Globesan Capital Partners Investment of $25 million.</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>November 2007</td>
<td>Boston Community Capital; Benchmark Investment of $45 million.</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>January 2013</td>
<td>Avis Budget Group Buys Zipcar for $500 million (Zipcar, though, will operate as an Avis subsidiary, retain its CEO and chief operating officer)</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>Nature of Legitimacy Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO INVESTORS (Non-Profit prototypical organization)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NO INVESTORS (Non-Profit prototypical organization)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Crunchbase, 2017a; Crunchbase, 2017b.
Customers

Table 4 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by customers to four prototypical SE organizations: Airbnb, Zipcar, Timebanks and Make: makerspaces.

Table 4 – Evolution of Legitimacy Granting by Customers

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>PROTOTYPICAL ORGANIZATIONS</th>
<th>STAKEHOLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td></td>
<td>Customers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>NYU (New York University)</td>
<td>Study co-sponsored by Make: and Intel, where there is an in-depth analysis of the profile of makerspaces users/community, thus addressing why they opted for using makerspaces.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of Legitimacy Granting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>PwC (Pricewater house Coopers)</td>
<td>Report on assessing the SE and the customers'/public's adherence to SE products and services in the USA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of Legitimacy Granting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>Zipcar</td>
<td>Zipcar publishes a “story”, where it presents a timeline in an infographic format of the key facts and metrics accumulated along the years regarding its customers' adherence.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of Legitimacy Granting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2016</td>
<td>Airbnb</td>
<td>Report “airbnb citizen”, showing the results of year 2016 in terms of customer adherence to its services.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of Legitimacy Granting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2017</td>
<td>TimeBanks</td>
<td>As per date August 9, 2017, the “Directory of TimeBanks” reveals some key metrics showing the overall level of adherence of society worldwide:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature of Legitimacy Granting</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
</tbody>
</table>

- **Timebank communities**: 286;
- **Individual members**: 21827;
- **Countries**: 19 spread by the six continents – Asia, Africa, North America; South America, Europe and Australia;
- **Cities**: 255.

Media

Table 5 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by the media to four prototypical SE organizations: Airbnb, Zipcar, Timebanks and Make: makerspaces.

Table 5 – Evolution of Legitimacy Granting by the Media

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>PROTOTYPICAL ORGANIZATIONS</th>
<th>STAKEHOLDER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media</td>
<td>Airbnb, Zipcar, Timebanks</td>
<td>Media</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>EVENTS</th>
<th>Nature of Legitimacy Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Fortune (Magazine)</td>
<td>Alternative terms to SE are brought forward: Gig Economy, On-Demand Economy and Rental Economy.</td>
<td>Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>The New York Times (Newspaper)</td>
<td>Article on the malefic effects of Airbnb renting for a local and quite neighborhood in Austin, Texas, USA.</td>
<td>Cognitive Legitimation; Credibility discussion; Sociopolitical Legitimation discussion.</td>
</tr>
<tr>
<td>2016</td>
<td>FT (Financial Times Newspaper)</td>
<td>Article about the Sharing Economy, arguing that “regulators should not rush to curb Uber and Airbnb”.</td>
<td>Cognitive Legitimation; Credibility; Sociopolitical Legitimation discussion.</td>
</tr>
</tbody>
</table>
(continuation of table 5)

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>Description</th>
<th>Legitimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>El Mundo (Newspaper)</td>
<td>Article about Airbnb having legal barriers in Barcelona, Spain.</td>
<td>Cognitive Legitimation; Credibility; Sociopolitical Legitimation discussion.</td>
</tr>
<tr>
<td>2016</td>
<td>The Economist (Magazine)</td>
<td>Article “The sharing economy brings tycoon lifestyles within reach of some”.</td>
<td>Sameness; Distinctiveness; consolidation of Cognitive Legitimation; consolidation of Credibility.</td>
</tr>
</tbody>
</table>

**TV NEWS BROADCASTERS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Channel</th>
<th>Description</th>
<th>Legitimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>CNBC TV News Channel</td>
<td>Periodic debate space named “Sharing Economy”. These debates still run today and reach all sectors of activity with SE.</td>
<td>Sameness; Distinctiveness; consolidation of Cognitive Legitimation; consolidation of Credibility.</td>
</tr>
<tr>
<td>2014</td>
<td>BBC TV News Channel</td>
<td>Article “JustPark and the sharing economy”.</td>
<td>Sameness; Distinctiveness; Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>CNN TV News Channel</td>
<td>Article “Sharing is daring: mapping the disruption economy”.</td>
<td>Sameness; Distinctiveness; Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2016</td>
<td>Bloomberg TV News Channel</td>
<td>Video together with an article “The Sharing Economy Doesn’t Share the Wealth”.</td>
<td>Cognitive Legitimation; Credibility discussion; Sociopolitical Legitimation discussion.</td>
</tr>
<tr>
<td>2017</td>
<td>CBS TV News Channel</td>
<td>Video together with an article “Inside China’s booming sharing economy”.</td>
<td>Sameness; Distinctiveness; consolidation of Cognitive Legitimation; consolidation of Credibility.</td>
</tr>
<tr>
<td>(continuation of table 5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOCIAL NETWORKS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Since Social Networks inception</td>
<td>Facebook, YouTube, Flickr, Pinterest and Twitter</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
|How does the SE relate to media? As David Buckingham (2017) explains, “On one level, the sharing economy largely depends upon social media (in the form of the internet, apps and mobile devices) to market its services, and to develop reputations via user rating and recommendation systems. In this respect, it uses media technologies as tools. However, many of the same arguments apply to the sharing of media artefacts themselves – where the media are products rather than merely tools (…) In this sense, platforms like Facebook, YouTube, Flickr, Pinterest and Twitter could all be seen as examples of the sharing economy. They present themselves as services that enable the free sharing of media material (whoever produces it), but they are all commercial platforms that generate (or promise to generate) massive profits for their owners. The only notable exception to this is Wikipedia, which remains one of the very few non-commercial sharing platforms”.

YouTube videos, for instance, are clear examples of how social media platforms serve to promote the services of Airbnb, Zipcar, TimeBanks and Maker: makerspaces. All these prototypical organizations make use of the potential and effectiveness of social media to reach their audiences, explain what they are, make self-referential identity claims and outline their value proposal.|

Other Analysts

Table 6 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by other analysts to four prototypical SE organizations: Airbnb, Zipcar, Timebanks and Make: makerspaces.

Table 6 – Evolution of Legitimacy Granting by Other Analysts

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>Events</th>
<th>Nature of Legitimacy Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>OECD</td>
<td>The Organization attempts to define the SE.</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2015</td>
<td>PwC (Pricewaterhouse Coopers)</td>
<td>Report on assessing the SE.</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
<tr>
<td>2016</td>
<td>ESA (Economics and Statistics Administration of the U.S. Commerce Department)</td>
<td>Report attempting to define and map out the contours of the SE.</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
</tr>
</tbody>
</table>
Other Interested Audiences

Table 7 below presents the results in a concise timeline of the key events related with the evolution of legitimacy granting by other interested audiences to four prototypical SE organizations: *Airbnb*, *Zipcar*, *Timebanks* and *Make: makerspaces*.

Table 7 – Evolution of Legitimacy Granting by Other Interested Audiences

<table>
<thead>
<tr>
<th>Date</th>
<th>Actor</th>
<th>EVENTS</th>
<th>Nature of Legitimacy Granting</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Oxford Dictionary</td>
<td>The terms “Sharing Economy” (SE) and “Ride-Share” (RS) are added to Oxford Dictionary.</td>
<td>Reinforcement of Cognitive Legitimation and Credibility.</td>
</tr>
</tbody>
</table>
(continuation of table 7)

<table>
<thead>
<tr>
<th>Year</th>
<th>Event/Conference</th>
<th>Location</th>
<th>Topic/Description</th>
<th>Consolidation of Cognitive Legitimation; Credibility Step towards Sociopolitical Legitimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>FCT (Federal Trade Commission)</td>
<td></td>
<td>Public Workshop to Examine Competition, Consumer Protection and Economic Issues Raised by the Sharing Economy.</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>Milken Institute (Santa Monica, LA, USA)</td>
<td></td>
<td>Conference: “Is the Sharing Economy the New Normal?”.</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>University of Southampton (Southampton, UK)</td>
<td></td>
<td>Workshop: “Third International Workshop on the Sharing Economy”.</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>Humboldt-Universität zu Berlin (Berlin, Germany)</td>
<td></td>
<td>Conference: “7th International Conference on Corporate Sustainability and Responsibility – CSR In an Age of Digitization”. One of the tracks was about the “Sharing Economy”.</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Shidler College of Business – University of Hawaii (Mānoa, Hawaii)</td>
<td></td>
<td>Conference: “50th Hawaiian International Conference on System Sciences (HICSS)”. One of the tracks was about the “Sharing Economy”.</td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td>Host</td>
<td>Event</td>
<td>Consolidation of Cognitive Legitimation; Credibility.</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>------</td>
<td>-------</td>
<td>------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Bizz Grid (Stockholm, Sweden)</td>
<td>Conference: “Sharing Economy and Earnings on Demand”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>Universidade do Algarve (in collaboration with two other partner institutions: The University of Applied Sciences, Pforzheim, Germany; Autónoma University, Madrid, Spain (Faro, Portugal))</td>
<td>Conference: “Sharing Economy – Collaborative Consumption: Current trends and visions in key economic areas for Germany and Southern Europe”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>ATINER – Athens Institute for Education and Research (Athens, Greece)</td>
<td>Conference: “A Panel on The Sharing Economy as part of the 4th Annual International Conference on Social Sciences”.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion

From a perspective of the evolution of the identity claims (self-referential) our findings reveal that none of the four prototypical SE organizations identify themselves as belonging to a category named “sharing economy”. However, all them present a progressive sustainable evolution in their identity claims with significant milestone events and facts overtime towards their consolidation in the market place. Observing the timeline evolution, we can see how far has each of the organizations evolved. Comparing the two temporal extremes of the timeline – one dated in the inception and another dated August 2017 – of each of them, we may notice how much they have elapsed, gained density and, consequently, got scale dimension along the years.

