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Foreword

International Conference on Economic and Social Studies (ICESoS) is a scientific platform that brings social science researchers together to discuss subjects related to regional economic development particularly in the context of Balkan region. Priority in this year's conference was given to research papers that dealth with business development and business environment issues.

Conference was organized to bring researchers together from different countries in the world. Majority of participants came from Albania, Bosnia and Herzegovina, Croatia, Macedonia, Malaysia, Saudi Arabia, Serbia, Switzerland, Turkey and United Kingdom.

As a continuation of the topics of the previous two ICESoS conferences, ICESoS'15 focused on the issues related to business operations and environment. Two important aspects of regional economic development are successful business operations and the environment that provides necessary conditions for business success.

We would like to thank all participants, partners in organization and organizing members at the ICESoS'15 for contributing their theme, effort and skills to make this amazing event once again possible.

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Information Systems at the Airport

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ABSTRACT

Air traffic is a dynamic activity which trends partly depend on the general economy of the society. A phenomenon that is being researched as part of master's thesis are information systems. The research problem (which is always wider than the object of research) are information systems in business in general, while the subject of research are information systems at airports in Sarajevo and Mostar.

The established subject of research involves the processing of information systems, with a particular aspect of information systems at the airport. The research results will show the development of information systems at the airport in Sarajevo and Mostar. The research results will also show how the information systems at the airport in Sarajevo and Mostar are aligned with modern technology development.

Keywords: RAD, information system, EDS, information technology

1. Introduction

The organizational structure of the traditional airline has for decades been functional. The functional model will continue to be a good solution for those airlines that for most functions use outsourcing (catering, maintenance, etc.). Generally they do not use modern information systems, they provide a limited number of customer service and so on. Usually these are minor or so called low cost airline. The impact of information technology, the focus on passengers, increased competition, require more flexible business processes, faster response to requests from passengers, service differentiation over the competition, faster business decisions at all levels of management and so on. In order to meet these changes, airlines are adopting new organizational models in which there are separate business units that have more authority in decision-making and responsibility for their own profitability, but with a strong link between them.

2. Information Technology and Information Systems

The information system in the simplest way could be defined as a system that handles information in order to meet the information needs of the organization. By similar reasoning we get one of the classic definition of an information system: „The information system is a set of interrelated components that work together on collecting, processing, storing and distributing information to support decision making and control in an organization".

Although today's computer-based information systems is almost the rule, we must understand that the information system is not necessarily computerized. Organizations have a need and ways to handle information and before they invented machines to automate the processing of data and information. And today, the term information system almost automatically is associated with computers and other (mostly electronic) machines for the processing and transmission of data. However, we will not and may not equate information systems of organization and information technology on which it is based largely.

Information system is a socio-technical system consisting of mutually coupled technological and sociological components that serve a common purpose. This setting is very important. It essentially determines the approach which should be in the areas and the development and use of information systems. People who use an information system called are called users: users of IS are individuals or groups who have the task of providing input or receiving output from the information system (Laudon and Laudon, 1984).

Generally speaking, the three activities of the IS organization is to produce the information needed for decision making, control activities, analyze problems and create new products and services. These activities are: input, processing and output.Input collects raw data from inside the organization or environment. Processing converts the raw inputs into form with meaning. Output data is presented and thus transmit certain information to users of the information system.Information systems also require feedback, output that returns the appropriate members of the organization to help them evaluate or correct certain phase inputs. Computer-based information systems rely on computer hardware, software and technology for the processing and dissemination of information.Computer programs or software are sets of operational instructions that direct and control the computer processing. Knowledge of computers and computer programs is important in designing solutions to organizational problems, but computers are only one part of the IS.

2.1. The development of information systems

Standardization of models on which to build an information system is an important issue. Use of standardized development methods, techniques and tools is introduced in the development process, structuring it and thus makes it more susceptible to control and more efficient. But standardization on the other hand can produce too "harsh" understanding of the methodology by which the parts of the system being developed. Structured, traditional methods and models for the development of information systems often suffer from these ills. This is one of the important issues for managers who lead the development process. To find the answer to it, successful managers are finding a good balance between these two extremes. In connection with the use of traditional, structured methods of information system development, there are several essential problems, of which the most important are poor treatment of uncertainty and complexity. Although it is only in the last ten years it felt an urgent need for change in this field, the awareness of the existence of these problems existed since the seventies of the 20th century. Just because a long time ago there are approaches that are different from traditional structured approach.

These are serious attempts to resolve the evident problems of a structured approach. In addition to various audits waterfall development model, appeared in various more or less serious and comprehensive approaches, among which are the following: prototyping, iterative development, RAD (Rapid Application Development). In addition, it is possible to identify many more or less different approaches. All alternative approaches are, more or less, focused on improving the development process in terms of getting a better final product and optimize the effort and cost invested in development.

2.2. Electronic air traffic

Air traffic is a dynamic activity which trends partly depend on the general economy of the society. The impact of information technology, the focus on passengers, increased competition, require more flexible business processes, faster response to requests from passengers, service differentiation over the competition, faster business decisions at all levels of management and so on. In order to meet these changes, airlines are adopting new organizational models in which there are separate business units that have more authority in decision-making and responsibility for their own profitability, but with a strong link between them.

2.3. The organizational structure and business processes in air traffic

The organizational structure of the traditional airline has for decades been functional. The functional model will continue to be a good solution for those airlines that for most functions use outsourcing (catering, maintenance, etc.). Generally they do not use modern information systems, they provide a limited number of customer service and so on. Usually these are minor or so called low cost airline.

The main sectors in air traffic are airports, air Freight, airlines, air traffic control, Aerospace, travel and distribution, ground operations and department of government regulations in air traffic. Airports are faced with the problems of managing large numbers of passengers, cargo and plane. Some of the business processes within this sectors are:

- Management operations at the airport (Airport Operations) - includes information flight, integrated data management, management planning, resources and others.
- Operation luggage (Baggage Operations) - includes check-in baggage handling, sorting, tracking, control, baggage and others.
- Operation of passengers (Passenger Operations) - includes check-in loading, scanning and checking passengers and others.

- Transportation Security (Transportation Security) - scanning of passengers, baggage.
- Communication and Infrastructure (Communication & Infrastructure) – includes infrastructure management, mobile communications, messaging, hybrid networks and others.

2.4. The role of information technology in the evolution of business strategies in air traffic

One of the first investors in information technology was American Airlines, which in 1962 introduced the SABRE computer reservation system.

Computer reservation system (CRS) is a computerized system used for the collection, storage and processing of information, as well as management of transactions related to travel. CRS systems are controlled by by individual airlines, where agents accessing a single CRS system and make reservations for tickets. Online CRS systems are systems where clients themselves, via the web, access CRS system for searching services and the booking. The aim of the development of CRS system is to connect with travel agencies that represent MPs traditional airlines. In the mid 80s, CRS develops in comprehensive global distribution system (Global Distribution Systems, GDS), which offers a wide range of tourism products and services (transparency of air lines, reservation of accommodation, renting the car, etc.) and provides mechanisms for communication between airlines and travel agencies. Global Distribution Systems (GDS) in specific types of information system for distribution of tourism products.

The global distribution system (Global Distribution System GDS) integrates all tourist services, linking service providers and end users, providing information from all segments of travel, provides booking and sale of required services and thus provides value-added services. GDS provides services to clients at departure and the respective destinations.

2.5. Technological solutions for air traffic

Information systems for air traffic can generally be classified into four groups:

- Airline Management Solutions – includes solutions that help in the planning and control of resources such as airplanes, crew and others.
- Passenger Airline Solutions – includes processes sales of electronic tickets, check-in, etc.
- Airline Operations Solutions – includes operations pertaining to all aspects of flight planning, operations and others.
- Supplementary Airline Solutions - includes solutions for maintenance and repair of aircraft, cargo and others.

Key issues facing the air transportation are optimization, cost savings, improvement of existing capacity, faster response to changes and others. Some of the solutions that help airlines in achieving these goals are management systems crew and operations control systems for planning and scheduling, management systems revenue, marketing solutions and others. The planning process needs to optimize performance taking into account both technical and operational characteristics of the equipment, availability of human resources, government regulations and operational constraints such as rules air traffic control and others.

3. Information Systems at Airports in Sarajevo and Mostar

3.1. Sectors

3.1.1. Sector for Air Traffic Operations and Aviation Services

A very important link in the organization diagram of any Airport, including the Sarajevo and Mostar International Airport, is the Sector of Traffic Operations and Aviation Services. The complete structural organization of the service sector represents the symbiosis of sectors within it, whereas the formulation of "Team Work" gets into its full meaning.

The Air Traffic Sector at Sarajevo and Mostar International Airport consists of the following services: (1) Department for Operational Activities, (2) Department for Passenger Ground Handling, (3) Ramp Handling Service,(4) Center for Training of Professional Staff, (5) The Winter Service Department.

3.1.2. Department for Passenger Ground Handling

This service has several Units. A part of the service that performs registration of passengers is responsible for checking identity documents and documents for each flight passenger who intends to travel, as well as to register the

tickets and baggage to the final destination of travel. The staff in this service is trained to operate the system EDS (Automatic Passengers Registration, Instructions for loading the Aircraft).At the information desk, the traveller can get accurate information about the landing, takeoff, delays, information about the cancellation of flights, and all the information related to travel and the necessary instructions about other available services. The Personnel responsible for performing the processing of passengers are tasked to carry out the transfer of passengers from the building to the Aircraft and vice versa. This part of the work is currently being done by two Air Bridges in the most modern way and bus transfer if Aircrafts are parked on open positions. It is important to mention the assistance provided to poor mobile or immobile passengers, mothers with children, children travelling alone, as well as all other special categories of passengers.

High officials from the public and political life are offered to enjoy the discretion of the VIP lounge. A stylish lounge serves to welcome and farewell high officials, but it is also suitable for organization of business meetings and press conferences. Within the Department of lost and found baggage the search for lost luggage and its storage is carried out including its delivery to the passenger who reported lost or missing luggage. The Department of lost and found baggage, employees professionally trained and friendly staff who operate at a highly sophisticated computer systems fortracing lost luggage (WORLD TRACER).

3.1.3. The Sector for the Airport Development

ln the Organizational Scheme of the Airport this Sector has been existing since 2005. in the previous period, from August 1994 until 1996 under the Public Enterprise Airports of B&H the tasks of rebuilding and reconstruction were led by the Deputy Director of Reconstruction, who also prepared the projects and renovation plans.In the initial phase of works on the reconstruction of the Airport, staff was formed into a Team to implement the project. The PIU team (Project Implementation Unit), as it was called, had the task to monitor the stages of individual projects, to monitor daily dynamics and quality of work, to develop undefined situations by the project, procure Airport equipment and organize training for the use of high-quality equipment.

The reconstruction of the technical facilities and Passenger Terminal has been successfully implemented and today the Airport has the most beautiful Airport Passenger Terminal in the region, equipped with modern systems and devices. In the period from 1997 to 2001 the reconstruction of the Headquarter buildings finished as well. The necessary equipment was purchased and installed according to the dynamic which was conditional in order to gain funding.As a logical resposne to all ongoing activities carried out during the reconstruction of the Airport, the Development Sector was formed.The constant development of Air Transport requires adequate responses of the Airport. The Development Sector monitors all developments in terms of new technologies, standards, regulations, requirements of Airlines, passengers. Experienced and professional staff employed in the Sector is able to independently produce and design solutions, technical specifications, project tasks, long-term spatial planning documents, investment programs, annual investment plans and to supervise the execution of works.

3.1.4. Sector for Information and Communication Technologies

Aware of the fact that the information and communication technologies (ICT) are an important activity of each company in contemporary world, the Sarajevo and Mostar International Airport, in 1999, established a new Sector with the task of planning, development and maintenance of Airports ICT Systems. Today it is unthinkable that an authorized person in an extremely short period of time manually processes, prepares, and presents large volumes of data in demanding jobs, such as registering passenger/baggage, cargo, mail, balancing the weight of the Aircraft, generating reports, and creating a packet of information for travellers, Airlines, agencies and other participants in Airline Traffic.The Sarajevo and Mostar International Airports Sector for Information and Communication Technologies (ICT) provides tools and services for automated, continuous and accurate monitoring at the complete aerodrome complex, processes, human resources and installed ICT systems. As a confirmation of this statement, we will take into account the work of the Transport Sector, whose business processes are largely automated and supported by ICT systems, and security services, where the ICT systems are used at most benefits: CCTV, Access control, KD control, Alarm Systems, fire alarm, video analytics and others.

Sarajevo and Mostar International Airport currently owns and exploits all ICT systems possessed by all other modern world Airports. In the Sector for Information and Communication Technologies engineers and technicians are employed who are trained and certified by the world-renowned companies (Siemens, Solari, Atraxis, Avex, Panduit, Cisco, Motorola, HP, Dell, SITA, DLink, Cerberus and others) in the field of self-maintenance of Airport ICT systems. It is important to note that all the training is completed according to International Standards and Programs. The scope

of responsibility and accountability of the Sector, and the need of possessing different knowledge and skills in the profession, impose an obligation to the employeesof the Sector to carry out the daily work activities together, and to develop and implement new projects, which form a compact and harmonious team. Thus, the individual's awareness of the necessity of teamwork has been developed, which affects positive working atmosphere, professional staff response to work duties, strengthens creativity free of competition, with the aim of improving its business in our Sector and society as a whole. Most of the Airports ICT Systems that are currently used were developed by System users and employees in this Sector.

3.2. Information systems

3.2.1. FIDS – Flight Information Display System

A flight information display system (FIDS) is a computer system used in airports to display flight information to passengers, in which a computer system controls mechanical or electronic display boards or TV screens in order to display arrivals and departures flight information in real-time. The displays are located inside or around an airport terminal. A virtual version of a FIDS can also be found on most airport websites and teletext systems. In large airports, there are different sets of FIDS for each terminal or even each major airline. FIDS are used to assist passengers during air travel and people who want to pick up passengers after the flight.

Due to code sharing, one single flight may be represented by a series of different flight numbers, thus lines (for example, LH474 and AC9099), although one single aircraft operates that route at that given time. Lines may be sorted by time, airline name, or city.

3.2.2. HP – DSC – Departure Control System

HP Departure Control Services Baggage Reconciliation is offered for flights handled fully in this departure control system (DCS) or a different one. In the HP system, baggage details are created automatically by bag tag printing, read-in, or manual claim tag input. These tags are read in the baggage room, and the system matches it with the existing baggage tag in the passenger record of the respective flight.

The baggage reconciliation response then shows either an "ok to load" with the container number in green or "not ok to load" in red, depending on the passenger status—checked-in, boarded, or not checked-in.

3.2.3. World Tracer - System for Handling Lost Baggage

World Tracer is a SITA / IATA service provided for the tracking of lost or delayed baggage. It has been in operation for many years and used by many airlines, such as Qantas, Lufthansa and Emirates. The system also allows for the rapid determination of mishandled baggage.The WorldTracer service operates globally and can exchange information with each of the current 2200+ member airports. It tracks and follows luggage for up to 100 days and it collaborates with other similar services. The WorldTracer internet interface allows passengers to track the bags by entering a transaction number.

Whenever a baggage is found without an owner, it can be registered as an on-hand baggage. It is then automatically matched with various missing-baggage files (called AHLs) all over the world. Whenever an on-hand gets a likely match, the station that has registered the missing baggage receives an alert. The bag is matched based on the baggage's routing number, tag number, passenger's surname, type of baggage, and content. When a handling agent finds an on-hand which matches one of their AHLs, he/she can request the on-hand by sending a message to the station that registered the on-hand baggage.

The format of the tracking number is AAABBNNNNN, where AAA is the airport's IATA-Code, BB is the airline's IATA-Code, and NNNNN is a 5 digit tracking number. For example, PHLDL19676 is from Philadelphia International Airport, flew on Delta Airlines, and has the tracking number of 19676.

3.2.4. PAS – Public Announcement System

A public address system (PA system) is an electronic sound amplification and distribution system with a microphone, amplifier and loudspeakers, used to allow a person to address a large public, for example for announcements of movements at large and noisy air and rail terminals or at a sports stadium. The term is also used for systems which

may additionally have a mixing console, and amplifiers and loudspeakers suitable for music as well as speech, used to reinforce a sound source, such as recorded music or a person giving a speech or distributing the sound throughout a venue or building.

Simple PA systems are often used in small venues such as school auditoriums, churches, and small bars. PA systems with many speakers are widely used to make announcements in public, institutional and commercial buildings and locations. Intercom systems, installed in many buildings, have microphones in many rooms allowing the occupants to respond to announcements.

4. Conclusion

Information systems are based on information and communication technologies. These technologies fall into the key generic technologies as they are penetrating all spheres of economy, science, social and private life and bring radical changes.

As short term often is used as an ICT, in everyday speech involves the use of a wide range of technologies, from computer, which manipulate and manage data and information across the industrial robot developed in industries, communications technologies, such as the computer network, Internet, to radio and television. For this reason, often in everyday speech it can be heard in different contexts.

The information system in the simplest way could be defined as a system that handles information in order to meet the information needs of the organization.

By similar reasoning we get one of the classic definition of an information system: „The information system is a set of interrelated components that work together on collecting, processing, storing and distributing information to support decision making and control in an organization".

Generally speaking, the three activities of the IS organization is to produce the information needed for decision making, control activities, analyze problems and create new products and services. These activities are: input, processing and output.

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Analysis of Enterprise Resource Planning (ERP) for Medium Sized Enterprises

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ABSTRACT

The purpose of this study was to analyze ERP for medium-sized enterprises in Bosnia and Herzegovina. This study used a survey method (interview) as the main research tool to examine 20 randomly chosen companies on their ERP usage. The study found out that companies in Bosnia and Herzegovina are familiar with ERP knowledge, in which are not sufficiently well informed. Companies using ERP are mostly companies that are middle sized enterprises, and usually the ERP in them is represented for several years and are usually using ERP domestic solutions.

Keywords: enterprise resource planning, effect and usage of ERP system, flexibility and adaptability of business

Introduction

Enterprise Resource Planning is a set of processes and tools to manage the balance of demand and need and their prediction that enable unified view of the total operations of the company, with the support of decision making. ERP system is a strategic tool of a corporation for the integration of all business processes that take place within its organization and its environment and the optimal use of available resources. The basic characteristic of the globalized market of products and services is the growing level of interaction between all the actors of the supply chain. This level of cooperation is essential in order to reduce production time and delivery, delivery of products and services adapted to market demands, and even individual customers. To improve the performance of the response of a company within an integrated supply chain, it is necessary that implements the appropriate systems for effective planning and control, which will provide planning and implementation of all its business processes. ERP system functions extend beyond the borders of the company which the system is used in, along the entire value chain in which the company plays a role.

One of the key prerequisites for the company's survival on the market represents the flexibility and adaptability of business, that is, the company's ability to react to the changes in the market, and that at the strategic, tactical, operational and technological level. Each audit of the business, caused by fluctuations in the business environment includes always timely, sincere and detailed picture of the current state of the company, identification of disorders and feasible plan revision, based on quantification of the desired position. ERP systems enable enterprises to respond instantly to changes in the market, primarily due to the systematization of data, processes and business objects that with their help managed in real time.

In conventionally managed business system, business processes typically represent its isolated functions, and planning, execution and control of individual processes are independent and autonomous and shall be implemented within the framework of one of its sector. This approach produces, above all, very important data redundancy over underlying the operations of the company. It introduces a great risk of errors, due to the use of false information for making important business decisions. The implementation and use of ERP systems in the business system includes synchronization, i.e., the integration of all of its business functions and related data repositories. It allows consistent operation of the enterprise sector - manufacturing, sales, procurement, delivery and accounting, based on the always up to date parameters, through the provision of different views on a unique set of data on current operations.

The integration of data that describe the business objects that the company is managed, as well as access to that data in real-time causes the successful implementation of the ERP system in a company usually leads to smaller stocks, reduction of employees and simplifying the organizational structure (process orientation), better quality products, higher productivity and faster response times to communicate with customers.

Basic Features of ERP systems

Historical development of ERP systems suggests that the primary motivation of evolution resulted from a request to increase the efficiency of production. Today, in contrast to the MRP II system that is designed manufacturing companies, ERP systems include all business functions, so they are accessible to a much wider market of business systems. While the basic characteristics of an ERP system integrated planning and control of all relevant resources of the companies, it is required that each business information system has the following characteristics in order to qualify as an ERP solution:

2.1. Flexibility

Modern ERP system is characterized by the possibility of adapting the real needs of a particular business system that is implementing it in their environment, and standard industry practices. Flexibility refers to the ability to set general parameters and process parameters, work with different data sources.

2.2. The modularity and open architecture.

Modern ERP system consists of modules, where each of them is dedicated to a particular field of business functions. Each module is, via the available interfaces may be associated with one or more other modules or software components, from the standpoint of external ERP system. System, or its individual parts, can be implemented on different hardware and software platforms (operating systems).

Availability.

ERP system is not limited to formal boundaries of the business system. He must be available to its remote organizational units, but also to provide appropriate interfaces designed to partner the company and its customers.

2.4. Simulating the real business circumstances.

One of the most important functions of ERP systems is the ability predict system behavior in specific, realistic business circumstances. This prediction is performed using the appropriate simulation scenarios in the real domain business data, defined certain assumptions, and based on forecasts. The results of simulations of real business circumstances constitute an indispensable basis for making important tactical business decisions, and can contribute to successful decision-making in strategic and operational domain.

The main objectives of ERP systems

Most ERP systems were initially designed for use in the production companies that are characterized by large numbers or mass production of discrete products. Due to the market development and successful implementation of ERP systems in other sectors, from which emerged a specialized industry solutions, today they are used for addressing or resolving support in at least five groups of problems, and to the realization of the following objectives.

3.1. Integration of financial information. In conventional systems, due to the redundancy of information, or human error arising from their different interpretations, different subsystems give a different picture of the overall financial performance of the companies. Given that ERP system includes integrated financial management information, albeit with different responsibilities, it is obvious that he provided the completeness and accuracy of information, provides an accurate, always up to date picture of the total income of the company, its structure and alternative performances.

3.2. Integration of information about orders of clients. The transformation process customer orders into revenue are pervasive throughout the organization and business activity which involves all sectors of the company. From this point on is the most important process in a business system and the main generator of information for decision support. Given that, if implemented in a conventional system, is the generator of great risk for the creation of incorrect or incomplete picture of their situation and the impact on the overall performance of the company. Therefore, it is essential that it can be integrated and coordinated, supported by appropriate ERP system.

3.3. Standardization and accelerate production processes. In the conventional system, a production company with more geographically distant facility may have specific standards (or a standard with different routes of administration) for the management of production processes. The application of ERP systems, perform their unification, and it allows a higher degree of automation in their implementation. Consequently, the manufacturing processes are shorter.

3.4. Decrease in inventories. With application of ERP systems, manufacturing processes of a company are more stable and predictable to the greatest extent possible. ERP and MRP systems include methods for planning inventory that ensures their optimum level and minimal storage costs.

3.5. Standardization of information on human resources. If the operating system includes a number of geographically distant locations, integrated and standardized information on all human resource that enables ERP system, ensures their complete accuracy and timeliness.

When implementing an ERP system, it should be bear in mind that it only provides for a generic representation of business processes that need to be adapted to certain conditions, the findings in the business system in which it is performed. That is, the primary function of an ERP system may vary in different circumstances of its use in various enterprises. It is the adjustment of generic business processes - the most important activity of the process of implementing an ERP system.

Research Methodology

For this study, a survey method was used to explore the ERP in business in my country Bosnia and Herzegovina, mostly the capital city – Sarajevo. The aim of this study was to produce a broad picture of how many companies are using ERP system.

The survey had 14 questions, some of them were open-ended questions, some of them were multiple choice questions, some of them were leading questions, where some answers were "yes" or "no" and there were a few questions where the respondent could choose one answer. At the end of the questionnaire, the respondents were asked to provide optional textual comments and/or suggestions.

Research data were collected from one employee (manager) per company. The survey consisted of 20 participants, where all of them were employees in the company that was surveyed. The names of the participating companies and employees are not disclosed in this paper in order to protect their privacy.

Results

Type of business	**Percentage %**
Production and sale	55%
Export – Import	25%
IT engineering and technology	15%
Accounting and auditing	5%
Insurance	10%

Number of employees	**Percentage %**
Small companies	0%
Large companies	0%
Medium-sized companies	100%

Department	**Percentage %**
Director	80%
Manager	20%
Head of Department	0%

How long have you been in current position?	**Percentage %**
Less than 5 years	0
Less than 10 years	10%
Less than 15 years	15%
More than 15 years	75%

Level of education	**Percentage %**
High school	0
Bachelor	100%
Master study	0
PHD	0
Other	0

Gender	**Percentage %**
Male	95%
Female	5%

Age	**Percentage %**
<30	0
31-40	20%
41-50	60%
51-60	20%
>60	0

Are you aware of the potential of ERP?	**Percentage %**
Yes	95%
No	5%

How long has your company using ERP?	**Percentage %**
1-2 years	0
2-5 years	0
More than 5 years	5%
More than 10 years	95%

Free or Paid software?	**Percentage %**
Free – open source	0
Paid	100%

How much do you spend on ERP?	**Percentage %**
0 – 5000	31,25%
5000 – 10000	68,75%
> 10000	0

Do you think that companies in Bosnia and Herzegovina should consider ERP as business solution?	**Percentage %**
Yes	90%
No	10%

In the developed world ERP systems constitute a powerful management tool for everyday controlled by resource companies. The situation in Bosnia is not at a high level. Institute for Statistics of Bosnia conducted a survey on the use of information and communication technologies. In Bosnia, in January 2008, 10% of enterprises used ERP system. Analysis of enterprises by size shows that the total number of large companies, the ERP system has 27%, 11.6% medium-sized

enterprises, while 8.4% of small companies have ERP system.
Banks and insurance companies mostly use the ERP system (24.1%), followed by enterprises in the field of transport, storage and communication (24%).

Based on the research it was concluded that the number of companies using ERP system decreased by 6.4% compared to 2007. This is probably the lack of information about the company ERP system. This is supported by the following data: in 2008 even 16.9% of companies said they do not know whether they have the ERP system, while the corresponding data for 2007 was much lower and amounted to 4.4%

One could also say that they are with us, the initial introduction of the ERP system began in companies that had now to increase their worth for sale or privatization, as well as in companies that wanted to work with large foreign partners at the same level.

After the introduction of ERP systems in medium-sized enterprises it can be concluded that the quality of business built on a much higher level, because it created a unique database available to everyone and thus provided quick access to all transaction information throughout the organization. Also, there is a possibility for improving the database of all significant transactions entered, records, and processes, monitoring and reporting. Improved communication and coordination between units within the company is additional benefit. Eliminated duplication of data and increased accuracy, accessibility and sustainability data; There has unique productive view of general affairs for all functions and departments, which increases the conductivity in cooperation and coordination among departments within the company; Enabled an accurate prediction of the plans of buyers and accordingly prediction in its plans procurement; Realized automatically receive orders from customers via EDI without the possibility of error when entering the customer's order in its own system; Reduced time and automated way to create and send orders to suppliers with optimal inventory costs and the lowest possible risk to the buyer; Quick, easy inventory of fixed assets with minimal engagements of human resources; Possible calculation of cost after the most current purchase price; The company became more responsible to customers and to the market, so that the ERP system more agile enterprise.

Conclusion

ERP systems in medium-sized enterprises in Bosnia and Herzegovina are represented in surprisingly large numbers (80% out of 20 companies). However their use was restricted to the invoicing and bookkeeping and a complete program was used with only 10-15% of its capacity. With the introduction of fiscal cash registers, the majority of companies were forced to introduce a system of monitoring through the ERP due to the issue of fiscal accounts.

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Costs of Institutionalization and their Reporting

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ABSTRACT

This study aims to enlighten the costs of institutionalization cognitively for the businesses that have not been institutionalized and are aware of its inevitability. Literature reviews show that businesses are worried about that institutionalization will bring high cost to them. In addition, it is understood that business owners have lack of knowledge on the benefits of transferring the management of business to professional executives. In this study, it is concluded that businesses which decide on institutionalization may bear some costs during this process but it will make important contribution to the going concern of the business. Some proposals have been put forward on classification and recognition (as capitalisation and period cost) of institutionalization costs.

Keywords: Institutionalization, Intangible Fixed Assets, Cost, Period Expense.

1. Introduction

Competing and providing long-lasting successes depend on the rules established in business life and obeying them. These rules refer to becoming a "system". Institutionalization means a management's becoming a system. In other words, it can be explained as recovering the actions in a management from being person-dependent, and performing the actions by a system. In this way, it will be possible for a management to transform from an unstable and disorderly structure to a balanced and flexible one (Güleş et. al., 2013).

In this study which is prepared on managing the costs in a business, there are explanations on informing the managers on what kinds of cost need to be recorded to which accounts. These costs are examined in three groups as communication, professionalization and structuring, and their places in the financial statement are determined according to their types.

In the literature review, since institutionalization is a management model, topics related to it are approached within a management framework (generally in family-owned companies). Though the administrators of a business want to have been institutionalized, several disincentives hold the management in a deinstitutionalized or seemingly institutionalized condition (Çakıcı and Özer, 2008). This situation is caused by the administrators who want to start the process but don't know how it occurs, and by the ones who worry about not being able to overcome large-scale costs.

The first thing that a business should do is to realize formalization to become a system. Formalization refers to the continuous organization of management functions tied to rules; in other words, removing the business actions from individuals' initiatives and basing them on the working plans and the rules in the system (Güleş et. al., 2013). These operations require several costs as consultancy and training expenses (Baltalar, 2014). Other than this; costs that will be made for adjustments due to the changing environment, costs of institutional design, costs of human resources, and costs of branding should also be included in the structuring costs (Haftacı and Soylu, 2008, Meral, 2011, Haigh and İlgüner, 2012).

Owning technology, an inseparable part of information, is closely related with the competitive power of businesses. Internet has been the most important tool in the fast spreading and usage of information. Sharing information, communication, marketing products and services, and all processes in daily life are realized through the Internet. Being a powerful marketing and delivery tool, Internet is the only investment type which enables electronic trading (Alagöz, 2007). This investment type presents the communication costs of institutionalization.

The obligation of having a communication or web site which is accepted as a part of institutionalization was put into action with the 1524th article of the Turkish Commercial Code No. 6102 which was legislated on 01.07.2012. As Alagöz (2007) states, since the expenses made during the steps of constructing a website differ as costs or investments, the records in accountings may also differ (Alagöz, 2007, p.19). According to Turkish Accounting Standards (TMS)

Comment-32 or Standard Interpretations Committee (SIC)-32, the process from the construction of a website to its accounting is explained in detail. (TMSK, 2009 and http://www.iasplus.com/en/standards/sic/sic-32).

Institutionalization provides the formation of a business's institutional identity. Thanks to this identity, the business coalesces with its employees inside and differs from its rivals outside (Okay, 2002). At this point, the most salient feature of institutionalization is to strengthen the connection among employees and eliminate the emotional connection which is generally in the nature of family-owned companies (Kayabaşı and Özmen, 2014). This situation reveals the professionalization aspect of institutionalization.

Costs of professionalization are also accepted as the costs of human resources (Ceran, 2007). According to TMS-38, the team which is formed by the qualified staff of the business or human resources that has been made qualified through training are accepted as a wealth for the business (TMSK, 2009, s.743). In this sense, it will be appropriate to activate all the expenses (generally for a time period that exceeds one year) made for professionalization.

2. Institutionalization Process and the Classification of Its Costs

Institutionalization is a process of change. The term "process" is defined as the series of connected steps which start with an input in the business world, use insider and outsider sources, and produce an outcome by including added-values like finance, stock and information parallel with the demands coming from customers. The meaning of the components in this definition is that input is the situation of the business when it is founded or before its institutionalization; and the customer is the founders of the business, its employees or other elements. The source, on the other hand, is the labour force and the finance. Finally, outcome is the institutionalized business at the end of this process (Baltalar, 2015).

In this aspect, three steps of the institutionalization process are mentioned (Tolbert and Zucker, 1996):

Habitualization:

The process starts with the formation of structural regulations. By determining the same or similar problems, the procedures and policies that will be followed by the business are formed.

In this step which is also accepted as the pre-institutionalization stage the business has the tendency to imitate the strategies, technologies and cultures around it. However, since these imitations may not be appropriate for their own structure, it may result in failure. The costs in this stage will be the institutional design costs and consultancy costs which are related with preparing working plans included in the costs of structuring.

Objectification:

This step, which is called as semi-institutionalization stage, is defined as increasing the compatibility by providing consensus in the business. The management may use the objective information in the options to select "the best one" in its decisions for providing the consensus. Such a decision making process puts the business actions to a more objective dimension. The costs that emerge in this stage are environmental costs and branding costs that are included in the costs of structuring. In addition to this, it is thought that the costs of professionalization and communication also emerge in this stage.

Sedimentation:

In this stage, institutionalization is completely realized and the business becomes a rooted institution and transforms into a time period in which sustainability is ensured. Both the communication and professionalization costs will keep taking place in the financial statements of the business.

Other than its benefits, it is also required to consider the drawbacks of institutionalization which is accepted as one of the criteria to survive in trading life because while it increases the survival chance of the business, it may decrease the rivalry advantage in the long term by creating resistance, reluctance and laziness towards the change in the business (Fleck, 2006).

3. Accounting the Costs of Institutionalization

The costs that emerge from the business's starting the action of institutionalization are handled in two ways according to their benefit-providing periods to the business. These are activation and accounting as the period cost.

3.1. Accounting The Structuring Costs

The start of institutionalization process with formalization, working plans and regulations in the business needs an expert opinion. The consultancy and training expenses based on this take place in the accounting records as the cost

of the related period. Such structuring costs are recorded as debit into 750.01 Development Expenses sub-account and 750.RESEARCH AND DEVELOPMENT EXPENSES primary account.

The business's harmony with its working environment in terms of its actions and structure requires several regulations in its expenditure plans and organizational structure based on the changing and developing environment (Baltalar, 2014). As required by laws and regulations, investments and expenses made for the environment take place in the means of the business. According to this, if building these means occurs in a specific time period, it must be recorded as debit into 258.CONSTRUCTION IN PROGRESS primary account. However, if this building or montage does not take any time, it must be recorded as debit into 253.MACHİNERY, EQUIPMENT AND INSTALLATIONS primary account.

In the process of a business's institutionalization, the logo of a service or product, its brand, its letterhead, preparation of the hand-manual and advertisements, staff uniform, their strategies and coordinated workings constitute a whole of systems. These systems are expressed as organizational design (Meral, 2011). Since the logo and the brand of a business will be used more than a year, it will be recorded as debit into 263.RESEARCH AND DEVELOPMENT COSTS primary account, and into 263.01 The Business Logo and 263.02 Branding costs sub-accounts. If the business purchases this brand, it is recorded as debit into 260 .RIGHTS primary account and 260.01 Right of Using the Brand sub-account.

Since the other expenses will run out in less than a term, the costs other than advertisement ones are recorded as debit into 770 GENERAL ADMINISTRATIVE EXPENSES primary account and into 770.01.Letterhead, 770.02. Institutional Hand-manual, 770.03. Staff Uniform sub-accounts.

3.2 Accounting the Professionalization Costs

Professionalization is based on the principle that all the work in a business is done by experts, and duties, power and responsibilities are shared according to expertise (Karavardar, 2010).

Another important factor for the construction and sustainability of institutionalization is human resources. It is the most important source which businesses have to use when they want to reach their targets (Öğüt et. al., 2004). Trainings which are organized in several intervals to increase the performances of employees in a business lead the emergence of training costs (Namlı, 2010).

As a requirement of institutionalization, businesses must employ expert managers. When they get consultancy from an expert, they have to pay for that. Besides, giving prices and incentives to create an organization culture within institutionalization will bring extra costs to the businesses (Çakıcı and Özer, 2008). Salaries, incentive payments and consultancy costs included in these expenses are recorded as debit into 770.GENERAL ADMINISTRATIVE EXPENSES primary account and into 770.04 Staff Costs sub-account, and they are transferred to the account of the statement of income at the end of a term.

Department of human resources is founded not only for the costs of human resources but also for the development of managing the employees. The costs of human resources go through the stages sorted below. Firstly, costs for looking for personnel, hiring, selecting and placing are the costs for having staff. In the second stage, costs emerge from promotion, advertisements or notices to select the people that will be hired in the business are accepted as the costs for renewal. In the third stage, costs that are made for the tests of people who applied a job, interviews and applications are the costs of employee selection. The fourth stage includes the moving and travelling costs that are made for hiring the selected people. The fifth stage covers the costs made for in-service and vocational trainings which are done to increase the performances of employees. The sixth stage, on the other hand, includes the training and adaptation costs which are made to teach the thought system of the business and help the staff adapt the environment in the workplace. Finally, costs for trainings of the managers and technical staff, and costs for both the ones who get and give the training are accepted as vocational training costs (Ceran, 2007).

Since the costs among professionalization ones related to increasing staff efficiency will provide efficiency in the long-term, they are accepted as development costs. These costs are recorded as debit into 263.RESEARCH AND DEVELOPMENT COSTS primary account and into 263.01 Human Resources Supply Costs, 263.02 Costs of Training for Initial Employment and Adaptation, 263.03 In-service Training Costs sub-accounts. These accounts take place in active in annual financial statement. The services of employees are consumed through amortization in time. At the end of a year, the amortization is recorded into 750 RESEARCH AND DEVELOPMENT COSTS primary account and into 750.01 Human Resources Supply Costs, 750.02 Costs of Training for Initial Employment and Adaptation, 750.03 In-service Training Costs sub-accounts. These accounts are transferred to financial statement account at the end of the term (Ceran, 2007).

3.3. Accounting the Communication Costs

Since a business which proceeds towards institutionalization has to set up a website, also has to bear extra costs. These are examined under three parts as the costs for planning the website, the costs for application and sub-structuring, and the costs for forming designs and graphics (Alagöz, 2007), (Usul and Özdemir, 2007).

According to TMS or IAS-38, the costs for planning a website cannot be activated in the stage of setting it up and they are recorded as term costs. Planning costs are recorded as debit into 770 GENERAL ADMINISTRATIVE EXPENSES primary account and into 770.05 Setup Costs sub-account.

Since application and sub-structuring includes several stages, some other costs emerge as well. These are domain name, server, communication systems and security.

Domain name is the IP address of the business which sets up the website. Businesses rent this address for a certain fee from the businesses which give this name. This renting may last for one year or more. If it is rented for one year, it is recorded as debit into 770.GENERAL ADMINISTRATIVE EXPENSES primary account. If rented for more than a year, it is recorded as debit into 260 RIGHTS primary account and into 260.02 The Right of Using an IP sub-account.

Businesses which want to set up a website need to have a server. They either buy it or rent it. Expenses that are made by the business to buy develop and use the software should be evaluated as financial fixed-assests. They are recorded as debit into 255.FURNITURE AND FIXTURES primary account and into 255.01 Server sub-account.

Communication systems are complementary elements of a website. They can either be sold within a computer or bought separately. Since they can be used more than a year, they are accepted as financial fixed-assests. They are recorded as debit into 255 FURNITURE AND FIXTURES primary account and into 255.02 Software sub-account.

Security is bought to protect the website from negative factors such as viruses. Since these programs are used less than a year, they are written as direct costs, and recorded as debit into 770.GENERAL ADMINISTRATIVE EXPENSES primary account and 770.07 Security Server sub-account.

Finally, costs for making designs and graphics are realized in two stages as designing and content development costs. Since development of designing is benefited in long-term, these costs must be activated. For this reason, they are recorded as debit into 260 RIGHTS primary account and 260.03 Website sub-account. Since costs for content development are periodical, they are recorded as debit into 770 GENERAL ADMINISTRATIVE EXPENSES primary account and into 770.08 Content Development sub-account.

4. Conclusion

Businesses that want to institutionalize, must also bear many costs. These costs can be grouped as construction, professionalization and communication costs. They are recorded into related accounts according to the period of their economical benefits for a business. While the costs that have economical benefits for more than a year are recorded as fixed-assets, the ones that have an economical period less than a year are recorded into financial statement accounts. All these costs form the institutionalization outcome by adding value to the business. In terms of business management, perceiving the costs brought by institutionalization as high is seen as a reason for avoidance of institutionalization. However, it should not be forgotten that professional management will contribute more than unprofessional management in long-term.

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Software Development Methodologies and their Usage in Companies in Bosnia and Herzegovina

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ABSTRACT

The history of software development is very sketchy and as such getting accurate information is difficult. Software development is defined as a framework that is used to structure, plan and control the process of developing an information system. This paper will introduce the basic classification of software development methodologies. Basically majority speaks about two types of methodologies: heavyweight and lightweight. Heavyweight methodologies support comprehensive planning, through documentation and expansive design. On the other side, lightweight methodologies advocate for individuals over processes, working software over documentation, collaboration over negotiation, and responding to change over following a plan. In this thesis, I have explored some of heavyweight and lightweight methodologies such as Waterfall, Unified Process, Spiral, Extreme Programming, Scrum, Dynamic System Development Method, Feature Driven Development and Adaptive Software Development. Also I have discussed the strengths and weakness between two opposite methodologies. This study used a survey method (online) as the main research tool to examine randomly chosen software development companies in Bosnia and Herzegovina in order to get their views as well as feedback from using some of the previously mentioned methodologies. Based on the survey results we can conclude that employers in companies in our country have very limited knowledge about software development methodologies but they use methodology that is imposed by the company.

Keywords: Framwork, Software Development Methodology, Agile, Heavyweight

1. Introduction

In former times there was not such a things called methodologies or system, there was just programming languages and when software was required programmers had no choice but to dove in and start programming. In the late 60's „software engineering" system was born from the idea to make software do something useful and engineering system might be applied. According to Elliot (2004) the systems development life cycle (SDLC) can be considered to be the oldest formalized methodology framework for building information systems.

For the purpose of discussion in this thesis, software development methodologies are divided into two groups: heavyweight and lightweight methodologies. Heavyweight software development methodologies are also knows as traditional methodologies. Traditional software development methodologies sometimes fall short in the new e-business software environment (Yourdon, 2000). Lightweight software development methodologies have been developed and put in use because heavyweight methodologies could not keep up with the pace of e-business software development projects. They are considered light because of the reduced documentation and managerial effort required. The aim of this thesis is to make an overview of software development methodologies, identify the strengths and weaknesses of both heavyweight and lightweight methodologies and explore which methodologies are mostly used in companies in Bosnia and Herzegovina.

This thesis is formatted in five parts. The first chapter covers the thesis's problem statement and goal, importance, and plan. This is followed in the second part by a literature review related to the problem. In the third part, the research methods and resources engaged during the completion of the thesis are described. The results of the research are presented in the fourth part of the thesis. Finally, the paper completes with an overall conclusion about heavy and lightweight methodologies used in companies in Bosnia and Herzegovina.

2. Literature review

Rothi and Yen (1989) provided a brief review of traditional SDLCs. In their journal article, they related how the use of traditional software development models is numerous and often regarded as the proper and disciplined approach to the analysis and design of software applications. Examples of such models included the code and fix, waterfall, staged and phased development, transformational, spiral, and iterative models. The authors also described how traditional

SDLCs have the same goal and are similar in the approach they use to achieve it.

A related article by the U.S. Department of Justice described how the primary goal of any SDLC is to deliver quality software systems (DOJ, 2000). It further defined a quality system as one that: 1) meets or exceeds customer expectations, 2) works well with current and planned infrastructure, and 3) is inexpensive to maintain and enhance.

Osborn (1995) also discussed traditional SDLC techniques and how over time the phases of these approaches have become enshrined in a development cycle that includes: 1) defining requirements, 2) designing a system to meet those requirements, 3) coding, and 4) testing. Each phase of the development cycle is strictly sequenced.

In response to traditional approaches to software development (often viewed as cumbersome and bureaucratic), new lightweight methodologies have appeared (Fowler, 2000, December). A high percentage of software development efforts have no process and might best be described as a chaotic "code and fix" activity. Light SDLC techniques are a compromise between no process and too much process.

The Agile Software Process (ASP) was first proposed at the 1998 International Conference on Software Engineering in Kyoto Japan (Aoyama, 1998a). Benefits of the ASP process are its ability to efficiently manage large-scale software development efforts (Aoyama, 1998b). Evidence of this is the 75 percent reduction in development cycle time realized by Fujitsu when ASP was employed to manage a major communication software project.

The Dynamic Systems Development Method (DSDM) is a framework used to control software development projects with short timelines (DSDM, 2001).

Extreme Programming (XP) is the best known of the lightweight methodologies (Highsmith, 2000, February).

Feature Driven Development (FDD) is a model-driven short-iteration software development process (Coad, 1999).

3. Research Methodology

For this study, survey method was used to explore which software development methodology is more frequent in software companies in Bosnia and Herzegovina. The goal of this study is to make an overview of software development methodologies, and see the difference among them.

The survey has 13 close-ended questions that are divided into four sections: organizational characteristics, methodology questions, software development questions and general questions.

Organizational characteristics section introduces us with the type and size of the organization respondent belongs to as well as organizations willingness to adopt new technologies and methods.

Methodology questions rates the respondents' knowledge of both Agile and Heavyweight methodologies. In software development section, the software development has been divided into three parts depending on the size of each project: small-scale, medium-scale and large-scale projects. For each category of development, I wanted to discover the different heavyweight and agile methodologies used. In this section the respondents provided feedback on whether the adopting of agile and heavyweight methodologies had any effect on the project cost and software quality. As final point respondents gave their opinion on what they believe is a more suitable methodology for each scaled project.

General questions are used to discover the respondent's position in the organization.

Research data were collected from employees in different software companies in Bosnia and Herzegovina. The results are based on answers from 15 respondents. The names of participating companies and employees are not disclosed in this paper in order to protect their privacy.

The advantages of collecting data through an online survey are in the ability to gather large amounts of data in a short period of time and in the fact that there is no need for data entry and processing requirement, since everything in automatically saved and analyzed.

4. Results and discussion

The aim of this thesis is to make an overview of software development methodologies, identify the strengths and weaknesses of both heavyweight and lightweight methodologies and explore which methodologies are mostly used in companies in Bosnia and Herzegovina.

A survey, as one of the essential parts of the study, was conducted by interviewing 15 employees from different software companies in Bosnia and Herzegovina, where the most of respondents was from IT sector (64,3%) , education (21,4%), government (7,1 %) and also (7,1)% of respondents from other sectors that are not offered in the survey. From the results we can conclude that (50, 0%) of respondents works in small companies that employ less than 10 full time staff, (7, 1%) from companies that employ 10-20 full time staff, (7, 1%) from companies that employ 21 to 50 full time staff, (21, 40%) from companies that employ 100-300 full time staff and (14, 3%) from companies that employ more than 300 employees. When it comes to adopting new technologies and methods (50, 0%) of the companies in our country

are market followers (happy to adopt new technology after the leader), with percentage of (21, 4%) we have companies that are market leaders (expends their market by adopting new technologies) but also we have (21, 4%) conservative companies (only follows when technology is proven). In our country we have (7, 1%) of static companies (does not accept new technologies). From the organizational questions we can conclude that IT sector is widespread in Bosnia and Herzegovina, companies are still in developing phase, some of them are ready for major changes in order to achieve their goals but also surprisingly there is a high percentage of static companies.

QUESTIONS	PERCENTAGE
a) Information Technology	64,3 %
b) Telecommunications	0,0 %
c) Engineering	0,0 %
d) Medical	0,0 %
e) Education	21,4%
f) Governament	7,1%
g) Other	7,1%
2. Approximately how many software professionals are employed by your organization?	
a) Less than 10 full time stuff	50,0 %
b) 10 to 20 full time staff	7,1 %
c) 21 to 50 full time staff	7,1 %
d) 51 to 99 full time staff	0,0 %
e) 100 to 300 full time staff	21,4%
f) Other	14,3%
a) Market leader (**expends their total merket by adopting new technologies**)	21,4 %
b) Market follower (**happy to adopt the technology after the leader)**	50,0 %
c) Conservative (**only follows when technology proven)**	21,4 %
d) Static (**does not accept new technologies)**	7,1 %

TABLE 1 ORGANIZATION CHARACTERISTICS

When it comes to rating respondents' knowledge about agile and heavyweight methodologies 35% of respondents claim to have an average or higher knowledge of agile and heavyweight methods. 8 of the 15 respondents rate their knowledge of agile methods as average or extensive. Also, 8 of the 15 respondents evaluated their knowledge of heavy methods as limited or very limited.

QUESTIONS	PERCENTAGE
4.	
a) Very limited	0,0 %
b) Limited	35,7 %
c) Average	35,7 %
d) Extensive	21,4 %
e) Very extensive	7,1 %
5. How would you rate your knowledge of Heavyweight Methodologies?	
a) Very limited	7,1 %
b) Limited	50,0 %
c) Average	35,7 %
d) Extensive	7,1 %
e) Very extensive	0,0 %

TABLE 2 METHODOLOGY QUESTIONS

With almost 65% extreme programming was the most popular agile methodology used in companies in Bosnia and Herzegovina. An interesting thing observed from the survey is that very popular agile methodology is the one developed by the organization. Also we can conclude that SCRUM is also very represented in companies in our country.

When it comes to heavyweight methodologies we can notice that Waterfall method is the mostly used but also Spiral and Unified Process are commonly used in companies.

In software development section the respondent was supposed to give their opinion on whether they believe that taking on an agile method rather than a heavyweight method will affect the cost and quality of software. The results does not meet my expectations but this could be a result of several factors. For example, a respondent who has not used an agile method for medium and large scaled projects could be biased on his responses.

With regards to software costs, all respondents agreed that adopting an agile process in comparison to a heavyweight process for a small-scale project will result in a decrease in cost. However, when it comes to medium-scale projects the costs started to increase for adopting an agile process rather than a heavyweight process. Approximately 28% of the respondents vote in favor of the decrease costs in the large-scale projects, 14% still believe it will increase the cost and the rest of the respondents think it would have no effect to the cost.

When the issue of software quality was presented to the respondents, the majority of the respondents were not inclined to say that the quality improvements follow heavyweight methodologies.

For small-scaled projects respondents have divided opinion, some of them think heavyweight method is more suitable but also we have 65% that said they are not sure. For medium and large-scale projects they agreed that agile method is the most suitable. From the survey we can conclude that organizations are slowly starting to adopt agile aspects into their heavyweight methodology for medium scaled projects and soon will start implementing for larger-scale software development.

QUESTIONS	PERCENTAGE
Which Agile Methodoloy do you mostly use for different kinds of Software Development?	
SMALL-SCALE	
Extreme Programming	64,29%
SCRUM	14,29%
DSDM	57,14%
Feature Driven	35,71%
Adaptive Software Dev	42,86%
MEDIUM-SCALE	
Extreme Programming	35,71%
SCRUM	50,00%
DSDM	42,86%
Feature Driven	50,00%
Adaptive Software Dev	50,00%
LARGE-SCALE	
Extreme Programming	0,00%
SCRUM	35,71%
DSDM	0,00%
Feature Driven	14,29%
Adaptive Software Dev	7,14%
Which Heavyweight methodology do you mostly use for different kinds of Software Development?	
SMALL-SCALE	
Waterfall	42,86%
Spiral	42,86%
Unified Process	57,14%
MEDIUM-SCALE	
Waterfall	35,71%
Spiral	42,86%
Unified Process	21,43%
LARGE-SCALE	
Waterfall	21,43%
Spiral	14,29%
Unified Process	21,43%

Which aspects of Agile Methodologies, do you dislike the most for different kinds of Software Development?	
SMALL-SCALE	
Low documentation	58,33%
Low planning	27,27%
Less management control	16,67%
Lack of project structure	30,77%
MEDIUM-SCALE	
Low documentation	16,67%
Low planning	63,64%
Less management control	58,33%
Lack of project structure	46,15%
LARGE-SCALE	
Low documentation	25,00%
Low planning	9,09%
Less management control	25,00%
Lack of project structure	23,08%
SMALL-SCALE	
Heavy documentation	35,71%
Comprehensive upfront planning	35,71%
Autocratic management style	50,00%
Not prone to change	28,57%
MEDIUM-SCALE	
Heavy documentation	28,57%
Comprehensive upfront planning	50,00%
Autocratic management style	42,86%
Not prone to change	42,86%
LARGE-SCALE	
Heavy documentation	35,71%
Comprehensive upfront planning	14,29%
Autocratic management style	7,14%
Not prone to change	28,57%
6. How do you believe that the cost of employing Agile Methodologies compares with Heavyweight Methodologies for the 3 sizes of Software Development projects?	
SMALL-SCALE	
a) High decrease in costs	35,71%
b) Low decrease in costs	57,14%
c) No effect	50,00%
d) Low increase in costs	42,86%
e) High increase in costs	50,00%
f) Not sure	57,14%
MEDIUM-SCALE	
a) High decrease in costs	35,71%
b) Low decrease in costs	42,86%
c) No effect	42,86%
d) Low increase in costs	57,14%
e) High increase in costs	35,71%
f) Not sure	42,86%
LARGE-SCALE	
a) High decrease in costs	28,57%
b) Low decrease in costs	0,00%
c) No effect	7,14%
d) Low increase in costs	0,00%
e) High increase in costs	14,29%
f) Not sure	0,00%

Do you believe that taking on of Agile Methodologies rather than Heavyweight mathodologies have any effect on Software Quality for different levels of development?	
SMALL-SCALE	
High decrease in quality	57,14%
Low decrease in quality	71,43%
No effect	50,00%
Low increase in quality	64,29%
High increase in quality	21,43%
Not sure	64,29%
MEDIUM-SCALE	
High decrease in quality	35,71%
Low decrease in quality	21,43%
No effect	42,86%
Low increase in quality	21,43%
High increase in quality	57,14%
Not sure	35,71%
LARGE-SCALE	
High decrease in quality	7,14%
Low decrease in quality	7,14%
No effect	7,14%
Low increase in quality	14,29%
High increase in quality	21,43%
Not sure	0,00%
What do you believe is the most suitable methodology for the different kinds of Software Development?	
SMALL-SCALE	
Agile	14,29%
Heavyweight	64,29%
Not sure	64,29%
MEDIUM-SCALE	
Agile	35,71%
Heavyweight	28,57%
Not sure	28,57%
LARGE-SCALE	
Agile	50,00%
Heavyweight	7,14%
Not sure	7,14%

TABLE 3 SOFTWARE DEVELOPMENT QUESTIONS

From table 4 we can see that 50% of information we got from programmers/developers.

QUESTIONS	PERCENTAGE
a) Programmer/Developer	50,00%
b) Analyst	0,00%
c) Software architect	7,10%
d) Software engineering	7,10%
e) Consultant	7,10%
f) Project manager	0,00%
g) Executive	7,10%
h) Other	21,40%

TABLE 4 GENERAL QUESTIONS

5. Conclusion

In this thesis, I distinguished heavyweight from lightweight methodologies. Furthermore, I discussed the strengths and weaknesses of both light and heavy methods. Also, I conducted the survey in order to gathered feedback from software developers through close-ended questions.

All the way through my research the domination of heavy methodologies was apparent. Heavyweight methodologies consist of comprehensive planning, heavy documentation and extensive designs. From the results of the survey we can conclude that heavy methods have high possibilities to be overtaken by agile methods in the near future. Doubtless, heavyweight approaches will still have their need in large, long lived projects that have a special safety, reliability or security requirements. Since today's enterprise solution are complicated according to the rapid change in business needs agile methodologies which are adaptable to change, people-oriented, speedy and responsive are well suit to the software development projects.

The need for business to respond rapidly to the environment in an innovative, cost effective and efficient way is compelling the use of agile methods to developing software. Generally, there are some aspects of software development project can benefit from an agile approach and others can benefit from a more predictive traditional approach. When it comes to methodologies, each project is different. It is well known that there is no "one-size-fits-all" solution.

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The Environmental Awareness of the Primary School Pupils about the Protection of Environment

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ABSTRACT

A requirement is set in front of the modern education to enable the development of the human self-consciousness and the consciousness about relations with the others and the environment in which man lives. Thus seen education requires the competence for making the decisions about the measures and activities of working in the local, regional and international frameworks that acknowledge the environmental, economic, socio-cultural and other values of different surroundings.

The environmental education that begins in the early childhood has an important role in the formation of the ecological culture, and therefore the role of the educational organizations at all levels of knowledge acquisition is very important (primary-school, secondary school and higher education). The development of the environmental awareness does not involve only the knowledge, but also the application of the acquired knowledge about the way of eliminating the negative consequences of the disturbed ecological balance. Exactly on this knowledge a survey was conducted in order to examine the level of development of the environmental awareness of the primary school pupils.

The study included 159 pupils of the Primary school "Travnik" in Travnik. Of that number, there were 78 pupils of the fifth grade, and 81 pupils of the eighth grade. The obtained findings can have their practical application in the overcoming the existing problems, and in the development of the environmental awareness of this and the future generations

Keywords: *environmental education, pupils, school, environmental awareness, environment.*

Introduction

Ecology is the study of the relationship between organisms and their environment. Humans' environment is air, earth, and water. For humans to survive they need to have a healthy environment. A healthy environment is our birthright. Humans are the only organisms who consciously alter their environment for themselves. With his carelessness, man has damaged the ecosystem whish guarantees his survival (Ćatić, 2000). We ourselves are witnesses to the changes that make us need more natural resources. This has lead to environmental issues both locally and globally. We need to keep in mind that any local problem can become a global one. Because of the connection within our environment, we cannot talk about soil pollution while ignoring the pollution of the water flowing through that soil. Air pollution isn't its own problem. It directly influences pollution of other environmental elements. Polluted soil also means polluted plants. This is why the key to the solution lies in man and his responsibility. Everything mentioned demands the formation of a new way of thinking about environment and environmental ethics. The prerequisite for that is planned and designed ecological education (Stevanović and Radović, 2003). Ecological education awakens ecological and ethical consciousness and teaches skills needed to prolong sustaining, which is the key for protecting the environment (Šoljan, 1996). Because of the growing globalization and favor of our country towards the EU, it is vital to coordinate our education system with theirs (Pirić, 2004). The educational reforms in Bosnia need to also include ecological education. It needs to become a compulsory element of education from preschool all the way to college. Its program should be progressive, so that new knowledge builds on the foundation of old knowledge. The result of such an education should be a new way of understanding our environment (Goletić, 2004).

Research methodology

The subject of our research is the ecological consciousness of our primary school students

The problem of our research se falls on the question: Do younger primary school students participate in the protection of the environment.

The goal of our research is to find out how satisfied are our primary school students with the environment and what they are willing to do to protect it.

The hypothesis of our research is: Primary school students have a developed environmental consciousness and a positive outlook on the environment. From the main hypothesis we draw several *sub-hypotheses*:

There is a statisically important difference between students in their satisfaction with the environment

Students actively participate in the protection of the environment.

There is a statisically important difference between students in the 5th and 8th grades in their satisfaction with the environment

We used the theoretical analysis method, descriptive method, and statistical method.

We also used the survey technique with an eleven-question questionnaire.

The sample was comprised of 159 students of „Travnik"Primary School in Travnik, out of that, 78 fifth-graders and 81 eight-graders.

We've handled the information with the following *statistical analyses:*

We calculated the measures of main statistics, percentages; we've used the t-test to see if students differ in their level of satisfaction with the environment in respect to gender and grade, with the Chi-square test we've tested if younger students differ in the protection of the environment.

Results and Discussion

Table 1. Level of satisfaction with environment

Indicators	N	M	SD	1 %	2 %	3 %	4 %	5 %
Tidiness of school interior	159	3,37	1,16	6,90	15,70	29,60	28,90	18,90
School's environment	159	3,55	1,22	8,20	11,90	21,40	33,30	25,20

Tidiness of city and street	159	3,43	1,16	8,80	7,50	36,50	26,40	20,80
Personal influence on the tidiness and beauty of environment	159	3,79	1,13	5,00	6,90	24,50	30,80	32,70
Participation in the old paper gathering activity	159	3,41	1,33	14,50	9,40	20,10	32,70	23,30

In our research we've assumed that there is a statistical difference in opinion between students with regards to grade and gender.

The calculated arithmetic middle (M) of all indicators for the first sub-hypothesis is 3.51 from which we can conclude that their satisfaction is mediocre. Standard deviation (SD) of 1,20 suggests the diffusion around the arithmetic middle is greater which is also shown by the (CV) variable coefficient of 34,19 and by that a lower consistency of these type of results.

Analyzing the acquired results (Table 1) we see that the students are mainly pleased with their environment. Most students also actively participate in making the environment better and healthier.

Table 2. Level of satisfaction – with respect to grade

Parameters	Grade	N	M	SD	Diff. M	F	Sig.	t-value	Sig.
Level of Satisfaction	V	78	3,93	,628	0,83	1,381	,242	7,677	,000
	VIII	81	3,10	,729					

The measure t= 7,677 and its importance Sig.= 0,000 tell us that there is a statistical difference between students according to grade, about the claims concerning their satisfaction (Table 2). Taking the arithmetic (M) middle into account we see that fifth-graders (V) have more positive opinions than eight-graders. Standard deviation (SD) shows that eight-graders (VIII) deviate more from the arithmetic middle.

Table 3. Level of satisfaction with the environment with regards to gender

Parameters	Gender	N	M	SD	Diff M	F	Sig.	t-value	Sig.
Level of Satisfaction	M	67	3,39	,856	-,21	1,804	,181	-1,584	,115
	F	92	3,60	,743					

The measured t= -1,584 and its importance Sig.= 0,115 tell us that there is no statistically great difference between the students with regards to gender. From the arithmetic middle (M) we see that female subjects had a more positive opinion than male subjects. Standard deviation (SD) shows that males deviate more (Table 3).

In research we've assumed that students actively participate in improving their environment, and that there is a difference in opinion between the fifth-graders and eighth-graders. To the question: „Do you participate in the planting and growing of plants at school or home?" students gave varying answers (Table 4). From Table 4 we see that younger students (V) more actively participate in the planting and growing of plants. Practice has also shown that younger students generally care more about the environment than their older counterparts. Results of the Chi-square test also show that there is a statistical difference between fifth-graders and eighth-graders when it comes to plant care at home and school.

Variable	N	grade	never %	some-times %	often %	regu-larly %	Chi-square	df	Sig.
Planting and growing of plants at home or school	78 81	V VIII	5,10 28,40	23,10 54,30	26,90 8,60	44,90 8,60	49,901	3	,000

Table 4. Students' views on watering and growing plants at home or school

We've also tried to research students' behavior on a trip, more specifically how they handle waste. From Table 5 we see that students generally put their waste into their backpack and throw it in the trash at home, although there are those who litter. We also see that fifth-graders have a more developed ecological culture than eight-graders. Chi-square shows us that there is a statistical difference between the behavior of fifth-graders and eighth-graders.

Indicators	N	class	Thrown in the bag %	Thrown on the grass %	Thrown behind the bush %	Thrown into the water %	Chi-square	df	Sig.
Behavior on trip	78 81	V VIII	94,90 82,70	2,60 7,40	0,00 9,90	2,60 0,00	12,295	3	,006

Table 5. Attitudes about the behavior of students on a field trip

We were curious to see if students were familiar with recycling. To our question: „What is the re-use of old paper to make new paper called? Students confirmed with their answers that they are familiar with recycling. Although we had to mention that a small percentage (3.70%) of eight-graders said that it was cleaning. The Chi-square test results show that there is not statistical difference between fifth-graders and eighth-graders.

Indicators	N	class	recycling %	aforestation %	cleaning %	printing %	Chi-square	df	Sig.
Processing of old paper into new	78 81	V VIII	100,00 96,30	0,00 0,00	0,00 3,70	0,00 0,00	2,944	1	,086

Table 6. Processing of old paper into new

We've also asked the students about waste disposal in their families. The results are shown in Table 7. We see that fifth-graders have a fully correct respect to the environment (they put their waste in trash cans), while eight-graders are generally responsible although some of them throw their trash in their garden or the river.
The Chi-square test shows us a statistically relevant difference between the fifth-graders and the eight-graders.

Indicators	N	grade	In the garden %	In the river %	In the trash can %	In the forest %	Chi-square	df	Sig.
Waste disposal	78 81	V VIII	0,00 7,40	0,00 4,90	100,00 87,70	0,00 0,00	10,276	2	,006

Table 7. Waste handling in the family

Conclusion

Research shows that students are satisfied with their environment and actively participate in its improvement. Statistically relevant differences in opinion are seen with regard to age and grade, although none such difference is seen with regards to gender. With this research we've determined that students have developed ecological habits, actively participate in the environment's protection, especially the fifth-graders (younger students), have a more developed consciousness about environmental protection than the eight-graders (older students). Chi-square test results show that there is a statistically relevant difference between the fifth-graders and eighth-graders with regard to environmental protection. With this research we can safely say that we've confirmed our hypothesis and its sub-hypotheses.

The protection and improvement of the environment is all of our duty. With the goal of forming a new understanding of the environment and a positive outlook on it, we must integrate an adequate ecological education into our curriculum (from pre-school all the way to university). Ecology should be studied in nature as often is possible, as is the easiest to understand there.

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Factors Affecting the Adaption of Internet Banking in Turkey

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ABSTRACT

The communication and transaction technologies which have developed in the recent years, as a cause of the improvement in IT sector and the internet, has had a profound effect on the banking industry. Hence, the adoption of these new technologies by customers is heavily dependent on certain factors, which define the users, who are most likely to use these technologies.
This study reports the findings concerned with the adoption of internet banking in Turkey, as a developing country. A questionnaire was used on a sample of 506 people from several cities in Turkey to look for the factors that influence the adoption of internet banking. Using the factor analysis it was identified that "security and trust" followed by "efficiency" explained most of the variance. Other factors influencing the internet banking adoption were "convenience and accuracy", "personalization and contact", and "privacy" issues. Theoretical contributions and practical implications of the findings are discussed and suggestions for future research are presented in the paper.

Keywords: *Internet banking, Technology adoption, Factors, Turkey*

1. Introduction

This first part presents the examination approach, foundation of the study, inspiration of the study, introduces the spectator of the objective, issue exploration address that heads us to our design. Therefore it reports commitment of the investigation Furthermore structure of the paper.

1.1. Overview

Advances in data and correspondence advancements specifically, the developing utilization of the web for business exchanges, have had a significant impact on the saving money industry. While this is a worldwide sensation, making a genuinely worldwide commercial center, entrance of web saving money into creating nations such is Turkey has had a critical impact on the general learning and reception of innovation in the nation and its inhabitants.

This paper reports finding of exploration into appropriation of web saving money in Turkey, a nation of between the East and West, and propose assortment of components that are liable to be included in acknowledgement by clients.

1.2. Background of the Study

Banking has always been a highly information intensive activity that relies heavily on information technology (IT) to acquire, process, and deliver the information to all relevant users. Not only is IT critical in the processing of information, it provides a way for the banks to differentiate their product and services. Banks find that they have to constantly innovate and update to retain their demanding and discerning customers and to provide convenient, reliable, and expedient services. Driven by the challenge to expand and capture a larger share of the banking market, some banks invest in more bricks and mortar to enlarge their geographical and market coverage. Others have considered a more revolutionary approach to deliver their banking services via a new medium: the Internet. Since the introduction of the Internet in 1969, it has evolved from sole domain of the computer nerd and the academic to a mainstream channel of communication (Nehmzow, 1997). Recently, it has been rapidly gaining popularity as a potential medium for electronic commerce (Crede, 1995; 0oi, 1999; U.S. Department of Commerce, 1999). The rapid growth of the Internet has presented a new host of opportunities as well as threats to business. Today, the internet is well on its way to become a full-fledged delivery and distribution channel and among the consumer-oriented applications riding at the forefront of this evolution is electronic financial products and services.

1.3. Motivation of the Study

The motivation for this research is as follows:

1. This is a relatively new innovation in Turkey; Internet banking is a worthwhile topic to study so that the quality of services in Turkish banking sector can be enhanced for the future.
2. Internet banking has been widely studied in developed countries. Few studies have been done in developing countries, and it has not been investigated to its full mazimum in Turkey.

1.4. Research Question

This research is remedying the lack of studies on the internet banking in Turkey. This research deals with intention toward Internet banking usage. So research questions of this study will be:

- ✓ What are the factors influencing adoption of internet banking by Turkish customers?
- ✓ What is the role of social influence (Trust) in acceptance of Internet banking?

2. Literature Review

Chapter two is structured along several themes. First of all, this chapter explains the basic terminology of electronic banking and Internet Banking. Second, the chapter gives an overview of the internet banking in Turkey, and third, the chapter outlines the definition of adoption and trust.

Finally, the chapter is concluded by research model and hypothesis.

2.1. Banking and Bank Services

People are willing to invest their money in financial organization like banks. Banks in the future will save for people who want to consume and invest in productive resources. Thus, businesses have to offer an efficient intermediary between those who want to achieve this. Alternatively, individual savers will have to be analyzed, managed and monitored, thus these businesses can collect their investments (Benston 2004). Retail, corporate and financial institutions are the three main market segments into which many universal customers can be separated (Chang et al, 1997). Personal and corporate banking institutions offer services and products to institutional and retail markets, while financial institutions and non-banking financial institutions set sales of product groups.

2.2. History of Internet Banking

Web banking, or electronic banking, will be a development of the advancement from claiming saving money also may be utilized as that stage to opening system systems, and also single person and business saving money administrations and transactions. Banks are set up in virtual surroundings and the non-branch benefits need aid introduced as an elective dissemination channel.

That clue from claiming web saving money what's more phone saving money risen in the 1980s for the increment in the utilization of the web at home (Cartwright 2000). In the 1980s, saving money furthermore fiscal organizations previously, Europe and the United States started to grasp "home banking" likewise an idea for examination also projects. Initially, a long way additional exceptional machines and the web aided clients contact machines also telephones (Sarel Furthermore Marmorstein 2003).

The united states "NetBank" might have been that primary web saving money provision also for 1996 "Atlanta web Bank" might have been established. Citibank and Wells fargo secured their web benefits On 2001 (Gefen and Straub 2005). An gartner gathering report card on 2009 states that, "47% for mature people in the united states what's more 30% of mature people in the united kingdom utilize banking" (Batchelor 2010).

DBS bank allowed money related administrations through that web for those main run through on Singapore to 1997. It might have been accompanied eventually Tom's perusing UOB, OCBC et cetera other banks (Gerrard et al, 2006). In the l990s, Turkish banks started those constant development about it's around the world mechanization measures with new engineering. Turkey Is Bankası Ltd. , Turkey's initially private bank, advertised clients' electronic saving money over 1987 furthermore laid that framework for ATMs (Polatoğlu and Ekin 2001).

2.3. History of Internet Banking in Turkey

Web saving money began for Turkey in 1997. Garanti Bank executed the technique in 1997. At that point Ottoman Bank, Pamukbank, Esbank, Akbank and Structure Credit Bank exhibited their Internet keeping money administrations to clients. Akbank Internet saving money started for individual clients in 1999. Today, Job Bank, Garanti Bank, Akbank, Vakıfbank, Denizbank, Koçbank, HSBC and different banks in the Turkish budgetary markets give Internet keeping money administrations. Since 1997, administrations have extended because of expanded PC proficiency, regulation of money related parts, craving of bank clients to have more helpful electronic administrations and lessen their exchange costs under the watchful eye of the Turkey Commercial Bank, which is seen as an option conveyance channel. Be that as it may, security concerns and the slower than anticipated spread of Internet saving money in Turkey have hampered advancement. As of March 2009, the quantity of clients expanded to 11.793 million. As indicated by the earlier year, an increment of 1.791 million individuals happened. The aggregate number of individual clients who logged into the framework a year ago was 6.344 million (http://www.finansgundem.com, 09.28.2009). In 2009, in the middle of January and March, 4.838 million individual clients performed no less than one Internet saving money method, which adds up to 41%. This demonstrates the utilization of Internet keeping money in Turkey was lower than created nations in Europe and Asia, however when contrasted with the creating nations, the utilization of Internet managing an account was higher than in Asia. (http://www.kho.edu.tr, 23.7.2010

2.4. Internet Banking Transaction

Chou and Chou (2000) point out the importance of the following basic items in Internet banking:

• View account balance and transaction summary

• Pay an invoice

• Transfer funds between accounts

• Request credit card and credit card transactions

• Social Security

• Tax payments

• Monitoring of foreign exchange trading and foreign exchange rates,

•Investment account transactions (repo, auto repo, government bond trading, mutual fund trading, foreign investment fund operations, monitoring of fund buy-sell orders, stock transactions)

• Account opening procedures

• An authorization process banking sector to adapt and compete with developments in the world of Internet banking following new conditions that are constantly regulating services.

2.5. Internet Banking from the Customer Perspective

The previous literature suggests that the following factors are important:

1) Perceived relative advantage

2) Perceived relative compatibility (with one's values about living and working)

3) Perceived security and privacy risk of Internet banking.

4) Prior experience with the Internet.

5) Need for a delivery channel like the Internet, which is easily accessible and convenient.

6) Trial ability of Internet branches

These are all things considered essential elements for clients to consider when settling on their choice to receive Internet managing an account. Suh and Han (2002) include "trust" to these six elements. Since Internet branches are considered as different options for other appropriation channels, consumer loyalty in regards to these channels is additionally imperative. Low administration quality and more prominent fulfillment with branch administrations are prone to have a negative effect (Centeno 2004). Moreover, improper opening hours of normal branches have a positive effect on the Internet branches and in addition the lacking number of consistent. Branches with an expense structure are likewise an impediment (Devlin and Yeung 2003).

2.6. Factors Affecting Customer Preference

Knowing the variables influencing the appropriation of Internet saving money will add to an increment in the utilization of Internet managing an account. Also, in the determination of a bank, the most critical elements are the differences of the administrations offered and the bank's notoriety.

McKechine (1992) states that comfort and simplicity of operation make internet managing an account more available. Saving money administrations whenever manage that two main considerations influence the utilization. With the advancement of Internet keeping money, a change has happened in client patterns. As indicated by Ekin and Polatoğlu (2001), a standout amongst the most critical points of interest of Internet saving money exchange is ease.

Vrechopoulous and Atherinos (2009) notice that the outline of the banks' site has an impact on Internet use, so it's important to mull over the configuration inclinations and suggestions of clients who use Internet saving money.

For Internet saving money to advantage clients, it is critical that they trust it is safe. Ekberg, Li and Cod (2007) examined the four biggest banks in Sweden to figure out the best standards in choosing which Internet banks to utilize. Passwords used to give security are not adequate unless the biometric strategy is utilized, reports Zhu (2009). Three different variables identified with Internet saving money focus security: messages between the bank and the client to make certain of the prerequisite (reality); monetary data sent to clients by means of the Internet that nobody else has the capacity see (protection and honesty); transforming of an individual in the wake of performing this development to personality.

2.7. Features of Internet Banking

The time of bank clients needing to go to a branch to finish their exchanges or ask about administrations is over. The progression of online or Internet managing an account has achieved a huge change to the whole budgetary industry. Brokers view web keeping money instruments as an extra method for drawing in and holding new clients. The web saving money exercises of banks are serving to decrease costly paper exchanges and front teller trades in a rising aggressive managing an account setting (Basics 2009).

2.8. Source of Internet Banking

The ubiquity of the Internet and the appearance of PCs have introduced both an opportunity and a test for the saving money part. For quite a long time, monetary foundations utilized a capable system of PCs to robotize a large number of day by day exchanges that generally finished with a paper record and a client's receipt. Since clients are joined with the Internet through PCs, banks can have comparable financial preferences by adjusting to the same inside electronic courses of action.

3. Methodology

The research was conducted in three stages. The first stage is, a comprehensive review of literature regarding attributes of Internet banking usage. In the second stage, a survey was prepared and pretested to see whether the questions were appropriate to the Turkish banking context. In the third stage, the questionnaire was provided to Internet users above 18 years. The answers were obtained from 26 January 2015 through 12 March 2015. In order to obtain the responses, e-mail distribution lists were mostly used.

A questionnaire was used as the instrument of data collection. 506 usable responses were obtained at the specified time period. The first part of the questionnaire included demographic questions and the second part included 30 questions related with the attributes of internet banking usage and 6 questions related with the perceived usefulness of internet banking usage.

To address the research questions, a factor analysis was used to shed light on the attributes that are important and contribute for Turkish consumers to use Internet Banking.

4. Result and Discussion

4.1. Findings

Obtaining the responses from the questionnaire participants a factor analysis was done in SPSS, in order to group related attributes that influence the decision of Turkish customers whether to use Internet banking or not into relevant factors.

4.2. Factor Analysis

30 variables related with the attributes of internet banking usage and customers' perception of those attributes were grouped by using factor analysis. The aim of the analysis was to reduce the number of statements and to group related items together. As could be seen from the output table in SPSS (Table 1), the scale was grouped into 5 factors as: efficiency, security and trust, convenience and accuracy, personalization and contact and privacy. The explained variance of the five groups together is 64.874%. The Cronbach Alpha values for 5 dimensions vary from lowest .8811 to highest .9169 which is acceptable according to Nunnlay (1978).

The first factor named as "efficiency" comprises of 8 variables related with the factors that make it easy and quick to use the internet site, thus at the same time, creates efficiency for the bank customer in the usage of this site. It is the second most important factor grouped in this study. "Efficiency" has a mean value of 4.6573 and a standard deviation of .41865. This factor explains 15.371% of the total variance. It shows that ease of use of the site, time savings and efficiency created by internet banking are very important for the bank customers.

The second factor "security and trust" explains 15.719% of the total variance. "Security and trust" has a mean of 4.8271 and a standard deviation of .39027. This factor is the most important factor in explaining the internet banking usage of the respondents. It comprises of 7 variables related with security and trust. This finding is expected for Turkish banking sector because of security problems that have emerged in the internet usage in previous years and consumers' concerns related with this issue. Also it supports some of the existing literature (Suh & Han 2002; Akıncı, Aksoy, Atılgan, 2004; Polasik and Wisniewski, 2009). However, this finding is not supported by similar studies related with this subject (Pikkarainen et. all. 2004; Karjaluoto et all. 2001) especially in more developed nations.

Third factor named "convenience and accuracy" comprises of 7 variables explaining 12.306% of the variance. "Convenience and accuracy" has a mean of 4.7057 and a standard deviation of .40193.

The fourth factor named "Personalization and Contact" has been found to be an important factor in our research. Personalization and Contact is composed of 5 variables and explains 11.266% of the variance. Mean and standard deviation of "personalization and contact" factor are 4.0827 and .62307 respectively.

Finally the last factor is "privacy" consisting of three variables, which explains 10.212% of the variance and has a mean of 4.9114 and a standard deviation of .35201.

Table1: Factor Analysis Results of Internet Banking Usage Attributes

	F1	F2	F3	F4	F5
Efficiency (α=.8861)					
The site makes it easy to find what I need	.726				
It make it easy to get anywhere on the site	.694				
It enables me to complete a transaction quickly	.671				
Information at the site is well organized	.712				
It loads its pages fast	.747				
This site is simple to use	.607				
This site enables me to get on to it quickly	.699				
The site is well organized	.672				
Security and Trust (α=.9169)					
All operations in electronic banking are guaranteed	.541				
Online banking will provide secure and reliable services	.610				
I trust in the ability of an online bank to protect my privacy	.692				
I trust in the technology an online bank is using	.816				
I trust in an online bank as a bank	.833				
I am not worried about the security of an online bank	.848				
Influence of security on using an online bank	.785				
Convenience and accuracy (α=.8611)					
All my banking needs will be included in the online banking menu options		.646			
All my online banking transactions will be performed accurately		.586			
All my online banking transactions will be processed efficiently		.667			
There will be no waiting time involved in obtaining online banking services		.666			
Online banking services will be easy to use		.606			
Online banking services will have convenient hours of operation		.612			
Accurate records of all my online banking transactions will be provided		.709			
Personalization and Contact (α=.8238)					
This site has computer services representatives available online			.746		
It offers the ability to speak to a live person if there is a problem			.638		
Online banking service will be personalized			.721		
Online banking will acknowledge me by name on the screen during the Transaction			.695		
Online banking will provide brochures to educate me on how to use the Services			.721		
Privacy(α=.8707)					
It protects information about my online-banking behavior				.839	
It does not share my personal information with other sites				.821	
The site protects information about my credit card				.693	
Explained Variance	**15.371**	**15.719**	**12.306**	**11.266**	**10.212**

5. Conclusion

The aim of this study was to inspect and find out what the main factors that influence the decision of using internet banking are and what was the role of trust. Through our literature review and factor analysis, done on our questionnaire basis, we could easily identify 5 factors, as outlined in the previous section. Hence, in the case of Turkey, as a developing country, "efficiency" and "security and trust" have been identified to account for the most of variance in the decision of customers. This is not surprising due to the results of other researchers and their studies, which confirms that banks must find ways to introduce internet banking services more effectively and with a special strategy to security and trust related concerns of customers. This study is essential since it reveals insight into the impression of Turkish buyers with respect to web saving money use; and offers an apparatus for showcasing directors to distinguish the likelihood of their potential clients to utilize web managing an account. This information would be useful for promoting supervisors in outlining more client driven methods by enhancing the execution of the framework as indicated by the needs of their clients accordingly likewise improving their customer relationship administration endeavors while encouraging the selection of web managing an account use.

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The Effect of Occupational Health and Safety Applications on the Corporate Image Perception of Employees

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ABSTRACT

The aim of this study is to research the impact of occupational health and safety practices in organizations on employees' corporate image perception. Corporate image which refers to employees' positive perception towards the corporation is affected by occupational health and safety practices that are carried out in a regular, systematic and comprehensive way. The effectiveness of practices in the workplace regarding occupational health and safety and informing employees adequately on this issue affect employees' perception and beliefs with respect to safety in the workplace. These beliefs and perceptions affect employees' perception towards corporate image. And in turn, perception regarding corporate image leads to a positive or negative change in employees' efficiency, harmony and performance in the workplace. As a result, the impact of occupational health and safety practices on employees' corporate image perception is going to be assessed with respect to occupational health and safety management systems.

This study is discussed in a conceptual framework based on a literature review. The discussion is held with regard to OHSAS 18001 and ILO-OSH 2001 occupational health and safety management systems, used widely in European Union countries, and it is intended to form a basis for further empirical studies.

Key words: *Occupational health and safety, corporate image, OHSAS 18001, ILO-OSH 2001*

1. Introduction

The necessity of employing people in a healthily and safely way in the workplace is a universal notion which has gained importance rapidly with the effects of negative working conditions emerged after the industrial revolution. According to ILO data, a worker dies due to an accident or disease related to working, and 153 employees has a work-related accident in every 15 seconds in the world. Every year, 2.3 million employees die because of a disease or accident related to their work. More than 160 million people are affected by diseases related to their jobs and working, and 313 million nonfatal occupational accidents occur every year. In Turkey, 205 occupational accidents occur every day, 2 people die due to an occupational accident and 6 people become disabled for working. The material value of these losses changed between 3-5% of the countries' gross domestic products (GDP) http://www.csgb.gov.tr/csgbPortal/ShowDoc/WLP+Repository/per/dosyalar/duyurular/isgm.

2. Occupational Health and Safety Applications

Considering the fact that employees are physiological beings, it is clearly understood that precautions that should be taken in workplaces are vitally important. Even just the effects of occupational accidents and diseases on employees (death, injuries, illness, trauma, loss of income, loss of working power etc.) reveal the seriousness of the topic. Besides, it is also known that occupational accidents and diseases have more indirect costs such as the damages on materials and products, loss of working days, legal costs like indemnity, overtime, and time spent for investigation, fines, and loss of morale, loss of experience and experts and bad image (Yoon S. J., et. al., and 2013:202). Considering the multi-dimensional losses caused by the occupational accidents and diseases in workplaces, it can be seen that the topic should be handled seriously by all parties (government, workers, employers and public). Occupational health and safety applications in a workplace not only prevent the losses that a worker may have psychologically, physically and financially but also avert the losses that may affect the business, its outside environment, employers and other employees (Tozkoparan G and Taşoğlu J.,2011:184).

In this sense, putting the occupational health and safety applications into action in a regular, systematic and comprehensive way gains importance. Occupational health and safety management is to present an organization structure and to enhance occupational health and safety systematically and target-oriented by giving everyone clear responsibilities

on "how, what, when and why to perform". The general aim is to continually enhance the occupational health and safety of employees (http://www.isgum.gov.tr/rsm/file/isgdoc/isgip/isgip_iyi_uygulamalar.pdf). In other words, various management systems, in which the risks are determined by analyzing the current situation to take precautions against health and safety events that would affect the working life, productivity and profitability of businesses; programs integrated with legal laws and regulations are formed and applied to eliminate those risks; all the actions are documented in a systematically clear way and informed to those concerned; all the process is followed and inspected. These systems are called "Occupational Health and Safety Management Systems" (Özkılıç Ö, 2005:21). For this reason, businesses' putting a standard-dependent occupational health and safety management system into action becomes an important factor in preventing the losses that will emerge as a result of occupational accidents and diseases. Within an occupational health and safety management system, the roles and responsibilities of employees, administrators and controllers are made clear and their participation is provided (Ofluoğlu G. and Sarıkaya G., 2005).

The most widely used occupational health and safety management systems in European Union countries are OHSAS 18001 and ILO Occupational Health and Safety Management System. Besides, there are some other more specific occupational health and safety management systems like Safety Control List for Contractors and Responsible Care Program (generally in Chemical Industry). The biggest advantage of setting an occupational health and safety management system compatible with OHSAS 18001 is that it can be easily adapted to current ISO 9001 (Quality Management System) and ISO 14001 (Environment Management System) (Durakbaşa M. N. and Çavuşoğlu İ., 2005:189). OHSAS 18001 has been published by BSI (British Standard Institute). The most important feature of OHSAS 18001 which makes it different from ISO 9001 and ISO 14001 is that it is more related to occupational health and safety than the safety of products and services. Though OHSAS 18001 is a standard towards danger, defining danger, risk and decreasing risks, it creates a whole with ISO 9001 and ISO 14001. 18001 (OHSAS) is the favoured certification because the system has to be audited by an independent organization

With the application of OHSAS 18001, international standard, occupational risks will be controllable and manageable. This can be seen as a risk management tool in standard businesses (Fernandez-Muniz B., et. al., 2012a:36).

OHSAS 18001 defines risk as the combination of the probability of the occurrence of a dangerous situation with the degree of the disease and damage caused by it. The events experienced in the past like Bhopal Gas (On the 3rd of March 1984, The Union Carbide, a USA company, released 40 tonnes of methyl isocyanine to outside from a factory accidentally that they founded in Bhopal, India to produce insecticide. They caused the death of 18.000 people and poisoning of more than 150.000 people) and Chernobyl Disaster (The accident in which a great amount of fission products were released to the atmosphere after the nuclear accident occurred in the 4th unit of the Nuclear Power Reactor in Chernobyl, Ukraine on the 26th of April in 1986) made organizations think about the risks. Moreover, it raised the awareness of public opinion regarding the negative effects of technology. Industrial accidents not only causes a decrease in labour force, but also leads to financial losses by damaging production mechanism and technology, and causing outages in industrial process. Furthermore, it affects the image of a company negatively (Fernandez-Muniz B., et. al., 2012a:36).

