

5TH INTERNATIONAL SCIENTIFIC-BUSINESS CONFERENCE
LEADERSHIP, INNOVATION, MANAGEMENT AND ECONOMICS:
INTEGRATED POLITICS OF RESEARCH



LIMEN 2019



December 12, 2019
Graz University of Technology
GRAZ, AUSTRIA
www.limen-conference.com



CONFERENCE PROCEEDINGS



Association of Economists
and Managers of the Balkans
UdekoM Balkan

**FIFTH INTERNATIONAL SCIENTIFIC-BUSINESS CONFERENCE
LIMEN 2019**

*Leadership, Innovation, Management and Economics:
Integrated Politics of Research*

CONFERENCE PROCEEDINGS

**Graz, Austria
December 12, 2019**

Fifth International Scientific-Business Conference LIMEN

Leadership, Innovation, Management and Economics: Integrated Politics of Research

ISSN 2683-6149

Conference Proceedings (part of LIMEN conference collection)

Editor:

Vuk BEVANDA, PhD, Associate Professor, Faculty of Social Sciences, Belgrade, Serbia

Scientific Committee:

1. **Jasmina Starc**, PhD, Full Time Professor, Dean, Faculty of Business and Management Sciences, Novo Mesto, Slovenia
2. **Čedomir Ljubojević**, PhD, Full Time Professor, Director, Modern Business School Belgrade, Serbia
3. **Cvetko Smilevski**, PhD, Full Time Professor, President of Teaching and Scientific Council, BAS Institute of Management Bitola, Macedonia
4. **Vlado Radić**, PhD, Full Time Professor, Faculty of Business Economics and Entrepreneurship, Belgrade, Serbia
5. **Kanita Imamović-Čizmić**, PhD, assistant professor, Faculty of Law, University of Sarajevo, Bosnia and Herzegovina
6. **Tatjana Cvetkovski**, PhD, Full Time Professor, Ministry of Education, Science and Technological Development of Republic of Serbia
7. **Drago Pupavac**, PhD, Professor, Polytechnic of Rijeka, Polytechnic „Nikola Tesla“ Gospić, Croatia
8. **Ana Langović Miličević**, PhD, Full Time Professor, Ministry of Education, Science and Technological Development of Republic of Serbia, Faculty of Hotel Management and Tourism in Vrnjaska Banja, University of Kragujevac, Serbia
9. **Snežana Kirin**, PhD, Associate Professor, Innovation Centre of Mechanical Engineering Faculty in Belgrade, the Head of the Branch Office in Novi Sad, Serbia
10. **Mirjana Šekarić**, PhD, Associate Professor, Business Faculty, Singidunum University, Belgrade, Serbia
11. **Malči Grivec**, PhD, Lecturer, Dean, Faculty of Business, Management and Informatics Novo Mesto, Slovenia
12. **Bojan Krstić**, PhD, Associate Professor, Faculty of Economics, University of Niš, Serbia
13. **Lidija Stefanovska**, PhD, Assistant Professor, Director, BAS Institute of Management Bitola, Macedonia
14. **Duško Tomić**, PhD, Full Time Professor, College of Security and Global Studies, American University in the Emirates
15. **Saša Virijević Jovanović**, PhD, Associate Professor, Faculty of Applied Management, Economics and Finance, Belgrade, Serbia
16. **Srdan Tomić**, PhD, Associate Professor, Faculty of Engineering Management, Belgrade, Serbia
17. **Toni Soklevski**, PhD, Assistant Professor, Business Academy Smilevski BAS, Skopje, Macedonia
18. **Tatjana Ilić-Kosanović**, PhD, Assistant Professor, Faculty of Engineering Management, Belgrade, Serbia
19. **Aleksandara Brakus**, PhD, Assistant Professor, Modern Business School, Belgrade, Serbia
20. **Sonja Cindori**, PhD, Assistant Professor, Department of Financial Law and Financial Science, Faculty of Law, University of Zagreb, Croatia
21. **Sergej Gričar**, PhD, Lecturer, School of Business and Management Novo Mesto, Slovenia
22. **Dragana Nešović**, PhD, Assistant Professor, Faculty of Law, Security and Management “Konstantin Veliki”, Nis, University Union “Nikola Tesla”, Belgrade, Serbia
23. **Janevski Zoran**, PhD, Assistant Professor, Institute of Economics – “Ss. Cyril and Methodius” University Skopje, North Macedonia
24. **Slobodan Bracanović**, PhD, Assistant Professor, Faculty of Economics, Priština, Kosovska Mitrovica, Serbia
25. **Dragana Trifunović**, PhD, Associate Professor, Faculty of Social Sciences, Belgrade, Serbia
26. **Anton Vorina**, PhD, Senior Lecturer, Vocational College, Celje, Slovenia
27. **Ana Jurčić**, PhD, Associate Professor, Modern College of Business & Science, Muscat, Oman
28. **Denis Tomše**, PhD, Assistant Professor, Faculty of Commercial and Business Sciences, Celje, Slovenia
29. **Tatjana Boshkov**, PhD, Assistant Professor, Faculty of Tourism and Business Logistics – Gevgelija, “Goce Delcev” University Stip, North Macedonia
30. **Filip Đoković**, PhD, Assistant Professor, Business Faculty Valjevo, Singidunum University, Belgrade, Serbia
31. **Biljana Petrevska**, PhD, Associate Professor, “Iustinianus Primus School of Law”, University “Ss. Cyril and Methodius”, Skopje, North Macedonia
32. **Tanja Stanišić**, PhD, Assistant Professor, Faculty of Hotel Management and Tourism in Vrnjaska Banja, University of Kragujevac, Serbia
33. **Milenko Đeletović**, PhD, Associate Professor, Educons University, Belgrade, Serbia
34. **Momčilo Živković**, PhD, Full Professor, Faculty of Business Studies, Megatrend University, Belgrade, Serbia
35. **Brankica Pažun**, PhD, Associate Professor, Faculty of Engineering Management, Belgrade, Serbia
36. **Zlatko Langović**, PhD, Associate Professor, Faculty of Hotel Management and Tourism, Vrnjaska banja, Serbia

Organizational Committee:

Nikolina Vrcelj, PhD candidate

Nevena Bevanda, PhD student

Ivana Mirčević, BSc

Uroš Mirčević, Ing.