From a perspective of the evolution of legitimacy granting by stakeholders, and taking into consideration the studies of category creation – (i) Glynn & Navis, 2013; (ii) Durand & Paolella, 2013; (iii) Kennedy & Fiss, 2013; (iv) Kennedy et al., 2010; (v) Lounsbury & Rao, 2004; (vi) Wry et al., 2014; (vii) Navis & Glynn, 2010; (viii) Tripsas, 2009; and (ix) Zuckerman, 1999, our findings respectively show that:

SE is still connoted with great uncertainties, category legitimation and, yes, there currently is an increasingly pressure from audiences, specially from Scholars and Governmental officials, in finding a legitimate and disciplined fit in societal categories. SE is acting as a general ambiguous category enabling divergence in identities and business models;

In the exercise of constructing a categorization meaning to SE, yes, one should consider a process that goes beyond a mere rigid, constraint, straitjacket categorical model. That is, SE seems to be contoured by (a) a causal dimension – i.e. since Airbnb uses web 2.0 whose purpose is to enable the sharing (in exchange of money) of rooms between a community, then its interested audiences may extrapolate that it is inserted within the SE category (“cognitive test of congruence”) – and (b) goal dimension – it generates ad hoc categories (goal-derived categories) – i.e. since Airbnb was created to serve as an appealing alternative, in terms of price, social experience, easiness in accessing, etc., to Hotel Reservations (“goal satisfying calculus”), then its interested audiences tend to legitimate it because it meets their goal satisfying calculus in having access to a less expensive service, more exciting social experience, less complicated reservation experience and an overall enhancement in comfort;

Yes, SE seems to be contoured by the two dimensions described by Kennedy and Fiss (2013): (a) – i.e. There is an “occasion and motivation” dimension for invoking Airbnb as a category. It seems to be a nascent and ad hoc category of “Accommodation”, as it facilitates a specific goal (audiences seek access to a less expensive service, more exciting social experience, less complicated reservation experience and an overall enhancement in comfort comparing to Hotel Reservations, for example); and (b) sure the emergence of Airbnb as a new ad hoc category implies a direct effect of pre-established ontologies, due to the simple fact that anything that is nascent and new will force the understanding (its true meaning) of how it will fit within pre-existent conformities and it will re-shape the ontological knowledge on the “accommodation” sector. Thus, the role of SE seems to be as a straitjacket in the definition of organizational identity, and types of business models within it;

Yes, there seems to be a “category currency” dimension associated with the construction of SE as a presumably “alternative” category. Explaining: if one applies the example of Zipcar in Kennedy et al.’s (2010) model of Category Meaning Construction and its 8 ways how category meaning can change, one would elaborate: the Focal Category (or reference category) would be “Taxi transportation”, whereas the Alternative for Consideration would be “Zipcar transportation”. Moreover, in evaluating the conformity of the latter one (in other words, how would one label it in the context of taxi transportation), one should consider the 8-hypothesis brought forward by Kennedy et al: 1) Should one re-define what “taxi transportation” is?, 2) Should one, instead, derive that there are two distinct services (Taxi and Zipcar), a subdivision, although belonging to the same focal category?, 3) Should one consider that none of these hypothesis is true and that Zipcar represents a subtraction of Taxi (in other words, is Zipcar an ad hoc category of Taxi?), 4) Should one validate that Zipcar is part of the Taxi Focal Category (subsumption) ?, 5) Or is Zipcar a substitute of Taxi?, 6) Further, are Zipcar and Taxi a part of a much larger category – “Transportation” –, which allows one to recombine them into a broader categorization?, 7) Even further, is Zipcar inserted in a conglomerate that is formed by several ad hoc categories (ex: transportation in general: Taxi, Zipcar, BUS, Train, Car, Bicycle, Airplane and Boat transportation)?, 8) Or is Zipcar such a disruptive change that makes the market to re-organize itself and invert the logics of the transportation sector? Should, for example, Zipcar become the beacon, the main reference (the rising currency) of the transportation market and incorporate the rest into ad hoc categories (declining currencies) of itself? In other words, all existing “transportation” means should be
reconsidered and given a radical change in its meaning, that is, a previously overlooked or unappealing offering – Zipcar – becomes so popular that it disfavors a previously appealing service – Taxi? All things considered and taking into account Kennedy et al.’s model of Category Meaning Construction and its 8 ways of how category meaning can change, it becomes hard to have a clear answer to whether SE is a straitjacket or an ingredient of creativity in the definition of organizational identity. Meaning: it becomes hard to clearly answer each of the 8 questions above. It’s difficult to positively say that SE is acting as a mere straitjacket in the definition of organizational identity. However, given that all 8 questions have, at this moment in time of the evolution of SE, an open answer, one may deduce that, for now, it may only have a role as an ingredient of creativity, which, one the other hand, turns SE as acting as a general ambiguous category enabling divergence in identities and business models. There isn’t a well-defined, restricted “SE category” if one takes into account Kennedy et al.’s model of Category Meaning Construction. There currently still are rising many disruptive activities and businesses which are very difficult to frame them within a specific existent category (ex: Zipcar vs Taxi in the transportation sector. Do they belong to the same “focal category”, or are they two distinct categories? The same co-relation analysis should be put into perspective regarding the other 3 prototypical organizations – Airbnb, TimeBanks and Make: makerspaces – in terms of their respective sector);

Having Lounsbury’s and Rao’s (2004) work as a reference, the results of the present study do not show any concrete answers, thus, leaving three open questions (maybe for future research opportunities) – (1) Is SE a “cultural construction” implicated in system of power? That is: will its durability last as long as its dominant producers (prototypes) compel industry media to maintain them?; (2) Without media attention, mediation, and their role as a platform for marketing spreading, will our current notion of SE as a “supposed” category wane and, thus, vanish?; (3) Based on Lounsbury’s and Rao’s findings, one should ask: is SE (the conceptualization of it and its growing referring and discussion over the last decade or so) a mere and harsh result of industry politics?

SE firms seem to be hybrid. In the sense that there is a “head-modifier” structure when one category anchors cognition but is modified by features of the other. Example: Zipcar is a type of “transportation service” (the “focal category” or the “header” category, which anchors perceptions of what “transportation service” is), that is modified by features of the other category (the modifier). This other category is: “web 2.0 (mobile app) service” that apparently is less expensive, more convenient and fast in having access to, “presumably” providing a better overall experience to its external audience (consumers). Findings from Wry et al.’s (2014) study leads us to extrapolate that, for example, Zipcar and Airbnb may have been rewarded (ongoing process) or even punished by external audiences (being: consumers, investors, governmental officials, civil society in general) for hybridization contingent on how they mixed “transportation/accommodation”, “innovation” and “technology”. In general terms, these examples of SE services and activities (Zipcar, Airbnb, TimeBanks and Make: makerspaces) have largely been rewarded by customers over the last years, since their adherence to them has undoubtedly increased, but also been punished in some cases by external audiences: (i) taxi driver’s community (its “fight” against Uber, for example) and (ii) governmental officials (Airbnb, for example, was forbidden in Berlin, Germany, in 2016). If one takes into consideration Wry et al.’s findings, that hybridization may indeed have a positive effect on audiences, then one may confirm that, at least from a consumer’s perspective, SE firms such as Zipcar and Airbnb have been legitimized and not overlooked or devalued by them;

Bearing in mind Navis’ and Glynn’s (2010) determinants for legitimation, our results show that 4 out of 5 of those are present in the SE case, thus revealing that there is a pattern path of progressive legitimacy granting in consolidating its place as a category. Recalling the determinants: (1) Sameness (or Close Substitution) – there are a number of services that are perceived to be of the same type in satisfying market demand that may be grouped together as members of that same category. Ex: Schor’s peer-to-peer, for-profit services (Relay Rides and Uber – both in the transportation sector); (2) Distinctiveness – there is a distinctiveness of the members of the SE category. Ex: Schor’s peer-to-peer and business-to-peer, for-profit services (Airbnb and Zipcar – accommodation and transportation sectors, respectively); (3) Credibility – stakeholders (scientific community, customers, investors, media, other analysts and other interested audiences), actors external to the category are judging the feasibility, appropriateness and giving credibility to products and services labelled as SE ones; (4) Cognitive legitimation – stakeholders, the public in general are increasingly becoming familiarized with products and services associated to what has been labelled as SE ones; (5) However, the determinant of Sociopolitical legitimation is still under construction – SE companies are presently facing milestone challenges in gaining legitimation from governmental officials and regulators (Ex: Airbnb’s prohibition in Berlin, Germany, and the taxi driver’s community “fight” against Uber);
The results of our study (data shown in Tables 1 to 7) also meet Tripsas’ (cited in Navis & Glynn, 2010) foundation that the legitimation construct is a complex social process involving both entrepreneurial organizations – in our case: Airbnb, Zipcar, TimeBanks and Make: makerspaces – and prospective resource providers (stakeholders), such as investors, analysts, customers, media, and other interested audiences, in the social construction of a market category’s meaning, the formation of categorical and organizational identities, and perceptions about the viability of the business model;

Also, meeting Zuckerman’s (1999, cited in Navis & Glynn, 2010) findings, our study confirms that audiences (stakeholders) have an absolutely vital influence in assessing the viability of SE and its organizations and can grant or withhold legitimacy to them.

Conclusion and Limitations

In a first instance, from a perspective of the evolution of the identity claims (self-referential) of Airbnb, Zipcar, TimeBanks and Make: makerspaces, our findings show that none of them identify themselves as belonging to a SE category, thus, revealing that SE hasn’t been having a significant role in establishing the identity of those organizations. In a second instance, from a perspective of the evolution of legitimacy granting by stakeholders to the same set of prototypical organizations, we complementarily were able to identify how a vast range of stakeholders, external actors and interested audiences have been granting legitimacy to them. Being a complex social process involving both entrepreneurial organizations and stakeholders, such as investors, analysts, customers, media, and other interested audiences, our study confirms that stakeholders have an critical influence in assessing the viability of SE and its organizations and can grant or withhold legitimacy to them. In this respect, there is a clear pattern path of a progressive legitimacy granting in establishing SE as a category (4 out of 5 identified determinants are present). It has been a process contoured by complex, dense and multifaceted evolutionary granting events. It becomes clearer that SE has been having a positive effect in establishing the identity of organizations belonging to the field. A comprehensive range of stakeholders – scientific community, investors, analysts, customers, media, and other interested audiences – have been studying, analysing, discussing, debating, put into perspective, investing, and adhering to SE products and services (including Airbnb’s, Zipcar’s, TimeBanks’ and Make: makerspaces’ ones) in a progressive manner along the years. Further, based on the studies of category creation discussed earlier, we generally conclude that the process of creating SE as a category is one that that goes beyond a mere rigid, constraint, straitjacket categorical model. That is, at least for now, SE has only been having a role as an ingredient of creativity, which, one the other hand, turns SE as acting as a general ambiguous category enabling divergence in identities and business models. Moreover, SE prototypical organizations seem to be hybrid, in the sense that there is a “head-modifier” structure when one category anchors cognition but is modified by features of the other. Our findings lead us, on the other hand, to extrapolate that prototypical SE services and activities have largely been rewarded by customers over the last years, since their adherence to them has undoubtedly increased, but they also have been punished by other external audiences, namely, governmental officials and regulators for the hybridization contingent on how they mixed “transportation/accommodation”, “innovation” and “technology”, thus, not providing Sociopolitical legitimation to them. Examples of this are (i) the taxi driver’s community “fight” against Uber and (ii) governmental officials in delaying clear regulations for SE companies, such as Airbnb, to legitimately act in the market zone.

Resuming, although each stakeholder gives SE prototypical organizations heterogeneous, diverse, very specific, different, well-defined and sometimes divergent contours (thus, each of them providing SE various activities a “straitjacket” dimension, in the sense of confining them to very specific spheres of action. Example: Schor’s confinement of SE activities into four main archetypes – peer-to-peer, for-profit; business-to-peer, for-profit activity; peer-to-peer, non-profit and business-to-peer, non-profit) and as it shows signs of still being a mutant and evolving process of identity creation, SE seems to be countered by an ingredient of creativity in the definition of organizational identity more than a “straitjacket” force. Stakeholders, in general terms, broach and define SE in various forms and in their very own way. That is the same to say that, taking into consideration the evidence collected in this study, yes SE is constraining the identity claims for the stake of legitimacy granting and it still is acting as a general ambiguous category enabling divergence in identities and business models.