The standard of OHSAS 18001 aims to support good applications conducted to set a systematic and structural management on occupational health and safety to protect employees' health and safety. This standard emphasizes the necessity of setting an occupational health and safety management system that would allow the formation of targets and processes to develop and realize safety policies (Fernandez-Muniz B., et. al., 2012a:36).

ILO has added several topics to OHSAS 18001 such as the participation of employees, globalization of institutions, the increase in service procurement, and partnership (management of supply chain) (http://www.isgum.gov.tr/rsm/file/isgdoc/isgip/isgip_iyi_uygulamalar.pdf). The Guides of Occupational Health and Safety Management Systems of ILO reflect the international standards related with ILO values like Responsible Care. The guides do not have any legal abidingness. They are not supposed to take the place of national regulations and accredited standards. Its applications in businesses do not require certification, but it does not fully eliminate the possibility of it in terms of presenting good applications.

The occupational health and safety management system performed in a business systematically is thought to be one of the indicators of the safety culture existing in that business. Similarly, well-performing of the occupational health and safety management systems is based on the effective and serious structuring of the safety culture. The term safety culture was first used in a report (INSAG's Summary Report on the Post-Accident Review Meeting on the Chernobyl Accident, published by the IAEA as Safety Series No.75-INSAG-l in 1986) published by IAEA (International Atomic Energy Agency) on Chernobyl nuclear accident. This report highlights the facts that designing deficiencies, organizational mistakes and employees' breaches played an important role in Chernobyl accident (Akalp G. ve Yamankaradeniz N., 2013:99). When the other big accidents occurred in various dates are investigated (the fire that occurred in 1987 in King's Cross Station, London and caused the death of 30 people; the explosion that occurred in Piper Alpha overseas petrol platform in 1988 and caused the death of 167 people; the sinking of Herald Free Enterprise Ro-Ro ship in 1987 and the

death of 193 people), the revealed mistakes in the organizational structures and safety management systems attracted the attention of people to the term safety culture. (HSE-Health and Safety Executive- Research Report 367).

In 1991, IAEA defined safety culture as "the product of the behavioural patterns, competence, attitudes and values of the groups and individuals who decide on the application, style and sufficiency of health and safety programs in institutions" (Aytaç S., 2011:2). Safety climate, on the other hand, was firstly used by Zohar (1980) and refers to the summary of employees' beliefs and perceptions on the safety of their workplace. These beliefs and perceptions affect their behaviours as well.

In the literature, it can be seen that the terms safety culture and safety climate are sometimes used interchangeably. However, when the schematic explanation proposed by Cooper (2000:120) is examined, their relationship and explanations on the terms are clearly seen. Cooper (2000:120) has adapted Bandura's reciprocal causation model to explain safety culture (Figure 1). According to this, the model is based on three components covering subjective inner-psychological factors, observable and continual behaviours related to safety and objective situational features.

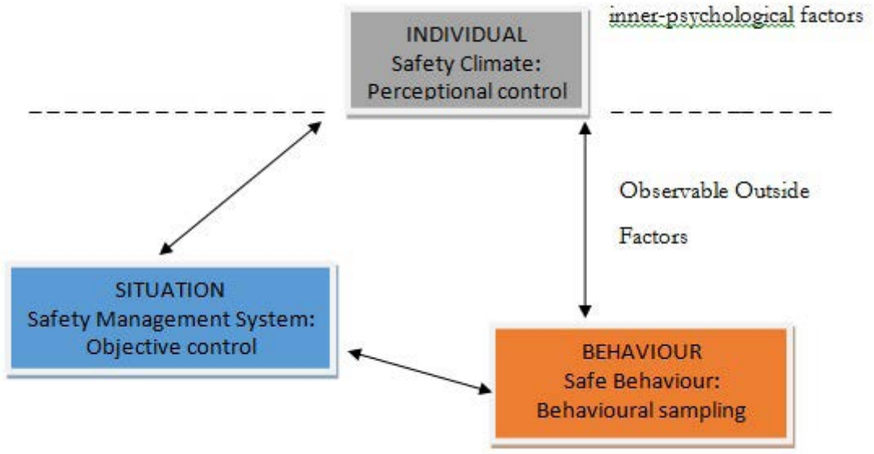

Figure 1: Reciprocal Safety Culture Model

After that, an explanation based on Cooper's model was made in a report (Research Report 367) published by HSE in (2005:5) (Figure, 2).

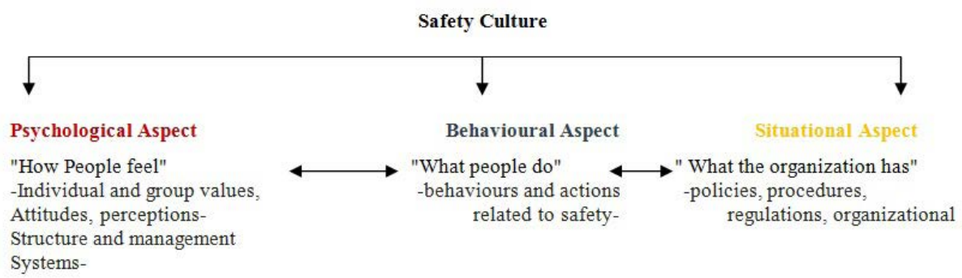

Figure 2: Triadic Approach to Safety Culture

According to this, safety culture deals with the situational (what the organization has) and behavioural (what people do) aspects of a business. Safety climate, on the other hand, focuses on psychological aspects (what people feel) that show the attitudes, values and perceptions of employees in the workplace. Safety climate is regarded as an important prerequisite of the safety in a workplace. The reason is that safety climate is a concept that expresses the perceptions and attitudes of employees on procedures, applications, norms and beliefs regarding safety. Attitude and behaviours may refer to guiding behaviours in performing daily duties, preventing or decreasing dangers (Fernandez-Muniz B., et.al., 2012b:746).

Though organizational culture and safety culture included in it are long-termed and complex, they are not static concepts. Safety culture can be accepted as one of the basic updated topics of organizational safety in spite of a well-accepted definition and the paucity of studies focusing on good or bad safety culture (Chib S. and Kanetkar M., 2014:132).

3. Corporate Image Perception of Employees in Organizations

3.1. Organizational Culture and Safety Culture

Since the corporate image perception of employees will be examined in this study by mentioning the applications for occupational health and safety, this part will touch upon the concepts such as organizational culture, organizational climate, safety culture and safety climate.

In intensive rivalry environment, the increase in expectations as a result of the consciousness of society led organizations for different searches. One of the notions emerged in this sense is organizational climate. To be successful in the activity areas of the market, organizations fronted working on organizational identity. One of the most important tools for organizations that aim to institutionalize is organizational identity. Besides, it is seen that successful organizations in the world have powerful organizational identities.

Today, the rapid change and development in science and technology play an important role in restructuring of organizations. Especially the improvements in communication, transportation and shipping have created the need for organizational structures to be reformed. The dramatic increases in production since the midst of 20th century have also brought an intensive rivalry. Besides, the change in environmental conditions has brought the need for organizations to adapt themselves for these conditions. It is seen that organizations which restructure through benefiting from technology are able to survive. The ones that cannot keep the pace of these changes are in danger of perishing.

Designing and reflecting and organization's recollective features and skills that differentiate it from others, and presenting the concrete character of it are thanks to organizational identity. Every organization has an identity and it influences their trademarks (Okay, 2013:25). In this sense, organizational identity is important in distinguishing an organization from others and presenting new marketing opportunities.

Organizational identity is defined in various ways by scholars. Among them, Melewar presents the elements of organizational identity as organizational communication, organizational design, organizational culture, organizational behaviour, organizational structure, industrial identity and organizational strategy (Melewar, 2007:10). Thus, one of the most important elements that interact with organizational identity is organizational culture. It is the system of habits, attitudes, beliefs, set of behaviours and norms that guide the behaviours of individuals and groups in an organization. This concept shows the shared values, attitudes and beliefs of an organization (Tuna, Tuna, 2007:25).

Organizational identity comprises of many factors that are shaped according to the organizational culture. These factors are designed to contribute the development of corporate image. Organizational culture is to put a mutual way of thinking that would enable employees to follow a mutual way. For this reason, organizational culture must be understood and adopted by all employees well (Okay, 2013:49). It is also important for a strong connection between the organization and employees.

Organizational culture consists of many environmental elements. These are technological change, product-customer quality, setting, rivalry conditions, decision making styles, leadership, motivation, management process, organizational structure and communication (Tuna, Tuna, 2007:32). As it is seen, employees should be motivated so that they can perform their duties efficiently. This situation creates a satisfaction in the organization and its effects reflect into the organizational culture. There are many ways to motivate employees. One of the most important ones among them is the issue of safety. Since organizational culture is a phenomenon shaped by many factors, it changes in time and eases to reach organizational goals if it is managed well.

After being formed in the foundation of an organization by its founders and administrators, organizational culture develops in time. The culture of an organization changes as new-comer employees bring several features of their own culture in which they have grown up to the organization. Several meanings attached to the notion of organizational culture are as follows (Okay, 2013:194):

1- The thought that it is the set of behaviours, values, norms, beliefs and meanings

2- The thought that it exists in a specific point of the time

3- The thought that it is shared by employees in an organization and is transferred to new-comers.

4- The thought that how employees play a role and their performances are increased or how they can solve their problems

As it is seen, organizational culture tells us the values, beliefs and applications shared by most of the employees in an organization. Besides constructing the organizational culture, it is also necessary to reflect it to employees and outside the organization and to communicate well. Effective communication with employees depends on a positive existence of

organizational climate.

Many scholars have used the terms organizational culture and organization climate interchangeably until quite recently. However, there are some differences between them. In this respect, organizational climate is defined as "the set of all psychological features which forms the underlying reasons of the behaviours of employees who create the identity of an organization, influence the behaviours of individuals and dominate the organization" (Davidson, 2003:206).

As it is understood, organizational climate covers the perceptions of employees regarding the psychological atmosphere of an organization. Perceiving the organizational climate positively has an important place in employees' success and efficiency. In this sense, perceptions show not the reality but how it is comprehended. For this reason, it is possible that organizational climate might be perceived differently by employees. For this reason, a need for managing these perceptions emerges. Even if all employees are in the same organizational environment, their perceptions on organizational climate may differ. Management of organizational climate is important in terms of employees' having job satisfaction, high enthusiasm for success and being efficient in their performances (Dönmez, Korkmaz, 2011:174). Organizational climate reflects organizations' unique characteristics like organizational culture. Dissimilarity of organizational climate to the formal structure of an organization and its having an informal feature are other qualities of it.

In today's business world where rivalry is rapidly growing, efforts made to decrease the costs, the pressure caused by time limitations and intensive usage of equipments with advanced technologies have affected the working conditions in working places positively or made them more negative. This situation may threaten the occupational health and safety of employees. For this reasons, organizations have realized several application on occupational health and safety to struggle with accidents and risks caused by physical conditions, equipments and human factor. Organizational culture and organizational climate are among the important topics that emerge in studies conducted on occupational health and safety. In this respect, since occupational health and safety applications include the belief, value and importance given by the administration on this issue, and employees' perceptions on the approaches regarding the awards for positive safety behaviours, safety culture and safety climate must be handled as sub-functions of organizational culture and organizational climate.

After the studies conducted to prevent occupational accidents, the notion of safety culture that reflects the importance of human factor has emerged. In this regard, it was first introduced with the Chernobyl disease. As it is stated before, IAEA (International Atomic Energy Agency) made a definition on safety culture in 1991. In addition to this, British Industrial Confederation defined safety culture as "ideas and beliefs shared by all members in an organization regarding risks, accidents and diseases" in 1991 (Choudhry vd., 2007:994).

Studies on the notion of organizational culture form the base of the concept of safety culture. In time, the notion of safety culture has been a complementary concept reflecting the perceptions of employees on safety climate. Besides, it is argued that safety culture is a sub-culture of organizational culture which reflecting its beliefs, attitudes and values on health and safety. In this sense, safety culture must be formed consciously so that the organization can survive in a safe and healthy environment. Like in organizational culture, safety culture of any organization is unique.

Similarly, it is seen that the terms safety culture and safety climate are used interchangeably in the literature. However, there are several differences between them as well. Safety climate is defined as "the summary of employees' holistic perceptions on their working environment" (Ceyhun, 2014:93). It is revealed that a strong safety climate decreases the negative results of occupational unsafety and lead to safety performance. Safety climate is related with the shared perceptions of applications and policies on safety and it is more concrete and easy-to-measure than safety culture.

3.2. The Notion of Corporate Image

The concepts of organizational identity and corporate image have been investigated in the disciplines of marketing and management. In this respect, corporate image is another element which is in integration with organizational identity. Organizational identity is what the organization is in reality whereas corporate image is how the organizational identity is perceived by audiences. When the notion of image is examined in this perspective, it is regarded as the impressions that individuals or institutions leave on each other intentionally or unintentionally. In this sense, physical appearance of an individual, body language, the words being used, elements of the existing environment are influential as holistic phenomena (Tuna, Tuna, 2007:117). In the same vein, factors such as its physical appearance, foundational equipment, foundational attitude, foundational behaviour, its organization communication, its view on the insider and outsider events have an important place on the formation of the image of an organization. In addition to this, corporate image must be formed for both employees in the organization and target groups outside it. The images to be formed must be consistent and they must reflect the reality (Melewar, 2007:214).

In our globalized world, how the performances, products and services of organizations are perceived by target audiences influence their image on these audiences as well. In this sense, corporate image is related to what organizations

do and do not do. In today's rivalry environment, this image perceived by target audiences determines the future of organizations.

The positiveness of a corporate image is a must for the durability and strategic success of organizations. Thanks to this positive image, organizations make employees prefer them, and make them happy and stable in their workplace. Furthermore, employees work more efficiently by being more motivated easily for their jobs. When this issue is examined in terms of the creativeness, participation, peace and safety of employees, it is seen that one of the most important factors to form the corporate image is employees.

In this sense, it is also important to form an inner corporate image in an organization. It is, in fact, the atmosphere in an organization. It may also refer to the image on the employees or the image which is reflected by employees to customers. Each and every employee is a collaborator of the organization and a representative of it towards the outside audience in forming the desired corporate image. For this reason, they are the people who express their thought in forming the desired corporate image. To create a powerful corporate image, it is necessary to meet the needs of employees.

Numerous factors such as intra-organizational behaviours, the picture drawn by the media for outside world, personal experiences and communication play important roles in the formation of corporate image. While the image judgements of outside groups form, it is seen that factors such as products, prices and quality, services, attitudes of employees, advertisements are the fundamental points (Güzelcik, 1999:145-147).

Thanks to recent developments in communication, information level of customers has increased significantly. In this sense, products and brands have gained importance and become influential in purchasing decisions. Besides corporate image, organizational identity has also gained importance, and the need for strengthening the corporate image and keeping it continually powerful has emerged. Corporate image eases the acceptability of a product by creating reliability for every product carrying the name of the organization.

These developments in the market are important in terms of target audiences' perceiving, recognition and noticing organizations. When it is examined in terms of institutionalization, all these institutional needs should be managed systematically. The notions of organizational identity, organizational culture, safety culture and corporate image are tools developed to manage all these needs.

To conclude, corporate image is the sum of all experiences, beliefs, emotions, interaction of information and thoughts of interest groups on an organization. It covers all the elements related with visual, verbal and organizational behaviour. The image consists of the sum of views adopted as a result of the perception of different aspects of an organization. At this point, employees' contribution to the organization is very important. Thus, every institution must create a unique corporate image not only with their appearance but also with their roles in society and their approaches to the events so that the image can make the organization different from others.

4. Conclusion

Many large-scale occupational accidents experienced so far have shown that not forming a settled culture in terms of occupational health and safety and an organizational structure on this issue has resulted in many damages for all parties. The group who experience the effect of these harmful results most directly and intensely is the employees of an organization. Moreover, not paying enough attention to occupational health and safety applications and not forming a management system on this issue not only cause financial losses on employees but also decrease their motivation and efficiency by creating an insecure atmosphere in the organization. An employee who does not feel him/herself ready for the potential risks in the workplace and even uninformed for all these dangers will not have strong feelings of reliance and belonging to the organization.

As mentioned before, the notions of safety culture and safety climate come to the stage at this point. In a general sense, safety culture deals with the situational aspect of an organization regarding occupational health and safety (what the organization has such as policies, procedures, regulations, organizational structure and management systems), and the behavioural aspect (what people do; actions and behaviours about safety). Safety climate, on the other hand, refers to how employees perceive and feel about occupational health and safety applications. Thus, the efficiency of occupational health and safety applications is directly related with how employees perceive them since this perception and its resulting attitude reveals the importance of human factor which is an important one in the management of occupational health and safety applications.

Organizations' having a serious manner in providing occupational health and safety, their beliefs, their insistence and efficiency in applications are influential is forming the safety culture. Safety culture of every organization has its unique characteristics like in organizational culture. Forming a weak or strong safety culture can be labelled as a result of all parties' (employees, decision makers, applicants and controllers) mutual manners, attitudes, values, beliefs and actions. At this point, employees' integration with the safety system, informing and supporting them on the importance of it is a crucially important matter since one of the mail goals of a strong safety system is to develop employees' perceptions,

attitudes and values on safety positively and to form a positive safety climate. A strong safety climate is to maximize safety performance by removing the negative effects of occupational unsafety.

To benefit from occupational health and safety management systems while forming a strong safety culture is an important factor. The most preferred one among these systems is OHSAS 18001 Occupational Health and Safety Management System. One of the reasons for that is its being compatible with ISO 9001 and ISO 14001 management systems and its being accredited by an independent certificate institution. Application of such a management system is an indicator of the fact that the organization takes the issue seriously and makes necessary regulations.

In organizations, which have serious, well-formed and strong safety cultures, positive perception of employees regarding their workplace is on a higher level. Especially the reliance feeling of an employee that emerges as a result of preventing the potential harms and damages of occupational accidents and diseases will lead to positive perception. When it is thought that corporate image is the sum of all experiences, beliefs, emotions, interaction of information and thoughts of interest groups on an organization, it can be expected that the opinion of employees regarding the organization can be positively influenced as a result of paying attention to occupational health and safety applications. The image consists of the sum of views adopted as a result of the perception of different aspects of an organization. For this reason, organizations must create a unique corporate image not only with their appearance but also with their roles in society and their approaches to the events so that the image can make the organization different from others.

Thus, as a conclusion, when the important role of safety culture in an organization and its paying attention to employees' perceptions regarding the institution are examined, it seen that occupational health and safety applications are vitally important in terms of organizations' forming a good image on their employees.

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A Review of Independency on the Structure of Executive Boards of Banks: Case of Albania

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ABSTRACT

Corporate Governance is the topic of the contemporary business world that is increasingly gaining great interest and one of the most significant indicators of corporate governance is independency of executive boards. This research will underline the importance of this concept as a result of the latest developments and changes that have taken place in literature review part and empirical findings will be presented from banking industry of Albania.

Based on information given in annual reports of the banks, this study will analyze each situation on the model of the corporate governance for Albanian banks. There will be a specific evaluation for the independency level of the boards in Albanian banks. The data of the study collected with a specified questionnaire conducting to banks in Albania in addition to assess the annual reports of the banks in Albania. The research found that on 16 evaluated banks in Albania, 5 of them have not any independent member in the executive board in 2012. In 2013 the same 5 banks did not appear to have any independent member in the executive board. On the other side 10 banks out of 16 do not meet the minimum legal requirement to have one third of independent directors and 3 out of 16 banks have less than the minimum requirement of Board members which according to the Albanian regulations should be 5. The study will include reasons of the estimated results based on the evaluation of the research methodology and some significant recommendations.

Keywords: *Corporate Governance, Albanian Banking Sector, Board Members, Independent Member*

1. Introduction

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term. Stakeholders in this case would include everyone ranging from the board of directors, management, shareholders to customers, employees and society. The management of the company hence assumes the role of a trustee for all the others. (Thomson 2009)

The main responsibilities and duties are:

- The paramount duty of the board of directors of a corporation is to select a chief executive officer and to oversee the CEO and senior management in the competent and ethical operation of the corporation on a day-to-day basis;
- It is the responsibility of management, under the oversight of the board, to operate the corporation in an effective and ethical manner to produce long-term value for shareholders. The board of directors, the CEO and senior management should set a "tone at the top" that establishes a culture of legal compliance and integrity. Directors and management should never put personal interests ahead of or in conflict with the interests of the corporation;
- It is the responsibility of management, under the oversight of the board, to develop and implement the corporation's strategic plans, and to identify, evaluate and manage the risks inherent in the corporation's strategy. The board of directors should understand the corporation's strategic plans, the associated risks, and the steps that management is taking to monitor and manage those risks. The board and senior management should agree on the appropriate risk profile for the corporation, and they should be comfortable that the strategic plans are consistent with that risk profile;

- It is the responsibility of management, under the oversight of the audit committee and the board, to produce financial statements that fairly present the financial condition and results of operations of the corporation and to make the timely disclosures investors need to assess the financial and business soundness and risks of the corporation.
- It is the responsibility of the board, through its audit committee, to engage an independent accounting firm to audit the financial statements prepared by management and issue an opinion that those statements are fairly stated in accordance with Generally Accepted Accounting Principles, as well as to oversee the corporation's relationship with the outside auditor.
- It is the responsibility of the board, through its corporate governance committee, to play a leadership role in shaping the corporate governance of the corporation and the composition and leadership of the board. The corporate governance committee should regularly assess the backgrounds, skills and experience of the board and its members and engage in succession planning for the board.
- It is the responsibility of the board, through its compensation committee, to adopt and oversee the implementation of compensation policies, establish goals for performance-based compensation, and determine the compensation of the CEO and senior management. Compensation policies and goals should be aligned with the corporation's long-term strategy, and they should create incentives to innovate and produce long-term value for shareholders without excessive risk. These policies and the resulting compensation should be communicated clearly to shareholders.
- It is the responsibility of the corporation to engage with long-term shareholders in a meaningful way on issues and concerns that are of widespread interest to long-term shareholders, with appropriate involvement from the board of directors and management.
- It is the responsibility of the corporation to deal with its employees, customers, suppliers and other constituencies in a fair and equitable manner and to exemplify the highest standards of corporate citizenship (Thomson 2009).

These responsibilities and others are critical to the functioning of the modern corporation and the integrity of the markets. No law or regulation can be a substitute for the voluntary adherence to these principles by corporate directors and management in a manner that fits the needs of their individual corporations.

Corporate governance should be enhanced through meticulous and forward-looking action by a business community that focuses on generating long-term shareholder value with the highest degree of integrity.

The above principles are intended to assist corporate boards of directors and management in their individual efforts to implement best practices of corporate governance, as well as to serve as guideposts for the public dialogue on evolving governance standards. As noted above, there is no "one size fits all" approach that will be suitable for all corporations. However, to the extent that a corporation follows governance practices that diverge from common practice, it should consider disclosing the reasons for this and why its practices are appropriate for it, consistent with its size, industry, culture and other relevant factors (Noked 2012). The good functioning of the Corporate Governance assures transparency and security in the way the institution is directed, administered or controlled and guarantees fair relationship between internal and external stakeholders. Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors are increasingly depending on when deciding on which companies to invest in. It is also known to have a positive influence on the share price of the company. Having a clean image on the corporate governance could also make it easier for companies to source capital at more reasonable costs. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large dodge. People have recognized corporate governance importance as long as there has been large-scale trade.

Purpose of research is to evaluate the governance model of the banking sector in Albania based on Public annual reports. Regarding the banks, it is necessary a specific discipline of Corporate Governance, because these organizations have a particular and greater importance as compared to the others. In fact, a poor Corporate Governance structure of a bank would lead to its bankruptcy, which would be translated into damage for both shareholders and depositors causing also a crisis of the economic system. In addition, a poor banking governance structure would lead to the loss of the public trust on the real capacities of banks to play their intermediate role.

The study is organized on three sections where the first part is showing the corporate governance in Albanian banking sector within an analytical model specified. Secondly, the conclusion and the suggestions will be given.

2. Corporate Governance in the Albanian Banking System

2.1. Banking system in Albania and governance model, an analytical glance

As in other post-communist countries, during the transition period the banking system in Albania suffered major structural changes. Two of the steps taken in the early '90-s were: opening of market and privatization of state-owned banks. Notwithstanding the financial collapse of 1997 or the panic attack in 2002, the system performance was in no case a source of crisis. Initially, the foreign banks used to see the geographic expand of their activity as risky, but this changed with the entry of Raiffeisen Bank into the market. This privatization process was finalized by the end of 2003 and at present the banking market is fully administered by private operators. With the increase of the number of operators and competitiveness, the banks started to expand the network and their activity, including also branches in foreign countries, new products or improved quality. Additionally, the banks have been growingly committed to many profit activities as a way to maintain their market share and ensure an increasingly positive financial performance.

Due to qualitative and quantitative changes, the capital division structure went in favor of the foreign capital flow, so its presence is dominant in the banking sector (there are also subsidiaries of larger groups or branches of foreign banks such as Societe Generale, Intesa San-Paolo Bank, Raiffeisen Zentrale Bank, and Credit Agricole. Meanwhile, the number of banks with a fully Albanian private capital was reduced to one (Union Bank). The Albanian banks' origin of capital includes countries like Austria, Italy, Greece, and France. The presence of foreign banks in the Albanian market has promoted the system stability. This fact may be proven by the diversity of products in the market, increase of lending rate or implementation of clear methods and strategies for the expansion or maintenance of their market share on the part of those banks. In addition this brought the best experiences and banking practices in the financial system, along with modernization and innovation through high-tech products. More importantly, they have contributed to developing high-standard organizational and corporate governance practices.

Further, the dynamic expansion of the banking system with new branches and agencies is attributable to the competition and increased volume of inter-banking financial transactions. According to Albanian Central Bank only in 2007, 103 new branches were opened in Albania, of which 43 were seated only in Tirana. However, this expansion was inadequate for a growing economy. A reason thereof is also the absence of new licensing. Currently, there are 16 operators in the market, since the Italian Albanian Bank and the American Bank were merged into a single institution, Intesa San Paolo Bank Albania, by the end of 2009.

According to the Bank of Albania Financial Reports, the total assets of the banking sector amount to EUR 8.6 billion, representing nearly 88.9% of the GDP in H1 2013. 67.4% of the total bank loans belong to the largest five banks. The total outstanding loan portfolio was nearly EUR 4.13 billion, increasing only by 1.3%, which is the lowest increase during the last 11 Year. This was estimated as 42.6 % of the GDP in H1 2013, with the majority of loans denominated in foreign currency (nearly 65.5%). Remaining a concern for the banking sector, non-performing loans (NPL) in the H1 2013 reached 24.2% versus 22.5% at the end of 2012. Total banking system deposits continue to have an upward trend growing by 0.5% since 2012. Foreign-currency deposits are higher than domestic currency denominated ones (62.9 % vs. 37.1%), while the majority of total deposits, 74, 1% is concentrated in five large banks. Shareholders' equity has increased by 0.35% in H1 2013. The banking sector remains well capitalized with a capital adequacy ratio of 17% increased by 0.83% as compared to the end of Year 2012. (Bank of Albania 2013)

2.2. Corporate governance model in Albania

According to a study based on a survey of all banks, a series of results were drawn about the good governance level of the Albanian banking system. Based on these results, we see that the banks in Albania have a well-defined framework, including a full set of regulations, practices and procedures establishing the Corporate Governance. They generally report to the Directorate possible deviations from the Corporate Governance framework. The Board of Directors and the Bank Management in Albania closely follow the auditors' (internal and external) recommendations and take appropriate measures to remedy the reported deficiencies, ensuring that the auditors professionally conduct the auditing procedures.

As regards the establishment of strategic objectives (in cases when the bank is an affiliate or branch of a foreign bank, for most of the banks meeting such a requirement), they largely depend on the major or parent shareholder and only in few cases they take into account the business environment where the bank operates. The number of independent members of the Board of Directors in some banks is lower than 1/3 of the total number of members. The Bank's Board of Directors approximately convenes on quarterly basis, with a high level participation of members. The training level of the Board of Directors members on Corporate Governance issues is too low as most of them deem as unnecessary the training of members on bank governance issues, labeling them as persons with banking experience, without requiring education in this field. In general, the banks have structures acting in the capacity of Risk Management Committee, Committee for Recruitment/Human Resources and Compensation Committee.

However, this is also reported in a small number of banks. Subject to their size, it would be relevant to set up a larger number of committees dealing with specific matters, with the view of observing the "four-eye principle". According to this principle, major decision in even small banks should be taken by more than one person, thus preventing potential mistakes or abuse.

All Banks have a Code of Ethics or other written regulations for the prevention of the conflicts of interest, with the view of ensuring a professional conduct and personnel integration on the basis of ethical standards. As a rule, the Assembly of Shareholders or the majority shareholder (foreign bank) conduct performance evaluations of the Board of Directors members while the evaluation of Management members in most of the banks is carried out by the Board of Directors. In this regard, it is recommended that in those few cases where the job of Board of Directors members is evaluated by the Board itself or its chairman, instead of being conducted by the assembly of shareholders this evaluation process should be conducted by higher level bodies. As regards the banks which are affiliates or branches of a foreign bank, it is recommended that the business long-term strategies and objectives be defined not only on the basis of requirements and stipulations of the main or parent shareholder, but also by taking into account the characteristics of the Albanian banking system and of the clients with which the bank operates.

In defining the amounts of compensation/remuneration for the members of the Board of Directors/Management and the General Director, most of the banks do not rely on the results achieved during a short-term period. The Heads of Bank Departments in Albania are committed to the supervision of the bank's daily management. The Department members are involved in the decision making on detailed issues of business lines. They may participate in Loan Approval Committees, approval of business strategies, budget approval according to products and segments, approval of deposit rates and banking products etc. All banks have two or more loan granting decision-making authorities. Most of them have standard criteria adopted by the Board of Directors for the employment of the heads of departments. Working experience represents the most important factor taken into account during the phase of the selection of directors. Most of the banks apply interviews for the recruitment of heads of departments and their working performance is done on yearly basis. All banks provide training for the heads of departments, which are deemed necessary for the accomplishment of their operational duties. The director's remuneration is negotiated on the basis of the qualities of candidates, but in each case within the range of salaries approved/set by the bank governing bodies.

About 40 per cent of the banks have a solid institutional framework and governance system. Almost all banks are at similar levels regarding audit implementation. The Board of Directors and the Management have a diverse role according to the banks. The identification of strategic objectives for all banks which are branches or affiliates of foreign banks largely depends on the major shareholder. Finally, the specification of tasks and role of directors appears satisfactory. In this context, a few banks are facing problems due to the non-involvement of the management members in the supervision of the bank's daily management process. (Bank of Albania 2014)

2.3. Independency of Boards in the Albanian Banking sector

a) The Research Methodology

Fundamental data of the research were taken from well-known sources as followed: Corporate Governance, Bank of Albania, World Bank and annual reports of Albanian banks disclosed to public.

Based on the information gathered as mentioned above, the first two chapters were general overview about corporate governance and the implementation of this topic in private companies and more specifically in family businesses. Also the first part of this chapter is related to corporate governance in the banking sector (which consist more in literature). Next step of this paper was preparation and distribution of Independence of Board in the Albanian Banking system annual report, following by the collection of quantitative data.

Developed structure of literature review chapter was necessary to understand current trends in banking sector and outline the need for independent board members, based on the requirements of the Bank of Albania.

b) Limitations of the Research

By conducting research by means of self-completed questionnaires in case of missing of annual report, collected data from the respondents may be limited due to predefined scope and a list of the questions. Further it shall be considered that limitations of this research cannot be fully specified until the research is completed.

In addition, due to the sensitive nature of the information in the regard of independence of the board member for some of the banks, the name of the organization was not disclosed and kept confidentially. It was encoded in the results of the research chapter as following: Bank 1, Bank 2, Bank 3, Bank 4, Bank 5, Bank6, Bank 7, Bank 8, Bank 9, Bank 10, Bank 11, Bank 12, Bank 13, Bank 14, Bank 15, and Bank 16.

The scope of this research could be expanded by overcoming mentioned limitations throughout this study by extending the sample group with other financial institutions and this feature in their board.

c) Data Collection

In this study self-completion questionnaires if there was no annual report, were used as an instrument of data collection. Respondents were contacted via e-mail or telephone based on author connections and some of the respondents were introduced from other people. The questionnaires were distributed mainly through email, accompanied by clear instructions to collect a general statistics of the sampling group, but there were also face-to- face interview with some of the sampling group. Such interviews were performed in the open and friendly way to have a possibility to clarify all the arguments and get an insight of the topic.

A clear definition of Independent Board was given to the participants in this survey.

For effective timing of data collection process, completion of the questionnaire was evaluated to be no longer than 10 minutes.

Quantitative data were collected from sampling group in Tirana, Albania, where all Head offices of the Banks are located, within July – September, 2014.

d) Sampling Group

The targeting of the sample group was precisely defined within sixteen banks of Albania to have a reliable sample group.

Further selection was done for the professional qualities which the respondents should possess for filling the questionnaire. They should have appropriate general knowledge regarding the board structure and have at least a position closed to Senior Management. According to that, one respondent was selected from each bank with the required expertise.

e) Research analysis and results

It has been analyzed the implementation of the legal requirements about Board Composition according to the Banking Law no 9662 date 18.12.2006 "For the Banks in the Republic of Albania" in the Albanian Banks. Based on the article 35 of this Law the Banks should have an uneven number, a minimum of 5 and a maximum of 9 Board Members. In addition to this the minimum legal requirement for the Board Independence is one third of them. A survey has been conducted taking in consideration two executive Years 2012 and 2013 with regard to the Albanian Banks Board Composition. Board independence is measured directly via the number of independent board members.

Banks	**Number of Independent Directors compared to the total number of the Board members (in %)**			
	2012		**2013**	
	Number	**%**	**Number**	**%**
Bank 1	0 out of 4	0.00%	0 out of 4	0.00%
Bank 2	1 out of 5	20.00%	1 out of 5	20.00%
Bank 3	2 out of 7	29.00%	2 out of 7	29.00%
Bank 4	3 out of 5	60.00%	3 out of 5	60.00%
Bank 5	0 out of 5	0.00%	0 out of 5	0.00%
Bank 6	1 out of 7	14.28%	1 out of 7	14.28%
Bank 7	2 out of 7	29.00%	2 out of 7	29.00%
Bank 8	3 out of 7	42.60%	3 out of 7	42.60%
Bank 9	2 out of 5	40.00%	2 out of 5	40.00%
Bank 10	0 out of 7	0.00%	0 out of 7	0.00%
Bank 11	3 out of 6	50.00%	3 out of 6	50.00%
Bank 12	0 out of 5	0.00%	0 out of 5	0.00%
Bank 13	2 out of 5	40.00%	2 out of 5	40.00%
Bank 14	2 out of 3	66.67%	2 out of 3	66.67%
Bank 15	1 out of 4	25.00%	1 out of 4	25.00%
Bank 16	0 out of 5	0.00%	0 out of 5	0.00%
Average in %		**26.03%**		**26.03%**

Table 2: Survey about independent Board Members in the Albanian Banks during Year 2012 & 2013

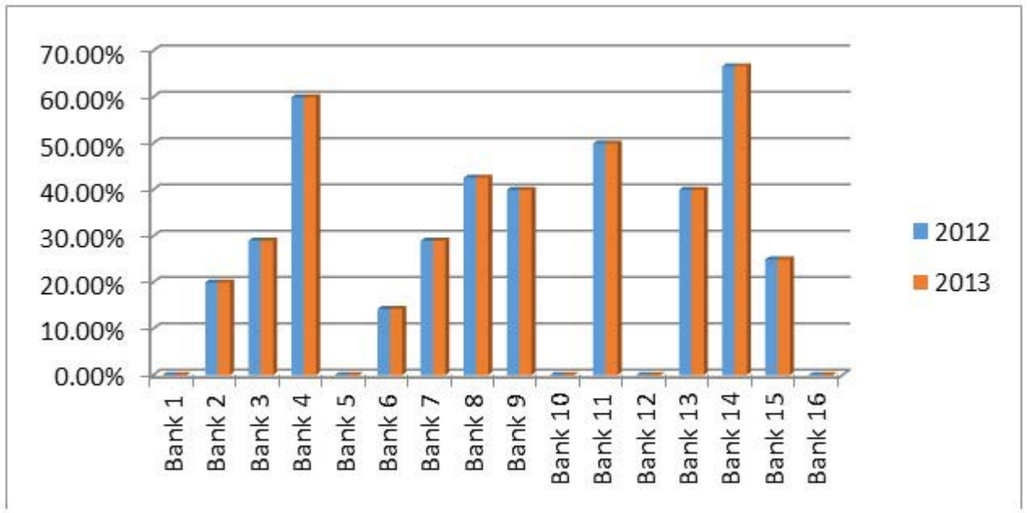

Figure 2: Graph about independence of the board member in the Albanian banks

As showed in Table 3 and the Figure 2 it resulted that:

- The level of independent directors is very low, only 26.03% for both Years;
- There are no independent board members in 5 banks out of 16;
- 10 banks out of 16 do not meet the minimum legal requirement to have one third of independent directors;
- 3 out of 16 banks have even number of Board members;
- 3 out of 16 banks have less than the minimum requirement of Board members which according to the Albanian Law should be 5;
- The minimum Board members in the Albanian Banks is 3 and the maximum is 7;
- The reasons of these results might be that:
- Despite the adopting laws, regulations and codes in place it is still not guaranteed 100% the good governance in the Albanian Banking systems.
- Banks shareholders do not pose strict requirements for independent Board members; this is more evident when Albanian Banks are owned by parent bank as majority shareholder;
- The shareholders of the Banks being mainly foreigner are not aware of the Albanian Law and its requirements for the administration of this Institution;
- The shareholders of the Banks might not be aware of the importance of having Independent Directors in their Board so not too much attention is paid for that;

The presence of Independent Board Members might have benefits in the overall performance of the Albanian Banks as specified below:

- **Independence –** In the opposite of the other stakeholders of a company which rarely act without bias an independent board member is more objective and can see with a different outlook the business challenges and opportunities. In addition he offers advices that blend the perspectives of all parties while enabling the company to pursue business objectives;
- **Negotiating compensation and other executive agreements -** Experienced independent directors can help work with outside consultants to determine appropriate package executive compensation, benefits and other perquisites is always a challenge. It also helps identify potential candidates to fill open positions;
- **Credibility –** An independent member in a board of directors help demonstrate the commitment of leadership to operate the bank with the highest levels of integrity and objectivity;
- **Resolving competing interests -** An independent director can also help negotiate solutions to the competing interests of minority and majority shareholders. This can be especially helpful when it comes to succession planning. By helping negotiate an effective succession plan, an independent director can contribute to the long-term viability of the business.

3. Conclusions

- There are strong arguments in favor of the distinction between corporate governance of financial institutions (mainly banks) and the one of other enterprises. Differences arise from the sensitive and complex nature of the circulation of those enterprises, where "trust" is a key factor for their functionality. Further, there are systemic effects on the economy, if things go wrong for any of those institutions. This has been the argument for a stricter regulatory framework of those institutions by governments. Other variations such as larger boards, more frequent board meetings and a higher level of accountability for the directors and officials truly confirm that there is a difference in the corporate governance of financial institutions as compared to other enterprises;
- Good corporate governance regulates the relationships between bank shareholders and depositors, boards and their managers. It also prevents the abuse and personal and risky behaviors from the bank managers, and resolves conflicts between private and official interests;
- Banks with a higher number of independent members in their Board will have more benefits related to their overall performance;
- Better-performing banks are those of the countries where the level of bank capital supervision is higher, with a larger number of restrictions regarding the banking activity and a higher level of managers' independence. The best–performing banks come also from countries with poorer governance;

4. Recommendations

- The Albanian Banking System has still room for improvement in terms of internal procedures and the management and governance mechanisms which will lead to positive effects on all other financial bank indicators;
- Most of the Banks have started to set up independent members in their Board. In addition it would be recommended that the number of the independent members to be increased for some of the banks, at least to meet the minimum requirement as per Bank Law and regulations.

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Portfolio Composition: A Methodological Solution Using Lagrange Multiplier

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ABSTRACT

Assets allocation and securities selection are not easy decisions. These decisions require good knowledge about risk and return. Decisions in question should be the answer to these questions: (1) which is the best possible trade-off between risk and return, and (2) how to composite the optimal risky portfolio. Thus, this paper tries to demonstrate how to minimize the portfolio variance using Lagrange multiplier and Solver. Hence, for a given required return rate how to find the efficient portfolio composition. In other words how to find optimal security weight within the overall portfolio composition. For this reason I use case study as the research method in this study. For experimental purpose were selected five firms from New York Stock Exchange (NYSE). The firms belong to technology, consumer goods and industrial goods sector. The review period is between February 2000 and January 2014. The empirical data were collected at the following address finance.yahoo.com. I used monthly adjusted prices. I used Excel and Stata10 to process and analyze the data. The results were analyzed based on the methodological and experimental solutions.

Keywords: *portfolio, Lagrange multiplier, return, risk, matrix.*

1. Introduction

Let's be *P* the closing price of a stock at the end of time *t*, respectively P_{t-1} the closing price of a stock at the end of earlier time *t-1*. The difference between earned and invested money represents price return of the stock at time *t*, R_t:

$$R_t = \frac{P_t - P_{t-1}}{P_{t-1}} = \frac{P_t}{P_{t-1}} - 1 \qquad (1)$$

Equation (1) assumes that the stock has not paid dividend in the period $(t-1, t)$. Instead, if the stock paid dividend (D) in the period $(t-1, t)$ then equation (1) modifies as:

$$R_t = \frac{P_t + D_t}{P_{t-1}} - 1 \qquad (2)$$

As usually adjusted prices are denoted. Otherwise, an adjustment process should be followed as finding the adjustment factor; normalizing stock prices and dividends, and then find the correct return percentages.

The way of calculation stock' price return in equation 2 is known as discretely compounded rate of return calculation. On the other hand, continuously compounded rate of return is calculated as:

$$R_t = \frac{P_t}{P_{t-1}} \qquad (1')$$

Return calculation in equation (1') following Benninga (1997, p. 80) assumes that "$P_t = P_{t-1}e^{r_t}$,where r_t is the rate of return during the period $(t-1, t)$ and where p_t is the price at time t."

In returns calculation, the period can be a year, a month, a week, a day, or even less than a day. Typically, the period presents a month and monthly period returns are most frequently used. For a data set having the return values as R_1, R_2, R_3, ..., R_T for T periods the arithmetic mean is:

$$\overline{R} = \frac{1}{T}\sum_{t=1}^{T} R_t \qquad (3)$$

What money are earned and what is planned to be earned from a security presents its uncertainty, or risk. Thus, the volatility is related with return. There are several statistical measurements to measure the risk as variance, variance interval, standard deviation, covariance, variance-covariance, correlation coefficient, absolute average deviation, etc (for more see Bundo, 2009). But, some of them are often commonly used. Following Bundo (2009, pp. 47-50) the variance (σ^2_i), covariance (cov_{ij}) and correlation coefficient (ρ_{ij}) between two stocks *i* and *j* are as follow.

Variance of the returns:

$$\sigma_i^2 = \frac{1}{T}\sum_{t=1}^{T}\left(R_{i,t} - \overline{R}_i\right)^2 \qquad (4)$$

where, $R_{i,t}$ is stock *i*'s return at time *t* and $\overline{R}_i$ is the arithmetic mean of periodic returns percentages.
After finding the variance, then standard deviation is simple to calculate:

$$\sigma_i = \sqrt{\sigma_i^2} \qquad (5)$$

Covariance of the returns:

$$cov_{ij} = \frac{1}{T}\sum_{t=1}^{T}\left(R_{i,t} - \overline{R}_i\right)\left(R_{j,t} - \overline{R}_j\right) \qquad (6)$$

Correlation coefficient:

$$\rho_{ij} = \frac{cov_j}{\sigma_i \sigma_j} \qquad (7)$$

On the other hand, the portfolio expected return and variance following the methodology used by Bundo (2009, pp. 58-59) are as following.

$$E(R_p) = w_1 E(R_1) + w_2 E(R_2) + w_3 E(R_3) + \ldots + w_i E(R_i) + \ldots + w_N E(R_N)$$

Or in general term:

$$E(R_p) = \sum_{i=1}^{N} w_i E(R_i) \qquad (8)$$

where, w_N is the portion (weight) of N securities included in the portfolio, and $E(R_N)$ is the expected return value of N securities. "In general the mean return of the portfolio is the *weighted average return* of the component stocks." (Benninga, 1997, p. 72)

$$Ln\left(\frac{P_t + D_t}{P}\right). \quad (9)$$

Since, $\rho_{ij} = \frac{cov_j}{\sigma_i \sigma_j}$ then $\sigma_p^2 = \sum_{i=1}^{N}\sum_{j=1}^{N} w_i w_j \rho_j \sigma_i \sigma_j$ (10)

For example, the covariance for HPQ and NOK is found as:

$$cov_{HPQ,NOK} = \sigma_{HPQ}\sigma_{NOK}\rho_{HPQ,NOK} = 0.108 \times 0.139 \times 0.276 = 0.004.$$

If $i = j$ then formula (7) is modified as following:

$$cov_{ii} = \rho_i \sigma_i \sigma_i = \rho_i \sigma_i^2 \quad (7')$$

Since the correlation coefficient for an own variable is 1, then the covariance is simplified as:

$$cov_{ii} = \sigma_i^2 \quad (7'')$$

Thus, in this case the covariance is equal with the variance.

2. Methodology

This paper starts with a briefly theoretical part for the stock return and risk. The paper continues moreover with technique and approach used for finding optimal assets weights in a portfolio composition. The Lagrange multiplier is used. It is in function to demonstrate how Lagrange multiplier can be applied in the portfolio composition issue. After that, Excel and calculus method is used to find the optimal assets weights. Deductive and result-oriented approach is used. Case study as a research method is used in this study.

Analyzed firms are as follow:

- Hewlett-Packard Company (HPQ) - NYSE (Sector: Technology),
- Nokia Corporation (NOK) - NYSE (Sector: Technology),
- Apple Inc. (AAPL) - NasdaqGS (Sector: Consumer Goods),
- International Business Machines Corporation (IBM) - NYSE (Sector: Technology), and
- General Electric Company (GE) - NYSE (Sector: Industrial Goods).

Firms are selected randomly from http://finance.yahoo.com. From this source data are obtained accessed on 26 January 2014. Excel and Stata10 are used for processing and analyzing data. Adjusted price are used. Time is expressed on term of a month. Totally 168 months data are used. This is the number of observations.

In this paper, the price return (total return) of the stock following Benninga (1997, p. 68) is calculated as:

$$Ln\left(\frac{P_t + D_t}{P_{t-1}}\right).$$

Excess return matrix is calculated and transposed. Then, variance-covariance matrix is calculated as presented in table 3.

Minimizing portfolio variance using Lagrange multiplier (function)

In this section I'm using Lagrange multiplier as a method for minimizing portfolio variance $\left(\sigma_p^2\right)$. The idea, concept and methodology for using Lagrange function are based at Bundo (2009, pp. 160-165).

Mathematically, for a given return E the portfolio will consider efficient, if and only if, minimizes the expression:

$$\min \sum_{i=1}^{N}\sum_{j=1}^{N} w_i w_j cov_j .$$

To achieve this objective requires respecting two strong conditions. Firstly, the expected portfolio return has to achieve return level E^* (i.e. target or desired return). Secondly, the sum of all investments' weights should be equal one. Thus, it can be written as:

$$\min \sum_{i=1}^{N}\sum_{j=1}^{N} w_i w_j cov_j$$

Subject to (s.t.)

$$\sum_{i=1}^{N} w_i E_i = E^* \text{ and}$$

$$\sum_{i=1}^{N} w_i = 1.$$

The general form of Lagrange function can be written as:

$$Z = \sum_{i=1}^{N}\sum_{j=1}^{N} w_i w_j cov_j + \lambda_1\left(\sum_{i=1}^{N} w_i E_i - E^*\right) + \lambda_2\left(\sum_{i=1}^{N} w_i - 1\right) \quad (11)$$

Hence, using obtained results the expression that has to be minimized in this study is the portfolio variance defined as:

$$\sigma_p^2 = 0.01170 w_1^2 + 0.01913 w_2^2 + 0.01942 w_3^2 + 0.00557 w_4^2 + 0.00661 w_5^2 +$$
$$+ 2w_1 w_2 0.00413 + 2w_1 w_3 0.00663 + 2w_1 w_4 0.00384 + 2w_1 w_5 0.00322 +$$
$$+ 2w_2 w_3 0.00450 + 2w_2 w_4 0.00321 + 2w_2 w_5 0.00470 + 2w_3 w_4 0.00487 +$$
$$2w_3 w_5 0.00260 + 2w_4 w_5 0.00268$$

Conditions to be fulfilled in this case are as follow.

Firstly, portfolio expected return expressed as

$$E_p = -0.00121 w_1 - 0.00907 w_2 + 0.01834 w_3 + 0.00386 w_4 - 0.00097 w_5$$

has to achieve the value E*.

Secondly, $w_1 + w_2 + w_3 + w_4 + w_5 = 1$.

Using Lagrange multiplier, I have:

$$Z = 0.01170w_1^2 + 0.01913w_2^2 + 0.01942w_3^2 + 0.00557w_4^2 + 0.00661w_5^2 +$$
$$+ 2w_1w_2\,0.00413 + 2w_1w_3\,0.00663 + 2w_1w_4\,0.00384 + 2w_1w_5\,0.00322 +$$
$$+ 2w_2w_3\,0.00450 + 2w_2w_4\,0.00321 + 2w_2w_5\,0.00470 + 2w_3w_4\,0.00487 +$$
$$+ 2w_3w_5\,0.00260 + 2w_4w_5\,0.00268 +$$
$$+ \lambda_1\left(-0.00121\,w_1 - 0.00907\,w_2 + 0.01834\,w_3 + 0.00386\,w_4 - 0.00097\,w_5 - E^*\right) +$$
$$+ \lambda_2\left(w_1 + w_2 + w_3 + w_4 + w_5 - 1\right)$$

Finding partial derivates of Lagrange function in respect of $w_1, w_2, w_3, w_4, w_5, \lambda_1,$ and λ_2 give as follow:

$$Z'_{w_1} = 0.0234w_1 + 0.00826w_2 + 0.01326w_3 + 0.00768w_4 +$$
$$+ 0.00644w_5 - 0.00121\lambda_1 + \lambda_2 = 0$$
$$Z'_{w_2} = 0.00826w_1 + 0.03826w_2 + 0.0096w_3 +$$
$$+ 0.00642w_4 + 0.0094w_5 - 0.00907\lambda_1 + \lambda_2 = 0$$
$$Z'_{w_3} = 0.01326w_1 + 0.009w_2 + 0.03884w_3 + 0.00974w_4 + 0.0052w_5 +$$
$$+ 0.01834\lambda_1 + \lambda_2 = 0$$
$$Z'_{w_4} = 0.00768w_1 + 0.00642w_2 + 0.00974w_3 + 0.01114w_4 + 0.00536w_5 +$$
$$+ 0.00386\lambda_1 + \lambda_2 = 0$$
$$Z'_{w_5} = 0.00644w_1 + 0.0094w_2 + 0.0052w_3 + 0.00536w_4 + 0.01322w_5 -$$
$$- 0.00097\lambda_1 + \lambda_2 = 0$$
$$Z'_{\lambda_1} = -0.00121w_1 - 0.00907w_2 + 0.01834w_3 + 0.00386w_4 -$$
$$- 0.00097w_5 = E^*$$
$$Z'_{\lambda_2} = w_1 + w_2 + w_3 + w_4 + w_5 = 1$$

The system above can be written in matrix form as:

$$A = \begin{bmatrix} 0.0234 & 0.00826 & 0.01326 & 0.00768 & 0.00644 & -0.00121 & 1 \\ 0.00826 & 0.03826 & 0.009 & 0.00642 & 0.0094 & -0.00907 & 1 \\ 0.01326 & 0.009 & 0.03884 & 0.00974 & 0.0052 & 0.01834 & 1 \\ 0.00768 & 0.00642 & 0.00974 & 0.01114 & 0.00536 & 0.00386 & 1 \\ 0.00644 & 0.0094 & 0.0052 & 0.00536 & 0.01322 & -0.00097 & 1 \\ -0.00121 & -0.00907 & 0.01834 & 0.00386 & -0.00097 & 0 & 0 \\ 1 & 1 & 1 & 1 & 1 & 0 & 0 \end{bmatrix}$$

The column vector X in matrix form is:

$$X = \begin{bmatrix} w_1 \\ w_2 \\ w_3 \\ w_4 \\ w_5 \\ \lambda_1 \\ \lambda_2 \end{bmatrix}$$

Free terms in matrix form are:

$$C = \begin{bmatrix} 0 \\ 0 \\ 0 \\ 0 \\ 0 \\ E^* \\ 1 \end{bmatrix}$$

Or in aggregate form it can be written as $A \times X = C$. From here $X = A^{-1} \times C$.

In order to find the vector X firstly I have to find the inverse matrix of A, i.e. A^{-1} which is as follow:

$$A^{-1} = \begin{bmatrix} 2.86116 & -1.9056 & 1.660791 & -2.979 & -8.6373 & -2.1112 & 0.114376 \\ -1.9056 & 2.92244 & 1.06275 & -3.02429 & -2.0553 & -2.6102 & 0.057504 \\ 1.660791 & 1.06275 & 2.16277 & -2.9909 & 5.104612 & 9.16324 & -0.04668 \\ -2.979 & -3.02429 & -2.9909 & 113.6383 & -5.6441 & 1.35167 & 0.48955 \\ -8.6373 & -2.0553 & 5.104612 & -5.6441 & 9.23207 & -3.7935 & 0.385245 \\ -2.1112 & -2.6102 & 9.16324 & 1.35167 & -3.7935 & -6.3294 & 0.091069 \\ 0.114376 & 0.057504 & -0.04668 & 0.48955 & 0.385245 & 0.091069 & -0.00866 \end{bmatrix}$$

For example, if required or expected return is 10%, then vector X is as follow:

$$X = \begin{bmatrix} -2.2967 \\ -2.2035 \\ 3.8696 \\ 1.6247 \\ 0.0059 \\ -6.3419 \\ 0.0004 \end{bmatrix}$$

The fourth first values are w_1, w_2, w_3, w_4, and w_5 as -230%, -220%, 387%, 162% and 1%.

Now, I'm proving that two conditions (λ_1 and λ_2) are fulfilled.

Firstly,

$$E_p = -0.00121 \times (-2.2967) - 0.00907 \times (-2.2035) +$$
$$+ 0.01834 \times (3.8696) + 0.00386 \times (1.6247) - 0.00097 \times (0.0059) = 0.1$$

Hence, $E_p = E^* = 10\%$.

Secondly,

$$w_1 + w_2 + w_3 + w_4 + w_5 = -2.2967 - 2.2035 + 3.8696 + 1.6247 + 0.0059 = 1$$

Coming to conclusion that two initial conditions are fulfilled here.
Thus, for 10% expected return, the portfolio is considered efficient with the obtained composition.

3. Discussion of results

This section discus obtained results. Results are generated without restrictions. An investor that requires 10 percent return, should invest 387% on AAPL, 162% on IBM and 1% on GE, decrease 230% on HPQ, and 220% on NOK. AAPL has average return and standard deviation higher than other stocks. Higher return means higher risk. But AAPL has higher return than NOK, and almost same risk. Favorable relationship between return and risk at AAPL can be an explanation why obtained results suggesting investing more on AAPL comparing with rest stocks within the portfolio. Obtained results are suggesting investing 162% of money at IBM. IBM has average return 0.39% and standard deviation 7.5%. Thus, IBM has lower risk of all analyzed stocks within the portfolio. On the other hand, IBM has higher return than HPQ, NOK, and GE. Again the relationship between return and risk at IBM can be an explanation why obtained results suggesting investing 162% at IBM.

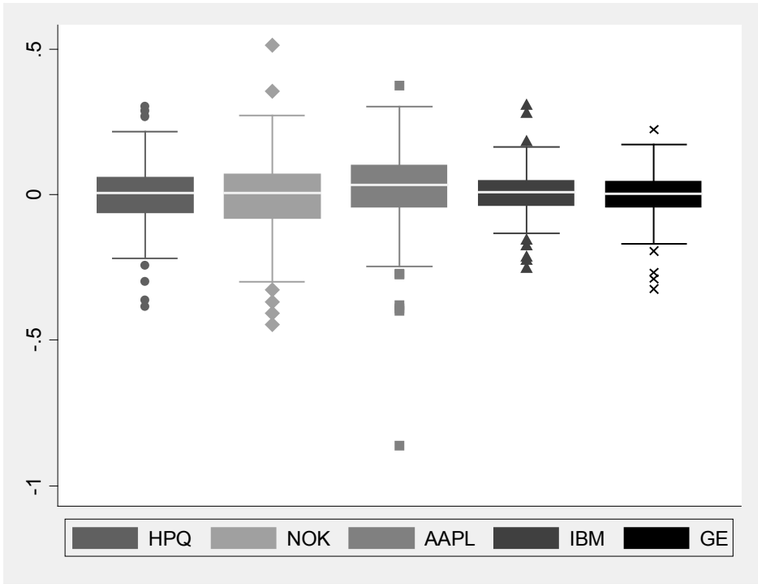
Table 1: Returns' summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
HPQ	168	-.0012096	.1084948	-.38545	.30259
NOK	168	-.0090658	.1387093	-.44549	.51236
AAPL	168	.0183375	.139757	-.86131	.37391
IBM	168	.0038557	.0748678	-.25679	.303
GE	168	-.0009705	.0815185	-.32512	.22314

Source: author's calculations.

Figure 1 presents box plots for returns. As figure shows outliers are observed at selected firms. On average observed firms for the analyzed period have zero or negative returns.

Figure 1: Box plots for returns



Source: author's calculations.

Table 2 presents return's correlation matrix. Table 3 presents variance-covariance matrix. The correlation coefficient takes values from -1 to +1. As the correlation coefficient between stocks' returns get smaller, diversification works better (risk is decrease too). The diversification gives the best effect when the correlation coefficient between two stocks' returns is perfect negative, i.e. -1. Opposite, when the correlation coefficient between two stocks' returns is perfect positive, i.e. +1, the diversification doesn't works. Hence in a portfolio composition should be included assets, returns of which are negatively correlated. Results indicate that a stronger positive correlation is found between HPQ and IBM, followed then by AAPL and IBM, and so on. On the other hand, there is no a negative correlation between stocks for those observations.

Table 2: Return's correlation matrix

	HPQ	NOK	AAPL	IBM	GE
HPQ	1.0000				
NOK	0.2763	1.0000			
AAPL	0.4400	0.2335	1.0000		
IBM	0.4757	0.3112	0.4685	1.0000	
GE	0.3662	0.4184	0.2292	0.4424	1.0000

Source: author's calculations.

Table 3: Variance-Covariance Matrix

	HPQ	NOK	AAPL	IBM	GE
HPQ	0.0117	0.0041	0.0066	0.0038	0.0032
NOK	0.0041	0.0191	0.0045	0.0032	0.0047
AAPL	0.0066	0.0045	0.0194	0.0049	0.0026
IBM	0.0038	0.0032	0.0049	0.0056	0.0027
GE	0.0032	0.0047	0.0026	0.0027	0.0066

Source: author's calculations.

Table 4 presents some simulations how assets weights are changing by changing requirement return percentage (E^*). What can be observed is that by increasing E^*, than w_1, w_2 and w_5 should be decreased and w_3 and w_4 should be increased. With other words, as E^* is increasing the investment should be focused on AAPL and IBM, and giving priority to AAPL. As E^* is increasing, the overall portfolio risk measured by standard deviation is increasing too. Thus, results lead and prove the theoretical background.

Table 4: Simulation of desired returns and assets portions

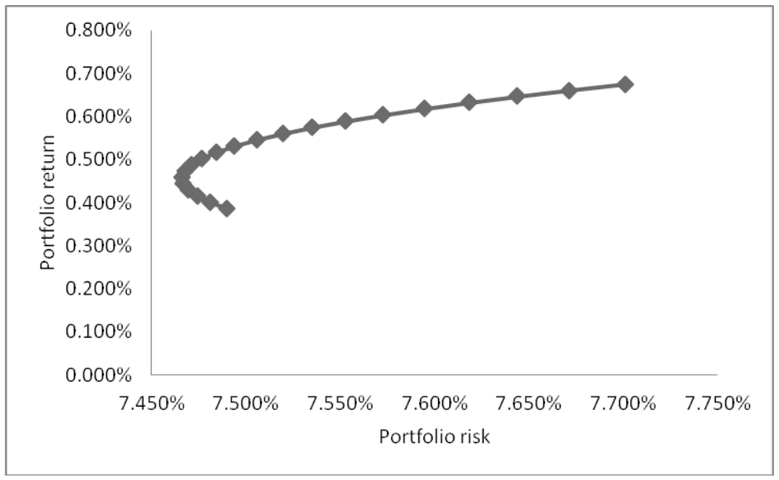
E^*	w_1	w_2	w_3	w_4	w_5	Standard Deviation
0.01	-0.127	-0.169	0.345	0.603	0.347	0.007
0.02	-0.368	-0.395	0.737	0.717	0.309	0.015
0.03	-0.609	-0.621	1.128	0.830	0.271	0.031
0.04	-0.850	-0.847	1.520	0.944	0.234	0.052
0.05	-1.091	-1.073	1.911	1.057	0.196	0.080
0.06	-1.332	-1.299	2.303	1.171	0.158	0.115
0.07	-1.573	-1.525	2.695	1.284	0.120	0.156
0.08	-1.815	-1.751	3.086	1.398	0.082	0.203
0.09	-2.056	-1.977	3.478	1.511	0.044	0.257
0.1	-2.297	-2.204	3.870	1.625	0.006	0.317
0.11	-2.538	-2.430	4.261	1.738	-0.032	0.384
0.12	-2.779	-2.656	4.653	1.852	-0.070	0.457
0.13	-3.020	-2.882	5.045	1.965	-0.108	0.536
0.14	-3.261	-3.108	5.436	2.079	-0.146	0.622
0.15	-3.502	-3.334	5.828	2.192	-0.184	0.714

Source: author's calculations.

Assuming now that the portfolio is composited from only two stocks (AAPL and IBM) and other stocks are excluded. Moreover, Solver from Excel program is used for further analysis. This is done in order to find AAPL and IBM optimal weight in the portfolio overall composition. Results showed that 95.2% of money should be invested at IBM and rest 4.8 at AAPL. For this composition, the portfolio variance is minimized. And, the portfolio return is 0.456% (1.834% x 4.8% + 0.386% x 95.2%).

Figure 2 presents portfolio risk and return. The best solution is achieved at the interval from 4% to 5% weight of AAPL. Investing exactly 4% at AAPL and rest at IBM generates standard deviation from 7.467% and return from 0.444%. Investing exactly 5% at AAPL and rest at IBM generates standard deviation from 7.466% and return from 0.458%. Hence, the solution should be at the interval 4%-5% weight of AAPL. Solver is helpful in this case. It generates the result 4.8% weight of AAPL and 95.2% weight of IBM. These are optimal portfolio weights for this case.

Figure 2: Portfolio risk and return



Source: author's calculations.

The optimal weight of AAPL can be alternatively calculated. Following Bodie, Kane, Marcus (2002, p. 214) and Roychoudhury (2007, p. 30), the optimal weight of AAPL is calculated as:

$$w_{AAPL} = \frac{\sigma^2_{IBM} - Cov_{AAPL,\,IBM}}{\sigma^2_{AAPL} + \sigma^2_{IBM} - 2Cov_{AAPL,\,IBM}} = \frac{0.0056 - 0.00487}{0.0056 + 0.0195 - 2 \cdot 0.00487} = 0.048$$

Hence, same results are obtained from Solver and last calculation.

4. Conclusion

The purpose of this paper was to demonstrate how Lagrange multiplier can be applied as a tool for finding optimal assets weights. The paper has own limitations in sense of observations number, constraints that should be followed, etc. Hence, its principal purpose was a methodological one. For a selected sample using Lagrange multiplier were found optimal stocks weights that minimize variance for a given return percentage. Of course, in practice many implications can be added to this issue. As Sharpe et al. (2007, p. 236) stated "investors need to keep in mind their own specific risk and return objectives and establish a strategic asset allocation that is expected to satisfy both."

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An Analysis of Coal as an Energy Source: Production and Logistics

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ABSTRACT

Coal is the most abundant and largest energy resource used in the electricity generation in the world. It is availability in nature, flexibility to use and its distribution around the world make coal a more reliable source. A recent reports show that the coal usage will increase % 80 in next 20 years and it will be the major energy resource until 2040. The coal is mined and processed first. The processing step includes blending. Then the suppliers provide coal contracts for each coal type which is being sold on a merchandise exchange to power companies. A coal contract is an offer that includes the amount, type, the price, the heat content, the ash content, the sulfur content, moisture content, volatile matter and the chemical structure of the coal that will be delivered to the power company. The price for each contract is different and often times it is the mine mouth-price which does not include the transportation cost. The coal has to be transported from where it is produced to where it should be delivered. In this paper, a statistical data analysis for coal production and logistics is presented. The analysis includes the distribution of coal reserves in the world, their production rates and capacities. The transportation methods and the logistics of coal both in international markets are also presented and the problems are discussed.

Keywords: *Fuel coal, supply chain, transportation, energy source, coal trading, data analysis*

1. Introduction

Coal is the most abundant and largest energy resource used in the electricity generation in the world. It is availability in nature; flexibility to use and its distribution around the world make coal a more reliable source. Recent reports shows that the coal usage will increase % 80 in next 20 years and it will be the major energy resource until 2030. The Figure-1 shows projected world electricity generation by fuels until 2030 (EIA, 2009) ,(EU,2008).

Figure-1 shows that the dependency for coal in electricity generation will not end any soon. However, due to deregulation in the power markets the coal fired power plants are dispatched and committed only if the coal is an economic option comparing with other fuels (Whittington and Bellhouse, 2009). Moreover, emission outputs of coal fired power plants limits the power generation and impose extra costs. If the coal resource is not carefully chosen, cost of power generation would become high for power producer ,(EU,2008), (Golombek et al., 2005). The typical cost components of the coal for power companies are its transportation, its purchase and the emission cost.

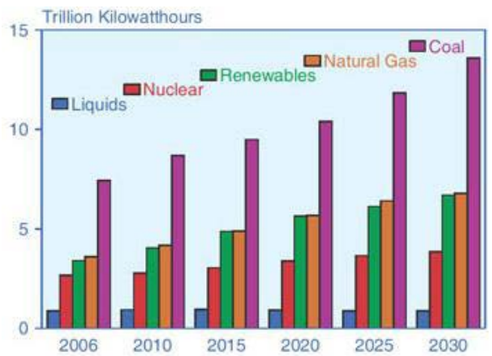

Figure-1: World electricity generation by fuels

Since coal resources are distributed around the world and often far away from where the coal is consumed, the transportation becomes an important issue for reliability. The distance between the largest coal producer countries (China, USA, India and Australia) and importing countries creates a problem for secure and economic coal supply. The transportation cost, depends on the distance between the source and destination, becomes a significant part in total cost. Purchase is determined by the amount of coal and coal price which is cleared in the market based on the supply and demand relations.

Emission gas outputs from coal fired power plants have been an important problem since 1990s. Carbon emissions (Carbon dioxide, CO_2) and green gas emissions (Sulphur dioxide, SO_2 and Nitrogen oxides, NO_x) that are produced from the burning coal, limits the usage of coal in electricity generation and they cause acid rains in nature. Coal fired power plants are accepted as a major source of air pollution (EIA, 2009) ,(EU,2008). The current CO_2 capture and storage technologies (CCS) and green gas emission capture technologies are not enough to capture all of the outputs. According to Kyoto protocol, which is signed by 187 countries, each country is obligated to reduce their emissions below 1990 levels. Besides, community pressure against pollution is another major concern for power producers (Bistline and Rai, 2010).

Under these new regulations, coal-fired power producers have the options to switch to lower emitting fuels, install environmental retrofits on generating units, reduce unit utilizations or purchase emission allowances. Installing environmental retrofits requires huge investments, they are still not able to capture all of the emissions and sometimes the capital burden causes cost of power to be expensive than before. Reducing the unit utilizations is not a desired option since it will decrease the amount of power generation given that the energy demand is increasing. Purchasing emission allowances should be the last option for producers as it means extra cost and emission outputs. On the other hand, if the power companies use coals that contain lower sulphur and carbon in it, they will be able to save cost and lower emissions at the input level (Whyatt and Metcafle, 2004). However, the heat content of the supplied coal should also be high enough to meet the demanded power (Whittington and Whittington, 2000). Coal shows significant differences in terms of heat content, sulphur content and carbon content among themselves. Below figure shows the German classification for coal types and their differences (Linder, 1997).

Table 1: Coal classifications by specifications

Name	Volatiles %	C Carbon %	H Hydrogen %	O Oxygen %	S Sulfur %	Heat content kJ/kg
Lignite	45-65	60-75	6.0-5.8	34-17	0.5-3	<28470
Flame coal	40-45	75-82	6.0-5.8	>9.8	~1	<32870
Gas flame coal	35-40	82-85	5.8-5.6	9.8-7.3	~1	<33910
Gas coal	28-35	85-87.5	5.6-5.0	7.3-4.5	~1	<34960
Fat coal	19-28	87.5-89.5	5.0-4.5	4.5-3.2	~1	<35380
Forge coal	14-19	89.5-90.5	4.5-4.0	3.2-2.8	~1	<35380
Non baking coal	10--14	90.5-91.5	4.0-3.75	2.8-3.5	~1	35380
Anthracite	7--12	>91.5	<3.75	<2.5	~1	<35300

The difference among coal types, their distribution around the world and the price volatility require careful considerations of all the factors. In order to be cost effective, the transportation and logistics issues of the coal have to be carefully analyzed. In this paper, a review on the production and logistics of the coal resources is presented to help understand the problems and trends in the industry.

2. The Method and the Data

It is important to find the optimum coal resource for the power companies along with its type, transportation way, heat content and emission content. Once the coal is mined, coal handling starts with the washing of coal. This process reduces ash content and removes clays and slims. The next step is crushing to get a required size for the coal. Blending process for the coal is required to have a standardized coal in terms of heat content and mixture. Then the coal can be transported to the customer.

In a supply stack of a deregulated power market, competitive power offers are selected and dispatched for the power supply. When minimum cost power offers submitted to the market, there is a change that the coal plant offer is not accepted if it is not low enough to compete with similar offers. It becomes more important to minimize the cost of coal supply that will help power producer to generate power with less cost and hence ensure that it is competitive. Power producers should learn to live with the emission gas barriers and they have to include the cost of emissions to their decisions. It should not be only the cost but also the environmental impact that is considered when producing the gas output.

In order to have a detailed overview of the coal resources, their distribution and transportation, recent coal data that include reserves, distribution of the resources, transportation and logistics were analyzed. It is not possible to reach all the data as the data is not available to public and limited reports are published by international agencies. However, the analyzed data brought useful results and recommendations.

3. Analysis for coal resources

3.1 Coal Reserves

Coal is used as a primary energy source in almost all countries. However, as other energy sources, the coal reserves are not distributed evenly to all over the world. Figure 1 provides the percentage share of countries with major proved coal reserves. USA, Russia and China have the largest proved coal reserves.

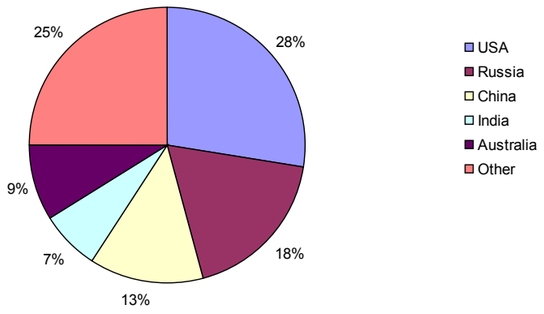

Figure 1. Largest Coal reserves by country

The total coal reserves in the world that include sub-bituminous, antrasic bituminous and lignite are estimated to be 860 Btones and almost half of it is antrasic bituminous coal. Figure 2 shows the distribution of coal reserves based on the coal type. The reserves are distributed to more than 100 countries and coal is produced in more than 50 countries. However, 75% of all coal is located in four countries. USA has the largest share with approximately 28%, then Russia (18%), China (13%), Australia (9%) and India (7%) have the large reserve shares.

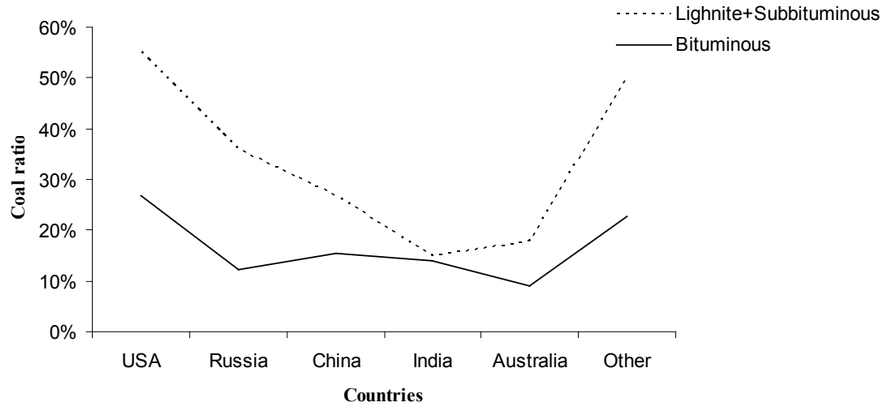

Figure 2. Ratio of Coal reserves for Bituminous and lignite

3.2 Production and trade

Figure 3 shows the annual coal production and consumptions between 2008-2013. The long term trend in in the world total in the figure is up with consumption has more fluctuation. Considering the current reserves and production rates, it is estimated that Indonesia has 14 years of capacity and Vietnam has 4 years of capacity left. 30,9% of the reserves are located in Asia-Pacific region, 28,5% of the reserves are in North America, 3,8% of the reserves are in Africa and 18,2% of reserves are in Russia. It is estimated that with the current production rates, coal resources will be depleted in about 109 years (BP, 2013).

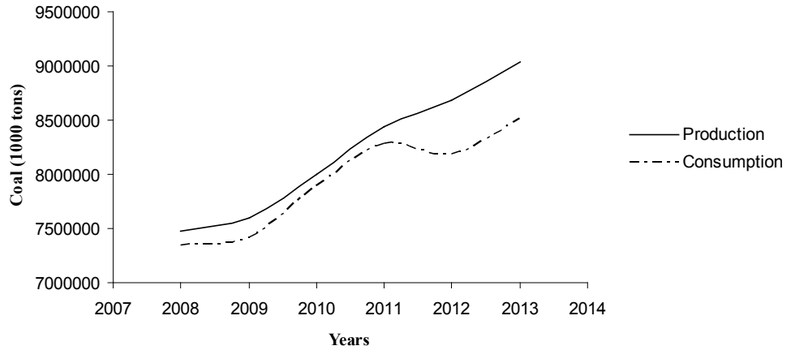

Figure 3. Production-consumption of world total coal

The produced coal not necessarily used for local consumption. The export and import amounts of coal are rising in world's market. It is true that the development of international transportation methods and logistics has an important role on international coal export and import. Table 2 shows the world coal trade that is classified by types (World Coal Association, 2014). Note that lignite has lower energy value and hence is less preferred by the international customers.

Table 2. World coal trade by coal types (Mton)

	Steam coal	Coking coal	Lignite
2011	910	286	3,70
2012	979	294	6,9
2013	1028	301	4,8

Figure 4 shows the total amount of coal exported and imported in the world between 2008 and 2013. The trend is rising with an average of 6% increase in coal export and import. This is because the share of coal fired electricity generation is rising rapidly and imported coal becomes more economic than ever as the electricity prices are raising.

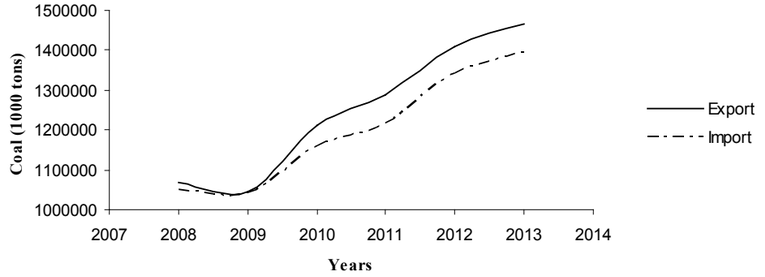

Figure 4. Export-import change figure world coal

Another important parameter to consider is the rate of exported coal per produced coal and the rate of imported coal per consumption. In other words, what percentage of produced coal is exported and what percentage of consumed coal is imported. Figure 5 shows the percentages of export/production and import/consumption during the period of 2008-2013. It is analyzed that export and import rates are sensitive to economic changes and turmoil's in world's markets. Decline in the economic growth usually results decline in the electricity demand and hence decline in the coal consumption and vice versa.

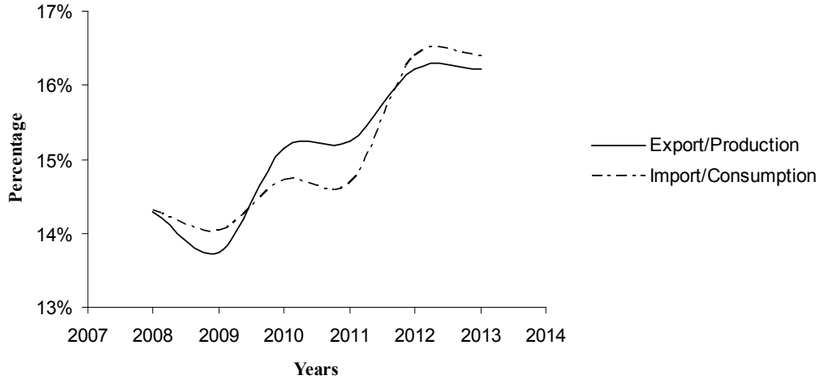

Figure 5. Export-import change figure world coal

It is also interesting to analyze the major coal importing and exporting countries in the world. Figure 6 provides the change in export ratios of major coal exporting countries, namely Canada, South Africa, Colombia, United States, Russia, Australia and Indonesia. Indonesia and Australia have the largest share in coal exportation. Indonesia, not a coal-rich country, has an increasing trend in coal exportation. Australia has increasing amount of coal that is exported however the ratio is fluctuating. Japan, China, South Korea, India, Taiwan, Germany and Turkey are the major coal importing countries.

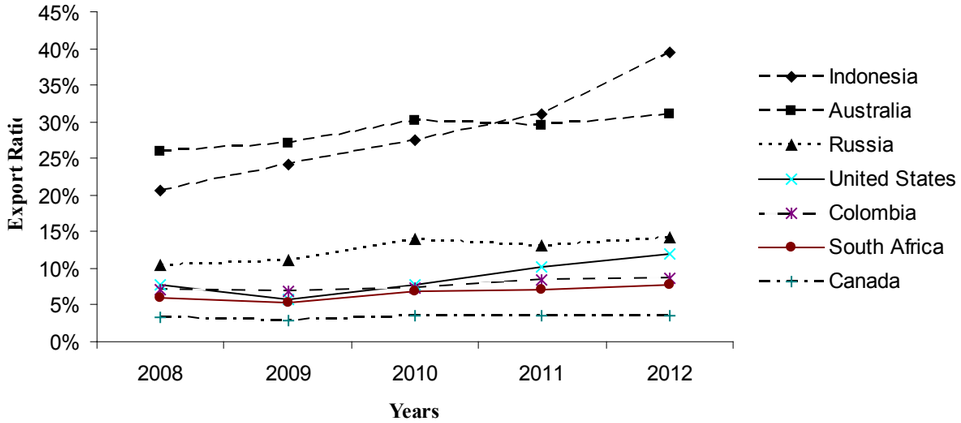

Figure 6. Export ratios of major coal exporting countries

3.3 Coal Usage

Coal is a major energy source and dominant electricity generation fuel as it can be widely available. It is estimated that, coal provided approximately 43% of the world's electricity needs in 2013, and 29% of total world energy supply. Coal is second only to oil, at 31%. Figure 7 shows the sector where the coal is used (World Coal Association, 2014).

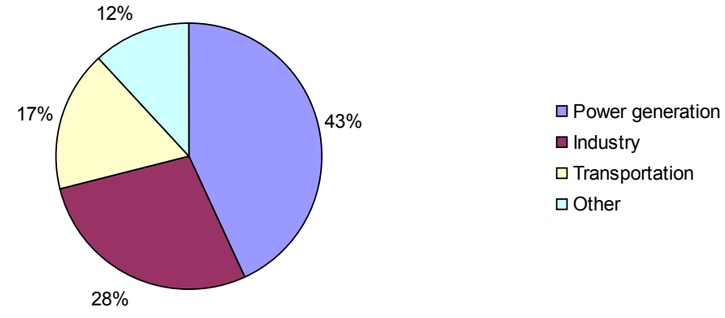

Figure 7. Coal usage

It is estimated that coal will be major source for electricity generation in the future. The developed scenarios show that coal-fired electricity generation will grow at a 1.8-percent annual rate from 2010 to 2040. Steel industry is another important coal consumer as coal is widely used in the production of steel.

3.4 Coal Tranportation methods

Selection of coal tranportation method for the coal logistics depend on the distance that coal will be transported. If the distance is long and road that the transportation will be made is hard ground, then the truck is a good option. If there is a railway available than railway is preferred over truck because of its cheaper cost and mass transportation capability. If the coal is transported from a mine to its next destination, barges can also be a option if there is a navigable water or river. The barges can take huge amount of coal at once and the coal can be transferred by river safely with a low cost. Loading and unloading should be carried out in place similar to a port. The factors to consider when selecting the transportation methods should be coal quality, the environment and social factors.Figure 8 shows the ratio of each transportation method for total coal transportation and its historical change.

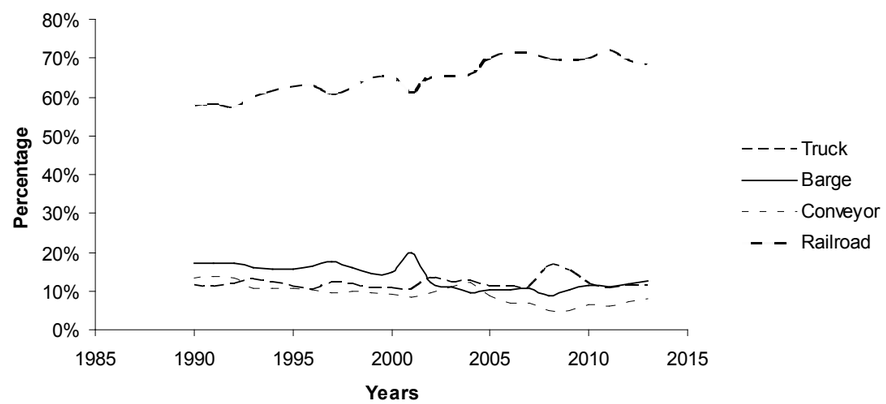

Figure 8. Historical change of ratios of transportation methods for USA

The railroad transportation has the largest share and transportation while shares of transportation with barge, conveyor and truck are close to each other. The railroad transport is cost effective, reliable and fast comparing with some of the methods. However, a well-established railroad infrastructure and management are required to have a good logistics network. This is not the case for all countries though. Figure 9 shows a picture of the international coal transportation (Türkiye Taşkömürü İşletmesi, 2014). Notice that long distance transportation of coal has to be made by sea.

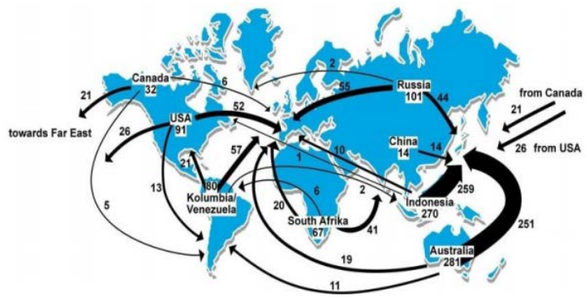

Figure 9. Maritime Coal transportations in the world, 2010

For the international coal transportation where coal imports and exports come into play, ships are widely used options. Figure 10 shows the distribution shares of countries in 2014. Indonesia, Australia, Russia, USA, Colombia, South Africa and Canada are the major coal exporting countries. Indonesia (39%) and Australia (23%) export 62% of all the coal. Total amount of steam coal that is exported isl 860,000 Mton.

Figure 10. Global seaborne steam coal trade in 2014

4. Conclusion

There is a great need to address the issue of optimum coal supply under transportation and price constraints given that the reserves are not evenly distributed. The distance between the demand location and the supply points is challenging problem especially for the electricity companies. In this paper, the distribution of the coal reserves, the production rates, capacities and logistics issues were discussed using the recent data. It is shown that coal production consumption has a 3% annual growth rate in world total. The share of coal in electricity generation is expected to rise until 2040 and coal will be a major energy source. In terms of logistics, international vessels and ships are widely used and there is a growing trend to use ships for coal transportation.

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Hungary and the Monetary Union - Prospects and Implications

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ABSTRACT

This paper addresses economic and legal criteria for Hungarian adoption of the common currency using qualitative analysis of available documents and data as well as previous research. The economic convergence criteria ensure that Hungary's economy is prepared to adopt the euro, while the legal convergence criteria ensure that national legislation, the national central bank and monetary policy issues are compatible with the treaty. Economic convergence criteria addressed in the paper include price stability, soundness and sustainability of public finances, exchange-rate stability through participation in the Exchange Rate Mechanism [ERM II] for at least two years without strong deviations from the ERM II central rate, and long-term interest rates to assess the durability of the convergence achieved by fulfilling the other criteria. The paper concludes that Hungarian economy is going to benefit from this process; however there are many challenges that have to be addressed, such as stabilization of inflation expectations at low level, the establishment of institutions and mechanisms ensuring a close link between the evaluation of productivity and wages.

Keywords*: European Monetary Union, Hungary, Exchange Rate Mechanism (ERM II)*

1. Introduction

Economic policy coordination started since the second stage of the European Monetary Union. The economic policy coordination complements single monetary policy. Since national economic developments have an impact on inflation prospects in the Eurozone, they influence monetary conditions in the area.

The Madrid European Council held in 1995 changed the name of the common currency to euro. Preparing for the move to the third stage of monetary union, the establishment of a high degree of convergence with four economic specific criteria, namely the "Maastricht convergence criteria" is required. Moreover, a state wishing to accede to the Euro zone must fulfill certain legal criteria as well. Legal convergence requires that national legislation, in particular, the national central bank and monetary issues, is compatible with the Treaty.

The society of Hungary has great expectations concerning the adoption of euro; however the accession to the European Monetary Union will produce disadvantages as well.

In my paper I will explain the difficulties that Hungary is facing while accomplishing the Maastricht criteria and adopting the single currency, moreover we will stress out the benefits and disadvantages of the Monetary Union. We will discuss the issues related to the introduction of the euro, as some of the members of the currency union have been in serious crisis, which put the euro area in crisis as well.