Goran Stevanović, BSc

Published by:

Association of Economists and Managers of the Balkans,
Belgrade, Serbia

Printed by:

SKRIPTA International, Belgrade

Belgrade, 2019

ISBN 978-86-80194-26-4

ISSN 2683-6149

DOI: <https://doi.org/10.31410/LIMEN.2019>

Disclaimer: The author(s) of each paper appearing in this publication is/are solely responsible for the content thereof; the findings, interpretations and conclusions expressed in the papers are those of the authors and do not reflect the view of the editor, reviewers, scientific committee members, the publisher, conference partners or anyone else involved in creating, producing or delivering this publication.

CIP - Katalogizacija u publikaciji
Narodna biblioteka Srbije, Beograd

005(082)

336(082)

001.895(082)

330(082)

**INTERNATIONAL Scientific-Business Conference LIMEN
Leadership, Innovation, Management and Economics: Integrated
Politics of Research (5 ; 2019 ; Graz)**

Conference Proceedings / Fifth International Scientific-Business
Conference LIMEN Leadership, Innovation, Management and
Economics: Integrated Politics of Research, Graz, Austria December
12, 2019 ; [organizer Association of Economists and Managers
of the Balkans ; editor Vuk Bevanda]. - Belgrade : Association of
Economists and Managers of the Balkans, 2020 (Belgrade : Skripta
International). - 178 str. : graf. prikazi, table ; 30 cm

Tiraž 100. - Napomene i bibliografske reference uz tekst. -

Bibliografija uz svaki rad. - Registri.

ISBN 978-86-80194-26-4

a) Menadžment -- Zbornici b) Finansije -- Zbornici v) Inovacije --
Zbornici g) Ekonomija -- Zbornici d) Marketing -- Zbornici

COBISS.SR-ID 15665929

CONTENTS

INDEX OF AUTHORS	V
INDEX	VII
PREFACE	XIII
AUTHORS' AFFILIATION	XV
BRAND PROMOTION OF THE COMPANY OF THE MOBILE COMMUNICATION OPERATOR IN THE REGIONAL MARKET	1
Evgeniya Yazovskikh Oksana Yatsenko	
MANAGER OF TODAY AND OF THE FUTURE: E-MANAGER	7
Jasmina Starc	
PLANNING IN CONTEMPORARY MANAGEMENT CONDITIONS	15
Slobodan N. Bracanović	
VOLUNTEER TOURISM AS TOURIST TREND	25
Sandra Mrvica Madarac Mirjana Nedović	
THE BULGARIAN INDUSTRY: THE STATE, DEVELOPMENT AND PROSPECTS OF INDUSTRIAL POLICY	31
Nikolay Sterev	
GREEN TRANSPORT – THE USAGE OF ELECTRIC SCOOTER FOR PUBLIC TRANSPORT IN TOWNS	37
Anton Vorina Gabi Čakš Jelka Županec	
THE BULGARIAN DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE AND THE NATIONAL SECURITY OF BULGARIA	43
Ivaylo Ivanov	
RISK-BASED APPROACH IN THE PREVENTION OF MONEY LAUNDERING	53
Georgi Petrunov	
APPLYING THE URBAN FUTURES METHODOLOGY FOR EVALUATING THE METROPOLITAN DEVELOPMENT IN TIMISOARA, ROMANIA	59
Bogdan Nadolu Delia Nadolu	
THE SOCIOLOGICAL REALITY OF THE HOMO INTERNETICUS	67
Bogdan Nadolu Delia Nadolu	
THE CONTAGION EFFECT IN EUROPE: A DCC GARH APPROACH	73
Paulo Alexandre Paula Heliodoro Rui Dias	
THEORETICAL AND PRACTICAL CONSIDERATIONS REGARDING ABUSIVE CLAUSES IN THE CREDIT CONTRACTS, REGARDED AS ADHESION CONTRACTS	81
Diana Gorun Mirela Niculae Beatrice-Tanta Strat	
ANTI-MONEY LAUNDERING POLICIES IN THE FINANCIAL SECTOR	89
Vania Nestorova	

COMPELLING BUSINESS NEED FRAMEWORK FOR DRIVING EMPLOYEES' ENGAGEMENT.....	95
Tatjana Jovanovic	
PROBLEMS OF RENOVATION OF URBAN TERRITORIES IN THE RUSSIAN FEDERATION	103
Sergey Maksimov Georgi Zabunov	
IS THERE A CONSISTENCY IN THE EU'S APPROACH TOWARDS INVESTMENT ARBITRATION?.....	111
Ines Medić Mia Grgić	
THE ROLE OF PUSH AND PULL MOTIVATIONS IN BRANDING FOR RURAL TOURISM: LAKE TISZA COMPLEX PROJECT	121
Damla Bal Éva Erdélyi	
IDENTIFICATION OF CRITICAL SUCCESS FACTORS FOR THE IMPLEMENTATION OF THE BLOCKCHAIN PROJECTS IN THE SMART CITIES.....	129
Zoran Ćirić Otilija Sedlak Stojan Ivanišević	
WOMAN ENTREPRENEURSHIP.....	135
Ana Vukičević Anja Celić	
POLITICAL "IDEALISTIC" LEADERSHIP AND THE RULE OF LAW.....	141
Larisa Vasileska	
STRATEGIC DEFENCE IMPLICATIONS OF HAZARDOUS MATERIAL TRANSPORT	147
Mohamed Alhudaiddi Damir Ilic Marko Gnjatovic	
INNOVATION AND CREATIVITY AS A PREREQUISITE TO SUSTAINABLE COMPETITIVE ADVANTAGES	157
Mirjana Nedović Sandra Mrvica Madarac Ivona Bajić Sabljo	
THE RELATIONSHIP BETWEEN MICROFINANCE AND TOURISM (CASE OF ALBANIA)	165
Forcim Kola Bardhyl Ceku Semiha Loca	
SUSTAINABILITY OF THE PENSION SYSTEM OF THE REPUBLIC OF SERBIA.....	173
Ana Anufrijević Goran Dašić	