This study provides a number of contributions to extant literature. From an academic perspective, it offers a new layer on framing a detailed understanding of the SE field in its maturing dimension, thus, meeting Mair and Reischauer’s (2017) call for studying the SE, unpack and make sense of an inspiring and complex phenomenon and thereby to advance and refine existing theory. From a methodological perspective, this paper contributes in making an historical analysis of the establishment of organizational identity of four prototypical SE organizations, considering identify claims and legitimacy
granting. From a practical point of view, it can serve as a guide (for new up-coming SE aspiring organizations/entities, for example) to (i) understand what it takes to be considered and legitimated as an SE activity and (ii) get a deeper glance over how socially complex it is to gain legitimation from stakeholders, as it interdependently involves entrepreneurial organizations and prospective resource providers (such as investors, analysts, customers, media, and other interested audiences) in the social construction of their market category meaning, the formation of their categorical and organizational identities, and perceptions about the viability of their business models.

This study is not without limitations. At the forefront, it may be criticized for being too descriptive, in the sense that there wasn’t any experimental design involved in it. The aim was, nevertheless, to make an historical analysis of the establishment of SE organizational identity, considering both identity claims and legitimacy granting, thus, it would always have by default a descriptive dimension associated to it. Second, regarding the chosen sample – just four prototypical organizations –, it would had enlarged the consistency and robustness of our analysis and consequent findings if we would had added more organizations. In this respect, however, our aim was to primary analyze all four Schor’s four SE archetypes of activities, so no activity would be left behind. Having that as a premise, we then chose one organization per archetype of activity and, consequently, came up with Airbnb, Zipcar, TimeBanks and Make: makerspaces. Third, in terms of the business-to-peer, for-profit activity option chosen, we reckon that the study would probably have gained more visibility in case, for example, we had opted for the prototypical organization of Uber instead of Zipcar, mostly for the simple fact that the first has been caught greater attention from stakeholders and audiences, recently. In this respect, yes, we contemplated the first one, but, unfortunately, its website wasn’t and still isn’t running in Portugal due to regulatory constraints, thus, not allowing to obtain direct identity claims data. Fourth, there may certainly be more stakeholders that could well be included in our analysis list of the evolution of legitimacy granting. However, our objective wasn’t to make a systematic literature review nor include all existing stakeholders, but rather to analyze the maximum spectrum of stakeholders as possible.

References


The Relationships in the Process of Knowledge Transfer According to the Triple Helix Model

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Abstract
One of the most important challenges facing modern scientific entities is network cooperation with other organizations and a dialogue facilitating their access to information and knowledge. The essence of this relationship is well illustrated by the Triple Helix Model, which refers to network cooperation in the process of creating knowledge between the academic sector, industry and government. The aim of the study is to analyse and evaluate the relationships in the process of knowledge transfer between the academic sector and other entities working for knowledge-based economy according to the Triple Helix Model. To achieve the purpose of the work, the author used desk research and empirical research. The empirical part of the paper is a case study describing the project called V4mula, as well as conclusions from the realized qualitative research (diagnostic survey method). Project V4mula was implemented in the network of four partners operating in the Visegrad Group.

Keywords: knowledge transfer, network cooperation, innovative processes, Triple Helix Model

1. Introduction
An important distinguishing feature of innovative and competitive organizations is, among others, the demand for knowledge and willingness to cooperate, reflected in the development of various types of bilateral and multi-sector partnerships as well as networks. In the 21st century, different types of networks almost dominated social and economic relations. It could be argued that the spirit of our time is the spirit of the network (Barney, 2008). The network is a set of measures and rules that allows entities to have access to them, making an implementation of joint projects (Brilman, 2002). Networks consist of nodes, links, and flows. Links combine nodes between which there are flows. Nodes, links, and flows in networks are determined by many variables that shape the network of character and shape (Barney, 2008). A network embodies a set of relationships between different entities having the same interests (Hopej, 2013). It is sometimes referred to as a set of autonomous organizations with direct or indirect relationships arising from the agreements (alliances) between participants (Pachura, 2009).

Networking plays a key role in today's knowledge-based economy, oriented towards innovation, and above all towards smart, sustainable growth. It can be said that the spread of the network has fundamentally affected the functioning and performance of many processes: production, experience building, power and culture (Castells, 2007), and ultimately enhances the development of the knowledge economy.

Smart, sustainable and inclusive growth is the key goal of several EU initiatives, strategies and programmes in the short, medium and long term and at the regional, national and pan-European levels (Carayannis, Rakhmatullin, 2014). There are many mechanisms supporting network collaboration, created both in the networks themselves and in their surroundings. Network economy is characterized by increasing the number of links between organizations, based on the synergistic benefits and optimization of use of available resources (Borowicz, Dzierżanowski, Fisherman, Szultka, 2009). These organizations, while pursuing their own goals, are also part of the knowledge transfer process, contributing to the creation of technological and social innovations.

Networking is currently being implemented in many different models and at different levels, although new concepts for its development are still emerging. More and more networks are global. In addition, they often include a large group of diverse entities, which require efficient communication between network participants and efficient management of the relationship between them. Models and tools that aid these processes these processes are helpful here, primarily in terms of production and knowledge sharing, enabling innovation. Terms of rationalization of organization and management of network ventures, focusing on mutual flows of knowledge and innovation between different spheres, were presented, among others, in the.
concept of the Triple Helix Model. It describes the key conditions for the development of networking between organizations, linked through networking, as well as identifies factors that enhance networking processes, primarily as regards the flow of knowledge and innovation between network participants. Using these models also dynamically shapes and develops the structure of the network, and also contributes to the efficiency of the implemented activities.

Networks for exchanging knowledge about socio-economic processes are also developed by organizations cooperating within the Visegrad Group (Poland, the Czech Republic, Slovakia, Hungary), which implement partner projects on various topics. The Triple Helix Model assumptions were used to improve the emerging knowledge transfer network for innovative processes within the framework of the project. V4mula, subsidized by the Visegrad Fund (no. 21520396), implemented in the years 2015-2016 in the cross-sectoral partnership of the organization: INNOSKART Nonprofit Ltd. (cluster - Hungary), University of Dąbrowa Górnicza (High education institution, Poland), You too in IT – non-governmental organization, Slovakia) and DEX Innovation Center (company, the Czech Republic). This paper presents the case study of this project as well as the results of questionnaire surveys, which were attended by representatives of the organizations that make up this network (30 respondents), from the academic, public and business sectors. The aim of the study is to analyse the relationship between the academic sector and other entities involved in sustainable development in line with the Triple Helix Model assumptions. This paper can be useful for all organizations that work in networks, especially for those that emphasize knowledge management and boost innovation.

2. Network cooperation and the Triple Helix Model - theoretical background

The Europe 2020 Strategy raises challenges for the European Union countries relating to i.a. intelligent growth, linked to the development of a knowledge- and innovation-based economy, creating high added value, requiring substantial expenditure on R & D and rapid transfer of theoretical knowledge to business practice. Since the knowledge-based economy cannot develop without an educated society, the quality of education and the development of skills and competences are becoming increasingly important. This applies to the public, commercial and academic sectors. Each has its own contribution to the development of a knowledge-based economy, although the synergistic effect of their networking can outweigh the effects of individual actions.

Contemporary networks are focused on developing innovation models based on knowledge transfer between collaborating organizations. It is evident that in the economy of the 21st century, knowledge and the inextricably linked human capital shape the innovative activity of many organizations, and thus have an impact on the creation of innovation. The organizations which skilfully use their own knowledge and external expertise, invest in research and development as well as develop relationships with partners, develop dynamically and create a high added value in the economy. Among such organizations there is a noticeable increase in the number of cooperative and network links of various character and various degrees of durability. These relationships can take the form of partnership and network projects with a fixed implementation horizon and can be long-term and sustainable. The dynamics of network collaboration requires a deepening of the organization’s knowledge about how to manage networks and relationships in networks. It is important to achieve the goals that the network seeks to achieve, as well as to ensure its sustainability, efficiency, effectiveness and achievement of expected results. Managing relationships in the network includes appropriate selection of cooperating entities, defining the forms of cooperation or methods of communication. Optimization of models and forms of cooperation in networks becomes a challenge for the organizations involved, primarily in terms of assessing the effectiveness of the resources and potentials involved and the results achieved.

At present, innovative processes are most often carried out in a specific system of relations between enterprises and their business environment, with the involvement of research and non-governmental institutions and the public administration. It is clearly visible that the dynamics of the creation and development of commercial innovations are interdependent on the efficiency of the public and non-governmental sectors. In innovative processes, complex cross-sectoral ventures are beginning to dominate, with the involvement of many organizations which gradually displacing individual projects. This requires active involvement and development of network links from the organisations engaged in the cooperation. The Triple Helix Model (Leydesdorff, Etzkowitz, 2010), the Quadruple Helix Model, and the Quintuple Helix Model (Carayannis, Campbell, 2011), depending on the objectives of the cooperation, the organizations involved, can be identified as examples of cross-sector interconnections.

The Triple Helix Model focuses on university–industry–government relations. The Quadruple Helix Model contributes to these relations also the media-based and culture-based public as well as that of a civil society. Features of the quadruple
helix are: culture (cultures) and innovation culture (innovation cultures); the knowledge of culture and the culture of knowledge; values and lifestyles; multiculturalism, multiculture, and creativity; media; arts and arts universities; and multi-level innovation systems (local, national, global), with universities of the sciences, but also universities of the arts. The quadruple helix contextualizes the triple helix, and the quintuple helix the quadruple helix (Carayannis, Campbell, 2011). The Quintuple Helix Model emphasizes the natural environments of society, also for the knowledge production and innovation. It is ecologically sensitive (Carayannis, Thorsten, Campbell, 2012). Each of the models mentioned above takes into account the different aspects of network collaboration, but in view of the objectives of this paper, the Triple Helix Model should be focused on in a particular way. It is related to the concept of a knowledge-based economy (Carayannis, Barth, Campbell, 2012) and it is relevant to the relationship between the academic and other stakeholders communities, i.a. engaged in the V4mula project implementation. The highlight of this project is, among others, the planned outcome of the partial change of roles of individual organizations and greater engagement in activities traditionally attributed to another sector.

The Triple Helix Model, i.e. university-industry-administration-based model (Leydesdorff, 2014), can be helpful in explaining structural change in knowledge-based economies. In this model, innovation is created through the process of creating and transferring knowledge as a result of the interaction between three types of entities: research units (universities and research and development centres), industry (enterprises) and the governmental sphere, e.g., entities shaping country development policy (government, council, administration).