2. The adoption of the single currency in Hungary

The economic policies of the last decade did not bring Hungary closer to accession to the Euro zone. After the change of government in the spring of 2010 the economy experienced a political revolution and the economic policies of Hungary since then led to moving away from the Union.[1]Therefore there is not much of chance of euro adoption before 2020. For Hungary, not being member of the Euro zone has clear disadvantages. I believe that the country would benefit from the creation of the conditions necessary for accession; therefore Hungary shall accede to the euro area as soon as possible.

There is no time frame concerning when member States should join the Euro zone. Of the countries that joined the Union in or after 2004 Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia and Lithuania joined the euro area. Slovenia

1 JuditNeményi, GáborOblath, AzEuróHazaiBevezetésénekÚjragondolása, Institute of Economics, Hungarian Academy of Sciences, Research Centre for Economic and Regional Studies, 6.,

was first to fulfill its obligation and the joined the euro area in 2007, Cyprus and Malta in 2008, Slovakia in 2009, Estonia in 2011, Latvia on 1st January 2014, and at last Lithuania on 1st January 2015.[2] Bulgaria, Hungary, the Czech Republic, Poland, Croatia and Sweden do not have an official target date for euro adoption. Regarding Romania the target date for euro adoption is 2019.[3]

All Member States of the European Union, except for the United Kingdom and Denmark, are required to adopt the euro and join the euro area. Moreover, Sweden is not yet part of the Euro zone, because it still has to make necessary changes to its central bank legislation, moreover its does not meet the required convergence criterion for joining the ERM II.[4]They have opt-outs from joining for reason of economic sovereignty. In 2004, Hungary - among other states - joined the European Union. Hungary was one of the most enthusiastic to join the euro area. Hungary is expected to fulfill the Maastricht convergence criteria and enter the last stage of Economic and Monetary Union and thus adopt the euro.[5]As I have already mentioned above, there is no explicit deadline for joining the Euro zone. In early 2000s, euro adoption was projected for the year 2006. However, when Hungary joined the European Union, its inflation rate, budgetary deficit and interest rates were too high. Therefore, ironically, in 2004, Hungary failed to comply with most of the criteria adopting the euro, except for the public debt, which was slightly below 60%.Ironically, there were very optimistic expectations in 2001, and Hungary was improving until mid-2002, however, by the prospects for euro adoption deteriorated.[6]Under the EU, Hungary is obliged to adopt euro eventually, however as it can be seen from the above, it has missed several euro adoption target dates. Between 2002 and 2004 – during the Medgyessy government – the target date for accession and the achievement of the 3% deficit was postponed.

Until 2004, each year, the target date for accession to the European Monetary Union was postponed by one year.[7]The successful disinflation was important for Hungary's Euro zone prospects, due to the fact that it seemed that only the inflation of the Maastricht criteria would be a challenge for Hungary.[8]However, in 2002, the fiscal deficit in Hungary exceeded 9% of GDP – far above the Maastricht criterion of 3 percent.

The target dates for euro adoption from 2006 are concerned as "half-official", as without competent governmental reports on the subject, we had to rely on politicians and members of the government.[9]

After 2006, the second-Gyurcsány government made the right decision by avoiding another unsubstantiated target date for euro adoption. By 2009, the achievement of deficit seemed achievable, but this – due mainly to the international economic and financial crisis – failed as well.[10]

In any case, official plans for the new target dates for euro adoption only formulated in 2009 (2014) and 2014 (2015).[11]However, in contrast, at the beginning of 2011, the Minister of Economic Affairs of the new government, GyörgyMatolcsy, without substantive economic or political economic arguments postponed the accession target date to 2020. Which we will see in fact, that is much further.[12]

There is no common strategy or fixed dates for the adoption of the euro in the Member States that joined the European Union since 2004.[13] However these states do have to comply with the obligation of joining the euro area at an undefined time. The newly accessed countries, such as Hungary do not have the possibility to opt out of the monetary union. Hungary made a commitment to establish an economic policy aimed at fulfilling the criteria for adopting euro. As I have already mentioned above, timing of this compliance remains the responsibility of the Hungarian government. As soon as Hungary meets the convergence criteria, an obligation to join the Euro zone rises.[14]Sweden by not entering the ERM II (Exchange Rate Mechanism II), failed to meet one of the criterion, thus it did not adopt euro.[15]

A number of factors determine the earliest date of euro adoption. First of all, the Membership of the Monetary Union is preceded

2 Introduction of the Euro in the More Recently Acceded Member States Conducted by TNS Political and Social at the Request of the European Commission, Directorate General for the Economic and Financial Affairs (DG ECFIN), 3

3 Who can Join and When?, available at: http://ec.europa.eu/economy_finance/euro/adoption/who_can_join/index_en.htm

4 Who can Join and When?, available at: http://ec.europa.eu/economy_finance/euro/adoption/who_can_join/index_en.htm

5 Attila Csajbók, AndrásRezessy, Hungary's Eurozone entry date: What to the markets think and what if they change their minds, Magyar Nemzeti Bank, Occasional Papers, September 2005, 9.,

6 Ibid.,7.

7 JuditNeményi, GáborOblath, AzEuróHazaiBevezetésénekÚjragondolása, Institute of Economics, Hungarian Academy of Sciences, Research Centre for Economic and Regional Studies, 17.,

8 Attila Csajbók, AndrásRezessy, Hungary's Eurozone Entry Date: What do the Markets Think and what if they Change their Minds, Magyar Nemzeti Bank, Economic Department, MNB Occasional papers 37, p. 13

9 JuditNeményi, GáborOblath, AzEuróHazaiBevezetésénekÚjragondolása, Institute of Economics, Hungarian Academy of Sciences, Research Centre for Economic and Regional Studies, 17.,

10 Ibid., 18.

11 Ibid.

12 Ibid.

13 Introduction of the Euro in the More Recently Acceded Member States Conducted by TNS Political and Social at the Request of the European Commission, Directorate General for the Economic and Financial Affairs (DG ECFIN), 3.

14 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 140.,

15 Ibid.

by the accession to the European Union and by meeting the converge criteria. Even if the convergence criteria are fulfilled, still two years is required in ERM II.[16]

3. The criteria necessary for introducing the euro

In Hungary's economy, adopting the single currency would be a crucial step. Joining the euro area would mean that Hungary's exchange rate is irrevocably fixed and monetary policy is transferred to the European Central Bank.[17]The function and the aim of the convergence criteria is to ensure that the economy of the potential Member State is sufficiently prepared for euro adoption and the state can smoothly integrate into the Monetary Union.

The criteria of the euro adoption and the procedures for adopting decisions on euro adoption have been established by the Treaty on the Functioning of the European Union and Annexes. According to Article 140 of the TFEU "*at least every two years, or at the request of a Member State with derogation, the Commission and the European Central Bank shall report to the Council on the progress made by the Member States with derogation in fulfilling their obligations regarding the achievement of economic and monetary union*".[18]

There are four conditions set out in the Maastricht Treaty that must be met by the states wishing to join the Euro zone.[19]

The first convergence criterion regards price stability.[20]According to Article 140(1) states shall achieve a high degree of price stability. According to Article 1 of the Protocol (No. 13) on the Convergence Criteria, Member State shall have a price performance that is sustainable and an average rate of inflation and for a period of one year the annual average harmonized index of consumer prices (HICP) of a member state should not exceed by more than 1.5 percentage point above the average of the inflation rates of the three best performing member states in terms of price stability calculated for the same period.[21]The aim of this criterion is to show that price stability is controlled.

The second criterion is related to the fiscal policy.[22]According to these criteria the national budget deficit must be at or below 3 percent of gross domestic product (GDP) and the national public debt must not exceed the 60 percent of gross domestic products, although exceptions can be made if the debt has a decreasing trend. The Maastricht Treaty explains that an excessive deficit would be a consolidated general government deficit above the reference values of 3 percent of the GDP and gross government debt exceeding 60 percent of gross domestic products.[23]The objective of this criterion is the soundness and sustainability of the public finances through limits of government borrowing and to sustain national debt on a sustainable level to avoid excessive deficit.

The third criterion is about interest rate policy. According to this criterion, the long-term interest rates of the Member State should have an average nominal long-term interest rate that shall be no more than 2 percentage points above the long-term interest rate in the three best performing EU member states, which have the lowest inflation in the previous year.[24]This criterion measures the durability of convergence.[25]According to Article 4 of the Protocol (No. 13) on the Convergence Criteria, *"interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions*".[26]

Finally, the forth condition refers to exchange rate stability.[27] Fluctuation of each state's exchange rate should be within the normal range of ERM II. This means that the national currency of the member state shall enter the exchange rate mechanism ERM II, prior to entering the European Monetary Union.[28]Hungary, acceding to the European Union in 2004 undertook the obligation to adopt the euro within a relatively short time. The Exchange Rate Mechanism, established by the EU on 1 January 1999, is to "*ensure that exchange rate fluctuations between the euro and other EU currencies do not disrupt economic stability within the single market, and to help non-euro area countries prepare themselves for participation in the euro area*".[29]Participation in the ERM II is a convergence criterion on exchange rate stability.[30]All the Member States of the European Union are required to join the ERM II for a period of two years prior to joining the euro area or prior to examination in order to stabilize their currency.[31]According to Article 3 of the Protocol (No. 13) on the Convergence Criteria "*the Member State shall not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period*".[32]

Hungary is not yet a member state of the euro area. The Hungarian national currency, the forint (HUF) is not yet within the Exchange Rate Mechanism II (ERM II). Before adopting the euro a state must comply with the Maastricht criteria including membership of the Exchange Rate Mechanism II for a minimum of two years. The Czech Republic, Hungary, Poland, Bulgaria and Romania have not jet joined the ERM II.[33]

4. The advantages and disadvantages of the European Monetary Union regarding Hungary.

Hungary undertook the obligation to join the common monetary policy as soon as possible. In this section I will analyze the advantages and disadvantages of accession to the Monetary Union with respect to Hungary.

Well-publicized research by analysts of the National Bank of Hungary found that Hungary and the Euro zone constituted an optimal currency area, and that the adoption the euro would guarantee lower transaction costs, increased foreign trade, and lower real interest rates.[34]

Examining the advantages and disadvantages of the accession are important in terms of preparation for accession; regardless of the fact that the future of the euro area is strongly subject to several discussions, as maintaining the currents system is economically not justifiable, moreover it results in global economic backwardness for Europe.[35]

Among the expected benefits of euro, the most important ones are the following:

- Reduction in transaction cost of changing currency;
- The reduction of exchange risk leading to greater trade and foreign investments with the rest of Europe;
- The improvement of the economic security of the country.
- In addition the single currency is expected to generate other significant benefits, such as:
- Low inflation rate;
- Increased transparency in price comparison;
- Greater closeness of economic relationships within the EU;
- Finally, the budget deficit, the public debt and the financing of the investments of the private sector becomes cheaper.[36]

One of the most important benefits of Hungary acceding to the European Monetary Union is that transaction costs of changing currency would increase, as currency exchange between the forint and the euro would no longer occur. The transaction costs of trade, towards the countries in the relevant currency zone would reduce.[37] Due to this, trade would become cheaper and less risky and this can also be seen be in the prices.[38]Conversion costs, which banks and financial intermediaries charge to costumers as fees for converting Euros into forints and vice versa, would disappear.[39]Moreover, the reduction in transaction costs may entail a comparable rise in GDP.[40]

Another important advantage of euro adoption is the reduction of exchange risk leading to greater trade and foreign investments. This step is believed to be a removal of trade barrier for promoting more trade with the countries of

16 KendeTamás – SzűcsTamás, BevezetésazEurópaiUnióPolitikáiba, KomplexKiadóJogiésÜzletiTartalomszolgáltatóKft., Budapest, 2009, 528.
17 Ibid.
18 Treaty on the Functioning of the European Union, Article 140(1).
19 Ibid., 525.
20 Ibid., 525.
21 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 141.; Protocol (No. 13) on the Convergence Criteria, Article 1,
22 KendeTamás – SzűcsTamás, Bevezetésaz Európai Unió Politikáiba, Komplex Kiadó Jogiés Üzlet i Tartalomszolgáltató Kft., Budapest, 2009, 525.
23 Lorenzo Bernaldo de Quiros, The European Monetary Union: A Political Time Bomb, 145.
24 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 141.; Protocol (No. 13) on thew Convergence Criteria, Article 4.
25 Ibid.
26 Article 4 of theProtocol (No. 13) ontheConvergenceCriteria
27 KendeTamás – SzűcsTamás, BevezetésazEurópaiUnióPolitikáiba, Komplex Kia dó Jogiés Üzleti Tartalomszolgáltató Kft., Budapest, 2009, 528.
28 Ibid., Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 141.
29 http://ec.europa.eu/economy_finance/euro/adoption/erm2/index_en.htm; Steve Jurek, Poland, Hungary and the Czech Republic Delaying Euro Adoption, Syracuse University Conference, "The Euro Crisis and the Future of the European Union,", available at: http://www.maxwell.syr.edu/uploadedFiles/moynihan/merc/Jurek_EuropeanCrisis_DelayingEuroAdoption_Syracuse2012.pdf
30 KendeTamás – SzűcsTamás, Bevezetésaz Európai Unió Politikáiba, Komplex Kia dó Jogiés Üzleti Tartalomszolgáltató Kft., Budapest, 2009, 528.
31 Protocol (No. 13) on the Convergence Criteria, Article 3, available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:FULL:EN:PDFhttp://europa.eu/legislation_summaries/economic_and_monetary_affairs/institutional_and_economic_framework/l25082_en.ht
32 Ibid.
33 Introduction of the Euro in the More Recently Acceded Member States Conducted by TNS Political and Social at the Request of the European Commission, Directorate General for the Economic and Financial Affairs (DG ECFIN), 3., available at: http://ec.europa.eu/public_opinion/flash/fl_377_sum_en.pdf
34 Mitchell A. Orenstein, Stephen Bloom, Nicole Lindstrom, University of Pittsburgh Press, 2008, 86.
35 BalázsTaksás, AzEuróVálsága, available at: http://portal.zmne.hu/download/bjkmk/bsz/bszemle2010/3/10.pdf
36 BalázsTaksás, AzEurópaiMonetárisUnióhozTörténőCsatlakozásPotenciálisElőnyeiésHátrányaiMagyarországSzempontjából, The Advantages and Disadvantages of the Accession to European Monetary Union from the Viewpoint of Hungary, 99.
37 Ibid.
38 Ibid.
39 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 105.
40 Ibid.

Europe. Exchange risk has an important impact on foreign investment, trade and the cost of capital. Exchange rate is a sort of tax on transactions involving exchange currency. The budget deficit and the national debt, as well as the significant part of the private sector are depending on external sources.[41]The accession to the Monetary Union would improve this situation. First, the exchange of the forint two years prior to the accession shall be fixed to the exchange rate of the euro, therefore the exchange risk would reduce for the investors, which is another advantage of euro-adoption.[42]Second, accession to the euro-zone itself, would increase the country's risk perception. The uncertainty related to the value of the HUF/EUR exchange rate would vanish with the adoption of the euro. This cancels the related exchange-rate risk premium in domestic interest rates and allows a removal of the costs of managing currency risk, which should improve business conditions and investment planning as well.[43]

Moreover accession to the euro area would attract capital flows and would increase the credibility of Hungary's macroeconomic policy program.[44]

At last, but not least, the adoption of the single currency reduces the risk of currency crisis and lowers macroeconomic risk of the state.[45] It also strengthens foreign investor's confidence.
By reducing exchange rate risk and the risk of bankruptcy, Hungary might become a more attractive place for foreign investments and for a wave of capital inflows.[46]

Accession to the European Monetary Union also has disadvantages. First of all, Hungary would have no independent monetary policy and the autonomy of the fiscal policy would also be challenged. The loss of independent monetary policy would more than double the economy's cyclical instability.[47]Although as a new member state, Hungary would have some influence on the decision-making process of the European Central Bank, the inability to use interest rates and exchange rates for macroeconomic stabilization purposes can result in higher output, employment and price variability. Thus Hungarian economic policy might not be able to interfere in the functioning of the economy as it wants to, therefore in many ways, it will have to rely on common economic policies.[48]

As a result of the fact that Hungary would not be able to devaluate its own currency, Hungary's competitiveness, balance of payments can easily deteriorate, moreover Hungary can be heavily indebted.[49]Moreover, the adoption of the euro is likely to result in one-time jump in inflation; furthermore, the natural rate of unemployment may stabilize at a higher level.[50]

Experiences show that, practices consisting in rounding up prices at the time of changeover can lead to one-off adjustment in prices and in the short run the real value of income reduces, which reduces consumption, in the short term hampering economy.[51]Other risks of euro adoption include issues, such as insufficient capital and labor mobility and the existence of rigid wages and prices and the ineffectiveness of fiscal policy.[52]

Some citizens think that the adoption of euro will have negative consequences (54%) on their, a fewer (39%) think that it will have positive consequences. Opinions on this point have not changed since 2012.[53] In 2012 and 2013, Romania was the only state in which a higher number of respondents (by 51% to 42%) said that introduction of the euro would have positive consequences for their state, while Hungary and Romania were the only states where a higher portion of respondents answered that the adoption of the euro would have positive impact on them personally.[54]

41 BalázsTaksás, AzEurópaiMonetárisUnióhozTörténőCsatlakozásPotenciálisElőnyeiésHátrányaiMagyarországSzempontjából, The Advantages and Disadvantages of the Accession to European Monetary Union from the Viewpoint of Hungary, 100.
42 Ibid., 101.
43 Ibid.
44 Mitchell A. Orenstein, Stephen Bloom, Nicole Lindstrom, University of Pittsburgh Press, 2008, 86.
45 BalázsTaksás, AzEurópaiMonetárisUnióhozTörténőCsatlakozásPotenciálisElőnyeiésHátrányaiMagyarországSzempontjából, The Advantages and Disadvantages of the Accession to European Monetary Union from the Viewpoint of Hungary, 102.
46 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 101.
47 Patric Minford, The Costs and Benefits of Economic Monetary Union to the UK economy – the fifth (overwiew) test, p. 15., available at:http://www.euro-know.org/europages/bforsEMUTEST5r8.pdf
48 Ibid., 104.
49 Attila Csajbók, ÁgnesCsermely, Adopting the Euro in Hungary: Expected Costs, Benefits and Timing, Occasional Papers, published by the National Bank of Hungary (Magyar Nemzeti Bank), 103.
50 Ibid., 103-104.
51 Ibid. 105.
52 available at: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?doclanguage=en&cote=eco/wkp(2010)46 10.
53 Introduction of the Euro in the More Recently Acceded Member States Conducted by TNS Political and Social at the Request of the European Commission, Directorate General for the Economic and Financial Affairs (DG ECFIN), 9., available at: http://ec.europa.eu/public_opinion/flash/fl_377_sum_en.pdf
54 Ibid 9-10.

5. Conclusion

One of the most important steps in the European integration of Hungary is the accession to the European Monetary Union. Concerning all Member States, the adoption of the euro and abandoning their national currency is an obligation and not a matter of option. From the above, one can conclude that the adoption of euro will likely have an impact on the economic growth of Hungary. Hungary maintaining its own currency may end up causing welfare losses to the society, such as higher transactional costs. The European monetary Union ensures microeconomic stability of the country.

To sum it up, early euro adoption would have overwhelming benefits for economic growth and monetary stability. Among many other things, government policies, elections, electoral cycles and constitutional rules turn out to be crucial reasons in explaining the slow euro adoption process in Hungary. Therefore, the competition between the political parties, the lack of political will, the inexperience of governments with public finance all make euro adoption more difficult.

We can conclude that Hungary still has domestic problems and internal struggles which prevent it from the introduction of the euro. Hungary basically had a macroeconomic situation that would have made it easy to adopt the euro sooner; however the government did and does not pursue a policy that would enable early euro adoption.

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Impact of Exported Turkish Soap Operas on Turkey's Bilateral Trade

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ABSTRACT

This study assesses the ex-post effect of the Turkish soap operas on Turkey's bilateral trade. We modeled the 15 destination countries' various sectors export demand separately for the period 1999 to 2012. Applying a gravity model, we explore that the increase in the popularity of the Turkish soap operas boosts Turkey's export on the manufacturing and the wholesale and retail trade sectors.

Keywords: *Gravity model, Turkish soap operas, Turkish bilateral trade, panel data analysis*

1. Introduction

The television viewing at leisure time is one of the most common habits. It has important social and economical effects. The soap opera, which is a serial drama on television, also has the similar effects. Moreover, the exported soap opera impacts bilateral trade (Pervan and Martin, 2002, Cho and Agrusa, 2011)Desai and Basuroy 2005. The economical impact of exported soap operas can be explained by "the country of origin (CO) effect[55]" theory. The aim of this study is to examine the ex post effect of the Turkish soap operas on various sectors' export of the emerging open economy, Turkey.

Soap operas, also known as serial dramas or daytime soaps, are defined by their serial nature by the producer or distributor (Allen, 1994). They are followed by millions of television viewers around the world. The Turkish soap opera industry, due to the competition among domestic TV channels in Turkey, has developed substantially after 2000. The first Turkish soap operas were exported in the late 90s and early 2000s. However, the Turkish soap opera export has skyrocketed especially after 2005. Turkey's economy may have slowed sharply in 2011 but one export remains red hot: Turkish soap operas (Candemir, 2013). According to the Turkish Statistical Institute, the value of Turkish soap operas exported has reached to 100 million USD (United States dollars) in 2011, even though this is a small amount relative to the total value of Turkey's export, which is around 135 billion USD in 2011(Balli, Balli, and Cebeci, 2013)"container-title":"Tourism Management","page":"186-192","volume":"37","source":"ScienceDirect","abstract":"We examine the main determinants of the recent boost in the number of tourist inflows to Turkey, focussing on the indirect marketing effect of the Turkish soap operas exported abroad and recent changes in the Turkish government's foreign policies. Applying a traditional tourist demand gravity model, we explore that the recent increase in the popularity of the Turkish soap operas in the Middle East and Eastern Europe has boosted the number of inbound tourists to Turkey from those countries, and as the number of hours of Turkish soap operas aired in a particular country increases, the tourist flows from that country to Turkey increase as well. We also consider the Turkish government's recent bilateral agreements with other countries to waive the visa requirements for ordinary foreign visitors, and indicate that the termination of visa requirements has increased the tourist flows from those countries to Turkey.","DOI":"10.1016/j.tourman.2013.01.013","ISSN":"0261-5177","journalAbbreviation":"Tourism Management","author":[{"family":"Balli","given":"Faruk"},{"family":"Balli","given":"Hatice Ozer"},{"family":"Cebeci","given":"Kemal"}],"issued":{"date-parts":[["2013",8]]},"accessed":{"date-parts":[["2015",4,14]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"} . The Turkish soap operas impact on international trade is through two different channels. The first, direct impact occurs because the Turkey earns export royalties and fees for the exported soap operas. Secondly, the indirect effect, because

55 Sharma (2011) points out that many studies concentrate on the effect of country-of-origin on consumers from different countries.

Turkish soap operas help to promote the Turkish brand and the country of origin effect. Karlidağ and Bulut (2014) Middle East, and the Balkans have in recent years spread to different countries. With the entry into Ukrainian, Pakistani, Russian, and Chinese markets last year, tens of Turkish soap operas now reach their viewers in over 50 countries, and generate export revenues. Short-term return on investment, new communication technologies, Istanbul's 'magnetic nature attracting new talents' and different sociocultural forces and policies play key role in such extensive spread of Turkish TV series. As cultural commodities, TV series, while the images and identities they contain spread, reach at the same time new customers through geographical expansion, and increase the earnings of producers. Yet, the distribution of soap operas is important as much as their production. This requires focusing on the commodities with geo-linguistic and geo-cultural markets rather than companies producing these commodities. Therefore, demand for these non-Western commodities of different geographies points to a contra-flow. In a sense, while new media centers are emerging elsewhere other than the United States of America (USA explain the relations between power, cultural commodity, and geography and the spread of Turkish soap operas in different geographies with a political and economic approach. Balli, Balli, and Cebeci, (2013)"container-title":"Tourism Management","page":"186-192","volume":"37","source":"ScienceDirect","abstract":"We examine the main determinants of the recent boost in the number of tourist inflows to Turkey, focussing on the indirect marketing effect of the Turkish soap operas exported abroad and recent changes in the Turkish government's foreign policies. Applying a traditional tourist demand gravity model, we explore that the recent increase in the popularity of the Turkish soap operas in the Middle East and Eastern Europe has boosted the number of inbound tourists to Turkey from those countries, and as the number of hours of Turkish soap operas aired in a particular country increases, the tourist flows from that country to Turkey increase as well. We also consider the Turkish government's recent bilateral agreements with other countries to waive the visa requirements for ordinary foreign visitors, and indicate that the termination of visa requirements has increased the tourist flows from those countries to Turkey.","DOI":"10.1016/j.tourman.2013.01.013","ISSN":"0261-5177","journalAbbreviation":"Tourism Management","author":[{"family":"Balli","given":"Faruk"},{"family":"Balli","given":"Hatice Ozer"},{"family":"Cebeci","given":"Kemal"}],"issued":{"date-parts":[["2013",8]]},"accessed":{"date-parts":[["2015",4,14]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"} present the booster effect of Turkish soap operas on tourist flow from Middle East and Eastern Europe to Turkey. Koksal and Gjana, (2015) point out the influence of Turkish soap operas on the consumer's perceptions and behaviors. This study assesses both the direct and indirect effect of the Turkish soap operas on bilateral trade.

Although the soap opera as a television genre has millions of followers around the world, notably marketing literature reveals that there is lack of studies(Pervan and Martin, 2002). The main contribution of this study is to present the ex post effect of the Turkish soap operas on various sectors' export of Turkey. Secondly, we apply an augmented gravity model which endows us to observe the ex post effect of the Turkish soap operas on bilateral trade. Lastly, this study presents a novel applicative aspect of gravity model on the ex post effect of the Turkish soap operas on bilateral trade.

The paper continues as follows: Section Two discusses the data set. Section Three introduces the econometric methodology. Section Four discusses the empirical evidence from Turkey. Section Five concludes.

2. Data

To assess the ex post effect of the Turkish soap operas export on Turkey's bilateral trade, yearly data from January 1999 to July 2012 were gathered. The dependent variables are annual total and various sector's exports from Turkey to country (j) is obtained from the Turkish Statistical Institute (TurkStat). The cultural/geographical dummy variables having a contiguous, a colonial relationship, sharing the same language, and physical distance between the source country and Turkey have been obtained from Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), an independent French institute for research in international economics. The exchange rate and population data were gathered from the IMF's International Financial Statistics database (IFS). The gross domestic product per capita current in US dollar (GDP) was taken from World Bank national accounts data. The exchange rate variable is deflated by a Turkish Lira (TL) value of 1 USD, thus the exchange rate is the national currency per TL. The durations of exported Turkish soap operas to country (j) were obtained from the Calinos Group of companies, which exports nearly 80% of the Turkish soap operas on its own. Appendix, Table A.1 provides the definitions and sources of the variables.

Table 1: Descriptive statistics

Variable	Obs	Mean	Std.dev	Min	Max
ln(Distance)	210	7.315349	0.916651	6.091415	9.029378
ln(GDPi)	210	8.786006	0.433986	8.025448	9.274323
ln(GDPj)	210	8.518014	1.172974	5.948947	10.84531
Exc	210	0.60694	2.113842	0.000683	12.17555
ln(Population)	210	16.44789	1.088528	14.52575	18.24453
ln(Soap_Opera)	210	1.131648	2.322726	0	7.85205
Contiguous	210	0.266667	0.443273	0	1
Common_language	210	0.066667	0.25004	0	1
Colony	210	0.333333	0.472531	0	1
Lna	210	16.17641	1.857978	10.11468	19.91743
Lnb	210	5.400058	5.833834	0	17.66686
Lnc	210	14.40345	2.571898	4.990433	19.28784
Lnd	210	19.78803	1.449992	16.13494	23.31493
Lne	210	1.205143	4.046949	0	16.96546
Lng	210	11.9244	3.565097	0	18.3559
Lnk	210	2.620213	3.862145	0	13.82821
Lno	210	5.755391	4.543361	0	15.90489

Note: "a" stands for the export of the Turkey in agricultural and forestry sector. Similarly; b: Fishing , c: Mining and quarrying, d: Manufacturing, e: Electricity, gas and water supply , g: Wholesale and retail trade , k: Real estate, renting and business activities , o: Other community, social and personal service activities.

Table 1 presents the descriptive statistics for the variables used in this study. We provide the mean, the standard deviation, the number of observations, minima and maxima for each variable to check whether the variables used in the tables have been collected appropriately.

According to Calinos Entertainment data, the first Turkish soap operas were exported in the late 90s and early 2000s. Their export started with Central Asian countries; Kazakhstan and Azerbaijan. They share a common ethnic background with Turkey. After 2005, they are exported all around to world; Uzbekistan, Albania, Bulgaria, Greece, Romania, Hungary, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Germany, Austria, Iran, Malaysia, Thailand, Kosovo, Brunei, Switzerland and United Arab Emirates.

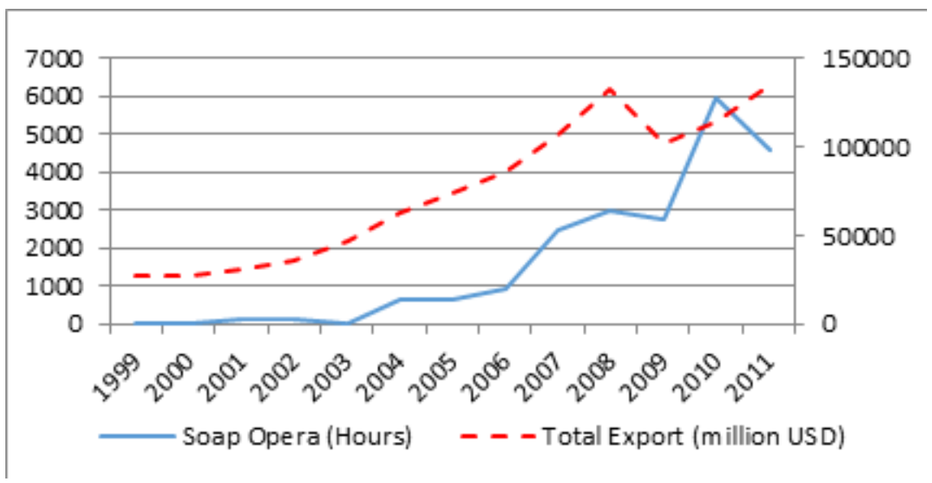

Figure 1: The total Export of Turkey and sum of exported soap operas hours

Note: The sum of soap operas data is obtained from Calinos Entertainment (left vertical axis, unit is Hours), Annual total export of Turkey is obtained from Turkstat (right vertical axis, unit is million US dollar).

Figure 1 presents the total export and sum of exported soap operas hours to 15 countries. It is obvious that they both increase during the period 1999 and 2012. In this study, we claim that exported soap operas might promote Turkey's export even though the amount of film production and distribution export is very small relative to the total value of Turkey's export.

3. Methodology

The gravity model is a common econometric method of estimating trade flows[56]. This model has been used to analyze the ex post effects of free trade agreements, World Trade Organization membership, currency unions, migration flows, foreign direct investment, and even disasters (Plummer, Cheong, & Hamanaka, 2010). Therefore, to estimate the ex post effects of the Turkish soap operas export on international trade, we rely on the augmented gravity model of trade, which relates bilateral trade flows to economic size, distance and other factors.

Our augmented gravity equation can be represented as:

$$\ln(Export_{sector,ij,t}) = \beta_0 + \beta_1 \ln(Distance_{ij}) + \beta_2 \ln(GDP_{i,t}) + \beta_3 (GDP_{j,t}) + \beta_4 + Common_language_{ij} + \beta_5 Colony_{ij} + \beta_6 Contiguous_{ij} + \beta_7 \ln(Soap_Opera_{ii.t}) + \beta_8 Exc_{i.t} + \beta_9 \ln(Population_{i.t}) + u_{ii.t} \quad (1)$$

where i and j denote trading partners, t is time, and the variables are defined as follows: $Export_{sectors,ij,t}$ is the natural logarithm of the annual various sectors' exports from i to country j, $Distance_{ij}$ is a binary variable that measures the distance between the capital cities of i and country j, $Common_language_j$ is dummy variable equal to one if the country j also speaks Turkish, $Colony_{ij}$ is a binary variable which is unity if i ever colonized j or vice versa, $Contiguous_j$ is a dummy variable equal to one when i and j share a land border, $Soap_Opera_{ij,t}$ is the natural logarithm of the total number of the hours of Turkish soap operas exported from i to country j. We consider that soap operas influence foreign audiences' preferences one-year period lag, $GDP_{i,t}$ is the domestic product per capita of country i Turkey, $GDP_{j,t}$ is the domestic product per capita of country j, $Exc_{j,t}$ is the national currency of country j per TL, $Population_{j,t}$ is the natural logarithm of the population of country j at time t and $u_{ij,t}$ is the error term.

The fixed effects regression model is inefficient for our augmented gravity model. It throws away dummy variables and distance. Since, there is autocorrelation and heteroskedasticity in the model. Therefore, random affects model is estimated via Generalized Least Squares (GLS). The autocorrelation and heteroskedasticity is corrected in the random effects regression model. In a random effects model, the unobserved variables are assumed to be uncorrelated with (or, more strongly, statistically independent of) all the observed variables (Allison, 2009).

4. Empirical Results

The CO is one the important factor that serves as a cue from which consumers make inferences about product and product attributes. The CO has a linkage with other marketing variables, including consumer nationalism, demographics, hybrid products, brand effects, product quality, price, consumer perceptions, technology sophistication, product features, advertising images, and country images, to measure consumer perceptions and purchasing behavior (Ahmed et al., 2004, Hamzaoui and Merunka, 2006, and Khan & Bamber, 2008). The positive effects of the soap operas on tourism has been studied in literature (Korean soap operas impact by Kim, Agrusa, Lee, and Chon, 2007, Su, Huang, Brodowsky, and Kim, 2011 ,Turkish soap operas impact by Balli, Balli, and Cebeci, 2013)"container-title":"Tourism Management","page":"186-192","volume":"37","source":"ScienceDirect","abstract":"We examine the main determinants of the recent boost in the number of tourist inflows to Turkey, focussing on the indirect marketing effect of the Turkish soap operas exported abroad and recent changes in the Turkish government's foreign policies. Applying a traditional tourist demand gravity model, we explore that the recent increase in the popularity of the Turkish soap operas in the Middle East and Eastern Europe has boosted the number of inbound tourists to Turkey from those countries, and as the number of hours of Turkish soap operas aired in a particular country increases, the tourist flows from that country to Turkey increase as well. We also consider the Turkish government's recent bilateral agreements with other countries to waive the visa requirements for ordinary foreign visitors, and indicate that the termination of visa requirements has increased the tourist flows from those countries to Turkey.","DOI":"10.1016/j.tourman.2013.01.013","ISSN":"0261-5177","journalAbbreviation":"Tourism Management","author":[{"family":"Balli","given":"Faruk"},{"family":"Balli","given":"Hatice Ozer"},{"family":"Cebeci","given":"Kemal"}],"issued":{"date-parts":[["2013",8]]},"accessed":{"date-parts":[["2015",4,14]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"} . Also, the impact of exported soap opera on bilateral trade has been explained based on CO effect theory (Pervan and Martin, 2002, Cho and Agrusa, 2011)Desai and Basuroy 2005. To identify this effect, following Balli, Balli, and Cebeci, (2013)"container-title":"Tourism Management","page":"186-192","volume":"37","source":"ScienceDirect","abstract":"We examine the main determinants

56 The gravity model is attributed to Jan Tinbergen (1962), who compared the size of bilateral trade flows between any two countries to the gravitational force in physics between two objects. Some of the other theoretical models, that yield the gravity equation for trade, are Anderson, (1979), Bergstrand (1985), Deardorff (1995) and Evenett & Keller (2002).

of the recent boost in the number of tourist inflows to Turkey, focussing on the indirect marketing effect of the Turkish soap operas exported abroad and recent changes in the Turkish government's foreign policies. Applying a traditional tourist demand gravity model, we explore that the recent increase in the popularity of the Turkish soap operas in the Middle East and Eastern Europe has boosted the number of inbound tourists to Turkey from those countries, and as the number of hours of Turkish soap operas aired in a particular country increases, the tourist flows from that country to Turkey increase as well. We also consider the Turkish government's recent bilateral agreements with other countries to waive the visa requirements for ordinary foreign visitors, and indicate that the termination of visa requirements has increased the tourist flows from those countries to Turkey.","DOI":"10.1016/j.tourman.2013.01.013","ISSN":"0261-5177","journalAbbreviation":"Tourism Management","author":[{"family":"Balli","given":"Faruk"},{"family":"Balli","given":"Hatice Ozer"},{"family":"Cebeci","given":"Kemal"}],"issued":{"date-parts":[["2013",8]]},"accessed":{"date-parts":[["2015",4,14]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"} , an augmented gravity model is employed between Turkey and 15 other countries (according to Calinos Entertainment data, there were 21 soap opera exported countries[57]).

To validity our approach, we start estimation of the basic gravity model of trade. It relates the export of country i to country j positively to the GDP of the importing and exporting countries, but negatively to the geographical distance between the importing and exporting countries. Table 2 presents the basic gravity model estimation results.

Table 2: Basic Gravity Model Estimation

	ln(a)	ln(b)	ln(c)	ln(d)	ln(e)	ln(g)	ln(k)	ln(o)
ln(Distance)	-0.583** (0.266)	-2.3** (0.986)	**-0.424 (0.55)**	**-0.319 (0.313)**	-0.615 (0.857)	**-0.694* (0.618)**	0.496 (0.763)	-0.23 (0.663)
ln(GDPi)	-0.052 (0.206)	-3.556*** (0.888)	**1.696*** (0.3)**	**0.478*** (0.111)**	2.828*** (0.774)	**1.467*** (0.56)**	0.598 (0.73)	-1.335* (0.798)
ln(GDPj)	1.199*** (0.156)	2.821*** (0.644)	**0.42* (0.237)**	**0.909*** (0.089)**	-2.436*** (0.5611)	**0.941** (0.405)**	1.548** (0.519)	1.811*** (0.506)
Obs	210	210	210	210	210	210	210	210
Overall R-square	0.65	0.39	0.32	0.46	0.048	0.34	0.066	0.1976
Wald chi2(3)	181.52	28.25	200.13	861.68	19.3	59.76	33.41	14.74
p-value	0	0	0	0	0	0	0	0
corr(u_i, X)	0	0	0	0	0	0	0	0

Note: "a" stands for the export of the Turkey in agricultural and forestry sector. Similarly; b: Fishing , c: Mining and quarrying, d: Manufacturing, e: Electricity, gas and water supply , g: Wholesale and retail trade , k: Real estate, renting and business activities , o: Other community, social and personal service activities. The standard errors are reported in parentheses. *, ** and *** indicate that the relevant coefficient is significant at the 10%, 5% and 10% level, respectively.

The estimation results for all sectors are statistically significant and according to Breusch and Pagan LM test for random effects there is no heteroskedasticity. The coefficient of the mining and quarrying, manufacturing and the wholesale and retail trade sectors are as expected. Therefore, it is possible to apply the gravity model between Turkey and 15 other countries for these three sectors. We repeat estimation by adding the cultural/geographical dummy variables, the exchange rate, population and soap opera. Here, we assume that soap operas influence foreign audiences' preferences one-year period lag. Table 3 shows our augmented gravity equation estimation results.

Table 3: Augmented Gravity Model Estimation

	ln(a)	ln(b)	ln(c)	ln(d)	ln(e)	ln(g)	ln(k)	ln(o)[1]
ln(Distance)	-0.884** (0.405)	-3.443*** (0.493)	-0.894 (0.79)	**-0.666** (0.315)**	-0.175 (0.661)	**-1.949** (0.922)**	0.344 (0.955)	-0.935 (0.989)
ln(GDPi)	-0.147 (0.213)	-3.139*** (0.769)	1.815*** (0.301)	**0.482*** (0.104)**	1.257* (0.697)	**1.624*** (0.593)**	0.228 (0.741)	-1.437 (0.881)
ln(GDPj)	1.159*** (0.166)	1.905*** (0.31)	0.305 (0.248)	**0.893*** (0.087)**	-1.283*** (0.385)	**0.67 (0.435)**	1.402*** (0.5)	1.653*** (0.547)

57 Kosovo, Brunei, Switzerland, Serbia, Montenegro, and United Arab Emirates are eliminated because of lack of data.

Exc	0.191*** (0.056)	-0.953*** (0.173)	-0.218*** (0.076)	**0.12 (0.026)**	-0.305* (0.187)	**0.059 (0.162)**	0.639*** (0.206)	0.011 (0.245)
ln(Population)	0.169 (0.38)	2.736*** (0.484)	0.838 (0.724)	**0.239 (0.283)**	-1.15* (0.637)	**1.451* (0.871)**	-0.279 (0.91)	0.561 (0.947)
ln(Soap_Opera)	0.019 (0.029)	0.424*** (0.131)	0.036 (0.038)	**0.023* (0.013)**	0.229** (0.114)	**0.026* (0.085)**	0.109 (0.112)	0.13 (0.135)
Contiguous	-0.499 (0.694)	2.955 (0.878)	1.267 (1.36)	**0.507 (0.542)**	5.78*** (1.15)	-0.386 (1.579)	0.065 (1.642)	0.962 (1.711)
Common_language	1.226 (1.231)	-1.273 (1.488)	1.998 (2.428)	**0.692 (0.971)**	-2.791 (1.982)	**2.096 (2.781)**	-0.982 (2.871)	-0.066 (2.97)
Colony	-0.519 (0.886)	1.557 (1.045)	-0.733 (1.738)	-0.837 (0.691)	-3.471** (1.408)	-0.896 (2)	-0.27 (2.058)	-1.169 (2.123)
Obs	210	210	210	210	210	210	210	210
Overall R-square	0.63	0.59	0.55	0.677	0.37	0.44	0.15	0.25
Wald chi2(9)	201.35	222.74	221.44	978.64	48.55	66.82	45.31	17.62
p-value	0	0	0	0	0	0	0	0.0392
corr(u_i, X) assumed	0	0	0	0	0	0	0	0

Note: "a" stands for the export of the Turkey in agricultural and forestry sector. Similarly; b: Fishing , c: Mining and quarrying, d: Manufacturing, e: Electricity, gas and water supply , g: Wholesale and retail trade , k: Real estate, renting and business activities , o: Other community, social and personal service activities. The standard errors are reported in parentheses. *, ** and *** indicate that the relevant coefficient is significant at the 10%, 5% and 10% level, respectively.

There is no autocorrelation and heteroskedasticity problem in all sectors estimation. Moreover, the estimation results support the basic gravity model. The coefficients of the exchange rate, the population and the common language are as expected for the manufacturing and the wholesale and retail trade sector estimation. Furthermore, the coefficient of soap opera is 0.023 and 0.026 which means the impact one unit increase of exported soap opera on the manufacturing products' export is 2.6%. And the impact on the wholesale and retail trade products' export is 2.6%. These results present the indirect effect of Turkish soap opera, because Turkish soap operas help to promote the Turkish brand and the country of origin effect. The cross correlation results also support these results[58]. On the other hand, the sector, which is labeled as other community, social and personal service activities, includes Turkish soap opera export. The coefficient of soap opera is 0.13 (but it is not statically significant) which means the impact one unit increase of exported soap opera on social and personal service activities sector' export is 13%, which presents the direct effect Turkish soap opera export.

4. Conclusion

In this study, we examine the ex post effect of the Turkish soap operas on the different sector's export of Turkey during export volume expansion period. We claim that Turkish soap operas export also promotes this expansion. Our estimation results present that soap operas export has a positive effect on the manufacturing and the wholesale and retail trade products' export (which presents indirect effect). Moreover, soap opera export also has positive effect on the social and personal service activities sector' export (which present the direct effect Turkish soap opera export).

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58 See Appendix Table A.2. The cross correlation results between sub sector's export and soap opera for individual countries are given.

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Appendix

Table A.1: Data Sources

Variable	Definition	Code	Source
GDP	GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any	NY.GDP.PCAP.CD	World Bank national accounts data, and OECD National Accounts data files.
Exchange Rate	National Currency per U.S. Dollar, period average deflated by Turkish Lira per U.S. Dollar	ENDA, NUSD	International Financial Statistics
Total and Sub Sectors Export	Exports by ISIC, Rev.3, Thousand US Dollar		Turkish Statistical Institute
Soap Opera	Country selection according to Calinos Group and Film production		Calinos Group of companies and Organized by Author
The cultural /geographical dummy variables	contiguous, a colonial relationship, sharing the same language		Centre d'Etudes Prospectives et d'Informations Internationales(CEPII)
Distance	physical distance between the source country and Turkey		Centre d'Etudes Prospectives et d'Informations Internationales(CEPII)

Table A.2: The cross correlation results between sub sector' export and soap opera for individual countries

soap	lna	lnb	lnc	lnd	lne	lng	lnk	lno
Germany	0.203	-0.452	0.241	0.248	NaN	0.367	0.434	-0.027
Albania	0.060	-0.166	0.237	0.222	NaN	0.173	0.337	0.234
Austria	0.188	-0.317	0.021	0.212	NaN	0.073	-0.144	-0.017
Azerbaijan	0.490	-0.019	0.700	0.640	-0.623	0.377	0.542	0.564
Bosnia and Herzegovina	0.215	-0.198	0.343	0.322	NaN	0.339	0.384	0.132
Bulgaria	0.774	0.419	0.332	0.435	0.762	0.769	-0.261	0.400
Iran	0.246	0.318	0.347	0.506	-0.142	0.346	0.301	0.211
Kazakhstan	0.574	0.112	0.610	0.822	-0.428	0.159	0.731	0.587
Hungary	0.037	0.369	0.188	0.135	NaN	-0.490	-0.101	0.212
Macedonia	0.309	0.161	0.711	0.634	0.340	0.611	0.017	-0.058
Malaysia	-0.332	NaN	0.000	-0.158	NaN	0.210	NaN	-0.230
Uzbekistan	0.726	-0.487	0.741	0.904	0.448	0.674	-0.095	-0.303
Romania	0.337	0.574	-0.038	0.295	NaN	0.142	0.024	0.270
Thailand	-0.098	-0.077	0.132	-0.035	NaN	0.156	NaN	-0.239
Greece	-0.082	-0.130	0.615	0.164	0.998	0.506	-0.335	-0.273

Note: "a" stands for the export of the Turkey in agricultural and forestry sector. Similarly; b: Fishing , c: Mining and quarrying, d: Manufacturing, e: Electricity, gas and water supply , g: Wholesale and retail trade , k: Real estate, renting and business activities , o: Other community, social and personal service activities.

Implementation Methods and Tools for Continuous Improvement of Quality Management System in Sme

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ABSTRACT

Economic progress and growth give an incessant impulse to the companies to focus their attention to the competitiveness in quality beside the price or market value competitiveness. The management should insist on never-ceasing quality improvement of their products so that the consumers will not turn to other companies, your competitors, in order to fully satisfy their needs.

In order to improve the quality it is necessary to dispose of data signifying particular presence of quality in the production processes. By using statistics methods and data may be made easily accessible and prepared for further analysis.

Statistical methods and tools serve as assistance the management may use in order to make decisions on quality improvement, that is measuring, analysing and improving business processes further on. With the aim of providing a profound understanding of its use, purpose and goal, this paper gives empirical analysis of small and medium enterprises in Bosnia –Herzegovina in order to elaborate the importance and significance of application of these methods and tools.

Keywords: *quality management, methods and tools, continuous improvement of the Quality Management System*

1. Introduction

The goal of every organization is to achieve superiority over competitors on that way which will lead to continued growth of organization's performance and securing faster than growth of competitors. This is dedicated to small and middle organizations. Faced with challenge of more dynamic adapting and turbulent requirements of market, and also bigger requests from the buyers, MSP have need for continued improving of business processes. One of possible ways for continued improving of business processes can be achieved by establishing and implementing of system for managing quality for improving business' performances and achieving advantages over competitors.

By accepting European MSP charter from Solun in 2003, Bosnia and Herzegovina obliged for reforms in developing of MSP. This is especially dedicated at intensification processes of establishing and implementing managing quality system harmonized with requests of international standards ISO 9000 series, like recommendations given in 8th chapter of Charter in which is said that it's necessary growing of IT capacities of MSP from aspect of establishing managing quality system. However, Agency for Statistics' statistic data in Bosnia and Herzegovina shows that few little and middle organizations are in constant deficit.

Those facts are confirming report of European commission about Bosnia and Herzegovina's progress in period 2010-2012, in which is said that unemployment, low economy growth and unwanted business environment are key problems.

Also is said that one of possible existing problems of lack of competitors in Bosnia and Herzegovina is that managing quality system is not used enough, to be exact, it's used in only 12% organizations. Besides that, it's highlighted that one of key problems is that managers are not educated enough, who are confused about documentations which is needed and high cost of establishing standards.

If we want that established managing quality system work properly, it's needed that organization continuously identify mutually related activities and processes.

With standards of EN ISO 9001:2008, special attention is given to the measuring processes, analyzing and upgrading. So, organization must get and analyze all data to define affectivity of use managing quality system and finding possible upgrades.

Principle of continued upgrading is usable only if business managers have compatible managing quality system, statistic methods and tools which will provide bringing business decisions based on facts. It's known that in the statistic world they are very important tool in developing upgrades of managing quality system.

Measuring performances in business is not only worth of bringing truth, but it's also the way to encourage staff for making better results in future. It management "wants to work" on better pleasure for buyers, on managing changes and upgrades, and making decisions based on facts, it's needed to use compatible statistic methods and tools. Modern machines and measuring gear are giving data automatic. Sometimes, it is problem to "find compatible statistic model" which will from this data make usable information.

One of today's most significant statistic methods in business world generally, especially in managing quality are this methods, QFD (Quality Function Deployment) and FMEA (Failure Mode and Effect Analysis). QFD method uses planning matrix which connects buyer requests with development requests, target values and competitor's characteristics. On the other hand, FMEA methods reveal potential weak spots and mistakes in development, planning and production.

Question is asked, do statistic methods and tools can have effect on upgrading managing quality system in MSP in Bosnia and Herzegovina, respectively constant upgrades of business processes and products from upgrading competitiveness's aspect?

This is very important because today's competition between organizations creates even bigger needs of upgrading and following processes, products and services quality. So, if organizations want to stay on market, it's necessary to pleasure buyer's needs, and others needs (staff, owners, suppliers, social community), organization also needs to make continued upgrading of quality processes, just like products and services. For all activities we said, it's needed to know and proper use of listen statistic methods and tools.

From economy's aspect, it's considered justifiably to search and upgrade use of statistic methods and tools for managing quality in MSP in Bosnia and Herzegovina, and which will have effect on more effective business. Because of that, it's important to analyze some factors with actual examples, for getting real image of this influence's way.

2. Quality concept and development

Due to development of market and production, quality concept got more wide and complex meaning, so this concept today is being used in more or less different meanings. Because of that, we will look closely to the contribution of five great "gurus" qualities which gave us theoretic basics and practice assumption for today's access of managing quality.

Definition of International Organization for standardization is "quality is level to which troop of existing characteristics is fulfilling requests". World known expert for quality J. M. Juran defines quality as "suitability in use of products which in some condition with its quality characteristics is pleasing objective needs of buyers and users".

Regardless to importance and efforts of many people which gave, and still giving more or less contribution to developing quality, it's not much to say that today's access to managing quality is result of theoretical assumptions and practice experiences of five big "gurus" qualities. Studies of Dr. Edward W. Deming, Dr. Joseph M. Juran, Dr. Kauro Isikawe, Dr. Phillip Crosby and Dr. A.V. Feingebaum was transient basic for establishing today's famous "models" of managing quality and upgrading quality, which are for example, TQM, TQC, EFQM or managing quality by ISO 9000 series.

Basic goal of managing quality is to integrate all processes and functional units so all participants in process of creating product/service can maximal knowingly do their job in harmony with arbitrarily opportunities, so they can please buyer's wishes and needs. Managing quality presents coordinated actions for directing and controlling organization in view of quality, and that usually includes: Planning quality, controlling quality, securing quality and upgrading quality. So, managing quality presents multidimensional access of managing whole organization, it's oriented on creating quality's culture, deploying values to stakeholders and creating permanent competitive advantage for organization.

2.1. Quality like foundation in building competitive advantage

In order to place their products to international market, organizations must be competitive. Competition is important factor on which whole organization is dependent. Organizations are competitive one to another by using different strategic basics. Besides price, very important role in competition is quality of product. The final goal of managing quality is to achieve competitive advantage, which just highlights necessary need for changes and reactions of organization on events in environment, to which managing quality also give big contribution. Influence of product's high quality on competitive advantage can be plural. By securing product's high quality, the value of it is raised in "buyer's eyes". For achieving high quality product and making profit, high productivity with less organization's costs is necessary. That is the way of getting buyer's commitment, which is in direct proportion with product's quality.

Second influence of high quality on competitive advantage is being achieved from big effectively. So, avoiding unnecessary costs because of product's low quality is lowering directly product's price.

We can conclude that quality has plural contribution to competitive advantage of an organization through organization's position in market, which secures high values of product, and intern efficiency secures low costs of production.

Edward Deming is doubtless one of most famous authors and consultants in area of managing

quality. Deming defines quality as "continued upgrading of steadily system". That definition is saying us two things, first, all systems (administrative, design, productive, selling) must be steadily in statistic meaning. That requests measuring quality's characteristics in whole organization, just like their control over time. If those measurements are showing constant variations around constant average, system is steadily. Second aspect of Deming's definition is continued upgrading of different systems, for lowering variations and better pleasuring buyer's/customer's needs.

3. Standard en iso 9001:2008 – managing quality systems – requests

In goal of finding common rules and tutorials for securing and upgrading quality, which can be used in different contract situations, and which will be used in different countries, was the main goal of making international standards for area of quality. International organization for standardization, in 1979. via its Technical committee ISO/TC 176, started working on standardization and adjustment in area of quality. Result of that work is published in 1987 in form of multiple series of standards ISO 9000. An ISO standard represents helping tool, or managing tool for establishing different systems of managing. That was the case with standards for security which are marked as ISO 9000 series. International standards ISO 9000/2005, ISO 9000:2008 and ISO 9000:2009 was prepared by Technical committee ISO/TC 176, managing and securing quality in accordance with ISO directions.

Standard EN ISO 9000/2008 which is dedicated to securing control over processes is necessary in all cases when organization decides to entrust execution of any process to someone. Statistic methods can be one of ways to control which can be used on this processes. Standard EN ISTO 9001/2008 requires documentation which includes manual of quality, procedures and directions for work. All documentation (including writings about quality) must be controlled according to procedures of documentation control. In this part, EN ISO 9001:2008 induces need for permanent upgrading, i.e. it's needed to spectate, measure and analyze processes, and also implement activities required for achieving plans and continued upgrading of processes.

4. Methods and tools for upgrading managing quality system

Any kind of access of managing quality implies establishing of structure and organization of activities. Quality system sets formal methods of managing quality. If we want to come to applying some methods, it's required that in process of solving real problems realize some levels of it: seeing problem, defining problem, gathering relative facts and forming model of problem. Success of solving problem can depend on efficacy of realization those levels and choosing method.

Statistic methods in managing quality system's context includes: factor analysis, regression analysis, variance analysis, risk analysis and relevance testing, control card for quality and controlling quality with sample method. Statistic methods and tool can be used in: market analysis, construction of product, foresight product duration, time duration of a service, process control, data and lacks analysis, evaluating staff and so on. The correct use of statistic methods represents important element in all phases within managing quality system. Goal of following and controlling quality is to discover factor which are taking effect on making mistakes. Importance of methods in managing quality system is measured by their contribution in finding and eliminates causes of mistakes in integral business system, their contribution can be viewed also through their effectively on lowering costs of quality, starting with an idea about some product and it's elimination in market.

Continued evaluating of managing system is necessary for an organization to define creditworthiness of their current quality system. World's modern trend is showing us transit from product's grade to managing quality system's grade. Managing quality carries within itself mechanism for measuring and upgrading business quality.

Today is in use a very large number of tools and methods for managing quality. In that "big flood of methods" every individual and organization must find optimal tools, which will help them in implementation of preventive and actual actions, which leads to permanent upgrading process and product quality.

5. Experiences in use of managing quality system in msp in Bosnia and Herzegovina

Goal of this research is, among other things, is to check a hypothesis about effects of using statistic methods and tools for tracking and continued upgrading quality in business in small and middle organizations in Bosnia and Herzegovina. Because of it, level of use statistic methods and tools for control and upgrading quality process and production is known like one of most important factors, which defines development of quality system.

Information we got while research in 2004. on sample (60 small and middle organizations in Sarajevo) shows us relative low level of use statistic methods and tools. Results show us that management MSP most often use traditional methods and tool for managing quality system.

Object of research in this work is business of small and middle organizations in Sarajevo, which implemented managing quality system of ISO 9001:2008. Within defined sample, natural organizations were most common (57%), which explains their dominance in area of (implementation) managing quality system. Commercial organizations were 13%, just like service organizations, while companies which in the same time have both production and service activities were 17%. On next exhibit main reasons of implementation ISO 9001:2008 managing quality system are showed.

Development level of procedures within quality system and implementation statistic methods and tools for continued upgrading business performances is one of factor which defines development of quality system. On question which was dedicated to meaning of procedures which "follow" quality system, we got these results: Percent of organizations from sample mostly use traditional methods and tool for upgrading managing quality system regarding to ISO 9001:2008 is 32%, which means that level of development of tracking system and control is on low level. 9% of organizations are using modern statistic methods, while in 59% statistic method is used partially. After consultation about statistic methods and tools and after we said they are good basic for managing and continued upgrading managing quality system (ISO 9001:2008), we got this results: (EXIBIT 3). Most of examinees (64%) confirmed that statistic methods and tools are important factor of managing quality. It's asked from organizations that they identify on their own and use proper methods and tools for gathering, processing and analysis of data which are dedicated on many different business projects in and out of an organization. It's necessary trough use of proper method and tools to determine where are possible upgrades within an organization. Dependent of activity, in business practice many methods and tools for managing quality are being used, what doesn't mean that organizations that do same activity, use same methods and tools.

6. Conclusion

Information got wile research on sample shows relative low level of continued use of modern methods and tools (27%), dedicated only to production organizations.

When methods and tools grade is connected with tracking needs and requests for customers connects with market position of an organization, correlation-regression model is born, which means, that an organization can upgrade its market position if mechanism which modify design of product and process or service exists within an organization. Serious access of MSP management in understanding quality and customer's needs can have effect of organization's position in market.

Higher level of managing quality system development is taking effect on lowering costs which are created when spoilage, finishing, reclamation or failed transport are appeared. Costs for tracking quality system must not be higher of "nonquality"'s cost, which are said before.

Science contribution is viewed through first done analysis of statistic methods and tools, like basic for continued upgrading managing quality system regarding to EN ISO 9001:2008 MSP in Bosnia and Herzegovina. Social contribution of research is overview of development statistic methods and tools for upgrading managing quality system (ISO 9001:2008), so that image can be created of existing achievements on that area, and then also organizations can consider possibility of adopting, development and optimal use of control quality system like modern ones (QFD and EFQM). So, goal is to show contribution of implementation many different statistic methods and tool through use of IT, respectively other proper software for upgrading managing quality system in MSP.

Through this work we showed contribution of use statistic methods and tools for managing quality (EN ISO 9001:2008) on MSP in whole word, and especially in Bosnia and Herzegovina, counting that home literature regarding on this object of research is pretty scarce, and from us there was no researches on this area.

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The Transformation of Banking & Change in Risk Measurements in BiH

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ABSTRACT

Last decade brought tremendous changes to banking industry. Size and operating area of banking industry is couple of obvious changes introduced and acquired throughout harsh transition of industry itself. Turnover of entire system is directly affected by growth of e-banking and the combination of banking with other financial services. Although being in flux, banking system is experiencing huge transformation that reflects mostly to consumers and businesses, where benefit for these two groups comes to question. Changes apply through new legislative and forces system to bring up the different ways of introducing new risk measurements. However, going along with regional economic downturns, new measurements gave a way for banks to continue giving loans and to gain consumer's trust by offering online services, which appear safe, fast and cost less. This study focuses on discovering the ways and means which banking industry, being affected by crisis, implements to maintain its status in region and also focuses on describing the processes of the alteration in risk measurements.

Keywords*: transformation, bank, risk measurements, finance, changes.*

1. Introduction

The main aim of this article is to give a reader wider insight in the financial crisis, its factors, causes, and other elements that cause transformation of banking system. There will be stated several factors that are related with determining the risk in Banks. There are also several causes of the crisis, such as: misperception of mentioned risk, mistakes related with policy, and bounded rationality of banks.

Financial crisis was directly impacted by bank capital and its exposure. Government has played significant role in determining the financial policy for its country. There will also be stated the influence of the financial crisis on the banking business and activities, the risk they face, and potential danger of days after.

In this article we will deal with the capital's effects on performance of the bank during the financial crisis. There will also be examined the actions of risk management, corporate governance, and performance of banks in the time of crisis.

Some banks had better performance during period of the crisis.

In the same section, there will be covered also ways of assessing systemic risk of heterogeneous portfolio during the crisis. Last but not least significant matter is related with implicit guarantees, business models, and both global and European perspectives of risk-taking during period of the financial crisis.

2. Factors of Risk for Banks

Banking and its core are far away from being stable. Global financial crisis has emphasized the significance of bank regulation. There is tendency of banks to behave very risky. Package of proposals from Basel Committee are prepared for strengthening capital and liquidity regulation. Market volatility is transparent indicator of the risk over period of time. Regulators, supervisors, diversified shareholders, borrowers, and bond holders have great interest in bank risk.

Establishment of Economic and Monetary Union (EMU) had significant systemic change in financial markets. The change is related with large competition across the banking sector. Deposit insurance "diminishes depositor incentives to monitor banks and to demand interest payments that reflect bank risk." (Merton, 1977)

Generally, banks "maintain a capital buffer to absorb losses that arise from their loan portfolio; adjusting the buffer as the risk of their loan portfolio changes over time." (Berger, Herring, & Szego, 1995)

Bank capital and bank risk are in positive relation. "The Nature of the relationship between bank risk and bank capital is 'U'-shaped, that is, bank risk taking initially decreases (regulatory effect) and then increases with the build-up of bank capital (moral hazard effect)." (Haq & Heaney, 2012)

3. Characteristics of Transformation

"The credit cycle is the mechanism that links the present financial crisis with earlier crisis." (Rotheli, 2010)

Term 'credit cycle' is associated with banks' tendency to increase credit supply in good period, while decrease amount of lending during period of recession. The length of the boom results in excessive risk taking actions by huge number of banks. This situation occurs when banks have inventive to perform lending at lower interest rates and with lower requirements. This period stands for the beginning of the crisis, due to huge losses caused by default loans.

Risk ought to be controlled more consistently by banks. There is "importance of permanently looking for organizational weaknesses and the need of instilling a distinct safety culture at all levels of the organization." (Rotheli, 2010)

"If central banks had failed to generously supply liquidity then stock prices would have declined much further and could have triggered a surge of bankruptcies worldwide. Central banks as lenders of last resort are the ultimate players to confine financial crises. Only central bank can quickly provide sufficient system-wide liquidity. In the future, monetary policy has to prevent boom-bust financial cycles and must develop the necessary tools for this purpose. Credit targets for the management of credit crunches and monitoring of credit aggregates during economic upswings would be steps in the right direction." (Rotheli, 2010)

4. Risk Measurements and Management

Banking sector consists of three major pillars, such as: savings banks, credit cooperative banks, and commercial banks. Each of the mentioned pillars has private administration, as well as private funding deposit insurance system. Deposit insurance system of two banks is quite similar. Solidarity of member institutions is basis of those banks. Those banks do not compete against each other. All three pillars have a goal to protect member institutions. Their primary aim is to maintain the liquidity and solvency. Deposits of two pillars have virtual unlimited protection, unless the pillar collapses as entire institution. On the other hand, there is a direct competition among commercial banks. Depositors of those banks also the same level of protection, as long as insurance funds are on sufficient level. Bank run risk is zero in situation of perfect world and without influence of other factors.

"Well-designed deposit insurance system can serve as effective bank run prevention, assuming that depositors are fully informed about it. ... Only depositors who are aware of their far reaching protection through the existing deposit insurance schemes can remain calm even in times of a crisis." (Goedde-Menke, Langer, & Pfingsten, 2014)

"... If depositors know about the comprehensive protection provided by the deposit insurance systems, they are able to identify deposits as a low risk investment making them more likely to maintain or even increase their amount of deposits in times of crisis. (Goedde-Menke, Langer, & Pfingsten, 2014)

Risk governance of bank should have "at least (1) a dedicated board-level risk committee, of which (2) a majority should be independent, and (3) that the CRO should be part of the bank's executive board." (Aebi, Sabato, & Schmid, 2012)

In general, the role and significance of the CRO and risk governance in the banking industry has been highlighted in the newspapers, reports, and studies. There is a significant relation between strong and independent risk management and risk taking actions and bank's performance during the crisis. During the given period, Risk Management Index (RMI) is constructed which is based on five variables. Those variables are associated with the strength of a bank's risk management. CEOs are mostly focused on the interests of shareholders. Their decisions are expected to be welcomed by the market. The mentioned actions are very costly.

According to Aebi et.al., "'*Good governance*' does not necessarily have to be in the best interest of shareholders. Banks that were pushed by their boards to maximize shareholder wealth before the crisis took risks that were understood to create shareholder wealth, but were costly ex post because of outcomes that were not expected when the risks were taken." (Aebi, Sabato, & Schmid, 2012)

Risk-taking associated with bank is supposed to be high in:

a) "Banks with no or relatively small share of interbank deposits
   - Banks with no relatively small share of subordinated debt at a given level of equity relative to total asset
   - Banks that are considered too big or too complex to fail when controlling for macroeconomic conditions, governance and business model factors, and strictness of regulation and supervision." (Clas-Wihlborg, 2014)

"While the U-shaped relationship between risk and explicit deposit insurance coverage is expected for the pre-crisis period, we expect that this relationship has weakened or disappeared during the post-crisis period. Instead we expect variables representing strength of implicit guarantees to have a stronger impact in the after-crisis period. In particular, we expect 'too big to fail' proxies to have a stronger impact on risk-taking in the post-crisis period." (Clas-Wihlborg, 2014)

5. Characteristics of Bosnia and Herzegovina

In August 1997, the Central Bank of Bosnia and Herzegovina was established. In June 1998, there was an introduction of the single currency known as the Convertible Mark-KM. The exchange rate of the currency has been defined as fixed (EUR1=KM1.95583).

Money supply in Bosnia and Herzegovina is fully endogenous. Monetary policy represents passive segment of economic policy. Thus, passive instruments are both interest and exchange rates. Banking system has been completely privatized, meaning it is under the full control of foreign banking institutions.

A classical example of a small economy is Bosnia and Herzegovina with fiscal policy as the only active segment of macroeconomic policy. Fiscal policy has great impact on direction of business cycle as well as the balance of payments equilibrium. Increased government spending may be covered in two ways. First way is through increase in taxes. Second way is by issuing government bonds known as public debt. In period 1996-2000, financial resources were allocated for reconstruction of housing, infrastructure, and public services.

The resources for development of business sector were modest and limited. In period 2001-2008, the basis for economic growth was the greater exploitation of capacity in fields of "business, industry, privatization, restructuring, financial sector, and foreign direct investment." Tender privatization had positive impact on attracting significant foreign investors to the manufacturing industry of Bosnia and Herzegovina. There has been rapid improvement of the banking sector in Bosnia and Herzegovina.

Bosnia and Herzegovina was affected by the global financial and economic crisis in the last quarter of 2008. In next two quarters, there was evident decrease of GDP and credit activity. There is a huge difference in credit activity in 2008 and 2009. The mentioned difference had negative influence on household consumption and business investment.

As a result of crisis, foreign liabilities of commercial banks in Bosnia and Herzegovina have decreased. On the other side, the economic crisis had positive impact on economy of Bosnia and Herzegovina in terms of important reduction in trade and account deficit in period 2009-2010.

Public expenditures of Bosnia and Herzegovina are above regional average. An increase in fiscal capacity of the country did not result in fast creation of new available job positions. Growth of fiscal capacity is caused by two leading factors. First factor was the introduction of VAT in 2006. Second factor was establishment of a flat tax rate of 17%.

There was evident as increase in purchasing power, based on rapid credit expansion. Those two elements resulted in increase in the tax base.

"The consolidated balance of public revenues and expenditures (the fiscal balance of General Government) includes all revenues and expenditures of the budgets of all administrative levels in Bosnia and Herzegovina (Budget of B&H, the two entities budgets, budgets of ten cantons in the Federation of B&H, and budgets of all municipalities in both entities), and the revenues and expenditures of all public social insurance funds (pension funds, health insurance funds, and unemployment insurance). (Causevic, 2012)

Both entities face problems with fiscal instability. They experience lack of public revenues which are to be used for covering public expenditures. Due to this fact, Bosnia and Herzegovina has signed a Stand-By Agreement (SBA) with the International Monetary Fund (IMF).

Economic activity of Bosnia and Herzegovina had declined in the second half of 2008. The country faced many problems due to political and structural problems. There is also evidence of problems related with two autonomous entities. The government applied for the assistance to International Monetary Fund. The economic space in the country is not unified. This fact causes the inefficiency in monetary policy. There are also different fiscal and taxation systems in the Federation of Bosnia and Herzegovina and the Republika Srpska.

The global recession has affected country negatively. In the same time, the country had to face many internal struggles in economic terms caused by own political and economic limitations. This situation became worse when there were also established ten cantons with own government and constitution. The country is economically unstable. Structural economic barriers might be high rate of unemployment.

Domestic consumption is mostly supported by reliance on credits. The stability of an entire economic system was dependent on the external credit. The public budget was unstable even before the period of recession. There is a great imbalance in labor market caused by many changes in business cycle. The mentioned structural problems have negative impact on flexibility in labor market.

6. Conclusion

Stated previously that banking system is in flux always, and unstable, we get to a point where it reaches the biggest transformation throughout all segments of a system as a whole. Being directly affected by the changes the consumers are still in a banking cycle struggling to bring up the systems and themselves to a level of at least a "positive zero".

Knowing all the facts, banks have very complex paths to achieve stability. There should be inverse relation between bank exposure and its growth opportunities during the financial crisis. Indicators of income statement have influence on performance of bank during the crisis. Those indicators are: reliance on noninterest income and return on assets.

Banks have an incentive to raise their funds both internally and externally. Their primary aim is to provide sufficient funds to producers of goods. Banks accomplish such action by supplying deposits and equity from households. The banks' policy is to allocate all available resources with aim of providing loans to the good producers. Banks have an incentive to purchase state-contingent security at perfect conditions. There is an assumption that central bank is willing to facilitate lending. The mentioned credit policy is associated with large scale purchasing in terms of private securities. Thus, during the peak period of the financial crisis, there is evident stabilization of credit markets.

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Democracy and Economic Development in Albania

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ABSTRACT

The majority of scholar publications argue that once established for whatever reason, democracies survive in developed countries. However, there is not a common understanding on whether economic development affects the emergence and survival of political regimes or whether political regimes affect economic performance. The literature on democratization suggests that democratic development is mainly influenced by (1) income per capita (2) Gini coefficient, (3) education level and (4) political system. While these variables are highly correlated with each other their impact seems to be to some extent independent.

This paper aims to evaluate Albania's economic and democratic trends in the time period 1990-2014 by looking at quantitative data retrieved from World Bank, Freedom House and Albanian Institute of Statistics. The main hypothesis of this study is that economic stability of Albania is highly influenced by its democratic performance; while its democratic performance mostly depends on political system. The second hypothesis is that democratic development of a country also depends on the external image of its neighbors. Thus, if neighbor country's democracy progresses, so should the country's democracy advance. The study concludes that there is no positive correlation between Albanian democracy and economic development and between Albanian democracy and the democracy of its neighboring countries.

Keywords: *democracy, economic development, income per capita, political system, Albania*

1. Introduction

After the collapse of communism, during the transition Albania stepped towards economic liberalization as the first event that would deliver democracy. The Albanian democratic trajectory followed a path of deviances and success at the same time. While socio-economic reforms took place, Albania joined the international community, benefited from the financial assistance from the major powers EU and USA and quickly adapted to the economic changes necessary to leave behind communism. But the problem remained with the political landscape which remained in tensions and social crisis that led to political segregation. Problems in the political arena were seen in rule of law, elections, lack of government accountability, corruption and weak civil society. As economy was showing some progress, politics were failing and beyond domestic factors what prevented growth was also the international factor mainly trying to keep Albania under control and direct its progress. To be mentioned here in the international arena is also the fact that democracy in the region was experiencing upside-downs. Because of its political regime and tradition Albania could not cope with the democratic political discourse as it required a strong established system both in terms of judicial, legislative and executive, which Albania lacked. Focusing on the question whether democracy influences economy or economy influences the democratic development in the case of Albania it is obvious that the political environment was incapable to provide democratic development while on the other side economy followed its own path through economic reforms, economic international cooperation and financial assistance. As money could be borrowed and the goods could be imported from the international community democracy could not travel that easy from one state to another.

This paper examines the democratic situation of Albania in the period 1990-2014, as a critical period of the state where democracy took its shape. To answer the prominent question whether the level of economy influences the democratic progress or is democracy that impacts economy, the paper draws upon literature review and quantitative data gathering to come up with new insights in the field. It suggests that we have to incorporate other indicators and measurements in trying to understand the complex democratization process as a whole. Basing arguments only on democracy and economy will not provide a comprehensive framework for decent analysis. As democracy is a concept that evolves and a process that is different from state to state internal factors such as state's history, political regime, political administration and institutions are also important to be analyzed for a better understanding of how

democratization as a process is shaped in a dynamic environment. In the first part of the paper Democracy and Economic Development the main arguments of literature review are further explained based on three key areas: transnational exchange, external environment and political institutions. The second part focuses on the research methodology and interpretation of the findings and in the end the conclusion provides an overall summary with the main arguments of the paper.

2. Democracy and Economic Development

The literature on democracy and economic development mainly suggests that democratic development is mostly influenced by (1) income per capita (2) Gini coefficient, (3) education level and (4) political system. While these variables are highly correlated with each other their impact seems to be to some extent independent: Some of the main arguments of this relationship are as discussed below.

1-Democracy can develop faster if urbanization, industrialization and education go parallel with each other. This argument clearly states that to achieve the desired outcomes all the indicators of democratization should go parallel with each other. What is more important for democracy is the urbanization, industrialization and education. These three can facilitate the road towards democratization if their development happens at the same stage. They can improve economy too but economy has not shown a great influence on this factor, the problem has remained with the public administrate and governance which has not been able to allocate the resources in the right manner. (Frank Schimmelfennig and Hanno Scholtz 2008)

2-Modernization Theory of Martin Lipset - "The more well to do a nation, the greater the chances that it will sustain democracy". (Lipset, 1960) The mostly used modernization theory of Martin Lipset offers an interesting approach but it has not been applied the same in different states. What needs to be highlighted here are other factors such as: the internal capacities of the state, the domestic factors, the political regime and stability , political culture and the political tradition which has occurred in the last years which is a major indicator that reflects how the process of modernization will go. Lipset's theory can be better applied in cases when states have achieved at some point of political development and little remains to be done. Focusing on economy as the main indicator Lipset makes us question his theory as economy results to be insufficient in explaining the democratic development. (Frank Schimmelfennig and Hanno Scholtz 2008)

3-Advancement of democracy depends highly in the organizational capacity of a state including the economic development. As we mentioned above the organizational capacity with which is meant the public administration and governance are the indicators that have the direct influence on the advancement of democracy. The political elite and the administrate are the driving forces behind the whole process of democratization as they can either prevent or accelerate it based on their will for a democratic government. What is another crucial point here is that they should leave space for the civil society to engage in decision making and contribute for a healthier democracy. (Werlin 2009)

It can be concluded that democracy is not a single step or one-way process that can be analysed based only on economy as the main force driving it. Economic development here is understood by the GDP and growth per capita. Secondly democracy is a concept that evolves through time, it needs new approaches in understanding it and new insights incorporated to provide further evidences that fits better to the question what drives democratization.

3. Democracy and Transnational exchange

Being a very complex and dynamic process we could not neglect the transnational exchange as an internal factor very decisive in the process of democratization. In international level analysis the most influential factor, respectively in the European region, appears to be the European policies of enlargement and integration. The article "EU Democracy promotion in the European Neighbourhood" of Frank Schimmelfenning and HanosScholtz (year) presents a clear framework on the significant role of EU neighbourhood policies focusing on political conditionality and the process of accession, as the main instruments for promoting democracy. The three mechanisms of the international community: political conditionality, economic development and transnational exchange, are all components of EU trying to impose standards on the less developed state so they can be motivated to perform better. The transnational exchange is a cross-border phenomenon emerging with the developments of globalization and has given a new dimension to democratization. It happens in a dimension with no boundaries, no time and no restrictions. It requires the embracement of multiculturalist's values and different means of communication in the international environment. The transnational exchange occurs in three broad frameworks which include:

-The economic framework: Trade as the main certain linkage with economic development and democracy. Possessing natural resources and having a rich landscape has brought Albania in front of many investors and on the other side financial aid is given to fill the gaps. Trade and financial supplies has been a major help for Albania in its democratization process but has not promoted democracy as it was expected to do.

The political framework: International cooperation in terms of agreements, treaties, negotiations. These mechanisms reflect that the state is capable to enter into international relations with its democratic neighbors. Albania so far has maintained good relations with its neighbors and by signing bilateral and multilateral agreements it has been engaged in the international community in such a way that it has reflected growth in political terms. Being also a candidate for the EU membership Albania has implemented the legislative and executive framework of European institutions and has advanced its efforts in fulfilling the criteria, endeavors that has resulted effective in reforming the political system to adapt democratic principles. Albania's membership in NATO is also a major development in its foreign and security affairs.

The socio-cultural framework: Cultural diplomacy, cultural linkages as other important aspects in tolerating and absorbing different values that will facilitate the process of democratization. Being a tolerant and a state living in harmony both in religious and cultural terms Albania can easily embrace the required values and norms in its road towards democracy.

4. Democracy & External Environment

Democracy promotion has been the focus of international politics during the 20th century and on. The democratic image that the neighbor states represent to each other is an influential element of democracy adaption. External environment is crucial in the relationship between democracy and development. The literature suggests that if the external environment of a certain state is composed of by democratic states, they could share the same political and economic values and they could survive more peacefully. The state could follow up their process of democratization and advance further instead of being surrounded by problematic states that could prevent its progress. Data gathering from Freedom House and comparison made between Albania and its external environment, mentioning here its neighbors Italy, Greece, Macedonia, Montenegro, has reflected that they have followed different ways of democratic transition. So it has resulted that international factors come second in place after the domestic factors which seem to be the decisive one in the democratic progress of a state. International pressures impact the process at some point but it does not totally indicate its direction because it remains in the way how the state deals with it that is composed by many domestic factors. To limit the failures of democratic consolidation process it should be taken in consideration the preconditions of the state and its historical political regime. In contrast to its neighbors Albania has experienced a different kind of political regime, a harsh communist period and improper political practices that have left footprints even in the nowadays state. Although the transition process of Albania has been a peaceful one, mostly from a positive influence from the external environment and an effective attitude of Albania, still many threats remain in the external process that could slow down the process, as neighbor states especially Greece and Macedonia are experiencing their own internal problems.

5. Democracy and Political Institutions

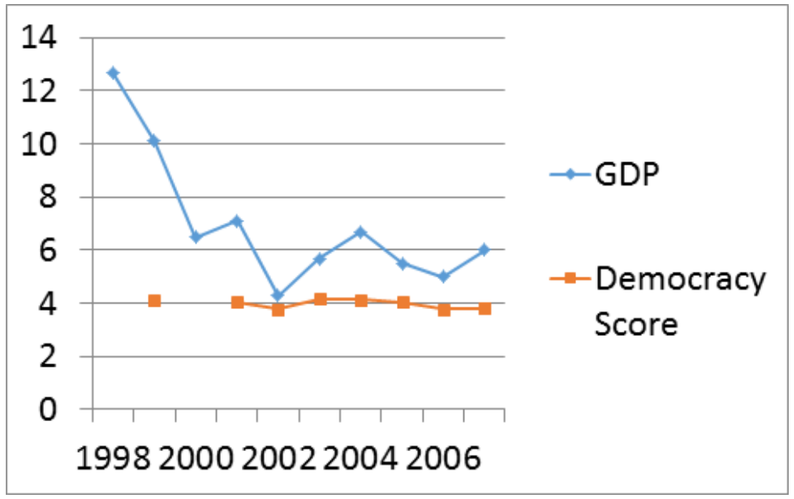
It has been stated in the literature that political institutions of a state and their practice can provide a rapid economic growth. The capacity of administrative system and institutions is essential to provide effective governance. The urban and social transformation requires flexible solutions from the government to face the challenges. Albania reflects a weak state in terms of political institutions where data from the Freedom House list it as a state with high percentage of corruption. Democracy as a concept is about inclusiveness and competitiveness but this has been very little applied in Albania. Failure to integrate the civil society into governance has been one of the main weaknesses of Albania. NGOs and other organizations have been active to protect their rights and raise their voices but they are not always in the right place or in the right time compromising to bring the change. Their agendas are suppressed by the political elites and bureaucrats. Thus government does not appear to be accountable to its people. The structured dialogue of politicians with the Albanian population for the achievement of the common goals is absent and this makes the implementation of public policies less effective. From another point of view democracy means free, fair and meaningful elections. The election's history of Albania has been carrying through the years characteristics of power politics and monopoly of power that dominate the system and the will of people's voting have not been fairly put in practice. Problems also remain with the judicial, legislative and the executive branches of the states where many reforms need to be done so they can improve the current situation. Every progress report of EU is calling on Albania to reform its system, fight corruption and behave democratically. It can be said that political culture and political institutions play a major role in democratic development of the state. Data and studies in domestic factors can clearly indicate the process of democratization with both its failures and success, rather than focusing on economy as the only indicator on understanding the complex process of transition to democracy.

6. Research Methodology

As this paper is a study of the relation between economy and democracy there is a question that it attempts to answer: 'is there any correlation between democracy and economic growth as well as external environment?'So the focus of interest is on two important relations such as: *democracy and economic growth* and *democracy and external environment.* As such, the dependent variable of the research paper is democracy development where as independent variables there are considered economic growth, with its main indicator GDP, and external environment, as neighbor country democratic image. The purpose is to testify if and how the independent variables have an influence and impact on the dependent variable of our research study. The quantitative data such as GDP rates, found on World Bank, and democratic scores, found on Freedom House, create a very clear perspective about the debated research question.
It is very important, before the analysis of the graph, to explain that the democratic scores are estimated from 1 point (which reaches the highest value of democracy) to 7 points (which is the lowest level of democracy) based on Freedom House sources.

7. Findings and Discussion

a. Democracy and GDP development

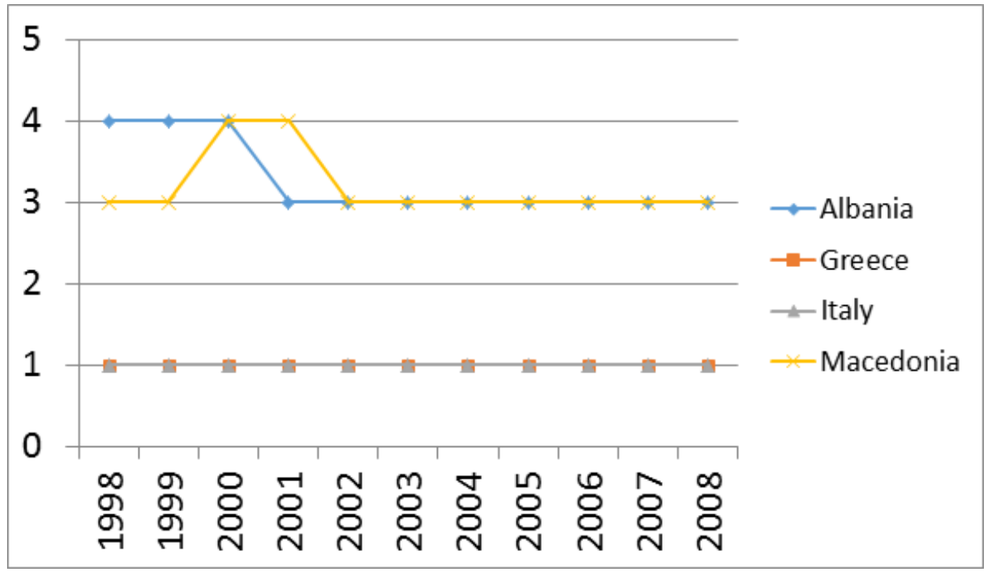


Graph 1. Democracy and GDP development in Albania

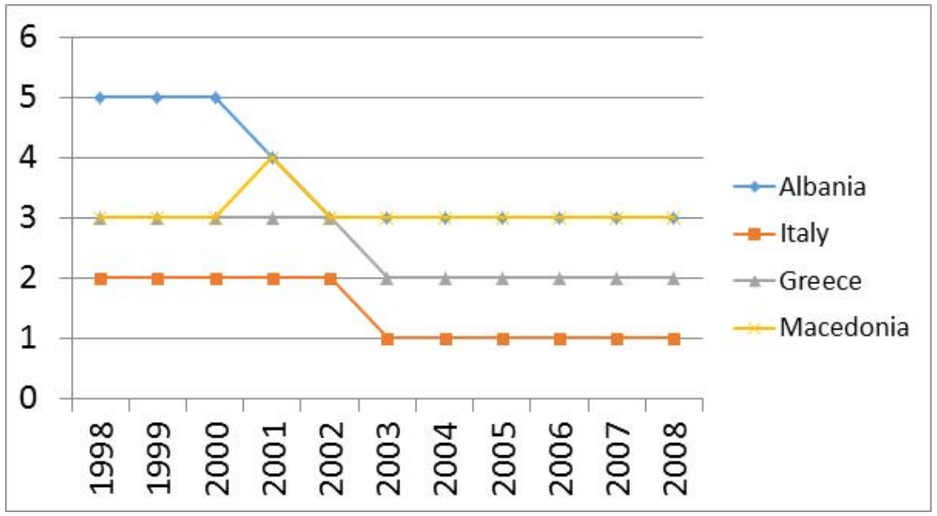
Democratic sources actually were missing from 1998-2001 because of a temporary civil war in Albania. In 2001-2002, where the data of this research paper are accessible, it seems that while democracy score slightly increases from 4.04 to 3.79, GDP has a sharp decrease from 7.1 to 4.3 billion AL. In 2002-2003; while democracy score decreases from 3.79 to 4.17; GDP increases from 4.3 to 5.7 billion AL. In 2003- 2004; democracy slightly improves from 4.17 to 4.13; GDP increases from 5.7 to 6.7 billion Al. This is indeed the only year which appears that when the GDP of the country increased the democracy also increased and these variables meet as dependent with one another. Moreover, in 2004- 2005: democracy slightly increases from 4.13 to 4.04; GDP decreases from 6.7 to 5.5 billion AL. In 2005- 2006: democracy slightly increases from 4.04 to 3.79; GDP decreases from 5.5 to 5.0 billion AL and in 2006 – 2007: democracy slightly decreases from 3.70 to 3.82; GDP increases from 5.0 to 6.0 billion AL. As a conclusion, in the Albanian case at least, there is a negative correlation between GDP and Democracy scores, which opposes the hypothesis that democracy increases when GDP of the country increases or vice versa. This correlation is graphically shown below.

b. Democracy and External Image of Neighboring Countries

For the evaluation of the relationship between democracy and external environment, there are selected the neighboring countries of Albania that have the highest influence, and these are Greece, Italy and Macedonia. There are also determined two fields in the comparative analysis as for political rights and civil liberties. The data classification still shows the highest level of the variables at point 1.