INDEX OF AUTHORS

A

Ana Anufrijević, 173
Ana Vukičević, 135
Anja Celić, 135
Anton Vorina, 37

B

Bardhyl Ceku, 165
Beatrice-Tanta Strat, 81
Bogdan Nadolu, 59, 67

D

Damir Ilić, 147
Damla Bal, 121
Delia Nadolu, 59, 67
Diana Gorun, 81

E

Éva Erdélyi, 121
Evgeniya Yazovskikh, 1

F

Forcim Kola, 165

G

Gabi Čakš, 37
Georgi Petrunov, 53
Georgi Zabunov, 103
Goran Dašić, 173

I

Ines Medić, 111
Ivaylo Ivanov, 43
Ivona Bajić Sabljo, 157

J

Jasmina Starc, 7
Jelka Županec, 37

L

Larisa Vasileska, 141

M

Marko Gnjatović, 147
Mia Grgić, 111
Mirela Niculae, 81
Mirjana Nedović, 25, 157
Mohamed Alhudaïdi, 147

N

Nikolay Sterev, 31

O

Oksana Yatsenko, 1
Otilija Sedlak, 129

P

Paula Heliodoro, 73
Paulo Alexandre, 73

R

Rui Dias, 73

S

Sandra Mrvica Mađarac, 25,
157
Semiha Loca, 165
Sergey Maksimov, 103
Slobodan N. Bracanović, 15
Stojan Ivanišević, 129

T

Tatjana Jovanović, 95

V

Vania Nestorova, 89

Z

Zoran Ćirić, 129

INDEX

- | | | |
|--|--|---|
| <p style="text-align: center;">A</p> <p>Achmea judgment, 111
Active vacation, 25
Advertising campaign, 1</p> | <p>Green transport, 37
Group interview, 25</p> <p style="text-align: center;">A</p> <p>Horizon, 15</p> <p style="text-align: center;">A</p> <p>Idealistic leadership, 141
Industrial development, 31</p> <p style="text-align: center;">A</p> <p>Industrial growth, 31
Industry 40, 31
Information systems, 129
Inner periphery, 59
Innovation, 157
Innovations, 135
Internet, 67
Investment arbitration, 111</p> <p style="text-align: center;">A</p> <p>Legislation, 81
Linear regression, 165
Logistic, 37</p> <p style="text-align: center;">A</p> <p>Microcredit, 165
Microfinance, 165
Mobile operator, 1
Modern e-manager, 7
Modern manager skills, 7
Money laundering, 89
Morality, 141</p> <p style="text-align: center;">A</p> <p>National modernization projects, 43
Nuclear waste management, 147</p> <p style="text-align: center;">A</p> <p>Online social presence, 67
Operationality, 15
Operation plan, 15</p> <p style="text-align: center;">A</p> <p>Pension system, 173</p> | <p>PIO contributions 173
Plan, 15
Planning, 15
Political leadership, 141
Preventive measures, 89
Project management, 129
Public-private partnership, 103
Push and Pull Motivations, 121</p> <p style="text-align: center;">A</p> <p>Radioactive material, 147
Rule of law, 141
Rural Tourism, 121</p> <p style="text-align: center;">A</p> <p>Smart-phone use, 67
Smart city, 129
Stock market, 73
Strategy, 95</p> <p style="text-align: center;">A</p> <p>Strategy, 15
Sustainability, 129</p> <p style="text-align: center;">A</p> <p>Tactics, 15
Tourism, 165
Transportation risk model, 147</p> <p style="text-align: center;">A</p> <p>Uniqueness of products and services, 157
Unpredictability, 81
Urban areas, 103
Urban governance, 59
Urban renewal, 103
Urban resilience, 59</p> <p style="text-align: center;">A</p> <p>Visionary ability, 15
Volunteer tourism, 25</p> <p style="text-align: center;">A</p> <p>Woman entrepreneurship, 135</p> |
| <p style="text-align: center;">A</p> <p>Banking, 53
Blockchain, 129
Brand code, 1
Branding, 121
Brand model, 1
Brand promotion, 1
Bulgaria, 43
Bulgarian Defence Industry Association, 43</p> <p style="text-align: center;">A</p> <p>CJEU, 111
Compelling business need, 95
Competitive advantage, 157
Competitiveness, 157
Computer literacy, 7
Crime, 53</p> <p style="text-align: center;">A</p> <p>Defence-related and special production export, 43
Demographic structure, 173</p> <p style="text-align: center;">A</p> <p>Economic development, 43
Effects, 81
Electrical scooter, 37
Employee-pensioner ratio, 173
Employees' engagement, 95
Entrepreneurship, 135
Ethics, 141
Euro sovereign debt crisis, 73</p> <p style="text-align: center;">A</p> <p>Financial contagion, 73
Financial system, 53
Financial systems, 89</p> <p style="text-align: center;">A</p> <p>GARCH-DCC, 73</p> | | |

PREFACE

The organizing is an evolutionary phenomenon, distinctive because of laws of existence and maintaining all structures in all processes of their functioning. As such, it is a civilizational phenomenon also that occurs as a component of human, individual and social activities and as a factor in the overall development of man and society. On the other hand, as a deliberate human activity, organizing involves seeking solutions to problems that occur on the way to achieving specific goals. No goal can be achieved without appropriate or necessary, or at least minimal organization of conditions, factors and processes needed for goal achievement. However, the modern era requires new types of leaders and managers, and new forms of organization; demands those who are willing and able to lead the company / corporation / state, in a distinct competitive environment, with all the good and bad sides brought by the globalization of world economy.