![Fig. 1. Triple Helix Model](image)

The Triple Helix Model is a reference to at least three key issues related to network collaboration. Firstly, it shows the specific, knowledge-based configuration of university-business-administration relationships. Secondly, it emphasizes the social aspect of building relationships between these three groups of entities, since in each case people are engaged in these activities. Thirdly, the participatory aspects are also included in the relations between the spheres of science, business and administration, i.e. public debates, public consultations and research which accompany the innovation processes. Under certain conditions, a system of overlapping communication between the sphere of science, business and administration can function as an independent organization, e.g. in the form of a cluster.

The Triple Helix Model is based on a nonlinear model that replaces linear models based on ‘market pull’ or ‘technology push’ approaches (Leydesdorff, 2014) and enables the analysis of potential synergies, nonlinear interactions between the three helices. The cooperation network expands as science, industry and administration become more involved in the promotion of economic development and research (Bojar, Machnik-Słomka, 2014). The essence of the model is the dependence, according to which what is happening in each helix and in the relationship between them, becomes visible in the functioning of the socio-economic system in which the network operates. As a result of network co-operation; however, it is becoming more and more frequent to change roles. Potentially, each of the triple helix elements can play a different role, e.g. an organization from the sphere of industry can develop research and development in its own laboratories, which is why it takes on the role of the entities in the sphere of science while the university develops academic entrepreneurship in the sphere of business. The centre of power can perform academic functions, supporting the academic research system and developing educational activities targeted at entrepreneurs. Networking in the triple helix model strengthens links between organizations, leaving them autonomous.

Analysis of knowledge expansion proves that the existence of cooperation within the three sectors is not a sufficient condition for innovation. The nature of the dominant industry (Leydesdorff, Fritsch, 2006) plays a significant role, but the
importance of the university is also visible (Marques, Caraça, Diz, 2006) and, in particular, academic entrepreneurship (Lawton Smith, Ho, 2006, Tijssen, 2006). Case studies related to undertakings implemented in this type of network confirm that this model also provides opportunities for promoting innovation and building partnerships (Johnson, 2008). Some authors also point to the presence in this model of indirect organizations located in the space between the sphere of science, business, administration (Olechnicka, Płoszaj, 2010) such as: spin-off companies, incubators and technology parks, patent attorneys offices, scientific networks, etc. (Etzkowitz, Leydesdorff, 1998).

3. Method

The aim of the study is to analyse the relationship between the academic sector and other network participants in line with the Triple Helix Model, in terms of factors influencing the flow of knowledge and the results of this process. Scientific discussions were conducted by the example of cross-sectorial network project called V4mula, implemented by organizations from Visegrad Group countries (V4), with funding from the Visegrad Fund. The project has focused on the promotion of international Research & Development & Innovation (R&D&I) cooperation between the interested organizations. The partners have the opportunity to improve their knowledge and experiences, exchange good and bad practices, promote new technologies and support each other in building new technologies. The scope of the project was the implementation of a joint program for Responsible Research and Innovation (RRI) in V4 regions.

The objectives of the paper are:

1. Evaluation of factors affecting the knowledge flow between the sectors defined in the Triple Helix Model, divided into groups of factors that characterize:
   a) knowledge transfer,
   b) the behaviour of network operators on their participation in the knowledge transfer process,
   c) sectors involved in the transfer, i.e. science, business, administration,
   d) major addressees of innovation i.e. society,
   e) network environment.

2. Assessment of the relevance of knowledge transfer results between the sectors participating in the Triple Helix Model, from the innovation point of view which is the effect of the network functioning.

To achieve the purpose of the work, the author used research and empirical research. The research work is primarily an analysis of available literature and other materials related to networking and knowledge transfer. The conclusions of these studies are described in the previous chapter.

The empirical part of the paper is a case study describing the project called V4mula, as well as conclusions from the realized qualitative research. The research covered 30 organizations including: 10 from Poland, 6 from the Czech Republic, 4 from Slovakia and 10 from Hungary who joined the network. Each was represented in the survey by one respondent, including 12 academics, 6 business representatives, 8 non-governmental organizations, and 4 representatives from government and local government. Most respondents (18) declared that they were very much involved in networking at international level, 8 reported that their engagement was mediocre, and 4 respondents stated that their engagement was low.

The study was conducted in 2017, using the diagnostic survey method, in written and electronic form. The survey questionnaire concerned, among others, three research problems below.

The first of them was an assessment of the importance of each sector, i.e. science, business and administration, in the process of creating knowledge-based innovation. In addition, the influence of social capital, which is included in the Quadruple Helix Model and the Quintuple Helix Model, is also taken into account. Due to the fact that people as consumers of innovation drive progress in many areas, thereby contributing to the dynamics of knowledge transfer and innovation creation, this factor was also supported in the combination of sectors presented clustered in the Triple Helix Model. The described factors were evaluated on the scale of: weak, average and significant influence on the process of creating knowledge-based innovations. In particular, it was about how the relationship between the academic sector and the other sectors is shaping the impact on the process of creating knowledge-based innovation.

The second research problem was related to the factors that affect the flow of knowledge between the sectors defined in the Triple Helix Model. These factors were evaluated by the aforementioned groups (a-e). A total of 25 factors were
evaluated on a scale of: 0 - no impact; 1 - very weak influence; 2 - weak influence; 3 - average influence; 4 - strong influence; 5 - very powerful influence. In the process of analysing these factors, it was sought to identify a group of key determinants (taking into account the highest average rating) responsible for knowledge transfer across the network.

The last of the analysed research problems concerned the results of the knowledge transfer process between network participants, aiming at innovation. A set of 9 potential outcomes of broadly understood innovation processes was tested. The respondents were asked to evaluate the relevance of these results from the point of view of enhancing the innovation of organizations participating in the network.

The solution to the research problem was based on the use of the research methods described above, including the observations of the author who participated in the implementation of the project.

4. Case study – V4mula project

The project named V4mula, co-financed by the Visegrad Fund, was implemented between 2015 and 2016 in a cross-sectoral partnership of four organizations: INNOSKART Nonprofit Ltd. (cluster - Hungary), University of Dąbrowa Górnicza (high education institution, Poland), You too in IT (non-governmental organization, Slovakia) and DEX Innovation Centre (company, the Czech Republic). INNOSKART is the only Silver Labelled cluster in V4 and South East regions with high experience in innovation driven business development. DEX IC is an innovation centre and has supported innovations and technology transfer as external expert in many projects. University of Dąbrowa Górnicza runs many innovative network projects such as: WSB Science Academy, Science Festivals, training projects addressed to the social groups, School of Leaders, Youth Academy of Media, E-Teacher Academy, etc. You too in IT runs projects for high school to motivate students for ICT, it organizes big events and is responsible for communication among partners creating networking.

The reason to develop the project was the socio-economic situation of the Central Europe countries and regions, also V4 countries. They are still behind the leading European regions according to the ranking by GDP (Statistic times, 2015) and also according to the ranking by Global Innovation Index. Most of the entities from V4 did not succeed in participations in innovation projects like Horizon 2020 and very often they do not have strong connections with the innovators, the intellectual workers or the scientists dealing with the top current research. In this case there was a need to decrease these gaps by Responsible Research and Innovation (RRI) development for global networking, especially for the needs of V4 civil and innovation entities.

The consortium was represented by businesses network, a university, an innovation expert and civil association. Due to the wide range of connections the partners have, the primary target groups were: SMEs and researchers, non-governmental organizations and public authorities, citizens as ‘end-users’ ready for further cooperation. The secondary target groups were young people developing their career paths based on knowledge and innovations in different sectors.

The project was designed to develop the regional economy by improving the networking between the civil and business sector. The added value of the project was an excellent strengthening of the partnership and increased trust between the cooperating organizations. The main topics were:

a) Triple helix, Quadruple helix and Quintuple helix models concerning knowledge drivers and innovation drivers,
b) networking and clustering in V4 countries,
c) RRI,
d) social engagement.

The final activity was the workshop focusing on the networking among the regional participants and V4mula partners. Generally, the speakers were regional experts of the dedicated topics; the participants were regional entities interested in innovation-oriented networking.

The project was focused on the promotion of international R&D&I cooperation and knowledge transfer between partners within the network. The interested entities have the opportunity to improve knowledge & experiences (through trainings), exchange good and bad practices (through workshops), promote new technologies (through exhibitions) and support each other in building new cooperation among the civil- and innovation entities towards the global networking (during the final conference and after the formal completion of the project). The scope of this project was the implementation of a joint program for RRI in V4 regions.
The program developed the national economy by encouraging RRI via global networking. The high quality of the consortium was assured by the partners' excellence derived from different fields of business and economy development. The partners represented knowledge and experience on: HR developments (PL), Civil society and Networking (SK), RRI (CR), business developments (HU). Partners were dedicated to improve their knowledge in parallel with supporting their regional economy development, intensely focusing on innovation and networking.

The project's aim was to improve the V4 regions' competitiveness via: special training program on Triple helix, Quadruple helix and Quintuple helix, regional workshops, international conference and exhibition. The outputs were: 4 regional workshops (1 by each partner in home regions where all the partners presented and added their knowledge and expertise to the program by their personal presence), 4 trainings (1 by each partner in their home region with local experts in a native language with the main focus on ‘Science with and for Society’ aspect), 1 international conference where all the gained knowledge and related experiences were shared. The additional direct output was the encouraged global networking. Another activity was the 1 exhibition to promote new technologies of V4 regions, 1 Linkedin Group and 1 web- and 1 Facebook appearance led as well as 1 video film on YouTube channel.

The direct results achieved by the end of the project are as follows: the knowledge and experience on RRI has been improved; the networking between the civil- and innovation entities have become more effective; the European visibility of V4 partners has improved. In totally, ca. 100 people participated in all the activities within the project.

The further network development after the project completion is based on the area of technology, innovation and entrepreneurship. Technology, innovation and entrepreneurship are the driving forces behind the development of a knowledge-based society. The sustainable development of such a society can only take place when knowledge is produced and promoted and when innovation is developed.

After the project, the partners’ ability for generating and participating in new consortia has improved. The four major pillars of the partners’ activities after the project are: exchange new knowledge and experiences (emails, Skype conferences), share business ideas and find synergy that creates new business models, marketing plans or products (Face-to-Face meetings), commercialization (business driven networking) and global networking.

5. Results

To determine the relationship between the academic sector and other sectors in accordance with the Triple Helix Model, respondents were asked about the impact of individual sectors on knowledge flows and innovation. The respondents were also expected to assess the role of society as a consumer of innovation, and at the same time the source of inspiration for their creation. According to research, the greatest influence on the transfer of knowledge and creation of innovation was clearly assigned to the business sector (21 persons, 70% of the respondents), followed by the academic sector (6 persons, 20 %) and the administration sector (3 persons, 10 %). At the same time, only 40% of the respondents (12 persons) felt that society has a significant impact on innovation. It should be noted that the respondents in this question referred mainly to their own experiences (all network participants declared a link with innovative processes), since the duration of the cooperation network within the project was not long enough for such relations to become expressive. As for the assessment of factors affecting the flow of knowledge between the sectors defined in the Triple Helix Model - the respondents' ratings of the groups were presented below.