Graph 2. Neighbour Country Comparative Data: Political Rights



Graph 3. Neighbor Country Comparative Data: Civil Liberties

As the graph 2 suggests, in 2000 when Macedonia had a decline on political rights from point 3 to point 4, Albania had an increase at this area from point 4 to point 3. This correlation proves that even though a neighboring country had a downturn it did not influence at all the current situation of Albania. Furthermore, when in 2001 Macedonia the political rights rose again from point 4 to point 3, in Albania the situation was stable and it did not changed at all. In that period where in Albania and Macedonia the political rights were up- side- down, in Greece and Italy the situation was stable at point 1 and parallel with each other but again, they did not impact positively to their neighboring countries.

In graph 3, the civil liberties of these for examined countries shows that in Albania at 2000-2001 there was an increase from point 5 to point 4, in Macedonia there the opposite while from point 3 it moved negatively to point 4. Greece from 1998 to 2001 was stable at a good level on point 2, in 2002-2003 moved positively from point 2 to point 1 and remained such until 2008. In Italy as well from 1998 until 2002 the civil rights ranked on point 2 while in 2002-2003 the situation was improved and stabilized from point 2 to point 1. Literature review suggests that external environment is a crucial element of democratic development in a state but in the Albanian case our findings and statistical data reflect that external environment does not have a direct impact in the democratic progress of Albania. In conclusion, there is no correlation between democracy development and external environment in the Albanian case.

8. Conclusion

Albania as a country has faced many problems in her pathway to be a democratic state, such as political, economic and social transitions after 1990, where the greatest political changes began. As a conclusion of this study, the political regime was not able to support the economical liberalized flow that country started to implement and so it had very little or no influence to its development. This outcome is actually opposing the theoretical aspect of the written literature that have been studied, that is in democratic states the economic growth is further supported by the political democratic regime. As for the case of Albania, there is a higher requirement for political stabilization and effective governance, such as political leaders to move forward with the urgencies of the country, as well as for institutional enforcement in order to make this democratization process end up into actual and real democracy. Thus, the problem stands on the fact that if there is no consolidated democracy then the economic development is not ensured by the political background. Therefore, since there is a demand to turn the theory into practice, Albanian state might focus into improving its political system and other immediate challenges such as the judiciary system, rule of law, corruption, democratic political culture and so Albania could complete successfully its democratic progress and consolidation.

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Evolution and Evaluation of Financial Statements

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ABSTRACT

This paper focuses on the evolution and evaluation of financial statements. In order to give an objective and fruitful information on evolution and evaluation of financial statements, a large source of previous studies have been analyzed and a synthesis of that literature is drawn in a historical perspective. This study will bring to light, in a compact form, the importance of understanding the evolution and evaluation of financial statements, and will serve as a point of reference on future researches.

This research will give brief information about the evolution of financial statements and the reasons behind the evolution concurrency. On the other side this study will underline the critical points during economic history which brought the financial statements to the today standardization by showing the affected factors of this evolution. The methodology will be based on a qualitative analysis to evaluate usage of interested parties on the preparation of Financial Statements by comparing it with the impact level on company's success on historical bases.

Keywords: *Accounting History, Financial Statements, Financial Statements Evolution*

1. Introduction

Accounting is a discipline that deals with the collection, description, classification, and communication of financial results. Accounting as a discipline is a very broad field and in the present in itself includes several branches. In general the role of accounting is to help managers, investors, tax authorities and state people or groups of people's decision-making safer decisions based on accounting data. Documented data on simple accounting terms have been available since ancient time's humanity, during the Sumerians in Mesopotamia civilization, when they needed to keep their records on the agricultural products. The writer of the twelfth century Ibn Taymiyya accounts mentioned in his book Hizb (verification, calculation), filed an accounting system used by Muslims around the middle of the seventh century. Accounting practice was influenced by ancient Rome and the Persian Empire and more detailed example of using complex accounting was recorded during the second leadership of the Islamic caliphate of Umar ibn al-Khattab. The Omar and auditing system was used, with some changes, the Muslim leaders until the time of the Ottoman Empire. In this section we are going to show the evolution of the accounting profession and the formal financial reporting during different periods in history to the present day. This research is going to be more focused in the accounting history and the large steps realized in order to have very big developments in the accounting and in financial reporting. According to what is written about the history of accounting in US, until the stock market crash of 1929, accounting was unregulated. Every practice and procedure used in firms was considered confidential and firms knew very little about what was going on in one other firm and what kind of practices and procedures were used by others. Financial reports were widely different from one firm to another and were misleading to current and prospective investors.

According to Wolk, Francis and Tearney (1984), after the stock market crash, three important periods of development of accounting and accounting practices followed;

1. The formative years 1930-1946
2. The postwar period 1946-1959
3. The modern period 1959-present.

1. The Formative Years 1930-1946

During the formative years very big steps toward a standardization of accounting were taken. No other period is to be compared to these years for what they brought to light about the development of standards in accounting and financial statements. In 1930 the American Institute of Certified Public Accountants came to an agreement with the New York Stock Exchange. The AICPA (1934, p.9), sent a general solution to NYSE by suggesting:

The more practical alternative would be to leave every corporation free to choose its own methods of accounting within ... very broad limits ..., but require disclosure of the methods employed and consistency in their application from year to year....

Within quite wide limits, it is relatively unimportant to the investors which precise rules or conventions are adopted by a corporation in reporting its earnings if he knows what method is being followed and is assured that the followed consistently from year to year. The AICPA and NYSE collaboration brought to a formal draft of five broad accounting principles and had a big influence upon the accounting policymaking in United States.

2. The Committee on accounting Procedure (CAP)

CAP was formed in 1933 by AICPA. As written down by Zeff (1972, pp.135-147) the CAP wanted to develop a comprehensive statement of accounting principles that would serve as a general guide to the solution of specific practical problems. As shown by Wolk et al. (1984), in 1957 Alvin R. Jennings delivered an important speech at the AICPA's annual meeting. He suggested the replacement of methods used by CAP till then, by focusing in the need of research as part of this process. This was the first step toward the closing of the CAP. The AICPA set up a Special Committee on Research Program which formulates a report that emphasized the importance of research in establishing financial accounting standards and became the articles of incorporation for the Accounting Principles Board (APB) and the Accounting Research division.

3. The Securities and Exchange Commission (SEC)

According to Wolk et al. (1984), this commission was created by the Congress in 1934 to administrate the first national securities legislation and determine acceptable accounting practices and mandate methods to be employed in reports field with them.

2. The Postwar Period, 1946-1959

The postwar period was a really boom in economy. Industry expands and created more job opportunities, and more money to the economy. The stock exchange developed by raising the number of stockholders from seven million in 1940, to seventeen million in 1952. Corporate financial reports were an important source of information for financial decision and for the first time, accounting policymaking became an important topic in the financial press.

3. the Modern Period, 1959 to the present

The Accounting Research Division and the Accounting Principles Board was created to motivate research on the basic postulates and principles of accounting. According to Belkaoui (2004), the APB recommended that the objectives of accounting be defined and that the basic concepts, principles and terminology known as "generally accepted accounting principles" be enumerated and described. This recommendation resulted in the publication of APB statement No.4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises.* Of vital importance to the accounting disciplines is that the accounting profession and other interest groups accept the accounting concepts and principles. Devine (1960), argued that:

...the first order of business in constructing a theoretical system for a service function is to establish the purpose and the objectives of the function. The objectives and purposes may shift through time, but for any period, they must be specified or specifiable.

The statement No.4 of APB influenced the formulation of the objectives of the financial statements and to develop a basic conceptual framework for the field of accounting.

As written by Belkaoui (2004), the objectives of financial statements may be summarized as follows:

1. To present fairly and in conformity with generally accepted accounting principles, financial position, results of operations, and other changes in financial position.
2. The general objectives of financial statements are as following;

a) To provide reliable information about the economic recourses and obligations of a business enterprise in order to:

i. Evaluate its strengths and weaknesses;
ii. Show its financing and investments;
iii. Evaluate its ability to meet its commitments;
iv. Show its recourse base for growth

b) To provide reliable information about changes in net resources resulting from business enterprise's profit-directed activities in order to;

i. Show expected dividend return to investors;
ii. Demonstrate the operations ability to pay creditors and suppliers, provide jobs for employees, pay taxes and generate funds for expansion;
iii. Provide management with information for planning and control;
iv. Show its long-term profitability.

c) To provide financial information that can be used to estimate the earnings potential of the firm
d) To provide other needed information about changes in economic recourses and obligations
e) To disclosure other information relevant to statement users needs.

1. The qualitative objectives of financial accounting are the following:

a) *Relevance*, which means selecting the information most likely to aid used in their economic decisions.

b) *Understandability*, which implies not only that selected information must be intelligible, but also that the users can understand it.

c) *Verifiability*, which implies that the accounting results may be corroborated by independent measures, using the same measurement methods.

d) *Neutrality*, which implies that the accounting information is directed toward the common needs of users, rather than the particular needs of specific users.

e) *Timeliness*, which implies an early communication of information, to avoid delays in economic decision-making.

f) *Comparability*, which implies that differences should not be the result of different financial accounting treatments.

g) *Completeness*, which implies that all the information that "reasonably" fulfills the requirements of other qualitative objectives, should be reported.

The APB statement No.4 has directly influenced the following reports for accounting and reporting.

In April 1971 AICPA announced the formation of two study groups, one group called the "Wheat Committee" that would work on the establishment of accounting principles, and the improving of the standard setting process. Its report resulted in the formation of the Financial Accounting Standards Board (FASB) in 1972. According to Wolk et al. (1984), "... FASB has been quite productive when compared with predecessor standard-setting bodies. It has issued over 70 Statements of Financial Accounting Standards as well as numerous interpretations and technical bulletins. If a trend in philosophy can be derived from these standards, it would be that there is a move to 'clean up the balance sheet'. This has resulted in a more conservative balance sheet with immediate, as opposed to delay, recognition of events on the income statement."

The other study group called "True blood Committee" was charged with the development of the objectives of financial statements, that is, determining:

1. Who needs financial statements;
2. What information they need;
3. How much of the needed information can be provided through accounting; and
4. What framework is required to provide the needed information

The "True blood Report, "specified in twelve objectives and seven qualitative characteristics of financial reporting is important. Science its inception, the FASB has recognized the importance of the objectives of financial statements in the adoption of financial standards.

- The fundamental concepts; the basic elements of financial statements of business enterprises Belkaoui (2004), thinks that the Statement of Financial Accounting Concepts No.3 shows the first screening method for determining the content of the financial statements. This statement defines ten interrelated elements that are directly related to measuring the performance and status of en enterprise.

2. *Assets*: probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

3. *Liabilities:* probable future sacrifices of economic benefits arising from the present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

4. *Equity*: residual interests in assets of an entity that remains after deducting its liabilities. In business enterprise, the equity is the ownership interest.

5. *Investments by owners*: increases in the net assets of a particular enterprise that result from transfers to it from other entities of something of value to obtain or increase ownership interests (or equity) in the enterprise. Assets are most commonly received as investments by owners, but may also include services or satisfaction or conversion of liabilities of the enterprise.

6. *Distributions to owners*: decreases in the net assets of a particular enterprise that result from transferring assets, rendering services, or incurring liabilities by enterprise to owners. Distribution to owners decreases ownership interests (or equity) in the enterprise.
7. *Comprehensive income*: the change in the equity (net assets) of an entity during given period that result from transactions and other events or circumstances from no owner sources. Comprehensive income includes all changes in equity during period except those that result from investments by owners and distribution to owners.
8. *Revenues* : Inflows or other enhancements of the assets of an entity or settlement of the liabilities of an entity (or combination of both) during a given period that results from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
9. *Expenses*: outflows or other using-up of the assets of an entity or incurrence of the liabilities of an entity (or a combination of both) during a given period that result from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
10. *Gains*: increase in equity (net assets) from the peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a given period except those resulting from the revenues or investments by owners.
11. *Losses:* decrease in equity (net assets) from the peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a given period except those resulting from the revenues or investments by owners.

4. The regulation of Financial Reporting

According to Wolk et al. (1984), accounting regulation will probably continue. Regulation is a political process and it is self-interest which motivates individuals and groups to participate. Since the regulation is a matter of public interest, the benefits should exceed costs. In case of accounting regulation, the benefits are in the form of improving the fairness and competitiveness of the capital market. Society as a whole benefits indirectly from a well-functioning capital market.
An overview of the methods of analysis of financial statements

The main methods used in the analysis of the entities activities are:

- *Analysis of the change from one year to the next (trend analysis)*: comparing financial statements for relatively short periods of time, two or three years, this analysis is accomplished by comparing each item in the financial statements from one year to another to determine the dynamics of each indicator from one year to another.
- *Comparisons:* consists of comparing the level of the Economic indicators of a unit with the same indicators of other entities homogeneous, with average indicators of the branch or industry sector and with some standards or norms set for different indicators.
- *Analysis of trends by the specific index:* expression in percentages to the data base year financial statements of an entity belonging to the Economic you more than two or three fiscal periods.
- *Analysis of financial statements of the same size (structural)*: knowing the specific weight of each element occupies different financial statements to total group or subgroup of the respective statement.
- *Analysis through financial reports:* an important mathematical relation between the two indicators that are made in relation to each other.

5. Users of financial statements

Different groups of people need information about business activities of each business (Horngren Charles, HarrisonWalter, Linda Smith Bamber, Accounting, Fifth Edition, 2002. p. 57-77)

a) Company managers appointed by the owners of the company to oversee the activities of company daily. They were needed information about the financial situation of company how it is now and how it is expected to be in the future. This enables them to achieve business efficiency and effective decision making.

b) Shareholders of the company, then the company owners, who want to know how well management fulfills its duties. They want to know how profitable are activities association of a company and how much profit can withdraw from the business to use for their own purposes personal.

c) Persons who work with the company include vendors who supply the company with goods on credit (payment term) and customers who purchase goods or services produced by the company. Suppliers want to know about ability the company to pay its debts; Customers want to know if the company is a safe place supplied from and whether or not the risk is closed.

d) Persons who finance company may be a bank which allows the company to have an overdraft or credit provides long term, guaranteeing a loan. The Bank wishes to ensure that the company is able to repay interest payments and with the amounts borrowed.

e) The tax authorities want to know about business profits in order to estimate taxes payable by the company, including value added tax and other sales taxes.

f) Employees of the Company shall have the right of obtaining information about the situation financial company, for the reason that their future career and monetary amount of their wages and salaries depend on this situation.

g) Analysts and financial advisors need information about customers or those who take advice from them. For example, stock exchange brokers need information in order to advice people who want to invest; Credit agencies want information in order to advise potential suppliers of goods company; journalists need information to the public that reads their media.

h) Governments and their agencies are interested in the allocation of resources and consequently to business entities. They also require information in order to obtain information on national statistics.

i) Public Entities have an impact on public elements in a number of ways through the creation of jobs and use local suppliers as they contribute to the local economy. Another important factor is the effect of this entity on the environment, for example the impact on pollution.

In any analysis of the financial statements, even what he has to object financial flows, must follow a certain procedure. The steps of this procedure to be followed during a qualitative financial analysis are:

• Collection and formation of accounting documentation,

• Classification of the Data on the business books

• Develop financial reports.

The process of accounting or financial reporting systems, which generate financial information for external users, should include the financial statements which are required to be prepared and reported as specified in the International Accounting Standards. Under IAS / IAS 1 a complete such statements include: (IAS / IAS. Pp. 24-63)

• Balance sheet (statement of financial position)

• Income Statement

• Statement of cash flows (cash flows),

• Statement of changes in equity

• The accounting policies and explanatory notes.

In this paper we will treat mainly the first three statements, which otherwise are among the most requested reports. Financial statements relate to each other, because they take figures from one another, e.g. balance sheet takes a load statement of changes in equity, equity in the balance sheet date of construction (end of period), statement of changes in equity takes the statement of income and expenditure amount of net income realized during the period, cash flow statement takes the statement of movement of capital investment and owner withdrawals, etc. The four statements together provide the comprehensive and systematic way all needed information to third parties for a particular enterprise, regardless of its size. Analysis of financial statements is a complex process that requires deep knowledge of the versatile not only in the field of accounting, but requires good knowledge in the field macroeconomic, microeconomic, as well as in the field of statistical and mathematical methods through which measured and studied the levels, trends and relationships between various indicators of economic and financial factors affecting the change. There are different analyses which depending on what from who made and what was the intention, so there are horizontal and vertical analysis, analysis of internal and external, static analysis and dynamic analysis on future. No arrangement in the globe could locale claims to be definitely watertight. Accounting as an arrangement is not an exclusion (Robert, et al, 1990). Nevertheless accounting grows homogenously alongside socio-economic and governmental progress, it though encountered a little endemic perils that comparable professions indeed encountered. A little of these perils include:

Cultural Diversity

Stoner, et. al (2002), noted that sophistication is an inherent factor to the organizational and work power development. The integration of disparate sophistications and ideological cultured to form a public power in instituting global accounting standards worldwide seized centuries to materialize. Nowadays the situation is though not too disparate as traditional imperialism on growing states by the elevated states had results on main accounting development. A little faiths exceptionally Islamic faith does not enthuse attention payment on advances and advances that though negates

company ethics of capital development and appreciation or rise in company income, (Robert et al 1990).

Language Barrier or Linguistic logy

The main drawback in main accounting progress was the medium of expression and contact apparatus. Speech barriers, amid states stopped main good aims to rouse and form a body charged alongside the obligations of devising accounting principles, training and research. The method of contact was crude and generally by messages that were nearly missing in growing states (Akanni, 1988).

Early practitioners were not oriented.

The main accounting practitioners were not scrutiny orientated. And those who locale claims on scrutiny did not find it facile afterward all as materials and origins of motivation were tough to attain, (Benjamin, 1990). Generally, their level of education, and the so-called accountants at that period had no colossal accounting knowledge. Even in the 21st century, most people exceptionally in the investment, insurance and area sector associations were frequently shouted accountants, even after they have no accounting background. This indeed limits their scrutiny skill and skill to devise accounting principles Pyle, et al, 1980).The situation at that period suggests that operatives are arbitrated by their skill and not by their disability

Disagreements amid academicians and practitioners

The predominance convoluted amid practitioners and intellectual accountants did not timely reinstate concord and harmony to enthuse main progress and development in the accounting profession. The predominance convoluted according to Anao (1996), has not been completely composed off even in the 21st century.

Diversity and Intricacy in power policies

The status-quo of autonomy immunity of sovereign states determines the nature, scope and request of accounting arrangements strange and suitable for its socio-economic and governmental nature, (Glautier, 2001). It is though probable that those sovereign states in line alongside their sophistications, do devise, design, and apply accounting arrangements that have less reference to supplementary states and such accounting arrangements will be void of global comparison. This is more aggravated by unpredictability in monetary constituents and adjustments in socio-political economy, (Mootze 1970).

Judicial Request and Clarification of Company Transactions

Environmental factors, sophistication, faith and governmental manipulation had an outstanding impact on the interpretations and treatment of company deals amid nations. Prior to a selected case by Fairness Joyce in 1904 in Garner V. Murray, solvent partners allocate deficiency in capital in proportion to their profit allocating ratio. Though Fairness Joyce inversed the aged laws in favor of the proportion of capital contribution by solvent partners. He clashed that capital defeat does not excavate from ordinary company procedures, but from fairness, (Paul, 1985).

Money as a constituent of measure

According to Millicham (1990), translation of external subsidiaries (with disparate monetary constituent into parent firm that is established on transactions rate estimates and the magnitude of inflation above period, makes the global comparability of commercial statements amid two accounting eras extremely difficult. Though in accounting, money is the merely constituent of compute, and naira number transactions for dollar or pound sterling could not have the similar worth above time. The unpredictability in transactions rate or monetary constituent is though extra public in growing countries. Even inside the alike state, the monetary constituent stays unstable.

Non-Unification of Assorted Ideological cultured by assorted Bodies

Nwoko (1988) noted that accounting bodies industrialized in disparate states alongside disparate or comparable goals have been affected by their original sophistications, socio-economic needs, governmental settings, incessant change in power strategies and programmers. An endeavor to fuse these ideological believed into a fused finished might consequence in a Herculean task to publish a finished document on accounting theory, (American Accounting Association, 1936)

Illiteracy

Before Lucas Pacioli, published his early book on double entry in 1494 there was hardly an arrangement projected specifically for training and scrutiny in accounting. This era of "Dark Age" ended into definite ignorance and lack of statistical data towards main accounting development.

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Social Enterprises Chance to Reduce Unemployment

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ABSTRACT

The aim of this paper is that to explore the role and importance of social economy and how social economy influences local economic development focusing on the Serbian context. The subject of the research is considered to have a great importance on the local national level, although in order to be constructed in the future we need to have a sustainable economic development. That's why it is not possible to ignore this topic, if we want to act in an innovative way and influence the problems and its dangers which the economy situates and faces in the present day. Social enterprises are businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas. Social enterprises generate social capital, improve employment rates, promote active citizenship, solidarity, democratic vision of the economy and support sustainable development, social, environmental and technological innovation. Social entrepreneurs are change-makers who strive to find innovative solutions to social problems. Innovation could mean creating a new good or service, or producing or delivering an existing good or service in a new way or to a new market. Organizations that may be considered as social enterprises in Serbia recently started to attract attention as a potential which can to mitigate the consequences of the transition and provide employment opportunities. In this paper we used content analysis of the domestic and foreign literature, descriptive method and analysis techniques. We get very interesting data and possible solutions for the problem of unemployment in Serbia.

Keywords: social economy, social enterprise, social entrepreneurs, unemployment, social change, local development

1. Introduction

In recent years in Serbia, a country with an extremely unfavorable legacy, invested significant efforts in order to build a modern market economy with a view to a faster and more efficient way of reach economically developed countries. Social entrepreneurship as an important segment of sustainable development of the economic system, it has become the significant factor reducing the rate of unemployment in Serbia.

The subject treated in this thesis titled "Social Enterprises chance to reduce unemployment" is considered to have a great importance on the local national level. The objective of my thesis is to individualize the influence of the social economy on the local development on the territory of Serbia and how social enterprises can reduce unemployment.

In this paper we wanted to promote the development of social entrepreneurship to the national and local development in the Serbia.

2. Social economy

By social economy, we understand one economy of the market capable of the need to meet social justice. The objective of the social economy, in which the maximizing of social and economic wellbeing in a long period of time is, in a fair and sustainable way, of doing it.

If the social economy is developed through business - like forms, organizational and particularly legal, such as: cooperatives, unions, associations, businesses, social organizations and foundations, all of them would contribute to one sustainable economic model in which the individuals are more important than the capital.

Uniting the profitability and the solidarity, the social economy arouses one essential role in the economy permitting the creation of quality work posts with reinforcement of the social, economic and territorial cohesion. In particular, helps

the balance between the endemic problems of the work market: unemployment, job insecurity and the consequent social exclusion.

It also generates social capital, improves employment rates, promotes active citizenship, solidarity, democratic vision of the economy and supports sustainable development, social, environmental and technological innovation.

The social economy can prosper and develop only if it will benefit from the premises, political conditions, legislative and suitable operating procedures. Therefore the social economy should not be subject to these same rules of competition from other companies and requires certain legal framework which will allow them to operate on plane of equal terms with other companies.

Social economy enterprises contribute to job creation, to the creation of new services of regional and local development strategies and have concerns about the environment. They represent a form of enterprise development that places social, environmental or cultural missions in the centre of the process of wealth creation. They extend the notion of collective interest beyond direct governmental intervention and reinforce the capacity of civil society to respond to collective needs, including the need for decent work in a wide variety of economic sectors. Social economy enterprises today play a very active role in integrating the excluded that would otherwise be on a social assistance and offer them hope and dignity while contributing to wealth creation.

We must promote the dialogue between public institutions and the representatives of the social economy on national level including the communities to stimulate the mutual understanding and promote good practices, support the recognition of the components of the social economy in the scope of the sectoral social dialogue as well as the cross-sectoral ones and to promote the process of inclusion of the actors in the social economy in the social consultation and in the civil dialogue.

The concept of "social entrepreneurship" is not adequately recognized in the legal system in Serbia, although the importance of the concept and its positive that regulate this matter in a comprehensive manner.

Serbia still does not have adequate laws and regulations for the effective functioning of social enterprises, where the very concept of social economy is relatively new for our society.

However, the beginnings of social entrepreneurship can already be discerned in several laws - primarily in the Law on Vocational Rehabilitation and Employment of Persons with Disabilities, which, for the first time in our legislation introduces the term "social enterprise", as well as the draft of the new Law on Social Protection. The others are Law on Cooperatives, Law on Associations and Law on Endowments and Foundation.

3. Serbia: Economy and Society in Transition

To understand why social economy is important for the economic development in the Serbia we must first explain the economic, social and political situation.

The past decade of transition and conflict has led to a situation of initial collapse, and then steady decline or, in the best case, to stagnation of the economic environment.

Overall, at the end of the 90s the economic output of the region remained at 20% lower compared to 1989, as the synthesis of a chain of causes and concomitant effects: the collapse of income and employment; inflation as a threat to the chronic purchasing power was already reduced; the drastic reduction in foreign trade and the investment levels take the capacities to collapse; the consequent dependence on imports for domestic consumption; the budget deficit and the consequent internal and external debt; a disorganized and insolvent banking sector; an inadequate capacity for fiscal management in the public sector; an area of grey and underground economy; rapidly superimposed the formal economy and easily fall prey to corruption and organized crime.

The state has often maintained a strong tendency, in a framework of close connection between economics and power, client relations and regimes of semi-monopoly in various sectors of the economy, closure from the outside and protectionism poorly supported by policies to revitalize the real capacity of domestic offer. This has resulted in inflationary monetary policies, artificial compression and unsustainable spending of the real expenditure, accumulating the blockages and increasing debt, inability to impose and consolidate budgetary constraints (maintaining a regime of soft budget constrains through grants and public funding which lead to deficit of the public banks and companies).

Political changes and the beginning of democratisation in Serbia allowed to resume the growth resulting in immediate results with the process of reconstruction, from one hand, and structural reform and stabilisation of the economic situation on the other.

Serbia has emerged from a turbulent period of its history and made important progress towards democracy and a market economy. the global economic crisis has brought new problems of stagnation, with high public and private debt. Numerous political, economic, and institutional reforms have been carried out.

Overall, the higher stability in the last few years lets us see a trend that finally associates within the framework of democratic transition, structural reform and economic growth.

4. Development of the social economy on the Serbian territory

The idea of modern social entrepreneurship in Serbia appeared within the process of cultural and political rapprochement to the EU.

However, in Serbia, despite the unfavorable legal, economic and institutional framework, social enterprise still exists. It is in Serbia currently appears in the form of individual initiatives or relatively organized sub-sectors (eg. companies for professional Rehabilitation and Employment of Persons with Disabilities) which are resolved problems of unemployment and social exclusion.

According to Statistical Office of the Republic of Serbia (2014), in Serbia were 1196 social enterprises. Cooperatives 785, Association of Citizens 283, Company for the employment of people with disabilities 45, Agency for Development 32, Foundation 23, Business incubators 18, Subsidiaries / spin off 8, Other 29. Number of organizations for which could be considered to have social enterprises has been very low, largely due to difficulties that are resulting from the inadequate legal framework, ie. from the circumstances that the then valid the law was not allowed to acquire NGOs earnings conducting the activity.

Social enterprises in the Republic of Serbia in 2012, accounting for 0.2% GDP of the Republic of Serbia in that year. In the sector of social enterprises in 2012 were employed 10,326 people, or 0.6% of total employment in the RS.

In social enterprises in 2012 the majority of employees were male (62.3%), while women made up 37.7% of the total number of employees.Regarding the age structure of employees, half of the total number of employees in social enterprises accounted for more difficult-to-employ category population - persons aged 51 and over (35.7%) and those aged up to 30 year (14.3%).

Unemployment rate in the first quarter in 2015 was 19,2%. In some parts of Serbia the unemployment rate exceeds 50%. Regional and urban/rural disparities are substantial, with Belgrade and the Vojvodina province being most developed, whilst south and east Serbia suffer considerable underdevelopment. Rural areas have much higher poverty rates than urban areas (twice the level in 2010, with 13.6% being below the absolute poverty line in rural areas, compared to 5.7% in urban areas).

In April 2010, signed a protocol on cooperation on activities aimed at the improvement and development of social entrepreneurship in Serbia between "Balkan Community Initiative Fund (BCIF)", "European Movement in Serbia (IPA) program," "Smart Collective" "Group 484" and "Initiative for Development and Cooperation - Serbia (IDC)". This protocol has been established "Coalition for the promotion of social entrepreneurship," the first of this type in Serbia.

Coalition include:

- Group 484 (focus on migrants, social services and social enterprise);
- European Movement in Serbia (research and advocacy; support for social entrepreneurship; and capacity building civil society);
- Smart Collective (CSR and socially responsible companies);
- Balkan Community Initiative Fund (supports development of local organisations); and,
- Initiative for Development and Co-operation - Serbia (migrants and vulnerable groups);

The goals of the Coalition are to contribute to:

- create an enabling environment for social entrepreneurship;
- define the legal framework for the successful operation of social enterprises;
- strengthen the capacity of existing "social enterprises"; and,
- raise awareness of key stakeholders about the potential and social importance of social enterprises.

Another body with some members in common also supports the development of social enterprise: the Social Economy Network Serbia (SENS) was set up in February 2011 at a meeting of social enterprises, gathered together by Group 484. The network has 28 members who agreed to co-operate to improve existing social enterprises, form a small internal market, and promote social entrepreneurship as an innovative solution for the problems of poverty and social exclusion. Networks are also forming around particular areas of activity. It provides its members with the most relevant information from the field of social entrepreneurship. SENS network also provides social enterprises and quality business development support through training and services of specialized advisors, lobby for social entrepreneurship among stakeholders from the public and private sectors, promote social enterprises with potential buyers of their products and their customers, provides advice and assistance in securing new funding sources in Serbia, organize meetings, conferences and lectures. Some of the members are: Eco bag, Green and clean, Our house, Living together etc.

5. Reasons for social economy enterprise development in Serbia:

The employment rate is low, particularly amongst young people, and there are a variety of groups facing social exclusion (including Roma, people with disabilities, refugees and internally displaced people), together with considerable regional disparities. At the same time, there is a substantial informal economy. Thus, entrepreneurship and work integration need to be more fully addressed.

As the conclusion we can summaries that in Serbia a lot of the unemployed have low qualifications (finished only primary and secondary school) and this category is hardly competitive labor force on the labor market where businesses focused towards bigger profit are looking for the most progressive and the most productive employees. The alternative to the usual businesses motivated by profit as the typical and most dominant employers could be a promotion of the business models as the social enterprises that have social goals and are using the profit as "tool" (not ultimate goal) to create social welfare. These innovative social enterprises could primary serve some disadvantage societal groups with social needs and can involve the target group in the business operation (participatory approach). The gain profit will be used to finance a program that achieves the social goal (needs of the target group).

In the second stage as national coordinating body composed of Governmental and NGO sector we are working for extending social enterprise development and this huge project is to be promoted using social media in order to increase the involvement of other important stakeholders in the Serbian society such as business community, local authorities, local development agencies and universities.

Despite some cultural barriers in Serbia, social entrepreneurship could make an important contribution to many of these areas, as it has in many other countries in Europe, through work integration for employment and social inclusion, through more socially cohesive welfare services, rural development and through its contributions to civil society by building trust and social capital. The context for social entrepreneurship has been considerably enhanced by a wide range of institutional reforms, but despite a range of legislative reforms in Serbia, the only legally recognized form of social enterprise is the company for the disabled, and each of the other legal structures relevant to social entrepreneurship (non-profits, foundations, and co-operatives), face some difficulties. So far the opportunities for social entrepreneurship have been rather limited, with some work integration initiatives and some welfare service provision, albeit within a framework of rather limited access to public procurement markets. This provides clear indications of the potential of social entrepreneurship, but in order to develop a more sustainable sector more needs to be done if that potential is to be fulfilled. The emerging networks supporting social entrepreneurship, though weak, are energetic and capable, and with some focused government support there is some optimism for the future.

Social entrepreneurship is increasingly acknowledged for its contribution to the creation of economic and social well being, and most especially for its capacity to address, in an innovative way, global and local social challenges.

According OECD report (OECD, 2012), government support could most effectively target the following areas: pre-conditions, infrastructure, governance in policy, finance, skills, and access to markets.

Social entrepreneurship has great potential for addressing social problems within continuing severe budgetary constraints whilst strengthening trust in civil society, thereby overcoming this heritage of distrust and state dependency.

The attitudes of various institutions to social entrepreneurship could be improved. In general, banks have a conservative and risk averse approach to all forms of SMEs, including social enterprise. Despite some good practice there is considerable scope for improving the profile of social entrepreneurship in corporate social responsibility programs of financial services and other multinationals operating in Serbia. This would include orienting the National Strategy for Development and Promotion of CSR in the Republic of Serbia 2010-2015 much more strongly to social entrepreneurship.

There are issues about developing an entrepreneurial and self-help culture (and linked to this, there is some evidence that the bankruptcy laws are not conducive to taking entrepreneurial risks).

Despite some highly capable people associated with the emerging sector of social entrepreneurship, its support networks are still weak, and would benefit from strengthening relationships with other key institutions such as universities, research institutes, and the media.

Currently the only legally recognized form of social enterprise is the company for the disabled. However, it appears that their functioning could be better incentivized and regulated, and their financing through the Budget Fund, although regulated by government, could be made more clearer. Co-operatives suffer considerably from their socialist era heritage, and their long overdue reform through new legislation (including for social co-operatives) has been continually delayed.

Thus, the considerable potential for social co-operatives that has been seen in many other European countries is not institutionally supported in Serbia, and has to rely on ad hoc adaptations of existing co-operative legislation. NGOs/associations are the other most prominent legal forms for social entrepreneurship in Europe, and are limited in their potential in Serbia, due to the need to clarify the condition of "relatedness" (to purpose), and eliminate the 10 restrictive conditions placed on allowable economic activity, in that it should be of "small-scale". In these circumstances foundations also appear to have some possibilities as a legal structure for social entrepreneurship, but clarification is also required about how to specify "related economic activity" to comply with the law, and the "extent of economic activity" allowable, given that it may only be a non-core activity (Group 484, 2011).

Thus, both of these structures may allow further development of social entrepreneurship, provided guidance can be formulated on the implementation of policy.

Skills for entrepreneurship and management (marketing and finance, business planning and development and also skills for growth and scaling). This is a key area for social entrepreneurs, since business skills are crucial for sustainability, particularly for marketing and financial control. In Serbia training provision in this area exists but not to a high level. Instead social entrepreneurs rely on: accessing the support for SMEs and the self-employed; the support of international donor organizations; and, the growing use of EU programs. Although there has been some progress in supporting entrepreneurship training, social entrepreneurship training could be more strongly supported through the education and training system.

Social entrepreneurship typically links with policy via a variety of government bodies and ministries: including the Ministry of Finance and Economy, which is responsible for entrepreneurship in general. The Ministry of Labor, Employment and Social Policy is responsible for companies for the disabled, and for the administration of the Budget Fund. These, and the National Employment Service and the Public Works Program, are important for work integration. Also, this Ministry provides support for NGOs from the administration of the Lottery Fund; Local Governments (with administrative support from the Centers for Social Work) establish the framework for social entrepreneurship in community-based welfare services, including procurement markets for new services. The Ministry of Agriculture, Forestry and Water Management, together with the Ministry of Finance and Economy is responsible for co-operative where there is potential for combating rural deprivation through rural development, and agro-tourism, etc. Thus for the reasons outlined above, it is important to have an inter-ministerial coordinative function for social entrepreneurship – at this stage such a new function could be located in bodies such as the Social Inclusion and Poverty Reduction Unit (SIPRU) and the Office for Co-operation with Civil Society (OCCS). There are also various systems of business support for social entrepreneurship, including training programs and access to start-up loans and subsidies. However, it is not clear to social entrepreneurs as to whether social enterprise have full access to the same system of support for SMEs (which in any case is not well developed support), or whether there is sufficient start-up and capacity building support for the social enterprise across the whole country. Frequently the tender system for different policy measures, while important, needs

to be complemented with more substantial support and capacity building if sustainability is to be achieved.

International donors such as United National Development Program, USAID, the International Labor Organization, the International Organization for Migration, and the British Council, as well as various national governments, and the EU, have all made important contributions to the emerging field of social entrepreneurship. The UN Global Compact has helped focus corporate social responsibility activity, where some of the banks have been prominent, but there is clearly potential for more support, whilst access to new sources of EU funding emerges and develops.

EU accession will also bring with it various EU programs that will, to some extent, compensate for the decline in support from international donors. But there is no substitute for a comprehensive framework that supports the financial needs of social entrepreneurs during start-up, development and growth of their social enterprises.

The sector has a voice through a dynamic, albeit weak, Coalition for the Development of Social Entrepreneurship, and also through a similar body: the Social Economy Network Serbia (SENS). Whilst the organizations representing the traditional social economy remain rather separate, they also have the potential to support the social enterprise sector alongside government actors. Thus, there is scope for improving structures of governance to strengthen the emerging sector and link with and capacity build the established social economy.

As recognized in the Needs Assessment Document to support the sustainable socio-economic development and European integration of the Republic of Serbia through 11 international development assistance (Government of Republic of Serbia, 2011.) strategy for EU accession, Serbia still has some progress to make in order to achieve this. SIPRU and OCCS are important institutional innovations to help improve vertical and horizontal policy integration and these need to be combined with improving the governance of the emerging sector and its links with the established social economy.

Social entrepreneurship attempts to generate a spirit of self-help amongst disadvantaged individuals and communities. By definition these are not well resourced communities, thus developing a portfolio of appropriate resources is essential. In general the banking system for SMEs (including social enterprise) is conservative and risk averse.

6. Conclusion

The social economy is an extension in the field of economy of the social values. It could be the most beautiful and meaningful social mission, but sustainable means are needed to be met. Economic activity must be effective and to produce some revenues. The biggest challenge is maintaining the delicate balance between social goals and profitability.

The local development is a complex, multi-layered and has a great potential to boost growth and consolidate the processes of sustainability and integration. In the context of the Western Balkans, there seem to be various elements of difficulty regarding the conditions for its realization. Some of these difficulties are linked to the legacy of the prolonged conflict and instability, particularly the disruption of the socioeconomic fabric; others are almost exclusively linked to the interest of national and international policies, reserving the necessary structural reform measures of the economy.

On the other hand, the observation of the phenomena that condition the realization of the social economy and local development can help to identify some crucial points and relative hypothesis of the instruments and how to deal with them. In addition, it is assumed that the promotion of the local development and social economy can be an effective approach to providing a greater efficiency and perspective to the policies, otherwise confined of separate areas of application. In this sense, the local approach should be proposed as a possible meeting point between policies and different instruments, able to convey, among other processes of internationalization and transnational integration.

In a world dominated by individual and corporate interests, we must focus on common goals to do things differently, driven by the desire for social and economic transformation, social justice and respect for the environment. If we want to move forward with equity and sustainability, we have no choice but to be creative and innovative.

Similarly the markets for donations and legacies are relatively undeveloped, but could have substantial potential. Thus, many of the recommendations should be seen in the perspective of gradually building an appropriate framework, alongside an emerging movement, with the development of new social enterprise law being seen as a medium term objective.

A socially entrepreneurial culture could be developed by encouraging small-scale entrepreneurship by associations, and co-operatives are also clearly relevant, particularly if they could be supported and linked in a new distinctive network, with a well regulated social enterprise marquee. There may be scope for using social enterprise model constitutions with the limited company form, though there are risks in the medium term due to exploitation by opportunists.

The policy analysis and recommendations draw on considerable and diverse international experience, not as a model for implementation, but as a basis for comparison to critically assess the current policy framework in relation to the current specificities of the Serbian context. The policy options and recommendations are offered as a basis for debate and discussion with key stakeholders concerned to take forward the development of social enterprise and social entrepreneurship in Serbia.

There are some underlying principles regarding developing appropriate frameworks for social entrepreneurship. Firstly, that it is important to develop a level playing field with regard to other types of organizations in the market, particularly SMEs. Secondly, that legal frameworks should be well adapted to the distinctive needs of social enterprise, combining social and economic objectives, and it is important to recognize that in many countries legislation has followed innovation over a number of years by social entrepreneurs who have adapted existing legislation to their requirements. Thirdly, there should be a well supported institutional and policy framework that matches well with the relevant types of legal forms of social enterprise. Finally, in developing such policy frameworks, it is important that the public/social benefit dimension of social enterprise is not only properly recognized, but also financially supported – as it would be in the context of state funded benefits.

Recommendations:

Develop legislation for social enterprise.

Taking forward the proposals in this document with relevant local/national government and sector stakeholders to establish a strategy for social entrepreneurship;

Capacity building of NGOs for social enterprise activity financed by the Lottery Fund;

Developing a social enterprise strategy for welfare service provision with Local Governments, alongside developing a social clause niche/quota social enterprise in procurement contracts;

Develop good practice partnership projects between municipalities and social enterprise. develop a comprehensive framework to support the financial needs of social entrepreneurs during start-up, development and growth of social enterprise.

Explore the development of specialist training programs specifically for social enterprise needs; strengthen relationships between social enterprise and corporate social responsibility institutions; examine the potential to develop scaling models such as social franchising.

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The Relationship among Transformational Leadership, Gender and Performance in Finance Sector

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Abstract

In today's competitive business, the performance of employees has become vital in finance sector. Some studies have suggested that employees' perceptions of the transformational leadership and gender in their organizations have relationship with organizational performance. Although a plenty of studies support this relationship in developed countries, there is scarce empirical evidence in developing countries. This study tries to examine the relationship among the transformational leadership, gender perceptions and performance in Bosnia and Herzegovina which is a developing and transitional country. Questionnaires were distributed to 150 employees in finance sector. The relationships among variables are evaluated by exploratory factor analysis, reliability test, descriptive statistics and correlations. The study demonstrated a positive and significant relationship between transformational leadership and task performance type of job performance of employees. It also found a positive gender job performance relationship among the employees working in public and private banks of BiH.

Keywords: Bosnia and Herzegovina, finance sector, gender, job performance, transformational leadership

Introduction

Today's dynamic structure of the business environment makes organizations to be adaptive to change in order to attain and sustain competitive superiority. The consistent development and better quality are the prerequisites of business which is under this asymmetrical change. Adopting new management approaches has also become an imperative for the organizations to meet the demands of customers and competitive environment. This new management approaches

require a proactive and dynamic approach for the organizations which put employees in the first place as well as takes care of their development and benefits. The most important people to realize new management approaches in the organizations are leaders.

In the literature, it has been proven that leadership is a requirement to any successful business because the nature of good leadership provides important direction to an organization. Leadership accounts a lot of variance for particularly work-related behaviors of subordinates and thus affects effectiveness of organizations. By attracting our attention to that point, Dion (1968) gave leadership a multidimensional pattern and a reciprocal relationship including three components: leader, follower and the relationship between them. One of the most significant leadership types which focuses more on this leader and follower relationship is Transformational leadership (TL).

TL values its subordinates by motivating and satisfying them. It creates worth working climate in organization and makes team work effectively. In that sense, strong relationship between TL and employees' job performance have been found in many researches (Piccolo and Colquitt, 2006; Judge and Piccolo, 2004). Namely, employees who are in a good team- work atmosphere and are listened by their leaders perform more in their tasks. So, TL deserves more importance for the organizations which ask for higher employee performance.

The popularity of the TL approach together with the growing numbers of women in managerial positions in the world has drawn attention to the question of whether women and men managers differ in their tendency to use TL behaviors, and how gender-role identify may relate to TL. Empirical researches in finance sector may answer this question because a plenty of women leaders have been available in especially banks of this sector. While some studies have searched gender and TL relationship in developed countries, there is a scarcity of literature about that relationship in developing and transitional countries.

Bosnia and Herzegovina (BiH) is one of these developing and transitional countries. It is a small country in the

heart of Balkan Peninsula. The conflict between 1992 and 1995 devastated this country. After Dayton agreement, BiH has started to lick its wounds and its economy has been developing slowly by the help of developed countries. The financial sector in BiH is one of the most fast growing sectors and has achieved significant reforms over the previous years. Especially public and private banks have a key role in the stability of the financial system throughout the recent crises in this country. Therefore, the purpose of the study is to search the relationship among TL, gender and employees' performance in the banks of BiH

Literature review

Transformational Leadership

TL have been studied and defined by many researchers but it was defined for the first time by Burns (1978) who was studying the behavior of political leaders and the ways they approach the power they have. According to him, TL is an attempt to motivate followers and to encourage individuals, groups and organizations to change for the better. TL enables followers to transcend their own self-interests for a collective higher purpose and to exceed performance expectations. Leaders who have TL properties communicate a compelling vision, provide symbols and emotional appeals to increase awareness of mutual goals, encourage followers to question traditional ways of doing things, and treat followers differently but equitably on a one-to-one basis (Antonakis, Avolio, & Sivasubramaniam, 2003). TL has five dimensions, as described below shortly:

Idealized Influence (Behavior): This component refers to the charismatic actions of the leader that focuses on values, beliefs and a sense of mission (Antonakis *et al.*, 2003). These charismatic actions include talking about his/her most important values and beliefs, emphasizing the collective mission and purpose, as well as considering the ethical implications of his/her decisions.

Idealized Influence (Attributed): It refers to whether or not the leader is seen as charismatic, powerful and confident and if the followers would like to be associated with him/her. It is the attribution followers give to their leaders.

Inspirational Motivation: It refers to the ways leaders take to inspire the followers to achieve both personal and organizational goals. The leader may do that by looking at the future optimistically and enthusiastically, by providing a realizable and acceptable vision with clear communication and by presenting followers ways to reach them. In return, leaders create meaning, challenge and motivation in their followers' work (Avolio and Bass, 2004).

Intellectual Stimulation: Dionne, Yammarino, Atwater, and Spangler (2004) suggested that this component refers to promoting intelligence, rationality and careful problem solving in followers, challenging followers to think creatively and to find solutions to difficult problems. The leader welcomes the new ideas and solutions given by the followers. She/he stimulates followers to think about new ways for old problems. In this way, followers will be able to see and solve the unforeseen problems by the leader (Avolio and Bass, 2004).

Individualized Consideration: This dimension refers to treating followers as individuals and not just members of a group (Dionne et al., 2004). It is the degree to which the leader attends to each follower's needs, acts as a mentor or coach to the follower and listens to the follower's concerns.

Among various factors which affect TL, demographic characteristics have been studied in the frame of leadership in general and this style of leadership showing mixed results. In terms of gender, there is a general opinion among researchers that women have superior leadership skills and that women's typical leadership styles tend to be more transformational than men's (Sharpe, 2000; Bass and Avolio 1994). A lot of researches have been done to identify the differences between men and women in the context of TL. But, no significant differences were found in TL between male and female bank managers at equivalent levels, whether leadership was self-rated or observer-rated by Manning (2002). For example, Mandell and Pherwani (2003) did not find any significant interaction between gender and emotional intelligence while predicting TL style.

Job performance

Job performance has always been reported as a significant indicator of organizational performance regardless of how it is conceptualized (Organ 1997). Many researchers have carried out a study on job performance behaviors from the aspects of both task performance and organizational citizenship behaviors (OCB) (Conway, 1999; LePine & Van Dyne, 2001; Motowidlo & Van Scotter, 1994; Van Scotter, Motowidlo, & Cross, 2000; Williams & Anderson, 1991). According to Motowidlo (2003), task performance is related to the proficiency of an employee in performing his/her job and contextual performance provides support to the performance of tasks in different organizational work environments.

The positive relationship between TL and task performance is supported by a great deal of research (Piccolo and Colquitt, 2006; Judge and Piccolo, 2004; and others). According to Bass (1985), transformational leaders provide

constructive feedback to their followers, convince followers to exhibit extra effort, and encourage followers to think creatively about complex problems. As a result, followers tend to behave in ways that facilitate high levels of task performance. In addition transformational leaders persuade followers to go beyond personal interest. According to Podsakoff, MacKenzie, Moorman, & Fetter (1990)' study, when followers associate their own success with that of their organizations' and identify with the organizations' values and goals, they become more willing to make a positive contribution to the work context. A study by Howell and Frost (1989) concluded that individuals working under a charismatic leader had higher task performance.

OCB is defined as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in the aggregate promotes the effective functioning of the organization" (Organ, 1988, p. 4). According to Organ (1988)'study, OCB is a type of optional job performance in which employees go beyond prescribed job requirements and engage in helping behaviors aimed at individuals and the organization as a whole, having the following five dimensions: altruism, which refers to helping behaviors aimed at specific individuals; conscientiousness, which refers to helping behaviors aimed at the organization as a whole; sportsmanship, which refers to the willingness on the part of the employee to tolerate less than ideal circumstances without complaining; courtesy, which refers to actions aimed at the prevention of future problems; and civic virtue, which refers to a behavior of concern for the life of the organization.

TL enhances OCB (Koh, Steers, & Terborg, 1995). Past researches have demonstrated that TL has a direct influence on OCB (MacKenzie, Podsakoff, & Rich, 2001; Podsakoff, MacKenzie & Bommer, 1996; Koh et al., 1995). Transformational leaders are assumed to "stimulate followers to perform beyond the level of expectations" (Bass, 1985, p. 32). Therefore, it seems likely that transformational leaders, by stimulating followers' OCB (Podsakoff et al., 1990), enhance quality and quantity of follower performance.

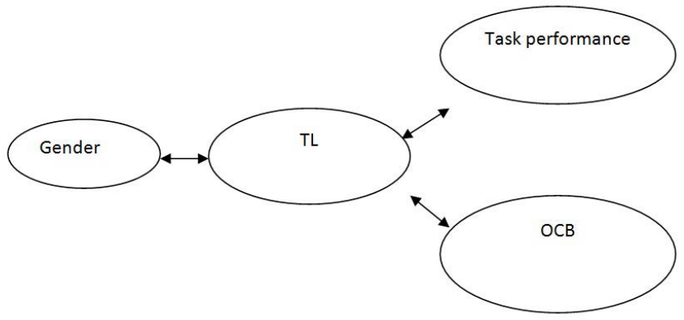
Both aspects of performance are important to reach organizational objectives because task performance is related to behaviors that are required to complete job tasks, while OCB is needed to safeguard and upgrade the organizational, social, and psychological environment in the organization (Van Scotter & Motowidlo 1996).

Many writers hold that leadership behaviors can facilitate the improvement of both leaders' leadership capability and induce or encourage employees to improve their performance, commitment and satisfaction. Based on the theoretical findings described above, this research was designed to address the following research questions:

Research Question 1: TL dimensions have positive significant relationship with innovative behavior, sportsmanship, conscientiousness, and altruism and task performance types of job performance in public and private banks of BiH.

Research Question 2: Manager Gender has a positive significant relationship with task performance of employees in public and private banks of BiH.

Proposed framework for the study:



Methodology

Sample Characteristics and Data collection

A three-page questionnaire with three sections was used to collect data. The first section of the questionnaire included 20 questions about TL. The second section consisted of 25 questions about task performance and OCB. Finally, the last section included demographic questions including 10 questions such as age group, gender, education, income and duration of employees in the public and private banks of BiH.

The survey was prepared in English and then translated into Bosnian language. The translation of the questionnaire was done by experts who know both languages and respective cultures. Retesting of the questionnaire was administered with 30 respondents chosen conveniently from some employees working in the banks. The purpose of retesting was to assess the validity of the survey. Ambiguous questions were evaluated again and finalized for data collection.

Data was collected from ten private and two public banks which are located in the capital city of BiH, Sarajevo. A total of 150 survey instruments were distributed to employees from four the banks. Participation was voluntary. The employees were requested to participate in the survey and to return the completed survey the next day. A total of 125 respondents returned surveys, of which 115 were usable.

As a summary of sample characteristics of the study, the majority of the respondents (74.8) were female and 75.2 of these employees were more than 31 years old. The majority of employees working in private banks were 83.5. Predominant education of the employees (92.2 %) was bachelor, master and doktorate level. The majority (80.9 %) of employees' total work experience was more than 5 years. Finally, the majority of respondents' managers (60 %) were women. Demographic information about employees was analyzed through frequency and descriptive statistics. For testing correlations among two variables, Pearson's correlation analysis was used.

Measures

All of the questions were measured with a five-point Likert scale, with scale anchors ranging from "1" (strongly disagree) to "5" (strongly agree).

Transformational Leadership

Participant employees completed the 20-item Multifactor Leadership Questionnaire (MLQ) developed by Bass & Avolio (1994). Sample item is "My manager seeks differing perspectives when solving problems".

Job Performance

Employees completed the 25-item questionnaire including task performance and OCB adapted from seminal works by prominent scholars in the job performance field, such as Morrison and Phelps (1999), Podsakoff and MacKenzie (1990), Van Dyne and Le Pine (1998), and William and Anderson (1991). Sample item is "I speak up for new changes in this department/organization".

Data analysis and Results

The construct validity of two scales was done with exploratory factor analysis by analysing the initial factor structure (Churchill, 1979). From two variables, the TL scale with 20 items was analysed firstly. Following one-step process, a clear structure of dimensions and items was achieved. In the analysis, principal component analysis was used as the factor extraction method, and the varimax method was used for the component rotations. After one run, only one item in this scale was extracted from further analysis due to lower loading than .40. Item excluded from analyses is "My manager spends time teaching and coaching". So, 19 items with three dimensions emerged. The remaining factor structure is presented in Table 1.

Secondly, job performance scale with 25 items was analysed. Following a five-step process, a clear structure of dimensions and items was achieved. After five runs, three items (Item 4, 6, 14) in this scale were removed from further analysis due to cross-loading on two components. Two items (Item 12 and 13) were also extracted because of lower loading than .40. Thus, 20 items with five dimensions emerged. The remaining factor structure is presented in Table 2.

Table 1: Results of Exploratory Factor Analysis for Transformational Leadership Scale

Components and Items	Component					Cronbach's Alpha
	1	2	3	4	5	
TRANSFORMATIONAL LEADERSHIP						
1. Idealized Influence (attributed)						0.94
1. seeks differing perspectives when solving problems	,854					
2. gets me to look at problems from many different angles	,835					
3. treats me as an individual rather than just as a member of a group	,789					
4. helps me to develop my strengths	,779					
5. considers me as having different needs, abilities, and aspirations from others	,777					
6. considers the moral and ethical consequences of decisions	,696					
7. acts in ways that builds my respect	,690					
8. goes beyond self-interest for the good of the group	,686					
9. re-examines critical assumptions to question whether they are appropriate	,669					
10. suggests new ways of looking at how to complete assignments	,665					
11. instills pride in me for being associated with him/her	,652					
12. emphasizes the importance of having a collective sense of mission	,644					
2. Inspirational Motivation						0.82
13. talks enthusiastically about what needs to be accomplished		,782				
14. articulates a compelling vision of the future		,733				
15. expresses confidence that goals will be achieved		,732				
16. talks optimistically about the future		,693				
3. Idealized Influence (behavior)						0.70
17. specifies the importance of having a strong sense of purpose			,763			
18. talks about their most important values and beliefs			,736			
19. displays a sense of power and confidence			,699			

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

One indication of the reliability of the dimensions in two scales is that the Cronbach alpha value exceeds .70 mostly (Nunnally, 1978).

Table 2: Results of Exploratory Factor Analysis for Job Performance Scale

JOB PERFORMANCE	1	2	3	4	5	Cronbach's Alpha
1. Innovative behavior						0.87
1.speak up for new changes in this department/organization	,876					
2.make recommendations on issues that affect the department/organization	,831					
3.try to make constructive suggestions for improving how things operate in this department/organization Innovative behavior	,813					
4.try to institute new more effective work methods for the department/ organization	,665					
5.try to make innovative suggestion to improve the department/organization	,642					
6.try to adopt improved procedures for the department/organization	,545					
2. Sportsmanship						0.75
7. always complaining about work		,824				
8. always pay attention to matters that are negative rather than on matters that are positive		,795				
9. always find fault with what the organization is doing		,747				
10. always complains about things that are not important		,583				
3. Altruism						0.74
11. help others who have heavy workload			,831			
12. help others who have problems with their work			,814			
13. always ready to offer help to those around me			,662			
4. Task Performance						0.70
14. meet formal performance requirements of the job				,793		
15. adequately completes assigned duties				,736		

16. perform tasks that are expected from me				,720		
5. Conscientiousness						0,54
17. involved in activities that are relevant to my yearly performance assessment					,742	
18. attend meetings that are not compulsory but are considered important					,670	
19. often work beyond office hours even though not being asked to					,536	
20. keep up to date with changes in the organization					,519	

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Table 3 shows the means, standard deviations, and correlations for the variables used in the study. Most of the respondents identified the presence of job performance ratings, innovative behavior (mean 3,98), task performance (mean 4,08), altruism (mean 4,33). The idealized influence has the highest ratings of TL. According to results of the study, relationships exist between some variables of the study. While idealized influence (attributed) type TL was strongly and positively correlated with conscientiousness type job performance ($r = .47$; $p < .05$), significant and positive correlation existed between inspirational motivation TL and conscientiousness type job performance ($r = .29$; $p < .05$) and idealized influence (behavior) TL and conscientiousness type job performance ($r = .28$; $p < .05$). Research question 1 of the study stated that TL dimensions have positive significant relationship with innovative behavior, sportsmanship, conscientiousness, altruism and task performance type of job performance in public and private banks of BiH. Thus, these findings partially supported research question 1.

However, research question 2 of the study stated that Manager Gender has a positive and significant relationship with task performance of employees in public and private banks of BiH. According to results, there is a positive and significant correlation between manager gender and task performance type of job performance ($r = .22$; $p < .05$). So, this finding supported research question 2.

Table 3: Mean, Standard Deviations and Correlations

Variables	Mean	Std. Deviation	1	2	3	4	5	6	7	8	9
Idealized influence (Attributed)	3,22	,90	1								
Inspirational Motivation	3,41	,77	,64	1							
Idealized influence (Behavior)	3,47	,75	,57	,46	1						
JP (Innovative behavior)	3,98	,58	,16	,12	,17	1					
JP (Sportmenship)	3,66	,78	,07	,13	,11	,20	1				
JP (Conscientiousness)	3,35	,83	,47*	,29*	,28*	,31	-,05	1			
JP (Altruism)	4,08	,56	,02	,03	,05	,34	,20	,17	1		
JP (Task performance)	4,33	,55	,10	,04	,16	,40	,16	,04	,20	1	
Manager gender	1,60	,49	-,24*	-,20*	-,11	,07	,19*	-,10	,16	,22*	1

* $P < 0.05$

Conclusion and Limitations

This study tried to examine the relationship between TL, gender and job performance of the employees in private and public banks in BiH. Consistent with research questions, TL was positively and significantly related to employees' conscientiousness type of job performance while a positive and significant relationship between gender and task performance type of job performance. These findings are mostly consistent with the literature.

According to findings of the study, all TL types had positive and significant relationship with conscientiousness type job performance of employees in banks. Conscientiousness job performance refers to helping behaviors aimed at the organization as a whole. Employees who are inspired by their charismatic leaders and who face positive approaches for their problems in their banks show helping behaviors toward every person of the organization. This conscientiousness of the employees enhance the performance of the banks substantially. This result of the study reflects a reality that the financial sector in BiH is one of the most fast growing sectors and especially public and private banks have a key role in the stability of the financial system throughout the recent crises in this country.

However, gender had a positive and significant relationship with task performance type job performance of employees in the banks of BiH. Women managers have some advantages in working life. For example, they are hard workers, thinking all details of tasks and trying to complete their tasks on time. These types of characteristics of women managers have always positive effects on subordinates. Thus, the employees who are motivated by hard working women managers increase their performance and organizational performance indirectly.

The study have some limitations Firstly limitation is related to the size of the selected sample. Surveys with higher sample sizes can give better ideas about the leadership perceptions of employees about business practices in BiH. Surveys with higher sample sizes can give better ideas. Secondly, the study survey could also be conducted in other cities of BiH. The approaches of the managers and employees may be different in the banks of small cities. Future studies should focus on effects of TL and gender on employees' job performance in the banks of BiH.

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The Relationship among Ethical Leadership and Organizational Citizenship Behavior: a study of private primary and high school teachers in Bosnia and Herzegovina

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ABSTRACT

As a recent modern concept, ethical leadership inspires researchers in many ways. Relations between ethical leadership and organizational citizenship behaviors, though a new field of study, is a big mine that requires some digging. The so-called extra-role or pro-social actions of employees is called the organizational citizenship behavior meaning that whatever extra job they do than what they are supposed to do is within Organizational Citizenship Behavior. Namely, how the school teacher's perception of his/her superior's ethical behavior influences the organizational citizenship behavior has evoked curiosity in the developing country context. This study tries to examine the effects of the ethical leadership on Organizational Citizenship Behavior of private primary and high school teachers in Bosnia and Herzegovina which is a developing and transitional country. Data collected from 80 teachers. The relationship among multiple variables is evaluated on the basis of factor analysis, reliability, descriptive statistics, correlations, and linear regression. The study showed a positive and strong influence of ethical leadership on teachers' organizational citizenship behavior in private primary and high schools.

Keywords: Organizational citizenship behavior, ethical leadership, factor analysis, correlation, regression.

Introduction

The top administrator of a school is perceived as the moral captain of the whole organization and he could be named as the chief ethics officer. This image is powerful emanating strong messages to the teachers whose actions and ideas are impacted by it (Trevino, Hartman and Brown, 2000). One of the newest phrases, ethical leadership (EL), is a late subject in the school related academic writings, thus gaining to attract rapid interest due to its relevance to a better life quality (Carlson and Perrewe, 1995). A moral pioneer is a genuine and reasonable individual, human centered and goes about as a good example for moral conduct (De Hoogh & Den Hartog, in press; Brown & Treviño, 2005; Kanungo, 2001). Moral authority is another idea that is turning out to be additionally fascinating for scientists. Moral pioneers demonstrate moral conduct and they attempt to make a moral atmosphere in the association. (Brown & Treviño, 2006; Kanungo, 2001). At the moment, there is little empirical evidence about EL (De Hoogh & Den Hartog, in press). Like Aronson (2001) argues: "It will be of interest to examine the effects of ethical leaders on followers." Additional part conduct is a type of Organizational Citizenship Behaviors (OCB). OCB is an expert social conduct that can be depicted as optional work execution (Hoffman, Blair, Meriac, & Woehr, 2007). It is fascinating to research the impact of moral authority on organizational citizenship conduct since this conduct may add to organizational achievement (Podsakoff and MacKenzie, 1997). This study tries to examine the effects of the EL on OCB of private primary and high school teachers in Bosnia and Herzegovina (BiH), which is a developing and transitional country. For a higher school performance, the levels of courtesy, compliance and altruism of teachers in relation to EL are important. There is a scarce research about how EL affects OCB of private primary and high school teachers in developing countries like BiH. In our paper the main focus will be on the relationship between ethical leadership and the extra-role behavior of teachers.

Literature Review

Ethical Leadership

The characteristics of ethical leaders in one of the most used definitions of EL is summarized as: "[t]he demonstration of normatively appropriate (e.g., honest, trustworthy, fair, and caring) conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement through providing ethical standards, rewarding ethical conduct, and discipline the wrongdoers, and decision-making by understanding the importance of their decisions and making fair decisions" (Brown, Trevino, & Harrison, 2005, p. 120). Brown et al. (2005)'s EL conceptualization depend on social learning theory (Bandura, 1977) concentrates on the idea that when ethical leaders such as administrators are available in the work environment as role models, employees have always tendency to emulate them. Employees who try to take their leaders as role models show some behaviors in favor of their organizations. These employee outcomes are explained by Social exchange theory (Blau, 1964)**.** This theory which is based on reciprocity idea suggests that individuals feel obligated to return when they see fair and good behaviors toward them. Thus, employees who are influenced by their ethical leaders tend to demonstrate extra efforts for their organizations. EL and its relationship with outcomes have been studied by some researchers in the area of management and organizational behaviour (Neubert, Carlson, Kacmar, Roberts, Chonko, 2009; Brown and Trevino, 2006). In particular, Brown et al. (2005) clearly showed the consequences of EL and its relationship with OCB.

Organizational Citizenship Behavior

OCB which has been searched mostly because of its direct effects on performance of organizations is defined as "individual behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate promotes the efficient and effective functioning of the organization" (Organ, 1988, p. 4). Helping orient new employees although it is not required; attending important meetings that are not obligatory; or helping co-workers who have been absent from work can be some OCB examples (Ryan, 2002). Organ's (1988) five-dimension model of OCB is one of the most famous models **(**Hoffman, Blair, Meriac, Woehr, 2007). These five dimensions are altruism, courtesy, conscientiousness, civic virtue, and sportsmanship. Mayers (1993) defined altruism as "helping others without any expectations and concerning others". "Courtesy is among the work values that is related to ethical behavior" (Herrbach and Mignonac, 2007). Compliance implies that somebody's conduct is consistent to the given standards, tenets and expectations. Based on the information given above the following research questions will be tested in this study:

Hypothesis 1: EL behaviors have strong and positive influences on teachers' courtesy behaviors in private primary and high schools in BiH.

Hypothesis 2: EL behaviors have strong and positive influences on teachers' compliance behaviors in private primary and high schools in BiH.

Hypothesis 3: EL behaviors have strong and positive influences on teachers' altruism behaviors in private primary and high schools in BiH.

Hypothesis 4: EL behaviors have strong and positive influences on teachers' OCB in private primary and high schools in BiH.

Research Methods

Sample Characteristics and Data collection

A two-page questionnaire with three sections was used to collect data. The first section of the survey included 18 questions about OCB. The second part had 10 questions about EL. The third part had questions related to the school teacher demographics. The items of the demographics survey consisted of gender, age, position in the company, school degree, current job experience and total job experience of private school teachers in BiH. The survey, originally in English, was translated into Bosnian language by experts who know both languages and cultures. Data was collected from private schools which are situated in the capital of BiH, Sarajevo. A total of 100 surveys were handed to teachers of two private primary schools and two private high schools who voluntarily filled in the questionnaires. A total of 80 respondents returned the survey and all surveys were fit to use. Concisely, the sample characteristics of the study included 62.8% females and 35.9% of these female teachers were more than 31 years old. The level of education among teachers were

amazingly high, out of 98.7% of teachers who had a bachelor's degree 34.6% of them also possessed at least a master's degree. The majority (51.3%) of teachers' total work experience was more than five years. Demographics and general information about employment were analyzed through frequency and descriptive statistics. Data for demographics is shown on Table 1. For testing correlations among two variables, Pearson's correlation analysis was used. Linear regression analysis was used to test the dependent and independent variables. Correlation, linear regression and descriptive analyses were done by using SPSS 18.0 version.

Table 1: Demographics

	Demographics	Number	Valid percent
Gender	Male	29	37.2
	Female	49	62.8
	Total	78	100
Age	20 years or below	2	2.6
	21-25 years	7	9
	26-30 years	31	39.7
	31-35 years	28	35.9
	36-40 years	7	9
	41 years or above	3	3.8
	Total	78	100
Position	Teacher	69	88.5
	Associate Prof.	1	1.3
	Assist. Prof.	1	1.3
	Assistant	1	1.3
	Coordinator	3	3.8
	Department Head	1	1.3
	Other	2	2.6
	Total	78	100
Degree	High School	1	1.3
	Bachelor Degree	50	64.1
	Master Degree	24	30.8
	Doctorate Degree	3	3.8
	Total	78	100
Experience in current job	Less than 5 years	55	70.5
	5-10 years	13	16.7
	10-15 years	10	12.8
	Total	78	100
Experience in total	Less than 5 years	38	48.7
	5-10 years	24	30
	10-15 years	14	17.9
	More than 15 years	2	2.6
	Total	78	100

Measures

All of the questions were measured with a five-point Likert scale, with scale anchors ranging from "1" (strongly disagree) to "5" (strongly agree).

Organizational Citizenship Behavior

The participants of the survey completed the 18-item organizational citizenship behaviors scale developed by Organ and Lingl (1995). One sample item is "I offer suggestions to improve the school performance".

Ethical Leadership

The participants of the survey completed the 10-item ethical leadership scale developed by Brown et al. (2005). One sample item includes "When making decisions, they ask employees what is the right thing to do".

Data Analysis and Results

The construct validity of two scales was done with exploratory factor analysis (EFA) on the SPSS platform, where the initial factor structure is examined (Churchill, 1979). From two variables, the OCB scale with 18 items was analysed firstly. After finishing the one-stage process, a correct structure of dimensions and items was accomplished. In the testing phase, principal component analysis was utilized as the factor extraction strategy, and the varimax system was wielded for the component rotations. Taking two runs, only two items in the OCB scale were removed from further analysis due to a lower loading than 0.40 and thus 16 items with three dimensions came to light. Table 2 refers to the remaining factor structure. A second scale (EL scale) made of 10 items was processed successfully for all 10 items. As a result, 10 items with one dimension were made ready for further data analysis. Table 3 shows the remaining factor structure.

Table 2: Results of Exploratory Factor Analysis for OCB Scale

Components and Items	Components			Cronbach's Alpha
	1	2	3	
Organizational Citizenship Behavior				
1. Courtesy				0.87
1. I share personal property with others to help their work.	0.82			
2. I help orient new people.	0.78			
3. I offer suggestions to improve the school performance.	0.73			
4. I demonstrate concern about the image of the school.	0.71			
5. I always respect the rights of other employees.	0.71			
6. My attendance at work is above average.	0.6			
7. I stay informed about school notices.	0.51			
2. Compliance				0.90
8. I always follow the rules of the school and institution.		0.78		
9. I am always early for work to get ready.		0.75		
10. I never abuse my own rights and privileges.		0.75		
11. I always complete work on time.		0.75		
12. I always treat school property with care.		0.7		
13. I maintain a clean workplace.		0.65		
3. Altruism				0.77

14. I do my colleague's work when he takes a one day leave of absence.			0.86	
15. I voluntarily attend and participate in meetings regarding the school, even it is not obligatory.			0.71	
16. I help others who have a heavy workload.			0.64	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

The Cronbach alpha values are higher than .70 in both scales indicating the high reliability of factor dimensions (Nunnally, 1978).

Table 3: Results of Exploratory Factor Analysis for Ethical Leadership Scale

Components and Items	Components			Cronbach's Alpha
	1			
Ethical Leadership				0.92
1. They set an example of how to do things the right way in terms of ethics.	0.88			
2. They make fair and balanced decisions.	0.87			
3. They value employee suggestions	0.84			
4. They define success not just by results but also the way that they are obtained.	0.84			
5. They listen to what employees have to say.	0.84			
6. When making decisions, they ask employees what is the right thing to do.	0.83			
7. They can be trusted.	0.75			
8. They discuss business ethics or values with employees.	0.73			
9. They conduct their private life in an ethical manner.	0.68			
10.They discipline employees who violate ethical standards.	0.56			

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Table 4 shows the means, standard deviations, and correlations for the variables used in the study. While the courtesy variable received the highest mean (4.58), the EL variable had the lowest mean of 4.09. According to the results of the study, strong relationships exist between all variables. EL shows a positive and strong correlation with OCB variables courtesy (R= 0.562; $p < 0.01$), compliance (R= 0.374; $p < 0.01$) and altruism (R= 0.331; $p < 0.01$).

Table 4: Mean, Standard Deviations and Correlations

Variables	Mean	SD	1	2	3	4
(1) Ethical Leadership	4.09	0.77	1			
(2) OCB_courtesy	4.58	0.50	0.562**	1		
(3) OCB_compliance	4.54	0.60	0.374**	0.675**	1	
(4) OCB_altruism	4.29	0.73	0.331**	0.524**	0.566**	1

*P < 0.05, **P < 0.01

Table 5 shows the results of regression analysis on EL with respect to OCB variables courtesy, compliance and altruism. In the hypothesis 1, it was stated that EL behaviors have strong and positive influences on teachers' courtesy behaviors in private primary and high schools in BiH. The respondents showed that teachers' courtesy behaviors in private primary and high schools were positively and strongly influenced by EL behaviors (β= .370). Hypothesis 2 predicted that EL behaviors have strong and positive influences on teachers' compliance behaviors in private primary and high schools in BiH. The study findings supported it (β= .292). According to hypothesis 3, EL behaviors would have strong and positive influences on teachers' altruism behaviors in private primary and high schools in BiH. The results of the study also strongly supported this hypothesis (β= .314). Finally, all OCB types of teachers were positively and strongly affected by EL behaviors of administrators in private and high schools. Thus, hypothesis 4 was supported.

Table 5: Results of Regression analysis

Variable	t-value	Beta	p-value
Ethical leadership			
Courtesy	5,92	0,370	0,000
Compliance	3,51	0,291	0,001
Altruism	3,06	0,314	0,003

Conclusion and Limitations

In this research, it is sought to examine the influence of the independent factor of EL on the dimensions of OCB, namely courtesy, compliance and altruism. Consistent with the hypotheses, all three OCB variables were positively and significantly related to EL which is definitely in line with the literature. Courtesy refers to "work values that are related to ethical behavior" (Herrbach and Mignonac, 2007). Altruism is "helping others without any expectations and concerning others" Mayers (1993). Compliance implies that somebody's conduct is consistent to the given standards, tenets and expectations. OCB is an expert social conduct that can be depicted as optional work execution (Hoffman, Blair, Meriac, & Woehr, 2007). Since courtesy, compliance and altruism are among the OCB variables, OCB find itself positively and significantly correlated with EL behavior. This can be translated as, if the EL is better, teachers will show a better OCB. However the study has some shortcomings such as the limited size of the selected sample or having been conducted only in a small area of BiH at a small number of private schools in Sarajevo. Future surveys with high sample sizes in a wider scope of educational institutions in BiH may be more informative about the relation between EL and OCB.

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Impact of Migration on Labor Force Outcome: Albanian Case

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ABSTRACT

Using the evidences done by migration theories, the paper documents the phenomena of Albania in internal and external migration case, a country that since 1990 have evolved from an closed economy to open one. The economic impact is also affected by the skills level of migrants. If Albanian migrants are unskilled workers and they go to another country, like the case of Greece and Italy, and native workers are skilled, it means that they are complements. With allowing free migration, labor will move from Albania to EU countries in order to earn higher wages and for better conditions. Thus, the main effect of migration is that it raises the wage sending country and reduces the wage of receiving country but employment level increases, one of the macroeconomic goals. According to predictions of European Community, in a report of economical situation the decrease of remittances is compensated with increase of FDI. This period has structured an encumber of receiving efficient FDI for Albania. Multinomial logit model is used as an econometric approach to find out what the main characteristics of Albanian emigrants labor force and how they have effected in migrating decision?

Keywords: *emigration, migration, remittances, unskilled workers*

1. Introduction

Albania was under communist regime during 1944-1990. Migration was officially prohibited and for those families and emigrants that left the country was punished. When the communism era was at the end, started a new era of movement of emigrants, internally or externally, and also the planned economy came to its end. Migration, whether rural to urban or international, has emerged as the most efficient living approach and as the escape control device for unemployment and other economic difficulties. Supported by geographical conditions many Albanian households saw migration, temporary or permanent, as an effective strategy for improving their economic conditions.

By many accounts, number of Albanian emigrants started to increase year by year. In real numbers the persons who left the country to migrate were 600,000 (King and Vullnetari 2003) and 3 years later the number of immigrants increased to 800,000 (Barjaba 2006). The major source of income for Albania, except agricultural source, is the remittances from migrants. This made the 14 percent of Gross domestic product (GDP) for 2005 and translated to digits it was $1 billion. Remittances that serve as the most important source, in comparative with other incomes, translated to facts are as above: are twice large than volume of exports, around to 7 times more than the volume of the foreign aid and around to fivefold the volume of foreign direct investments in Albania (Barjaba 2005). Based on Albanian Institute of Statistics (INSTAT) and 2005 Albanian Living Standards Measurement Survey (ALSMS), the main objective of this paper, taking in consideration the dynamic trend of Albanian migratory phenomenon, is to construct a model about migration and to update the knowledge through answering to some questions. The migration module helps us to characterize and conclude the evolution and its effect since it began in 1990. Specially, the paper will analyze the effect of Albanian migration using a regression model, allowing the model to assess the influence of changing conditions e.g. demographic changes, other time dependent variables, economical standards and economical shocks. The main questions that paper is using to give answers are related with policy dialogue on migration in Albania. Are migration and remittance flow effecting Albania positively enough? Is socio-economic effect make up the household's decision to migrate permanently? How these movements effect the GNP of other countries?

2. Background

During the communist era (1944-1990), migration was prohibited by regime of the leader Enver Hoxha, establishing the closest and the most isolated country in Europe. The emigration wave began in 1990 with the collapse of the regime. The migration started for political and socio-economical reasons. Control of internal and external migration came to an end, also with the central economy which started to expand, concluded to a demographic shift as the individuals and households started to leave the cities and also the country. Political instability, social unrest and economic downturn associated with the change in government with number of 300,000 individuals leaving the country between 1991-1992 mostly in Greece and Italy (Piperno, 2002).

After 1992, stabilization of the country (seemed to be so for a while), brought a reduction of migratory flow.

Inflation reduced 10 percent in 1995 from 226 percent in 1992. A reduction was seen also in unemployment level with a decreasing rate from 28 percent to 12 percent. The migration flow also affected in the GDP level, from 7.2 percent to 9 percent

Since the migration flow increased year by year, remittances became an important part of the Albanian GDP. For a period of four years (1995-1999) in terms of official remittances, Albania was ranked as the 6th country receiving a huge amount of remittances and in terms of remittances per capita it was ranked as the 14th country (Carletto, 2004; Davis, 2004).

Another factor that shaped the Albanians economy position was the "pyramid" schemes held in the late 1996. It has its origin from the informal and unregulated financial system of government. More than 2 million deposits were made, translating into numbers were more than half 1996 GDP as people sold their livestock, houses and other assets in promise that they will take 40 percent monthly returns on investments. Collapse began in November 1996 when thousands of people left the country starting from the Vlore distinct. The economic conditions started to deflate and brought to a decrease of GDP by 7 percent in 1997.

After recovery of the economy, during 1998-2002, by the end of 2001, Albanians accounted for 10.5 percent of emigrants living in Italy, translated to digits, 144,120 from 1.36 million immigrants. As one of the members of the family goes in immigration, it has also permission to make a reunification and this was accounted to 26 percent and Albanians remain the largest group. From this, 58 percent of all immigrants have work and resident permit (CARITAS, 2010). For the host country this brought an aggregate shift of 21.5 percent. Total number of Albanians living in Italy is approximately 164,000 in 2001 (Sabatino, 2003). Another country that has a large number of Albanian immigrants is Greece. It accounts 60 percent of 720,000 applications made for resident permits. In 2008 Greek Census showed 800,000-1,000,000 Albanians living in Greece (OECD 2003). Combining the results for 2 countries, by 2003 the Albanians legally residing in Italy and Greece was 570,000. As a fact, this does not include 30,000 individuals that live in those two countries illegally.

The current migration process of Southern European is based on the demand for cheap labor force and in the most cases illegal because employees do not have to pay social insurance. Migration is often illegal, bringing a climate of abuse and social marginalization. Albanians are migrating in very different social conditions from those of Southern Europe migration from Italy, Greece and Spain. An important role was played by the media, foreign one, which in most of the cases blamed on Albanian immigrants as criminals and social ills.

3. Internal mobility

Most of the dates are collected from ALSMS and INSTAT to have a clear view of internal mobility. Two thirds of the household heads are currently living in the same districts where they are born and 42 percent have moved to municipalities where they currently lived. This mobility and living distribution is not the same in all the years. The movement can be distinguished from the rural and urban zones between two years in 2001 when the movement was in its peak and in 2011 from the last census. In 2001, 47 percent have lived in urbane zones, in comparison with 2011 where 54 percent live in urban zones (INSTAT 2001 and 2011).

Referring to ALSMS, by contrast, 76 percent of rural Coast, 94 percent of rural Mountain and 76 percent of rural Center have always lived in the same zones (Carletto, 2004). Translated into words these numbers show a significant migration rural-urban, apart mountain Mountain region. The city that hosted most of the internal immigrants is Tirana. Migration toward this city has started from 1995 and is going on with more than the same rate of movement. Peaks of the movement coincide with the three major events in Albania. First movement started with the fall of the communist government and the second one with the collapse of the pyramid schemes. Until nowadays in Tirana, not more than 40 percent of the residents are individuals that are born in this city. Overall Tirana is the main absorbing city of all the time, registering 30 percent of inflow and almost no outgoing internal migration. Table 2 reports the distribution of the population until 2011, according to prefecture. Starting from 2001 the main districts like Korce, Diber and Vlore are the main expelling during the 12 years (CENSUS 2011). Adding together it makes a net outflow of over 143,000 individuals from 1989 to 2010 (Stampini 2011). Accounting in absolute numbers, the district of Tirana, in last decade, has been the destination for most of the migrants moving internally, it has received around 350,000 immigrants by last decade and it is followed by Durres receiving over 50,000 and Lushnje receiving over 14,380 immigrants.

Table 2 shows the current distribution of the population after internal mobility. Related to internal immigration the largest outflows are seen in the districts of Diber, Kukes, Berat and Korce. Conversely, for international migration, largest source are districts of Tirane, Vlore, Durres, Korce and Shkoder since they are located to the gateway of Greece, Italy and beyond. Tirana is the principal destination for all the five main expelling districts absorbing more than 70 percent of migrants. Durres is the second destination absorbing 15-20 percent. Lushnje, receives more of the neighbor cities like Librazhd, Gramsh and etc.

Table 1: Resident population according to prefectures

Prefecture		Resident Population	Surface	Density
Total		2 800 138	28 748	97
Berat		141 944	1 798	79
Diber		137 047	2 586	53
Elbasan		295 827	3 199	92
Fier		310 331	1 890	164
Gjirokaster		72 176	2 884	25
Korce		220 357	3 711	59
Kukes		85 292	2 374	36
Lezhe		134 027	1 620	83
Shkoder		215 347	3 562	60
Tirane		749 365	1 652	454
Vlore		175 640	2 706	65

Source: INSTAT

Till now, this thesis constructs the distribution of population in the cities and distinguishes the most absorbed one. But does this redistribution affect in the wages of labor force?

3.1 Effects of migration on Labor Market

Native wage of migration depends on educational level and training level. Albania has a labor force with around 53 percent of population less skilled which effects in minimum wage of the unemployment rate. Isn't this a bit contradictory?

By the basic law of the economy if wage level increases the labor supply will increase too. But in Albania, the wage level is decreasing, since in most of the cases the wage floors are not official and a considerable labor force work unofficially. Differences in wage are the main causes of migrating (Hicks, 1932). Regions that have a shortage in of labor relative to capital are characterized by a more than normal equilibrium wage whereas regions with a large supply of labor relative to capital are characterized with minimum wage equilibrium (Labor Economics, G.J. Borjas).

In the modern economic theories, individuals migrate to minimize the risk sharing behavior. In the case of Albania, the solution is seen by sending some family members outside the city or in foreign countries. Average optimal wage in Albania is 37,000 leke and minimum one 21,000 leke. The main question is: What is the impact of regional gaps in the labor market?

Figure 1: Impact of regional gaps

(a) Less populated cities (b) More populated cities

Source: Labor economics edition; George J. Borjas

In the graphs above the price and quantity represent wage and employment respectively. Suppose that the less populated cities the number of working force is becoming less after moving to metropolis. In this way labor supply, represented by (S), is shifting leftward which show reduction of labor force willing to work, which brings a new equilibrium, reduction of quantity labor (Q) and an increase in wages (P).

Since the wages are higher in Tirana, suppose is figure 1 (b), individuals moved from less populated cities, become residents of Tirana. In this case, the labor force will increase shifting the supply curve to the right and creating a new equilibrium which will increase the number of employment (Q) but will decrease the wage level (P).

Decreasing of the wages in Tirana, will push the labor force to move to the higher level wage cities. By this theory, the wage level

is never constant until the internal migration will continue since it brings new equilibriums in the labor market. This impact is created because labors have substitute effect to each other across cities.

3.2 Net migration

Migration can affect the differences in income and also affect the living standards of one country creating a balance between natural resources and potentials of a region. Albania is a country in move, internally and externally. It has an unstable character of internal migration and it has created imbalances of economical and demographical character. The fact that migration has a positive impact on recipient population cannot be seen in Albania. Most of the migrating population is aiming the cities of Tirana and Durres mostly. The negative impacts are as follow:

1. The arrival of immigrants in recipient cities has created a chaotic system. It includes the areas of water pipelines, housing, education and urban living standards. This makes the urbanization more difficult to be controlled.
2. Such huge movements of immigrants toward main cities makes necessary to increase investments in infrastructure and constructing which tends to be chaotic.
3. An increase of population, despite level of skills, increase unemployment level since labor force supply increases. Also this leads to increase of the informal market.

3.3 Characteristics of migrants according to migration flows

In order to have an effective study of internal migration, according to INSTAT, it is distinguish four regions of migration flows. The distinction between regions of flow, have different characteristics, both economical and social. We are interested in economical one related to labor force market, how the skills level effects and how it changes the labor market.

1. Migrants coming from Eastern region (Kukes and Diber) migrate toward center of country.
2. Migrants coming from inner regions (Korce, Berat, Shkoder, Gjirokaster, Elbasan) migrate toward the center of country.
3. Migrants coming from secondary coast (Lezhe, Vloree, Fier) migrate toward the center of country.
4. Migrants coming from inner regions and migrating to secondary centers.

According to neo-classical theories of migration, the phenomena of migration tends to make a balance between two regions in production factors like capital and labor force due to flow of people, and other goods and capital.

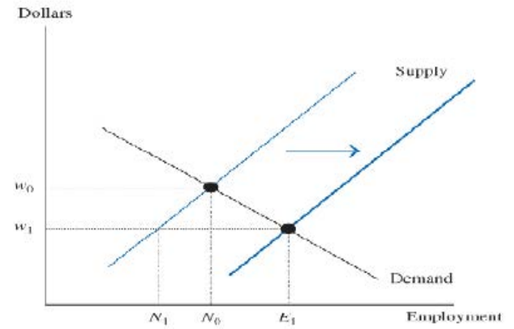
Movement of immigrants does not affect only the demographic level, but it affects also the level of education and employment too. Major problem of all immigrants is their integration in the local labor market. In contrast to neoclassical theory's arguments, internal migration in Albania has contributed to the concentration of the young labor force of the country.