Association of Economists and Managers of the Balkans headquartered in Belgrade – Serbia at premises of the Graz University of Technology – Austria organized 5th International Scientific-Business Conference titled: Leadership, Innovation, Management and Economics: Integrated Politics of Research – LIMEN 2019 on December 12, 2019.

Bearing in mind the challenges of a dynamic engagement in contemporary organizations, it is clear that within the analysis of these important subjects should be applied interdisciplinary approach. For this reason, the main theme of the conference LIMEN 2019 was processed through the following key topics:

- Leaders and Leadership
- Entrepreneurship
- Innovation
- Creativity
- Management of Small and Medium-sized Enterprises
- Contemporary Strategic Management
- Financial Management and Banking
- Marketing Management
- Project Management
- GREEN Management
- Natural Resource Management
- Quality Management
- Management of New Technologies
- Management Information Systems
- Education Management
- Intercultural Management
- Public Sector Management
- Human Resources Management
- Organizational Behavior
- Business Ethics
- Macroeconomics
- Microeconomics
- Finance
- Marketing
- Labour Law
- Business Law

The aim of this year's conference is also achieved – bring together the academic community of the Balkans region and other countries and publication of their papers with the purpose of popularization of science and their personal and collective affirmation. The unique program combined presentation of the latest scientific developments in these areas, interactive discussions and other forms of interpersonal exchange of experiences.

The conference was opened by professor Vladimir Tomašević, Faculty Council Chair of the Faculty of Engineering Management – Belgrade and a member of the Scientific Committee of the conference and professor Stefan Grbenić from the University of Technology Graz, Institute of Business Economics and Industrial Sociology, Graz, Austria.



Within publications from LIMEN 2019 conference:

- **20 double peer reviewed papers** have been published in the International Scientific-Business Conference LIMEN: Leadership, Innovation, Management and Economics: Integrated Politics of Research – **Selected Papers**,
- **24 double peer reviewed papers** have been published in the International Scientific-Business Conference LIMEN: Leadership, Innovation, Management and Economics: Integrated Politics of Research – **Conference Proceedings**,
- **31 abstracts** have been published in the International Scientific-Business Conference LIMEN: Leadership, Innovation, Management and Economics: Integrated Politics of Research – **Book of Abstracts**.

LIMEN 2019 publications have more than 380 pages. All papers have been scanned with Cross-check (powered by Turnitin) and have Orcid iD integration.

Besides that, 16 papers have been accepted for publication in the conference partner journals namely:

1. **Littera Scripta** (Economics, Corporate finance, Finance and Valuation) is a multidisciplinary journal published by the Institute of Technology and Business in České Budějovice (Czech Republic). The journal is currently indexed on the list of reviewed non-impacted journals published in the Czech Republic, in CEJSH, in EZB, and in ERIH PLUS. In May 2018 Littera Scripta was suggested to be included in Scopus. At present it is being reviewed by the Scopus Content Selection & Advisory Board (CSAB) and Web of Science database.
2. **Journal of Innovative Business and Management** is published by DOBA Faculty, Maribor (Slovenia) and referred in international scientific journal bases DOAJ, Google Scholar, Econ-Papers, ResearchGate and RePec. It has been published since 2009 and since then it has been attracting more and more interest among the readers, who predominantly come from academia and business practice.
3. **Balkans Journal of Emerging Trends in Social Sciences (Balkans JETSS)** is an international scientific journal, published by the Association of Economists and Managers of the Balkans. Aims and scope are economics, management, law and tourism. Balkans JETSS have

following indexations: Google Scholar, CEEOL (Central and Eastern European Online Library), ProQuest's Serial Solutions, Summon, Primo Central, Alma, EBSCO's EDS Discovery Service and Knowledge Base, TDNet and OCLC. Until the end of 2020, it will be submitted to indexation in SCOPUS and WoS, too.

4. **Journal of Sustainable Development (JSD)** is an international journal published by the Integrated Business Faculty – Skopje, Macedonia. JSD area includes three pillars of economic, social and environmental development issues. All these aspects are considered relevant for publishing in the JSD. The journal is officially listed in the respected EBSCO database, CEEOL database, as well as the databases of Business Source Complete and Sustainability Reference Center. All articles published in the journal are also indexed in these databases.

Participation in the conference took **129 researchers** with the paper representing **20 different countries** (Albania, Austria, Belgium, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Ireland, Italy, Latvia, North Macedonia, Poland, Portugal, Romania, Russia, Serbia, Slovak Republic, Slovenia and Spain), different universities, eminent faculties, scientific institutes, colleges, etc.

AUTHORS' AFFILIATION

Albania

- Agriculture University of Tirana, Kodër Kamëz, SH1, Tirana 1000
- “Marin Barleti” University, Rruga Sami Frashëri 41, Tirana 1000

Austria

- Graz University of Technology, Institute of Business Economics and Industrial Sociology, Kopernikusgasse 24/ II, 8010 Graz

Belgium

- Ghent University, Faculty of Economics and Business Administration, Tweekerkenstraat 2, BE-9000 Ghent

Bosnia and Herzegovina

- University Sinergija, Raje Banjicica bb, 76300 Bijeljina

Bulgaria

- University of Economics – Varna, 77 Knyaz Boris I Blvd., Varna
- University of National and World Economy – Sofia, Studentski grad, “8-mi dekemvri” blvd., 1700 Sofia