In the first place, the factors related to knowledge transfer were analysed. It can be assumed that knowledge as an organization resource and as a product that can be the subject of a business transaction must be characterized by certain characteristics. This applies both to knowledge that is transferred from the academic sector to the business sector (primarily knowledge acquired through fundamental research, know-how and inventions), as well as knowledge transferred from the business sector to the academic sector (e.g. knowledge of the demand for technological and social solutions to fill the identified market gap or knowledge about the specific needs and expectations of customers). The following table shows the assessment of these factors by the respondents.

<table>
<thead>
<tr>
<th>No</th>
<th>The type of factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The quality of knowledge</td>
<td>4.07</td>
</tr>
<tr>
<td>2.</td>
<td>Availability of knowledge</td>
<td>4.36</td>
</tr>
</tbody>
</table>
3. Price of knowledge: 3.86
4. Usefulness of knowledge: 4.28
Average: 4.14

Source: survey results

In the five-level scale the transferred knowledge was rated high, at an average of 4.14 points. Relatively highest was graded the availability of knowledge (4.36) and the lowest – the price of knowledge (3.86). It should be noted, however, that among all the groups of factors assessed, the transferred knowledge, more specifically its quality, availability, price and usefulness, was identified by respondents as a key factor influencing the flow of knowledge between the sectors defined in the Triple Helix Model.

The study also assessed the behaviour of network entities on their participation in the knowledge transfer process. In this case, 11 factors were analysed. Their selection was based on observing the behaviour of the participants of the network during the implementation of the tasks envisaged in the project. Assessments of the individual factors are included in the table below.

Tab. 2 Behaviour of entities in the network

<table>
<thead>
<tr>
<th>Nº</th>
<th>The type of factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Participation in networks for knowledge and innovation transfer</td>
<td>3.86</td>
</tr>
<tr>
<td>2</td>
<td>The need for external knowledge, those from other sectors</td>
<td>3.64</td>
</tr>
<tr>
<td>3</td>
<td>The tendency for sharing knowledge</td>
<td>3.36</td>
</tr>
<tr>
<td>4</td>
<td>Ability to evaluate and use knowledge</td>
<td>3.57</td>
</tr>
<tr>
<td>5</td>
<td>Tendency to implement innovations</td>
<td>3.77</td>
</tr>
<tr>
<td>6</td>
<td>Access to the intellectual workers</td>
<td>3.36</td>
</tr>
<tr>
<td>7</td>
<td>Familiarity with the processes of knowledge management</td>
<td>3.00</td>
</tr>
<tr>
<td>8</td>
<td>Having leaders in organizations/sectors</td>
<td>3.36</td>
</tr>
<tr>
<td>9</td>
<td>Possession by entities from the sector of individual knowledge and innovation management strategy</td>
<td>2.93</td>
</tr>
<tr>
<td>10</td>
<td>Participatory approach to decision-making process in organizations and sectors</td>
<td>3.00</td>
</tr>
<tr>
<td>11</td>
<td>The tendency to worker mobility between sectors</td>
<td>3.50</td>
</tr>
<tr>
<td></td>
<td><strong>Average:</strong></td>
<td><strong>3.40</strong></td>
</tr>
</tbody>
</table>

Source: survey results

In terms of the flow of knowledge between the sectors defined in the Triple Helix Model, the behaviour of participants in the network was assessed to be significantly less important than knowledge itself. The average rating of these factors in a 5-step scale was only 3.4. As for individual assessments of particular factors, the highest were: participation in networks for knowledge and innovation transfer (3.86); tendency to implement innovations (3.77); the need for external knowledge from other sectors (3.64). A high score of 3.57 was also obtained by the ability to evaluate and use knowledge. In this group of factors, the lowest possible rating took possession by entities from the sector of individual knowledge and innovation management strategy (2.93). It is clear, therefore, that among factors that are beneficial to the flow of knowledge across sectors are, first of all, the high probability of contact with this knowledge through participation in networks, as well as the identified need for external knowledge that can be gained through participation in the network. For the success of the knowledge transfer process, the respondents’ ability to implement innovations based on skilfully applied knowledge is also required.

From the point of view of the sectors participating in the transfer of knowledge, i.e. science, business, administration, the key importance for the respondents is the need for cooperation between different sectors (average score of 3.65), since without realizing the need for cooperation resulting from the desire to achieve specific goals (e.g. access to external knowledge), it is difficult to talk about the success of the knowledge transfer process. The importance of the situation in the sectors, in terms of impact on knowledge transfer, was estimated on average at 3.5. Thus, it was considered that this factor is more important than the behaviour of individual entities functioning in the network.

Tab. 3 Sectors involved in knowledge transfer

<table>
<thead>
<tr>
<th>Nº</th>
<th>The type of factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The need for cooperation between different sectors</td>
<td>3.64</td>
</tr>
</tbody>
</table>
2. The intensity of the phenomena of competition in particular sectors 3.50
3. The intensity of the phenomena of competition between sectors 3.36
4. The level of innovation culture in the sector 3.50
Average: 3.50

Source: survey results

The relatively lowest impact on the transfer of knowledge between sectors was attributed to the public as an addressee of innovation (average score of 3.07) and network environment (average score of 3.00). Detailed evaluation of factors is presented in the tables below.

Tab. 4 The main target audience for innovation, that is society

<table>
<thead>
<tr>
<th>No</th>
<th>The type of factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Social changes</td>
<td>3.07</td>
</tr>
<tr>
<td>2</td>
<td>Level of society openness to change</td>
<td>3.00</td>
</tr>
<tr>
<td>3</td>
<td>The willingness of society to absorb innovations</td>
<td>3.14</td>
</tr>
<tr>
<td>4</td>
<td>The quality of intellectual capital</td>
<td>3.57</td>
</tr>
<tr>
<td>5</td>
<td>The type of national culture (e.g. Conservatives, Liberals)</td>
<td>2.29</td>
</tr>
<tr>
<td>6</td>
<td>Entrenched in the values of our society</td>
<td>2.64</td>
</tr>
<tr>
<td>7</td>
<td>The ability to learn</td>
<td>3.79</td>
</tr>
</tbody>
</table>
Average: 3.07

Source: survey results

The ability to learn (3.79) and the quality of intellectual capital (3.57) were the most important factors that characterize society as the recipient of innovation. These two elements are closely linked to the absorption of knowledge by the society as a consumer, for example, the realization of new needs, promotion of new solutions. A society consciously using available knowledge also has a high ability to articulate needs and expectations which can become a driving force for further innovation. Furthermore, smart society through participatory processes can also be actively involved in the process of creating innovation (e.g. by participating in market research and experimental projects). Society is one of the elements of the network environment, but many other factors also affect the transfer of knowledge, which are evaluated in the table below.

Tab. 5 Environmental factors

<table>
<thead>
<tr>
<th>No</th>
<th>The type of factor</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provisions of the law favoring the protection of intellectual property</td>
<td>2.77</td>
</tr>
<tr>
<td>2</td>
<td>The availability of funds for financing the process for knowledge transfer</td>
<td>3.21</td>
</tr>
<tr>
<td>3</td>
<td>Provisions of the law</td>
<td>3.07</td>
</tr>
<tr>
<td>4</td>
<td>Turbulent environment</td>
<td>2.93</td>
</tr>
<tr>
<td>5</td>
<td>Changes in the level of technology available on the market</td>
<td>3.38</td>
</tr>
<tr>
<td>6</td>
<td>Changes in the natural environment</td>
<td>2.86</td>
</tr>
<tr>
<td>7</td>
<td>Political changes</td>
<td>2.29</td>
</tr>
<tr>
<td>8</td>
<td>The promotion of scientific research results</td>
<td>3.54</td>
</tr>
</tbody>
</table>
Average: 3.00

Source: survey results

Among the environmental factors most rated was: the promotion of scientific research results (3.54), changes in the level of technology available on the market (3.38) and the availability of funds for financing the process for knowledge transfer (3.21). All of these factors have a clear, objective influence on the knowledge transfer process: the first of them improves access to research results for organizations interested in using them. The second refers to technological development, conditioning the need for further innovations while the third takes financial aspects into account, which are necessary for the implementation of innovative processes, often associated with the need to acquire knowledge for a fee. Such transactions usually occur between the academic sector and the business sector or within the business sector.

The final element of the study was to assess the relevance of the knowledge transfer results between the sectors included in the Triple Helix Model. From the point of view of innovation resulting from the operation of the network, 9 factors were
assessed which illustrate the achievable results of knowledge transfer, leading to innovation and its absorption by the market.

Table 6. The importance of the results of the process of the transfer of knowledge between the sectors from the perspective of innovation.

<table>
<thead>
<tr>
<th>No</th>
<th>Name of the result</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High skilled human capital</td>
<td>3.93</td>
</tr>
<tr>
<td>2</td>
<td>Sustainable values and ideas</td>
<td>3.43</td>
</tr>
<tr>
<td>3</td>
<td>High quality economy, new kind of free market economy, new jobs and growth</td>
<td>4.00</td>
</tr>
<tr>
<td>4</td>
<td>Protecting of the natural environment</td>
<td>3.36</td>
</tr>
<tr>
<td>5</td>
<td>New know-how and technology</td>
<td>4.07</td>
</tr>
<tr>
<td>6</td>
<td>New lifestyle and new quality of life</td>
<td>3.57</td>
</tr>
<tr>
<td>7</td>
<td>Participation of citizens in different processes</td>
<td>3.00</td>
</tr>
<tr>
<td>8</td>
<td>New solutions, programs and laws</td>
<td>3.50</td>
</tr>
<tr>
<td>9</td>
<td>Stronger cooperation between sectors</td>
<td>3.86</td>
</tr>
</tbody>
</table>

Source: survey results

Network participants as the most important result of the knowledge transfer process indicated both microeconomic effects, i.e. the new know-how and technology (4.07), as well as macroeconomic effects i.e. high quality economy, new kind of free market economy, new jobs and growth (4.00). Very high skilled human capital (3.93) was also indicated as a very important result which plays an important role in developing the capacity of the society to create innovations in the long run. The least significant result was the participation of citizens in different processes (3.00). It should be noted, however, that the potential results of knowledge transfer processes between sectors were rated by respondents at a similar level (on average 3-4 points).

6. Conclusion

In order to determine the relationship between the academic sector and other sectors in the network, by the example of the analysed project and in line with the Triple Helix Model assumptions, respondents were asked about the impact of particular sectors on knowledge transfer and innovation creation.

Assuming that:
- in the process of creating innovation one of the key resources is knowledge,
- the academic sector is more closely attributed to basic research, and to a lesser extent, application studies and development work,
- industry is increasingly attributed to research and development works, and to a lesser extent basic research,
- sources of innovation may be of a supply nature (e.g. technological development, new scientific discoveries, etc.) or demand (e.g. consumer demand for a solution or the need to meet new needs) the obtained answers allow the formation of the following conclusions.

Firstly, the genesis of innovation processes is most often linked to the know-how or inventions based on fundamental research, although the invention does not automatically transform into innovation. Scientific discoveries and inventions most often emerge on the academic side, which transfers them to business, if they have the potential to be commercialized. This path is identified with supply sources of innovation related to the transfer of knowledge from the academic sector to the business sector. For the business sector, knowledge from the academic sector combined with internal knowledge, while meeting the other criteria, allows the creation and implementation of innovation.