4. Effect of visa free regime for Albania

On December 2011, Albania took the right to travel to Schengen zone. Over 1.2 million Albanians have used their newfound freedom to travel to 28 nations that are inside of Europe's zone or inspire to join it. In order to make this trip Albanians should have a biometric passport, health insurance proof and a fund that covers all the travel expenses as well. The concernment should be not more than three months in the host country. This is the first step toward the adoption of Albanians to a foreign country policy. But what will be the effect on labor force of entering to European Union?

Migration case can be divided in two sub-cases to see full effect. The first one is if immigrants and natives are perfect substitutes in production. In other words immigrants and natives have the same type of skills and are competing for same jobs. Impact of migration in labor market is illustrated in figure 2.

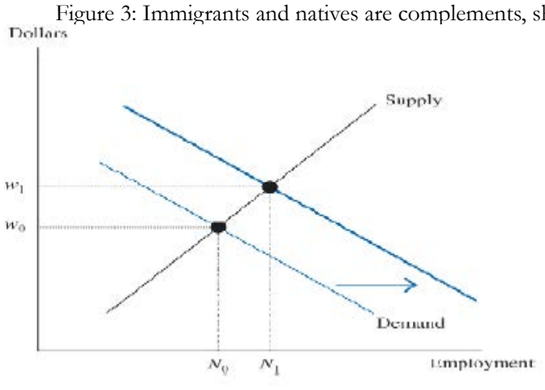
Figure 2: Perfects substitute case; short-run impact



Source: Labor economics edition; George J. Borjas

In case when immigrants enter the labor market the supply curve will shift to the right, creating a new employment level from N_0 to E_1 and reducing wages from W_0 to W_1. With lowering wages case note that few native workers are willing to work at this lower wage, shifting the employment of native workers from N_0 to N_1. This is work on the sense that immigrants will have more opportunity to work in these jobs. The assumption that native workers and immigrants are substitutes for each other is questionable. In the case that immigrants and native workers are not competing for the same jobs it means that they are complementary for production. Immigrants affect is higher in this case because their presence increases native production. Since natives and immigrants are complements, natives can be specialized in skills that can do better. So, marginal product of natives will increase with the number of immigrants and demand curve will shift up for native workers. In figure 3 it is shown the effect of increase in native productivity that raises wage from the level of W_0 to W_1.

Figure 3: Immigrants and natives are complements, short-run case



Source: Labor economics edition, George J. Borjas

Since the wages are higher than before, for other workers that didn't find it useful to work, it will be an incentive and employment level will increase from N_0 to N_1. From this two theories it can be simply analyzed the Albanian case. A considerable number of Albanians are migrating to other countries so it can be seen as positive for native workers related to second case when natives and immigrants are complements. The prospect of large scale immigrants from Albania is a source of concern whether migration of Albanians, like the case of the Italy and Greece where immigrants from Albania are in greater rates, will decrease the wages and increase unemployment. With allowing free migration, labor will move from Albania to EU countries in order to earn higher wages and for better conditions. Migration stops in moment when EU countries and Albania will offer the same wage level. Thus, the main effect of migration is that it raises the wage sending country and reduces the wage of receiving country but employment level increases, one of the macroeconomic goals. This assumption is also questionable because in reality labor is differential according to the level of education, ability to move, experience and other factors.

In case of Albania, no empirical study can prove the fix effect that immigrants have on wages and employment level related to the EU countries labor market. Researchers do not have enough data because the immigrants working in other countries are not at all registered so the evidences cannot be fulfilled. But from the countries of Italy and Greece are some data taken from current ministries that can end to some conclusions. Employment opportunities are not much affected since Albanians that went to those countries are mainly unskilled ones, wage of unskilled workers is low in comparison with those of skilled workers that are rising. But the remittances are such an important part of Albanians GDP.

In the case when migrants are unskilled and native workers are majority skilled, like the case of migration of Albanians to Greece and Italy, migrants and native workers are not substitutes in production since they do not compete for the same jobs related to the level of education. Data show that most of the Albanian immigrants are unskilled, so they are complements with other EU countries labor force. In this case, an increase of the Albanian immigrants will raises the marginal product of the EU countries shifting up the demand curve for the native-born workers and at the same time it increases the wages as well. Also, it will be an incentive for those workers who didn't find it profitable, so they can join labor market with higher wages.

5. International migration

5.1 International migration theories

People move internationally for different reasons. The differences affect the migration process in some aspects. The known expression 'migration experience' refers to the fact that different cases of migration have a different outcome and consequence viewing from the financial and employment perspective. Theories are important to understand population movements based on some facts to analyze political and economical contexts. The current global crisis, also have affected the Albanian economy as well. The debt of Albanian crisis has also affected the decision of migrants to return in hometowns considering that remittances are decreasing. During economic crisis, the first ones that are in risk to lose their jobs are migrant workers.

Destination countries, in times of crisis have new policies on migration process. Especially Greece, has reduces in more than 30 percent of migrants and return them in their countries. From this returned migrants, more than half of them are Albanians, so openly can be understood that remittances are decreased. The perception of this return was like: migrants are the competitors of homes workers and compete for the same benefits when in reality majority of them can create job opportunities and different economic behavior. Migration behavior is not based only in ministries declaration but also on migration theories. One of the most well known migration theorist is Ernest Ravenstein. He accomplished that that migration was affected by "push-pull" factors. Ravenstein's law stated:

"Unfavorable conditions in one place (oppressive laws, heavy taxation, etc.)"push" people out, and favorable conditions in an external location "pull" them out. Ravenstein's laws stated that the primary cause for migration was better external economic opportunities; the volume of migration decreases as distance increases; migration occurs in stages instead of one long move; population movements are bilateral; and migration differentials(e.g., gender, social class, age) influence a person's mobility."

Adjusted the Ravenstein's law Albanian conditions; unfavorable conditions have started since 1990 after fall of communist regime and continuing with financial crises in pyramid schemes. There were not only these ones, but the actual crisis have affected also in the decision of emigrants to stay in the hosted countries. According to the statement that the volume of migration decreases as distance increases, Albania case is clear. Most of the emigrant's destinations are Greece and Italy. Related to geographical position, those two countries are the nearest one so volume of emigrants is higher in comparison with other countries that are more distanced.

A number of theories are developed instead of giving precise answers to migration phenomena but in variants of push and pull factors. Neoclassical theories have suggested that migration is linked to global supply-demand for labor force. Countries that have scarce labor supply and high demand for labor tend to have high wages. Countries like Greece and Italy have most of the Albanian emigrants, are industrialized ones. They offer a wider labor market in order to fulfill the needs for working in fields and in construction. Since Albanian workforce is mostly unskilled they do not compete with home labors, are complementary. Another theory called segmented labor market theory, suggests that First world economies are created so as to entail an assured level of immigration. This theory consists on dualistic economies for developed countries: they have a primary market for secure, a controlled and well paid work, and a secondary market with low wage work.

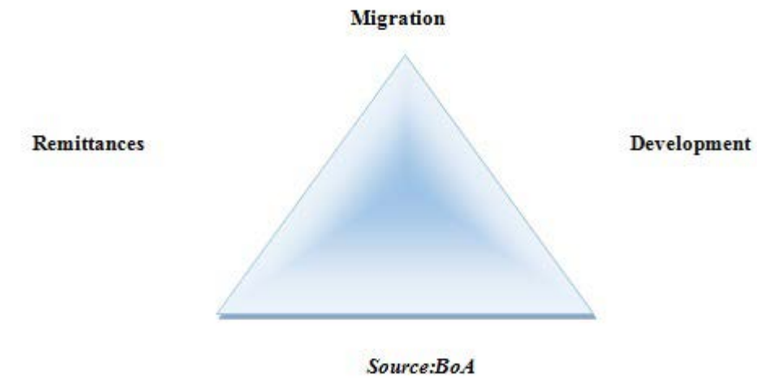
5.1.1 Characteristics of Albanian emigration

The model of Albanian emigration is called as unique. It has 4 characteristics that distinguish it from other national emigration types:

- First, migration is like immediate phenomena, rapid and volatile. It is combined with a rapid internal migration; it results to have a movement, both internal and external. It means that Albanian is a country on move.
- Second, the amount of population migrating is enormously in comparison with other countries. Even thought Albania is a small country, currently with a 3 million population, ¼ of its population is on emigration.
- Third, migration has played a crucial role in betterment of Albanian, because remittances are 33 percent of Albanian GDP.

5.2. Relation between Migration, Development and Remittances

Figure 4: Migration, Remittances and development linkage



Source:BoA

In figure 4, it is obviously seen the relation triangle between migration, remittances and development. There are a lot of evidences and policy implications on the linkage between migration and remittances. The relation between migration and remittances is in proper. If migrants will be employed, the remittances will increase as well. Also, the same is if the emigrants won't be employed, remittances will decrease. The highest number of Albanian emigrants is in Greece and Italy. With world crisis, Greece has also been affected, and as result, wage level has fallen and labor market has been shrinking. Many of migrants remained unemployed. After 2 decades, remittances for the year 2013 have been lowest. The results are known from the Bank of Albania which reports that for the period July-August-September 2013, remittances are decreased by an amount of 40 percent comparing to the same period a year before (NOA). For this 3 months in Albania have entered around 119 million euro which is relatively lower in comparison with same period of one year before. The main reason is that employment level of emigrants has declined as the circumstance of crisis. The highest level of remittances in history, according to BoA, has been in 2007 with 719 million euro. In this period, the remittances were high because crisis hasn't begun yet and employment level was the highest one. The trend of remittances has been regularly decreasing last five years, even thought in the last 2 years it has been decreasing by a huge ratio. In this aspect, the relation of migration and remittances is positively related.

The other side of triangle is remittance-development. If migration is positively productive, in meaning that it will have high entrance of remittances in Albania, the country will have relatively a good development. Remittances are 23 percent of the Albanian GDP so, investments in every sector will increase and contributing in a good economy.

Analysis can prove also the relation of other side, migration-development. Apart economical factors, what migration can do is also beneficial for culture and tourism. Emigrants around the world can make a good entertainment of Albania especially its culture as the oldest one in Balkan. A high number of tourists will also bring incomes from Albania. In 2013 the total number of tourists entering Albanian state was 3,000,200 which brought around 32 million euro incomes.

5.3 Linkage between internal and international migration

From the name, it seems to be different and perceptions also are different. But, from the scholars that are studied they have a closed relation and effect to each other. Both, internal and international migration, have consequences for

poverty, development and demographic changes inside the country. It is clearly stated that the relation between internal and international movements is much more complexly related. Evidences show that international movements are higher than internal ones. This implies a qualitative difference between two different locations. In this aspect returns to labor may be different.

According to Ravenstein model, in developing countries, large cities, in this case migration to Tirana is like a step toward international migration process. If the government will impose effort to restriction of migration, ignoring families and labor force needs, it will have great costs. Regulatory schemes of migration have also amounted a tax on earnings or a distortion of returns on competitiveness (Pjero, 2010). Most influence one are the remittances coming from the outsiders. So, internal migration does not have such schemes on remittances affecting the GDP, but it affects the labor market. International migration has more powerful impact in a country since we import other nations goods in our country and also increasing investment in Albania, taking into account that remittance are an important part of GDP indicator. It is seen from evidences and experience that no country found it easy to control migration, even Albania that was a closed economy.

It has an increase trend starting from 2003 with around 10.000 migrants. Making the relation with internal migration, it correspond to the year that internal migration too started to expand.

Internal migration and external migration have a linkage between them because if people start to move within country they are looking for better conditions. Since Albania lastly is in crisis it makes Albanian population to go beyond the borders and looking for both, better economical and social conditions. The migration process is in its standstill process because Greece and Italy which hosted the greatest number of emigrants is having problems with labor supply as effect of economical crisis.

6. Remittances in Albania

6.1 Effect of remittances in living conditions

Most of the Albanian families have one of their members in emigration or the whole family is migrating for better conditions. In 2005, according VSMJ, 65 percent of the families, has one of the members in migration and which benefit from remittances effecting in consuming, employment and investment.

Remittances sanded have a crucial role in the level of poorness. From the studies done from UNICEF it is reported that percentage of families that benefit from remittances is near 89, 7 percent. The frequency of remittances varies from every month to once a year. The average amount of remittances that a family receives in a year is considered to be 2,669 euro.

Table 2: Remittances and gross domestic product in million Euros

Years	2007	2008	2009	2010	2011	2012
Remittances	952	833	781	690	665	675
GDP	7,829	8,870	8,691	8,871	9,250	9,685

Source: BoA

In the above table are shown the remittances and GDP from year 2007-2012. As it is seen, the highest remittances are in 2007 and 2008 because crisis hasn't affected yet the hosted countries of Albanian emigrants, mainly Greece and Italy. Then, starting from 2010, remittances have started to decrease since unemployment level for emigrants has increased and many of them have returned.

As it is seen from the table remittances are inversely related to GDP. This doesn't mean that remittances have a negative effect on GDP but have also other factors have contributed an increase of GDP. The main factor is Foreign Direct Investments. BoA has reported that from 2009 FDI are increased and mainly in 2012 they were 266 million Euros or 61 percent more than a year before.

6.2. Administration policy of remittances

From empirical studies it is concluded that in the first phases of migration, remittances send from emigrants, in majority cases, are used for crucial living mean, like need for food mostly. In another phase, after the basic needs are filled, remittances are used for investments like those of new businesses that results positive for economy and also a priority for new labor force.

A phenomenon like this is small in Albania. The new generations, in most cases, are more complementary in resident places where they actually live than their hometowns. Actual emergency is in well administration and in continuous of these remittance inflows. Administration policy, apart channeling from usage of consume to investing, tends to create a proper mechanism to absorb even more valuable amounts of money, used as current deposits or to create stable and efficient investments. To increase inflows of remittances in a safe and proper way, some policies should be taken into account:

- Decrease transfer funds cost

Increase of competition in this sector would have decrease cost of transaction. A low price level of transaction will cause a high level of incoming transfers. From the other hand, the reduction of respective taxes will increase number of remittance transfers from emigrants. In Albanian market, mostly, transfers are done through Western Union and Money Gram. Main transfers come from Greece, Italy, Germany and United Kingdom. Transfers also are done through banking service but this is more expensive.

- Creation of development funds

Development funds will serve as institutions that will collect remittances from emigrants to achieve great and secured investments. It will function the same as the saving accounts, which are exists since years before in Albania. It is planned that money administrated in this manner will be positively affected to financial system.

- Collaboration between governments

Taking into account the success of other countries in collaboration with receiving countries emigrants, Albania also can be one of them. This collaboration can be not only in premises of social problems but also in the efficient use of their savings. One way that their savings can be invested is microloans. By this structure, emigrants can invest in their current countries and also in Albania. In this manner, number of businesses will increase and the GDP and GNP may have positive effects. Helpful for emigrants will be redaction of fiscal and tax barriers.

6.3. Impact of financial crisis on remittances

Financial crisis that has obviously negative effects in the entire world, it can be transformed in a humanitarian crisis, as a potential risk that has affected the developed countries and at the same time the developing countries: decrease of remittances that after some decades it is obviously reduced.

During the period of previous crisis, remittances income haven't change that much, they seemed stable, even thought in some cases remittances are increased. That can be explained that in the crisis period, those who emigrate beyond borders of Albania, tries to send more remittances in order to help families in crisis. The current financial crisis has its origin in developed countries and is spreading in developing countries.

This reduction of remittances has its beginning in first quarterly of 2010. A fact like this is published from the World Bank about the remittances. During the year of 2011 the remittances have demonstrated 9 percent of the total net production or 1,003 million dollar. This amount is lower in comparison with that of 2010 which was 1,162 million dollars in total. This phenomenon is reversed also in immigrants, people who live and work in Albania. In 2012 there were registered 21 million dollar as outflow remittances and one year before, in 2010, there were registered 24 million dollars. Two countries that Albania has taken the highest amount of remittances were Italy and Germany. Respectively, for the second quarterly of the year, experts of World Bank have concluded that Albanian remittances were 7.97 percent of total emigrants, compared with 7.63 percent of first quarterly of the year.

In 2011 economy has remained stable; GDP is increased by 3 percent, and remittances are decreased. This is explained by the crisis of received countries of Albanian emigrants. Countries that send mostly remittances are countries of EU composed of 90.7 percent of remittance income in Albania. Italy and Greece are the two countries called "remittance corridors" and furnish 38.6 and 41.9 respectively. USA contributes with 8.1 percent of total remittances. According to BoA, a negative difference of income remittances is explained in the first nine months of 2011. In first three months they are decreased by 10.7 percent and in the second three months this decrease was 2 percent. This difference is explained by the deterioration of economical statement of Greece and Italy. Since the situation is not getting better by time, it is related that the remittances will not get better.

According to predictions of European Community, in a report of economical situation the decrease of remittances is compensated with increase of FDI. Taking into consideration a deterioration of global financial situation, willingness of dangerous investments, inadequate FDI, it could bring an improvement of demand and domestic reserves. This period has structured an encumber of receiving efficient FDI for Albania.

Afflux of remittances since 2009 is decreased by 10-15 percent in comparison with previous years (Fullani, A, 2009). In 2012 inflows are considered as 7-8 percent of GDP. Even thought remittances are low in comparison with those of years before, they are still important both, in macroeconomic and microeconomic level. In microeconomic aspect,

remittances help in decrease of poverty and give a positive contribution in socio-economical factors in original places. In the same time, remittances take a macroeconomic level effect; they have a considerable effect related to stability and growth of economy and to fulfill a commercial deficit.

It is difficult to have a fix value of inflows and outflows of remittances because the major cases, remittances are send in informal ways, meaning that people send them by other emigrants and transporting them while they come back home.

6.3.1. Why are remittances decreasing

Remittances for Albania are important more than FDI and more important than exports because is the main source of income for most of the families in Albania. It s the main mechanism which Albania can face the transitional economical problems and poorness in rural zones. Albania, a country with a poor economy activity, has its own currency and its value is mostly constant and increases positively related with dollar. This is because of remittances. The main problem is that after 15 years, in 2007 and 2008 level of remittances started to decline. This is called the maturity phase. Remittances toward Albania will continue but they the amount and rhythm will decrease. In the maturity phase, emigration starts to shift from temporary one to permanent one. Firstly, what happened in the also called "Balkan Model" it is that most of the population starts to emigrate and to search for every kind of job. But as the time pass, emigrants can find better job opportunities; can find health insurance, also their residence can be legal. Later on they take their families and are more interested to have their houses in resident places. The main reason they send remittances is for their relatives and the amount is not the same as before. This is the main reason, apart crisis, remittances start to shrink because they see their stabilization in the place they are living currently.

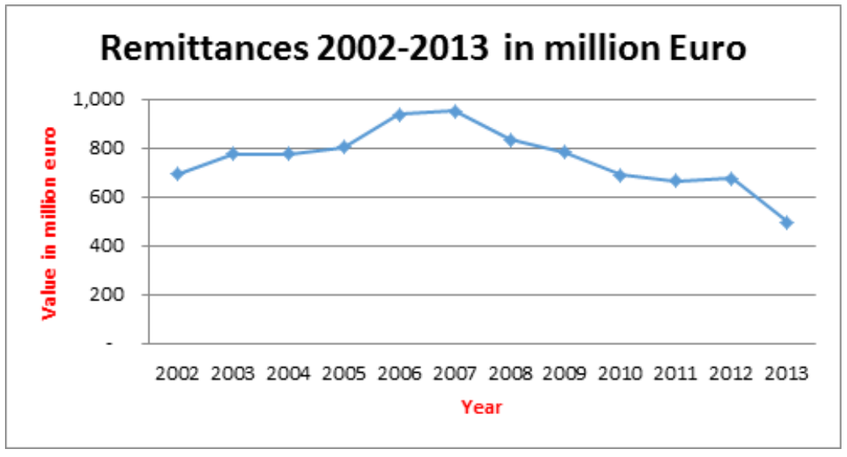
Another reason that remittances are decreasing is that Albania couldn't be a country to absorb investments. An emigrant is skeptic of investing his money in Albania. In my opinion, from the moment that it is verified that the main source of improving are remittances, government should maintain some new policies. First, to absorb as much remittances as they can and second to invest on them on efficiency use. One way of solution was to invest those remittances on securities on infrastructure. Albania needs terribly a new infrastructure in majority of the country.

6.4 Remittance inflows and outflows 2013

During 2013 emigrants send approximately 500 million Euros from the places they live and work. From the other side, immigrants send to their countries 3 million Euros. In a net amount, this is 26.4 smaller than a year before.

During 2002-2013 remittances continued to increase in first five years, 2002-2007, and have decreased after 2007 and continuing like this. The reason why these ups and downs took place is because the current economy and especially this of the countries where emigrants work and live are included in financial crisis or expansion.

Figure5: Inflow remittances 2002-2013



Source: BoA

Outflow remittances have their highest value in 2010 with 6.7 million Euros. Even thought this amount is relatively small, this is good enough for an economy as Albania. Immigrants, who work and live in Albania, send their incomes in their resident countries.

7. Regression analyzes

7.1 The model

To analyze the determinants of migration, allows the result of this model to separate the specific characteristics of Albanian emigrants, which are discussed during the paper. This econometrics studies allow four main improvements:

1. The random sample does not allow suffering from bias and is enjoy to regional levels.
2. By entering the two datasets, it allows to make a broader conclusion, at different administrative and geographical level.
3. Differences in local levels can have slightly effect by calculating the index of relative wealth of every family with respect to their neighbors.
4. Data allows to focus and to conclude the role of internal migration to international migration.

In this paper it is followed the approach of Stark (1991) and the new economics of emigration to model the decision of emigrants if the internal decision effect the international one in labor market. Household's characteristics like assets, demographic changes and composition, land holdings reflect their exposure to respond to risk.

The network theory of migration places of interest the direct and indirect relationship which serves as a form of social capital drawn by non-migrants which have effect on the network. First, members of network can provide direct effect to migrants in form of housing, transportation, food or cash. Second, network members can provide information for job opportunities which can decrease the risk and costs related to migration.

In the model we have considered two different kinds of migration: (1) temporary migration that spends some time during the 2001; and (b) permanent migration that left the household since 2001. Multinomial logit regression is as follow:
$M_i = \beta_o + \beta_1 * X_1 + u_i$

where:

- M is migration dependent variable which equals the β_o if all other betas are equal to zero
- X is the variance of household and different community characteristics
- β_o and β_1 jane koeficentet e variablave qe tregojne relacionin e **independent variable** tek **dependent variable**
- u eshte **error term**

Labor allocation is another factor taken into consideration which effects the decision of household to migrate. Also, employment skills level and specialization in different activities influence the potential income. The main question is that if families which have an internal migration experience are more likely to migrate internationally?

Three main types of migration network are included in the model multinomial logit model:

1. The logged number of household members with temporary migration experience, mainly in Greece and Italy.
2. The logged number of former household member's i.e children currently living in Italy and Greece.
3. Dummies variables to explain if all characteristics explain migration.

7.2. Results

Results from econometric model found in table 1 in appendix are as follow:

1. Permanent migrants to both destinations come from large households while temporary household, mainly to Italy comes from younger household. Permanent migrants are mainly the children of the family and temporary migrants are the head of the family itself.
2. Educational level is not a determinant of migration choice. As it is seen also from the characteristics of emigrants, majority of them have just finished middle school. In other case, the ones that have more educational years are not included in Greek and Italian labor force.
3. Current unemployment at household level is positively related to decision of temporary migration to both, Italy and Greece.
4. Construction activities are related with temporary migration to Italy and agricultural and industrial activities are related to permanent migration in Greece.

5. The continuation of migration network and previous experience with migration are key factors in the decision to migrate internationally.
6. Regional factors also play a considerable role in migration decision. Households living in Tirana, mainly, are not willing to move internationally. Households in rural centers are more willing to migrate in Greece. Households that live in rural coast and mountain are more willing to migrate to Italy.

8. Conclusions

Albania is a country on move, both internally and internationally. Since Albania has been a closed country, under communist era, in 1990 barriers opened and access to a migrant network and family revelation to migration, was seen as the only solution to overcome poverty. Supported by geographical conditions many Albanian households saw migration, temporary or permanent, as an effective strategy for improving their economic conditions.

Internal migration has been always changing. Accounting in absolute numbers, the district of Tirana, in last decade, has been the destination for most of the migrants moving internally, it has received around 350,000 immigrants by last decade and it is followed by Durres receiving over 50,000 and Lushnje receiving over 14,380 immigrants.

The assumption that native workers and immigrants are substitutes for each other is questionable. In the case that immigrants and native workers are not competing for the same jobs it means that they are complementary for production. Immigrants affect is higher in this case because their presence increases native production. Since natives and immigrants are complements, natives can be specialized in skills that can do better. So, marginal product of natives will increase. Since the wages are higher than before, for other workers that didn't find it useful to work, it will be an incentive and employment level will increase.

The model of Albanian emigration is called as unique. It has 4 characteristics that distinguish it from other national emigration types: (1) Migration is like immediate phenomena, rapid and volatile. (2) The amount of population migrating is enormously in comparison with other countries. (3) Migration has played a crucial role in betterment of Albanian.

The relation between migration and remittances is in proper. If migrants will be employed, the remittances will increase as well. Also, the same is if the emigrants won't be employed, remittances will decrease. The Relation remittance-development; if migration is positively productive, in meaning that it will have high entrance of remittances in Albania; the country will have relatively a good development.

The highest remittances are in 2007 and 2008 because crisis hasn't affected yet the hosted countries of Albanian emigrants, mainly Greece and Italy. Then, starting from 2010, remittances have started to decrease since unemployment level for emigrants has increased and many of them have returned. To increase inflows of remittances in a safe and proper way, some policies should be taken into account: Decrease transfer funds cost, creation of development funds, collaboration between governments. According to predictions of European Community, in a report of economical situation the decrease of remittances is compensated with increase of FDI. Taking into consideration a deterioration of global financial situation, willingness of dangerous investments, inadequate FDI, it could bring an improvement of demand and domestic reserves. This period has structured an encumber of receiving efficient FDI for Albania. Afflux of remittances since 2009 is decreased by 10-15 percent in comparison with previous years.

Multinomial logit model is used as an econometric approach to find out what the main characteristics of Albanian emigrants labor force and how they have effected in migrating decision?

Some results from econometric model founded are: Educational level is not a determinant of migration choice, majority of them have just finished middle school. The continuation of migration network and previous experience with migration are key factors in the decision to migrate internationally. Taking into consideration that two main countries that Albanians mostly migrate are Greece and Italy, Current unemployment at household level is positively related to decision of temporary migration to both countries.

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Appendix

Table 1: econometric results

	Temporary Greece	Temporary Italy and other	Permanent Greece	Permanent Italy and other
Family size (log)	-0.240	-0.420	1.781**	1.862**
	(0.709)	(0.556)	(0.029)	(0.012)
Age of household head (log)	-0.490	-1.008*	1.468**	1.828***
	(0.221)	(0.070)	(0.021)	(0.004)
Number of children aged 0-14 (excluded: females over 59)	0.035	-0.087	-0.702***	-0.746***
	(0.793)	(0.674)	(0.000)	(0.000)
Number of males 15-19	0.340	0.041	0.392*	-0.295
	(0.153)	(0.900)	(0.096)	(0.267)
Number of females 15-19	0.179	0.127	0.006	0.057
	(0.372)	(0.614)	(0.980)	(0.796)
Number of males 20-34	0.602***	0.230	0.735***	0.539***
	(0.000)	(0.386)	(0.000)	(0.005)
Number of females 20-34	0.091	-0.062	0.003	-0.082
	(0.657)	(0.792)	(0.987)	(0.688)
Number of males 35-59	0.254	0.477	-0.431	0.488
	(0.335)	(0.160)	(0.240)	(0.132)
Number of females 35-59	-0.647***	-0.204	0.594*	0.224
	(0.008)	(0.587)	(0.062)	(0.375)
Number of males aged 60 and more	0.016	0.882**	-0.526	-0.208
	(0.954)	(0.033)	(0.213)	(0.537)
Average adult education	0.415***	0.067	0.092	0.275
	(0.003)	(0.729)	(0.573)	(0.134)
Square of average adult education	-0.021**	-0.002	-0.003	-0.015
	(0.018)	(0.841)	(0.769)	(0.126)
Agricultural land, ha	0.082	0.367	0.119	-0.012
	(0.613)	(0.187)	(0.588)	(0.952)
Number of heads of cattle	-0.213**	-0.033	-0.195**	0.051
	(0.012)	(0.787)	(0.042)	(0.241)
Own car/truck	-1.454**	-0.921**	0.141	-0.773*
	(0.011)	(0.048)	(0.736)	(0.051)
Number of rooms per capita	-0.277	0.177	-0.303	0.161
	(0.422)	(0.544)	(0.562)	(0.526)
Share jobs in agriculture	0.125	-0.027	1.295***	0.579
	(0.630)	(0.956)	(0.001)	(0.284)
Share jobs in industry	-0.948	0.239	1.280*	0.738
	(0.169)	(0.734)	(0.078)	(0.270)
Share jobs in construction	-0.360	2.405***	-0.532	0.119
	(0.607)	(0.000)	(0.691)	(0.916)
Share jobs in services	-1.173**	1.342**	0.130	1.304**
	(0.029)	(0.030)	(0.885)	(0.013)
Household unemployment ratio	0.965***	1.017***	-0.189	-0.317
	(0.001)	(0.010)	(0.717)	(0.456)
Relative deprivation	0.205	0.575***	0.134	0.197
	(0.258)	(0.001)	(0.564)	(0.330)
Share of hh members who moved here since 1990	0.567*	-0.984*	0.743*	0.158
	(0.081)	(0.051)	(0.093)	(0.680)
Experience temp. Mig to Greece (ln of number)	3.939***	1.704***	-0.457	-1.099**
	(0.000)	(0.000)	(0.219)	(0.041)
Experience temp. Mig to other countries (ln of number)	-0.767	4.740***	-2.298*	-0.705
	(0.405)	(0.000)	(0.053)	(0.290)
Household network in Greece (ln of n.)	-0.299	-0.761**	0.900***	-0.171
	(0.283)	(0,049)	(0.001)	(0.593)
Household network in other countries (ln of n.)	-0.206	0.338	-0.814*	0.887***
	(0.546)	(0.313)	(0.077)	(0.000)
Community network in Greece: share of migrants	13.502***	-6.809	2.751	-7.187
	(0.000)	(0.119)	(0.223)	(0.304)
Community network in other countries: share of migrants	-5.611	13.251***	4.940	7.138
	(0.357)	(0.000)	(0.209)	(0.176)
Community: share of residents who moved there since 1989	-0.874**	-0.497	-0.324	0.348
	(0.043)	(0.421)	(0.610)	(0.512)
Commune: Gini index of inequality	-0.187*	-0.015	0.039	0.067*
	(0.064)	(0.790)	(0.431)	(0.055)
Commune: Unemployment ratio	-0.012	0.001	-0.019	-0.009
	(0.261)	(0.962)	(0.226)	(0.562)
Region (Excluded: Tirana): Coast Urban	0.487	0.181	1.775**	0.697*
	(0.355)	(0.711)	(0.014)	(0.057)
Coast Rural	0.310	0.822*	1.773**	0.632

Outsourcing Practice in B&H - Positive Phenomena

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ABSTRACT

The aim of the research paper is to present the HR and Recruiting Outsourcing Services in BH as positive phenomena and to explain how applying outsourcing practice can have a progressive effect for BH economic growth, despite the opposed opinion. An overall theoretical and quantitative view from opposing perspective is included as well.

Using the interview method at a few outsourcing companies in BH, we have discovered that the need for their services in our country is still significant and that the current economic challenges have small or even no impact on their respective businesses. The paper also explains what types of professions, educational level, skills, levels of experience etc. are the most wanted criteria in outsourcing process. The conducted research has shown that the need for the outsourcing practice in BH is increasing and has great potential in building economic growth of BH, especially during its transition period. . Companies with diverse orientation can use the outsourcing practice to further develop certain skills internally.

With that being said, HR and Recruiting Outsourcing Service industries impose themselves as necessary means for running successful businesses.

Key words: *Outsourcing, HR, Bosnia and Herzegovina, Recruiting, Business*

1. Introduction

Outsourcing in the era of fierce competition and globalization is increasingly used by many companies as means for reducing the cost of hiring employees. It is, also, often related to "renting" a cheap labor force from less developed countries.

Through research, we will introduce the concept and definition of outsourcing and analysis of the companies/ agencies which provide outsourcing services in Bosnia and Herzegovina.

Companies/Agencies were presented through

- general information
- individual interviews with their respective representatives, namely the Director of the company Kolektiv d.o.o., Ms. Mersiha Mehić, and Ms. Sanela Zeljković, Senior Associate at the Labor and Employment Agency of Bosnia and Herzegovina,

who shared their experiences in this area, as well as their organizations' near future plans and activities in this field, and further elaborated their contribution to the change in the overall employment situation in B&H.

In this paper we will analyze the main benefits of outsourcing practices for, well-educated Bosnians, who are eager to learn more, as. With outsourcing, these personnel are given a chance to work for the world-known companies and get satisfactory salaries, but without the need to leave their own country. Engagement of this kind where these young people share their knowledge and skills with outsourced partner is not only beneficiary for the workers themselves, but for the company and country as well.

2. The concept and definition of outsourcing

2.1 The meaning of the term

"Outsourcing is a practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally." [59]

Investopedia further explains 'Outsourcing' as: "Outsourcing is an effective cost-saving strategy when used properly. It is sometimes more affordable to purchase a good from companies with comparative advantages than it is to produce the good internally."[60]

"To procure (as some goods or services needed by a business or organization) under contract with an outside supplier (decided to outsource some back-office operations)"[61]

'The contracting or subcontracting of noncore activities to free up cash, personnel, time, and facilities for activities in which a company competitive advantage holds. Companies having strengths in other areas may contract out data processing, legal, manufacturing, marketing, payroll accounting or other aspects of their businesses to concentrate on what they do best and thus reduce average unit cost. ' [3]

2.2 Historical development of outsourcing

Outsourcing history begins back in 1950s and 1960s when companies were looking for a way to expand their businesses but also to protect profitability. During the 1970s, IT companies traditionally engaged other companies specialized in services such as payroll accounting, whereas the 1980s bring new perspective to outsourcing businesses, presenting it as a potentially powerful force that can transform the global economy to the whole new level.

The practice flourished during the period of 1984-1994 when the World Trade Organization was created.[62] Nowadays, over 56% of the world organizations use part time outsourcing for at least one HR function, while the remaining 44% use complete process of outsourcing for their work only to execute at least one function. Full administration process related to the pension and social security are the most commonly outsourced functions, as well as recruiting and IT services.[63]

2.3 Use of outsourcing in BH

Outsourcing usually develops and transfers from high income countries to low-income countries - as in less developed countries the hourly rate wages are much lower, and therefore the price of the final product and service is much lower.[64]

Outsourcing in B&H includes all services and segments that do not involve close contact with the consumers, including: recruiting and staffing services, document translation, customer support, sales – known as call-centers, web programming, data processing, product design, website designs and development, applications and software.

Currently, outsourcing represents the only ray of light for business development, especially for the IT sector in Bosnia and Herzegovina for numerous reasons. To start with, it encourages young and educated people to stay and work from their own country, regardless of the fact that their services and knowledge are better paid abroad. Secondly, they are given an opportunity to have earnings above the country's average income. Added to this, the most important advantage of the outsourcing is that ensures money influx and capital flow. And last but not least, the whole process takes place via the Internet, which enables more efficient and effective approach.

59 Rahimić Zijada (2010.): „Menadžment ljudskih resursa", Ekonomski fakultet u Sarajevu, Sarajevo
60 Investopedia. Retrieved from http://www.investopedia.com/terms/o/outsourcing.asp
61 Dictionary Outsource. Retrieved from http://www.merriam-webster.com/dictionary/outsource
62 Credit Today. Retrieved from http://www.credittoday.net/public/Brief_History_of_Outsourcing.cfm
63 Ibid
64 SHRM. Retrieved from http://www.shrm.org/Publications/hrmagazine/EditorialContent/Documents/Human%20Resources%20Outsourcing%20Survey%20Report.pdf

3. Globalization and outsourcing

3.1 Globalization and Outsourcing

In the era of fierce market competition and constant innovation and change, globalization is perhaps one of the greatest drivers that make an organization adapt its essence and purpose to a constantly changing environment. Similarly, Milardović (2004) describes globalization as a process which efficiently connects the world's most important resources, land, capital, knowledge and labor, to preserve the competition when employing a multi-cultural workforce.

Thus, the outsourcing is a reliable indicator of how globalization affects the businesses where one organization engages the human resources of the other organization, for the activities that deal with internal resources, but not being located in the same area. Thanks to the development of telecommunications and other technical capabilities, human resources can be outsourced even from the other country, or even continent.

Staff employed through the outsourcing are usually experts in the field of business (marketing, commercial operations, finance, accounting and payroll, legal and human resources management, production, administration, etc.) and IT (software, applications and web pages development).

The literature identifies the following four very important advantages of introducing outsourcing in the companies:

- Cost reduction
- Lack of professional staff
- Increased competitiveness of the market
- Improved effectiveness of project implementation[65]

Outsourcing practice is introduced from a variety of needs, nevertheless recent studies indicate that outsourcing should be treated as a potential opportunity, not as a generic solution for all problems. [66] In this regard, we point out the advantages and disadvantages cited in the literature, as well as the general use of outsourcing.

3.2 Advantages of outsourcing

Financial savings are often cited as a driver of outsourcing. Outsourcing is used to help reduce labor costs such as overtime payments or cost of recruitment and training of new staff, which as a result can significantly decrease the functional size of the company implying that the full payment can reduce the expenses. Moreover, outsourcing the know-how is usually introduced and implemented with external staff to avoid investment of financial capital, which a company management often approves and supports.

In general the advantages or resourcing are, among others, - cost reduction and cost control, release of internal resources for other projects within the company, shared business risks with outsourcing partner, improvement of knowledge, access to new markets, new business opportunities and new technologies.

3.2 Disadvantages of outsourcing

Although the complexity of this practice is intended to reduce companies' costs, its main disadvantage is that it only affects short-term financial success, at additional risk because the company depends not only on their performance but also on the impact of outsourcing partners. Reducing the number of employees may bring short-term savings to the company through the use of outsourcing in times of recession, but this does not have long term effects on productivity, efficiency and stability of a company in the market.

The disadvantages of the outsourcing are also discussed in the literature by many researchers. Marchington and Wilkinson (2008)[67], state that we must not forget the hidden and indirect costs of this process, although some authors believe that outsourcing is a viable way to reduce the risk factor in business by transferring it to the service provider. Companies often ignore the fact that the outsourced service provider always carefully counts the cost of services and the

65 Drljača Miroslav, (2010) „Outsourcing kao poslovna strategija", Zbornik radova 11. međunarodnog simpozija o kvaliteti Kvaliteta, konkurentnost i održivost, Hrvatsko društvo menadžera kvalitete i Oskar, Zagreb, page 9
66 Macrothink Institute, International Journal of Human Resource Studies, ISSN 2161-3058 2012, Vol.2, No.1, „Human Resource Outsourcing in Times of Economic Turbulence – a Contemporary Review of Practice"
67 Ibid

potential risks, which means that companies pay full price at the end. Some authors also argue that outsourcing positively influences the development and training, while others deny, saying that the skills acquired from external suppliers can never be fully integrated into the company.

Needless to say, it's most important disadvantage is the difficulty of knowledge transfer through outsourcing, especially when the companies use the knowledge and skills based on in-house learning principle.[68]

And last but not least, perhaps one of the key outsourcing disadvantages is the lack of motivation that is necessary for the successful functioning of company, as motivation cannot be outsourced.

4. Term and type of 'sourcing's'

Activity of 'searching' for a qualified staff, via web browser, also known as "**sourcing**" refers to a number of procurement practices, aimed at finding, evaluating and engaging suppliers of goods and services. In this way, different terms, titles and themes can be sourced mainly because company does not have personnel trained for such work.

'Recruiting' has undergone significant development in recent decades. Advertising in daily and other newspapers is an activity that involves engagement of an office manager. From such simple activities, areas of recruiting today have grown into a multi-million dollar industry in which people are trained to find, through special techniques, tools and new staff members that are difficult to reach through conventional methods.

Conventional, commonly used methods are: advertising in the daily/weekly newspapers, notice boards, bureaus or through television commercials, internet portals and job fairs, . All these activities are carried out in order to collect resumes of candidates for current and future needs.

Unconventional methods include introducing outsourcing companies to the business, or training own staff in the activities of sourcing, etc.

There are two types of 'search' for candidates:

- Proactive
- Reactive[69]

Proactive quest involves active search for appropriate candidates (mainly passive frame) using all available tools, whereas reactive quest mainly advertises positions, and an overviews resumes of candidates who applied to the existing positions.

4.1. Presence in B&H (list of companies, a brief description of activities, interviews)

In B&H, there are a number of small/medium-sized companies engaged in finding/identifying the appropriate personnel, mainly through 'reactive' method. To be more specific, Posao.ba, DEKRA and HILL are the samples of successfully growing companies in B&H that this research focused on. Added to this, representatives of the State Agency for Labor and Employment of Bosnia and Herzegovina were also interviewed for this research. However, due to the complexity of their respective procedures, there were some restrictions in getting feedback from all of them.

4.1.1 Kolektiv d.o.o.

Development Studio d.o.o. Sarajevo aka Posao.ba, the current Kolektiv d.o.o. was founded in 2001 and it represents a company that offers a wide range of services, including: on-line and off-line recruiting of candidates, education, training and staff leasing, employers branding, project management, business event management, HR consulting and career management.

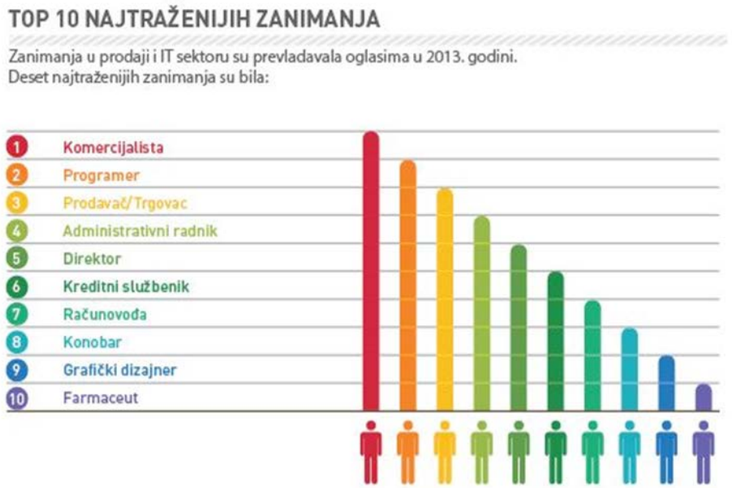
Posao.ba is the leading web portal for advertising vacancies and recruitment of candidates for most domestic and international companies on the B&H labor market. Posao.ba has established a good cooperation with Mojposao.net (Croatia), Infostud (Serbia) and with Alma Media, one of the largest media groups that allow its job advertisements to appear on partner portals.

68 Macrothink Institute, International Journal of Human Resource Studies, ISSN 2161-3058 2012, Vol.2, No.1, „Human Resource Outsourcing in Times of Economic Turbulence – a Contemporary Review of Practice"

69 The sourcing Institute, https://www.thesourcinginstitute.com/content/proactive-vs-reactive-vs-just-time-vs-pipelining.

Ms. Mersiha Mehić, the director of the company Posao.ba has explained during the committed interview, that Posao.ba is the leading online service for employment in B&H. With a share of over 90% in advertising jobs and more than half a million visitors a month, Posao.ba is the central point of a competitive labor market. In addition to jobs in the private sector, Posao.ba publishes all the vacancies from the public sector from both entities and Brčko District. In this way Posao.ba combines activities from both sectors, private and public, and is the place where all job seekers can find useful information. In addition, every year Posao.ba carries out semi-annual and annual analyses of the labor market on the basis of publicly available data and presents those results. Such analyses include data from the private sector and they find themselves as the best indicator of the situation in real labor market in B&H. Estimations are that they have, as a web portal, mediated in employment of about 52,000 people, as of 2013 year, whereas the statistics for 2014 year are in preparation.

Ms. Mehic further explains that the top 10 occupations sought by employers in the past are: sales officers, software developers, accountants, waiters, administrative officers, credit officers, pharmacists, directors (senior management), and cooks.



According to this web portal, a list of the most sought competencies and skills are divided to:

- analytical and problem-solving skills 60%
- communication and presentation skills 53%
- teamwork 37%
- knowledge of English 35%
- self-initiative 11%

Level of education that is most in demand:

- Bachelor's degree 54%
- Skilled workers 19%
- University degree 18%
- High school degree 9%

Type of employment that is offered the most:

- permanent 70%
- fixed 14%
- part-time 16%

Posao.ba has conducted this research on a sample of 698 companies, in the period of the first quarter of 2014. Companies from all major cities of Bosnia and Herzegovina have been included in the analysis as well as from other smaller industrial centers, using the method of telephone interviewing.

The research sample consisted mostly of small companies that, on average, have up to 50 employees (71%), while medium-sized enterprises make 29% of all companies surveyed. The results of their research show that 80% of small and medium enterprises in B&H have no pre-defined plans of employment, specifically for the year 2014.

Posao.ba state that the current economic situation and the lack of foreign investment, do not impair the operation of the company, nor their profit., In fact, during the past year their profit increased by about 30%.

4.1.2 Labor and Employment Agency of Bosnia and Herzegovina

The Labor and Employment Agency of BH was established in 2003 as an independent administrative organization within the institutions of Bosnia and Herzegovina and their expert associate of the Labor and Employment Agency, Ms. Sanela Zeljković, claims that employment Services in B&H perform regular activities on mediation in employment, as well as special programs that are primarily devoted to disadvantaged groups in the labor market (youth, Roma, women, and persons older than 45 years). These activities contribute to the reduction or, at least, in the current situation, keeping the unemployment rate. Funds for financing are separated from the budget of Federal Employment Bureau, but budgets are burdened with social obligations for the unemployed, and the amount of active employment measures significantly less than needed.

It should be noted that in spite of all the activities and measures, employment services can make significant progress in regard to the need for the job creation. The Agency believed that in the current situation the number of jobs does not follow the number of persons fit for the labor market.

Ms. Zeljkovic identifies the failure of the educational system as the biggest problem for the labor market, as for several years now, our educational system produces surplus of specific occupations. People who get out of the education system do not have the knowledge nor skills needed at the market, so employers, even though they are ready for new employment, cannot find a qualified and skilled workforce.

She also concludes that the country requires a good quality educational reform that will consider the needs of employers, as well as monitor current trends in local, regional and global economy.

According to the Agency for Statistics of B&H, in the Federation of Bosnia and Herzegovina, the average number of employed workers decreased for 0,5% from 2012 to 2013. Number of employees in 1991 at the area that is now the Federation of B&H amounted to 631 020, which means that the level of employment in 2013 (435 113) reached 68.90% of the level in 1991.

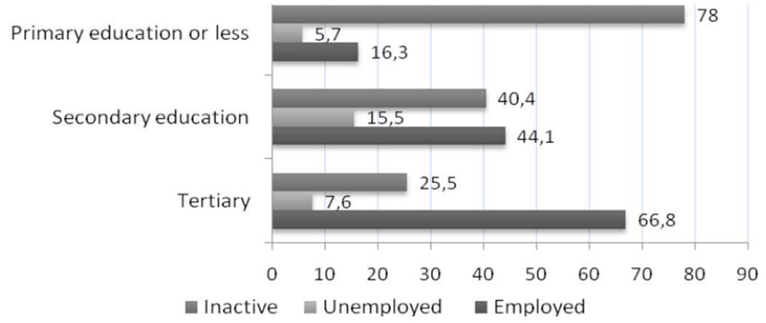
This agency concludes in their analysis of the published advertisements that the most wanted qualifications in B&H are:

- University degree: IT engineers, software engineers, electrical engineers, civil engineers, pharmacists, physicians-specialists.
- High School qualifications: retailers and caterers, train drivers, data entry operators, technicians for building materials, technicians for traffic safety.
- Qualified work force: tailors, masons, welders, tanners.

According to the number of advertisements that have been sought most wanted are economists and law graduates, but due to high number of graduates at universities across the country with this degree, they are also the most numerous in the records of employment institutes and services.

It is important to mention that there are surplus in vocations, which are:

- University degree: bachelor of criminology, bachelor of economics, bachelor of law, political scientists, journalists, social workers, professors of sociology, pedagogue.
- High school qualifications: traders, economic technicians, mechanical technicians, high school graduates, traffic technicians.
- Qualified work force: locksmiths, drivers of motor vehicles, sellers, hairdressers-wigmakers, cooks.



In addition to problems with the reduced inflow of foreign investments, the Agency also states that a large problem is a small volume of domestic investment and overloaded wages that employers have to settle. Needless to say, the contribution rate is around 70%, which is among the highest in Europe.

This directly affects the reduced job creation and a high percentage of labor in the informal economy, and the Agency detected a number of employers who prefer paying a fine sentenced by the inspection as this option is less costly for the company, than obeying the law and registering new employees. However, decreased number of registered workers also means reduced inflow into unemployment funds. The number of registered unemployed persons is growing as well as the number of recipients at the employment services. To be more specific, each registered unemployed person has an obligation to report to the employment offices on a monthly basis, and currently, the average number of unemployed per counselors is around 1050, whereas in Slovenia, for example, that number is 500. This means that as the number of unemployed grows, the advisers can dedicate less time to each unemployed person, developing their careers, contact with employers, etc.

5. Conclusion

The process of globalization has the greatest influence on outsourcing practice. Companies are trying to win and retain market position while reducing the costs of hiring additional staff by using outsourcing services. The second most common reason for using outsourcing services is releasing available personnel so they can concentrate on strategy and 'core business' whereas companies outsource external, cheaper staff for operational work.

There are advantages and disadvantages in process of outsourcing services. While some believe that the whole process is designed to involve cheap labor force of Third World countries, others see the benefits in it, without wasting valuable time and resources on operational daily work from companies' employees. Possible solution would be to partnership with the outsourcing company after a certain period of time and creating the HR department. That would minimize the negative effects such as lack of knowledge transfer, motivation and safety.

B&H can be profitable ground for developing outsourcing business. The problem could pose insufficient investments inflow, as the current economic situation is at the very low level of the country, In addition, B&H labor and employment system is very complex and non-consentaneous with the European and World standards and it certainly inquires urgent improvements in order to attract more investments into our country.

As we have confirmed in our research, the most wanted occupations in BH are within the IT Sector. The companies which are using outsourced force from B&H are usually seeking for candidates with IT qualifications, and therefore outsourcing can be their chance to work for world-known companies from the comfort of their home. In this way, young Bosnians are not leaving our country, but still working in the desired area with satisfactory incomes, and great chance to further develop their skills.

The other aspect concluded in this research is that B&H companies often use outsourcing practice through the sourcing companies in order to find adequate candidate for their respective company. This has become common practice in many companies where their attention is focused on the core business, while the outsourced company uses their skills to find the appropriate candidate. It requires knowledge to make selection, in the very large pool of qualified candidates, which are the best for the chosen job position.

Outsourcing practice in B&H exists through several types of companies, and in every aspect it has been considered as positive phenomena. Current lack of economic development in our country greatly contributed to this fact.

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An analysis of the Main Trends of the Flow of Foreign Direct Investment; Albanian Case

ABSTRACT

This study aims to analyze the main trends of the flow of foreign direct investments in Albania since after the fall of communism and work on the main risks and opportunities that the country's political structure has offered to foreign investors through years. The drastic transition from a fully central planned economy to a fully liberal open market one at the beginning of 1990s caused the process to be harsh and ambiguous. Supervision of the country's economic area moved from one actor (state) to multi actors (state, private sector, international institutions). The literature revealed that the main trends influencing foreign direct investment include; the signatory of Bilateral Investment Treaties, the participation on International Centre for the Settlement of Investment Disputes as a respondent country and the decisions made by this institution, and also the political stability in a country. Thus, the main hypothesis elaborated in this work is whether the rate of foreign direct investment in Albania is dependent upon the signatory of Bilateral Investment Treaties, and whether the country credibility is reflected out of being respondent in the international arbitration on the settlement for investment disputes.

Keywords: *Foreign Direct Investments, Albania, Bilateral Investment Treaties, International Arbitration, Credibility*

1. Introduction

Foreign Direct Investment (FDI) is an important element of the economic activity of a country, because of the several effects that they provide. Foreign Direct Investment in Albania are considered as an engine for the economic growth since their scope have been involved in crucial sectors of the Albanian economy. In theory, in literature and also in practice Foreign Direct Investment are known for their significant positive effect in economy, but the purpose of this study is not to analyze these positive effects of FDI, the objective of this study is to analyze the determinants of the flow of these investments and what makes a country attractive and credible in the eye of foreign investors; using the case of Albania.

Albania offers a positive environment to foreign investments as geo-strategic location, a reason which grants a potential attraction to investors. After the fall of communism the drastic transition from a fully central planned economy to a fully liberal open market one at the beginning of 1990s caused the process to be harsh and ambiguous. During this process Albania has struggled to establish a stable democratic system and effective democratic institutions. Nevertheless, the Albanian government has marked positive developments in regard to foreign direct investment after 1991. Establishment of the open market economy, the privatization of agriculture, the introduction of financial autonomy to the previous state controlled enterprises, liberalization of the prices, improvement of infrastructure, the signing of bilateral agreements in order to obtain investment aid, are all attempts of Albanian government to provide a favorable and attractive climate for foreign direct investment.

In literature, there are provided crucial determining factors that attract foreign direct investments. These factors include the signatory process of Bilateral Investment Treaties (BITs) and also the political stability provided by the host country. Over the past three decades, bilateral investment treaties that countries sign with one another have been considered as an attempt to attract greater flows of foreign direct investments. BITs provide a relatively secure environment for the foreign firms investing in a host country, mainly because these types of treaties grant the investors with substantive rights and give the opportunity for international arbitration for any dispute arisen from this cooperation. BITs give the opportunity to the investors to sue the treaty violations through arbitration venues such as International Centre for the Settlement of Investment Disputes (ICSID) that is part of the World Bank. Additionally the literature provides that being a respondent in the ICSID transmit negative information to investors which may hesitate to invest in the future in that specific country, and also losing in such arbitral panel may cause particularly high damage because it provides a precise information to foreign investors about what a government has done and the definite illegality of its actions. Besides signing BITs, foreign investors are influenced also by the political stability. Scholars have argued that democratic countries with effective democratic institutions increase the flow of direct investment because they lead to lower level of risks.

In this paper I attempt to develop the BITs impact to foreign direct investment in Albania and also the effect of ICSID cases in regard to the credibility of the country. Political stability and measurements of democracy are also very crucial factors affecting the flow of direct investment but in order to be more specific in the results of the study I considered more effective involving only the first variables, and considering the other one to involve in my future research.

This paper is divided in four sections. In the first section, an overview of the performance of the foreign investments in Albania after the fall of communism is provided. In the second section of the paper focus is given to the Bilateral Investment Treaties signed by the Albanian government and their impact on the attraction of the foreign investments. The third section examines the effect of the decisions made from the International Center for the Settlement of Investment Disputes. Forth section provides the conclusion of this paper.

2. The performance of Foreign Direct Investment in Albania after the fall of Communist Regime

The beginning of the 1990s for the Albanian country marked the end of almost half a century under the authority of the oppressive communist government. After the years of the dictatorial isolation, Albania finally opened the doors starting to undertake big efforts in the development of infrastructure, encouragement of investments, all these in function of European integration and NATO. In the same time, the country moved to a liberal open marked economy.

From the regime, Albania inherited poverty, an ineffective industrial sector which did not respect the advantages of the competition and lacked administrative institutions. The first impact of the market economy transition caused a lot of macroeconomic problems.

The first years of democracy and liberal economy in Albania show that the process of transition was harsh and ambiguous, recording the level of inflation rates in 226 per cent and unemployment rate growing in 27.9 per cent. With the assistance of international organization, especially World Bank and International Monetary Fund, a stable and structural reform started to be implemented in the middle of year 1992. This stabilization program relied on the liberalization of the prices, fiscal policy, restrictive monetary policy, and also the liberalization of international trade. In the same time structural reforms were undertaken, such as privatization process, protection of social investments, and the creation of the legal framework for a market economy (IMF 2014).

In 1994, Albania adopted a law on foreign investment which provided the free entry of the foreign investors, cheap transfers of foreign exchange currency and legal protection. A law on Concessions is approved in 1995, which constituted in some investment facilities in different areas such as infrastructure, physics, mines, tourism etc. in the form of "Build, Operate, Transfer"(BOT). Today Albania records the signatory of 44 Bilateral Investment Treaties in total, from which 34 are in force and 10 are not in force (Investment Policy Hub 2013).

Albania offers to foreign investors' unexploited natural resources, liberal rules for trade and foreign investments, geo-strategic location, proximity to European markets, several sectors in privatization and concession, low labor costs, educated and technically trained labor force, raw materials with competitive prices and the ability of Albanians to speak several foreign languages. However, these advantages are least valuable to foreign investors in comparison with unstable political development of the country, poor infrastructure, and the absence of a functional regional market.

3. Bilateral Investment Treaties and their effect in Foreign Direct Investment in Albania

Bilateral Investment Treaties (BITs) assure the foreign investors in two ways. First, signing these treaties provides a clear signal which the host government gives to the foreign investors for their true intention to attract them. According to this logic, the negotiation with signing a BIT is a way which grants the governments seeking to attract foreign investors to convey their commitment in protecting inward investment. Researches state that governments that sign numerous treaties tend to be able to attract more attention, because it is considered as a strong signalization demonstrating the good will of the government to protect these investments and their tendency to promote a suitable business climate for foreign investments. A second argument which increases the reliability of the governments which sign BITs are the promises to be bound by the terms of the treaties, which consequently increases the credibility and stimulate the flow of direct investments. BITs provides to foreign investors significant protection in regard to the treaty provisions, because it ensures them with the possibility to sue the violator and those who do not comply with the provisions in international arbitration.

However, the first claim for this research is whether BITs effect the foreign investments in Albania, upon which the following hypothesis is raised:

Hypothesis I: The rate of Foreign Direct Investment in Albania is dependent upon the signatory of Bilateral Investment Treaties

In order to testify this hypothesis, data from the United Nation Conference on Cooperation and Development (UNCTAD) website are used, to obtain the number of Bilateral Investment Treaties which Albanian government has signed and used it to compare with the number of foreign companies operating in Albania and their origin, data taken from Albanian Investment Development Agency (AIDA).

Albanian government has signed in total 44 Bilateral Investment Treaties, from which only 34 are in force (table 1 of the appendix). In this research are used a sample of thirty main foreign companies operating in Albania (table 2 of the appendix).

Observing the data acquired from UNCTAD and AIDA, the result of this study shows that in the case of Albania signing Bilateral Investment Treaty is a very crucial starting point in order to ensure the foreign investors. From the thirty companies used in the research, the Albanian government has previously signed Bilateral Investment Treaties with 26 of them. The results confirm that signing these treaties between Albanian government and foreign investors government have a positive effect in regard of the flow of direct investments, and consequently the rate of FDI is dependent upon these treaties. Thus, the companies who are more likely to invest in Albania are those which come from countries that have previously signed a Bilateral Investment Treaty.

4. Effects of the decisions made from the International Centre for the Settlement of Investment Disputes

The international arbitral institution, International Centre for the Settlement of Investment Disputes (ICSID) is one of the most important and widely used venues in cases of government violation of bilateral treaties provisions. The reliability and the prominence of ICSID is enhanced due to the fact that it is based upon international convention and also its direct relation with World Bank. Moreover, ICSID today is considered to be a major source of information for the governments and their behavior towards foreign direct investments. It is stated that investors are affected by the decisions made in the courts of this arbitration; meaning that they tend to invest less in the countries which are respondent in these court and provide non compliance with the Bilateral Investment Treaties.

However, in this research the following hypothesis is raised in regard of Albanian government:

Hypothesis II: Albanian government being a respondent in International Centre for the Settlement of Investment Disputes and its effects toward Foreign Direct Investment.

To provide evidence for this hypothesis two main sources are used; the first is the website of International Centre for the Settlement of Investment Disputes which provides information for the cases in which Albanian government is respondent in international arbitration for investment disputes, secondly, is used the database of the Bank of Albania, and thirdly a report on Foreign Direct Investment in Albania made by the Albanian National FDI team in collaboration with UNCTAD and UNDP.

The archive of ICSID gives details about six cases in which the Republic of Albania is respondent in an international dispute in regard to direct investments (table 3 of the appendix). The claimants of these cases are from Italy with two cases, one of which is still pending, and Greece with four cases which are all concluded. The applicable rules in these cases are based upon the ICSID Convention, and the instruments used are the Bilateral Investment Treaties between Albania-Greece, and Albania-Italy for the respective cases, also the Albanian Investment Law.

Greece and Italy are the two main countries from which Albania receives a high performance of its Foreign Direct Investments.

As previously stated in this paper, being a respondent in international arbitration may affect the country credibility, and as a consequence will lower the flow of Foreign Direct Investment. Data gathered in accordance to this issue displays that the flow of investment in Albania from these countries has changed. Greece investments have decreased, recording 15%, since 2008. On the other hand Italian investments have increase with 3% in the same timeframe (UNDP 2011). Nevertheless, it is crucial to mention the fact that the reasons behind the reduction of Greece investments in Albania are more likely to come from the deep financial crisis that Greece have faced recently.

Important measure to take into consideration in this regard is the net flow of the total FDI operating in Albania. According to the time series database provided from the Bank of Albania, the total FDI for the same period calculated for Greece and Italian investment, records an increase in investments from 2,061 million euro in 2008 in 3,262 million euro in 2012 (BankofAlbania 2014).

Observing and analyzing the data acquired the research concludes that the hypothesis is not approved for the Albanian case; because the flow of Foreign Direct Investment is not affected by Albanian participation in the International Centre for the Settlement of Investment Disputes as respondent, and in this regard the country credibility does not have a direct correlation and is not challenged with this participation.

5. Conclusion

The analysis of this research develops the main trends of the flow of foreign direct investments in Albania. These trends, including the signing of Bilateral Investment Treaties between Albania and other government and also the participation in International Centre for the Settlement of Investment Disputes are considered to be very crucial points in attracting foreign investors. In the case of Albania this paper provides empirical evidences towards the link between these trends and the flow of foreign investment. The results of the study show that for Albania, signing Bilateral Investment Treaties is major contribution in increasing FDI. In regard to the other part of the research the findings show that the participation of Albania as a respondent in the International Centre of the Settlement of Investment Disputes is not directly affecting the credibility of the country.

Indeed, Foreign Direct Investments in Albania have positive impact in the economic performance of the country. FDI are especially important in different sectors of the Albanian economy, whose activities include manufacturing, electricity, construction, sales, marketing, telecommunication, transport, business services etc. Thus, the Albanian government and the legislative body should be aware of their importance as the main stakeholders in the creation of a suitable and attractive environment for foreign investors.

Appendix

Table1.Bilateral Investment Treaties Signed between Albanian government and other countries.

Partners	Date of signature	Status
Albania-Austria	1993	In force
Albania- Azerbaijan	2012	
Albania- BLEU	1999	In force
Albania-Bosnia and Herzegovina	2008	In force
Albania-Bulgaria	1994	In force
Albania-China	1993	In force
Albania- Croatia	1993	In force
Albania-Cyprus	2010	
Albania-Czech Republic	1994	In force
Albania-Denmark	1995	In force
Albania-Egypt	1993	In force
Albania-Finland	1997	In force
Albania-Germany	1991	In force
Albania- France	1995	In force
Albania- Greece	1991	In force
Albania-Hungary	1996	In force
Albania-Islamic Republic of Iran	2002	
Albania-Israel	1996	In force
Albania-Italy	1991	In force
Albania-Kuwait	2007	Not in force
Albania-Lithuania	2007	In force
Albania-FYROM	1997	In force
Albania-Republic of Korea	2003	In force
Albania-Malaysia	1994	In force
Albania-Malta	2011	Not in force
Albania-Republic of Moldova	2004	In force
Albania-Netherlands	1994	In force
Albania-Poland	1993	In force
Albania-Poland	2006	Not in force
Albania-Portugal	1998	In force
Albania-Qatar	2011	Not in force
Albania-Romania	1995	In force
Albania-Russian Federation	1995	In force
Albania-San Marino	2012	Not in force
Albania-Serbia	2002	In force
Albania-Slovenia	1997	In force
Albania-Spain	2003	In force
Albania-Sweden	1995	In force
Albania-Switzerland	1992	In force
Albania-Tunisia	1993	Not in force
Albania-Turkey	1992	In force
Albania-Ukraine	2002	Not in force
Albania-United Kingdom	1994	In force
Albania-United States of America	1995	In force

Data http://investmentpolicyhub.unctad.org/IIA/CountryBits/2#iiaInnerMenu

Table 2.Foreign companies operating in Albania and their origin.

Company	Origin	BIT
Raiffaisen	Austria	Yes
BerOne	Turkey	Yes
Calik Holding	Turkey	Yes
EVN Group	Austria	Yes
Ernst & Young	United Kingdom	Yes
Kurum	Turkey	Yes
Lockneed Martin	United States of America	Yes
Gulf	United States of America	Yes
Telecom Slovenije	Slovenia	Yes
Statkraft	Norway	No
Bosch	German	Yes
Shell	Netherlands	Yes
Vorbund	Austria	Yes
KPMG	Netherland	Yes
Conad	Italy	Yes
Carrefour	France	Yes
Standarts.org	Australia	No
Societe General	France	Yes
Intesa San Paolo	Italy	Yes
Uniqa	Austria	Yes
Vodafone	United Kingdom	Yes
Pwc	United Kingdom	Yes
Statoil	Norway	No
Bankers	Canada	No
Titan	Greece	Yes
AMC	Greece	Yes
Coca-cola	United States of America	Yes
Lindner	Germany	Yes
Stream	Canada	No
Rompetrol	Romania	Yes

Data http://aida.gov.al/?page_id=321

Table 3.Cases which Albanian is respondent in International Centre for the Settlement of Investment Disputes

Case No.	Claimant(s)	Respondent	Status
ARB/14/26	Albaniabeg Ambient Sh.p.k, M. Angelo Novelli and Construzioni S.A.	Republic of Albania	Pending
ARB/11/24	Mamidoil Jetoil Greek Petroleum Products Societe Anonyme S.A.	Republic of Albania	Concluded
ARB/11/18	Burimi SRL and Eagle Gamees Sh.A	Republic of Albania	Concluded
ARB/07/21	Pantechniki S.A. Contractors & Engineers	Republic of Albania	Concluded

ARB/95/1	Leaf Tabacco A. Michaelides S.A. and Greek-Albanian Leaf Tabacco & Co. S.A.	Republic of Albania	Concluded
ARB/94/2	Tradex Hellas S.A.	Republic of Albania	Concluded

Datahttps://icsid.worldbank.org/apps/ICSIDWEB/cases/Pages/AdvancedSearch.aspx?rntly=ST2

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The Development Policies in the Pre-Planned Period in Turkey (1923-1960)

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ABSTRACT

It's the fact that the development efforts in Turkey have gained acceleration since founding Republic in 1923. In the early years of the Republic, independence has been based by the government. But, at the same time Turkish governments have followed open development policies in the world. After the 1929 crisis (The Great Depression), because of the pragmatic reasons, they preferred to implement the protectionist and statist industrialization policies. After the Second World War, Turkey entered the integration process with democratic world and returned to open-economy policies again. There wasn't any change about this policy in Democrat Party governments' period (1950-1960) as well.

The purpose of this study is to investigate the development policies in Turkey before the planned period since 1923, when the Republic of Turkey was founded to 1960, when the State Planning Organization (SPO) was founded to provide advice to the government on determination of economic, social and cultural goals of the state, and to design five-years plans according to the goals set by the government. This study comprise the pre-planned period (between 1923 and 1960) in Republic of Turkey. That period can be divided three parts: In the first period (1923-1929), the private sector leaded the development strategies in the country. A statist strategy was preferred in the second period (1930-1945). Finally, the import-substitution economic strategies were implemented by the government in the last period (1946-1960) for economic development.

Key Words: *Development, Republic of Turkey, Statism, Pre-Planned Period.*

1. Introduction

A major political transformation was experienced in Turkey in 1923. However, it is difficult to say the same thing for economic policy of this country. However, it is difficult to say the same thing for economic policy of this country. The "National Economy Policy" that was implemented by "Committee of Union and Progress" (İttihat ve Terakki Cemiyeti/Fırkası) during the World War I was the main axis of the Early Republican Period (Toprak, 2012:560). The ideal of "Economic Turkism" was also compatible with nation-state project for a nation who experienced the Balkan Wars, the World War I and then Independence War.

The economic policies of Committee of Union and Progress were being agreed by the political cadres of the Republic who from within this committee. The main goals of this choice were the effective state intervention in the economy and the creation of a national bourgeoisie (Koçak, 2010:31). During the last period of the Ottoman Empire, the ruling elite believed that the development of the national economy depends to create rich people from Turks (Akın, 2009:155). It could be suggested that the experiences which had been gained in the field of economy in the committee of union and progress period were transferred to the first period of the republic of Turkey.

2. The Period 1923-1929: The Development Led By the Private Sector

Although it repudiated a lot of inheritance values from Ottoman State in terms of mentality, Republican administration continued the policy of "creating a national bourgeoisie" which was started by Committee of Union and Progress. In that period, the "nationality characteristic" came into prominence in the policies to encourage the private enterprises.

In terms of supporting private sector this period can be called "liberal". But in the strict sense it cannot be named liberal, if the concept of liberal means keeping intervention of the state at the minimum level in the economy. Because there were several direct interventions of the state in economic activities in favour of capital accumulation of private sector in these years (Boratav, 1977:42).

2.1. İzmir Economic Congress (17 February-4 March 1923

İzmir Economic Congress was organized before proclamation of the Republic of Turkey. It is possible to explain this preference as to crown political victory with the economic victory. When more than a thousand delegates collected in İzmir for the economic congress, the Lausanne Negotiations had not finished yet. The groups of farmer, trader, industrialist and worker discussed freely all economic policy issues that the new regime could be faced in the congress. Additionally, the thesis which asserts incentive domestic and foreign capital, supportive national elements about controlling economic life and a moderate conservation came to the forefront. "The Principles of Economic Pact" (Misak-ı İktisadî Esasları) document was accepted at the end of the congress as an output. The document was used to guide the economic policies until the end of 1920s (Boratav, 2007:45-46). The main goal was to remove all obstacles to national development led by native elements. There was not any negative approach to foreign capital. But foreign capital should not have demanded concessions like the period of capitulation and it should have joined with the labour of Turkish people. It's very remarkable Mustafa Kemal Ataturk's "semi-colonial" emphasis in his opening speech. According to him, Ottoman State did not fulfil the requirements of a sovereign state when deciding on the tax liability and judging. The decisions taken at the Congress were applied in the following years. The abolition of the "Tithe" (Aşar Vergisi) in 1925, the establishment of the "Turkish Business Bank-1924" (Türkiye İş Bankası), the "Turkish Industry and Mines Bank-1925" (Türkiye Sanayi ve Maadin Bankası) and the "Real Estate and Orphan Bank-1926" (Emlak ve Eytam Bankası) are some indicators that the Congress decisions were applied. The decision recognizing the right to strike in collective bargaining and the right to trade union activities was prevented because of the "principle of populism" (halkçılık) which the one of the six principles of the "Republican People's Party" (Cumhuriyet Halk Fırkası). So, the implementation of this decision was delayed for a while (Tezel, 2002:152).

2.2. The Railway Policy

The railway (şimendifer/demiryolu) policy is one of the foremost examples representing the first years of the Republic. This policy lasting for 15 years has been one of the main characteristics of new regime. The government aimed at ease of transportation and activate the industry by disseminating the railway network with this policy. The railway policy played an important role in the integration of domestic market with capitalist world. "An extra one span of railway" was a slogan directing to economy in those years (Kuruç, 1988:XXXIII-XXXIV). The inviting approach to foreign capital could not prevent the nationalization of railways and "Régie Company" (Tütün Rejisi). The railways controlled by foreigners were nationalized in this period. Régie Company was nationalized in exchange for 4 million Turkish Liras by the state in 1925. The right to maritime transportation between Turkish ports was granted to only Turkish citizens by the Cabotage Law which was adopted in 1926. Within this context, in 1924 Haydarpaşa-Ankara (with Haydarpaşa Port and its quay), Eskişehir-Konya and Arifiye-Adapazarı railway lines and in 1928 Mersin-Tarsus-Adana railway lines were nationalized (Boratav, 2007:46-47). Finally, "Thrace" (Trakya) railway line was nationalized in 1937. In this way, all of the railways were transferred to state ownership. It should be noted that this implementation of nationalisation are not adverse to the liberal economic philosophy of that period.

2.3. The Regulations in Favour of Private Enterprise

The state embarked on a series of reforms in order to pave the way for private enterprise in the early years of the Turkish Republic. "Turkish Constitution of 1924" and 1926 "Turkish Civil Code" (Medeni Kanun) which guaranteed the private ownership set up a legal basis for these regulations. Traders and industrialists were organized in the form of "Chambers of Commerce and Industry" in 1925. In the same year, commodity exchanges were established in many places, particularly in Istanbul. In the banking sector, rapid developments were experienced in 1920s. Some banks like the "Turkish Business Bank" (Türkiye İş Bankası), the "Turkish Industry and Mines Bank" (Türkiye Sanayi ve Maadin Bankası) and the "Real Estate and Orphan Bank" (Emlak ve Eytam Bankası) played an important role in creating the Turkish rich class by the state providing medium and long-term credit to private enterprises (Tezel, 2002:229). In addition, liberal economic policies were developed by the "High Economic Council" (Âli İktisat Meclisi) which was established in 1927 and the "National Economy and Saving Society" (Milli İktisat ve Tasarruf Cemiyeti) which was established in 1929 (Akın, Bayraktar, 2011:116).

2.4. The Establishment of the "Turkish Business Bank"

In order to activate the environment of capital and to use its demands as an instrument of pressure on political power, the "Turkish Business Bank" was established in 1924. The bank served as a bridge between the political power and the business-capital sectors. The Turkish Business Bank was very effective in directing the various economic policy decisions of the government at the request of the capital environment. However, this situation paved the way for influence trading and those who did it were called as "aferist" (this term comes from the French term "affairiste" which means "self-seeker" or "profiteer") (Boratav, 2007:41). According to Atay, the establishment of the Turkish Business Bank (Türkiye İş Bankası) as a kind of politician bank, became the beginning of a painful corruptive affairism for the history of Republic. "The domestic and foreign people who try to get easy money, used to find influence traders in Ankara, and they used to drag the bank to their own enterprises" (Atay, 1984:455-456).

The "Turkish Industry and Mines Bank" which established in 1925, took over four industrial enterprises under its establishment law. Substantially the bank was expected to support private industrial and mining enterprises by its credits and contributions with this regulation (Boratav, 2007:47).

2.5. The Industrial Encouragement Law (Teşvik-i Sanayi Kanunu)

The first Industrial Encouragement Law was issued in 1913 in the period of Committee of Union and Progress. This Law was developed a little more and private enterprises and investments were encouraged by the second Industrial Encouragement Law which was issued in 1927. The first law had already been arranged for 15 years. Industrial Encouragement Law No. 1055 provided to industrial investment and industrial businesses very wide and generous concessions and incentives (Boratav, 2007:48). The free transfer of lands up to 10 hectares outside the municipal boundaries, tax and duty reductions, up to 30 percent freight discounts on railway and maritime transportation can be counted among these. The number of organisations that benefit from the Law increased to 1261 in 1928, to 1589 in 1929 and to 1857 in 1930. However, it could be suggested that the previous desire of the government about encouragement of private investment disappeared in subsequent periods from 1930 (Tezel, 2002:291).

3. The Period 1930-1945: Industrialisation by the Government

The private capital accumulation, which was intended in 1923-1929 period, could not be provided. The Great Depression in 1929 as an external cause forced the government to change the existing economic policies. In addition, the new Turkish state had to pay the two-thirds of the Ottoman Empire's debt according to Lausanne Treaty signed on 24 July 1923. This amount was about 85 million Turkish Liras and the payment of the first instalment had to be started from 1929. As a compromise, it was adopted remaining in force the old custom tariffs in favour of the creditor countries, in exchange for the postponement of payment for five year (Boratav, 2007:44).

The world crisis caused a major deterioration in the terms of trade of Turkey. Accordingly, the domestic terms of trade of Turkish agriculture was also deteriorated. The demand for agricultural export productions decreased and thus the prices fell dawn drastically. Additionally, it caused a decline in propensity of foreign investors to invest.

By the way, as an internal reason, we can mention the effect of poverty that Mustafa Kemal Ataturk observed in his nationwide tour. According to Mustafa Kemal Ataturk, who prefers modernisation and development to multi-party democracy, the formula of fast development was possible by taking greater role of state in economy.

For this purpose, statism was added to the party program in the Republican People's Party's 1931 congress (Koçak, 1990:113). One can say that 1930-1932 period was a transition period and the statism period started in 1932. The one of the most important steps is the establishment of the State Industrial Office (Devlet Sanayi Ofisi) in this policy. On the other hand, Industrial and Credit Bank (Sanayi ve Kredi Bankası) which related to supporting manufacturing industry policy was established in 1932. The task of the new bank was providing loans to the industrial sector and promoting the manufacturing sector by way of subsidies. Sümerbank was established on the 3 of June, 1933 in accordance with the Law No. 2262 because of insufficiency of funds of the bank. The establishment of the bank (which has 20 million TL capital) was related to the changing in the Ministry of Economy. The economy minister Celal Bey (Bayar) successor of Mustafa Seref Bey (Ozkan) constituted his own policy by integrating industry with banking (Kuruç, 1988: XLII). On the contrary of the Prime Minister Ismet Inonu's strict statism principle, Celal Bayar and Mustafa Kemal Ataturk put statism on the base that the state should do the businesses the private enterprise could not.

3.1. The First Five-Year Industrial Plan (1934-1938)

It had been implemented the planned economy by Soviet Union since 1929. Turkish managers were interested in this model. Prime Minister Inonu paid official visits to Soviet Union and Italy in 1932. In compliance with the agreements made during the visits, a Soviet expert group came to Turkey in the same year. Soviet experts presented their reports about projects in the investment program of the state. Beside Soviet expert group, the government also invited an American expert group to Turkey in 1933. The expert reports emphasised that the government should not be in hurry in industrialization and consider the defence of country in selection of the industrial locations (Tezel, 2002:293-295). Because of a lot of risks about bombardment from north, the coastline was not chosen as a convenient place for iron-steel and chemical plants. So, Karabük was preferred as a result. Not only security concerns but also balanced distribution in the country has been effective in selection of the industrial locations.

In the First Five-Year Industrial Plan (1934-1938), there is not any perspective and prediction about macro indicators of Turkey's economy and society. Furthermore, the objectives related to Gross Domestic Product (GDP), employment problems or the foreign trade deficit were not determined. This is a big difference between this plan and the plans prepared after 1960's (Tezel, 2002:301). In the plan, which was implemented by a Decision of the Council of Ministers, it was indicated which industrial institutions would be fundamentally established, at where and which size.

Furthermore, it was projected to establish a lot of businesses in many different sectors such as combed yarn, cannabis, linen, semicoke, chemistry, sponge, attar of roses, electrification, gold and oil in the plan (Tezel, 2002:297-300). These plants began operating in between 1934 and 1940. Some state banks such as Sumerbank and Etibank were used to get financial support for industrial projects as well as getting industrial loan from Soviets. The share of manufacturing in Gross Domestic Product (GDP) was increased from 13.5 percent in 1933 to 14.7 percent in 1939. The main reason for lack of increasing was that the government aimed to distribute the state resources among agriculture, mining and infrastructure in a balanced manner by the planned economy (Kazgan, 1981:7).

3.2. Balanced Budget and Strong Money Policy

According to the ruling elite, it was necessary for Turkey to get away from the position at which it was exporting raw materials and importing manufactured goods. To use raw materials in the country instead of exporting it, meets the needs of domestic consumption and also saves country's exchanges. All of these took place in a closed economy model in which exports were monitored and imports were limited by quotas. This model was applied until 1945.

1930's are the years in which sustaining balanced budget and the value of Turkish Liras were given great importance (Kuruç, 1988: XLVII). The Central Bank of Turkish Republic established in 1930 arranged the exchange regime. It was given great importance to the value of national currency with the "Law on the Protection of the Value of Turkish Currency" which was also come into force in the same year (Boratav, 2007:68). The foreign trade balance of country was also great important to the government. Germany forced Turkish government to import more from it by giving open position in clearing account through buying Turkey's export stocks with higher prices than the world market prices. In this period, the share of Germany in Turkey's foreign trade volume was almost half of it (Tezel, 2002:178).

3.3. The Years of the World War II

Soon after the First Five-Year Industrial Plan, a new plan was prepared in 1938. Comparing to the first plan, the second plan which was more extended was unfortunately interrupted because of the World War II and only the old projects continued (Tezel, 2002:312). Although the administrators of that period succeeded not to join the country to the World War II, it was necessity to keep the army ready for the war because of the war was going very close to the border. The cost of feeding the army which includes over one million people in the budget was balanced by some precautions. Among these precautions, there were the "National Protection Law" (Milli Korunma Kanunu), the "Wealth Tax" (Varlık Vergisi) and the "Agricultural Production Tax" (Toprak Mahsulleri Vergisi). The "Law on Giving Land to the Farmer" (Çiftçiyi Topraklandırma Kanunu) which was issued towards the end of the war was considered as a rural development practice which aimed to provide the farmers who have little land or none enough land to cultivate.

3.3.1. The National Protection Law (1940)

The decrease in production and importation increased the inflationary pressure during the war years. Meeting the subsistence of the army and nutrition and heating of big cities were required to take strict precautions by the government. The government had the right of strict price control over agricultural products and also buying agricultural products with low prices by the "National Protection Law" issued at the beginning of 1940. Rules related with the capital sector and labour markets took attention in the Law. As a result of this Law, the army and city-dwellers were feed cheaply but black market, hoarding, bribery and influence trading could not be prevented.

3.3.2. The Wealth Tax (Varlık Vergisi) and "The Soil Products Tax" (Toprak Mahsulleri Vergisi)

Sukru Saracoglu became the prime minister of Turkey in June 1942 after Refik Saydam's death and started to ease the controls over the markets as a first job. The farmers were given the opportunity to sell more than 25 percent of their products as they wish. The implementation of price controls (narh) was ended. These measures let the big traders and farmers increase their profits. The government preferred to tax "excess earnings of urban traders" by the "Wealth Tax". Farmers' earnings were also taxed by the "Soil Products Tax". The Wealth Tax was an extreme tax. It was only for one-time and there was no right of appeal. The Tax particularly targeted Non-Muslim traders living in Istanbul. It was said, that the implementation of the Wealth Tax took inspiration and courage from the persecution of the Jews by Hitler's Germany (Ökte, 1951:85).

The amount of the Wealth Tax reached to 315 million TL and this amount corresponded to 38 percent of public expenditure. The Soil Products Tax was put into effect in 1943. Farmers also contributed to the financing of public expenditure with this tax. The tax was likened to "Tithe" (Aşar Vergisi) because of its rate (10 percent). The amount of the tax which was levied in cash on industrial plants and in kind on agricultural products reached to 167 million TL. As a result, it could be suggested that the situation of public finance improved thanks to revenue from these two taxes (Boratav, 2007:85).

3.3.3. The Law on Giving Land to the Farmer (1945)

Giving land to the farmers who are landless or do not have sufficient land for cultivation was also an important issue in Ataturk period. The abolition of the "Tithe" (Aşar Vergisi) and distribution about 73,000 hectare state land area to 22,000 rural families in early republic period could be shown as some examples for this (Tezel, 2002:375). Providing land to the farmer who is landless was included in the 1935 Program of the Republican People's Party as a project. The expropriation was eased by the amendment of Turkish Constitution in 1937. But Ataturk's death and the beginning of the World War II caused the postponement of this project. This issue was brought back to the agenda again by Inonu in the final moments of the World War II.

Actually there is a direct relation between the Village Institutes (Köy Enstitüleri) project which was started in 1940 and giving land to the farmers (Akın, 2009:54). Teachers who graduated from the village institutes were asked to raise awareness of villagers. The draft law about distributing land to farmers was brought to the agenda of the General Assembly of Turkey in May 1945. It is not difficult to estimate that the Law on Giving Land to the Farmer discomposed and angered the big landowners. But the necessities and dynamics of the transition to multi-party life did not allow the implementation of the Law (Akın, 2009:54).

The balance sheet of the Republican People's Party government was generally positive in particular after 1930. Whilst the number of people working in the industrial sector was 450 thousand in 1927, it increased to 846 thousand in 1950. But its rate remained almost the same in the population. Because the population of the country grew so rapidly the changes in the Gross Domestic Product (GDP) are more considerable. Whilst the share of agriculture was 49 percent in between 1926 to 1930, this rate fell to 43 percent in between 1946-1950. The share of industry increased from 14 percent to 18 percent. The share of transportation and communication also increased from 4 percent to 5 percent. The share of other services remained at 33 percent (Tezel, 2002:113).

4. The Period 1946-1960: Multi-Party System

After the World War II, Turkey adopted multi-party regime due to internal and external incentives. When the world divided into two polar, Turkey preferred to be in part of West alliance and became a member of Bretton Woods system

and United Nations. It was no longer possible to follow a strict statism policy in the increased political competition conditions. According to Boratav, it is needed that to divide 1946-1960 period into two parts within itself. On the first period, that is 1946-1953, liberalization of import, export oriented economy and agriculture, mining, infrastructure and construction prioritized development policy dominated (Boratav, 2007:94). This situation led to worsening of current account deficit and "it is impossible to develop without external (foreign) support" approach was solidified. After 1953 liberal foreign trade policy was discarded.

During the first period as a first step to easing protectionism Turkish Lira was devalued on the 7th of September 1946. It was devalued from 1 dollar equal to 1.30 TL to 1 dollar equal to 2.80 TL. Turkey became a member of the International Monetary Fund (IMF), the World Bank Group (WB) and the Organisation for Economic Co-operation and Development (OECD) in 1947 and also became a member of the North Atlantic Treaty Organization (NATO) in 1952. After a sustainable easing the restrictions on protectionism, import increased two fold while export remained virtually unchanged. This led to 500 million dollar foreign trade deficit during that period. Gross Domestic Product (GDP) during 1946-1953 increased 10.2 percent on annual average with constant prices. Annual average increase in agriculture was 13.2 percent and in industry was 9.2 percent (Boratav, 2007:101).