Croatia

- College of Applied Sciences „Lavoslav Ružička” in Vukovar, Županijska 50, 32000 Vukovar
- Faculty of Law, University of Split, Domovinskog rata 8, 21000 Split
- Faculty of Tourism and Hospitality Management, Primorska 42, 51410 Opatija
- Regional Wholesale Market Osijek Inc., Ul. Svetog Leopolda Bogdana Mandića, 31000 Osijek
- University of Applied Science in Šibenik, Trg Andrije Hebranga 11, 22 000 Šibenik

Czech Republic

- Charles University in Prague, Urbankova 3360, Prague
- Department of Economy and Management of the Faculty of Social and Economic Studies,

Jan Evangelista Purkyně University, 400 96 Ústí nad Labem

- Department of Mathematics and Statistics of the Faculty of Social and Economic Studies, Jan Evangelista Purkyně University, 400 96 Ústí nad Labem
- Jan Evangelista Purkyně University in Ústí nad Labem, Moskevská 54, Ústí nad Labem
- Tomas Bata University in Zlín, Faculty of Management and Economics, Department of Finance and Accounting, Mostní 5139, 760 01 Zlín

Hungary

- Budapest Business School - University of Applied Sciences, H- 1054 Budapest, Alkotmány utca 9-11
- Faculty of Business and Economics, University of Pécs, Rákóczi Street 80. Pécs, Hungary

Ireland

- Comtrade Group, Comtrade Digital Services, Dublin

Italy

- Department of Economics and Management, University of Brescia, via S. Faustino 74/b, 25122 Brescia
- Department of Management and Business Economics, University D’Annunzio, Pescara-Chieti
- Department of Management, Polytechnic University of Marche, P.le Martelli, 8; 60121 Ancona
- University Giustino Fortunato, via r. Delcogliano 12, 82100 Benevento

Latvia

- Latvia University of Life Sciences and Technologies, Inčukalana novads, Krustiņu, Ievaklanu iela 15, Latvia, LV2141

North Macedonia

- Faculty for Information and Communication Technologies – Bitola, St. Kliment Ohridski

University in Bitola, St. "Partizanska" No. bb,
7000 Bitola

- Faculty of Economy – Prilep, St. Kliment Ohridski University in Bitola, St. "Prilepski branitelji" No.143, 7500 Prilep
- FTU - Ohrid, University „St. Kliment Ohridski” - Bitola, Kej Makedonija br.95, Ohrid

Poland

- Poznań University of Economics and Business; Department of Investment and Real Estate; Al. Niepodległości 10; 61-875 Poznań
- University of Wrocław, Plac Uniwersytecki 1 50-137 Wrocław

Portugal

- Polytechnic Institute of Setúbal, School of Business and Administration, Esce, Campus do Instituto Politécnico de Setúbal, Estefanilha, 2914-503 Setúbal
- Portucalense University – Department of Economics and Management REMIT – Research on Economics, Management and Information Technologies IJP – Portucalense Institute for Legal Research

Romania

- Faculty of Finance, Banking and Accounting – Christian University Dimitrie Cantemir, Splaiul Unirii no. 176, sector 4, Bucharest
- Highest Court of Justice, Bucharest
- School of Law – Romanian-American University, Bd. Expozitiei no. 1B, sector 1, Bucharest
- University of Oradea, University street, no.1, Oradea, Bihor
- Victor Babes University of Medicine and Pharmacy Timisoara, Piata Eftimie Murgu 2, 300041, Timisoara
- West University of Timisoara, Bd.V.Parvan, no 4, Timisoara

Russia

- St. Petersburg State University, 199034, St Petersburg, 11 Lieutenant Shmidt Emb.
- Ural federal University named after the first President of Russia B.N.Yeltsin, Yekaterinburg, Sverdlovsk Oblast

Serbia

- ALFA BK University, Belgrade
- Banca Intesa a.d.
- Čačak School of Business, Gradski park 2, 11090 Belgrade
- Faculty of Applied Ecology 'Futura', Požeška 83a, 11000 Belgrade
- Faculty of Business Economics and Entrepreneurship, Mitropolita Petra 8, Belgrade
- Faculty of Economics, University of Pristina, Kosovska Mitrovica
- Faculty of Hotel and Tourism, University of Kragujevac, Vojvođanska no. 5a, 36000 Vrnjačka Banja
- Faculty of Law, Union University, Belgrade
- Faculty of Sciences and Mathematics, University of Niš, Višegradska no. 33, 18000 Niš
- Faculty of Technical Sciences, University of Novi Sad, Trg Dositeja Obradovića 6, 21000 Novi Sad
- Innovation Centre of the Faculty of Mechanical Engineering, Kraljice Marije 16, Belgrade
- JKP Informatika Novi Sad, Bul. cara Lazara 3, Novi Sad
- Modern Business School – Terazije 27, 11000 Belgrade
- School of Engineering Management, University "Union - Nikola Tesla", Bulevar vojvode Mišića 43, 11000 Belgrade
- UNION Nikola Tesla University, Belgrade
- University of Novi Sad, Faculty of Agriculture, Trg Dositeja Obradovića 8, 21000 Novi Sad
- University of Novi Sad, Faculty of Economics Subotica, Segedinski put 9-11, Subotica
- University of Novi Sad, Institute of Food Technology, Bulevar cara Lazara 1, 21000 Novi Sad

Slovak Republic

- Comenius University, Šafárikovo nám. 6, 810 00 Bratislava
- Faculty of Management, Comenius University, Odbojarov 10, 820 05 Bratislava
- University of Economics in Bratislava, Dolnozemska cesta 1, 852 35 Bratislava

Slovenia

- Celje School of Economics, Vocational College, Mariborska 2, 3000 Celje
- Doba Business School Maribor, Prešernova ulica 1, 2000 Maribor
- Doba Faculty Maribor, Prešernova ulica 1, 2000 Maribor
- Faculty of Business and Management, University of Novo mesto, Na Loko 2, 8000 Novo mesto
- Osnovna šola Frana Metelka Škocjan, Škocjan 51, 8275 Škocjan
- VIZ II. OŠ Rogaška Slatina, Ulica Kozjanskega odreda 4, 3250 Rogaška Slatina