Secondly, due to growing competition in the market, market research is usually an integral part of the innovation process, most often conducted by the business sector, to verify the marketability of planned innovation, but also to gain insight into customer needs and expectations. Knowledge of this subject can become a determinant of demand for fundamental research and inventions, on the basis of which innovation is desired by consumers. Barriers to business-to-business collaboration can also lead to the business sector striving for self-innovation only by using its own expertise. In the case described above, we are dealing with demand-driven sources of innovation.

It can therefore be argued that respondents' views on the dominant influence of the business sector on knowledge transfer and innovation creation are confirmed in the objective logic of the innovation process, which depends to a certain extent
on the administration sector. It is about objective conditions stemming from the environment in which the academic and business sectors operate, which is exerted by the administration sector. These are, i.a. fiscal, legal, economic, cultural or market conditions, as well as the quality of the business environment, which significantly influences the process of creating innovation and its market cost-effectiveness.

The results identifying the factors that influence the knowledge transfer process between sectors occurring in the Triple Helix Model indicate that knowledge is the key to the process of transferring knowledge. Less importance is attributed to the behaviour of entities in the network and the situation in the sectors involved in knowledge transfer. Even less important is the network environment and society, which is the driving force behind the demand for innovation.

Knowledge is one of the competences of an organization, especially in terms of its ability to generate innovation. The more valuable knowledge resources an organization has, the more important it is to be a partner in the innovation process. It can therefore be stated that the awareness of the value held by knowledge organizations determines their behaviour in the network, and indirectly also influences the situation in particular sectors: academic, business, administrative. Mutual information about knowledge resources triggers the demand for knowledge exchange between organizations, since in the process of creating innovation it is necessary to use internal knowledge and external knowledge. Innovation-oriented organizations are generally not limited to self-production, unless it is due to its unique and low marketability. Acquiring knowledge from the external sources may be about the same sector or other sectors, but it is always about the transfer of knowledge that is useful in the innovation process. Doubts are raised by the results of a study on the low assessment of public participation as a consumer of innovation in the knowledge transfer process. Perhaps networkers focus primarily on supply sources of innovation, with little relevance to the opinion of the public, i.e. potential buyers of innovation. Another reason may be the selection of evaluated components that are not identified by the respondents with the results of knowledge transfer. As regards the importance of the environment in the knowledge transfer process, the respondents were asked about all for the macroeconomic factors which turned out to be insignificant in the process of knowledge transfer for them. It can therefore be concluded that knowledge transfer processes are, in the opinion of respondents, undertaken by organizations mainly on their own initiative, based on transfer of knowledge in sectors or across sectors. The efficiency of these processes is primarily determined by the product – i.e. knowledge transferred: its price, value, availability, etc.

Thus, knowledge is the main catalyst for network collaboration between organizations, rather than favourable environmental conditions, including the interest of society as a consumer of innovation. It can therefore be stated that organizations participating in the researched network are primarily oriented towards innovations resulting from supply factors such as access to knowledge, technology and organizational solutions. At the same time, the behaviour of these organizations is much less sensitive to environmental factors, including the expectations of potential buyers of innovation. This can largely be determined by the nature of the knowledge to which they have access. While this is primarily technical knowledge, innovators are primarily focused on technological solutions, and only later verify their marketability. If innovators have better access to knowledge about the needs of potential consumers of innovation, then the innovation process begins with an analysis of these needs, which determines further demand for technical knowledge.

Regarding the most significant results of the knowledge transfer process, respondents pointed to the core of future innovations, i.e. the know-how and technology, but also highly valued macroeconomic effects such as high quality economy, new jobs and new growth. Thus, in the opinion of the respondents, the transfer of knowledge, enhancing the innovativeness of the cooperating organizations in the network leads to the desired macroeconomic effects, the new quality of the economy, and consequently changes in the sectors and changes in the behaviour of organizations cooperating in the network. Their situation is influenced by elements of the environment, although it should be remembered that as stated above, innovative processes in networks are run primarily by high quality knowledge. Knowledge transfer is a factor that changes the behaviour of network participants and the situation in sectors, and indirectly also affects the network environment in which innovative processes take place.

Bibliography:


Moldova’s Phenomenon: Can Foreign Investments Help Out of the Poverty Circle?

Tatiana Pişchina, PhD
Professor, ASEM, co-authored with PhD candidate Romeo Fortuna

Abstract

The aim of this paper is to further develop findings on the forces of globalization, which, in a positive and in a negative manner affect economic growth of various nations worldwide, both creating opportunities and posing challenges whilst deepening inequalities between developed and developing economies. The dilemma of global growth is pressing and especially relevant for the economies that currently lack economic quality, which makes them vulnerable to what this paper coins the ‘vicious circle’ of poverty. The findings in this study interpret changes in economic structure overtime based on the results of the analysis of quantitative and qualitative indicators of growth of national and international relevance. The case study of Moldova is expanded from author’s previous contributions to demonstrate a few of the possible alternatives to create and sustain economic growth with quality, even in conditions of globalization obviously hazardous for this small economy. The paper shows how the emphasis on innovations and appropriate policies is supposed to make up for the lack of other key resources available to the developed industrial economies. It takes up an important instrument of foreign investments to demonstrate how and in what way those can be used for economic restructuring towards innovation-driven growth. It inquiries how such approach will create competitive advantages helping the developing economies to break out of the ‘poverty circle’ towards qualitative economic growth. Among other considerations, the paper concludes on the importance of capturing the opportunities presented by the ongoing Fourth Industrial Wave, which, if approached correctly, may help many nations to ‘leapfrog’ through several stages of the structural ladder, enabling them to pursue qualitative economic growth. This article is interesting for businesses, including entrepreneurs and potential investors, as well as for the governmental organizations and public authorities. It provides both an evaluation of Moldova’s position on the international socio-economic arena in context of globalization, and suggests action-points and recommendations potentially supporting the growth of the private sector, at the same time fighting poverty and enforcing sustainable economic growth.

Keywords: globalization, inequality, economic growth with development, developing countries, “vicious circle of poverty”, “structural ladder”, investment, infrastructure, high-technology, technology, innovation JEL Classification: 011, 012, 038

Introduction

Economic growth is central to well-being of any nation. Modern world, in which progress is quick and poverty is continuously decreasing, still experiences the pressure of inequality gaps, meaning that the difference between rich and poor are still extremely wide. This is true both between the nations, but also within the nations. Part of the problem is caused by globalization, which in itself is a very positive trend. Globalization is one of the major driving forces of modern societies and economies. At the same time, as competition becomes more severe, globalization puts pressure of increased asymmetries and between economies worldwide, as well as within individual economies and nations.

The Nobel Prize winner Professor Joseph Stiglitz often mentions in his works that today’s inequality indicators are at dangerous levels, and global instability is tightly related to the escalating levels of inequality [13]. Moreover, Stiglitz [13] adds, artificially-created market policies to a certain extent contribute to growing inequality. Lenzner adds that the top 0.1%, which is about 315 thousand out of 315 million people, makes about half of all capital gains on sales of shares or property after 1 year; and the capital gain is 60% of the income attributable to the business from the list of Forbes Top 400° [5]. Not contesting wealth generation as such, this fact puts an interesting perspective on the gap between extreme wealth, and
extreme poverty, in conditions of which a family survives for less than a few dollars a day. Extreme wealth, however, should not be taken as reference point for measurement of inequality. In today’s reality, it is enough to consider the gap between ordinary working class and poorer layers of society in such countries as Moldova.

In this respect, counteractive measures against inequality globally are perhaps among today’s most heated topics, and probably among world’s greatest economic and social challenges causing conflicts and various disturbances among nations. Globalization, which is overall a positive trend, yet the one with the ability to create inequality, tends to increase the gap between rich and poor economies. The former gain further access to wealth creation, whilst the latter get dragged further backwards due to inability to reorient their economies towards growth, for various socio-economic and political reasons. In this context, developing economies, and Moldova in particular, find it difficult to catch up with the developed ones, and tend to lose rather than gain from most economic transactions in context of globalization in the long-run. This particular article discusses the position of the Republic of Moldova in this so-called vicious circle of poverty, addressing inequality, and presenting potential possibilities to leap-frog despite economic and other disadvantages towards wealth creation and qualitative economic growth.

Inequality and Poverty’s Vicious Circle

Keynes once noted that the best times to act are the times of growth, and not the fall of an economy. It’s also hard to dispute Krugman’s opinion that today, in some cases, the governments must spend more, not less, since the private sector is unable to push economic development forward to the necessary extent. However, as notes Paul Krugman, for some nations present reality is akin to the one in the 1930s, when, as Keynes described it, the economy was in a state of long-lasting decreased activity, demonstrating neither obvious signs of recovery nor of complete collapse [4]. However, it seems that in many developing countries the opposite economic policies can be observed, which are characterized with measures of austerity, and bear negative consequences to the labour market in the long-term. Yet, now is the time to act, and now is the time to fix some of world’s most pressing economic problems, such as problems of inequality, since global inequality is growing inevitably and progressively, threatening to impose serious limitations to economic health, especially of the developing nations, which are the focus of this article.

Observing inequality growth one may note the following dynamics. In the 1990s, the gap in average income of the 20% richest and 20% poorest parts of the global population was at 30 to 1, whereas in 2000 that same gap was already at 78 to 1 levels [1]. In addition, according to World Bank (2014), there were over two thirds of the global GNP (gross national product) per capita generated per high-income economies in 2015, about one third per share of medium-income nations, and only about 0.5% of global income per share of the low-income economies [5]. This means that high-income countries generate proportionately more and more GNP, whereas low-income countries trend negatively, pointing to the growing gap in the share of possible contribution into the global GNP between the nations with high and low income. It is obvious that the growth of inequality in the past decades is becoming a serious hinder to global economic development, affecting economies and societies.

The asymmetry in the development of the global economies causes differentiation within various nations, dividing them onto ‘winners and losers’ of the world’s globalization game. The losers are lacking the resources of capital accumulation, which obviously includes developing economies. As the result, those economies end up in the vicious circle of poverty, illustrated below.

**Figure 1: The Vicious Circle of Poverty**

Source: Compiled by author
What makes that poverty circle truly vicious is the relationship between low income and any growth potential. Low income ceases the opportunities of the population to save, thus, prevents any flow of internal investments from the population into the economy, or at least to the extent that makes growth possible. For instance, a low-income household is not likely to make any substantial savings, or any savings at all. This means that a low income family will not ‘invest’ into the economy, simply will not buy substantial amount of products, necessary for an economy to achieve and sustain certain level of economic growth rate. Similarly, on the state level, low national savings and low GDP, couples with negative labor productivity, create lack of resources and unfavorable economic climate, usually making an economy an unattractive place to invest. Without investments, national savings remain low, and the circle continues all over again. As the result, the countries with low economic indicators are dependent on international infusions, otherwise finding it difficult to break through the vicious poverty circle. The "circle of poverty" is hard to break through. Part of it is due to the fact that poverty relates to other monetary variables in a non-linear, but circular manner, meaning that without one another cannot be secured. This makes the poverty cycle ‘vicious’.