4.1. The Relations with United States of America (USA)

The close relations between the Republic of Turkey and the USA were increased gradually in that period. The USA provided 100 million dollars to Turkey as economic assistance according to the Truman Doctrine in 1947. American support which is named with Finance Minister Marshall started in 1948 and continued although some short discontinuance. Direct and indirect support reached at the amount of 305.5 million dollar till 1951 (Milletlerarası İktisadi İşbirliği Teşkilatı Gen. Sekr., 1952:29). It reached 601 million dollar until 1955 (Türk, 1957:291-292). Considerable part of American support programme was for military betterment, education Turkish troops and improvements, developing watering methods, meat and fish industry development, modernization of Zonguldak Mining Coal Corporation, increasing salt and cement production and forwarding technical support. Furthermore, it was supposed to buy some goods like petroleum products, construction materials, chemical materials and replacement parts (Türk, 1957:289).

Thornburg Report which examined Turkish economy in 1949 on behalf of the "20th Century Foundation" (20. Yuzyil Vakfi) and J. Barker's observations from World Bank in 1951 and H. Chenery's observations representing American Support Organization in 1953 are significant documents which dominate Democrat Party policies (Akalın, 2010:326). In this reports it was pointed out that Turkey's liberalization is an obligation, agriculture should not be sacrificed in exchange for industrialization. And also if Turkey would like American support to be continued it should obey to what reports says.

4.2. Democrat Party (DP) Government

Although the Democrat Party came to power with the commitment of smaller government in economy, the opposite was realized. Increased money supply and careless budget balance policies did not result in negative effects in the beginning but after 1954 the situation turned to negative. The drought in 1954 badly affected agriculture and a drop of 20 percent showed up (Yenal, 2001:113). Foreign trade deficit was also on the table. Prices increased after 1954 severely. The quota method was put into effect for import.

After default in foreign debt payment a debt consolidation agreement was signed between Turkey and OECD (with then OEEC) in the fourth of August, 1958. The agreement imposed and dictated to end deficit financing method and putting into effect devaluation. 1 dollar equalized to about 9 TL, from 2.80 TL.

4.2.1. The Orientation to the Import Substitution Policies

Democrat Party Government got the chance of increasing public investment and expenditures without decreasing domestic consumption and its effect onto agriculture and industry commodities. In doing so, agriculture and non-agriculture commodities demand and price increases ended up with positive effect on manufacturing industry and on private sector.

This policy which aimed at leaving manufacturing industry on hand of private sector with increasing foreign currency needs evolved to produce substitute goods policy. Put another way, as scarcity of foreign currency makes import

impossible private sector increased its substitute production. This led to increased capital accumulation in the private sector in Turkey. The gradual increase in the demand for substitute goods encouraged the assembling and helped to strengthen of private sector by the import restrictions after 1953 (Kazgan, 1981:8).

5. Conclusion

Economic policy adopted during 1920s was a liberal policy that aimed at creating a national bourgeoisie in Turkey. During the beginning of Republic regime it was pursued an independent-prioritized but open to the world economic policy. However, 1929 Great Depression required government intervention. Until the end of the World War II, this protectionist-statist policy continued virtually about 15 years. Policy makers prioritized development to democracy and aimed to create a self-sufficient state. Balanced budget, foreign trade balance and strong Turkish Lira were targeted and they accomplished to some extent. With multi-party regime, world integration process dominated in the climate of open economy. First period of Democrat Party, witnessed transition efforts from an interventionist economic structure to an open economy that prioritizes private sector. Phases of democrat party after 1954 is coloured with increasing import quotas and coming to life of protectionist model again. Foreign-exchange bottleneck encouraged import substitution and assembly industries. After 1946, it was day by day departed from foreign currency and budget balance policies dominated during the statist period.

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The Promising Role of Sustainability Centers and Sustainability Reporting in Higher Education. A Pilot Case Study

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ABSTRACT

The aim of this study is to define the content and the importance of the Sustainability Reporting, which is a non-financial reporting procedure, prepared by organizations in order to be more transparent and accountable by giving the necessary and reliable information for the decision making processes. It describes also the interdependency between non-financial and financial issues in today's global environment. The research context is that of higher education. The method is based on a pilot case study for creating the Epoka Center of Service Systems Sustainability (ECOSSS). Because this is a pilot study, there are not actual results but only expected ones. The expected results of the center are: a) to provide the annual sustainability report of Epoka University that would affect directly the ranking, creditability and reporting experience of the University as a whole; b) to offer research, consultation, workshops and training programs. The engagement in these programs and activities will indicate seriousness and influence on the rating decision of customers and investors by increasing the recognition, trust and creditability, efficiency of risk management, and value creation.

Keywords*: Sustainability Reporting, Global Reporting Initiative, Epoka Center on Service Systems Sustainability*

1. Introduction

The globalization process has taken place in each and every corner of the world, but managing economic systems efficiently and effectively is becoming an enormous challenge for corporations to handle and analyze where they are headed and how they are going to reach the intended performance. Therefore the corporations in the last times have the tendency to remain sustainable on their current operating business or enlarge their business activity by firstly taking into consideration the basic factors like survival and well-being. In order to ensure value and coherence they should pay attention to the natural environment and society by establishing circumstances under which organizations, society, and environment can exist in ideal synchronization.

Since many organizations today are facing problems of accountability and difficulties in dealing with complex decision-making processes, then reporting is becoming a new way of increasing the effectiveness in organizing and rational decision-making. Managers face many decisions, but they often make unsustainable choices (Arvai, Campbell, and Steel, 2012). The emerging trend of sustainability reporting is embracing not only great corporations for which it is now mandatory to report (at least in EU), but also other institution of every type and size of industry. In the higher education context sustainability reporting is still in its early stages (both in numbers of institutions reporting and in level of reporting) when compared to sustainability reporting in corporations (Lozano, 2011). However, the recent Higher Education Sustainability Initiative (HESI), created as a partnership of UN entities (UNESCO, UN-DESA, UNEP, Global Compact, and UNU) in the run-up to the United Nations Conference on Sustainable Development (Rio+20), has reinforced the focus of sustainability in higher education (https://sustainabledevelopment.un.org). On the other hand, the UN Global Compact Program has created also the Principles for Responsible Management Education (www.unprme.org).

Given the trend, our research aim is to create a sustainability center in order to make academic research and projects research. In addition, the center will take care about the whole process of preparing Epoka's University Sustainability Annual Report which will help the center to gain the necessary experience needed (which is a must) to become a certified training partner of the Global Reporting Initiative (GRI) in the near future. This stage would expand the opportunities to offer consultations, workshops and different training programs for interested local and regional entities. By providing these services the center will focus on defining the content and the importance of Sustainability Reporting, which is a non-financial reporting procedure, prepared by any organization in order to be more transparent and accountable by giving the necessary and reliable information for the decision making processes, and effecting the judgments of customers, investors, and generally of all the stakeholders.

Different data sources show that sustainability reporting is crucial not only for organizations and industry sectors, but for the overall regional development. They show also that in the Balkan region the sustainability movement has began, but it is still at embryonic level and furthermore is not significantly diffused among organizations. This movement is less accented in Albania, and still it is less accented in the higher education sector referring to the overall region. As a consequence, this is an opportunity for Epoka University that, by creating the ECOSSS, it becomes the first higher education institution in Albania and Balkans regarding sustainable development and reporting.

2. Literature review and theoretical framework

"A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities" (www.globalreporting.org). It is a key tool to help corporations set goals, measure progress and manage sustainability. The organization that has pioneered and developed wide-range of sustainability reporting framework is the Global Reporting Initiative (GRI), which provides the sustainability standards for the corporations; it is a non-profit organization and aims to attract as much corporations as possible on the sustainability reporting framework. It is intended to be applied in every corporation, no matter the type, size or sector in which it operates. Reporting may contribute to corporations to evade natural and societal risks that can cause different negative impacts on the monetary related issues on them.

In the preparation of this report attention must be focused on the *triple bottom line* approach which includes economical, social and environmental indicators on the development of corporations in a long term perspective (Elkington, 1997). In economical indicators can be included factors related to the creation of long term fruitfulness and establishment of an ethical corporate working environment, such as economic performance, market presence, etc. Social indicators are based on the internal aspects including the labor force, corporate responsibility and subordinates responsibility and also external aspects that are related directly to the stakeholders. The growth rate of the world population tends to increase day by day while in some countries like Italy it has come to a standstill. In the industrialized countries, better saying in most industrialized countries constantly reduce resources that seems to be crucial like water and energy. While economy needs a highly increase growth, the environment needs a sustainable development and this can be reached through anthropoid process. Thus, relevant environmental factors can include water, energy, emissions, etc. Table 1 is a summary.

Table 1. Sustainability reporting variables

TABLE 1: CATEGORIES AND ASPECTS IN THE GUIDELINES				
Category	**Economic**		**Environmental**	
Aspects [1]	• Economic Performance • Market Presence • Indirect Economic Impacts • Procurement Practices		• Materials • Energy • Water • Biodiversity • Emissions • Effluents and Waste • Products and Services • Compliance • Transport • Overall • Supplier Environmental Assessment • Environmental Grievance Mechanisms	
Category	**Social**			
Sub-Categories	**Labor Practices and Decent Work**	**Human Rights**	**Society**	**Product Responsibility**
Aspects [1]	• Employment • Labor/Management Relations • Occupational Health and Safety • Training and Education • Diversity and Equal Opportunity • Equal Remuneration for Women and Men • Supplier Assessment for Labor Practices • Labor Practices Grievance Mechanisms	• Investment • Non-discrimination • Freedom of Association and Collective Bargaining • Child Labor • Forced or Compulsory Labor • Security Practices • Indigenous Rights • Assessment • Supplier Human Rights Assessment • Human Rights Grievance Mechanisms	• Local Communities • Anti-corruption • Public Policy • Anti-competitive Behavior • Compliance • Supplier Assessment for Impacts on Society • Grievance Mechanisms for Impacts on Society	• Customer Health and Safety • Product and Service Labeling • Marketing Communications • Customer Privacy • Compliance

Source: www.globalreporting.org

Nevertheless, the influence of classical economic thought, based on profit maximization, is still relevant today. It is relevant because the managerial activity is thought to be an exclusive activity of businesses, forgetting the role of non-profit organizations like there are also universities. According to what said above, the non-profit has been, is and it will be one of the most important megatrends (by purpose, or by organizational type) of higher education industry. The

nonprofit is not so much "naive" as it seems. *"Many non-profits operate just like for-profit businesses. They make huge profits, pay handsome salaries, build office towers, invest billions of dollars in stocks and bonds, employ lobbyists and use political action committees to influence legislation"* (Gaul, Borowski 1993, pp. 4). Given the importance, the non-profit sector has too much to explain to the business sector in terms of mission, environment, community, gratification of human resources, etc. (Drucker 1989, 2001). This is to say that every kind of organization, profit or not-for-profit, should see beyond the financial boundaries in order to be responsible and to show sensitiveness toward society and environment. On the other side, the profit is not an end itself, but it is a test of the overall organizational performance that today is not based simply on the financial indicators, but also in social and environmental ones.

Looking through an historical viewpoint, most of the organizations started to integrate the social responsibilities on their annual reports, and by a survey conducted by Ernst & Young in mid-1970s, it was founded that only 1 per cent of Fortune 500 companies provided separate social responsibility booklets along with annual reports (Buhr, 2007). However important initiatives and developments on the field increased the attention and awareness of being responsible organizations. The responsibility (sustainability) movement started in 1972 with the Stockholm Conference on Environment Deterioration. After that, followed: Brundtland Commission Reporting – Our Common Future (United Nations), 1987; UN Conference on Environment, Social, and Economic Development, Rio de Janeiro, 1992; Global Reporting Initiative (GRI) for Environmental Protection, 1997; United Nations Global Compact, 2000 (e.g. Circles of Sustainability); World Summit on Sustainable Development, Johannesburg, 2002; Global Reporting Initiative (GRI), 2002: Sustainability Principles, Guidelines, and Reporting; etc. Also in Albania, under the initiative of UNDP, it was created in 2012 the Albanian CSR Network for promoting Corporate Social Responsibility.

Because of this tendency, it becomes "mandatory" to create activities within every institution related with Corporate Sustainability. The current study focuses the attention on the creation of a fertile center within Epoka University that promotes sustainable development. As it is seen from the center's name (i.e. Epoka Center on Service Systems Sustainability), the project is based conceptually on three pillars: *Corporate Sustainability*, *Service Science* and *Service- Dominant Logic*, and *Systems Theory* based on the recent trend of the *Viable Systems Approach* ($_{V}^{S}{}_{A}$) of Sapienza University of Rome.

Regarding the Corporate Sustainability, this is an evolutionary concept that covers better many open questions and scientific confusion (in terms of definition) of Corporate Social Responsibility (Frankental, 2001; Frederick, 1994; Welford, 2005). While CSR has not well-defined the concept of environment, or failed in trying to do so (Fukukawa and Moon, 2004; Willard, 2002), the CS has recovered this gap. In the academic setting the most famous approach of Corporate Sustainability is the Triple Bottom Line (TBL) approach (Elkington, 1997, 2008). It is focused on the economic, social, and environmental performance of the organization, respecting the slogan: "people-planet-profit".

Long term factors like resource scarcity, climate changes, and demographic shifts can redefine societal expectations and regulatory framework in business environments and investment outcomes. Corporation must foresee and manage current and future economic to report in the proper level. Different businesses all over the world now use several standards to improve the quality and performance of their products, with the main aim to reduce risk and support reputations. Standards which can be defined as "agreed ways of doing things" have provided firms with the main guidance to help them create effective procedures to minimize risks and operate more efficiently. Particularly in the corporations of developed countries, what matters most in the guidance of success are standards that have been key agents in preventing pollution, supporting good stakeholder solutions and meeting regulatory compliances including quality and safety. The headlines of sustainability contain facts of risk management, environmental and stakeholder management, and consequently the main question is: how are businesses using standards to support sustainability?

In the past two decades, developed countries' entrepreneurs have build sustainability programs to manage the Triple Bottom Line strategy. The main issue is that different corporations have different strategies and different perception of the sustainability reputational issues. According to a study of Verdantix (2012), in UK and EU level, businesses describe the sustainability in four different perspectives:

- For 70 % of the corporations, sustainability is well established and recognized by top executives as a driver for innovation and growth.
- For 25% of the corporations, sustainability is seen as a growth driver by only a limited number of executives and is not integrated within the overall business strategy.
- For 5% of the corporations, sustainability is consider as a minor reputational issue and receives little executive attention.
- For 1% of the corporations, sustainability is a new concept for their business.

However, even if in its embryonic stage, the sustainability awareness and importance is increasing. For example, nearly all of the 150 largest corporations in the world had a Chief Sustainability Officer (CSO) with the rank of vice president or higher, and numerous MBA programs had incorporated sustainability training (www.extension.harvard.edu; Willard, 2005).

The second pillar of the theoretical framework is the Service Science, which is the practical perspective of the

science of the service born within the laboratories of IBM (Maglio, Kieliszewski, and Spohrer, 2012). The actual IBM's smarter planet philosophy is the derivate of service research (www.ibm.com). On the other hand, the practical perspective of the service science is completed with the theoretical foundations of the service concept that come from the so-called Service-Dominant Logic (Vargo and Lusch, 2008). The S-D Logic is relevant especially for the concept of "value". For service scholars, value is a relational concept developed through a network of many-to-may relationships (Gummesson, 2008) and can only be proposed via dialogue and co-created via participation (Lusch, Vargo, and Wessels, 2008). The effectiveness of value co-creation is tested by its use in a defined context (i.e. value in context) (Vargo, Maglio, and Akaka, 2008). Since different authors sustain that corporate citizenship and sustainability depends on the effective allocation of values and resources (Crane, Matten, and Moon, 2008; Waddock and Rasche, 2012; Golinelli and Volpe, 2012), and because the effective allocation of value is measured in context (i.e. value in context), it means that corporate sustainability is context-specific. Therefore the governing bodies of every organization must take into consideration the entities that populate the context. They should measure the organizational performance referring also on how their organizations impact on community and environment.

A third view coming from the Department of Management of Sapienza University of Rome, that is the Viable Systems Approach (Golinelli, 2010; Barile et al., 2011), when considers the Corporate Sustainability does not refer to the corporation per se, limited to autopoietic properties (Maturana and Varela, 1980), but to the corporation as a structure in movement (i.e. dynamic viable system) pushed forward by its Governing Body (GB). Therefore, the sustainability of the organization is the mirror of decisions, choices, and actions of its GB with butterfly effects on the context. Here, the context has a constructivist meaning (Piaget, 1954; Vygotsky, 1962; Bateson, 1972; Bandler and Grinder, 1982; Watzlawick, 1984; Foerster, 2003); it is the opera of GB that extracts it as a portion from the general environment with the intention of future interactions with relevant suprasystems (stakeholders), by him identified and selected, once the conditions of consonance (empathy) between GB and suprasystems are established. In this decisional act the CGB is influenced by the components of his information variety: information units, interpretations schemes, and categorical values (Barile, 2009). Since "emotions can express meanings and understanding because strong judgments and values are anchored in emotions and struggling" (Härtel, Zerbe, and Ashkanasy, 2005, pp. 29), then, the decision making of GB (influenced by personal values), is as well affected by the bounded rationality (Simon, 1947). In synthesis: corporate sustainability is context-specific because the organization interacts with a sort of environment (i.e. context); context is subjectively designed by the GB, influenced both by emotional elements (e.g. categorical values) and rational ones (e.g. information units).

3. Epoka Center on Service Systems Sustainability (ECOSSS): a pilot case study

3.1. About Epoka University

Epoka is an International University in the Balkan Region and it has about 1300 students. It is located in Tirana, Albanian capital city. Epoka University was established in 2007 and is owned by the "Turgut Özal" Education Institution, which has also established and operated the well recognized system of Turkish primary and high schools in Albania since 1992.

Epoka University is the leading national private research university and in the mid-term aims to become one of the top universities in the region. CSIC (Consejo Superior de Investigaciones Cientificas), the largest group of public research in Spain, published in the official website webometrics.info the ranking of the best universities in the world for the last six months of 2014. In this ranking, as in previous years, are included Albanian universities as well. One of the main drivers of the classification is the sustainable development of academic work. In accordance with the statistics, Epoka continues to lead Albanian Higher Education System as the best university for teaching, research, infrastructure, and innovation.

The university is composed by two faculties: Faculty of Economics and Administrative Sciences that includes 4 departments (Banking and Finance, Business Administration, Economics, Political Science and International Relations), and Faculty of Architecture and Engineering that includes 3 departments (Architecture, Civil Engineering, Computer Engineering). Also, the university provides 3 research centers (Center for European Studies, Continuing Education Center, Center of Research and Design in Architecture – CoRDA).

Epoka University is also strong in international relations and partnerships. Among the several partners are University of Texas at Austin, Istanbul University, Illinois Institute of Technology, Leeds Becket University, Hochschule Mainz University of Applied Sciences, American University in the Emirates, and EADA Business School with which there is a joint program for professional master in business administration and an executive master in management.

3.2. Epoka University as a sustainable institution

Actually Epoka University is making efforts for creating a sustainability center, because the university has incorporated since the beginning the philosophy of sustainable development in its mission. Basically the focus is that of the Triple Bottom Line approach (Elkington, 1997). In other words, being economically, socially, and environmentally sustainable.

Regarding the economic sustainability, Epoka University is making a good economic performance, both internally and externally.

Internally, the institution has increased sufficiently the profits to be reinvested in different forms and to sustain the structure, the staff, and the long term strategy of the organization. An important issue is the fact that Epoka rewards the best students by giving different scholarships. Bonuses go also for the staff when their performance goes beyond expectations. Therefore, the main stakeholders that are students and staff are highly satisfied.

Externally, the institution impacts indirectly at the macroeconomic level. Impacts can be measured by the amount of investments on structure and technology, and on the general level of employment as component of the gross domestic product (GDP).

Referring to the social sustainability, the university is engaged in different initiatives related with labor practices, human rights, society, and service responsibility. For example, through the Continuing Education Center, Epoka is offering training programs in order to increase employee engagement, commitment, and satisfaction. Recently, the university participated in the National Competition on Copyright and other related Rights in order to promote human rights in society. Also it organized recently the 2nd Career Fair on April 21, 2015, an activity which offered employment opportunities to last-year students, orienting and supporting these students in their first steps for a successful career. More than 50 companies from Albania and the regional marketplace supported the Second Career Fair. Other fairs and forums are organized in these months for promoting cultural heritage, community engagement, and woman's rights.

Finally, the ecological sustainability of the university is another strength point. The biodiversity of the large campus is huge. It can be found different kind of birds and domestic animals, different flowers and trees, and a small lake. In order to be environmentally sustainable and to reduce carbon emissions, Epoka University possesses different eco-buses for student and staff transport. This gives the opportunity to let the cars at home and come in destination by a common transport mean. Lately, Epoka University in collaboration with "Green Line Albania" is engaged in sustainable environmental activities such as cleaning the Albanian Riviera, cleaning the Albanian territory in general, creating for the local communities parks and recreation areas, etc.

3.3. Objectives and project timeline of ECOSSS

ECOSSS is projected to be a sustainability center for handling academic research, project management, consulting, and training about sustainable development and reporting. One of the aims is to increase the awareness of organizational governing bodies that sustainability reporting affects judgments, decisions, and choices of top managers, customers, investors, and generally that of all stakeholders. In order to offer the necessary services, the center will be committed to produce interdisciplinary research in the field of sustainability science for qualifying better the academic staff of University, and as a consequence to increase their international recognition. ECOSSS will be engaged on preparing the annual sustainability report of Epoka University in accordance with GRI-G4 guidelines. Since more than 22218 reports are published recently (from which, 17538 are GRI Reports) and more than 7010 organizations are part of the reporting initiatives of GRI, which is the leading organization on the sustainability field, Epoka will prepare its own report in order to be in the trend of the global initiatives of the world's well known organizations, institutions, and universities (e.g. 155 universities reports worldwide) that have already prepared and published their sustainability reporting.

Sustainability orientation and reporting are very beneficial activities for every organization. *"Sustainability is a source of innovation and profitability"* (KPMG, 2011). On the other side, according to Ernst & Young (2013), *"reports, in addition to creating greater transparency about firm performance, can provide firms with knowledge necessary to reduce their use of natural resources, increase efficiency and improve their operational performance"*. In 2013 a survey of Global Corporate Sustainability was conducted by United Nations. About 1700 organizations from more than 100 countries (largest survey on this field) participated. 65% of CEO's of these firms have already prepared their strategies in accordance to sustainability principles. Research findings of the survey showed that sustainability reporting impacts performance and long-term financial success. Also, findings show that 95 % of the world's largest corporations now publish online their sustainability reports.

(www.unglobalcompact.org). According to e-Marketer, the internet will hit 3 billion users this year, and by 2018 nearly half of the world's population will have regular access to the web, that is another reason why the organizations should make the sustainability report and then publish it online, in order to make it accessible to the public.

Considering the benefits, Epoka Center on Service Systems Sustainability, will create a project timeline in order to fulfill the predefined objectives. Steps are as follows:

1. becoming an Organizational Stakeholder (OS) of the Global Reporting Initiative (GRI);
2. consulting the "how to" handbook for G4 reporting, other books, articles, and other's reports;
3. analyze the guidelines and start preparing Epoka's University sustainability report;
4. after concluding and revising the report, making the self-declaration of reporting at GRI's website. Before the declaration some sub-steps are required: Prepare (Plan your GRI sustainability reporting process), Connect (Dialogue with stakeholders), Define (Focus your efforts), Monitor (Build your report), Report (Check and communicate);
5. make necessary academic research, project participation, and offer consulting services to the interested entities on preparing their own sustainability reports (in order to increase the experience on this field);
6. applying and starting the process for becoming a "Certified Training Partner" (CTP) of GRI;
7. make the necessary changes and add the necessary information requested by the training program undertaken;
8. after being a Certified Training Partner (CTP) of GRI, engaging in giving sustainability reporting consultations, workshops, and implementation of training programs for locals and region.

3.4. Market analysis, market potential, and strategy

Since the network with the "Turgut Ozal Education" is already established, and remembering that Epoka University is a strategic business unit (SBU) within Turgut Ozal Education Company, therefore the first market target is going to be this network to which we are going offer the services provided by our research center. It means that the first services are going to be offered to the non-profit organizations including Universities. Then the market segmentation will be focused toward other industries, especially to large and well-known national & international institutions, corporations, companies etc. Actually, there are no other competitors in the field referring not only to Albanian country, but also Kosovo and Macedonia. Therefore this is a great opportunity for Epoka to create the supposed sustainability center (ECOSSS).

In relation to the market potential, since April 1/2015, GRI has opened a new call for application regarding *certified training partners* (in accordance with CTP program) including a new list of countries that were not involved before. After our intense communication with GRI's members, fortunately Albania is part of this list and GRI is waiting applications from Albanian organizations. Thus, Epoka University with the potential center of sustainability (i.e. ECOSSS) can be a potential candidate.

On the other hand, the demand for our services in the region is not satisfactory, and this is noticeable based on the number of reports prepared by the organizations of the region. The market share is also important factor to us; therefore being aware of the reality that in the near future the application of these kinds of services is going to increase intensively, we hope that by then the market share that our company will cover will be between the ranges of 10 % - 20 % of the market.

Regarding the market strategy, our services will be positioned very carefully for the organizations that express their interests and efforts on being part of the sustainability reporting network. Our centre will provide the services only to the serious organizations since they integrate the most sensitive factors of humanity like: society, environment and economy. Our marketing strategy is based mainly on making the right information available to the right target customer. We can't afford to sell our services to each organization's asking for it, if they do not have the necessary qualifications to obtain these services. The marketing has to convey the sense of quality in every picture, every promotion, and every publication. Therefore we are going to be a partner of the most serious marketing offering agencies in the region.

Finally in order to make a rational analysis, the Porter's model of five competitive forces is used (Porter, 1980, 2008). The model is represented graphically in figure 1.

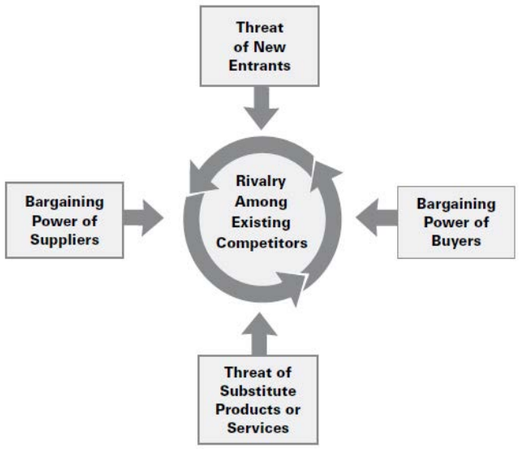
The first element, which is the rivalry among existing competitors, is simple to be analyzed in the case of ECOSSS, since there are no other competitors in the field referring to Albania and Balkans in the higher education context. It means there are no other university centers occupied with sustainable development and reporting. Therefore, ECOSSS will be a pioneer in the field.

Regarding the threats of new entrants, these are not so much relevant for the moment since there is not a deep awareness about sustainability in the country and region. After that, when ECOSSS will be created, it will acquire experience and it will expand the service portfolio, economies of scale, product differentiation, distribution channels and so on. In other words, natural barriers of entry will rise up because of the monopolist advantage that will characterize the ECOSSS.

Now, before introducing the bargaining power of suppliers first of all suppliers must be identified. In this context we have data suppliers and service suppliers. For example, the Global Reporting Initiative is a supplier both of data (considering its disclosure database from the website) and services (workshops, training, etc). Other service suppliers in terms of training and workshops are all the certified training partners of GRI. Their bargaining power is strong because

they are already consolidated in this sector. However, the level of awareness related with sustainability is low in Albania and region, and as a consequence this affects also the bargaining power of suppliers, reducing it. On the other hand, since this industry is embryonic, suppliers seek targets for offering information, training and workshops. In this sense, the bargaining power of buyers is also strong in a certain sense but not so much.

The buyers of the sector are individuals, groups, or organizations that want to be informed and trained on sustainable development principles and reporting procedures. Hence, at the moment, ECOSSS can be classified on the side of buyers. After some experience, it will offer its own services and can be classified as a supplier for other organizations. The bargaining power of buyers in Albania and region is strong, but not enough because the level of competition among suppliers is low.



Source: Porter (2008, pp. 4)

Figure 1. Porter's 5 forces model of competition

4. Discussion

Ethics and responsibility must be embedded in business models, organizational strategy and decision making process. Strong ethical policies that go beyond upholding the law can add great value to a brand whereas a failure to do the right thing can cause social, economic and environmental damage that can damage the goodwill of a company.

Once the entities have adopted the sustainability perspective they will often find that there are bottom lines benefits from demonstrating high ethical standards. Majority of the problems related with ethical issues caused in entities tend to be systemic issue since the ethical tone comes from the top of the management system. Once the top management line sets some rules to be followed, in this case related with sustainability reporting, the ethical tone comes from the top.

High quality management information on social, environmental and ethical performance is vital for monitoring the environmental and social impact of a company and for compiling connected reports showing how effective its governance arrangements are.

Corporate communications and reporting sustainability need to do more than just pay service to green agenda. They need to provide hard evidence of the positive impact on society, the environment and the strategic returns for the business and the way that negative effects are addressed. An important point is the role of the management accountants on ethical responsibility to promote an ethics based culture that doesn't permit practices such as bribery.

4.1. Implications

Through our research center initiative and support, a sustainability reporting is going to be conducted for Epoka University in order to be in the trend of the global initiatives of the world's well known organizations, institutions and to be the first in Albania and in the Balkan region that prepares a sustainability report since there are only 155 universities worldwide that have already prepared and published their sustainability reports.

As follows, are briefly described the principal implications, and the derived benefits for the institution (i.e. Epoka University).

1. Epoka University will pioneer the sustainability movement in Albania, and at university level in the whole Balkan. For Albania, Kosovo, and Macedonia, there are no certifying practitioners for sustainability reporting.
2. The creation of the center will reinforce Epoka's orientation toward research, remembering that the global trend is that of research universities (e.g. research improves teaching quality). This will influence also the university ranking.
3. Because the Albanian government with the latest Higher Education Reform has decided to finance the Universities in accordance to their level of innovation, research, and teaching , and because "sustainability is a source of innovation and profitability" (KPMG, 2011), then being a sustainable institution will be advantageous for increasing profits and obtaining government funds.
4. Adhering to sustainability principles and reporting, means that you are internationally protected by UN, GRI, OECD, etc.
5. Being a *sustainable institution* is easier to enlarge the international partnership network (considering the trend). It helps also being a strong candidate for European Projects because sustainability is the actual focus of European Projects.
6. ECOSSS will increase Epoka's credibility and image toward stakeholders (students, staff, government, community, partners, etc).

Supporting institutions regarding consulting and partnership for Epoka's Sustainability Center:

- Sapienza University of Rome – Centro Interuniversitario di Ricerca Per lo Sviluppo sostenibile (CIRPS);
- EADA Business School – Center for Corporate Sustainability Impact;
- Italian Association for Sustainability Science (IASS).

4.2. Recommendations

- Senior managers and business leaders must demonstrate accountability and responsibility by example. This will show that middle and junior managers will be rewarded for taking an ethical stand and create the appropriate organizational culture.
- Governance structures should include people with appropriate skills to scrutinize performance and strategy across social, economical and environmental issues.
- Managers must come to problems with 'prepared minds', looking at ways in which an organization can benefit from a sustainability approach rather than one that relies narrowly on cost cutting or compliance.
- Finance professionals must play an active role as ethical champions by challenging the assumptions upon which business decisions are made. But they must do so while upholding their valued reputation for impartiality and independence.
- Management accountants are encouraged to help ensure that their businesses are measuring performance on an appropriate time scale that will deliver sustained and sustainable success.
- Business leaders should use the skills of the finance team to evaluate and quantify reputational and other ethical risks.
- Finance professionals need to take social, environmental and economical factors into account when allocating capital, therefore that sustainable innovation is encouraged.

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Intuition in Decision Making: Comparison of Middle-Eastern and European Decision Making Styles

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ABSTRACT

This study aims to investigate differences in decision making styles between Middle-Eastern and European managers with emphasis on intuition as decisive factor. Importance of this study is reflected in contemporary focus of economic sciences on search for essential and primary movers of human perception, judgment, and behavior. The empirical approach used in this paper is comparison by which we've tried to grasp and explain specificities of each group of managers. Results of empirical analysis are still to be finalized and processed. Main assumption is that Middle-Eastern group unlike Europeans is relying on their gut feeling and emotional brain more than rational brain and analytical approach in decision making. This study also suggests that cultural background has profound impact on decision making style and leaves its mark on all human activities.

Keywords: *Intuition, Decision Making, Rational Brain, Emotional Brain*

1. Introduction

Purpose of this study is reflected in a fact that all contemporary social sciences are in some sort of flux and change, focused in its studies related to humans and their conduct in life on search for essential and primary causes and movers of human perception, observation, decision, judgment, and behavior in general. While most of other social sciences started to consider these important factors earlier, economic sciences somehow remained for a very long time away of this trend, constraining its studies on analysis and "description of the production, distribution, and consumption of wealth" – which is the most perceived definition of economy, without ambition to understand subtle and primordial impulses that have profound effect on the process as such. This study is merely an attempt to introduce a shift that happens within economic sciences nowadays, when behavioral economics is revealing the importance of non-rational factors in the economic decisions, and the role of "bounded rationality" of decision-makers, or economic agents as they are called. This study should also represent a stimulus for future research in this immensely important and fascinating field.

Importance and Contribution

There are several reasons for which this study might be considered important, but we will mention only the most significant of it. First reason is the fact that cognitive process, such is decision-making process, happens every day with both of its components included – rational and non-rational – with no regard of our opinion towards particular component, and whether we are aware of it or not. It is hard to conceive management, or any process of managing and implementation, without the activity which enables economic agents to identify and choose a course of action amongst the multitude of alternative possibilities and choices. In the same time it is even harder to imagine that action prompted by certain choice will be successful and correctly performed if any of decision-making components is ignored and practically disregarded.

Second reason is obvious, and related to the fact that there are no so many studies dealing with intuition in decision-making process, and particularly in Bosnia and Herzegovina. There is even much more less literature which takes into consideration different approaches to the intuition, and the emotional component of decision-making process; all that due to the fact that non-rational was not part of the classical economic paradigm. It is recognized only lately as a relevant object of observation and study, since it was impossible to ignore and exclude those innate human components from any of economic models. Another reason for scarce literature on this matter was some sort of avoidance by authors

who were not keen to explore something which is not quite measurable, complicated to analyze, and over the edge of idealized rational behavior.

Third reason is lack of studies and literature which actually compare and analyze decision-making styles, based on intuition as a reference point, between two or more groups of people, and in this case precisely between European and Middle-Eastern economic agents – top managers. This is peculiarly interesting side of the study in light of culturally different perceptions of the intuition, and with differently defined roles of the analytical segment in humans and their non-rational aspect, and emotions in general.

The contribution of this study is ought to be perceptible on both planes: theoretical and practical. Hopefully, thorough academic review together with the research of specific decision-making styles of two culturally different groups of people might be a solid base for all those who aim to research and broaden this interesting topic furthermore. Development of scientific fields related to this branch of economics, such is neuroscience, psychology, and theoretical physics will open the doors to better understanding of human behavior, and at that point this study hopefully might be of use for further development of specific economic models related to use of intuition when making decisions. From the other side, practically this study might help all those who need to deal with economic agents in different business environments, European and Middle-Eastern namely, which are not in shortage of uncertainty, dynamic changes, and "unknown knowns". Research and models presented in this study might be useful guide while building personal understanding of what intuiting is as a way of knowing, and implementation of certain and specific use of the intuition when making decisions.

The Objectives of Study

Main objective of this work is to compare decision-making styles, in reference to intuition, between Middle-Eastern and European top managers in light of different cultural view and position regarding intuition, and different traditional approaches to "the emotional" by both groups. Aim is to understand common and different aspects of intuition, as a way of thinking and knowing, in economic agents of these two culturally different groups, and provide analysis with suggestions regarding potential differences in reliance on intuition.

2. Literature Review

Views on Rational (Analytical) and Non-rational (Emotional and Intuitive)

It is important to understand that there was always quite different, almost opposite, and somehow adversative view of the relationship between rational and intuitive in Western and Eastern cultures. We can assume that those different views and different approaches towards it have their roots in unalike experiences and philosophies from which every of those, conditionally said, civilizations arose.

Views on Rational and Intuitive in the West

In Western culture to be human is to be deliberate, rational, and to follow logic based on these premises with disregard to any emotion, „hunch", gut feeling, or even a well-crafted term for all mentioned „feelings" such is intuition itself. To better understand origin of such widespread position and stance, or better said part of the traditional heritage in the West, we have to look back at origination of Western thought, or what became, through the ages, idealized Western notion and philosophy – we have to look at time of ancient Greece and one of their most prominent philosophers Plato.

It is in his writing named „Phaedrus" that we notice foundation of the most prevalent paradigm of "rational-emotional" relationship in the West depicted in the famous chariot allegory. Namely, all human minds and souls are tripartite in nature as it's colorfully described in the allegory, like the chariot with the charioteer at the helm, pulled by two horses, out of which one is of a noble breed, white, but still representation of impulsive spiritedness and human desire to be recognized. Other is black, of an ignoble breed, almost bull-like, deaf and rash, with red in his eyes, pure incarnation of human appetites, desires, and emotional impulses which refuses to be tamed – he almost doesn't respond to whiplash. (Plato, 2009)

There is more than one interpretation for this allegory, and it can be seen in several different ways, but the message is always one: in order to advance and assure progress, human is to rely on his rational side, his rational brain, the charioteer has to prevail; and he has to detach himself from deleterious influence of his emotions and feelings – he needs to "hold his horses back". The only thing he can do is to harness those feelings, to control it, and to remove it from the process in which decisions are made, because emotions and feelings are not to be taken into consideration when making decisions. The best decisions, according to this view, are those which have excluded the component of emotional.

One of the most famous philosophers of the Enlightenment Age, Rene Descartes has agreed with Plato's critique of the emotional and intuitive. He was even more blunt and explicit in this characteristic view of separation and distinction between the rational and the emotional with his "Cartesian Dualism" which perceives human being as a creature divided into two unalike components: a holy soul that is reason, and a body of flesh full of "mechanical passions". Descartes

was famous for his statement: "I think therefore I am", which suggests and illustrates his believe that the real essence of being is thinking and awareness of it, the rational and the analytical is what real being is, separated from the body, from that which is sum of impulses, instincts, and emotions. There is no place for intuition in the mind and the reason when making decisions, except in its pure rational form of previously stored knowledge, gained by thinking and rational reflection and contemplation. (Descartes, 1999)

Immanuel Kant has built on these thoughts and has concluded that to be moral means to be rational, therefore rationality and not feelings and impulses is that particular property and feature that makes human being human. Rational creatures are ends in themselves, while non-rational creatures are not; they are merely things in Kant's opinion. (Kant, 1993)

Feelings and emotions out of control are responsible for most of mental disorders according to Freud. To build civilized society as opposed to barbarian mindless hordes of savages is to assure preponderance of the reason and the rational over the irrational and the emotional. Therefore life of the individual and events that take place inside larger society are all revolving around the clash of two opposing segments of human beings: the rational and the emotional segment. (Freud, 2010)

This inclination towards the rational versus the emotional and intuitive sometimes took extreme forms, just like what happened during French Revolution in eighteenth century when group of rationalist zealots changed purpose of Parisian churches by turning it into "temples of reason". They have even replaced Christian liturgy in Notre-Dame Cathedral with particular "rational mass" called "Feast of Reason". (Herrick, 2004)

We have to say that some of Western philosophers and thinkers had different view than which we have mentioned on the rational and the emotional, the intuitive and the analytical, one of them being eighteenth century Scottish diplomat, historian, economist, and philosopher David Hume, who argued that emotions and desires rather than reason and analysis determine human conduct, and that notion of mind separated from experiences is something which can't be proven. (Hume, 2012)"number-of-pages":"278","abstract":"Scottish philosopher David Hume first published A Treatise of Human Nature in 1739. Introducing the experimental Method of Reasoning into Moral Subjects. Touching on understanding, human cognition, skepticism, passions and morals. \"Nothing is more usual and more natural for those, who pretend to discover anything new to the world in philosophy and the sciences, than to insinuate the praises of their own systems, by decrying all those, which have been advanced before them. And indeed were they content with lamenting that ignorance, which we still lie under in the most important questions, that can come before the tribunal of human reason, there are few, who have an acquaintance with the sciences, that would not readily agree with them. It is easy for one of judgment and learning, to perceive the weak foundation even of those systems, which have obtained the greatest credit, and have carried their pretensions highest to accurate and profound reasoning. Principles taken upon trust, consequences lamely deduced from them, want of coherence in the parts, and of evidence in the whole, these are everywhere to be met with in the systems of the most eminent philosophers, and seem to have drawn disgrace upon philosophy itself.\"","ISBN":"9781479321728","language":"English","author":[{"family":"Hume","given":"David"}],"issued":{"date-parts":[["2012",9,15]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"}

Nevertheless, this and similar views never became prevalent in the tradition of Western civilization; it was separation between the reason and the emotions with idealization of the rational on account of intuitive that became recognized paradigm of Western societies.

Views on Rational and Intuitive in the East

From the other side in the East intuition was always intertwined with deeply rooted traditional religious and spiritual heritage, and as such not disregarded and perceived as inferior, negative, or even destructive, and faulty tool. Despite "the dawn of rationality", most of Easterners are convinced that it is possible to have peace between the rational and the intuitive, probably due to the successful experience in this regard during peculiar and specific period of Middle-Eastern history, precisely the age of Abbasids.

Unlike Western experience related to spiritual and non-rational tradition, which produced in their opinion backwardness, and was not tolerant to anything which came outside of its canonized sources, Abbasids in their openness accepted all sources of knowledge as absolutely valid, as far as it stands open debates and argumentation for that matter. Amongst them there were many polymaths, masters of many sciences, applied and philosophical alike. Terminology of all sciences was one and the same. After they have incorporated all previous knowledge of old Persia, Greece, India, and other cultures and traditions, everything was Arabized and the central word of Abbasid's paradigm was "'ilm" (knowledge, in Arabic). But in the world where scientific method with all his properties we know was born, there was other knowledge, which was form of intuition, inspiration, and "gift from Heavens", not gained in ordinary manner but intuited, and called "ma'rifa" (knowing in way of intuitive feelings and gnosis). Numerous were debates on relationship between "'ilm", the ordinary rational knowledge, and "ma'rifa", the intuitive knowledge based more on feelings and

emotions, but there was one thing Abbasids were agreeing on – no matter what source, the knowledge is knowledge, and it should be used without any discrimination. (Bennison, 2010)

Obsession with knowledge in all its forms for people of that era in Middle-East was best emphasized and depicted by unique figure of Ibn al-Haytham, known in the West by his Latinized version of the name Alhazen. This father of Scientific method, a philosopher who wrote about prophets and divine inspiration, well-known polymath and Muslim philosopher has considered that seeking of knowledge and the truth is the best way for one to find access to the light and closeness to God - "'ilm" (knowledge) in all its forms was the solution. (Plott, 2000)

For some Middle-Eastern scholars and philosophers, intuition is sometimes perceived as a knowledge that came directly through illumination from the divine light; it is that knowledge which is gained without need for person to resort to imitation or having intent to gain it. Just like in the West, the East also had its own way of expressing extreme love for the philosophy which was authentically born in it, and that is the case in Suhrawardi's concept of "Ishraq", or Philosophy of Illumination. Here, the distinctive line has been drawn between conceptual knowledge and something else that is elusive for the mind, and more than ordinary knowledge, as expression of Eastern mystical flavor. (Lawson, 2006)

Nevertheless, most of the Middle-Eastern philosophers and polymaths gave huge attention to the intuition and just like Ibn Sina (Avicenna) saw it at least as a conjunction with active intellect, or knowledge acquired without limitation, but rooted in "intellectual certitude". (Kalin, 2010)

Perhaps we could assume that Middle-Eastern culture was profoundly affected with that idealized period of unity of all sciences and disciplines during Abbasid era, which left its trace and flavor in all aspects of Middle-Eastern tradition and behavior. Also it might explain why Easterners don't find the intuiting, emotions, and feelings as meaningless leftovers of the old, or as negative impulses which needs to be conquered. In the same way we might assume that negative perception of the emotions and feelings in the West, as far as decision-making is the case, left its traces in perception of the intuition as unsound way to be considered when making decisions.

Views on Rational and Non-rational in Contemporary Science

Listed above are views on emotional and intuitive versus rational and analytical in light of cultural experiences and traditional approach rooted in these observed groups, namely Middle-Eastern and European. Both of views are expression of general positions built on idealized notions of perception, observation, judgment, and decision-making; but with the development of critical thought, and with the need to have holistic approach in understanding of humans' essential movers and elements that take crucial part in decision-making process, contemporary scientists started with more thorough and objective research on the relationship between the rational and non-rational in decision-making process. Emotional was in any case skeptically perceived, regardless of its acceptance or refusal in certain traditions and cultures, but the rational superiority and peculiarity in decision-making was also under the question.

First of the most prominent scientist that have noticed fallacy of the traditional bias when emotions and rational is at stake was Herbert A. Simon, famous Nobel laureate, who was concerned with the oversimplification of the reality in different scientific, economic, and psychological models. From his perspective pure rationality of individual was illogical and impossible when making decisions. Reason for that is nature of analytical and rational approach during decision-making process, which requires evaluation of countless possibilities and choices – which is, by definition, almost impossible task to perform or even imagine. (Simon, 1997)

Also he has included in his work a very important concept of "bounded rationality" on which he's saying: "The principle of bounded rationality [is] the capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world – or even for a reasonable approximation to such objective rationality." (Simon, 1997, p. 198)

Therefore, in order to be able to take decisions "rationally" in this complex world, purely perceived rationality is not recommended, the individual is forced to build simplified models in accordance with his nature for that purpose. Those models are not even close resemblance of the real world's complexity, but it is only with reference to them that we can talk about one's rationality. (Simon, 1957)

Complexity of the world and immense number of choices, no matter how trivial they were, has determined the notion that to be completely rational is in fact illusion and in discrepancy with the actual behavior of human beings. It was not possible any more to look at the behavior of the individual through the glass of mutually adversative extremes. Humans are not either prone to rationality or their emotions and desires. The fact is that Plato's charioteer needs his horses and the opposite is correct also. Human mind is working as one entity with its purposeful components, without need to minimize the importance of any component. (Lehrer, 2010)

This opinion is today widely accepted in the scientific circles of interest. But it was not built on the theory alone. Namely, to put an end to preposterous disregarding of the emotions in decision-making process and even in wider sense as a part of standard and essential way of the brain activity, one of the most famous neuroscientists in the world Anthony Damasio has published the case of his patient named Elliot, who had a brain surgery during which tumor was

removed from prefrontal cortex area of his brain. Elliot was very successful individual before the surgery, very steady, intelligent, charming, emotionally mature, and resolute in his business and social relations. Then, it was discovered that he has "meningioma", benign kind of tumor which was pushing prefrontal lobes, and it was in that part of the brain where conjunction between deliberate thinking and emotions was taking place. "Meningioma" was removed, but also is damaged part of frontal lobes, that "integrative hub" of the rational and the emotional stream. After surgery Elliot was completely "normal", he kept his intelligence level, his knowledge was intact, and he was same person like before; except that he couldn't make any decision at all. No matter how trivial it was, he was unable to complete, or sometimes even start the process of decision-making. His cognitive abilities were as good as ever, but his priorities were completely disrupted and disturbed. He lost his job and his marriage and family life was ruined. It was clear that despite his high IQ and most of his knowledge preserved, inability to take decisions clearly pointed at neurological condition. If "Cartesian Dualism" was indeed depicting true relationship between the rational and the emotional, Elliot should be able to take perfect and ideal decisions in this case. What happened was absolutely opposite – namely, due to lack of the emotions, Elliot was unable to take properly any decision at all. (Damasio, 2005)

3. Methodology

General decision-making survey was used, as well structured interview; based more accurately on the questionnaire created by Susanne G. Scott from University of Colorado at Colorado Springs, and Reginald A. Bruce from University of Louisville: "Decision-Making Style: The Development and Assessment of a New Measure Questionnaire Educational and Psychological Measurement, 55, (5a), 818 – 831."

The instrument is conceived as consistent tool and accurate criterion in term of psychometrical analysis of decision-making style. Prior theory was base for construct definitions, and items were written to assess rational, avoidant, intuitive, and dependent decision-making styles

In order to examine and understand objectives of the study population of interest in this work were top and executive managers from Middle East and Europe – so called economic agents, or managers that are faced with decision-making process of utmost importance on daily basis. Most of the interviewees were from Kuwait and Germany, and some of them from Great Britain, Oman, Croatia, Saudi Arabia, etc., and almost all of them have managerial experience of 16 years and more. Age of respondents was between 31 and 60, but average was over 40 years, with level of education nearly equally distributed between bachelor's degree, master's degree, and PhD. The most prominent respondents and interviewees were from top management level, namely vice presidents and board members of companies such are Kuwait Oil Company from Kuwait, and Ford-Werke GmbH from North Rhine-Westphalia, Niehl, Cologne, Germany. Needless to say that all of respondents were quite experienced, very well aware of importance of decision-making process, and versatile in their own way when decisions, choices, and consequently aftermath and results comes at stake.

Data is still in process of collection and filtering, therefore this article and its conclusions will be mainly based on literature review.

4. Conclusion

Previous example and what we found in interviews, gave us quite a clear picture on how important is non-rational or intuitive segment of the brain's activity; as well it gave us insight into necessity to approach thinking process, and especially decision-making process in peculiar environments such is market in the East but also in the West in quite different manner without neglecting either of its components – rational or intuitive. Therefore Damasio (2005) is emphasizing that it would be extremely unwise to underestimate importance of feelings and intuitive part of the brain in decision-making process or "rational behavior" – bad decisions and irrational behavior can be product of unleashed emotions and feelings, but it can also be result of lack in emotions and absence of intuitive thinking.

Taking this into consideration, there is only one conclusion – we have to cultivate dynamic approach to the thinking as a whole and the decision-making process in particular, and we have to understand that all of its parts are equally important and crucial; those "gut feelings" are actually psychological reality and fact, and we might rightly assume that they are "sort of language" expressed through feelings by our subconscious thought, which we should explore – and that is precisely the way that this research is heading for.

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Perceptions towards IT Security in Online Banking by Students of Albania

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ABSTRACT

Handling money with no physical contact has been enormously developed in previous decades. However, developing new methods of handling money transactions online did not mean only new way of managing money for clients, but new ways of online robbery as well. Possibility of stealing money with no physical contact and any tangible evidence remaining after that is terrifying for clients. The purpose of this paper was to analyze perceptions of Albanian students who are using online banking, to provide insight into their view points and to create important set of information for all subjects active in banking industry. Results are collected and concluded after preparing survey based on six variables and specific questions assigned to each one of those variables. Survey was completed at high response rate. Even 207 Albanian students replied to survey. Results were analyzed and presented using descriptive statistics. Limitations of this research are relatively small sample and quite generic approach to problem. Accordingly, suggestions for future researches would be based on going more deeply into the issue and analyzing larger samples. This research empirically proved that students of Albania were slightly concerned and careful when dealing with online transactions. Since there is gap in literature when it comes to research dealing with IT-security of online banking in Albania, this article is not only unique, but it may be stimuli for new research with different approaches in the future.

Keywords: *Perceptions, IT security, survey, online banking, clients, Albania.*

1. Introduction

For many clients all around the world, handling money with no physical contact is normal every day activity. Clients are doing this through their personal computers, smart phones or some other devices that enable them to access their bank accounts and make transactions using internet. This way of maintaining money with no physical contact and making money transactions is known as "online banking". There are many definitions of online banking provided by different researchers. However, all of those definitions have some common elements. Those elements are all included in the following definition, provided by Muniruddeen Lallmahamood (2007) who defined internet banking as banking services over the public network (the Internet), through which customers can use different kinds of banking services ranging from the payment of bills to making investments. Internet banking or online banking has created new ways of handling banking transactions for banking related services and for e-commerce related transactions such as online shopping (Lallmahamood, 2007).

However, development of handling money with no physical contact did not provide new opportunities for clients, but new threats as well. In fact, criminals are able to steal money with no physical contact and without any tangible evidence remaining after their robbery. Knowing this fact turns on red alarm in heads of many clients. As banks' dependence on new technologies increases, their need to protect their own assets together with assets of their clients increases as well. This is where importance of IT security for banks' clients starts. Accordingly, as providers of online banking services, it is of crucial importance for banks to know awareness level and perceptions of their clients towards IT security of online banking. Since results of this research will enable banks to learn more about their clients, this work have potential to be important source of information for consideration by banks in terms of their planning and development activities. If we consider gap in the literature on this issue in Albania, this article becomes even more valuable. Results are collected and concluded after preparing survey based on six variables and specific questions assigned to each one of those variables. The survey was distributed to clients who are actively using online banking. It was completed in Albania at very high response rate. Even 207 Albanian students replied to survey. Results were analyzed and presented using descriptive statistics. The main objective of this paper was to analyze perceptions of Albanian students about IT security in online banking, to provide insight into their view points and to create important set of information for all subjects active in banking industry. Students are selected as target group not only because of their need to use banking services, but because of their increased level of reliance on information technologies.

In the following sections of this work, through theoretical background, all necessary definitions along with brief historical facts important for understanding this topic will be explained. Accordingly, information on online banking in Albania as country in focus will be provided so readers can be more familiar with the situation. After explaining used methodology, results will be analyzed, discussed and concluded.

2. Theoretical Background

Muniruddeen Lallmahamood (2007) defines internet banking as banking services over the public network (the Internet), through which customers can use different kinds of banking services ranging from the payment of bills to making investments (Lallmahamood, 2007). On the other hand, Jagdeep Singh (2012) defines internet banking as online systems which allow customers to plug into a host of banking services from a personal computer by connecting with the bank's computer over the telephone wires. He is also mentioning some synonyms for internet banking such as online banking, PC banking, home banking or electronic banking (Singh, 2012).

According to Gordon and Loeb (2002), Information security is concerned with the protection of three characteristics of information: confidentiality, integrity, and availability through the use of technical solutions and managerial actions (Gordon & Loeb, 2002).

Banks are not only dealing with intangible money transactions, but also with protection of highly sensitive information such are credit cards' PINs, personal information about the customers, history of transactions regarding their bank accounts and all other kinds of information that could enable to third party conducting the criminal activities and making damage for both, customer and bank. According to Landwehr (2001), weaknesses of banks' information systems are named vulnerabilities, and it is likely that such vulnerabilities present opportunities for crime by third parties (Landwehr, 2001).

People perceive that electronic handling of money with no physical contact as one of the alternatives to keep money in safer forms than cash is. This means that almost all transactions can be realized via different devices including computers, mail or telephone, without physical contact. However, it is important to bear in mind that online banking resulted in new types of breaking the law and stealing the assets. Some of them are still new to the legal systems. Beside the physical security systems of banks, possibility of crime is still very high. Sometimes, in order to keep public image, banks do not even investigate and prosecute cybercrimes. If they would do that, customers wouldn't deposit money in their banks (Pfleeger & Pfleeger, 2006). In short, big question emerge in heads of clients: "Is electronic way of handling money safe?"

3. Online Banking in Albania

Shingjergji & Shingjergji (2012) analyzed evolution of Albanian banking system developed in accordance with political and economic situation. Accordingly, several phases of this evolution have been identified. The first phase goes back to 1863 when Imperial Ottoman Bank was established through opening branches in different cities. As Albania declared independancy in 1912, new government conducted first steps for establishment of first Albanian national bank. Therefore, within the second phase of Albanian banking evolution, in 1913, Central Bank has been established in Albania for first time. The third phase occured in First World War when some new powerful banks have been established such are: Wiener Bank Verein, Pester Bank and Ungarische Bank. Their purpose was to finance respective army being in Albania at that time. The fourth phase happened in 1925 when National Bank of Albania for first time in its history emitted Albanian currency known as LEK. Also, in this phase of banking development, Agrarian Bank was established in Tirana, as well as Bank of Naples which became great competitor to National Bank of Albania. When it comes to fifth phase of Albanian banking development, in 1939, National Bank of Albania was used to cover war expenditures of Italia. In 1943, Italian invasion left the Balkans and Germany took over the control. Italian banks were obligated to leave, and National Bank of Albania this time collaborated with Germany. After liberation of the foreign invasion and setting up the communist regime in Albania, its sexth phase begun. In fact, in 1945, the National Bank of Albania was converted to Bank of Albanian State (BAS) taking two functions: the central banking role and crediting role. Seventh phase of Albanian banking evolution is result of replacement of communist regime with free market economy in Albania. In 1992, first commercial banks were founded, and period from 1997 to 2004 was followed by rapid developments in the Albanian banking system. Nowadays, there are sixteen functional private banks in Albania and they provide different services such are: deposits, accounts, transfers, loans, e-banking etc. (Shingjergji & Shingjergji, 2012). According to information from annual report for 2012 of Bank of Albania, consumption of e-banking credit transfer was not so high. In fact, only 3,32% of transactions was conducted through e-banking.

Table 1: Share of customer payments in the banking system by payment instruments

Customer payment services	2010		2011		2012	
	Number	Value (ALL billion)	Number	Value (ALL billion)	Number	Value (ALL billion)
I. Customer credit transfers of which:	81%	94%	79.15%	95.23%	75.5%	95%
1. Paper-based credit transfer	97%	97%	97.05%	97.25%	96.4%	96.69%
2. E-banking credit transfer	3%	3%	2.95%	2.75%	3.5%	3.32%
II. Card payments at POS terminals of which:	7%	0%	9.33%	0.28%	12.7%	0.36%
1. Payments through debit cards	61%	42%	61.09%	43.23%	59.2%	35.3%
2. Payments through credit cards	39%	58%	38.91%	56.77%	40.7%	64.6%
III. Direct debit	11%	4%	10.75%	2.29%	11.14%	2.41%
IV. Cheques	1%	2%	0.77%	2.2%	0.72%	2.2%
Total Payments (I+II+III+IV)	7.377.033	3.398.102	8.038.656	3.899.439	8.758.818	3.719.562

(Fullani, 2012)

It is important to mention that in the end of 2012, eleven banks provided home-banking services which was reflected through 48% annual growth of online accessible accounts. This resulted in an increase in number of online conducted transactions presented in table 2 (Fullani, 2012).

Table 2: Home-banking transactions

Year	Number of banks	Number of transactions	Value of transactions (in ALL millions)
2005	1	15.706	15.908
2006	1	19.096	16.834
2007	3	42.447	48.492
2008	6	88.261	63.240
2009	10	136.482	78.156
2010	11	162.385	91.277
2011	11	187.431	90.278
2012	11	236.215	117.234

(Fullani, 2012)

Teliti & Mersini (2012) assessed Albanian e-banking services and analyzed legal framework of e-banking in Albania. They found out that the legal framework for regulating the payment system is incomplete and that internet banking is regulated only through the bank's internal acts and decisions by the Supervisory Board of the Central Bank of Albania. Authors strongly suggested that more tangible act must be drawn, such as a decision of the Council of Ministers or an order of the Ministry of Finance to specifically regulate internet banking, as a system of payment instruments (Teliti & Mersini, 2012).

4. Literature Review

According to Shrinath (1997), statement that 'information is power' has nowhere been realized more significantly than in the banking industry. When discussing the risks and challenges for IT security in that period of time, Shrinath mentioned four risks: unauthorized system/data access by business users in the bank; unauthorized system/data access by application/system support personnel; unauthorized system/data access by customers; unauthorized system/data access by the public at large. Since most people do not realize that large banks are prone to high risk of security breakdown even without going so far as the Internet, author decided to examine and explain the most critical areas (Shrinath, 1997).

Lawrence A. Gordon and Martin P. Loeb (2002) wrote an article which presents an economic model that determines the optimal amount of investment necessary to protect a given set of information. Their model takes into account the vulnerability of information to a security breach and the potential loss if such a breach occurs. After analysis conducted by Gordon and Loeb (2002), they suggested that in order to maximize the expected benefit from investment in information protection, a firm should spend only a small fraction of the expected loss due to a security breach

(Gordon & Loeb, 2002).

Researchers' efforts to learn about perceptions of users regarding specific technologies resulted with birth of technology acceptance model. Pikkarainen, T., Pikkarainen, K., Karjaluoto, H., & Pahnila, S (2004) conducted a study about consumer acceptance of online banking. They investigated online banking acceptance in the light of the traditional technology acceptance model (TAM). The data for their results was consisted of group interview with banking professionals, researching TAM related literature and studies on e-banking. According to their results, perceived usefulness and information on online banking in the Web site were the main factors influencing online-banking acceptance (Pikkarainen et al., 2004).

When it comes to explanation of basic concepts involved with system security, introductory chapter of book entitled „Security in computing "written by Charles P. Pfleeger & Shari Lawrence Pfleeger (2006) was very helpful. Their book deals with broad range of computer security related topics such are: cryptography; secure systems development; basic communications technologies; advices on planning, risk, and policies; Intellectual property; computer crime, and ethics. In short, it is possible to conclude that this book can serve as great guide to information about computer security attacks and countermeasures (Pfleeger & Pfleeger, 2006).

Interesting research was made by Luis V. Casalo, Carlos Flavian and Miguel Guinaliu (2007) who conducted it with purpose to analyze the influence of perceived web site security and privacy, usability and reputation on consumer trust in the context of online banking. Their paper described the positive effects of security and privacy, usability and reputation on consumer trust in a web site in the online banking context. This study is very interesting and valuable since it proposes link between security, privacy and trust in the online banking context (Casaló et al., 2007).

Muniruddeen Lallmahamood (2007) explored the impact of perceived security and privacy on the intention to use Internet banking. He used an extended version of the technology acceptance model (TAM) to examine the above perception and concluded that while perceived usefulness is a critical factor in explaining users' intention to use Internet banking, it is important to pay attention to the security and privacy of users' Internet banking. According to results, convenience, ease and time saving are the main reasons for the adoption of Internet banking, whereas security, trust and privacy appear to be the top main concerns for non-Internet banking users. As author mentioned, this may also imply that security concerns and privacy protection are perceived to be part of the overall service provided by the Internet banking services providers, and he suggests that banks should gain customers' confidence through raising security levels of the bank (Lallmahamood, 2007).

Many studies that are dealing with evaluation of clients' trust towards banking include „security" as important construct. This leads to conclusion that IT security is important for getting customer's trust in banking business. Yap, K. B., Wong, D. H., Loh, C., & Bak, R. (2010) wrote a paper with aim to examine the role of situation normality cues (online attributes of the e-banking web site) and structural assurance cues (size and reputation of the bank, and quality of traditional service at the branch) in a consumer's evaluation of the trustworthiness of e-banking and subsequent adoption behavior. One of their findings in this work stated that web site features that give customers confidence are significant for promotion of e-banking (Yap et al., 2010).

Mohanad Halaweh (2012) was writing about user perceptions of e-commerce security. In fact, both online banking and e-commerce are having common characteristics which are based on fact that there is no physical (face to face) contact between parties involved in transaction, and same technologies are being used for doing transaction. This means that both of them are exposed to same risks. Accordingly, these common characteristics were very useful while identifying relevant variables for this study since some of them are simply modified and used for this research. Results of study conducted by Mohanad Halaweh (2012) showed that user characteristics, psychological state and intangible security features have a significant influence on e-commerce security perception. Additionally, in contrast, tangible security features and cooperative responsibility have a non-significant influence (Halaweh, 2012).

Singh (2012) commented that customers, both corporate as well as retail ones are no longer willing to queue in banks, or wait on the phone, for the most basic of services. Therefore, electronic delivery of banking services is becoming the ideal way for banks to meet their clients' expectations. Accordingly, author got idea to study the scenario of e-banking, so in his study he considered opinions of 100 customers from Ludhiana. The results of this work revealed that people are aware of e-banking, but not fully. In fact, the Customers are at ease after using e-banking mainly because it saves the precious time of the customer. It has also been found that Customer satisfaction varies according to age, gender, occupation etc. (Singh, 2012).

5. Variables & Survey

For conducting this research, with aim to get closer insight into clients' (students) perceptions towards online banking in Albania, six variables were identified as a result of literature review. Those variables are as follows:

1. Privacy aspect - refers to confidence in the technology and online banking service provider when it comes to

protection against privacy issues such are private information of client, information about money transactions conducted by client, information about client's personal passwords etc. Pikkarainen et al (2004) stated that as the amount of products and services offered via the Internet grows rapidly, consumers are more and more concerned about security and privacy issues (Pikkarainen et al., 2004).

2. Control aspect - When it comes to control perspective of IT security, as it is possible to conclude from survey questions of Yap, K. B., Wong, D. H., Loh, C., & Bak, R. (2010), this aspect refers to strictness of identity ascertaining when sending messages to client, or doing transactions by client, but also to general control by bank when it comes to online transactions' confidentiality (Yap et al., 2010).
3. Psychological aspect - According to Halaweh, Mohanad (2012), the psychological aspect of security incorporates the feeling of fear, the need to feel that one's money is secure, and the ability to control the payment process and performance of online transactions. Even though he made research about e-commerce, because of same nature of e-commerce and e-banking which is remote rather than face-to-face, his work was useful for preparation of survey in this study (Halaweh, 2012).
4. Therefore, it is possible to conclude that many customers have the misconception that the use of e-banking is vulnerable and that there is a high probability that their money will be lost.
5. Tangible features - Halaweh, Mohanad (2012) defines tangible indicators as those technological security features of websites that can be checked by users, such as https, padlocks and security certificates. Tangible features need to be understood and checked by the customer over the website rather than captured through social communication; this involves having knowledge and experience of these features, such as knowing what a security certificate means and how to check whether it has expired (Halaweh, 2012).
6. Intangible indicators - When talking about intangible indicators such are famous website and reputation, Halaweh, Mohanad (2012) says that they are not seen on the website and cannot be directly checked over the website. They are affected by society in terms of communication and the environment: where the customer lives and what they hear from others, as well as their past experience (Halaweh, 2012).
7. Perceived IT security Perceived IT security refers to general perception of online e-banking services by clients when it comes to IT security.

Accordingly, survey consisted of twenty questions was created. Questions were mainly adapted from previous researches considering Pikkarainen et al (2004), Casaló, Flavián, and Guinalíu (2007), Yap, K. B., Wong, D. H., Loh, C., & Bak, R. (2010), Halaweh, Mohanad (2012), Muniruddeen Lallmahamood (2007). All questions prepared for the survey, along with their references they were adapted from, are presented in Table 1 available in the next page.

Pikkarainen et al. (2004) conducted group interview with banking professionals in order to learn about consumer acceptance of online banking (Pikkarainen et al., 2004). Specific questions related to privacy aspect from his interview were adapted and used in this research to examine clients' concerns about their privacy and security issues in e-banking. Casaló, Flavián, and Guinalíu (2007) made research with purpose to analyze the influence of perceived web site security and privacy, usability and reputation on consumer trust in the context of online banking (Casaló et al., 2007). Since they are dealing with similar issue, questions regarding security and privacy were adapted and used in this study. Yap, K. B., Wong, D. H., Loh, C., & Bak, R. (2010) used survey to evaluate trustworthiness of e-banking and subsequent adoption behavior through several factors (Yap et al., 2010). Accordingly, several questions helpful to measure control aspect of IT security in e-banking were used in our study. Halaweh, Mohanad (2012) studied user perceptions of e-commerce security (Halaweh, 2012). Since both e-commerce and e-banking are having the same characteristics such is lack of face to face communication and physical contact which implies same issues and concerns for final users of such a services, many questions were adapted from his survey in order to measure psychological aspect, tangible and intangible indicators, and perceived IT security in general when it comes to online banking. Also, when it comes to Muniruddeen Lallmahamood (2007), one of questions used in his study was useful to adapt for this research when it comes to measuring psychological aspect of IT security (Lallmahamood, 2007).

Table 3: Review of survey questions

Questions	Adapted from
I trust in the ability of bank to protect my privacy	Pikkarainen et al (2004)
I am not worried about my personal information given to bank	
I think that my bank's information system respects personal data protection laws	Casaló, Flavián, and Guinalíu (2007)
I think that my bank's information system will not provide my personal information to other companies without my consent	
I think that my bank's information system respects user's rights when obtaining personal information	
I think that bank needs to ascertains my identity before sending any messages to me	Yap, K. B., Wong, D. H., Loh, C., & Bak, R. (2010)
I think that bank needs to ascertains my identity before processing any transactions received from me	
I trust that my bank uses security controls for the confidentiality of online transactions	
I don't fear when I am using e-banking services	Halaweh, Mohanad (2012)
I never have misconceptions about using e-banking services	
I don't feel anxious to use e-banking services because of its nature, which involves a lack of face-to-face communication	
I feel safe when I release credit card information through Internet banking	Lallmahamood, Muniruddeen (2007)
I don't check the presences of http(s) in the URL when I handle money transactions online	Halaweh, Mohanad (2012)
I don't check the small padlock icon on the bottom right corner of the website when I handle transactions online	
I don't check the digital security certificate of the web site when I handle money transactions online	
I would use e-banking services only provided by on a reputable bank	Halaweh, Mohanad (2012)
I would use e-banking services only provided by local bank	
I think my bank shows great concern for the security of any online transactions	Casaló, Flavián, and Guinalíu (2007)
I believe using e-banking services online is secure	Halaweh, Mohanad (2012)
Using e-banking services gives me a feeling of security	

6. Data & Methodology

Data for this study was collected by the means of a survey conducted in Albania in 2013. A total of 225 surveys were delivered to Albanian students. Surveys were answered with good response rate. Even 207 out of 225 Albanian students completed the survey giving a response rate of 92 percent.

Surveys were filled at universities by students (randomly selected) in Albania. This resulted in a sample that was well distributed in terms of demographic information (e.g. age, and education). The main reason why students were selected as target for this study is fact that probability of their involvement in e-banking services is high. As students, usually they are coming from different areas and they live far away from home. For those reasons, students depend on their parents who are most frequently using banks to send them money. Considering students studying in 2013/2014 as generation well familiar with possibilities provided by newly developed technologies that enable using internet almost everywhere, it was decided to select them as focus of this research. Since it was not difficult to collect 207 surveys completed by students who are in the same time clients using e-banking services, this decision seems to be successful.

Data is mainly numerical except demographics part which is categorical. Seven point Likert scale was used in order to test the agreements of the respondents on six variables through twenty questions. The collected data is then inserted into an excel spreadsheet and analyzed descriptively. The surveys were distributed both online and personally. Online version of survey was created, and its link was sent via e-mail to potential participants.

7. Results

7.1 Demographics

Demographics information includes respondents' department, positions within the department and their education levels, gender and age. Number of males was higher than number of females. Detailed information on gender are presented in Figure 1 located below.

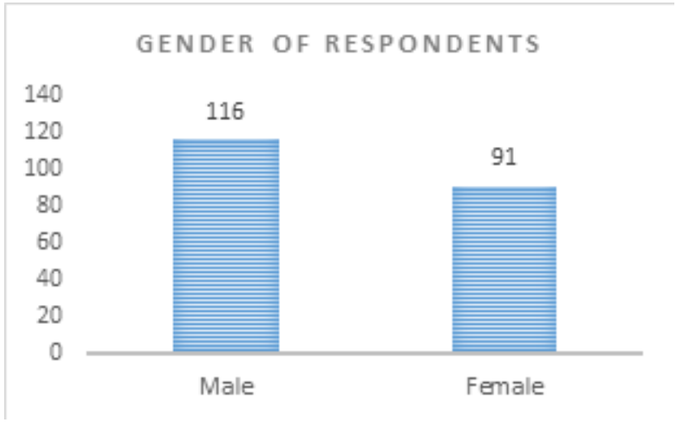

Figure 1. Gender of respondents

When it comes to educational background of respondents, students of all three cycles of study (Undergraduate, Master and PhD) have been surveyed. Students of undergraduate degree covered 72,5%, students of Master degree covered 25,6% while 1,9% of respondents were PhD degree Albanian students. Statistics regarding this is presented in Figure.

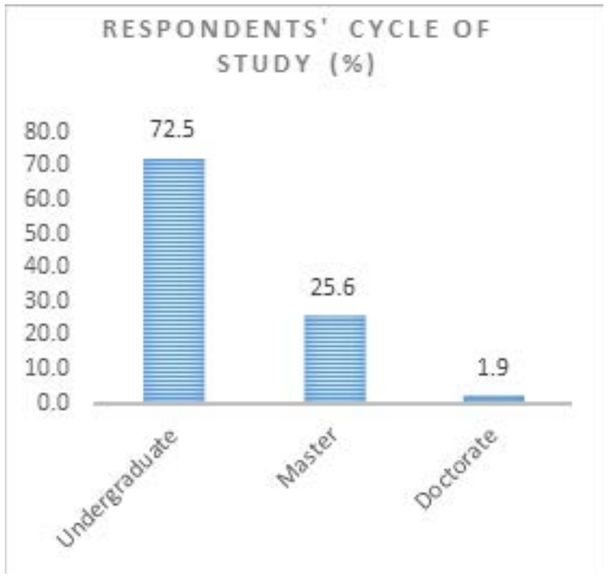

Figure 2. Respondents' cycle of study

When it comes to departments studied by respondents involved in this study, situation is as presented in Table 4.

Table 4 – Departments of respondents

Department	Albania	
	Number of students	%
Management	59	28,5
Architecture	34	16,4
Education	41	19,8
IT	39	18,8
Economics	12	5,8
Electrical Engineering	22	10,6
Mathematics	0	0,0
Biology	0	0,0
Total	**207**	**100,0**

When it comes to ages of respondents, according to Figure 2, it is possible to conclude that most of them were younger than thirty years, some were between 31 and 40 years of age, while only few were older than 41.

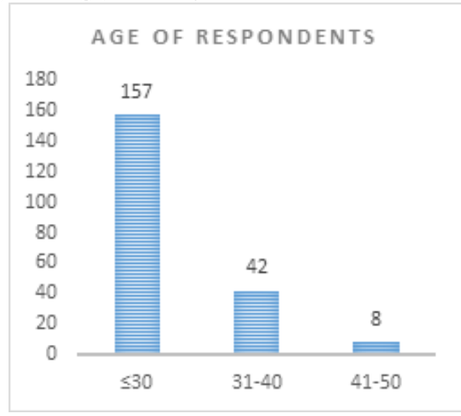

Figure 3. Age of respondents

7.2 Survey results

From Table 5, it is possible to conclude that Albanian students trust to banks' abilities for protecting their privacy. However, students showed little bit of concern for information given to bank. They slightly believe that their bank's information system respects personal data protection laws. When asked about their opinion about providing of their personal information to other companies without their consent by the bank, and whether banks respect user's rights when obtaining personal information, Albanian students showed slight concern again.

Table 5 – Privacy aspect

Variable: Privacy aspect	Mean
Questions	**5,3**
I trust in the ability of bank to protect my privacy	5,5
I am not worried about my personal information given to bank	5,3
I think that my bank's information system respects personal data protection laws	5,4
I think that my bank's information system will not provide my personal information to other companies without my consent	5,2
I think that my bank's information system respects user's rights when obtaining personal information	5,2

Table 6 explains that students are of opinion that bank needs to ascertain user's identity before sending any message to him/her, or doing transactions. According to results, Albanian students showed trust that banks are using security controls for confidentiality of online transactions.

Table 6 - Control aspect

Variable: Control aspect	Mean
Questions	**5,6**
I think that bank needs to ascertains my identity before sending any messages to me	5,5
I think that bank needs to ascertains my identity before processing any transactions received from me	5,6
I trust that my bank uses security controls for the confidentiality of online transactions	5,6

When it comes to psychological aspect of respondents, Albanian students slightly agreed with the statements that they don't fear when using e-banking services, they don't have misconceptions about using e-banking services, they don't feel anxious to use them, and they feel safe when releasing credit card information through internet banking (Table 7).

Table 7 - Psychological aspect

Variable: Psychological aspect	Mean
Questions	**5,2**
I don't fear when I am using e-banking services	5,3
I never have misconceptions about using e-banking services	5,3
I don't feel anxious to use e-banking services because of its nature, which involves a lack of face-to-face communication	5,1
I feel safe when I release credit card information through Internet banking	5,1

There are specific tangible features of online banking that enable clients who are using these services to evaluate confidentiality of transaction, and to gain specific level of control over them in that way. When examining this aspect of online banking, Albanian students showed good level of care through disagreeing with statements that they do not check URL, padlock icon and digital security certificate (Table 8).

Table 8 - Tangible features

Variable: Tangible features	Mean
Questions	**4,6**
I don't check the presences of http(s) in the URL when I handle money transactions online	4,7
I don't check the small padlock icon on the bottom right corner of the website when I handle money transactions online	4,6
I don't check the digital security certificate of the web site when I handle money transactions online	4,6

There are intangible assets such is bank's reputation that sometimes affect clients without their awareness. It is interesting that Albanian students were quite relaxed this time, and it seems that they are not affected too much by banks' reputation, location and concern for security. Detailed results regarding this aspect are presented in table 9.

Table 9: Intangible features

Variable: Intangible features	Mean
Questions	**5,2**
I would use e-banking services only provided by on a reputable bank	4,9
I would use e-banking services only provided by local bank	5,5
I think my bank shows great concern for the security of any online transactions	5,3

Albanian students slightly agreed with the statements regarding perceived IT security of online banking in general (Table 10).

Table 10: Perceived IT security

Variable: Perceived IT security	Mean
Questions	**5,2**
I believe using e-banking services online is secure	5,1
Using e-banking services gives me a feeling of security	5,3

8. Conclusion

This research provided important insights about clients' perceptions towards IT security of online banking in Albania. Response rate was good, and it was even 92%. Students are selected as a target group for this study for many reasons. Facts that they are mostly studying away from home, that they are receiving scholarships and that they are generation that was growing up with internet are enough to justify focus of this research. Limitations of this research are relatively small sample and quite generic approach to problem. Accordingly, suggestions for future researches would be based on going more deeply into the issue and analyzing larger samples. This article represents very unique set of information for the banks already operating in Albania, or having tendency to start business in this country. This research empirically proved that students of Albania are slightly concerned and careful when dealing with online transactions.

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Albanian Banking System from King Zog period, until nowadays

Kristal Hykaj

ABSTRACT

This paper will analyze the Albanian Banking system from the King Zog period. I have taken into consideration the Albanian economy nowadays. As Albania is one of the less developed countries in Europe and as it has a developing economy, the banking system is vital. I will be analyzing the development of the banking system as it is the most important sector in an economy and highlighting the most important moments in this, namely the King Zog period, the fall of communism in 1991, the financial crisis in 1997 and the liquidity crisis in 2002. As the Albanian banking system is fragile, those crises caused turbulence in the financial sector.

Taking into consideration that the Albanian banking system is a new system and it is in the route of being wholly founded, this means that even nowadays it has a fragile banking system. Because of this, any predicted crisis would cause major problems to the banking system and a major focus wil be on the effects of the 2007 crisis , especially the Greek and Italian crisis and its impact on the Albanian banking sector and the whole economy. There will be major explanations about the 1997 and the 2002 crises because there are some events in the economy nowadays that have direct links to these occurrences.

There are two major problems in the Albanian banking system at the moment; the development of the banking system and gaining public's confidence. Even with the entrance of new privately-owned banks and the privatizations of state-owned banks still the Albanian inhabitants are not confident in putting their money in banks. This will lead to a development of the economy as a whole and political stability of the country.

1. Introduction

This paper is going to analyze the developments of the Albanian banking system after the fall of communism and will focus on the main financial crisis on the last two decades. Having to analyze the changes in the Albanian banking system is really interesting not only because of its excessive developments through time but also because the economic and political evolutions have made this system attention-grabbing and shaped it as it is today.

The first part will analyze the details of the banking system under the Ahmet Zogu rule.It is important to understand the role of thebanking sector in this period and to compare it with the other periods that are taken in consideration in this paper. The question at the end will be if Ahmet Zogu achieved to retrieve a healthy banking sector in those years?

The third part will focus on analyzing in depth the heritage contribution of the communism system on the current banking system and try to explain how this heritage helped to develop or under develop the Albanian banking system. How would an inexperienced government and three million people that had been under dictatorship for 50 years react against the new introductions in their lives?

Moving on to the other crisis, to what has been referred as the "Albanian paradox" by the IMF, this work is going to explain the decreasing performance of the pyramid schemes - when they were first presented, the economy boomed and this paper will show the reasons for their failure and the reaction of the Albanian habitants and government.

After the pyramid schemes elections were held and their failure was the main theme of the campaign of the political party that came to power. After coming in power, new reforms were introduced in order to stabilize the economy and the banking sector especially. When neither the Albanian bankers, nor the financial international bodies were expecting a crisis, the '02 deposit crisis appeared. Further on the public role on this crisis and how the government responded to this crisis will be explained.

Fourthly, the paper is going focus on the banking sector after the deposit crisis up to nowadays and is going to analyze in depth the developments of the banking sector. This is the most important part of the paper as it shows the Albanian financial market performance and its ability to compete with those of the most developed countries.

At the end will be a prediction for the future prospects of the Albanian banking system. How the system is developing, has the visa liberalization act helped the market to improve and how is this sector helping the county to be an EU member with full rights in the near future?

2. The Albanian Banking System under the rule of Ahmet Zogu (1925-1939)

1925 was the year when Ahmet Zogu came to power in Albania and when foreign investors were eager to get concessions in Albania. Ahmet Zogu ruled from 1925 to 1939 and his ruling marks another stage in the development of the banking system in Albania. Again, during 8 this time the most important issue was the creation of a central bank. First the Albanian government was approached by the British government and as they looked to take total control of the economic concessions in Albania, they offered to create the Albanian National Bank with a start up fund of 500,000 sterlings and also would loan 2 million sterlings to the Albanian government as soon as the deal was signed. The deal also provisioned that British capital would have an advantage in the Albanian economy and trade.

This news was received by the Italian banks soon before the deal finalized, and sparked an exchange between Italian and British governments deciding who was going to get the concessions in Albania. After a long exchange, the British retreated from the agreement and let the Italian banks get the concessions that they were seeking in Albania. Right after the Italian government closed the deal with the British government they came to Albania and promised to loan 2 million gold francs to the Albanian government in exchange for the Albanian government to end talks with British banks and to let Italian banks help create the Albanian National Bank. What is important to notice is that even in this case the required gold deposit for the bank had to be in value equal to 1/3 of the quantity of the monies in circulation, just like the required deposit when the first national bank was created. The bank also played the role of the treasury and was the only financial institution allowed to print money. The key importance of this central bank was that for the first time it created a unified currency for the nation called the Albanian Gold Franck. One gold Franck was equal to five lek 9 or 100 cents. The money in circulation was 5, 20 and 100 Franck. But since most of the population used other currencies or gold or silver coins they did not like the idea of paper money.

Therefore the central bank decided to adopt the Gold Standard to achieve a unification of the monetary system and making the Gold Franck the only official money in the market and as the only means of exchange. However the circulation of silver coins continued to exist and the replacement of the other means of exchange did not happen until March of 1936. Up until this time the Albanian Central Bank was putting into circulation different amounts of banknotes year after year, but since people were not letting go of their silver coins as a means of exchange it led to the artificial increase in value of these coins.

Only in March 1936 when the central bank put in circulation 1,000,000 gold coins was the problem resolved and the Albanian Gold Franck became the only currency used for exchange and as a means of payment. After the establishment of the Albanian National Bank and the opening of its branches in major cities such as Durres, Shkoder and Korça other foreign banks started to operate and opened their branches in Albania. The first was the Serb-Albanian bank based in Cetinje, which opened one of its branches in the northern city of Shkoder and its activities were fully legalized in May of 1925. A year later in 1926 the Bank of Athens, one of the strongest Greek banks, opened two of its branches in Albania in the cities of Durres and Korça. At this point the Albanian banking system seemed to have started to flourish and banks were operating in more and more cities.

Later in June 1931 talks about a British Bank opening in the capital of Albania, Tirana, resumed. The bank would be called Anglo-Albanian Bank Ltd. and would have a capital of 2 million sterlings. Three years later on May 6 1934 a new bank opened its offices in Tirana. This bank called Export Bank, which had its central offices in Belgrade, Serbia, would have a capital of 30 million dinar (the Serb currency) or 2.7 million Gold Francks. The activities of this 10 bank did not have a great impact on the Albanian economy especially in the creditor market because of the great influence of the Italian capital and the Albanian National Bank in the Albanian economy. This bank ended its operations in 1939. At the same time there were talks about the establishment of an Agrarian Bank which would have a capital of 5 million gold francks and would operate under the credits accumulated from the ex-Agrarian Turkish Bank that operated previously in Albania. However by 1930 when the bank was to be opened due to the crisis of 1929-33, the Albanian Government ran into a deficit and it used the funds accumulated to open this bank to eliminate the deficit. It can be seen from the above development that the World crisis of 1929-33 set back the Albanian economy as well.

The decrease in the demand for different products led a lot of merchants to start a bank - run and to demand gold for their money. The gold reserves were almost depleted and the central bank decreed that people could no longer exchange money for gold and cut the amount of gold being exchanged to less than 1% of the total volume. After the Crisis of 1929-33 talks resumed again about the opening of an Agrarian Bank. By the end of 1937 the Agrarian Bank was opened in Tirana and then later expanded its operations in other cities of Albania. Up until this point the banks that

were opened in Albania had both Albanian and foreign capital and were strictly regulated by the Albanian Government. This was about to change on November 1937. Bank of Naples (Banca di Napoli) which was established in 1539 in Naples would open a branch in Tirana and would be the first autonomous bank in the country. It would be called Bank of Naples – Albania and had a separate statute from that of other banks which were managed by the Albanian Government. This bank served an important role since it facilitated many bank transactions for foreign and domestic investors without having to go 11 through most of the formalities they had to go through with other banks.

This bank was known for its ease of transactions in deposits, loans, and currency exchange, and became a formidable competitor to other banks especially to the Albanian National Bank. In the same year that the Bank of Naples opened, an Albanian Business society called SITA (Society of Industry and Trade in Albania) was lobbying the government to get the rights to open a bank of their own funded through Albanian capital only. The plan was to have an initial capital of 2 million gold francks, 600,000 of which would be deposited right away in the Albanian National Bank under this new bank's account. The bank planned to operate as a creditor to Albanian investors but the deal was never finalized. Up until 1939 the Albanian National Bank tried to keep the Albanian currency in a deflationary status and had a small amount of currency circulating compared to what was needed. Prices were kept artificially low, which in turn hurt the income of small farmers and low income families. An important issue that created much speculation on the currency was the low level of coins in the marketplace and which led many speculators to charge different prices from the face value of the coins specifically silver coins. Besides this problem, the Albanian National Bank had achieved its goal of creating a healthy national currency and soon the speculation of silver coins was alleviated. By 1939 there were four banks operating in Albania with a combined total of 17 branches throughout the country.