Spain

- University of Granada (Spain), Plaza de la Universidad, s/n. 18001 Granada
- University of the Basque Country, Barrio Sarriena s/n, 48940 Bilbao (Vizcaya)

BRAND PROMOTION OF THE COMPANY OF THE MOBILE COMMUNICATION OPERATOR IN THE REGIONAL MARKET

Evgeniya Yazovskikh¹ 
Oksana Yatsenko²

DOI: <https://doi.org/10.31410/LIMEN.2019.1>

Abstract: *Nowadays it is not enough for the company to provide maximum services in order to function successfully; it is important to gain a foothold in consumers' minds as a successful brand on the one hand, and the company that you can trust on the other. In this regard, brand promotion has become a prerequisite for long-term and successful business in the market, meeting the consumers' needs.*

A high level of brand recognition is a significant factor in making a profit. After the aggressive advertising campaign, a long-term effect of brand recognition in the market is possible. A satisfied loyal consumer will produce word-of-mouth advertising himself, tell friends and acquaintances about the brand, promoting it.

One of the best examples of brand promotion is a telecommunications sector. It plays a crucial role in developing world trade, exchanging scientific knowledge and enhancing the country's innovative potential. Today at the stage of world economy globalization, the telecommunications sector is a key driver for the growth of scientific and technological progress, the development of international trade and the economic development of the country as a whole. The number of users of these services is constantly growing.

The analysis of marketing activities of the company "Telecom" to promote the brand revealed the following: since 2008, the company has been a multi-service telecom operator providing telecommunication services in Yekaterinburg and other cities and towns of the Urals Federal District (Internet connection, data transfer, virtual private network organization, business application protection and etc.).

Keywords: *Brand promotion, Brand model, Brand code, Advertising campaign, Mobile operator.*

1. INTRODUCTION

Today many theorists and practitioners refer to the definition of the brand essence and brand classification considering brand model strategies and brand promotion tools. The word "brand" comes from the Old Norse "brandr", which is translated as "burn, fire". A brand was called a symbol marking the property and which the owners used to mark their livestock (Chernatony, 2017).

A brand is not a legal concept, but a term used in marketing (commercial, territorial, political, personal). It means information about the sign, stored in consumers' minds, positively identifying and fixing the unconditional values and advantages of the object marked by it among its analogues. These values and benefits can be determined by its functional, social or emotional characteristics, or combine them (Chernatony, 2017).

¹ Ural federal University named after the first President of Russia B.N.Yeltsin, Russia

² Ural federal University named after the first President of Russia B.N.Yeltsin, Russia

Thus, the branded product is unmistakably recognized by consumers among other brands of the same product or service category. If we compare a branded product with an ordinary one without a brand status, we can notice that the first one has added value that is attractive to the consumer (Khrutsky, 2016).

2. METHODOLOGY

The definitions of “brand” were discussed by many scholars. Thus, Ph. Kotler says that brand is a name, a term, a symbol or a design (or a combination of all these concepts), denoting a certain type of product or service of a single manufacturer (or a group of manufacturers) and distinguishing it from the goods and services of other manufacturers (Burnet & Moriarty, 2015). P. Temporal notes that brand exists only in consumers’ minds and without their emotional commitment. Brand is a set of relationships between goods and consumers (Chernatony, 2017).

D. Ogilvy considers brand to be an intangible sum of product properties: its name, packaging and price, history, reputation and method of advertising. A brand is also a combination of the impression it makes on consumers and the result of their experience in its using (Ogilvy, 2017).

E. Semenova and S. Shilina confirm that a product can be considered brand if: first, it is available to 75% of buyers; second, the same percentage of the target audience can simply identify the industry by one brand name; third, at least 20% of buyers from the target audience use it regularly; fourth, at least the same percentage of buyers from the target audience can correctly identify the main brand characteristics; fifth, the product has been on the market for at least five years; sixth, buyers in any case will pay more for this product than for similar products in the category (Chernatony, 2017).

3. DISCUSSION AND RESULTS

Brand possesses certain properties (brand attributes), namely functional or emotional associations assigned to it by buyers and potential customers. Brand attributes can be either positive or negative; may have different strength and importance for different market segments. Each brand has a main characteristic defining its essence.

Along with the brand essence, one should not forget about its mission, i.e. the idea of brand existence, as manufacturers understand it. All brand attributes together constitute the brand identity that implies a combination of several components: brand positioning (a place occupied by brand in consumers’ minds); character (personality) and etc.

According to consumers, brand implies a momentary promise to customers from its producers. Thus, advertising campaign can form brand image (what is currently in consumers’ minds). Brand loyalty is a psychological factor associated with consumer perception of the brand. The strength of brand loyalty is the choice of the brand in case of other alternatives (Kotler, 2013).

Specialists considering branding tools unanimously write about choosing the right promotion method. The popular method is a “Pull” or “pulling” method, which is aimed at consumers, while brand image is formed by placing its advertising in mass media, on transport and outdoor advertising. There is also a second “Push” or “pushing” method. It influences intermediary

companies and sales staff. Favorable conditions for cooperation and bonuses are provided for distributors. They, in turn, must provide promotional materials and train retail personnel.

For brand promoting, ATL and BTL advertising, direct marketing, sales promotion, event marketing, hidden advertising (product placement) are used when advertisement is introduced in the plot of feature films, series, books, games, music, the application of non-standard media for advertising (ads on bags, shopping carts, on lids for takeaway food, trash cans, etc.).

The Internet is an effective tool for promoting brands. A wide audience, the possibility of two-way communication, high speed information transfer, low cost and etc. are the main advantages for implementing promotion. The main ways of promoting in global network are the following: search engine optimization, contextual and display advertising, SMM and viral marketing, e-mail newsletters.