**Context: Moldova’s Key Economic Indicators**

Before exploring potential opportunities of Moldova’s growth, it is worth putting Moldova’s economy in context through exploring its main indicators. Firstly, the share of Moldova’s GDP (Gross Domestic Product) is about 0,01% of the global. During 1990-2015 that share decreased by 0,006% falling from 0,017% to 0,011% of the global economy. Consequently, this share fell by 0,009% lading from the level of 0,046% to 0,037% within the European economies, and by 0,22% among Eastern-European economies ending up at the level on 0,22% from 0,44%. This is summarized in Table 1 below:

<table>
<thead>
<tr>
<th>Share of Moldovan GDP in the</th>
<th>1990</th>
<th>2015</th>
<th>deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global economy</td>
<td>0.017</td>
<td>0.011</td>
<td>-0.006</td>
</tr>
<tr>
<td>European economy</td>
<td>0.046</td>
<td>0.037</td>
<td>-0.009</td>
</tr>
<tr>
<td>Eastern European economy</td>
<td>0.44</td>
<td>0.22</td>
<td>-0.22</td>
</tr>
</tbody>
</table>

Compiled by author based on data from [12]

In 2015, Moldova’s nominal GDP (Gross Domestic Product) per capita landed at mere $1740 a year. That is the 140th position out of 186 list of countries of the Global Monetary Fund. In 2013, Moldova’s nominal GDP per capita was at $2214 a year, meaning a considerable decrease of $474. The World Bank statistics (2013) shows similar dynamics. In addition, the same year Moldova’s GDP per capita was at $2038, which means by $298 higher than in 2015 (World Bank statistics). United Nations, in its turn, placed Moldova at $2285 GDP per capita in 2013, meaning by $545(!) higher than 2015 [16].

Graph 1 below shows the rates and the dynamics of GDP growth from 2005 to 2015:

![Graph 1: Rate of GDP Growth of Moldova, %](image)

*Source: compiled by author based on [7].*
In 2016, Moldova’s GDP was valued at $6.79 billion, GDP per capita was valued at $2062, and trade openness at 91.9%. According to the ranking of Human Development Index [10] Moldova is a country at medium levels of economic development. Notably, in 2015, Moldova was ranked at 114 out of 187 economies by the Index. In 2008, however, it was at 113th place out of 179 [18]. To compare, in 1990, Moldova was ranked 64th by the aforementioned Index, having the status of industrial-agrarian economy and in general being way ahead of its today’s position on the so-called global structural ladder. Thus, the trend is not convincing of bright economic future.

In addition, today, Moldova is one of the leading (top 8 out of 10) nations when it comes to healthcare and education spending, landing at about 12% and 8-10% of GDP, respectively. This is a rather high level only affordable to a limited number of economies. However, average longevity in Moldova is 70 years, throwing it to the 142nd place in the world, and 120th and 130th places, respectively, in maternal and child death [16]. Thus, there is obviously a challenge in terms of social services that Moldova is able to offer to its citizens.

In addition, the so-called ‘quality index’, or the coefficient of the quality of growth, is applied to measure quality of the growth of Moldova’s economy. This is, in short, a known index which measures the ratio of the difference of GDP growth index and GDP deflator to the growth rates of the GDP in absolute terms. According to this indicator, Moldova’s economy has not been characterized in positive terms for the past several decades.

Assessing broader business environment, Table 2 below summarizes key indexes that demonstrate Moldova’s position in various international rankings by international organizations such as World Bank, the World Economic Forum, the Heritage Foundation etc. From 2015 to 2016, the decrease may be noted in key positions, such as competitiveness and economic freedom, whereas innovation only slightly increases, so does global trade and ‘doing business’ as such.

**Table 2: Moldova’s Business Environment, Key Indexes, 2015, 2016**

<table>
<thead>
<tr>
<th>Key Index Rating</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness Index</td>
<td>82</td>
<td>84</td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>111</td>
<td>117</td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>Logistics Performance Index</td>
<td>93</td>
<td>96</td>
</tr>
<tr>
<td>Global Enabling Trade Index</td>
<td>92</td>
<td>79</td>
</tr>
<tr>
<td>Doing Business</td>
<td>63</td>
<td>44</td>
</tr>
</tbody>
</table>

Sources: Compiled on the basis of data in [14]-[17]; [19]-[27].

In this way, being one of the poorest European countries with median monthly income of $250 and with the GDP per capita level being about 18 times lower than European Union average, the Republic of Moldova today finds itself in the vicious circle of poverty. The country finds itself in a shaky position balancing on the edge of economic prosperity. This uncovers deep challenges to Moldova’s economy, and highlights the importance of an increase in the share of country-wide welfare-generating activity. Arguably, Moldova is in desperate need of an increase in high technology share in its infrastructure and its economy. This is developed in the section below that discusses the lack of innovation in the structure of Moldova’s economy.

**Structure of Moldova’s Economy and The Vicious Circle**

So, how does the structure of Moldova’s economy look today?

Notably, the structure of an economy is one of the key factors in its potential for economic growth as well as behind the well-being of its population. In the 1960s and 1970s, the countries with the fastest rates of GDP growth (about 3.5% annually) were those with the largest share of machinery within their industry. Those with larger shares of natural and mineral resources grew by about 2%, finally, agrarian, or agricultural economies, grew by about 1.5%.

According to classification of the World Bank, the increase of well-being and growth of an economy takes place through three consecutive stages, from the first factor-driven to the second efficiency-driven, to the third innovation-driven stage of
This process of climbing the ‘structural ladder’ serves as a certain indicator of a nation’s economic state, as well as the quality of its economic growth [8]. Moldova, according to World Bank’s classification, is somewhere between the first and the second stage of economic growth, and in some case placed at the second stage (for detailed analysis see [8], [10], [18]). Thus, the share of innovation in Moldova’s economy is very low, and the trend is not positive. Let us consider the structure of Moldova’s GDP in more detail.

The dynamics of the GDP structure is presented in the Table 3 below. It shows that Moldova’s GDP structure changes in context of global economic tendencies. In this way, the main share of value added of the economy, 59,4%, is comprised of the Services sector, 14,1% generated by industry, and 12,8% through agriculture. The share of net taxes on products is 15,7%. It seems at first sight as if Moldova’s structure of the economy is rather progressive as it seemingly reflects global development trends. For instance, the high share of the Services sector (compared to the global share of GDP of 64%) with simultaneous decrease of the share of industry and agriculture. Yet, importantly, since 2000s, the share of agriculture started to pick up again within the global GDP landing at approximately 32%.

Table 3: The Dynamics of the Structure of GDP of Moldova

<table>
<thead>
<tr>
<th>GDP Structure, %</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value added</td>
<td>87,5</td>
<td>88,0</td>
<td>87,3</td>
<td>85,6</td>
<td>85,0</td>
<td>84,3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>25,4</td>
<td>22,4</td>
<td>21,0</td>
<td>19,3</td>
<td>17,1</td>
<td>12,8</td>
</tr>
<tr>
<td>Industry</td>
<td>16,3</td>
<td>18,7</td>
<td>17,3</td>
<td>17,8</td>
<td>18,2</td>
<td>14,1</td>
</tr>
<tr>
<td>Services</td>
<td>48,2</td>
<td>49,2</td>
<td>51,0</td>
<td>50,8</td>
<td>52,2</td>
<td>59,4</td>
</tr>
<tr>
<td>Financial intermediation services measured indirectly</td>
<td>-2,4</td>
<td>-2,3</td>
<td>-2,1</td>
<td>-2,3</td>
<td>-2,5</td>
<td>-2,0</td>
</tr>
<tr>
<td>Net taxes on products (taxes less subsidies)</td>
<td>12,5</td>
<td>12,0</td>
<td>12,7</td>
<td>14,4</td>
<td>15,0</td>
<td>15,7</td>
</tr>
</tbody>
</table>

Compiled by author based on data from [7], [11].

Thus, it is important to highlight the fact that even though the Services sector is prevailing in Moldova’s economic value added, digging deeper into the Services sector itself allows to caution that the main contribution in this sector – through finance and trade – is merely a ‘formal’ value added, in contrast to real.

This means that its increase, in fact, reflects only a wage increase of individuals engaged in relevant business dimensions, and not of the economy as a whole. Moreover, the development of one of the key services – trade – is mostly dependent on import. High import dependency is risky for any economy, not least due to the exposure of high level of debt. Moldova’s import dependence is high, and export is consistently lower than import, pointing to the challenges in its economic structure. For instance, in 2013, Moldova’s GDP was at $7,453 billion, while the share of import was at $5,492 billion, or at 73,7%. In 2015, import was at $5,3 billion. The export share, at the same time, was about two times smaller and landed at $2,4 billion (see [7], [17]). This situation does not help Moldova to counteract its high external debt, which equals to about $6,218 billion (in 2013), or more than 83% of GDP.

In addition, Moldova is highly dependent on its European Union partners, which since 2008 absorb about half of its external trade (46,4%), which naturally impacts Moldova’s balance of payments. In 2015, Moldova’s export to the EU shrunk by approximately 2,3% (to $1,1 billion) versus 2014, and import decreased by about a quarter, to $3,6 billion. The demand on imported products, however, is mainly covered by Moldovans working abroad. They contribute by about $1,5 billion yearly. This is considerably higher than the contributions of the foreign investors.

Moreover, the interest of the developed economies to import finished industrial products from their less developed counterparts has decreased considerably. This evolution obviously triggered the asymmetry in foreign trade negatively affecting the rates and quality of economic growth in the peripheral economies. Thus, the gap between the ‘post-industrial world’ and other economies has now acquired qualitative character and is growing inevitably in its proportions. As the
result, the possibilities to catch up in economic growth are currently very slim for the majority of the less developed and developing countries, having them more or less stuck in the “vicious circle of poverty”.

Industry is unlikely to be the basis of high economic growth for Moldova. Agricultural products are the main source for Moldova’s export, which is a challenge since they are labour and cost intensive, and lower in profitability and output than products of heavy industry or IT. In addition, labor productivity in one of the leading sectors of Moldovan economy – agriculture - is low. According to the World Bank, the value added per worker in agriculture in Moldova is approximately $2,5 thousand. While, for example, in Spain the corresponding value is $45-50 thousand. In Norway, that indicator goes up to $70 thousand. On average, in European Union countries the corresponding value is approximately 20 times higher than in Moldova.

Additionally, in the GDP structure of Moldova the share of consumption accounts for about 87% of the total GDP. Such levels of consumption are considered to be exceptionally high, even for USA and other developed economies. At the same time, there is only 15% of own investments, which is rather low and inadequate.

Negative dynamics in the nominal GDP per capita in Moldova is tightly connected to economic and a bunch of other factors. Among economic factors, however, we highlight an absolute decrease in the key production factors – labour, capital, technologies as well as the erosion of the structure of the economy with the following decrease in the potential production volume. In is unlikely that an economy would develop positively and grow its labour productivity and its competitiveness within a structural environment where scientific and technological research and development accounts for less than 0,35% of GDP. For comparison, European Union spends on average 2 to 3% of GDP on similar activities, which facilitates high rates of technological development.