3. Banking System after the fall of communism

3.1 Communism Inheritance

Albania came out of communism as the poorest country in Europe. It was a period in which all of the Southeastern Europe countries were going through the same changes and Albania had similar economic features and problems to them. However, Albania had a feature that distinguished it from the others, whilst in other socialist countries (such as Yugoslavia) there were applied economic reforms, in Albania there were none. There was a rigorous communist system which was applied for almost 50 years and with the change of regimes in Albania transition entered – however, Albania was totally unprepared as a country and as a government. Being a socialist country, there was only one bank, the Albanian State Bank, which had a double role - acting both as a monetary authority and supplying the economy with credit. The main role of a bank, acting as a financial intermediary, was very limited and was performed according to a government-controlled plan.

Besides the Albanian State Bank, there was another institution which was in function. It collected the people's savings and dealt with insurance but at that time there was only property owned by the state. This institution was known as the General Directorate of Savings Cash Offices and Insurance, but this did not represent a bank because all of the money deposited by the people was used by the government. The agricultural sector was very developed in Albania during communism so the Albanian State Bank made a decision in 1977 to have a separate entity which would supply the agricultural sector with funds; this was called the Agricultural Bank. When there a weakness in the communism system in 1990, the government at that time decided that the Department of Foreign Relations would be the Albanian Commercial Bank and that would act as a financial intermediary in order to encourage exports and foreign payments.

Comparing the socialist banking system with a modern banking system would reveal serious deficiencies. One such issue is that the role of the Albanian State Bank was only as a monetary authority, there was calculation of the exchange rate but, according to them, there was no risk attached to it. The accounting system had nothing in common with the international accounting systems and what was most important was the lack of banking experience. This was another negative factor which was essential in the way the crisis would be dealt with.

Since 1980 there was felt a decrease in the GDP, but the major hit was in 1990, when it decreased by 13% and then in 1991 by 27.7%. After the fall of communism, because there was a massive reduction in exports and a rapid increase in imports, and this got worse - especially for the current account. There was also a huge increase in the trade deficit, in 1990 it was $150 million and then in 1991 it went to $308 million. (Source: Bank of Albania)

In this table are shown the most important indicators of the given period for the Albanian economy. In general it shows progress, albeit slow and not remarkable, but there is some progress, which was very important at that time for the Albanian economy.

Indicators	1992	1993	1994	1995	1996	1997
Nominal GDP	50,697	125,334	184,393	229,793	280,998	341,716
Real GDP	11,235	12,309	13,331	15,106	16,478	15,324
GDP per capita in USD	211	381.5	610.8	737.8	808.9	684.0
Real GDP increase in %	-7.2	9.6	8.3	13.3	9.1	-7
CPI annual change in %	236.6	30.9	15.8	6	17.4	42.1
Money Supply mln All	28,771	50,335	70,774.9	107,449.1	154,552.5	198,547.0
Money Supply Growth %	N/A	109.7	40.6	51.8	43.8	28.5
Remittances mln USD	N/A	325.8	377.9	384.6	499.6	266.9
Credit to the domestic economy (mln ALL)	N/A	N/A	9,686.0	11,440.0	15,835.0	16,315.0
Credit to the private sector (mln ALL)	N/A	N/A	7,201	8,347	10,890	12,995
Total Deposits (mln ALL)	N/A	N/A	44,455.70	65,440.9	103,935.2	122,891.5
Exchange Rate (ALL/ USD)	75.03	102.06	94.68	92.79	104.5	148.93
In.Res +Gold (mln USD)	37.1	152	208.6	265.3	322.6	341.7

Source: BoA

The budget deficit was financed by the deposits of the Albanian Bank State. At the beginning of the transition period it increased rapidly because there was collapse in the way in which they were collecting the money in the state payment system and paying off the bad debts of state-owned companies. The budget deficit had rapid increases and went from 15% in 1990 to 44% of the GDP in 1992. The government was forced to back up the state-owned companies which were experiencing huge losses. The interest rates at that time were very low, only 3%, and there were no penalties for non-performing loans. The government supplied the companies with any amount and this lead to an increase in the level of bad debts. (Source: BoA)

3.2 Reforms in the banking sector

There was a need for reforms in order to help the economy recover and such an economic reform was started in 1992. The Parliament approved two amendments which would give permission to new banks to enter the market. They created other banks that were known as second level banks, still owned by the government. There was the Albanian State Bank which was a first level bank and then 3 other state owned banks: National Saving Bank, National Commercial Bank and the Agrarian Commercial Bank. These banks replaced other offices that were doing the same job or departments of the Albanian State Bank that needed to be consoled as a bank on its own due to the need of the market.

In 1992 two other banks were licensed and they had joint capital (foreign and Albanian government): The Italian-Albanian Bank and the Arabic-Albanian Bank. In 1993 The Dardania Bank was licensed and it was supplied with capital by the Kosovo government. After that, in 1996, Greek capital entered into the market with two banks: Tirana Bank and a branch of the National Bank of Greece.

Although the market was now open for new entrants, still the dominance of the state-owned banks was noticeable. Although with the lack of experience that was an inheritance of the communism system there was an increase in banking activities.

In 1994 there were 6 banks operating in the country with total assets of 146.2.billion Leke (Albanian Currency) that represented 79% of the GDP, where 77% of the activity was done by the National Commercial Bank. There was a rapid decrease in 1995 of the bank's total assets to 80.8 billion Leke. The main reason for this was addressed to National Commercial Bank because there was a reduction in their assets, whereas all the other private banks showed a better performance compared with previous years. In 1996 the total assets of the banking system were 128.8 billion Leke or 46% of the GDP. This increase between 1995 and 1996 was because there was an increase in the level of current accounts and because of the deposits that were just starting to be made by the pyramid firms. Among this year the privatization of state owned banks was tried several times, but it was not effective. (Source: BoA)

Among the positive reforms that were happening, this was always accompanied in the banking sector by negative effects. The crisis of 1997 was approaching but these negative effects were not the main reason. They were, however, contributors to it. The role of the Albanian State Bank as a financial intermediary was minor factor; besides the fact that with the other state owned banks dominated 90% of the deposits market. The private banks represented a low number and they were not interested in having deposits in Leke. The level of deposits was not dependent on the interest rates because the interest rates set by the Central Bank were at a good rate. A major problem at that time was the payments system and had to do with the length of time that a payment needed to be sent from one account to another, generally 5-6 days for transactions within a bank, and usually more than 15 days for transactions between banks.(Source: Banking in Albania by Cani)

3.3 Problems in the first years of transition

As the people were not used to banks and even the government was not familiar with competition as a concept, this led to an increase in the level of bad debts. This was followed by a decrease in the level of production in the industrially state-owned firms. The supply of money for those firms, although they were making huge losses, increased the amount of bad debts in the banks mentioned above. The government was not used to this kind of pressure so the political decisions and the political situation in the country worsened the situation. The level of the overdue loans rocketed from 93 to 97 respectively, from 14% to 60%. (Source: BoA). As the other banks apart from the Albanian State Bank, who played a minor role as financial intermediary, were not used to this role, the Central Bank now had to be careful with the base interest rate that they would offer for deposit because that would be dreadful for the creditors.

The lack of experience that the Central Bank had was not helpful at this moment. They were not used to a free market, with a free economy. The worst part was that there was no motivation from the directors of the banks to approach new things, at that time the salaries in Albania were comparatively low, so they did not have anything to begin with.

There was no banking laws at all that could prevent them from doing this or from doing any other things that in another country would be considered illegal in a system like this. There were no written rules on how the loans would be performed, how the banks would make profit and in what categories the loans would be divided. The Central Bank was not powerful enough to stop this from happening. According to the dated press, the Central Bank was powerfully criticized for not making laws on how the bank would be licensed and what would happen if they went bankrupt.

So, the lack of experience for the system as a whole and for specific individuals who got the Governor's Duty was the most negative effect that the system had to suffer at that time. The changing of the directors was unwelcome for everyone in the bank because they would pass the responsibility to the preceded governor and probably to the other directors of departments. Having such a situation, all the bank with foreign capital was focusing on low risk activities and so they were making stable profits during this period.

4.The 1997 crisis

4.1 Framework of the financial crisis

This is considered to be the worst episode, by the worldwide press, in the Albanian Banking system. The Albanian people were hesitant to believe in banks before this happened, but after they were stunned.

During 1996 the elections were held and a lot of government spending was spent on budgeting the campaigns - these were negative effects that helped the pyramid schemes come faster. The inflation rate went to 17.4% in 1996. With another political party in power, apart from the fact the elections were being contested by everyone in Albania, the new party in power was unable to make the right decisions and take control of the country.

As the banking system was undeveloped, this left a free way to the informal credit market. This market came as a result of the lack of control from the government. As the deposits were growing, especially deposits coming from emigrants, the pyramid firms did not lose any further, but approached the market profiting from the moment and the weakness of the economy. They were using interest rates unused before and not approved by the Central Bank, so the role as a monetary authority by the Central Bank was nonexistent.

4.2 Pyramid Schemes

At the end of 1996 and the beginning of 1997 the so-called pyramid firms came to life and started offering high interest on the deposits that people had made on them. Most of the people had no clue about the financial sector and they were just thinking of making money easily. These pyramid firms were self-funding as they were taking the deposits from people and, with this deposit, were paying the interest to someone else. At some point people stopped depositing money in them and that was the end for all of them. They offered a return of 300% in 3 months, so any person in Albania could deposit money in these firms, although they did not have any capital at all, so they did not have the amount to pay the deposit and the interest rates.

As predicted by the western governments, these firms were not secure because they did not have any startup capital of their own. So when people stopped depositing, these firms experienced an unpredicted crunch and went bankrupt rapidly. Everyone who had deposited in them lost. According to the Bank of Albania the total amount of money that these firms had in deposits was about $1.2 billion, a figure that represented 48% of the GDP ($2.5 billion). This was fatal for the economy as inflation reached an abnormal rate at 40%. The government had to intervene quickly and the first step they took was the freezing of their assets that these firms had in the Bank of Albania in order to achieve some economic stability.

They were a lot of political factors that helped the crisis to go forward. The first problem was the result of the elections being contested by the western governments and by the Albanian habitants. The Albanian government was under pressure from international bodies and for a long time considered and called the pyramid firms the right choice and very helpful for Albania to develop. This showed that the government was not powerful enough to handle the situation. The collapsing of these firms in 1997 created anger from the people and they were armed. The government lost control of the country and all this anger was being converted slowly into a civil war.

As the people were not informed about the risk involved in investing in those firms, they started to deposit all their savings in them. The international bodies had announced something like this, because they were analyzing in logical western terms and they come to the conclusion that having such high interest rates was beneficial only for third parties not included in the deal. This form of investment can only work in country with an economic history, but not in countries which have just come out from a socialist system. (IMF 1998)

Although in the habitants defense it must be said that their coming out from a communist system reduced the chances for them to understand the risk involved in these deals. The lack of knowledge was the key factor that was used as an advantage by the pyramid firms and they were gaining attention with the high interest rates. The Albanian people believed in the government's view on the pyramid firms and, based on this, they deposited all the money they had and later on it was published that the government would insure all their deposits.

4.3 Lessons and solutions

The economic effects that the pyramid crisis had on the Albanian economy were innumerable. The economic and the political crisis were settled together in Albania and they were causing major problems. The country's production fell by 7% and the inflation rate went to 42%. The crisis had a major impact on all the monetary indicators. Before the crisis there was a rapid increase in the level of deposits, especially those in Leke, taking into consideration there was not monetary expansion because the loaning side of the banks was controlled by the Central Bank.

As predicted, after the crisis there was a rapid decrease in the level of deposits. A new program was introduced by the Albanian government and backed up by the international authorities who were based on privatizing all the state owned companies in order for the government to generate some cash and reduce the budget deficit. Another measure that was taken was the increase of the VAT. Part of the program was the closure, the transparency and the administration of the pyramid firms. Although the public was hoping to get the money from the government, it was decided that they were to pay off the pyramid firms' debt with money from the country's budget.

Now it was the duty of the Central Bank to give life to the banking system. In order to have an increase in deposits the Central Bank would not lend money anymore to banks that had more than 20% bad debts and for those who had bad debt at 20%-30% it would be a higher interest rate. This measure was taken to gain the public confidence back again. Other reforms were needed; the banking system had been fragile and now was more fragile than ever so it was open to any unpredicted risk. All the other banks that were state owned, level 2 banks, were privatized. The main reform that was badly needed was to make laws for the banking system as there were not any. By doing this they would hope that there would be an improvement in the payment system as well.

However as months were passing, foreign investment was coming along. There was money flowing into the market so there was need for a functional banking system. New banks were opening up. The Albanian American Bank opened its offices for business in Tirana in 1997. This was at the end of 1997, so this was a positive mark up on the economy after the March 1997 crisis. The Albanian government was still skeptical on how banks would work, so to take precautions they licensed them for a limited period of time. The Albanian American Bank started to open branches and to have full operations in their branches at the beginning of 1998. The Albanian American Bank was an attraction to other foreign investors, so other worldwide recognized banks started to operate in Albania. There were other banks that merged with Albanian state owned banks in order to reduce the risk and the first one was the merger of the Agrarian Bank with a subsidy of a Turkish Bank.

Overall, the pyramid crisis was not caused by banks, because banks were not included in any of these firms, but from the weakness of the banking system and the Albanian economy as a whole. The methods that the government used, the tolerance with which they approached the problem and the public knowledge about the economy was helpful for the pyramid schemes to settle down in Albania.

5. Banking system during '99-'01

5.1 Macroeconomic framework

During this period there were a lot of reforms and an improvement in the banking system was shown. There was a decrease in the budget deficit, the politics that followed helped the economy and a rise in the interest rate and a decrease in inflation was shown at the beginning of 1999. The industrial state-owned companies were almost all privatized. All these reforms led to an increase of the GDP by 7.4% and an inflation rate of 3.5% in 2001. (Source: BoA)

In order to have a stable economy the government decided that some of the banks that had Albanian capital were to be privatized as this would help new banks entering into the Albanian market. Right after this, a number of private banks entered into the Albanian market and this helped to bring normality to the banking system.

In 1999 there were 3 banks that started to operate in Albania and they had 100% foreign capital. Now the system had banks with foreign capital and not banks with state owned capital.

The table below shows the microeconomic indicators from 1999-2006. Although this period focuses on the period of 1999-2001, the table serves as a comparison as well and an opening for the following topic.

Indicators	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	13.2	6.5	7.1	4.3	5.7	6.2	5.6	5
GDP (current prices, mln USD)	3,548	3,694	4,102	4,459	5,600	7,453	5,383	9,137
GDP per capita (USD)	1,143	1,212	1,339	1,456	1,884	2,341	2,620	2,911
Unemployment rate%	18.2	16.8	16.4	15.8	15.2	14.4	14.2	13.8
Inflation Rate%	-1	4.2	3.5	1.7	3.3	2.2	2	2.5
Budget deficit (% of GDP)	-12.1	-8.2	-7.9	-6.6	-4.5	-5.1	-3.6	-3.1
Public Debt (%of GDP)	69.7	71.3	66.8	65.3	61.7	56.6	56.7	55.9
External Debt (% of GDP)	32.3	29.4	25.8	23.5	20.6	18	17.5	17.2
Current account (%of GDP)	-8.5	-7	-6.1	-10	-7.9	-4.8	-7.3	-7.6
Average exchange rate(lek/ USD)	137.7	143.7	143.5	143.1	121.9	102.8	99.9	98.1
Average exchange rate (lek Euro)	147	132.6	128.5	132.4	137.5	127.7	124.2	123.1

Source: BoA

By having new banks in the market, the activities were now much broader. In 1999 the total activity of all the banks was 250 billion Leke or 49.3% of the GDP. A lot of improvements were made and at the end of 2001 it was reported by the Bank of Albania that the total activity of the banks at the end of 2001 was 318 billion Leke or 54% of the GDP. It was also reported that the level of deposits had been rising constantly from 178.2 billion Leke in 1998 to 282 billion Leke in 2001. The banks started to play their main role, acting as financial intermediaries. (Source: BoA)

5.2 Banking sector developments during this period

There were major improvements in those who were considered the main problems in the banking sector: The licensing of new banks and having laws in case of bank's failure. A lot of economic policies were adopted by the Central Bank from western banks. Although there were still vital problems and the major one was that the banking market was dominated by only one bank. This limited the competition for other banks and made the banking market unattractive for the other investors.

The low level of competition had been very noticeable during these years. All the banks that entered in the market offered the same services that they were offering when they entered the market, thing that would not happen in a competitive market. The only improvement that was made was the payment system, so now it needed, in general, 2-3 days to send some money from an account to another account. In general during this period the banking system itself has been moving faster compared with the Central Bank.

The level of credit had been growing, but very slowly, in 2001 by only 4.6%. The Central Bank started to offer bonds, the public found them much more attractive and this might be an explanation for such a low level of credit. In 2001 the bond market was very important to the banking system and weighted as almost 52% of the total activities of the Central Bank. As the banking system was stabilizing and Albanian economy was making developments in the international arena, new banks started to enter into the market.

In 2002 the FEFAD Bank was licensed by the Central Bank. It had Kuwaitian capital and it was very successful when it was first launched. In January 2002 the first Albanian bank with 100% Albanian capital was opened. It was called Credins Bank and it is operating successfully in the Albanian market even nowadays. This was a really good sign for the market, because until this time there were only banks with foreign capital apart from the Savings Banks and Credins Banks was seen even as a balance in the banking system. The banking system and the Albanian economy as a whole were settling down, but it did not last for long because another crisis was coming up.

6. Deposit crisis '02

6.1 Macroeconomic framework

As it can be seen from Table B all the macroeconomic indicators were showing that Albanian economy was improving. This would be more clear if there would have been available other microeconomic indicators that would be helpful to have a broader view on the economy. At the time, though, there was not any authority to show how these banks were performing and to check the quality of the services that these banks were offering. Banks were offering securities (excluding treasury bills) to the public and this was the only thing registered in their portfolio. They were also rated based on this. It was the duty of the Central Bank to check regularly the quality of services of these banks, but this did not happen.

There was a worsening in the exchange rates and this led to a depreciation of the home currency, Leke. This is when the problem started. As most of the deposits were in foreign currency this weakness of Leke would devalue customer's deposits if they wanted to invest or save in home currency. In 2001 the loans in foreign currency were at a level of 81.7% of the total excess credit and the foreign currency loans founded 7.9%. (Source: BoA)

The Albanian banks had a limited activity only in the domestic market so they had to focus only in this market and be as profitable as they could with the chances that this market gave. The banking market was fragile so the authorities were really worried about the bankruptcy and the solvency of the banks as a result of their capital depreciating.

The two main indicators that were taken in consideration in order to have a more inside view of the problem were the financial leverage and the capital adequacy ratio, to show the banking sector's performance during this period from another perspective.

An indication of the structure of the fund of an institution is given by the leverage ratio and it is given as a ratio of the shareholder's capital of the bank to the total assets. In general this ratio for the banking sector varies from 5% to 9%, whereas for the Albanian banking system at the end of 2001 this ratio was 6.3%. (Source: BoA)

If a bank is able to face possible losses is something that can be determined by the capital adequacy ratio. The ratio and the methodology on which a country is to calculate this ratio was decided at Basle Committee Agreement on the Banking Supervision in 1998 and it was required to be 12%."Capital adequacy ratios are a measure of the amount of a bank's core capital expressed as a percentage of its assets weighted credit exposures". In Albania at the end of 2001 they were at a level of 35.3%, which is far from the minimum rate and this is another indicator which showed that a crisis was coming up. In the case of Albania, all these banks operating in the Albanian market were characterized by a high capital adequacy ratio as a result of the few risky activities that they were undertaking.(Source: BoA)

"ROA and ROE measure profitability and profitability are a very important indicator to show the bank's performance, how able is a bank to pay its future liabilities." The banking system had a period of losses during 1999 and in years 2000 and 2001 registered a profit of 5.4 Billion Leke and 4.3 Billion Leke.

ROA (return on assets) which is an indicator of managerial efficiency and indicates how competent banks have been in converting their assets into net income results 1.15% on annual basis, while ROE (return on equity) results 18.6 % (Source: BoA).

Liquidity is another important indicator because it relates directly to the solvency and the bankruptcy risk. Knowing that 90% of the total assets in Albania were liquid assets, the banking system liquid position was quite comprehensive. Half of the liquid assets were treasury bills. The ratio of liquid assets to total short-term liabilities was over 98 %. This indicator is presented as more improved at the bank where the banking panic started and had the highest intensity, precisely at the Savings Bank, where all its assets were liquid. All of the economic indicators were showing that the economy and banks were having a good performance so it was not expected with these indicators except that the crisis was knocking.

In March 2002 the banking system faced another crisis, the densest crisis after the one in 1997 - it was called the panic of deposits. But if 1997 the crisis settled down in every sector of the economy and in the whole country, now it was only a banking sector crisis. There were a lot of analyses made on why the system suffered such a panic. The common thing between all was that the Albanian banking system was brittle and the public confidence was as well. The fragility of the banking system had been shown in the crisis before, but this showed that even though time passed and it was supposed to gain experience, still the system was not prepared to handle any crisis.

This table shows the level of deposits in the most important banks operating in the Albanian banking sector in the given period.

Deposit Balance (Mln-Leke)	Dec '01	Jan '02	Feb'02	Mar'02	Apr'02	May'02	June'02	July'02	Aug'02	Sep'02
Savings Bank(SB)	176,980	180,590	180,407	167,425	157,925	156,700	157,525	188,097	159,886	162,301.1
Alpha Bank	9,287.31	9558.95	9744.32	9648.56	9556.27	10,098	10,188	10,275	11,760	12,144
American Bank of Albania	17,938.1	19,369.5	19,418.4	11,089.4	21,005.0	21,671.1	21,878.9	22,285.3	23,411.2	23,717.0
Arab-Albanian Islamic Bank	802.1	855.5	843.8	866.9	844.7	961.0	1,079.32	1,402.05	1,210.33	1,198.34
Dardania Bank	218.4	169.9	183.5	269.9	187.6	185.8	321.4	154.5	334.3	153.3
FEFAD Bank	6,802.0	7,018.2	7,204.9	7,284.9	7,587.6	7,531.6	7,580.5	7,614.4	7,930.0	8,398.2
First Investment Bank	169.6	982.2	938.7	658.7	211..8	209.0	222.9	210.2	652.8	790.7
Albanian-Italian Bank	12,484.9	12,597.2	12,437.7	12,449.5	12,180.9	12,810.6	12,439.3	12,510.0	12,831.5	12,813.4
National Bank of Greece	6,870.0	6,946.7	6,943.9	6,934.0	6,915.0	6,982.6	6,976.0	6,965.8	7,077.9	7,382.8
National Commercial Bank(NCB)	28,500.0	28,139.0	28,517.0	26,124.5	25,985.1	25,856.3	26.077.5	26,561.4	27,320.7	28,056.6
Commercial Bank of Greece	1,007.6	1,045.2	951.9	1,055.3	1,031.0	995.5	989.1	1,057.0	1,089.1	1,112.1
Tirana Bank	15,013.3	15,735.5	16,134.1	16,152.1	16,707.8	17,661.4	17,966.9	19,426.8	20,125.0	19,730.5
Banking System	277,817.93	284,582	285,545	270,700	261,873	263,311	285,082	268,309	275,361	279,626
Banking System without SB&NCB	72,327.86	75,833.462	76,620.09	77,151.15	77,963.46	80,754.51	81,497.68	83,650.72	88,153.69	89,268.03

Source: BoA

The deposits table shows the starting of the panic and it shows the banks affected by the panic. The panic began and as a start it mostly affected the Savings Banks which were in discussions to privatize and formed the largest part of the banking system. It was reflected less at the National Commercial Bank which was privatized in 1999, but most of the public was not informed of that.

From these two banks was reached a deposit outflow of 12 Billion Leke in March 2002 and 9.4 Billion Leke in April 2002. In March 2002 Saving Bank occupied 96.3 %of these deposits. (Source: BoA)

6.2 Public role in this crisis

Although according to the figures and what could be seen from the investments, a crisis was not being predicted, it was not the same for the public at this time, they believed in the information given by international bodies and they started to withdraw their money from banks especially in uncivilized areas where knowledge about the banking system is almost negligible. Experience was gained by the Albanian habitants during the 1997 crisis and they were much more sensitive to any information published about the financial system. Even though the banks had nothing to do with the pyramid schemes there was still a lack of confidence from the Albanian public in banks, especially in banks with Albanian capital.

During 2002 there were a lot of factors that made the Albanian public withdraw their deposits:

1. The privatization of the Saving Bank.
2. The law of deposits insurance was intervened by political factors and because of that it was difficult to believe
3. Previous crisis experience

All of these factors shocked the public and left the banks with a rapid decrease in the level of deposits. The deposits insurance law was reputed to be improved but to what level the deposit would be insured was never clarified. This entire situation was leading to panic. Despite the fact that it was now 12 years since the end of communism, the negative effects of that period were still present. Neither the government nor the habitants were properly informed about the banking sector and its contribution towards a crisis and the economy had just started to develop with the enormous help of western countries. The country had a much destabilized situation in the whole region, but luckily the geographic position of Albania helped a lot, as there was quick intervention from allied governments with academic knowledge and experience.

As all the deposits being withdrawn and as they were totally sure that a deposit crisis would have major effects on the whole economy, it was time for the Central Bank to intervene. There was major fear about the level of inflation and liquidity problems for all of the banks were being shown.

Acting as a monetary authority and as a supervisory the Bank used all of their available instruments to avoid this. Alongside the intervention of the Bank of Albania, there was international intervention from international bodies operating in Albania. Also, according to the Bank of Albania in September 2002, the level of deposits was 4.8 Billion Leke more than the amount predicted for the same period by the Bank of Albania.

At this moment the Central Bank had to give up its main role and act as a lender of last resort in order to have liquidity in the banking system and avoid bankruptcy for any of the banks operating in the Albanian market. A number of methods were tried in order to inject liquidity in the market, with repo and fortnight deposits being the most used. Overnight deposits were given up on a large scale, but there was the other problem that what was to be used to cover the government's liquidity needs. The Central Bank used the direct loan for a short time and that is because the limit specified by the law would not be affected.

Something had to be done to detain the public from withdrawing their money and it was decided by the Bank of Albania that the repo interest rate should go up to 1.5%. All of the banks increased the deposit interest rates and other interest rates very quickly right after this decision was made. Another major problem was the foreign exchange market. In Albania, the size of the informal foreign exchange market is huge, so it was difficult for the Central Bank to intervene in a situation like this. However, their intervention was needed to maintain stability in the foreign currency market because there was an unpredicted increase in requests for foreign currency.

It was established cooperation between the Bank of Albania and the Albanian Economic Faculty which started an educational campaign for the public so that they could gain knowledge about the economic system, but mostly this was done for the banking system which was really unfamiliar. The international bodies offered their support and this campaign had a major impact on people - they stopped withdrawing their deposits.

All of these measures taken by the Bank of Albania helped to overcome the panic and the level of deposits went back to its level. During this period there was a fluctuating rate of inflation, probably reflected by the confidence in the market, but the target that was set by the Central Bank for that year was achieved at the end of 2002.

7. Banking in Albania from 2003 to nowadays

7.1 Banking sector after the deposit crisis

At the moment the Albanian economy has been showing stable growth across the years. With a lot of investments coming from abroad, this served to help grow the industrial sector and develop the service industry. With years passing there has been a more stable exchange rates market and the inflation rate targets set by the Bank of Albania have been reached or very nearly approached. A fiscal policy is being used, processed by fiscal consolidation, in order to keep at reasonable levels the budget deficit, domestic debts and the interest payments.

90 percent of all the financial intermediaries' assets are dominated by the banking sector in the Albanian financial sector. There are 17 banks in the banking system and at the end of 2004 their assets amounted to 52% of GDP. In 2004 the government still owned a stake in the largest savings banks, but sold this stake to Raiffeisen Bank, an Austrian based bank, in April 2004. This resulted in a move of the banking system assets of about 50% from public to private banks

and now the market had a large dominant bank. Prior to its privatization, the savings banks were forbidden from lending and its primary assets were the outstanding T-bills which they were going to use to develop a loan portfolio. The loan/asset ratio (14.6%) is at this level because of the negligible loans the Raiffeisen bank had at that time, but excluding that the ratio is 28.4%. According to Bank of Albania, 76% of the total assets in the banking system are held in government securities.

This table shows the indicators for growth and profitability during the specific periods. I have added this table in here to show the Albanian economic performance after the '02 deposit crisis.

Indicators/Years	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
No. of banks	9	10	13	13	13	14	15	16	17	17
State-owned Banks	3	2	2	1	1	1	1	0	0	0
Foreign Banks	6	8	11	12	12	13	13	14	14	14
Domestic Banks	0	0	0	0	0	0	1	2	3	3
Assets/GDP %	N/A	N/A	49.2	50.2	53.5	51.6	50.2	51.9	59.3	69.4
Asset Growth rate%	N/A	N/A	N/A	8.6	17.9	6.3	10.1	14.1	16.4	25.7
Assets/GDP growth rate %	N/A	N/A	N/A	2	6.6	-3.6	-2.7	3.4	14.3	17
Loans/GDP %	N/A	N/A	8.1	5.2	4.7	5.9	6.8	8.5	15.3	21.9
Loans/Assets %	N/A	N/A	16.4	10.4	8.9	11.5	13.6	16.4	25.7	31.5
Loans Growth rate %	N/A	N/A	N/A	-31	0.2	37.7	30.5	38	82.1	54.1
Deposits/GDP %	N/A	N/A	42.3	43.2	46.5	44	44.5	45.7	52.3	58.4
Deposits/Assets %	N/A	N/A	85.9	86.1	86.9	85.2	88.7	88.1	88.1	84.2
Deposit Growth Rate %	N/A	N/A	N/A	8.7	19.1	4.1	14.7	13.4	16.4	20.1
ROA %	N/A	-1.8	0.5	2.1	1.8	1.2	1.2	1.3	1.4	1.4
ROE %	N/A	-82.3	15.7	20.6	23.4	19.2	19.5	21.1	22.2	20.2

Source:BoA

Overall the banking system was considered to be liquid and 75% of the total assets were liquid assets in 2005, although there was a lack of lending opportunities and a high and safe return on government securities. As it is a fairly new banking system, there is now a liquidity ratio, imposed by the banking authorities, though they are required to do so. There is a need to increase the deposit rates by the banks so they can attract more clients' deposits and earn favorable spread in purchasing government T-bills.

Most of its assets (nearly 38%) and loans (nearly 83%) are denominated in foreign currency in the Albanian banking system, mostly in Euros and US dollars. There is a high demand for foreign currency loans as most of the transactions are operated in foreign currency, but this depends on the interest rate that the banks offer, which varies from bank to bank. Borrowers, due to their lack of knowledge, simply note a lower interest rate in foreign currency than in Lek and do not take into consideration the exchange risk. In order to meet the market needs and the customers' preferences, banks try to match the interest rate of the deposits with loans in foreign exchange. Other banks transform Lek deposits into foreign currency so they can meet the demand for loans in foreign currency. Besides that, banks have to maintain the foreign exchange positions within the prescribed limit of the Bank of Albania which is 20-30% of regulatory capital. In 2005 this was 8.7%. (Source: BoA)

A good performance has been shown by the Albanian banking sector since the deposit crisis in 2002. High levels of earnings and capitalization, a capital/risk weighted assets ratio in high average levels, above 20%, are indicators that show this great performance. A strong capital position has been imposed by all the operating banks. The ROA has been 1.2 and 1.4 during 2002-2006 showing a strong average profitability whereas the ROE has been around 20% for the same period. The government decided to remove the bad loans from the state banks when they were privatized and this lead to a decline in the Net profit Loss ratios from 33% in 2001 to 5% at the beginning of 2006. (Source: BoA)

Albania is characterized by a high risk environment which makes the problems more complicated for the banking system. The financial system is highly dollarized with the main currencies, $, Lek and Euros, having shares of assets and liabilities at a significant amount. With the entrance of Raiffeisen bank in the market, most of the Albanian banks already operating expected a downward trend in the lending spread as a matter of competition. Also clients were expecting lower fees and a lower cost of borrowing which will lead to an increase in the efficiency of the banking sector. A rapid increase was shown in the level of credit year by year, in 2005 the credit growth was 65% higher compared with 2003. As for corporate lending, there was seen avoidance on the payment of taxes in the balance sheets and income statements of firms. The bank of Albania acting as a supervisory authority made major efforts during that period to make the borrowers aware of the exchange risk that came with loans in foreign currency.

This table shows the basic indicators and the macroeconomic framework for the Albanian banking sector and its future projections for these indicators.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Real GDP 1/	6.0	7.8	2.8	2.3	3.2	3.6	4.2	4.7	5.0
Retail prices(avg.)	2.9	3.4	2.2	3.5	2.9	3.0	2.9	3.0	3.0
Retail prices(end-period)	3.1	2.2	3.5	2.9	2.9	2.9	2.9	3.0	3.0
Saving-investment balance									
Foreign savings	10.3	15.3	14.0	12.6	11.3	9.4	7.5	6.2	5.2
National savings	19.1	17.3	15.0	13.3	14.8	16.9	19.0	20.3	21.5
Public	2.2	3.2	1.1	-0.4	-1.1	-1.1	-1.1	-1.1	-1.1
Private	16.8	14.1	13.9	13.6	15.9	18.0	20.1	21.5	22.6
Investment	29.4	32.5	29.0	25.9	26.1	26.2	26.5	26.5	26.7
Public	5.9	8.6	8.8	5.1	5.2	5.2	5.2	5.2	5.2
Private	23.5	23.9	20.2	20.8	21.0	21.3	21.3	21.3	21.5
Fiscal sector									
Revenus and grants	25.7	26.8	26.0	25.2	25.0	25.4	25.7	25.9	26.0
Tax revenue	23.6	24.3	23.5	22.9	22.9	23.3	23.7	23.9	24.0
Expenditures	29.6	32.3	33.4	30.3	31.1	31.6	31.9	32.1	32.2
Primary	26.9	29.4	30.2	27.0	27.3	27.7	28.0	28.1	28.1
Interest	2.6	2.9	3.1	3.3	3.8	3.8	3.9	4.0	4.1
Overall balance(including grants)	-3.9	-5.5	-7.4	-5.2	-6.1	-6.1	-6.1	-6.2	-6.2
Primary balance(including grants)	-1.2	-2.7	-4.3	-1.8	-2.3	-2.3	-2.3	-2.2	-2.1
Net domestic borrowing	1.8	1.7	0.9	2.5	3.8	4.4	5.7	6.2	6.7
Privatization receipts	1.6	0.5	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign financing	0.5	3.2	3.7	3.1	2.3	1.7	0.4	0.0	-0.5
Public Debt	53.9	55.2	59.7	62.8	65.1	66.9	68.1	69.1	69.9
Domestic	38.2	36.8	36.0	36.6	38.2	40.1	43.0	46.1	49.3
External(including publicly guaranteed	15.7	18.4	23.7	26.6	26.9	26.8	25.1	23.0	20.6
Monetary indicators									
Broad money growth	13.7	7.7	6.8	7.0	9.0	11.5	13.0	13.5	13.5
Private credit growth	48.2	32.1	10.3	8.6	8.1	7.6	6.9	5.9	5.7
Velocity	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.1	1.1
Interest rate(3-mth, T-bills,end-period)	6.3	6.3	6.3	…	…	…	…	…	…
External sector									
Trade balance(goods and services)	-26.7	-26.8	-25.0	-22.7	-22.4	-20.9	-19.2	-18.0	-16.8
Current account balance(including official transfers).	-10.3	-15.3	-14.0	-12.6	-11.3	-9.4	-7.5	-6.2	-5.2
Current account balance(excluding official transfers).	-11.3	-15.9	-14.7	-13.3	-12.1	-10.1	-8.2	-6.8	-5.7
Official transfers	1.0	0.7	0.7	0.7	0.8	0.7	0.7	0.6	0.5
Gross international reserves(in millions of Euros)	1.467	1.721	1.621	1.586	1.580	1.725	1.924	2.226	2.571
(In months of imports of goods and services)	4.1	4.2	4.2	4.2	4.0	4.2	4.4	4.7	5.1
(Relative to external debt service)	12.1	12.4	9.5	3.7	6.3	6.9	7.2	6.8	4.0
(In percent of broad money)	23.3	26.1	26.0	23.9	21.9	21.5	21.3	21.7	22.1
Change in real exchange rate(e.o.p.,in percent)	0.5	-0.6	…	…	…	…	…	…	…
Memorandum items									
Nominal GDP(in billions of lek) 1/	967	1,088	1,153	1,217	1,295	1,384	1,487	1,604	1,735

Source: BoA and 2011-2017 projections of the IMF

At that period there was an unexplainable risk, the time that banks needed to process the loans was enormous, leading to a lack of confidence in the customers as this made them think that something was going wrong. Luckily this is not widely seen nowadays. At the end of 2006 there was seen a rapid increase in real estate prices and this led to an increase in the level of lending, particularly long-term lending. Most of the real estate properties in Albania are purchased in cash and that is why the share of lending for outstanding banks is only 2.5%. Most of the mortgage loans are denominated in Euros, although there is no uniform standard as some firms operate in US dollars and some operate in Lek. The maturity of these loans was set on average at 2 years, but now there is a lot of risk involved, most of banks are extending the maturities to 20 years in order to compensate the risk.

7.2 Real estate market effect on the banking system

As most of the purchases are made in cash, the Albanians were not familiar with the collateral idea when it was first introduced in 1995. Year on year there was an increase in the amount of collateral needed and this lead to an increase in real estate prices. Even at the moment there are no written regulations on the amount of collateral, but typically the collateral needs to cover 120-140% of the loan and this has led to a decrease in the level of credit provision. There have been discussions about the level of collateral. The risk for this market to be speculative in Albania is enormous, so a downward trend in the level of loans may lead to a rapid decrease in the real estate prices and a collapse in the building industry. This does not involve the exchange risk for the collateral through the years.

Competition in the banking sector has been increasing on a year to year basis. As a result of lack of competition the amount of profit made by the operating banks was at really high levels, but this is expected to change. As the market is open to foreign exchange risk, a maximum shock of 20% has been used for all the currencies to have a stabilized foreign exchange market. In general the Albanian financial sector benefits from a depreciation of Lek and loses points if the Lek is appreciated as it is long in foreign exchange. However, this effect varies from bank to bank because not all have deposits in the same foreign currency. The Albanian banking system is flexible to direct or indirect credit risk.

7.3 The global financial crisis

In April 2009 a net loss of 6.6 million euro was registered, down from net earnings of 1.86 million euro in March 2009(Source: Albanian Bank Association). This decrease was mainly because of write offs and the increased level of problematic loans. An increase of more than 50% has been shown in the level of lending, however this has cause a major concern for the bank of Albania and the IMF, pushing them to strengthen the regulations on risk management. There were some anticipated losses for some banks, predicted by the Central Bank and they ordered these banks not to distribute dividends.

This table shows the banking sector indicators in order to have a broader view for the latest performance of the Albanian banking sector.

%	**June '09**	**Sept. '09**	**Dec '09**	**March '10**	**June '10**
Capital-based indicators					

Regulatory capital to risk-weighted assets	**16.85**	**16.67**	**16.17**	**16.13**	**16.21**
Tier 1 capital capital to risk-weighted assets	**16.10**	**15.88**	**15.27**	**15.19**	**15.43**
Tier 1 capital to total assets	**8.74**	**8.83**	**8.66**	**8.56**	**8.87**
Regulatory capital to total assets	**9.15**	**9.27**	**9.17**	**9.09**	**9.32**
Shareholders' equity to total assets	**9.34**	**9.32**	**9.57**	**9.58**	**9.60**
Net non-performing loans to capital					
Net non-performing loans to tier 1 capital	**25.72**	**27.25**	**29.93**	**33.57**	**32.81**
Net non-performing loans to regulatory capital	**24.58**	**25.94**	**28.24**	**31.63**	**31.24**
Net-performing loans to shareholder's equity	**24.07**	**25.80**	**27.07**	**29.99**	**30.32**
Gross non-performing loans to total loans	**8.73**	**9.75**	**10.48**	**11.67**	**12.21**
Return on Equity, RoA (y-o-y)	**1.78**	**1.79**	**4.58**	**7.33**	**8.31**
Return on Assets, RoA (y-o-y)	**0.16**	**0.16**	**0.42**	**0.70**	**0.79**
Income and expenses					
Interest margin to gross income	**129.11**	**131.51**	**119.55**	**119.06**	**116.16**
Non-interest expenses to gross income	**201.61**	**266.99**	**231.40**	**202.09**	**213.05**
Liquidity					
Liquid assets to total assets	**40.90**	**41.34**	**27.65**	**27.88**	**27.85**
Liquid assets to short-term liabilities (up to 1-year)	**56.85**	**63.93**	**32.58**	**33.07**	**32.85**
Net open position in foreign currency to capital					
Net open position in foreign currency to tier 1 capital	**4.60**	**0.63**	**4.12**	**5.76**	**7.64**
Net open position in foreign currency to regulatory capital	**4.40**	**0.60**	**3.89**	**5.43**	**7.27**
Net open position in foreign currency to shareholders 'EQ-UITY	**5.06**	**0.70**	**4.31**	**5.97**	**8.09**

Source: BoA

The ROE was 20% in 2008 and in 2009 this was 15%. This shows that Albanian banks had a good level of profitability compared with other banks in the region. However, the global financial crisis had its effect on the credibility of the banking sector. Most of the banks wiped the majority of their deposits from the Albanian banking system. Experts did not blame the global crisis but the poor practice lending from the past. The collapse of the Lehman brothers led to a bank run in Albania. There was a rapid decrease in the level of deposits from 5.7 billion euro in 2008 to 4.9 billion euro in 2009. The Albanian government was facing difficulties in paying off the debts, but the market started to stabilize in March 2010. (Source: Albanian Banks Association)

With its geographic location, Albania also suffered the effect of the Greek crisis. There are many banks with Greek capital that operate in the Albanian market and they have directed their capital towards Greece as it is badly needed there, meaning that they cannot meet the actual loan demand of the Albanian market. The bank of Albania has reassured the public that all their deposits are safe and that the banking system as a whole is safe. However, this crisis is not expected to have an effect only in the banking system, but in the Albanian economy. The number of Albanian emigrants in Greece is around a million, so if they lose their jobs, they will not have money to spend in Albania, some have their own businesses in Athens. Greece is also a major importer for Albania, so this is another major problem.

Up to date the Greek crisis has only had an effect on the weakness of the euro as a result of the decrease in circulation of the euro, as the euro is fluctuating on a daily basis. Hopefully this will be the only effect, because at this time the Albanian economy is very stabilized, as a result so is the banking sector. Another crisis would be fatal.

8. Future challenges

On the 15th of December the visa liberalization by the European Union was approved for Albania. Now the people of Albania do not need a visa in the Schengen area and this is expected to have its effect on the economy as well. Since the fall of communism the Albanian financial sector has been trying to convert into a bank-based system, which is mostly owned by the western economies. The presence of foreign banks in the market has implemented a new culture and new ideas and this process has been helping the process of having a Europeanized banking system with a European framework.

Albania is not a member of the European Union, but might be a potential candidate in the near future as part of the EU accession process. As such, it has to be strongly prepared for that and try to integrate every sector of the economy for the EU membership. The Republic of Albania signed the Stabilization Association Agreement (SAA) with the European Union on June 2006. This shows that help is being granted and it is going to be granted for the Albanian economy. A developed financial sector which is attractive to productive investment is the functional existence of a market economy - as set out according to the Copenhagen Criteria.

An internal market is needed to be established and this will remove any discriminatory treatment, providing a financial market which provides services that are competitive in the EU financial markets. Being a full EU member will remove the barriers between the members' countries and will lead to a rapid increase of competition between national markets and, as expected, this will decrease the prices of these services. The Stabilization Association Agreement states that every bank or other financial institution has the right to establish a business and the freedom to provide financial services in the Albanian territory or to any country, if they are a member of the EU.

With the visa liberalization it was agreed that academic knowledge will be granted for the Albanian economy and this hopefully will develop the economy and the banking sector especially. This cooperation will also be based on helping Albania to improve the politics of the financial sector and the role as supervisory authority for the Bank of Albania. Training and technical assistance will be offered.

Major challenges are to be expected. An adoption of international banking standards needs to be made by the banking sector and by the Albanian government in government terms. The competition in the banking sector needs to be at a higher level and this will strengthen the risk assessment capacity. A major problem is the process of harmonizing with EU legislation which is going to be a really difficult task for the government. A consistent communication between the government and the financial market needs to be established in the near future. Hopefully all of these issues raised by EU will help the Albanian economy cope with future challenges successfully.

9.Conclusion

The financial system and especially the banking system are viewed as very important for an economy and serve as a catalyst for the economic development of a country. During the last decade some considerable changes have been experienced by the Albanian financial system. Service quality, legal improvements and adaptations to new frameworks have been changes that had to be dealt with by the Albanian government and the Central Bank.

During the reign of Ahmet Zogu Albanians attempted for the second time to create a central bank and setting up a banking system in Albania. And things went fairy well even though the majority of the banks including the Albanian National Bank had Italian bankers as majority shareholders or were completely owned by Italian bankers. However the Albanian banking system was again set back.

After the fall of communism a lot of help was granted by foreign governments and the Albanian government introduced new reforms to help the vital sectors improve. The post 1990 period was very difficult to manage. Informal markets were operating and there was lack of confidence in and lack of knowledge about this sector amongst the habitants.

The 1997 crisis was helped by the fragile economy that Albania had as it was easy for this crisis to begin in that environment. At first it was seen as a huge development by the government because people were happy with the returns they were getting and, as a result of that, the whole economy was growing rapidly. However, as explained in the paper, these schemes did not last for long. The way in which they were operating was unacceptable and it was inexplicable where they were getting the money to meet the market demand.

In 2002, the deposit crisis was a crisis which was mostly caused by the lack of confidence of the clients. As they had little confidence in the Albanian banks, there was an unexpected start to withdraw the deposits and banks started to have liquidity problems. However, thanks to the intervention of the bank of Albania and their supply with money, a

major crisis was evaded.

To sum up, it has been obvious that even though the Albanian banking system has not been making significant progress in the last decades. Now though, with the associated help of the EU and previous crisis experiences it seems to be going in the right direction.

The banking sector is still under a lot of pressure and, through major changes, it is following in the footsteps of modernized banking sectors. Only time will tell when Albania will have a banking system which has grown enough to be compared to and competitive with modernized banking systems.

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11. Appendix

Table A

Indicators	**Dec.'04**	**Dec.'05**	**Dec.'06**	**Dec.'07**
Capital adequacy %	21.6	18.57	18.1	17.08
Net profit Loss(Gross)/Total Loans %	4.2	2.33	3.05	3.36
ROA	21.1	22.24	20.2	20.74
ROE	1.3	1.40	1.36	1.57
Customer Deposits/Total Loans %	535.8	342.48	265.5	215.45
Foreign Currency/Total Loans %	80.5	75.54	71.9	72.53

Table B

No.	**Name**	**Year of Entry**	**Country of Origin**	**Mode of Entry**
1.	Italian Albanian Bank(IAB)	1993	Italy	Greenfield
2.	Italian Development Bank (IDB)	1994	Italy	Greenfield
3.	United Bank of Albania (UBA)	1994	Arab	Greenfield
4.	National Bank of Greece(NBG, Tirana Branch)	1996	Greece	Branch
5.	Tirana Bank (TB)	1996	Greece	Greenfield
6.	International Commercial Bank (ICB)	1997	Malaysia	Greenfield
7.	Alpha Bank-Albania	1998	Greece	Branch
8.	American Bank of Albania (ABA)	1998	USA	Greenfield
9	Emporiki Bank (EB)	1999	Greece	Subsidiary
10.	First Investment Bank (FIB)	1999	Bulgaria	Subsidiary
11.	Pro Credit Bank (PCB)	1999	Germany	Subsidiary
12.	National Commercial Bank (NCB)	2000	Turkey	Subsidiary
13.	Credit Bank of Albania (CBA)	2002	Kuwait	Greenfield
14.	Credins Bank	2003	Albania	Greenfield
15	Raiffeisen Bank (RZB)	2004	Austria	Subsidiary
16.	Popullore Bank	2004	Albania	Greenfield
17.	Union Bank	2006	Albania	Greenfield

Table C

No	BANKS	Assets		Loans		Deposits	
		Value	in %	Value	in %	Value	in %
1	Raiffeisen Bank – Albania	237.18	31.94%	59.22	20.43%	220.11	34.11%
2	Commercial National Bank	99.54	13.40%	28.10	9.69%	93.38	14.47%
3	American Bank of Albania	78.86	10.62%	30.88	10.65%	68.82	10.66%

4	Tirana Bank	66.98	9.02%	41.70	14.38%	51.14	7.92%
5	Alpha Bank – Albania	52.67	7.09%	30.96	10.68%	44.23	6.85%
6	Banka Popullore	36.87	4.96%	10.31	3.56%	32.91	5.10%
7	Credins Bank	35.77	4.82%	15.98	5.51%	30.81	4.77%
8	NBG – Albania	31.07	4.18%	23.89	8.24%	26.98	4.18%
9	ProCredit Bank	30.05	4.05%	14.05	4.85%	26.04	4.04%
10	Albanian-Italian Bank	27.54	3.71%	8.82	3.04%	24.60	3.81%
11	Emporiki Bank – Albania	20.93	2.82%	17.20	5.93%	9.01	1.40%
12	Union Bank	7.85	1.06%	2.55	0.88%	5.86	0.91%
13	The United Bank of Albania	5.24	0.71%	1.85	0.64%	4.00	0.62%
14	The Commercial International Bank	5.07	0.68%	1.37	0.47%	3.94	0.61%
15	The Development Italian Bank	3.03	0.41%	2.00	0.69%	2.04	0.32%
16	The First Investment Bank – Albania	2.05	0.28%	0.54	0.19%	1.00	0.15%
17	The Credit Bank of Albania	1.99	0.27%	0.45	0.15%	0.43	0.07%
IN TOTAL		742.68	100.00%	289.88	100%	645.29	100.00%

	2002	2003	2004	2005-Q1
Assets				
Treasury and interbank transactions	80.6	76.5	72.4	69.7
Cash	2.0	2.0	2.3	2.0
Transactions with central bank	8.7	8.7	8.7	8.5
Required reserves	7.8	8.4	8.3	8.4
Treasury bills				
Transactions with banks and other Fis	18.3	16.2	15.6	14.7
Operations with customers (gross)	11.4	13.5	16.4	17.5
Loans to private sector and households	10.9	12.8	15.2	16.1
Real estate loans	1.9	2.1	2.5	2.5
Securities transactions	5.0	5.4	7.0	8.9
Provisions	-0.3	-0.4	-0.5	-0.4
Other assets	3.3	4.9	4.7	4.3

Liabilities				
Treasury and interbank transactions	5.3	4.4	4.5	4.3
Deposits from banks and other FIs	3.1	3.1	2.9	2.8
Operations with customers	84.0	87.5	87.0	86.9
Public administrations	1.3	0.9	0.7	0.7
Private sector	82.7	86.5	86.4	86.2
Current accounts	10.7	10.1	10.7	11.8
Demand deposits	2.8	3.0	5.5	5.7
Time deposits	67.1	71.2	68.4	66.9
Other liabilities	4.0	2.0	2.2	2.6
Permanent resource	6.7	6.2	6.3	6.2
Shareholder equity	6.4	5.9	6.1	5.8
Memorandum: Foreign currency assets	37.5	36.3	37.4	38.6
Total assets/liabilities (in million of Lek)	33,304.98	373,634.54	426,440.00	454,919.00

Barriers to Enter European Market for Manufacturing Companies in Bosnia and Herzegovina: Propositions for Improvement

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ABSTRACT

The purpose of this research is to identify key obstacles that Bosnia and Herzegovina's (BH) manufacturing companies are experiencing while trying to export their goods to European market. The research also provides propositions for resolving barriers for companies. Furthermore, identifying priority areas for improvement is another contribution of this article.

Bosnia and Herzegovina as a transitional economy still remains idle in the European integration process. The Stabilization and Association Agreement signed in 2008 and ratified in 2011 has entered into force on first of June 2015. On the other hand, first neighbouring country, Croatia, became a valid member of the EU which in return restricted access of goods and services to new part of European market for BH. All this is a trigger for questioning the economic risk of being unable to enter the European market by BH companies.

Methodology used was qualitative research where managers of ten manufacturing companies were interviewed. Results showed that lack of initiave and help of domestic government towards exporters, demanding laws and regulations from the EU side and cultural differences abroad are three biggest impediments for export of manufacturing companies from BH to EU member countries.

Keywords: *Manufacturing companies, Bosnia and Herzegovina, European Union, Barriers*

Introduction

One of the biggest burdens after World War II (WWII) was raise of nationalism and devastated economies. Therefore an idea of creating European Union (EU) started immediately after 1945 with two main challenges to deal with; first, to reconstruct and rebuild war damages and assure that further armed conflict is avoided and second; need to increase its economic influence and create competitive industry in order to balance the power of United States (Wild et al. 2014). In order to deal with these challenges and to assure peace in Europe, six Western European countries – Belgium, France, Italy, Luxemburg, Netherland and West Germany formed an alliance called European Economic Community (EEC) in 1957 by signing Treaty of Rome (Cavusgil et al. 2008). Over the years number of industries directly included in partnership of member countries increased, while in the beginning trade relieves were present in coal and steel industry. In 1992 when EEC was renamed into European Union (EU) by signing Maastricht Treaty member countries were tied together and cooperated on all trading grounds.

Bosnia and Herzegovina along with other Western Balkans countries is having a status of potential candidate for EU membership and as such still is experiencing many of the trade barriers with EU. In the proceeding passages there will be more explanation on exact trade relations between BH and EU, however here there will be shortly presented accession procedure since this is what is expected from BH as well to go through.

Importantly, according to the Article 49 of the Treaty on European Union (TEU) EU is opened for all European countries. However applicant country must adhere and subscribe to Article 6(1) which states principles on which EU is based: democracy, freedom, respect for human rights and fundamental freedoms and the rule of law (The accession process for a new Member state, 2007). The following table clearly shows the timeline of development of BH-EU relations.

Table 1. Timeline of EU-BH relations

Date	Activity
25.11.2005	Stabilization and Association Agreement (SAA) negotiations officially opened in Sarajevo
18.09.2007	Visa facilitation and readmission agreements signed
04.12.2007	EU initials Stabilization and Association Agreement
01.01.2008	Visa facilitation and readmission agreements enter into force
18.02.2008	Council adopts new European partnership
16.06.2008	Stabilization and Association Agreement and Interim Agreement on trade and trade-related issues signed
01.07.2008	Interim Agreement on trade and trade-related issues enters into force
31.07.2008	Bosnia and Herzegovina & EU sign financing agreement for the instrument for pre-accession assistance (IPA) 2007 National Program
27.05.2010	Commission adopts proposal allowing citizens of Albania & Bosnia and Herzegovina to travel to Schengen countries without a short-term visa
15.12.2010	Visa free regime for Schengen area introduced for all BH citizens having a biometric passport
01.09.2011	Delegation of the European Union and Office of the EU Special Representative become one reinforced EU presence
27.6.2012	The EU and Bosnia and Herzegovina launched the High Level Dialogue on the Accession Process
1.6.2015	The SAA with Bosnia and Herzegovina enters into force

Literature review

According to Root (1987) companies are committing themselves to international markets only when they lose hope in attaining their strategic objectives in home market. Although it is a common to speak about company's entry strategy as it is a single plan, however management of a company needs to discuss and plan in detail entry strategy of each product to each market it is intended to (Root, 1987). There are several definitions of entry strategies but two of them are chosen for the purpose of this research; according to Shama (2000) entry strategy represents a method used by a company for a purpose of starting a business in the foreign market while Karkkainen (2005) suggests that entry strategy is institutional agreement that results in entry of firm's products, services, technology, human skills or other resources into a foreign country (Sadaghiani, et al., 2011).

Root (1987) suggested three main foreign market entry modes: export entry modes, contractual entry modes and investment entry modes. Some of the recent literature is providing as similar but yet extended approach. Cateora, Gilly and Graham (2011) suggested four optional modes of foreign market entry that a company can choose from: exporting, contractual agreements, strategic alliances and direct foreign investment. Importantly Cateora, et al. (2011) are classifying exporting as a mode of entry that companies are starting with when entering foreign markets and the one that results in lowest risk.

Exporting as a form of economic activity represents one of the oldest where its theoretical roots can be traced back to works of Smith (1776), Richardo (1817), Linder (1961) and many others (Leonidou, Katsikeas and Coudounaris, 2010). Exporting represents the most common way for many companies (particularly SMEs) to enter international markets, with a characteristic that is less riskiest one, less costly and involves fewer resources which in accordance with Cateora's et al. classification presented previously (Leonidou et al., 2010). For sure exporting involves selling and buying in two different countries but this cannot be taken for granted. There are many aspects that need to be balanced, to name few different regulations imposed by different authorities who have different procedures to settle the disputes, different commercial practices and product standards and maybe the crucial one different currency (Reynolds, 2003). All this might slow down or completely disable company's exporting endeavors.

Methodology

As this study represents qualitative research, main methodology after collecting data through structured interview as an instrument will be qualitative analysis. Cohen, Manion and Morrison (2007, p.355) defined structured interview as follows:

„The structured interview is one in which the content and procedures are organized in advance."

Structured interview was prepared with clearly specified questions. All interviewees were asked same questions. For purpose of identifying barriers for export of manufacturing companies in Bosnia and Herzegovina to EU countries, twelve companies were interviewed during May and June of year 2015.

Accordingly, interviewed representatives are top management representatives and export managers. All of them were very familiar and knowledgeable about the issues of exporting to EU countries due to their experience and job description nature.

Having in mind that twelve largest exporters to EU in Bosnia and Herzegovina which altogether have 2797 employees and 591 years of experience in business area, leads to conclusion that response rate was satisfactory.

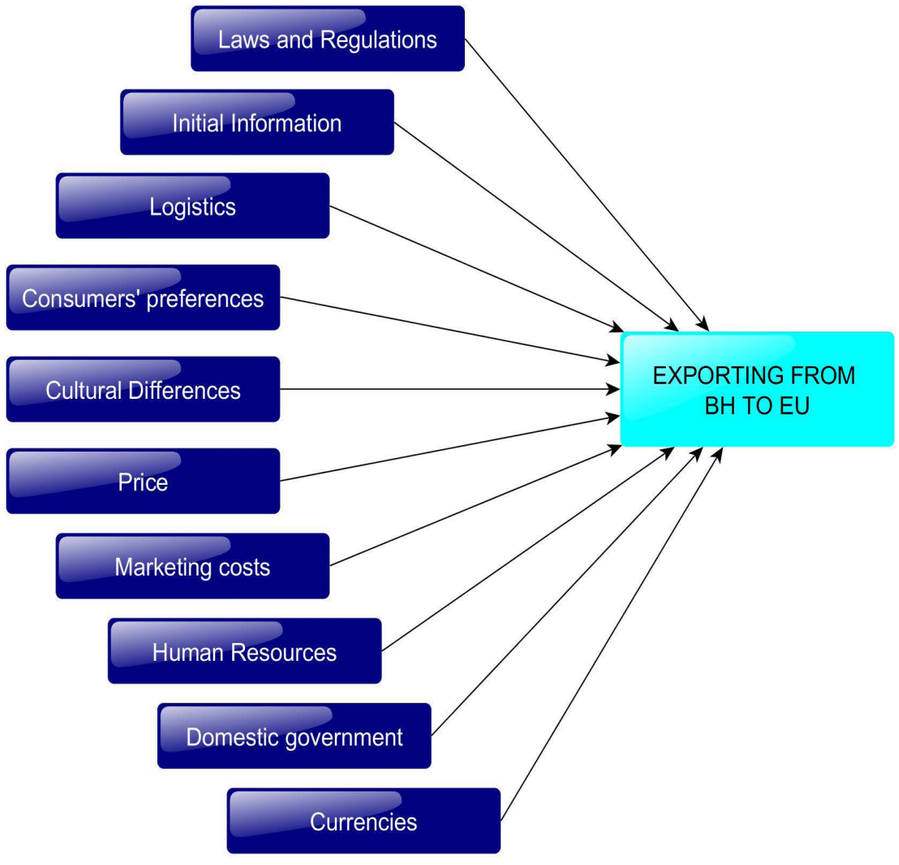


Figure 1. Proposed model

Results

In total, twelve companies participated in the study. Mainly, Top Management representatives and Export Managers were interviewed on behalf of the company. Data was gathered in a period of one month and the response rate of contacted companies was very satisfactory for this research.

Table 2. Information about companies' participants in this study

#	Company	Number of employees	The year of establishment	Experience until 2015 (in years)	Products manufactured
1	**Socks's Factory Ključ**	71	1896	119	Socks
2	**Vispak d.d. Visoko**	180	1972	43	Coffee, tea, spices, food supplements, chocolates, soups etc.
3	**Klas d.d.**	1300	1902	113	Bread, pasta, cakes, biscuits, flour etc.
4	**AS d.o.o. Jelah**	200	1996	19	Biscuits, sweets and many other food products.
5	**Kent**	100	2007*	8	Biscuits, chocolate spread etc.
6	**Oaza d.o.o**	5	2013*	2	Water, mineral water.
7	**Atlas Trading d.o.o.**	32	1996	19	Food products
8	**Euro Food d.o.o.**	20	1996	19	Food products
9	**Hepok d.d.**	300	1856	159	Drinks and spreads
10	**Milkos d.d. Sarajevo Dairy**	97	1953	62	Milk and food products based on milk
11	**Mondo Commerce d.o.o.**	42	1997	18	Packages for food products
12	**Brovis d.d. Visoko**	450	2005	10	Eggs, chicken, chicken based products
11	**TOTAL**	2797	-	591	-

In the following table there will be presented summary of all results.

TABLE 4.2. Detailed review of responses by all companies participated in this research

DO FOLLOWING FACTORS PRESENT A BARRIER FOR YOUR COMPANY'S EXPORT TO EU?	Company 1	Company 2	Company 3	Company 4	Company 5	Company 6	Company 7	Company 8	Company 9	Company 10	Company 11	Company 12	TOTAL	
													YES	NO
Laws and regulations	YES	YES	YES	YES	YES	YES	YES	YES	NO	YES	YES	YES	11	1
Lack of initial information	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	6	6
Logistics related issues	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0	12
Consumer preferences	NO	YES	YES	YES	YES	YES	YES	YES	NO	YES	YES	NO	9	3
Cultural differences	YES	YES	NO	YES	NO	YES	NO	YES	YES	YES	NO	NO	7	5

Price	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	YES	2	10
Marketing costs	YES	NO	NO	NO	NO	NO	YES	NO	YES	NO	NO	NO	3	9
Human resources	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0	12
Domestic government	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	YES	7	5
Different currencies	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	0	12

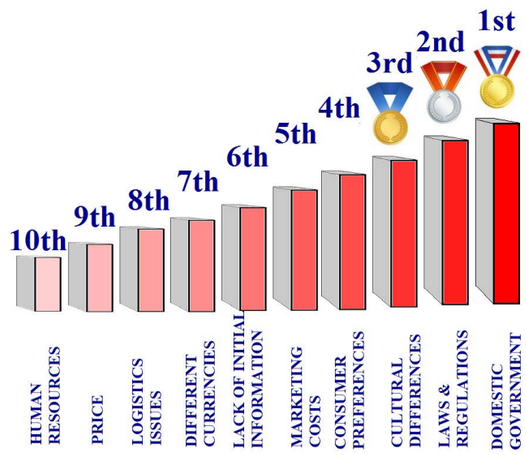
Summary of main findings is presented in the table 3 located below.

TABLE 3. Summary of results

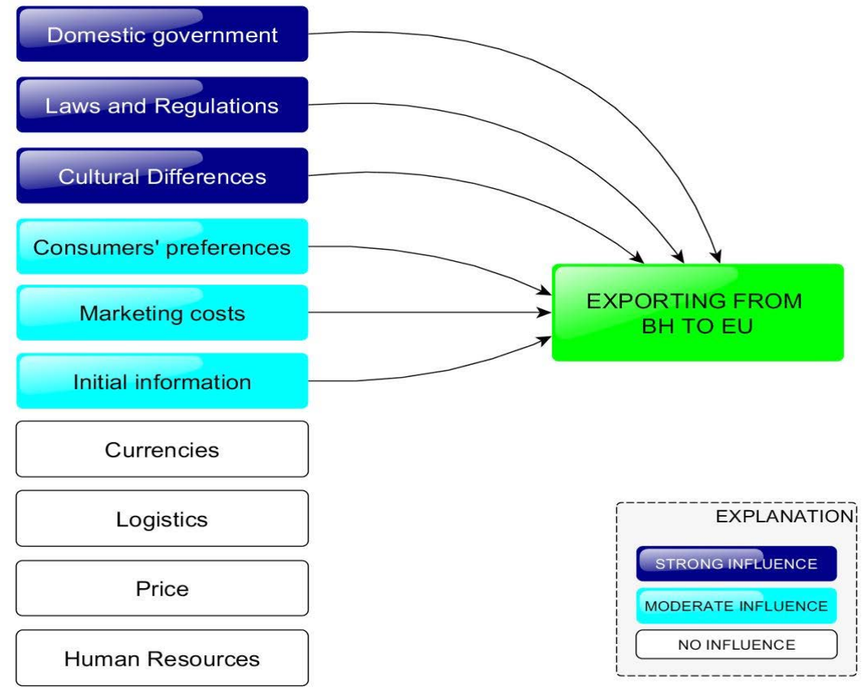
VARIABLES	YES	NO
Laws and regulations	11	1
Lack of initial information	6	6
Logistics related issues	0	12
Consumer preferences	9	3
Cultural differences	7	5
Price	2	10
Marketing costs	3	9
Human resources	0	12
Domestic government	7	5
Different currencies	0	12

The final question for all interviewees was to prioritize (rank) all mentioned barriers accordingly: 1 - Biggest barrier; 10 – lowest barrier. All twelve companies conducted ranking of barriers according to their experience and opinion. Once all data were inputted into excel sheet, average value has been calculated for each variable individually. On the basis of calculated average values, variables are ranked from 1 to 10 (1 – biggest barrier; 10 – lowest barrier). The calculations as well as overall ranking are presented in the figure below.

Figure 2. Summary of results



Under methodology part, research model has been proposed for his study. After analyzing the results and getting important insights into all ten tested variables as potential barriers to export by manufacturing companies of Bosnia and Herzegovina to EU countries, new revised version of model has been prepared and presented in the following figure.



Conclusion

Exporting as a form of international activities has becoming more and more important for the countries in the region therefore for BH as well. However we are witnessing different obstacles that domestic companies are experiencing. This research was conducted in the form of structured interview where managers or export professionals of twelve manufacturing companies were interviewed. Results showed that out of ten barriers identified in the literature, three are ranked as highest to all of the interviewees. Those are weak initiative of domestic government, demanding laws and regulations and cultural differences that our exporters are experiencing when selling their products abroad.

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Use of Customer Relationship Management (CRM) to achieve marketing goals in companies from Bosnia and Herzegovina

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ABSTRACT

The purpose of this paper is to explore the usage of CRM systems by different companies in Bosnia and Herzegovina, and effects which they have on the implementation of marketing strategies. Although there is significant potential for economic growth in the tourism, food production and several other industries, Bosnia and Herzegovina is currently faced with intolerable levels of unemployment. It is completely incomprehensible that domestic firms are losing market share even in generic products (eg. bottled water). The reason for this can be found in poor management corresponding to the customer needs. To what extent firms in Bosnia and Herzegovina are using advanced technologies to attract new customers and to increase satisfaction of existing ones? Customer Relationship Management in this region is still in its infancy although in different forms has been used worldwide for several decades and it has become an indispensable tool utilized by marketers to enhance their marketing activities. The overall process of globalization sets new standards for business so if certain company wants to stay in the game and reach advantage over competitors, it is necessary to establish a system that can guide. CRM technology, among other things allows us to provide customers with higher quality services and more effective communication. This paper seeks to present through the prism of direct users the advantages and possible disadvantages of CRM solutions since on the IT market there is range of different application support.

Keywords*: customer relationship management, unemployment, marketing strategies, customer needs, CRM technology*

Introduction

Globalization and comprehensive computerization in all areas of society has led to the establishment of some new business rules and requirements especially when comes to marketing and customer relationship. To succeed in any industry today it is obligatory for companies to deeply understand and meet customer needs and thus have higher insight into what actions are required for efficient and effective performance on the market. Customer Relationship Management (CRM) may be a great way to urge closer to that goal. „CRM is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit"(Buttle, 2009, pg.15). Although there is a dilemma whether the term CRM is only for IT solutions or for the overall processes of managing the relationship with customers, it ought to be emphasized that the acquisition and retention of profitable customers are often reached by development of strategically targeted relationship with them through the opportunities afforded by advances in information technologies. It is an integrated approach specializing in client retention and relationship development. „Companies today can seek to improve their customer management by utilizing a range of database, data mart and data warehouse technologies, as well as a growing number of CRM applications." (Payne, 2005, pg.5)

Relationship Marketing and CRM

In contemporary marketing practice Customer Relationship Management is seen as an excellent marketing discipline with the mission of establishing a long-term relationship between the company and customers through which both sides win better value. "The core theme of CRM and relationship marketing perspectives revolves around its focus on individual buyer-seller relationships, that these relationships are longitudinal in nature and that both parties benefit in the relationship established"(Sin, Tse, Yim, 2005). CRM relies on the principles of relationship marketing (Payne, 2005) so for understanding of its evolution is helpful to have a look at the development of marketing as such from industrial to information age considering "changes in market demand and competitive intensity that have led to a shift from transaction marketing to relationship marketing". A various marketing concepts were recognized over time:

- **Production orientation** which dominated business from beginning of the industrialization and capitalism maximize profit focusing to costs reduce through mass production.
- **Product orientation** is based on believes that a superior product automatically attract customers.

- **Sales orientation** assumes that companies without relevant research offer the market what they think are needs or likes of the customer
- **Marketing orientation** implies concept which implements marketing strategy based on market research from product development through to product sales (marketing mix '4Ps' of product, price, promotion and place). Over time, this concept is developing into a separate economic discipline that implied different approaches and also the one which is called **relationship marketing.**

"In the early 1990s Philip Kotler, professor at Northwestern University, proposed a new view of organizational performance and success based on relationships, whereby the traditional marketing approach – based on the marketing mix – is not replaced, but is instead 'repositioned'" (Payne, 2005). Relations with customers have become key issues for achieving competitive advantage. Clients today are better informed about the quality and price, and are more inclined to end the use of services or product if their demands are not met adequately. Therefore it is necessary for marketers to observe these specific features and adopt CRM system that will facilitate decision-making process.

CRM Technologies

Adoption of CRM involves utilization of appropriate information technologies, hardware and software solutions tailored to the specific nature of serving clients. It helps staff at all contact points to serve customers better. Databases, data warehouses, data mining, "cloud computing" and CRM software systems enable firms to provide greater customization with better quality at lower cost. IT market offers a variety of applications which basically include management and automation of sales process; management and automation of marketing and marketing campaigns; then management and automation of customer service.

Problem discussion and research purpose

This study is mainly concentrated on the service sector that according to the world trends can be a generator of job creation and overall economic growth for Bosnia and Herzegovina. Are companies in Bosnia and Herzegovina able to sufficiently implement the strategies to which they adhere? Do they put enough focus on the customer or they think too much from a position of self-interest (Peelen, 2005).Customer Relationship Management in this region is still in its infancy although in different forms has been used worldwide for several decades and it has become an indispensable tool utilized by marketers to enhance their marketing activities. The main purpose of this study is to analyze to what extent firms in Bosnia and Herzegovina are using advanced technologies to attract new customers and to increase satisfaction of existing ones? It will be answered through descriptive research of CRM practices furthermore as making recommendations for their improvement. The objectives posed are:

1. Determine whether or not the observed companies oriented to CRM and to what extent.
2. Identify the company's commitment to customers and their needs.
3. Establishment of organizational structure that supports CRM.
4. Direct the management of acquisition and dissemination of knowledge within the company in a manner that helps implementation of CRM strategy
5. Adoption of technology-based practices in achieving long-term relationship with customers and their loyalty

Methodology and Data analysis

This research is more descriptive by its nature, therefore does not belong entirely to the definition of either quantitative or qualitative research methodologies, but uses elements of each. The purpose of descriptive research, according to Polit & Hungler (1999) is to observe, describe and document aspects of a situation as it naturally occurs. In this case observation, description and documentation of different dimensions of CRM usage among the companies in Bosnia and Herzegovina is achieved through an online survey and interviews with managers and staff that are directly related to customer relationship management. The research population consists of Marketing and IT managers as well as Customer Relations officers. Because most of companies do not have a separate department for customers' relations, the target group of this research has been principally recognized in the Marketing and IT Department. The obtained sample was derived from the population to the extent that it can display the field of research in a representative manner.

To collect data for this study the questionnaire was designed to examine the objectives set through four dimensions of CRM (**Key customers focus, CRM organization, Knowledge Management and Technology-based CRM)** plus **Demographics**. The questionnaire was expanded and translated questionnaire originally developed by Sin, Tse and Yim in 2005, extended to include a number of additional issues which are related to the very qualitative side of CRM

applications usage. The main four sections contained 18 five-point scale questionnaire items and additional 5 queries with text boxes for open response. The questionnaire form was created over the Google Docs application and adjusted in a way that would allow easier understanding and filling out. Link to this survey is submitted to the e-mail addresses of targeted groups as well as through personal contacts.

Survey response data were stored in the form of Excel-spreadsheet and then used in individual data correlations, grouped as needed for better understanding the observed CRM practices. Records of interviews were also arranged in a way that would complement the comparative section through the observed dimensions of CRM.

Results and conclusions

The survey covered 10 representative companies where customer relationship management plays a major role in achieving competitive capabilities. There are mostly service companies to telecom operators, banks, insurance companies and even the FMCG and retail trade. Sample structure is composed mainly of persons with managerial positions of Chief Sales Representatives, Chief Marketing Officers, CRM Managers, and Brand Managers. Demographic data of respondents are presented in the following graphs.

Although the size of the collected sample is not sufficient for complex quantitative statistical analysis, quality of answers makes this study successful in terms of understanding the current practice of customer relationship management as well as the use of CRM applications among companies in Bosnia and Herzegovina. To answer the basic question of the study to what extent companies in Bosnia and Herzegovina are CRM oriented we will come through the analysis of the responses each of the four dimensions of CRM.

Key customer focus

Most respondents, except one from the banking sector, declared that their companies have a focus on customers. They confirmed constant contact with key customers in order to determine their needs and therefore offer required customization of products and services.

Key customer focus *source: Sin,Tse and Yim (2005)*	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
1) Through ongoing dialogue, we work with individual key customers to customize our offerings.		10%	20%	30%	40%
(2) My organization provides customized services and products to our key customers.		10%		80%	10%
(3) My organization makes an effort to find out our key customer needs.		10%		60%	30%
(4) When my organization finds that customers would like to modify a product/service, the departments involved make coordinated efforts to do so.		10%	10%	70%	10%

What is referred to as an evident weakness in this process is the lack of involvement and coordination of different departments. The overall impression is that there is enormous potential in focusing on the customers and that the observed companies have not properly take advantage of this due to its value in the design and realization of marketing strategies.

CRM organization

When it comes to an organization that supports CRM, it is important to note that among all the companies interviewed only a few have a separate CRM department and those are big companies in the telecommunications, banking and insurance.

CRM organization *source: Sin,Tse and Yim (2005)*	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
(5) My organization has the sales and marketing expertise and resources to succeed in CRM.		10%	10%	60%	20%
(6) Our employee training programs are designed to develop the skills required for acquiring and deepening customer relationships.		20%	20%	50%	10%
(7) My organization has established clear business goals related to customer acquisition, development, retention, and reactivation.		10%	30%	40%	20%
(8) Employee performance is measured and rewarded based on meeting customer needs and on successfully serving the customer.		20%	50%	20%	10%
(9) Our organizational structure is meticulously designed around our customers.		10%	40%	40%	10%

We have a situation where on the one hand, only a few companies have full organizational structure focused on building strong relationships with customers, while the other companies are totally negligent in terms of CRM organization. So fundamental changes are needed in the way that firms are organized (Ryals and Knox, 2001)

Knowledge management

According to the results presented in the following table more than 60% companies have the knowledge management for fully understanding the client's needs. These include channels for two-way communication and prompt services that are required.

Knowledge management *source: Sin,Tse and Yim (2005)*	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
(10) My organization's employees are willing to help customers in a responsive manner.		10%	10%	70%	10%
(11 My organization fully understands the needs of our key customers via knowledge leaning.		10%	30%	50%	10%
(12) My organization provides channels to enable ongoing, two-way communication with our key customers and us.		20%	10%	40%	30%
(13) Customers can expect prompt service from employees of my organization.		10%	20%	40%	30%

When it comes to specific categories of business there is some deviation from that. Uncertainty in knowledge management within the banking sector is significant, although due to the instability of clients in this sector a perfect approach is a required for the purpose of their retention. FMCG and Retail also have some deviations, which leaves room for future development and improvement of marketing strategies.

Technology-based CRM

Using CRM applications and advanced technology for customer relationship management among Bosnian companies is not at satisfactory level. It is very surprising discovery that some banks do not use any software solution for customer relationship management.

Technology-based CRM *source: Sin,Tse and Yim (2005)*	Strongly disagree	Disagree	Neither disagree nor agree	Agree	Strongly agree
(14) My organization has the right technical personnel to provide technical support for the utilization of computer technology in building customer relationships.	10%	20%	10%	50%	10%
(15) My organization has the right software to serve our customers.	10%	30%	20%	40%	
(16) My organization has the right hardware to serve our customers.	10%	10%	30%	50%	
(17) Individual customer information is available at every point of contact.	20%		50%	20%	10%
(18) My organization maintains a comprehensive database of our customers.	10%	20%	20%	40%	10%

As we can read from the table only half of respondents believe that their company has the necessary technical staff to support the computer technology associated with CRM. More than half of respondents believe that their company does not have the necessary hardware and software to support CRM. Only 30% of respondents believe that their company has customer information at every point of contact, while 50% confirm that their organizations maintain a comprehensive database of their customers. Only two companies have reported that they use the "cloud technology", and one to consider that possibility. Organizations that have a CRM application in use are mainly oriented towards branded solutions such as Oracle or SAP, where Oracle has an advantage.

The functions mainly used by CRM users are: setting of consumers' preference according to purchases, sales monitoring through database, collection of information about consumers and service improving, development of customer database in order to monitor customer satisfaction.

The main obstacles in the implementation of the CRM system are listed: lack of awareness of management in the importance of CRM, lack of trained staff in regard to understanding the real needs of the client, reluctance to constantly update information, acceptance by employees, adapting to changes in the short term. Interviewees saw the possibilities for enhancing the CRM by involving a larger number of employees in call centers, the establishment of specialized software for CRM as well as in constant joint training and education of users and customers with the aim of facilitating the acceptance of activities through CRM, and pointing out the advantages of long-term CRM usage.

Conclusion and implications for future research

In conclusion it can be determine that the companies in Bosnia and Herzegovina are not entirely CRM oriented, especially when it comes to adopting new technologies and establishing the organization which supports building of relationship with customers on mutual benefits. Given that this is a relatively small sample of those who are aware of the necessity for CRM in the daily operations of companies in Bosnia and Herzegovina also leads to the conclusion that the situation in this area is significantly worse. It is expected in the future to do a deeper analysis of the CRM practice that will include a larger number of companies since the adoption of new technologies and modern approaches in marketing and business development in general is an imperative.

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Smartphones' Utilization in Managerial Practices of SMEs in Sarajevo Canton Area

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ABSTRACT

Main objective of this study is to identify factors that influence adoption of smartphones by managers in small and medium sized enterprises (SMEs) of Sarajevo Canton area. On the basis of literature review, six independent and one dependent variable have been identified, and specific measuring items were developed accordingly. Structured survey was prepared on the basis of mentioned measuring items to measure related variables, and it was used as main instrument in this study. Survey has been sent in online form to managers working in SMEs of Sarajevo Canton area via e-mail and social networks. Out of 200 managers who received the survey, 148 respondents completed it which gives response rate of 74%. Responses were analyzed using descriptive statistics in excel, but main methodology was regression analysis using SPSS. The findings indicated that there is a significant positive relationship between Perceived Usefulness (PU), Product Price (PP) and Social Influence (SI) on Purchase Behavior (PB). On the other hand, there is no relationship between Perceived Ease of Use (PEoU), Brand Name (BN), Dependency (D) and PB. The most significant positive relationship was between SI and PB, but still there is significant effect of PU and PP. Limitation of this study is not very high Adjusted R Square since model used in this study explains 52,3 % of variance in PB considering mentioned independent variables. Also, research is completed in one canton of the country and limited to managers of SMEs. It is suggested for future research to test more different independent variables and do the research in all cantons of Federation of Bosnia and Herzegovina, entity Republic Srpska and District Brčko. Also, it is suggested to focus on other target groups beside managers.

Key words: Smartphone, Adoption, Utilization, Managers.

Introduction

Lack of domestic literature regarding smartphones utilization by citizens of Bosnia and Herzegovina, along with increase of number of smartphones' users especially managers who are using them on a daily basis in their business life, resulted in a need for researching and writing more about this important issue. Main purpose of this work is to find out what is it that influences managers of SMEs in Sarajevo Canton Area to buy a smartphone, and how strong those influencing factors are.

The primary objective of this study is to identify the factors that influence managers of SMEs in Sarajevo Canton Area while buying a smartphone. In other words, main objective is to test relationship between Purchase Behavior as dependent variable, and six independent variables as follows: Perceived Usefulness (PU), Perceived Ease of Use (PEoU), Brand Name (BN), Product Price (PP), Social Influence (SI) and Dependency (D). The secondary objective of this study is to descriptively present difference among opinions regarding smartphones of managers of different age groups, genders and education levels.

Based on seven variables, measuring items and survey questions were created. Target population was comprised of managers working in SMEs of Sarajevo Canton Area. Response rate of 74% was good enough to generalize data in the level of Sarajevo Canton area. Once the results were collected, regression analysis via SPSS has been used to determine the relationships among variables. In the same time, for purpose of conducting descriptive analysis, Excel has been used.

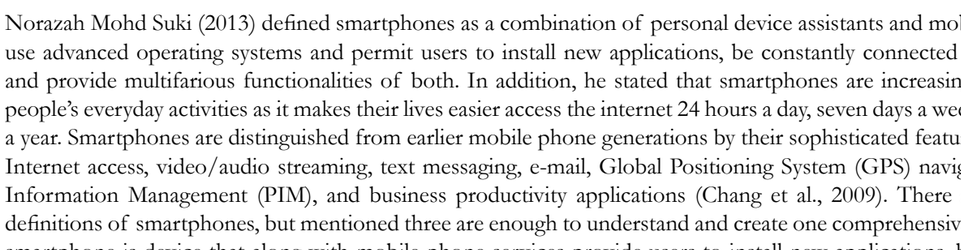
Literature review

According to Dong-Hee Shin (2012), a smart device is an electronic device that is cordless, mobile, always connected and is capable of voice and video communication, internet browsing, geo-location and that can operate to some extent autonomously. Smartphones are now more than just a mobile telephone and they are indeed not only a cultural artifact, but an extension of their users' social status. He mentioned iPhone as example (Dong-Hee Shin, 2012).

Norazah Mohd Suki (2013) defined smartphones as a combination of personal device assistants and mobile phones that use advanced operating systems and permit users to install new applications, be constantly connected to the internet, and provide multifarious functionalities of both. In addition, he stated that smartphones are increasingly entwined in people's everyday activities as it makes their lives easier access the internet 24 hours a day, seven days a week, and 365 days a year. Smartphones are distinguished from earlier mobile phone generations by their sophisticated features that support Internet access, video/audio streaming, text messaging, e-mail, Global Positioning System (GPS) navigation, Personal Information Management (PIM), and business productivity applications (Chang et al., 2009). There are many other definitions of smartphones, but mentioned three are enough to understand and create one comprehensive definition that smartphone is device that along with mobile phone services provide users to install new applications, be connected to internet, store their multimedia files, use social networks, use GPS services etc.

Dong-Hee Shin (2012) emphasized that smartphone popularity has been increasing dramatically with the advent of the 3G iPhone and the 4G iPhone, and that there has been a dramatic shift in mobile phone culture as smartphones continue to redefine traditional phone use. He added that since their introduction in 2009, sales of smartphones have increased annually. According to reports of Verkasalo and his colleagues (2010), 45,5 million of people were smartphone owners at that period of time. Ana Paula Borges Luiz Antonio Joia (2013) reported that in 2011, smartphones were used by nearly 100 million people worldwide. Going more in the future with the literature, Chetan-Sharma (2013) reported that in late 2012, smartphones counted more than 50 percent of mobile phones in USA and accounted for more than 75 percent sold. At that point of time, the average number of mobile devices per household was five and over 6 percent of households had 15 or more devices. According to Emarketer (2015), there was 1,31 billion smartphone users in 2013, 1,64 billion users in 2014 year, 1,91 billion smartphone users in 2015, and according to forecasts, it is expected that in 2016, there will be even 2,16 billion smartphone users all around the world. As the market has been developing, number of smartphones' producers was increasing over time. Accordingly, there are many different smartphone producers nowadays such are: Samsung, Apple, Microsoft, Nokia, Sony, LG, HTC, Motorola, Huawei, Lenovo, Xiaomi, Acer, Asus, Oppo, BlackBerry, Alcatel, ZTE etc. (Gsmarena, 2015).

Even though different authors conducted various studies considering various aspects of smartphones, in the following part of this literature review section, the attention will be on those articles that were most significant for this study.



When speaking about adoption and utilization of any kind of technology, it is impossible to not mention Davis (1989) and his Technology Acceptance Model (TAM). The whole TAM is about relationship between Perceived Usefulness and Perceived Ease of Use in one side, and User Acceptance of Information Technology on another side. Two variables from this model were tested in this study in terms of their influence of Purchase Behavior.

FIGURE 1: Technology Acceptance Model (Davis, 1989)

Dong-Hee Shin (2012) explored relations between usability and aesthetic values to clarify what values users place on aesthetic design as compared to usability and he compared the results across cultures. Reults indicated the importance of both usability and aesthetic values. Norazah Mohd Suki (2013) examined structural relationships of product features, brand name, product price and social influence with demand for Smartphones among Malaysian students. Results indicated that brand name and social influence have an effect on the increasing demand for Smartphones among Malaysian students. Brand name was more influential factor compared to social influence. Ding Hooi Ting, Suet Fong Lim, Tanusina Siuly Patanmacia, Ca Gie Low and Gay Chuan Ker (2011) researched dependancy on smartphone and the impact on purchase behavior. More accurately said, he investigated the effect of convenience, social needs and social influences on university students' dependancy towards smartphones and the impact on purchase behavior. His results indicated that university students' dependency on smartphones is influenced by convenience, social needs and social influences and dependency is positively related with future purchase behaviour. In addition to mentioned literature, it is important to mention that two authors, Ilyas and Ahson (2006) provided great contribution for this study with their book in which they reported all important information regarding smartphones at that point in time. They analysed new technology of smartphones in great detail, discussed relevant solutions for eventual problems and challenges that are in front. They also provided case studies on how smartphones enhance user productivity and encourage deployment of user. How fat the smartphone technology goes, the one can witness from article written by Lis Neubeck, Nicole Lowres, Emelia J. Benjamin, S. Ben Freedman, Genevieve Coorey and Julie Redfern (2015). These authors are providing an interesting approach to prevention of cardiovascular diseases, a smartphone. Authors presented overview of the current literature on mobile technology as it relates to prevention and management of cardiovascular diseases. It is important to mention that there are negative opinions about smartphones in literature as well. Accordingly, Nathaniel Barr, Gordon Pennycook, Jennifer A. Stolz and Jonathan A. Fugelsang (2015) emphasized negative consequences of smartphones for human beings. They stated that letting our smartphones thinking instead of us thinking may have really bad results in the end.