Social networks are becoming popular platforms for brand promotion. Foreign countries have already realized their potential, while in Russia not many companies use social networks as a means of marketing communication (Pesoykaya, 2013).

Nowadays the telecommunications sector plays a crucial role in the world trade development, the scientific knowledge exchange and increasing the country's innovative potential. At the stage of the world economy globalization this sector is one of key drivers for the growth of scientific and technological progress, the development of international trade and economy of the country as a whole. The number of users of these services is constantly growing.

The analysis of the marketing activities of the company "Telecom" resulted in the following: since 2008, "Telecom" has been a multi-service telecom operator providing telecommunication services in Yekaterinburg and other cities and towns of the region (Internet connection, telephony, data transfer, virtual private network organization, business application protection). By 2019, there are more than ninety branches throughout the Urals Federal District. The company is aimed at providing people with the services they deserve.

The goal analysis the SMART format that shows that it must be concrete, limited in time, measurable, significant and achievable. This goal is directed to increasing sales of the company brand in the B2C market in the Sverdlovsk Region by 20 percent by the end of 2020. The company "Telecom" implements the concept of traditional marketing. The company has all the necessary licenses to carry out activities. The company employs more than 500 people, it has a hierarchical organizational structure and a marketing department and takes the second in the regional market (15 percent of the market share) (<https://k-telecom.org>).

To maintain the existing market share, it's important to promote the brand:

- develop and conduct an advertising campaign aimed at promoting "Telecom" brand;
- increase the frequency of using targeted advertising in social networks in order to attract consumers;
- collaborate with local media, create a CRM system for increasing the level of process automation;
- use SEO optimization in Yandex.Direct and Google AdWords;
- work on creating the image of the company's brand as a reliable Internet provider in this region.

The SWOT analysis made it possible to assess the strengths and weaknesses, opportunities and threats to the company. The most significant weakness is a controversial brand image, inadequate use of Internet marketing in the promotion complex.

The next step was directed to segmenting the B2C market of telecommunication services of the region. This resulted in obtaining 62 segments. Four target segments were selected and their main values were determined: the ability to choose an individual tariff; comfort in getting information; brand image of “Telecom” as a manufacturer of “fast” Internet; participating in lotteries and receiving branded souvenirs, service support from qualified employees; trust of city residents in the company. The existing brand model does not fully satisfy the needs of consumers of these 4 target segments.

The analysis of the existing brand model of “Telecom” showed that the company was implementing the emotional component of its brand. In 2015, on the base of benchmarking with the company “Rostelecom” marketers decided to introduce testimonium by analogy method, i.e. use the animal as a brand symbol (photo of a dog of the husky breed). The dog has the name “Click”, which is associated with a click on the Internet.

The company uses Click in advertising media, and also has a puppet for participating in city events, conducting contests and promotions. Today’s realities require more and more informal contacts with target audiences. With the right effect on consumers’ emotions, one can really make people feel more satisfied and happier, and therefore more grateful to the brand that helped their feelings arose.

The company “symbol” as a dog (the husky breed) appeared for several reasons:

1. A dog is a friend of a person, a dog of the husky breed is distinguished by its fidelity, reliability and speed („husky” – a sled dog), which can be correlated with certain characteristics of the telecommunication services of the company “Telecom”, namely: fidelity – the company does not raise prices and doesn’t set fines for services; reliability – telecommunication services (Internet, television) function without failures and breakdowns; and speed – quick download links / movies, etc. on the Internet without expectations.
2. A dog of the husky breed with an unusual and attractive appearance, which can be used both in advertising layouts and in creating a life-size puppet.

At the moment, the brand does not have any social dimension, the consumer does not identify with a particular social group. The brand does not have any mental dimension, the consumer does not receive and does not feel the support of the “Telecom” brand. By naming, the brand is confused with the brand of “Rostelecom”.

4. CONCLUSION

The analysis of the target audience, the competitive environment of the telecommunication services market, consumers’ preferences of telecommunication services in the regional B2C market, the model of the company “Telecom” and consumers’ core values, results in the following recommendations:

1. conduct an advertising campaign aimed at promoting the brand of “Telecom” in the regional B2C market to increase brand recognition of the company;
2. form a stable positive brand image of the company in consumers’ minds;

3. strengthen the role of information and image advertising;
4. strengthen the role of the Internet advertising;
5. enlarge the logo on the main page so that the consumer could spend a second to enter the site and see the brand logo;
6. place the logo in such a way so that it could constantly be in front of consumers' eyes.

The implementation of these recommendations aimed at promoting the brand will give positive results for production activities of the company due to their communicative and economic efficiency and increase the competitiveness of the mobile operator in the regional market.

REFERENCES

- Chernatony L. (2017). From brand vision to brand assessment. Strategic process of brand growth and strengthening. Moscow: ITD Group. p. 332
- Khrutsky V. (2016). Modern marketing: a handbook on market research. Moscow: Finance and statistics, p. 435
- Burnet J., Moriarty S. (2015). Marketing communications: an integral approach. St. Petersburg: Peter. p. 864
- Ogilvy D. (2017). Revelations of an advertising agent. Moscow: Eksmo. p. 264
- Kotler Ph. (2013). Fundamentals of marketing. Moscow: Williams House. p. 420
- Pesoyskaya E. (2013). Service Marketing St. Petersburg: Peter. p. 864
<https://k-telecom.org>

MANAGER OF TODAY AND OF THE FUTURE: E-MANAGER

Jasmina Starc¹

DOI: <https://doi.org/10.31410/LIMEN.2019.7>

Abstract: *The goal of this article is to consider which skills a manager has/will need and will use if he wants to achieve above-average results. Today, the manager must be focused on himself, be responsible for his own knowledge and development, and at the same time take full responsibility for the advancement and development of all employees. A good manager hears what others do not hear, sees what others do not see, and feels what others do not feel. The most successful manager is the one who has an open mind, is sincere, change-oriented, curious and creative. He is a master of soft skills that are based on relationships with everyone he interacts with and he masters the relationships with society. Today, in a time of constant change in technology, he must also have a well-developed computer literacy, since modern management of an organization is not possible without a highly developed computer information system.*

Keywords: *Modern e-manager, Modern manager skills, Computer literacy.*

1. INTRODUCTION

Drucker (1992, in: Kanjuo Mrčela, 1996, p. 14) states that rarely has any institution in human history appeared so suddenly and had such a rapid and great effect as management. He defines management as a „new social function” that has completely transformed the social and economic fabric of this world in less than 150 years. Management emerged when large business organizations began to emerge – organizations (late 19th century) – in which they had to coordinate the work of a large number of people performing various tasks. The only such large organizations at this time were war organizations; they were a model and role model for large organizations. From these, the concepts of control and command of a small group of people have taken over the large crowd within the strictly hierarchical structure of the organization.