Globalization reformed the structure of many national economies with labour division in favour of the developed economies. Most obvious winners were those that emphasized the development of high-technologies within their economies. As the result, most or all of today's developed economies find themselves at post-industrial, information and high-technology stage of development, whilst peripheral economies have either not been able to fully complete the industrialization stage, or were thrown back, just as Moldova, to the lower development stage. So, is there a way out of that Circle for Moldova, and are there any positive dynamics in the development of Moldova’s economy?

**Moldova’s Way out of the Poverty Circle?**

The answer is yes. However, to break out of the negative trend there is a need for internal or external sources of investments into the economy. Investments and their qualitative share – which are innovations – comprise the true, or material, base of economic growth. Innovations impact the change in the sources, types and quality of economic growth.

High quality of economic growth has the ability to positively affect well-being of the population, to induce innovations in production methods, into goods and services, as well as into governance and management, and literally into all spheres of economic activity. Qualitative economic growth reflects positive and forward-looking dynamics of an economy, and its transition to the higher stages of economic development. Even though, presently, prerequisites for the number of the developing countries, including Moldova, to enter the innovative stage of development, and especially the stage driven by wealth of the economy, are not sufficient (see, for instance, EIU), it is absolutely necessary to start building various separate elements of innovation-driven growth into the structural ladder of the national economy.

In conditions of globalization integration, localisation and regionalization, the activities of international corporations penetrate national markets and economic structures, regardless of the structural stage of that given economy. This is a positive factor, which gives economies like Moldova the possibility to climb several levels in the structural ladder at the same time, in other words, to skip a few stages towards higher levels of economic development. To be able to introduce such growth areas, basics of the economy have to be rebuilt after years of unfortunate economic downward slope. There are a few instruments available in economic policy toolbox to sustain growth in real terms, especially in conditions of weak and sometimes inadequate credit and monetary policies.

Firstly, investments into infrastructure, especially for such economies like Moldova, are among more effective resources of qualitative economic growth. Infrastructure deficit, especially in low-income countries, is an obstacle of long-term economic growth. Infrastructure investments may also serve as a source of growth in aggregate demand. Investments into infrastructure secure growth in production capacity of various sectors of the economy. They are usually massive projects
with multiple external effects with positive long-term socio-economic impact. Judging by the global experience, the biggest effect can be reached in interplay of public and private sectors. It should be based on partnerships unifying large corporations and businesses with smaller firms, as well as venture capital funds and ‘angel’ investors with direct support of the government of the investments associated with basic innovations, securing the evolution of innovations from the first stages through commercialization. The inclusion of innovation factor into the process of investment in infrastructure can thus be viewed as a factor for the development of innovation-based economy.

Secondly, innovation-based type of economic growth is a type of economic growth adopted by most, if not all, of the developed economies, and is in itself a tool to support economic growth. It is based not on the production and consumption of material goods as such, but on creation and consumption of information-technology goods and services, in other words, high-technology products. Therefore, structural component of the investments is specifically important in this context.

There are at least two ways of approaching the formation of innovation-based economy proven through international practice (the problem was thoroughly described in [8, pp.128-163]).

The first one assumes orientation towards own innovations. As a rule, it is applicable to highly-developed economies. This particular approach was predominantly executed in context of American economy. The second approach is based on ‘borrowing’ and importing of innovations. Its effectiveness is proven by a number of global economies, including, for instance, Japan and even more so China. In order to form the necessary elements of innovations in its economy, Moldova can very well use the second approach, which is based on the concept of imitation and adaptation of the new technologies.

This is similar to the concept of technological ‘leapfrogging’ (see [3], [6]). An obvious example is the implementation of mobile networks and the spread of mobile telephones. By buying and using existing technology, late-industrializing countries are able to ‘leapfrog’, or jump over various inferior or more costly and less efficient technologies (that the first movers had to go through in the stages of development of those new technologies).

As the result, the ‘leapfrogging’ economies may get latest technologies cheaper and faster than the economy where this technology originates. Thus, it is valid to assume that if the mechanisms of innovative growth are in use, those growth areas where already existing innovations are actively used have a potential to increase competitiveness of the national economies and increase the quality of economic development.

This approach, however, should not be associated merely with consumption of already existing methods and technologies taking advantage of inventions of others. Moldova, in contrast to other examples of nations with comparatively lower levels of economic development, is a country with a lot of own potential in terms of research and development, as well as testing and implementation of the new technologies. Moldova preserved some of its highly skilled labour force and is capable to offer specialists and laboratories to receive but also to drive further innovation and new technologies in virtually all spheres from economy to physics and chemistry.

In this context, there is certainly a window of opportunities for Moldova which is opening at the moment. The roll-out of the Fourth Industrial Revolution which was solidified in Davos in January 2016 will last from five to ten years and will inevitably and radically further change global economic, social and other structures. Akin to the Third Industrial Revolution ignited by Microelectronics, this revolution will end up into goods and services previously unimagined, in the sphere of connected world and connected devices, from robotics to home appliances.

This revolution, in its turn, will open up new opportunities for smaller developing economies, such as Moldova, from being the testing ground to the economy for outsourcing the production of new technologies. Thus, Moldova could become a centre for outsourcing of the new products and therefore one of the economies that would be first to implement those innovations.

Global economy becomes less and less resource-intensive in the traditional sense, shifting from production to the intangible resources represented by the people, which are capital-intensive and less dependent on raw materials. In this context, reorientation towards high technologies is absolutely crucial. Moldova’s IT specialists are considered to be among the better once in Eastern Europe, meaning that the country has the potential and the prerequisites for the creation of knowledge-based, innovation-driven economy based on the adoption and integration of innovations into its core structures.
Conclusions: From Vicious to Virtuous

This article addresses the challenges of globalization on developing economies on the example of the Republic of Moldova, a small European economy with developmental challenges, yet a large bank of opportunities. Globalization affects various nations in different ways. It can be an enabler of economic growth on the one hand, while on the other it can cause an increase in inequality gap between developed and developing economies. In this way, globalization limits the opportunities for qualitative economic growth for a number of developing countries, such as Republic of Moldova, that consequentially are trapped into the 'vicious circle' of poverty. Developing economies must find a way to survive, to restructure towards growth and to remain competitive. To do so they must orient their efforts into technology, infrastructure, people and other sources of innovation, since they lack some of the crucial components of growth available to the developed industrial economies. The possibility to 'leapfrog' through several stages of the structural ladder at a time entering the path towards qualitative economic growth is an attainable goal. Thus, there is little time left to proactively address this issue on the national level, to enable the country's growth in qualitative economic terms. Summarizing key outcomes of this article, it is worth to note the following.

Quality of economic growth is determined by the qualitative component of investment resources – innovations, as well as the possibility for their adaptations into the economy. Therefore, for any country, including Moldova, it is important to create favourable conditions for activation of investment resources and capabilities.

One of the sources for qualitative economic growth are the investments into infrastructure. They have an ability to induce multiple and long term positive outcomes, to stimulate aggregate demand and positive socio-economic impact. We believe that the Republic of Moldova must create an infrastructure with higher qualitative share of innovations able to justify higher investments. Today, this justification comes mostly from relatively cheaper land and labour force. Moldova must be able to offer and promote what actually makes it qualitatively different from its neighbours: safety and stability, high connectivity, high-quality education and healthcare.

So far, Moldova managed to attract $3.5 billion in investments. That is a relatively large amount – more than half of the GDP (with capital rate at 15-16%). Building on its potential, in the next five years, the country must be able to accumulate about 1.5 to twice as much capital in foreign investments. Thus, it is important to create necessary conditions to attract direct foreign investments.

Moldova’s economy could act as an economy for outsourcing of production of high-technologies and high-tech products. Why is this possible? Moldova’s sector of information technologies is an export sector with truly high potential. The products of IT companies operating in Moldova are highly competitive not only due to lower costs of the labour force, but also due to the fact that the quality of the end product is competitive with the global standards suggesting that there is a large amount of highly qualified labour force in this area.

It is important to increase the interplay between businesses and the government based on shared understanding of common needs. The biggest effect could be reached if that crucial partnership is in place and if large and smaller businesses, individual investors, investment funds, venture capitalists, as well as the government and other educational and research institutions work in interplay, through direct support by the government from the first stages through the commercialization phase of investments and innovations.

As shown in practice, the more globalization and the more stakeholders, the bigger the need for a clear strategy for the development of the country, including challenges of import substitution of goods and services, which would increase added value and would provide an opportunity to increase the budget and to provide new work places for Moldova’s population. It is, of course necessary to create adequate fiscal, administrative and regulatory conditions for businesses to solve the problems related to consolidation and modernization of Moldova’s business, as well as to increase competitiveness and capital intensity in the economy.

Moldova is left, among many, with one of the most challenging issues, to integrate effectively into the global context, while preserving national interests. There is a need for a thought-through and weighted integration policy into the global division of labour when export markets are limited for smaller and less developed economies. It is important to build effective horizontal touch-points with other regions, with the nations of EU and other strategic neighbours such as Russia.
This, in essence, should allow Moldova to break through the vicious circle of poverty into the virtuous circle of prosperity, which would help to secure stable and profitable levels of economic development in the long term.

References:


Planning and Financing Services in the City Through Land Value Capture Instruments the Case of Tirana New Bazar

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Abstract

Objective: This paper comes as a contribution to the discussion happening in Albania related to limited funding sources for providing urban services, especially at the city level. It aims to bring some ideas on how to finance the new services that the Albanian cities need outside general budgets, or avoiding the accumulation of additional debt for local governments (LGs). Methodology: The approach suggested in the paper is to first identify the beneficiaries of any proposed improvement in providing both facilities and services, and then explore methods, which can involve the direct beneficiaries paying for their part of the benefits. The paper focuses on analyzing and reflecting upon the experience of the Municipality of Tirana for building up/refurbishing the city new bazar, and uses this as a case study to discuss on potential financing of facilities and urban services through land value capture gains, and relevant social implications in the Albanian society. Results: A value based property tax should be introduced first in Albania, not only as the instrument that can guarantee real local autonomy, but also as a precondition for applying other land value capture instruments. To mention some of the most applied ones that could also be explored in the broad Albanian context: betterment charges/fees; tax on the increment on the value of land; inclusionary housing, land assembling and land readjusting, and tradable development rights. For all of them, a substantial revision in the fiscal/public finances legislation is needed in Albania, given the fact that the relevant planning and development of territory legislation has already introduced such instruments. But above all, and what is most important, the social implications of the proposed instruments should be further researched and addressed through appropriate regulations and processes. Conclusion: Through this paper I try to demonstrate the implications of planning and financing services in the cities through land value capture instruments in the context of Albanian cities and society. Being that investments on urban services and facilities are accompanied by increases in land value, it has the features for recovering the capital costs of urban investment, by capturing some or all of the “unearned” increment in land value resulting from the investment. To accomplish this, ‘novel’ financing mechanisms should be used – such as land value capture instruments (betterment fees, special taxes, development agreements, etc.), but their implications in terms of improving the social fabric in the cities should be considered.

Keywords: land value capture instruments, financing urban services, novel financing mechanism, betterment fees, property tax, social fabric, city planning