In the end of literature review section, the one can conclude that smartphones have both, pros and cons for the society, but still they are important and inseparable part of our daily both, private and business lifes. On the basis of several important influencing factors mentioned in this section, as a main result of this literature review, model presented in Figure 2 has been prepared.

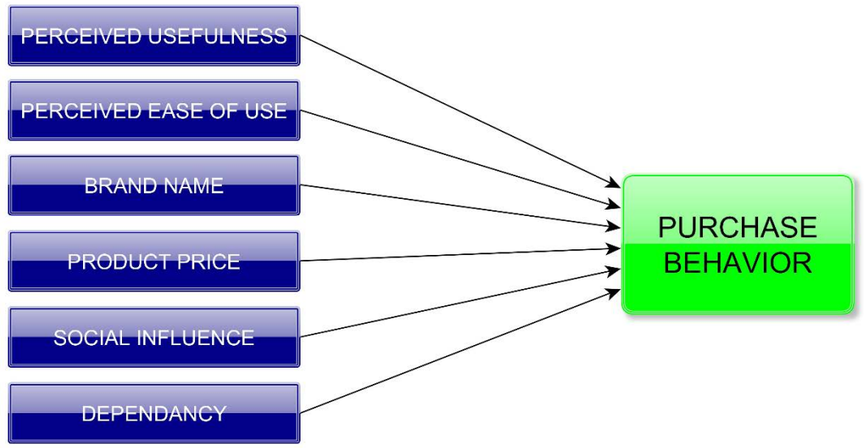


FIGURE 2: Model proposed for this study on the basis of literature review

Research methodology

Structured survey prepared for this research has been prepared on the basis of seven variables. It is divided into eight sections: Demographics, Perceived Usefulness, Perceived Ease of Use, Brand Name, Product Price, Social Influence, Dependency and Purchase Behavior. These mentioned eight sections could be grouped into three broader parts. First part of survey includes demographical questions that are prepared with aim to learn more about characteristics of respondents. This enables comparative analysis of the results per different groups of respondents (for ex. respondents of males vs. females). Second part of the survey are questions measuring six independent variables: Demographics, Perceived Usefulness, Perceived Ease of Use, Brand Name, Product Price, Social Influence and Dependency. Third part of the survey are questions measuring dependent variable, Purchase Behavior. All these parts of the survey will be explained in the following sections of this study.

Demographics

In order to prove that relevant people were interviewed on behalf of their institutions which are sample of this research, information about few important demographic characteristics was taken from respondents. Those information are department (unit) in which respondents work, their current position in the department (unit), experience expressed in number of years, highest education level of respondents, gender and age group. Questions used in this part of survey are as follows:

- Your department / unit: _____
- Your current position / role in the department / unit: _____
- How long have you been in current position / role: _____
- Your highest education level: (Alternatives offered as answer are: Doctorate, Master, Undergraduate, Other: _____)
- Gender: (Alternatives offered as answer are: Male, Female)
- Age: (Alternatives offered as answer are: ≤30, 31-40, 41-50, 51-60, ≥61).

Measuring Independent Variables

After conducting a comprehensive literature review by covering books, journal articles and articles published in conference proceedings, magazine articles etc., six independent variables, twenty two measuring items and twenty two questions were identified and prepared. All variables, measuring items and questions are presented in Table 2. Survey has been prepared in an online form using Google Forms, and it was prepared in both English and Bosnian language. The survey links were sent to two hundreds of potential respondents, managers of SMEs in Sarajevo Canton area. Response rate was good, and survey results were collected in quite short period of time. This means that response rate of 74 % was satisfactory enough to generalize data in the level of Sarajevo Canton area. Target sample for this study was consisted of managers employed in SMEs of Sarajevo Canton area. Out of two hundreds emailed potential respondents, 148 of them replied to survey which leads to response rate of 74%. When it comes to reliability of the survey, reliability test has been performed after collecting the data. Results of reliability test indicated that survey is completely reliable instrument for this study due to fact that Cronbach's Alpha value was 0,834 which is higher than 0, 7. Table below is extraction of reliability test completed using SPSS.

Table 1: Reliability test

Reliability Statistics

Cronbach's Alpha	N of Items
.834	30

Table 2: Review of Variables, Items and Survey Questions from Part Two

VARIABLES, ITEMS AND SURVEY QUESTIONS					
#	**Variable**	**Measuring Items**	**#**	**Survey Questions**	**Adapted from**
1	Perceived Usefulness (PU)	Perceived Usefulness	1	I perceive smartphone's services as useful	Davis (1989); Dong-Hee Shin (2012)
		Functionality	2	I perceive smartphone's services as practical and functional	
2	Perceived Ease of Use (PEoU)	Eease and clarity	3	In my opinion, smartphones provide feeling that interface design and information delivery are both, clear and easy to understand	Davis (1989); Dong-Hee Shin (2012)
		Ease of handling	4	I perceive smartphones as devices easy to handle when I encounter problems	
3	Brand name	Recognition	5	I prefer to buy an internationally well known & recognized smartphone	Norazah Mohd Suki (2013)
		Security & Trust	6	I prefer to buy a brand of smartphone which is secure and trustworthy	
		Name	7	When buying a smartphone, brand name is a decisive factor for me	
4	Product price	High price	8	I am willing to buy a smartphone regardless of its high price	Norazah Mohd Suki (2013)
		Discounts	9	I will only buy a smartphone during a discount period	
		Expense	10	I think that using smartphone is luxuary for me	
		Price as main driver	11	Price is my main consideration when deciding whether to buy a smartphone	

5	Social influence	Smartphones' usage by family and friends	12	Almost all of my friends and family members are smartphone users	Norazah Mohd Suki (2013)
		Family and friends' perception	13	My friends and family members are of opinion that we should all use smartphones	
		Surrounding	14	People in my surrounding have encouraged me to use smartphone	
		Friends' preferences	15	It is important that my friends like and favor the brand of smartphone I'm using	Ding Hooi Ting et al, (2011)
		Family and friends' pressure	16	The pressure from friends and family is the reason for me to buy smartphone	
		Supporting socialization	17	I would buy a smartphone if it enables me fit in with my social group better	
6	Dependancy	Usage intensity	18	Usage of smartphone is high in my daily life	Ding Hooi Ting et al, (2011)
		Feeling of insecurity	19	I would feel insecure if my smartphone is not with me	
		Using for job	20	I always use smartphone when dealing with my job	
		Reliance	21	I cannot do anything regarding my job without the smartphone	
		Total dependence	22	I'm totally depending on my smartphone	
7	Purchase behavior	Satisfaction	23	In general, I'm satisfied with my smartphone experience	Ding Hooi Ting et al, (2011)
		Experience	24	Overall, my positive experience outweighs my negative experience with smartphone	
		Future usage	25	I intend to continue and increase usage of smartphone in the future	
		Improved purchase	26	I intend to have a better purchase of smartphone in the future from my experience	
		Intention to use	27	I intend to continue using smartphone even though if there is new mobile phone in the market	Norazah Mohd Suki (2013)
		E-commerce	28	I intend to use smartphone purpose of e-commerce	
		Details	29	I will learn more details about smartphones	
		Recommending	30	I intend to recommend and suggest others to use smartphone	

Hypothesis are defined as presented in Table 3.

Table 3: Hypothesis Review

Hypothesis
H1: Smartphones' Perceived usefulness positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.
H2: Smartphones' Perceived Ease of Use positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.
H3: Smartphones' Brand Name positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.
H4: Smartphones' Product Price positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.
H5: Social influence positively affects Purchase behavior of Managers in SMEs of Sarajevo Canton area
H6: Dependancy on Smartphones positively affects Purchase behavior of Managers in SMEs of Sarajevo Canton area.

Regression (linear and non linear) refers to a technique used for the modelling and analysis of numerical data. Regression can be used for prediction (including forecasting of time-series data), inference, hypothesis testing, and modelling of causal relationships (MacDonald, S. & Headlam, N., 2015). Considering previously defined hypothesis as well as presented model generated on the basis of literature review leads to conclusion that the best possible option for this study when it comes to methodology selection is exactly Regression Analysis. This methodology will be used to identify relationships between independent and dependent variables as well as to measure the character of the relationship (positive / negative) and to calculate significance of the relationship. Once this is completed, it will be clear which hypothesis are accepted and which ones are going to be rejected.

Results

Demographics

When it comes to questions related to demographics, respondents were asked about their gender, age, education level, department/unit in which they are working, job position and years of experience. When it comes to gender of respondents, there was 99 males and 48 females which is equal to 66,7 % of males and 32,43 % of females. When it comes to age of respondents, most of them, even 52,7 % (78 respondents) are younger than 30 years. Second largest age group of this study's sample, 25 % (37 respondents) is from 31 to 40 years old. When it comes to remaining age groups, 11,49 % of respondents (17 respondents) belong to age group from 41 to 50 years old, while only 6,76 % of respondents (10 respondents) are from 51 to 60 years old. Education level of respondents was quite high. Most of them are graduates of first or second cycle of studies from some higher education institution. Even 62 of respondents which is 41,89 % of total sample size are having undergraduate degree, while 52 of them are having Master degree (35,14 % of total sample). When it comes to PhD, 17 respondents are with PhD which is 11,49% of samle size. Few respondents, 13 of them (8,78%) are without any higher education degree. When it comes to experience of respondents in their positions, most of them stated that they have five years of experience, even thirty one respondent. Twenty six respondents stated that they have two years of experience. Different positions of respondents within their departments / units were various which again enriched the sample and contributed to this study.

Main results

When it comes to model analysis, after calculations of SPSS, R Squared value of 0,543 indicated that the model describes 54,3% of the variance in dependent variable which is acceptable result for this study (See Table 4). Accordingly, Std. Error of the Estimate is 0,384937 which is again acceptable level meaning that there are still 38% of variables that could describe remaining variance in dependent variable (See Table __). This could be perceived as a limitation of this study and suggestion for all future researchers to consider more variables in order to have even higher R Squared value and lower Std. Error of the Estimate.

TABLE 4: Model Summary in SPSS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.737[a]	.543	.523	.384937	2.189

a. Predictors: (Constant), D, SI, PEOU, BN, PU, PP
b. Dependent Variable: PB

One more important value from Table 4 presented above is Durbin-Watson test. This value is 2,189 which leads to conclusion that there is no relation between the errors. When it comes to relevance of the proposed model considering its hypothesis, significance level alpha under ANOVA section, of the SPSS report indicated value of 0,000. Since significance level is below 0.05, this means that proposed model is accepted as relevant, and that remaining part of regression report can be used (see Table 5).

TABLE 5: ANOVA report from SPSS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.608	6	4.101	27.679	.000[a]
	Residual	20.745	140	.148		
	Total	45.353	146			

a. Predictors: (Constant), D, SI, PEOU, BN, PU, PP
b. Dependent Variable: PB

One more operation performed within regression was correlations testing among variables. Report on correlations is presented below in table 6. According to the results of correlations analysis in SPSS, there are two significant correlations among four variables. Before explaining the correlations, it is important to state that all correlations are positive ones, which means that by increasing value of one variable, increase in value of another one will occur. With the value of 0,739 the highest correlation is between independent variables, variable Product Price (PP) and Dependancy (D). Another significant correlation is between independent variable Social Influence (SI) and dependent one Purchase Behavior (PB). The correlation level is 0,702. All other correlations are presented in table 6 below.

TABLE 6: Correlations report from SPSS

Correlations

		PB	PU	PEOU	BN	PP	SI	D
Pearson Correlation	PB	1.000	.114	.087	.166	.288	.702	.278
	PU	.114	1.000	.350	.230	.218	.268	.332
	PEOU	.087	.350	1.000	.092	.184	.118	.257
	BN	.166	.230	.092	1.000	.186	.237	.365
	PP	.288	.218	.184	.186	1.000	.139	.739
	SI	.702	.268	.118	.237	.139	1.000	.221
	D	.278	.332	.257	.365	.739	.221	1.000
Sig. (1-tailed)	PB	.	.084	.147	.022	.000	.000	.000
	PU	.084	.	.000	.003	.004	.001	.000
	PEOU	.147	.000	.	.134	.013	.077	.001
	BN	.022	.003	.134	.	.012	.002	.000
	PP	.000	.004	.013	.012	.	.046	.000
	SI	.000	.001	.077	.002	.046	.	.004
	D	.000	.000	.001	.000	.000	.004	.
N	PB	147	147	147	147	147	147	147
	PU	147	147	147	147	147	147	147
	PEOU	147	147	147	147	147	147	147
	BN	147	147	147	147	147	147	147
	PP	147	147	147	147	147	147	147
	SI	147	147	147	147	147	147	147
	D	147	147	147	147	147	147	147

When it comes to coefficients, beta values, t values, significance level alpha values and colinearity statistics, table 7 reports all mentioned.

TABLE 7: Coefficients report from SPSS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	90,0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.564	.363		1.556	.122	-.036	1.165		
	PU	-.100	.053	-.123	-1.898	.060	-.188	-.013	.774	1.292
	PEOU	.005	.049	.007	.107	.915	-.076	.087	.854	1.171
	BN	-.015	.057	-.017	-.262	.793	-.110	.080	.820	1.220
	PP	.131	.054	.208	2.429	.016	.042	.221	.446	2.244
	SI	.798	.069	.706	11.636	.000	.684	.911	.888	1.126
	D	.009	.065	.014	.145	.885	-.098	.117	.376	2.659

a. Dependent Variable: PB

From table 7 presented above, considering values of significance level alpha, the conclusions about acceptance and rejection of hypothesis will be prepared. Before doing any conclusion, it is important to bear in mind that Confidence interval for this study is 90.0 % which means that all signifivance level alpha values lower than 0.1 will lead to acceptance of hypothesis. Accordingly, following conclusions can be generated. When it comes to influence of Perceived Usefulness (PU) on Purchase Behavior (PB), significance level alpha value of 0,060 indicated that hypothesis one is accepted. In other words, positive relationship exists between PU and PB. When it comes to relationship between Percieved Ease of Use (PeoU) and Purchase Behavior (PB), significance level alpha value of 0,915 indicated hypothesis two is rejected. In other words, there is no relationship between PEoU and PB. Results regarding relationship between Brand Name (BN) and Purchase Behavior (PB) indicated significance level alpha value of 0,793 which leads to rejection of hypothesis three. In other words, there is no relationship between BN and PB. Results regarding relationship between Product Price (PP) and Purchase Behavior (PB) indicated significance level alpha value of 0,016 which leads to acceptance of hypothesis four. In other words, there is positive relationship between PP and PB. When it comes to relationship between Social Influence (SI) and Purchase Behavior (PB), significance level alpha value of 0,000 indicated that hypothesis five is accepted. In other words, there is positive relationship between SI and PB. Results regarding relationship between Dependancy (D) and Purchase Behavior (PB) indicated significance level alpha value of 0,885 which leads to rejection of hypothesis six. In other words, there is no relationship between D and PB. To summarize, there are three accepted and three rejected hypothesis. While PU, PP and SI have positive relationship with PB, it appears that PEoU, BN and D have not relationship with PB.

Review of hypothesis acceptance is presented in table 8 below.

TABLE 8: Review of hypothesis' results

Hypothesis	Sig.	Status
H1: Smartphones' Perceived usefulness positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.	0.060	Accepted
H2: Smartphones' Perceived Ease of Use positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.	0.915	Rejected
H3: Smartphones' Brand Name positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.	0.793	Rejected
H4: Smartphones' Product Price positively influence Purchase behavior of Managers in SMEs of Sarajevo Canton area.	0.016	Accepted
H5: Social influence positively affects Purchase behavior of Managers in SMEs of Sarajevo Canton area	0.000	Accepted
H6: Dependancy on Smartphones positively affects Purchase behavior of Managers in SMEs of Sarajevo Canton area.	0.885	Rejected

When it comes to distribution of data, according to results of SPSS, data is normally distributed with St. Deviation of 0,979. Data distribution is presented in histogram as a part of figure 3 below.

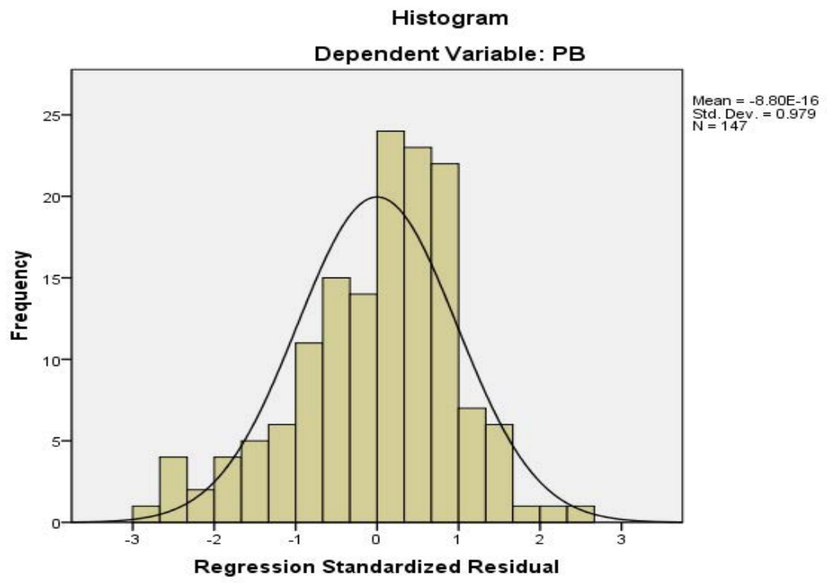


FIGURE 3: Distribution of data

Discussion and Conclusion

From results presented in detail in previous section of this study, when considering fact that none of the repondents had anything to add in terms of any additional suggestions and comments, the one can conclude that survey used as an instrument in this study was quite comprehensive. Results indicated that three hypothesis are accepted, and that three independent variables have influence on dependent one. More accurately said, Perceived Usefulness (PU), Product Price (PP) and Social Influence (SI) have positive relationship and influence on Purchase Behavior (PB). On the other hand, Perceived Ease of Use (PEoU), Brand Name (BN) and Dependancy (D) do not have relationship with Purchase Behavior (PB) of managers working in SMEs of Sarajevo Canton Area.

This is not surprising due to fact that the target sample are managers. There are many reasons to support mentioned relationships. If managers do not perceive device as useful, they would not buy it definitely. When it comes to product price, it is important to say that price is important factor for everyone while buying a smartphone. Even managers who are expected to have high income and who are usually buying powerful smartphones would like to buy a phone during the discounts. In addition, social and business circles that are using smartphones and surrounding the manager would definitely affect his decision making while buying a smartphone. Considering the fact that survey was conducted with response rate of 74%, and that even 148 managers working for SMEs in Sarajevo Canton Area were covered with the research, it is possible to freely say that the research was successful. Reason more to say this is fact that respondents, due to their high consumption of smartphones were highly confident to answer all questions of survey prepared for this study.

Main purpose of this work was to find out what is it that influences managers of SMEs in Sarajevo Canton Area to buy a smartphone, and how strong those influencing factors are. Lack of domestic literature regarding smartphones utilization by citizens of Bosnia and Herzegovina, along with increase of number of smartphones' users especially managers who are using them on a daily basis in their business life, resulted in a need for researching and writing more about this important issue.

This study is important not only because of already mentioned gap in literature, but because of understanding potential contribution of smartphones in managerial performance. In other words, this study is important not only for literature, but for real business life. Many different factors influencing Bosnian managers' utilization of smartphone

devices need to be considered in order to make this research beneficial for both theory and practice.

The primary objective of this study was to identify the factors that influence managers of SMEs in Sarajevo Canton Area while buying a smartphone. In other words, main objective is to test relationship between Purchase Behavior as dependent variable, and six independent variables as follows: Perceived Usefulness (PU), Perceived Ease of Use (PEoU), Brand Name (BN), Product Price (PP), Social Influence (SI) and Dependency (D). The secondary objective of this study is to descriptively present difference among opinions regarding smartphones of managers of different age groups, genders and education levels. Based on seven variables, measuring items and survey questions were created. Target population was comprised of managers working in SMEs of Sarajevo Canton Area. Response rate of 74% was good enough to generalize data in the level of Sarajevo Canton area.

Once the results were collected, reliability test of survey as an instrument has been completed. Chonrbach Alpha value was greated than 0.7 which indicated that the reliability of survey is satisfactory. After that, regression analysis via SPSS has been used to determine the relationships among variables. In the same time, for purpose of conducting descriptive analysis, Excel has been used. Results indicated that PU, PP and SI are having influence on PB while PEoU, BN and D do not affect PB. Results of descriptive statistics indicated that there are differences in opinions of males and females, opinions of young vs. old respondents and highly educated vs. those respondents with lower education level. Main limitation of this research is fact that it was focused on one canton, and it is suggested to conduct the same research in other cantons, entity Republic Srpska and District Brčko. Also, conducting comparative analysis of results per cantons, entities or other regions of B&H could be good proposal for future research. Also, it is suggested to add more factors that could influence purchase behavior, and to focus on other target groups, not only managers.

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Emotional Intelligence, being smart in another kind of way

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ABSTRACT:

History shows us a perfect desire of human kind to reveal the best relation between human and nature. What about the human to human relation? It is really interesting the way we look for what we need at each other's behavior, finding the exact emotional way to go ahead with a specific relationship. We tend to have different kind of relations constantly even though some of them do not work out. We act like that because of the emotional intelligence (EI). Do we use it in an efficient way? The answer of this question is the main problem of different societies now days. To better communicate, speak, and act, we need to know how to point out our best and worst emotional skills, in order to improve and use them efficiently to create an unbreakable bond between each other. The general scope of these problems relates to the whole population but specifically speaking, the highest emotional intelligence coefficient should be found at leading people since they are an example of inspiration and motivation. This paper aims to point out the importance of emotional intelligence in everyday life, especially in leading roles. Subject to this research are students since they are considered as the future of a nation. We want to discover how is the now days society acting upon their emotions through surveys and workshop training. By the end of this paper, we tend to make the reader reflect on how crucial it is to control his/her inner emotions.

Keywords: emotional intelligence, efficiency, relationship, problem, society, leadership

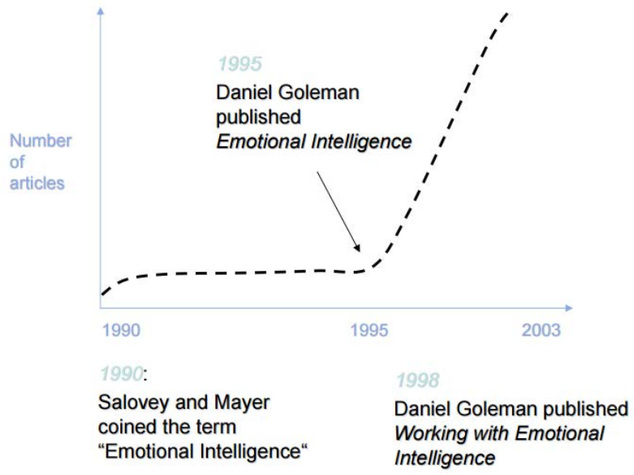
Introduction

Emotional Intelligence has been defined as the compilation of four kinds of skills: perceiving and expressing, understanding, using, and managing emotions. Considering the human nature, not being able to control your emotions can be normal in some kind of way. The question is: Is it normal to act in an inappropriate manner (not even thinking) before a critical situation? Some people say yes, some others say no. The main problem that people do not consider, especially youngsters is that emotions are their whole life in some pretty hidden behaviors. These behaviors include their social and professional development because it has crucial effect on everyday life such as using the emotions in critical thinking, efficiency improvement and inspiration. It gets straight to team working, easily resolving problems and efficient time and space management. These variables sustain the overall type of success you might have in the future. In order to get the best way of getting successful, we propose is that every university should offer training sessions to the freshman students related to emotional intelligence introducing to them the risks and opportunities they get from their normal behavior. The case is really delicate and it needs special attention from specialists since emotional intelligence is a new term in the business field.

The roots of the intelligence related to emotions can be traced to Charles Darvin's work on the role of emotional expression has on survival and adaption. Then social intelligence as a term was introduced by Edward Thorndike in 1930 followed by psychologist Howard Gardner who introduces the idea that IQ does not fully explain the cognitive ability and the performance outcomes in 1975. Years after it came up again as a term by an article published by John Mayer and Peter Solavey in 1990. The article was an inspiration to a professor named Daniel Goleman who took the initiative to start a whole new dimension of what is the main portion of being successful. He was eager to discover how the brain responds to different kind of situations. In 1990's the debate about the coefficient that made people successful and unbreakable, was Intelligence Quotient. Daniel Goleman popularized the concept of emotional intelligence leading to different scientific researches to understand the importance of self control versus the intelligence quotient. The term was distributed along many countries, religions and societies showing that people are flexible in accepting their emotions and trying to improve them.

The methodology used throughout the paper is:

1. Observation of students in universities, how they get along with social activities.
2. Workshops where students and not only were given emotional intelligence tests and got their answers how to improve it.
3. Statistical analysis made from scientists to observe how is brain behaving in front of cases which require critical thinking.



Why is emotional intelligence so important and current situation

To be smart is not enough. It has never been enough but in the recent years has been noticed that IQ alone cannot be successful as if it was combined with EI. To be intelligent is the ability to overcome fears and expectations we create in our everyday life. Going through different tasks and duties, one understands that having the IQ high is only one plus, not the whole deal. Taking control over feelings also in one of the greatest things a human being can do. If he/she controls his/herself they are capable to control the whole world. EI now days have a crucial impact on the professional life. You cannot archive anything without being able to distinct different issues and relations between people and situations. The results of the current situations are based on workshops done with different students around different universities. During the workshop they try to bring out their best and what they can do better between lot other things. In the very end of the workshop they are given a test where their EI quotient is calculated. Only those who have had experiences on working with different people, have a high quotient and high points because of the interactivity and self- management. Taking into consideration also the network you gain by including yourself in special activities where a lot of people are part of. They get to show you the best of their experiences and the chances you have in the job territory. We have seen that having just the school information on doing something it is not enough. In the vast majority of cases what we learn in school is the vice versa how it works in reality. This can be understood only if you gain the right network and relate with the appropriate people. What are the three key points on having an efficient Emotional Intelligence? Here we will try to answer these questions in different manners and examples.

Learning how to manage our emotions and other people's

To get away with one's feelings is quite easy but to deal with them is quite difficult. In order to get others people emotions in our hands, we first must be able to manage our own emotions and feelings. It means to clearly distinct what you are able to do without the influence of emotions included.

1. Using our feelings and emotions in decision making.

"People who are emotionally intelligent don't remove all emotions from their decision-making," Côté said in the statement. "They remove emotions that have nothing to do with the decision."

As the both sentences state, people who tend to make a really important decision, remove all their boundaries from the decision making process. This is because they know that the inner emotions can delay his/her superiority to get into different types of situations. Also he/she knows exactly that some fears and emotions can prevent the act of taking risks

in the future. Today, there is nothing that it can be done without taking any risks.

According to a study made by *Psychological Science*[1] decision making has a crucial importance on people who are highly emotional intelligent and they differ too much from people who do not tend to understand themselves first.

"People often make decisions that are influenced by emotions that have nothing to do with the decisions they are making," says Stéphane Côté.[2] People who have control over themselves, know

2. Being an efficient, inspiring leader.

Tending to be the leader of a team requires different professional and social abilities or skills in order to identify which is best and which is worse for the team. For the members to have an inspiring and well comprehending leader, it will be really easy in completing the duties in the given deadlines.

Stressing and not being able to control the mood of your own team, means that the methodology used is wrong. You must change attitude in order to get everything on line with the predictions. All the perceptions and behaviors should be derived towards members because after all they are playing the game in real. The leader is just the one who gives the direction. To have the appropriate direction, the team head must be able to distinguish his own emotional intelligence since it is a key point in leading and proving multitasking work.

2. Economic Value of Emotional Intelligence

2.1 Promoting Emotional Intelligence in the Workplace

There have been major changes in the structure of organizations in the last 20 years. From a very tough autocratic management style they have shifted to a more liberal one. With these differences organizations also have decided to move toward team-based and client-oriented jobs, thus individuals have now more autonomy even at the lower levels of the organization.

Since the aim of modern organizations and companies is to improve performance in the market, they recognize that objective and measurable benefits can be derived from higher emotional intelligence. This is observed clearly in increasing sales, better recruitment and retention, and more effective leadership. This approach has also changed the criteria for success. Staff is now judged not only by how smart they are, or by their training and expertise, but also how well they handle themselves and one another. And that is strongly influenced by personal qualities such as perseverance, self-control, and skill in getting along with others. Increasingly, these new yardsticks are being applied to choose who will be hired and who will not, who will be let go and who will be retained, and who will be past over or promoted. Emotional intelligence may be the (long-sought) missing link that unites conventional "can do" ability determinants of job performance with "will do" dispositional determinants. Modern organizations now offer learning and development that is explicitly labelled as "emotional intelligence" or "emotional competence" training. In support, their leaders create and manage a working environment of flexibility, responsibility, standards, rewards, clarity, and commitment.

2.2 The importance of EI on Leadership

"There are no extraordinary men… just extraordinary circumstances that ordinary men are forced to deal with." – William (Bill) Halsey, Jr.

The ability to be perceptively in tune with yourself and your emotions, as well as having sound situational awareness can be a powerful tool for leading a team. The act of knowing, understanding, and responding to emotions, overcoming stress in the moment, and being aware of how your words and actions affect others, is described as emotional intelligence. Emotional intelligence consists of these four attributes: self-awareness, self-management, social awareness, and relationship management. Emotional intelligence is widely known to be a key component of effective leadership. Understanding how the brain operates and how the emotional response system works should also be a factor in where we place team members within our organizations. Being able to relate behaviors and challenges of emotional intelligence on workplace performance is an immense advantage in building an exceptional team. One of the most common factors that leads to retention issues is communication deficiencies that create disengagement and doubt. A leader lacking in emotional intelligence is not able to effectively gauge the needs, wants and expectations of those they lead. Leaders who react from their emotions without filtering them can create mistrust amongst their staff and can seriously jeopardize their working relationships. Reacting with erratic emotions can be detrimental to overall culture, attitudes and positive feelings toward the company and the mission. Good leaders must be self aware and understand how their verbal and non-verbal

communication can affect the team

2.3 The impact of EI on Job Performance

Perhaps the biggest surprise for us has been the impact of EI in the world of business, particularly in the areas of leadership and employee development (a form of adult education. Emotional intelligence as a feasible variable in the explanation of success in life and the workplace, has some relationships with performance, as well as its significance to assist people to have interaction with their environment, involving work environment, and its relationship with academic performance, plays an important role in team performance which are also significant in the organization.

Emotional intelligence develops innovational creativity in individuals and as a result, helps in the improvement people's job performance. In addition, what is of paramount importance in the process of job performance is facilitating the communication within organization, which is another function of emotional intelligence. Emotional intelligence has the power to better explain the people's workplace performance. Its role is to change attempts, management effectiveness, training and the performance of organization within the organization.

Emotional intelligence may contribute to job performance (as reflected in salary, salary increase, and company rank) by enabling people to nurture positive relationships at work, work effectively in teams, and build social capital. Work performance often depends on the support, advice, and other resources provided by others. Emotional intelligence may also contribute to job performance by enabling people to regulate their emotions so as to cope effectively with stress, perform well under pressure, and adjust to organizational change.

Regarding the profession choice, the emotional intelligence assists people to choose their job properly in a right way and helps them to succeed in the organization by augmenting the extent of their job performance. Outcomes, which relate to the work such as job performance, may be affected by emotional intelligence. The prediction of emotional intelligence for individuals is successful life and work. Due to the influence of emotional intelligence on each aspect of individuals' work life, high-level possessed emotional intelligence employees are considered as "star performers". As a result, as stated in the previous sections, there exist a positive correlation between emotional intelligence and job performance. As such, a majority of probes had done previously have supports for the relationship between these two variables, namely emotional intelligence and job performance.

3. Training sessions of EI, what it offers?

To get used to your own emotions it is not easy. The vast majority of students do not even understand the term "Emotional Intelligence." Passive observations and researching in the area showed that there are a small number of students who are able to join different social activities trying to overcome their inner fears. What about the other students? They chose to stay quite even though they know they will have to get used to it one day.

Children are not born with social and emotional skills since the behaviors and social attitudes are changing day by day. They must get the learning process of empathy, decision making, problem solving, patience and a lot of other subtopics in school and not only. First of all they should get it in their family and after in school just like the normal education that is proceeding now days.

But what it would offer a special training session to a student who has just started university?

There are some people who have never heard of emotional intelligence as a variable in deciding your own future. It offers the opportunity to gain knowledge about something that is directly affecting the way you behave and control your feelings and emotions towards work. By having the necessary information to get along with decision making, everything would be quite easier.

To learn emotional intelligence in school is like educating the heart together with your mind to get the best you can in the future. Just like the Erasmus slogan "The best hope of a nation lies in the proper education of its children".

It would be in the benefit of all participants and the university itself to have this kind of sessions because the percentage of people who get successful in their work by having team work would be higher. It is marketing, education and efficient management of sources and time.

Most of companies admit that what they are truly looking for are not people with very high IQ or impressive and long resumes, as it is expected, but trustful people who posses emotional competences, self-confidence, especially in groups, empathy, self-management and social skills.

One of the aims of this paper is that it reaches the Ministry of Education for further proceeding due to importance of warning youngsters toward success. [1]

The sessions of emotional intelligence get in touch with every single student by testing them and working on understanding how they manage their sources and time. After recalling the test done and the points that they got, with

1 Article by Travis Bradberry

the selected specialist they try to find a way how to improve their critical thinking and decision making process in different situations. Some of the solutions would be:

1. Reading books including biographies and storytelling.
2. Work on understanding how you get excited and sad in seconds, what are the reasons.
3. Try to offer your time to people who deserve it.
4. Manage time carefully and efficiently by getting things done in time.
5. Every student who considers these cases in detail, it is quite sure that it will get out of the university with the appropriate weapons to start working as a team member and soon after as a team leader. We aim to achieve it through public provision or public financing of private provision.

Conclusion

The first reason why people should be aware of emotional intelligence is that it leads to happiness. This directly affects their relationship with themselves and the others. It is very important to know the significance that Emotional Intelligence has before you enter the labor market. Now days, since the companies have shifted to teamwork, it is more important to have a higher EI rather than an IQ. In order to achieve a higher EI we suggest that every university should offer at least a one-week training about this topic explaining to every student how important it is to be familiar and to control your emotions. If the Ministry of Education accepts our claim then it would have a direct effect on the business environment of Albania, leading to more efficient leaders and higher skilled workers.

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(Endnotes)

1 Study made by University of Toronto

2 Professor of Organizational Behaviour at Rotman

An analysis of CSR in the Republic of Macedonia

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ABSTRACT

Although over half a century old, one might argue that Corporate Social Responsibility has still not gained the deserved and needed attention in developing countries such as the Republic of Macedonia. Regardless, the fact remains that during the last couple of decade's companies, researcher, policy makers and other stakeholders have become increasingly aware of the importance of finding a balance between the financial needs of contemporary business and the needs of the society. This might partly be addressed perhaps to a higher level of conciseness on the side of business, but much of it has to do with the ever improving laws specially in the field of environment protection, consumer protections etc. The main rationale of this paper is to provide an analysis of the concept of corporate social responsibility in general and corporate social responsibility in Macedonia in particular based on a field survey of companies from different parts of the country.

Keywords: corporate social responsibility, Macedonia

JEL Classification: J24, O15

Literature review

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment. Thus, beyond making profits, companies are responsible for the totality of their impact on people and the planet. "People" constitute the company's stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, CSR is alternatively referred to as "corporate citizenship," which essentially means that a company should be a "good neighbor" within its host community.

The topic of corporate responsibility has been captioned under many names, including strategic philanthropy, corporate citizenship, social responsibility and other monikers. As the names imply, each carries with it a certain perspective on the role of business in society. Regardless of the label, for now the dominant paradigm underlying corporate social responsibility or CSR is centered on the idea of creating "shared value." The role of business, according to this model, is to create value for its shareholders but in such a way that it also creates value for society, manifesting itself as a win-win proposition. In one fell swoop the idea aims to unite the critics of CSR from the left and the right, for the notion of CSR has had the dubious distinction of being criticized by both sides of the ideological spectrum. (Rangan et al, 2012, 1).

CSR has rapidly grown in the last 20 years, moving up the boardroom agenda of even our most hard-headed companies. At its most passive, there is the 'hands-off' approach, with charitable giving and patronage of charities decided by the chairman or a board committee. Even where there is a more business-based approach a great deal of what passes as CSR at top companies has been described as merely 'passive box ticking driven by external pressures rather than a genuine desire to do business in an ethical way' *These initiatives are not to* be disparaged, as anyone who has worked for

charities seeking corporate sponsorship will attest. But increasingly there is support for more active CSR involving a range of stakeholders. (Hancock, 2005, 6).

Companies are increasingly expected to assist in addressing many of the world's pressing problems including climate change, poverty and HIV/Aids. According to a 2007 survey by the consultancy firm McKinsey carried out among the chief executive officers (CEOs) of companies, 95 per cent of those questioned believe that society has greater expectations than it did five years ago that companies will assume public responsibilities. More than half of the CEOs believe that these expectations will further increase significantly during the next five years (Bielak et al. 2007).

Table 1. Themes and Terminology Associated with CSR in the Financial Times, 1999–2003

Social and Environmental Concerns	**Moral and Ethical Concerns**
CSR is a commitment to social and environmental issues. Social (1048); environmental/ environment (558); sustainable/ sustainability (260); human (126)	*CSR emphasizes the moral and ethical dimensions of business.* Responsibility/ responsible (888); ethical (186); need (168); rights (135); good (206); value (107)
Spatial Embeddedness	**Stakeholders Relations**
The corporation is a transnational entity and CSR can be practiced at different geographical levels. World (288); UK (276); European/Europe (269); global (251); international (213); countries (162); local (137); London (108)	*CSR is about the relationship between business and society. The firm as a nexus of stakeholder relations.* Government/governments (327); people (277); public (257); community (255); employees (152); organization (150); society (143); investors (133); labor (124); staff (116); school/schools (284)
Relationship between CSR and Business	**Other Issues Related to CSR**
CSR represents corporate practices and is, in many cases, closely related to the core business of the firm. Company/ companies/ company's (1955); business/businesses (1263); corporate (981); executive/ executives (304); management (232); investment (204); financial (192); industry (182); director (173); chief (161); managers (148); market (140); governance (123); economic (118); trade (108), leaders (103)	Report/ reports/ reporting (563); new (363); issues (287); programme/ programmes (238); standards (159); performance (155); impact (155); survey (138); reputation (135); research (135); pressure (133); oil (132); risk (129); change (128); policy (128); approach (118); fund (109); support (107); action (100)

Source: derHond, 2007

Since CSR is very difficult to define, the awareness of the three main principles of CSR as defined by Crowther and Aras (2008) need to be had in mind:

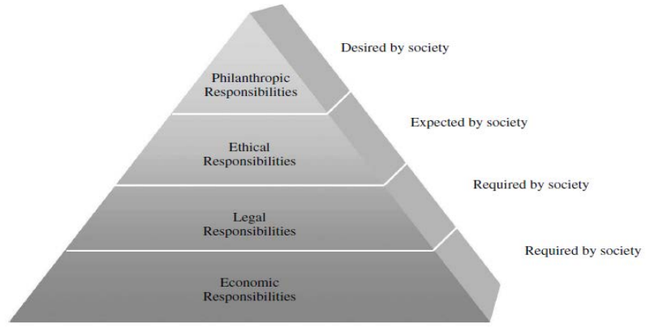
Sustainability: The effect which action taken in the present has upon the options available in the future.

Accountability. This is concerned with an organization recognizing that its actions effect the external environment, and therefore assuming responsibility for the effects of its actions.

Transparency. The external impact of the actions of the organization can be ascertained from that organization's reporting and pertinent facts are not disguised within that reporting.

CSR provides a platform for corporations to be involved in economic development in ways that can be much more powerful than has been hitherto thought of. Economic development means improving the well-being of disadvantaged people wherever they may be. Most, of course, can be found in developing countries but many can also be found in the developed and oil-rich countries – the deep south of the US, the north-west of England, the south of France around Marseilles, the poor of Turkmenistan or Uzbekistan; refugees in Saudi Arabia – the list tragically goes on. There is no need, though, for this scandalous situation to be either countenanced or allowed to continue. (Hopkins, 2007, 15)

Fig.1. Carroll's (1991) Four-Part Model of Corporate Social Responsibility



Source: Henningfeld, 2006

CSR may cover: a) a company running its business responsibly in relation to internal stakeholders (shareholders, employees, customers and suppliers); b) the role of business in relationship to the state, locally and nationally, as well as to inter-state institutions or standards; and c) business performance as a responsible member of the society in which it operates and the global community.

There are many arguments for as well as against corporate social responsibility as presented in table 2.

Table 2. Arguments pro and against CSR

Arguments for CSR	Arguments against CSR
Public expectations: Public opinion now supports businesses pursuing economic and social goals *Long-run profits:* Socially responsible companies tend to have more secure long-run profits *Ethical obligation:* Responsible actions are the right thing to do *Public image:* Businesses can create a favourable public image by pursuing social goals *Better environment:* Business involvement can help solve difficult social problems *Discouragement of further governmental regulation:* By becoming socially responsible, businesses can expect less government regulation *Balance of responsibility and power:* Businesses have a lot of power and an equally large amount of responsibility is needed to balance it *Shareholder interests:* Social responsibility will improve a business's share price in the long run *Possession of resources:* Businesses have the resources to support public and charitable projects that need assistance *Superiority of prevention over cure:* Businesses should address social problems before they become serious and costly to correct	*Violation of profit maximisation:* Business is being socially responsible only when it pursues its economic interests *Dilution of purpose:* Pursuing social goals dilutes business's primary purpose – economic productivity *Costs:* Many socially responsible actions do not cover their costs and someone must pay those costs *Too much power:* Businesses have a lot of power already and if they pursue social goals they will have even more *Lack of skills:* Business leaders lack the necessary skills to address social issues *Lack of accountability:* There are no direct lines of accountability for social actions

Source: Robbins et al, 2012, 171

The rationale for the business case for CSR may be categorized under four arguments: (1) reducing cost and risk; (2) strengthening legitimacy and reputation; (3) building competitive advantage; and (4) creating win–win situations through synergistic value creation . Cost and risk reduction arguments posit that CSR may allow a firm to realize tax

benefits or avoid strict regulation, which would lower its cost. The firm may also lower the risk of opposition by its stakeholders through CSR activities. Legitimacy and reputation arguments hold that CSR activities may help a firm strengthen its legitimacy and reputation by demonstrating that it can meet the competing needs of its stakeholders and at the same time operate profitably. A firm therefore would be perceived as a member of its community and its operations would be sanctioned. Competitive advantage arguments contend that, by adopting certain CSR activities, a firm may be able to build strong relationships with its stakeholders and garner their support in the form of lower levels of employee turnover, access to a higher talent pool, and customer loyalty. Accordingly, the firm will be able to differentiate itself from its competitors. Synergistic value creation arguments hold that CSR activities may present opportunities for a firm that would allow it to fulfill the needs of its stakeholders and at the same time pursue its profit goals. The pursuit of these opportunities is only possible through CSR activities. (Caroll & Shabana, 2009, 101).

Sample description

Since much has been theoretically said, but almost nothing has been practically researched when it comes to corporate social responsibility in the Republic of Macedonia, in order to reach at least preliminary data regarding the commitment or lack of commitment to corporate social responsibility by companies a rather extensive survey including 35 companies and over 500 employees has been conducted.

Research results

The research has proved the following regarding corporate social responsibility in the Republic of Macedonia:

- 67,44 % of respondents believe that one of the main reasons for engaging in social responsibility is in the best interest of the business organization
- 48,84% of respondents believe that corporate social responsibility has a positive effect on the companies relations with the government and other institutions
- 41,86% of respondents believe that governmental policies have a major influence on the wiligness of business to get engaged in social responsibility.

Conclusion

The last two decades have witnessed a remarkable change to the way the development and operation of the business. They are aware that the search of financial growth will not always lead to progress the company, and is often harmful to the environment, resulting in workplaces unhealthy, exposure to toxic substances and other similar issues. Managers are often criticized because they had the same thoughts about maximizing the value. The turn of events has pressured companies to make serious efforts in a wide range of activities related to business ethics and social responsibility of the company. As a result, corporate social responsibility and business ethics emerged as a phenomenon that can be added to a company's financial performance and suggests that corporate decision makers should care about a range of environmental and social issues, in order to maximize financial profit term. Each firm differs in the way of implementing business ethics and social responsibility of the company, depending on the business practices of its strategic, depending on the size of the business, industry, where it is part of the requirements of stakeholders, research and development conditions the labor market. One side of the coin organization confirms the benefits of good reputation, while the other side shows that the costs of an organization's compliance to ethical standards will translate into higher prices of products and low profitability. Even after a deep research of the relationship between social responsibility of the company and the company's performance, empirical evidence to date is somewhat contradictory.

Several scholars have expanded this concept in business and research world considering establishing principles, standards and frameworks various social responsibility of companies. The practice of its concepts and principles is similar in the two world economies, economies of developed and developing, but there are significant differences in the implementation of these activities, business ethics and social responsibility. Researchers have identified these differences such as cultural practices and management, and came to the conclusion that the practice of business ethics and social responsibility of developed countries can not be practiced in developing countries. Therefore, research has turned the attention of researchers to investigate their practice in developing countries. As far as business ethics and social responsibility of companies, the literature is divided into; developmental studies and the study of relationships, including

the relationship between social responsibility and company performance (CP) and the relationship or ratio between social responsibility and stock market performance.

However, the ratio between social responsibility and firm performance (CP) is not fully understood. In developing countries, this issue is under investigation, so the main goal of this study is to examine whether, to what extent is developed this concept in Macedonian companies than they are aware of this and the effect that this phenomenon has on their financial performance. To investigate this relationship, it is necessary to develop a framework of social responsibility because, at present there is no such framework in Macedonia to identify the practices of social responsibility in the company, this is a sub-goal of this study.

Although various studies have been made on this topic, this study has given its contribution in two ways: - first, proving that the Macedonian companies which proclaim that they have a social responsibility and pursue a business ethics do this maybe only for in their PR (Public Relations), most companies which are aimed by the study, which are joint stock companies extend their activities in some other European countries, probably feel more like an obligation than realistically understand the purpose of ethical management and social responsibility, second purpose is that those companies who have published financial reports, make an effort to measure the impact of social responsibility in the performance of the firm, to investigate how social responsibility is understood in Macedonian companies If Macedonian companies understand the ethical management and social responsibility, as a legal obligation to the environment internal and external or essentially understand that investing in ethical and socially responsible management, perhaps for a short term will not bring effects expected, but in a longer term time such a decade, will be observed effects expected, normally through the commitment of employees, which will contribute to higher productivity through the creation of brand impact to customers and still contribute to society as and the community in general, in a country like Macedonia.

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An Assesment Of The Struggle Of Balkan Turks In Terms Of Social, Psychological, Cultural And Political Dimensions (The Sample Of Bosnia And Herzegovina

Kasım TATLILIOĞLU[1]

ABSTRACT

In this research, existence and survival struggle of Turks living in Balkans are dealt with their social, cultural and political dimensions. Ottoman-Turk heritage is still existing in society, politics, culture, economy, military service implicitly in Balkans. Ottoman-Turk heritage in Balkans is still existing and being kept alive. The society living in Kosovo and Macedonia, using Turkish as their mother language and claiming that they are Turks is the most concrete and vivid example of Turk heritage in Balkans. The term of identity has a wide area of usage from psychology to philosophy, social psychology, sociology and social and cultural anthropology. The studies done in the area of identity require an approach between disciplines. Because of this, studies of identity expanded through an area emphasizing not only individual forms of identity but also its collective forms in a conceptual frame whose roots are on sciences and approaches like psychology, sociology, anthropology, psychoanalysis. An identity has lines that differenciate its members from others' while conjoining its members. Being Turk also effects mental processes. Being a Turk in Balkans is a type of identity encoded on religion, culture, history and politics. The identity of "Turk" was turned into a political material being drawn from the bottomless wells of history in due course. Due to this, Balkan Turks faced with so many dramatic situations like wars, genocides, assimilations, migrations, slaughters. For example, in 1992-1995 wars, Serbs' perception of Bosnians as Turks and their thought that with the death of a Bosnian, one more Turk would reduced was a result of this perception. After Bosnia, places experienced crisis has been to Kosovo. The reasons of problems, Balkan Turks sometimes faced, were also perceptions of their identities. The reason for Bosnian genocide was perception and problem of identity even though they used the same language and their races were the same.

Keywords: Balkans, Bosnia and Herzegovina, national identity, assimilation, genocide.

Type of study: Literature view.

INTRODUCTION

In the years of AC. 300-375, Turkish tribes passing by the tribes door, they came to the Balkans through the North of the Black Sea. Since IV. century, the migration of the Turkish tribes began to that region. Until 1200 many people have been slavicised by accepting Christianity and ultimately they lost their self-identity. Settlement in the Balkans began with the Huns, then it continued with Ottomans. The settlement in the Balkans, Ottoman Empire fallowed a systematic settlement policy. Before the Ottoman conquered the Balkans, the dervishes, who have a significant role Turkicization in the region, has come to that region (Rodoplu, 2013).

2nd generation of Turks, who accepted the İslam in 10th century, came to Anatolia through the South of the Caspian Sea and then from here they passed to Balkans. Thus, the process of Turkization and Islamization began in Anatolia and Balkans. With the establishment of Ottoman Empire, Turkish domination began in the Balkans with the Balkan Crucade (Uzunçarşılı, 1964). The Ottoman Empire got into act its activities aimed to West from the begining of its foundation. Teh Ottoman Empire provided every convenience the places which they conquered and has not made any intervention in the cultural structure. Therefore, every community whatever their religion or race they were able to maintain their national identity. It is because of tolerance and justice that apply in the Ottoman Empire, which incorporates elements minority had lived in peace for centuries. Those who resigned from this tolerance climate were most Orthodox Greeks (Çakmak, 2007).

The Turks who settled in the Balkan region; left deep and rooted traces in social, cultural, economic and political structures. Ottoman cities, physically for every aspect of life, intellectual, scientific, religious, literary, cultural, intellectual, architectural and political space in the history of producing works of universal nature to respond to society's needs, has attracted the attention of historians and travelers (Nureski, 2014). For centuries, Balkans has been a geography where there were with different socio-economic order different ethnic, cultural, a combination of linguistic groups. Besides the intensive Turkish population, Balkans, who exposed Slavic population, has gained as a different ethnic and cultural identity (Rodoplu, 2013). Ethnic and religious mosaic in the Balkans; has emerged as a result of conquest, migration, trade and missionary activity. Since the ancient times, Balkans has been the scene of the cruel or peaceful society movement, numerous intrigue, conflict, riots and wars. Today, same states who prepare same atmosphere, easily convert the region as a "Powder Keg". These states are the Western countries who are the so-called defenders of democracy and human rights. Historical conditions imposed to gain special importance of the religious factor in the preparation and prosecution of the culture. The Balkan nationalism, who is conscious of the ethnic composition, has shown improvement starting from the XIX. century. Because of the consciousness of democracy has not been matured in this region, dictatorship has

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arisen as a result of chaos. "Anti-nationalism" has developed from sectarian and discriminatory practices (Öcalan, 2002; İnancık, 1993; Özdağ, 2001; Türbadar, 2003).

As a result of 1683-1699 Vienna Defeat and Treaty of Karlowitz, first territorial losses began in the Balkans. Thus, the crusader mentality, which they established the "Holy Alliance" and they started to attack and massacres, genocides and migration waves began in the region. There are two main reasons for the decline in the Balkans. First one is weakening of the Ottoman Empire and the second is the growing of nationlist movement. Since the beginning of the 19th century, the peaceful period in the Balkans left its place to chaos because of the nationalist movement which came with the influence of the French Revolution. Until the establishment of the nation-state great wars have started, there was a great loss of life and property, historical and cultural monuments have been destroyed. Reverse migration has begun in the Balkans this time. The Turks who stayed in the Balkans have never cut their ties from their homeland (www.bilimarastırmavakfı.org; http://tr.wikipedia.org; Şahin ve Şahin, 2014).

After the Ottoman-Russian war in 1877-1878, the massacres and forced Christianization have started when Bosnia-Herzegovina were joined to Austria (Uzunçarşılı, 1964). Before the years of 1877-1878, Ottoman Empire fought first with rebels in Bosnia and Herzegovina later with Serbia and Montenegro then they had a slashing war with Russia. The war resulted in against Ottoman Empire. The defeat taken in 1877-1878 Ottoman-Russian War led to loss of a large part of the Balkan territory (Şahin ve Şahin, 2014; Muhtar, 2013).

While in 1908, Austrian-Hungarian government, has officially annexed Bosnia-Herzegovina. In this situation, neither Ottoman nor Bosnia have consented to such an unfortunate decision. That's why Bosnia and Herzegovina is the most important land secured certain diligence of Ottoman Empire. After leaving the administration of Bosnia and Herzegovina to Austria-Hungary, for centuries, Bosniaks were dominant nation in the region but started lose their current status, the attitudes such as administrative, political, social, economic and cultural factors which were used by Austria-Hungary against Bosniaks, chaos and insecurity have led to the emergence of immigration from Bosnia and Herzegovina. With the migrations, Bosniaks who came to Ottoman lands, were placed in various parts of Anatolia by the Ottoman Empire (Şahin ve Şahin, 2014; Sarıkaya, Zunic, 2014).

After 1918, Bosnia and Herzegovina became part of the Kingdom of Yugoslavia. Actual events which underlying facts is to destroy the last descendant of Muslims and Turkey in the Balkans and to erase the traces of civilization and culture. In this case, Bosnians with their statement, "250 years is the result of ongoing plan to destroy Muslims" confirmed by the thesis (Akçora, 1994). Despite the geographical integrity that the Balkans have, as a result of historical development, the region has extremely complicated ethnic pluralism including linguistic and religious differences. In this geography, ethnic pluralism and linguistic and religious differences have been used and abused by the intraregional and exterritorial states to realize of the targets fort he Balkans. Today, approximately 3 million Turkish people live in this region (Öztürk, 2001; Algül, 2000).

In this study generally the Balkans, in special cases the Muslim Turkish society were examined in Bosnia and Herzegovina.

THE PURPOSE OF STUDY

The history of the Balkans since the ancient times, has been an important place for the Turks. Balkans has great importance for Turkey not only geographically and politically, but also for historical, cultural and our human heritage. The region has remained under Ottoman Empire for nearly 500 years and has played a major role in the writing of Turkish history. As it is in history and today Balkans is also valuable for the Republic of Turkey. The historical unity and keeping the common cultural values alive and in this case, many of Balkan countries are willing to high level relationship with Turkey, plays important roles for Turkey who would like to take a big step to become a regional power in the last century. Towards becoming a regional power, the Balkans always keeps its importance. Because of the historical ties and Turkey has a part of its soils in the Balkans, that is why Turkey is also considered as a Balkan country. The Balkans has been a place where there were many nations, cultures and religions.

3. CONCEPTUAL FRAMEWORK OF THE STUDY

3.1 Genosid Movement Against Balkanic Turks

Primarily in Western Thrace Turks and namely, the entire Balkanic Turks have been systematically subjected to "socio-cultural", "socio-political", "socio-economic", "socio-psychological" assimilation. This assimilation can be listed as follows:

- Genosid Similitaf: liquidation by way of culture
- Mortal Genosid: liquidation by the way of killing
- Genosid Emigratif: liquidation by the way of settled and forced relocation,
- Genosid Emigrativ to Internal: Internal forced relocation,
- Genocide in Emigrativ External: External forced relocation (Aydınlı, 1985).

As a result of these applications, millions of Muslim Turks were assimilated, plowed the ground, as a result of mass migration from starvation, disease, had died of cold and brutally murdered. Founded underground revolutionary activity against Turks in the Balkans began long before the Balkan War, so there was no peace and tranquility in Turks, presucuted Turks began to migrate to first Edirne then from there they moved to İstanbul. As a result of the migration people came to city and food shortage has been appeared. In Bulgaria, the unending persecution began with 93 warfare. With the defeat of the Ottoman Empire in 93 warfare, resulted as Bulgarian gangs, who were given arms and provoked by Russia, started to burutal action against the Turks. Indigenous peoples have resisted for a while, but they were unsuccessfully because of insufficent support and they were forced to be surrendered. As a result of the defeat of the Ottoman Empire, the awful migration of these people was the most painful phase of the Balkan tragedy. During the Balkan wars, the Greeks, Serbs and Bulgarians with asimilation which they applied on Turks by printing, burning their homes and villages with persecution, forced them to migrate and to expropriate their property. Also, they banned the publications of the newspapers and fulfil the religious beliefs of the people. One newspaper called "Hikmet Gazetesi" wrote this sentence: "The atrocities, which done to Turks by Greeks in Thessaloniki, will make the devil mercy to the God". As a result of all these assimilation, large migration waves had been occured from the Balkans to Anatolia. Turkish traces have been requested to be deleted in the Balkans with plunder, robbery, torture, murder and rape. In 1911, 2.315.293 Muslims lived in the Balkans. In these wars, 413.000 Turkish Muslims had left their homeland and they had refuged in İstanbul. At the end of the war, Turkish population had declined to 1.270.114. 632.408 Muslim Turks were slaughtered and destroyed. All the documents of the these attacks, rapes, looting and murder are available.

3.2. Independence of Bosnia and Herzegovina

Bosnia-Herzegovina's social structure is composed with three major communities that differ from each other in terms of religious and cultural items. In the 20th century, we have witnessed many wars which was based on the conflict of the different ethnic groups. A considerable part of these took place in the aftermath of the Cold War and nowadays it continues to happen. Since the World War II, the largest campaign called "ethnic cleaning" which was applied in Bosnian War is coming across as one example of the war caused by inter-ethnic conflict (Öner, 2013; Akçora, 1994. Özlem, 2013; Uygun, 1998).

One of the most important events that occurred since the end of the Cold War, was the breakup of Yugoslavia. The Republics could not agree on "state issue" accelerated the process of Yugoslavia. Serbian governance had officially declated their intent to establish of "Greater Serbia" integrating the regions to Serbia where Serbs were living in Montenegro, Croatia and Bosnia-Herzegovina (http://politikaakademisi.org; Uygun, 1994). In 1992, Bosnia and Herzegovina government held a referendum on the EC requirements. Despite the boycott of Serbs, 97% of Bosnians and Croatians voted in favor of independence. This Republic had 4,5 million population which was consisted of 43% of Muslims, 32% of Serbs and 17% Croatians. On 1 March 1992, when the President İzzet Begoviç declared of Bosnia-Herzegovina's independence, Serbs attacked against Bosnians. Seeing Serbian invation preparations, İzzet Begoviç had asked for UN forces in 1991. On 3 March 1992, Bosnia and Herzegovina declared its independence and on 7 April 1992, USA and other states recognized that country (Coşkun, 2012).

In April 1992, civil war began between Serbs and Croatians. Taking the support of Yugoslavian army, Serbs shortly conquered 70% of Bosnia. Blockading Sarajevo, they organized horrible massacres named "ethnic cleaning". Serb attacks also started Bihac, Srebrenica, Tuzla and Goradze. Meanwhile, Croatians was not idle and they began to attack against their former Bosnian ally in order to conquer Mostar and Herzegovina. The bloodiest days of the history had been taken place in front of Europe and all over the world, Between 1992-1995, thousands of women, children, youth or elder Bosnians were killed en messe by the Serbs, 20.000 people disappeared. If we give concrete example of the massacre is the mass graves appeared in Srebrenica in front of the UN which is named Peace Force. 8.000 people's mass graves have been taken out. As a result of the Serbian attacks, about 250 000 people were killed and 2.3 million were displaced, 20 thousand women were raped. 15 thousand of died people are in childhood. The establishment of the Nazi concentration camps against Muslims is the greatest human tragedy and shame documents after the World War II. These atrocities, massacres and genocide lasted 3,5 years (Lütem ve Demirtaş, 2001, İlhan, 2004; Kut; 2004; Yürür, 2008).

In order to investigate genocide in Bosnia and Herzegovina, Poland former Prime Minister Tadeusz Mazowiecki was sent to the region by the UN Human Rights Commission. On 30 November 1992, he gave a statement to the newspaper called " International Herald Tribune" and he said: " As a special rapporteur of the UN Human Rights Commission, I looked over and saw the mass violations of human rights with feelings of horror in Bosnia and Herzegovina. Bloodshed is ongoing although international officials and UN troops. The collected evidences are clear enough for any doubt about who is in charge of this cruelty and terrible terror. Responsibles are Serbian politicians and military leaders who are supported by Serbian authorities in Bosnia and Herzegovina." There was also a huge demographic impact that conflict caused on this occation. In the country cities and towns have failed to protect the ethnic composition which they had before the war (Suat, 2008; Öner, 2013).

During the Serb attacks between 1992-1995, many mosques, universities, hans and bridges, which are the important veins and arterials between Bosnia and Ottoman, were destroyed by Serbs and Croatians bomb attacks. In order to throw off the Ottoman and Islamic identity from Bosnia and Bosnians, bombardment especially focused on mosques,universities and libraries during the last war. 8 thousand of manuscripts which were in Sarajevo "Oriental Institute" all Arabic, Persian, Hebrew and Alhamiyado language and 7 thousand Turkish documents such as edict, orders, warrants and fief which are belong to Ottoman period and approximately 250 thousand document had been destroyed in Sarajevo provincial archive (Yorulmaz, 2007; Sarıkaya ve Zunic, 2014).

3.3. Turkey's attitude to the Bosnian civil war

For Turkey, the situation was formed in a different size. Turkey, as in Bosnia, has advocated urgent international intervention from the very beginning of the crisis. Concerning about the conflict in Bosnia, Turkey has started the longest and most active foreign policy during the 1990's and Turkey also began to show some effort in order to carry the Bosnian civil war into the international area and to take more effective measures. Turkey approached to the issue with "Turkey's security starts from Bosnia" policy. Organization of the Islamic Conference (OIC) was the organization which Turkey have put into action in order to prevent Bosnian Civil War. Turkey's one of the proposal was a military operation against the Serbs under the leadership of NATO in order to stop the war and to protect the territorial integrity of Bosnia and Herzegovina. Unfortunately, noto took place this operation in 1995. Turkey was one of the first countries who recognized the states after the breakup of Yugoslavia. Thus, pulling the hinder to Serbian genocide, Turkey supported the peaceful efforts. Turkey has expended an intense effort to tell to the world about the massacre of Serbia and Turkey made the confirmation about Serbia was guilty in international organizations especially in the UN and Turkey also led to remove of the Serbian siege around Sarajevo. In addition, on 17-18 June 1992 Turkey was a hosting country for Islamic Countries Foreign Ministers Meeting in İstanbul and provided the special day meeting for Bosnia and Herzegovina. Despite all the international pressure and effort, Serbs have continued to make religious and ethnic cleaning in Bosnia, then in Kosovo (Akçora, 1994).

The powerful ties between Ottoman and Bosnia was aimed to cut with 1992 war. Aila İzzet Begoviç explained the situation with that sentance: "With this war Bosnians not only lost their land, but also they were forced change their identity and civilization in a systematic way" (Begoviç, 2003). We can list the reasons why Turkey took very effective behaviour for Bosnia as follows:

- Protection of the existence of Muslim Bosnians in Bosnia
- Turkey took place next to the innocent people due to Muslim Bosnians were got a raw deal and also they were slaughtered and were carried out genocide
- After the end of the Cold War, the strategic importance of Turkey was reduced and Turkey was trying to come to the fore in the 1991 Gulf War and trying to improve its position in the international arena as a regional power, Turkey wants to have a say in the Balkans.
- Turkey was feeling unconfortable because of the instability in the Balkans and prevention of the physical link with the West.
- Closed trade routes to European Union where half of Turkey's external trade has been done to.
- During the war in Bosnia, the cost of Romenia-Hungary route was very expensive due to its length, experiencing some negativity for our compatriots on the motorway from Europe to Turkey.
- As Turkey's state policy, Turkey was against to the particular group who wanted to establish the state in a country which was obtained by using excessive power.
- As a nation, Turkish people are always against to the persecution and they take place in just next to suffering people (Uzgel, 2004; Özlem, 2013).

3.4. Today's Turkey-Bosnia Relations

Turkey has come to support the sovereignty, territorial integrity and multi-ethnic structure of Bosnia-Herzegovina. Fallowing very closely the reform process in Bosnia-Herzegovina, Turkey contributes to the forward steps and also supports the integration of Bosnia-Herzegovina to the European and Euro-Atlantic Institutions (EU and NATO). Turkey is aware that development and stability should be sustainable with economic development. Turkey puts emphasis on the bilateral economic and trade relations which should be taken further. In this context, economic reform process of Bosnia and Herzegovina is closely monitored. The legal basis of our relations have been largely completed, The major fairs and events which taking place at regular intervals, will contribute to the further development of bilateral trade and investment relationship. High level visits between the countries pay a key role in protecting the dynamism in the relations and creating cooperation areas in various subjects. 23 (http://www.mfa.gov.tr/). SDA Vice President İzzet Begoviç, who was re-elected for Bosniak member of the Trilateral Presidency Council, said that " Turkey was always next to Bosnia and Herzegovina in all the important issues. Turkey supports Bosnia and Herzegovina for our territorial integrity and Euro-Atlantic integration process, also Turkey is making substantial investments to Bosnia and Herzegovina. Turkey is repairing our cultural heritage through Turkish Cooperation and Coordination Agency (TIKA). I send greetings to friendly Turkish people from here. We are very proud of their achievements. I think that we will be in more intensive cooperation in the future" (http://www.bosnahersek.info).

Due to the profound ties between Bosnia and Turkey, Bosnia and Herzegovina has an important place in Turkish foreign policy. In this context, our Ministry of Foreign Affairs and Ministry of Culture are conducting an active diplomacy. Turkey always supports the territorial integrity, the protection of the sovereignty and independence of Bosnia and Herzegovina within the internationally recognized borders. Turkey supports the implementation of the Dayton Peace Agreement which was signed in USA state of Ohio, in 21 November 1995 (Özlem, 2013).

According to the Dayton Peace Agreement, Turkey wishes to Bosnia-Herzegovina would reach to the peace, welfare and safety and also develop economic, social and cultural aspects. However, despite all efforts, ethnic problems, which led to Bosnia to the disaster, have not been solved. The current peaceful atmosphere is built on very delicate balances. Unexpectedly, new tensions and disasters would be inevitable. In this context, it is an obligation to support the economic, political and cultural aspects of Bosnia and Herzegovina. The best example fort hat is the Mostar Bridge. Bosnia is not only a historical friend and ally, but also it is a gateway to Europe for Turkey (http://tubav.org.tr).

According to Davutoglu, although it has been more than five years after the Dayton Agreement, Bosnia and Herzegovina is stil having difficulties about the complete border sovereignty and for this, the main reason is based on the inequality of status which was caused by the agreement between the parties (Davutoğlu, 2008). After the Dayton Peace Agreement, Turkey's relations have maintained its proximity with Bosnia and Herzegovina. In this context, Turkey has developed military and political relations with Bosnia and Herzegovina, and also has started new relationships in many areas. First of all, Turkey has continued its support by providing military assistance to Peace Forces. Furthermore, Turkey has begun the military training program. However, we see that economic relations have not been developed enough. Many undesirable policies along with existing multi-headed management can be applied in Bosnia and time to time, this situation gets reaction from the international community. In the region, Ottoman history and culture constitute the mutual stakeholder. The peace and stability of Bosnia-Herzegovina and Balkans are closely related to the security of Turkey. There are a number of factors which affecting Turkey's Balkan policy in the new era. First of all, Turkey is a Balkan country in terms of political, cultural and geographical, Thrace region of Turkey are located within the borders of the Balkans. On the other hand, in this region, there are many cognates and relatives who have direct contact with Turkey. Nowadays, a significant portion of Turkey's population are originally from the Balkans and it is stated that this number corresponds to one fifth of the country's population in various sources. In other words, both the migration to Turkey and cognates who live in the Balkans describe Turkey's demographic bond with the Balkans. In addition, the emerging developments in the region directly affect Turkey. Usually, Muslim Turkish communities are found as a guilty for the crises and it causes a migration through Turkey. In addition to the mentioned issues, Balkans constitutes a strategic transit corridor which opens to Western world for Turkey; expressing the importance and strategic balance of the Balkans in the international system is being effective in Turkey's Balkan policy. Many of unsolved problems are stil waiting in the refrigerator and everything can flare up again at an unexpected time with the change of the dynamics in the region and these problems should not be ignored (www.diplomatikgozlem.com; Özlem, 2013).

CONCLUSION

In the post-cold war, Turkey is showing some efforts for the permanent peace and stability in the Balkans, strengthening the democracy of the newly independent states, switching to a liberal economy, integrating these countries

with Euro-Atlantic institutions. Turkey is supporting the region in bilateral and international level in order to develop friendly relations and cooperation and Turkey still continues its efforts in this direction. In this context, Turkey has still an active role for peacekeeping operations in Bosnia and Kosovo. The protection of multi-ethnic, multi-lingual and multicultural nature of Bosnia-Herzegovina and in this context, the implementation of the Dayton Agreement are priority topics for Turkey.

Turkey would like to see the permanent peace in the region and also wants established pluralistic and participatory democratic system which would protect the rights of all communities particularly all the Muslims, including the Turkish minorities in the whole region and Turkey continues its initiatives and efforts in this direction. Protection of the territorial integrity of Bosnia and Herzegovina and standing as a single state, the international military presence in the country is extremely important. When this military force continues its duty for a long time, it is not only an assurance fort he existence of the state but also for the prevention of a new civil war. Muslim Turks were engaged in many atrocities throughout history. The most severe of these brutal atrocities has been applied to Bosnian Muslims in the Balkans. Today, it seems that a peaceful atmosphere is provided in Bosnia; however, there may be a provocation anytime between ethnic groups. For the preservation of the current situation, Stabilisation Force (IFOR), the attitudes of the European states and suppression of extreme nationalist rhetoric represent an important place (Aydınlı, 1985).

It is well known fact that Turkey continues its efforts and assistance for the protection of cultural heritage and Muslim elements in the Balkans with the peaceful ways. The Balkans has an important role for Turkey. First of all, they have historical and cultural bonds. Then, Balkans is the gateway to Europe. n this context, Turkey puts great emphasis on its relations with Bosnia and Herzegovina, Albania, Macedonia and Kosovo. Turkey is the pulsating heart, eyes and ears for these countries. The brutality of the Serbs remains a black mark in history. The Purpose is the crusader mentality which is unchanging and never will change.

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Mobbing in the Workplace: Cause and Consequences

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Abstract: Psychological pressure on the workplace has grown to become a very expresses issue in contemporary business organizations. Although difficult to detect and very complex to analyze, MOBING has attracted the interested of researchers, practitioners, lawmakers and other interested sides, especially during the last decade. Much on the topic has been published worldwide, but one cannot shake the feeling that much remains to be said in this field, especially when it comes to developing and less developed countries in which the very nature of MOBING might differ to some extent, compared to companies in the developed world. The main objective of the paper is to provide an extensive review of the general knowledge on MOBING, as well as to summarize the main aspects of MOBING in the Republic of Macedonia and other countries from the region..

Keywords: MOBBING, Pressure, cause and consequences

JEL Classification: J24, O15

The nature of MOBBING

Worplace Mobbing is a rather young term originally coined by Konrad Lorenz, but in terms of human behavior in the workplace developed and scientifically studied by the Swedish psychologist Heinz Leymann. In fact in his 1991 research "Here I am-Where Are You: The Behaviour of the Greylag Goose", the 1973 Nobel Prize winner Lorenz used the term Mobbing to describe a pattern of behavior in the animal kingdom of a situation when a group of smaller animals gathers in a form of a crowd and attacks a larger animal. In 1972, Heinemann borrowed the term Mobbing to describe a situation in which the entire school class, or the majority of it, attacks an individual child. According to Leymann (1996) psychological terror or mobbing in working life involves hostile and unethical communication which is directed in a systematic manner by one or more individuals, mainly toward one individual, who, due to mobbing, is pushed into a helpless and defenseless position and held there by means of continuing mobbing activities. These actions occur on a very frequent basis (statistical definition: at least once a week) and over a long period of time (statistical definition: at least six months´ duration). Because of the high frequency and long duration of hostile behavior, this maltreatment results in considerable mental, psychosomatic and social misery.

Workplace bullying, because of its severe personal and organizational effects, detracts from the development and maintenance of vital, diverse and productive workplaces. Interest in workplace bullying emerged over three decades ago, with considerable research conducted by scholars throughout the world in the past 20 years. In this time, researchers have developed a better understanding of the nature of this complex, but often misunderstood phenomenon. (Branch, et al, 2013, 280)

Psychical terror or mobbing in working life means hostile and unethical communication which is directed in a systematic way by one or a number of persons mainly toward one individual. There are also cases where such mobbing is mutual until one of the participants becomes the underdog. These actions take place often (almost every day) and over a long period (at least for six months) and, because of this frequency and duration, result in considerable psychic, psychosomatic and social misery. This definition eliminates temporary conflicts and focuses on the transition zone where the psychosocial situation starts to result in psychiatric and/or psychosomatic pathological states. (Leymann, 1990, 120).

Although in many cases bullying and mobbing are used as synonyms, one might argue that the difference between these terms is not of a pure lingual nature, but rather have to do with the meaning of the concepts themselves. In fact while bullying can be mostly associated with physical pressure, Mobbing is mostly associated with psychological pressure in the workplace. Crawshaw's (2009) nomenclature of psychological harassment can be helpful, tab.1

Table 1. Proposed nomenclature for Workplace Psychological Harassment

Level	Terminology and parameters
General category	*Workplace abuse* ● Encompasses all forms of workplace abuse, including but not limited to discrimination, sexual harassment, workplace violence, unsafe working conditions, and so forth ● Coincides with other categories of abuse that are described either by target or locale, for example, child abuse, domestic abuse
Specific category and scientific name	*Workplace psychological harassment* ● Identifies common denominator of all current descriptions that differentiate this subcategory from the general category
Common name	*Workplace bullying* ● Acknowledges descriptive term in common usage
Involved entities	*Target(s):* Superior, peer, subordinate, employer, customer, vendor, others *Perpetrator(s):* Superior, peer, subordinate, employer, customer, vendor, others

Source: Crawshaw, 2009, 265

Typically there are five phases to MOBBING, the first being the initial conflict or critical incident stage. The second phase is where psychological abuse is increasingly directed at the target. The third phase occurs when management intervenes, often siding with the perpetrators, and increasing the levels of harm. The fourth phase is recognisable when the target is accused of being 'difficult' or 'mentally ill' and the final phase is marked by the expulsion of the target from their employment (Davenport et al., 1999, p. 38).

Mobbing is the nonsexual harassment of a coworker by a group of other members of an organization for the purpose of removing the targeted individual(s) from the organization or at least a particular unit of the organization. Mobbing involves individual, group, and organizational dynamics. It predictably results in the humiliation, devaluation, discrediting, degradation, loss of professional reputation, and, often, removal of the target from the organization through termination, extended medical leave, or quitting. The results of this typically protracted traumatizing experience include significant financial, career, health, and psychosocial losses and other negative consequences. Mobbing has at least two levels of severity: moderate and very severe. (Sperry, 2009,191).

Bullying is a form of harassment and can be very unpleasant. It is perhaps one of the most difficult aspects of employee relationships to control. Like sexual harassment, it can be hard to prove that bullying has taken place and employees may be reluctant to complain about a bullying boss, simply because he or she is a bully. But this does not mean that an organization can ignore the problem. A policy should be published stating that bullying is unacceptable behaviour. People who feel that they are being bullied should have the right to discuss the problem with someone in the HR department or a trained counsellor. Bullies should not be punished automatically. They should initially be helped to acknowledge the impact of their behaviours, and to change. Punishment should be reserved for those who persist in spite of this guidance. (Armstrong, 2014, 448)Bullying can take many forms, such as (Dessler, 2013,470):

- **Verbal:** name-calling, teasing
- **Social:** spreading rumors, leaving people out on purpose, breaking up friendships
- **Physical:** hitting, punching, shoving
- **Cyberbullying:** using the Internet, mobile phones, or other digital technologies to harm others

Although a sertain level of conflict (healthy conflict) is welcomed in business organizations, there are major differences between conflicts and mobbing, table 2.

Table 2. Differences between healthy conflict and mobbing in the workplace

"Healthy conflicts	Mobbing situations
Clear roles and tasks	Role ambiguity
Collaborative relations	Uncooperative behavior / boycott
Common and shred objectives	Lack of foresight
Explicit interpersonal relations	Ambiguous interpersonal relations
Healthy organization	Organizational flaws
Occasional clashes and confrontation	Long lasting and systematic unethical actions
Open and frank strategies	Equivocal strategies
Open conflict and discussion	Covert actions and denial of conflict
Straightforward communication	Oblique and evasive communication

Source: Casitto et al, 2003, 16

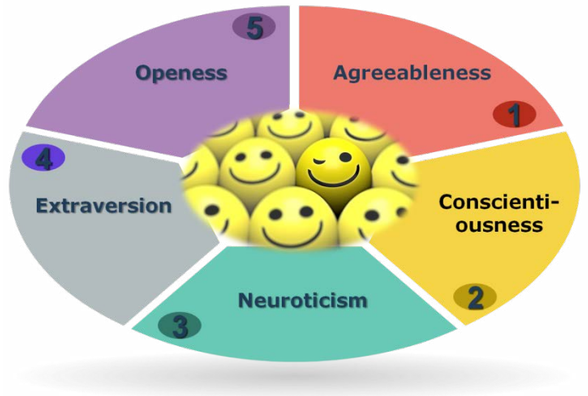
Sources of Mobbing

The determination of the causes of Mobbing is a very difficult task, mainly having in mind the very nature of Mobbing on one hand and the victims and perpetrators of Mobbing on the other hand.Therefore when discussing the sources of Mobbing, individual ancedents, social processes and the organization itself can be considered as possible sources of Mobbing.

Much has been analyzed in terms of the individual characteristics of Mobbing victims but there is a lack of research on the main characteristics of the perpetrators.

Although research shows that the targets are not a homogeneous group, still the big five model can be used in order to determine some of the main characteristic of the targets.

Fig.2. The big five model



The five factor model is a well established approach to measuring personality and has been used in relation to bullying. It measures five key traits of an individual's personality: neuroticism (sensitive, low emotional stability), extraversion (energetic, sociable), agreeableness (kind, friendly), openness (curious, intellectual), and conscientiousness (organised, dependable). Findings are somewhat mixed: compared to nonbullied controls, studies have reported that targets are higher in neuroticism, 80; lower, or similar, in extraversion; lower or similar in agreeableness; higher and lower in openness; and higher, lower and no different, on conscientiousness. The mixed results suggest that targets are not a homogenous group, although there are trends towards targets scoring higher on neuroticism and lower on extraversion. Targets who are more conscientiousness, achievementoriented and conform to rules may not fit with work group norms, potentially triggering frustration in co-workers. (Illing et al, 2013, 35).

The social antescendents of bullying are presented in table 3.

Table 3. Social antecedents of bullying

Antecendent	Description
Social interactionist perspective	A social interactionist perspective examines the actions taken by individuals within a particular social context, which may include instrumental aggression (designed to achieve a valued goal) or reactive aggression (impulsive actions designed to hurt the target).
Socialisation	New staff may quickly view bullying as acceptable if they see others getting away with such behaviour and even being rewarded
Learned behaviour and norms	Individuals may have adequate personality styles but have developed "learned behavior" within the workplace
Outgroup denigration	A tendency to favour ingroup members and denigrate outgroup members may lead to aggression directed towards the outgroup
Reciprocity	In some instances bullying may be perceived by the perpetrators as a justified response to being made to feel upset and angry; people get most angry from the words and deeds of other people
Previous encounters	Individuals may behave in accordance with their previous experiences of interacting with specific colleagues within the organisation

Perseverance	Definitions of bullying often refer to the frequency of bullying occurring over a sustained period of time rather than a one off event
Norm violations	Bullying may arise from a situation where people feel they are not being treated as, or receiving benefits, they deserve
Distributive and procedural justice	Individuals will make fairness judgements about outcomes in the workplace and they may react negatively if they perceive inequity in the distribution of these outcomes
Calculated bullying	Perpetrators behave according to social interaction theory where an actor will make decisions which are directed by the expected rewards, costs and probabilities of obtaining certain outcomes if they engage in negative behaviour
Displaced aggression	When provoked (e.g. by perceived injustice), individuals may direct aggression to a co-worker if retaliation against the original source is too risky.

Source: Illing et al, 2013, 36-39

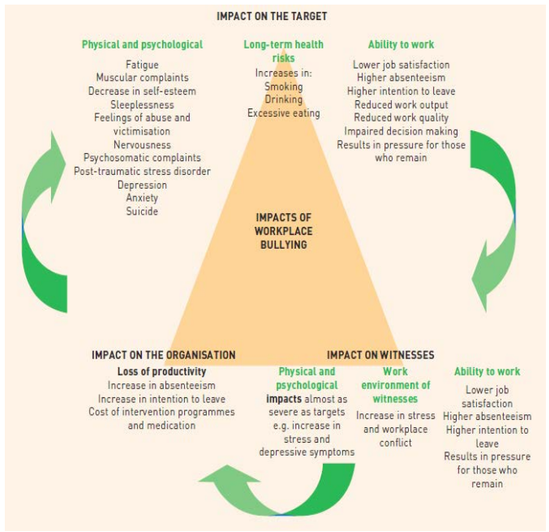
Consequences of MOBBING

Leymann (1996) based on informal interviews and heuristic analysis, introduces several consequences of Mobbing:

- Effects on the victims´ possibilities to communicate adequately (management gives you no possibility to communicate, you are silenced, verbal attack against you regarding work assignments, verbal threats, verbal activities in order to reject you, etc.).
- Effects on the victims´ possibilities to maintain social contacts (colleagues do not talk with you any longer or you are even forbidden by management to talk to them, you are isolated in a room far away from others, you are "sent to Coventry", etc.).
- Effects on the victim´s possibilities to maintain his personal reputation (gossiping about you, others ridicule you, others make fun about of handicap or your ethnic heritage or your way of moving or talking, etc.).
- Effects on the victim´s occupational situation (you are not given any work assignments at all, you are given meaningless work assignments, etc.).
- Effects on the victim´s physical health (you are given dangerous work assignments, others threaten you physically or you are attacked physically, you are sexually harassed in an active way, etc.).

On the other hand Wilkinson promotes a model of bullying having three main types of impact: impact on the target, impacts on the organization and on witnesses, fig. 1.

Fig. The impacts of workplace bullying



Source: Wilkinson, 2013, 607

Sandvik presents an extensive list of consequences of workplace mobbing classified into individual consequences, consequences for the workgroup and consequences for the organization.

The list of individual consequences includes the following:

- Chronic workplace stressor
- Heightened levels of anxiety
- Depression, burnout, frustration, helplessness
- Negative emotions such as anger, resentment, and fear
- Difficulty concentrating o Lowered self-esteem and self-efficacy o Increased alcohol/drug use/abuse
- Relationship between bullying and symptoms such as hypervigilance, rumination, and nightmares, consistent with Post-Traumatic Stress Disorder (PTSD) or Prolonged Duress Stress Disorder (PDSD)
- Prolonged exposure may lead to suicidal thoughts and actual attempts at suicide
- Linked to variety of job-related attitudes (both targets and witnesses): decreased job satisfaction, reduced organizational commitment, greater intention to leave o increased absenteeism, tardiness, and voluntary turnover.
- Linked to poorer physical health including: Musculo-skeletal disorders such as body aches, particularly backaches; psychosomatic ailments such as stomach upset, headaches, and nausea; and sleeping problems such as insomnia or frequent waking ,Increased risk of cardio-pulmonary disease.

The list of consequences for the workgroup includes the following:

- Bullying supervisor has greater (more substantial) impact on employees same behavior initiated by co-workers, subordinates, or customers
- Fear may reduce risk-taking behavior with adverse impact on creativity and innovation. Employees unlikely to approach such a supervisor with "bad news," thereby impacting the supervisor's ability to "nip problems in the bud" or acquire information necessary for informed decision making.
- Having bully on the team may have deadly consequences (aircraft personnel's fear lead to airplane crashes)
- In healthcare settings, nurses and other front-line personnel may be reluctant to challenge questionable decisions made by abusive physicians
- Adversely impact group performance by creating a "toxic" work climates where negative emotions (fear, distrust, anger) predominate, mistrust/ suspicion run rampant
- Reduced peer helping behavior o Lower levels of creativity
- Decreased willingness to initiate conversations with others
- Decreased receptiveness to persuasive communications o Predisposition to perceptions of failure

The list of consequences for the organization includes the following:

- $5-$6 billion dollars lost every year in the U.S. economy because of real or perceived abuse of employees (conservative figure)
- Substantial cost to organizations in the form of disciplinary actions, EEO, and Office of Workers Compensation Programs (OWCP) claims, not to mention expenses related to occupational safety and health o Costs of turnover, absenteeism, decreased productivity
- Costs of litigation when employees seek outside redress for their unfair treatment
- Increased medical insurance costs, workers compensation insurance expense
- Lost opportunity costs
- Damaged public reputation
- Reduced quality staff attracted o Impoverished workforce remains

Conclusions

Human history shows that as species in certain conditions we can be violent above all measures. Unfortunately, such traits can be traced to employee behavior in the workplace. Although research has mainly been oriented towards an analysis of physical pressure in the workplace, the fact remains that psychological pressure is no less dangerous if not even more harmful for the individual, workgroups and organizations likewise.

As the research shows during the last couple of decades it has become obvious that psychological pressure in the workplace has increasingly grown to become one of the most prominent phenomena. Regardless weather the managers, supervisors, or other co-workers are the perpetrators workplace mobbing never fails to take its tow on the victim and the organization.

As can be noted, the paper presents and attempt at presenting the nature, cause and consequences of mobbing in the workplace and is intended as a starting point for future and relevant research of mobbing in concrete companies in the Republic of Macedonia, research that has almost never been conducted in the country.

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