Over time, management acquired new forms, functions and dimensions. Management has always monitored and responded to changes in organizations. It also promoted change and development in organizations, so it’s no coincidence that theories of organization and management seemed close and even overlapped. Management represents the most important function in the organization (Fayol, 1949; in Bahtijarević-Šiber et al., 1999, p. 445).

Management has evolved – like many other scientific disciplines – into practice. Although some of the scientific bases of management date back to the nineteenth century, the systematic development of modern management as a scientific discipline began in the early twentieth century and coincides with the development of industry. Since then, many professional publications have been published in the world of management, and the manager has become one of the highest paid professions.

¹ Faculty of Business and Management, University of Novo mesto, Na Loko 2, 8000 Novo mesto, Slovenia

2. MANAGER OF TODAY AND OF THE FUTURE: E-MANAGER

Research has shown that it takes 15-20 years to develop a top manager. The main factors that make it successful are: 10 % represents education, 20 % success depends on the people with whom it works, and 70 % represent experience (part-time studies, early leadership experiences, creating something from scratch, restructuring, project work, increased responsibility, problems, etc.).

The manager of the future is responsible for his knowledge: he will decide on resources, create his own ideas about phenomena, use his time for his own experience, connect data with new circumstances, etc. (Krajnc, 1996, p. 9). The focus is on interdisciplinary education, which requires the manager to have comprehensive knowledge, skills, new habits and a combination of information from different disciplines.

Schein (2004, p. 287) outlines the characteristics that the manager of the future is expected to possess: an extraordinary ability to perceive and insight into himself and the real world; exceptional motivation ability that will enable him to overcome the difficulties that arise in the learning phase through change; emotional strength that will help overcome fears of learning and change that will become part of everyday life; the willingness and ability to involve others in the organization, because the tasks will be too complex and the information will be too much for the manager to handle; the will and ability to share power and control according to the knowledge and skills of the participants, which means allowing and promoting leadership throughout the organization.

In addition to the qualities already mentioned, the future manager will be a person who will be able (Hesselbein et al., 1996, p. 154): to lead and to follow; sometimes being the center, sometimes the fringe of what is happening; be sometimes up, sometimes down on a hierarchical scale; to work alone and in a team and be an eternal student.

The new profile of the manager, established in the beginning of the 21st century, must be convincing, and above all, he must be able to motivate his colleagues and attract them with personal example. One major challenge for the management of the future will be to match and complement the goals of the organization and the personal goals of the employees (including management). As early, Görg (1991, p. 12) announced the following changes in management in the future:

- The trend of internationalization of the economy, while increasing national and regional independence;
- The company evolves into an entertainment company. At the same time, the social impact of productivity is growing;
- The public is becoming increasingly critical of the industry. At the same time, he is becoming increasingly aware of the crucial role of the economy in achieving socio-political goals and solving socio-political problems;
- Public morale levels are rising and private morale is falling.

According to Mayer (2002), the modern manager has the following characteristics:

- *Intelligence in terms of responding quickly and appropriately to change.* Very intelligent people, as a rule, are not good leaders, because they are more focused on dialogue with themselves than with others, thoughts overtake the words spoken, so expression is less comprehensible. However, leaders are above average intelligent. Their intelligence is also reflected in the performance of several rules (so-called parallel processing);

- *Personality in the narrowest sense, among which the following qualities stand out among managers.* Dominance (or dominance), which is an internal tendency to power over others. The next feature is extraversion (openness), which opens up possibilities for communication, exposing one another's interactions, emotional expressiveness. Emotional stability or neutral emotional state⁵. Honesty is one of the qualities of a manager that contributes to the employees' confidence that the tasks are fairly distributed and objectively evaluated. However, honesty usually relies only on one's own conduct. Therefore, the honesty of a manager must be closely linked to responsibility for others. As a last personality trait, there is a reliability that relates to and is committed to fulfilling promises and agreements;
- *Creativity as the next trait of managers and understood as a human ability to outgrow what has already been created.* Creativity cannot be planned, but encouraged and expected. Creative managers are those who have no tongue hair, deal with things thoroughly and are stubbornly persistent. They also think in their own way. They are enriched with a rich imagination and are original and humorous in their actions. The creative mission, then, is the art of promoting the creative work of colleagues. If a leader is able to instill the joy of working and socializing and inspiring colleagues for top achievements, creativity comes automatically;
- *Expressiveness as a trait of managers is welcomed in the process of entrusting tasks, in various presentations, in business negotiations, in mentoring and in public appearances.* It is a complex messaging ability and skill. Expressiveness is teachable. Its lightness, comprehensibility, interestingness and persuasiveness of expression of the manager directly influence all those to whom the message is intended;
- *Empathy (the ability to experience another) is, in contrast to expressiveness, a natural reality that cannot be learned.* It provides a deeper insight into yourself, which is especially important for personal maturation – as a key item in shaping self-image. It is especially important when the positions of the manager and associate are diametrical (that is: completely opposite);
- *Positive self-image is the ticket to the circle of leading personalities.* The person who trusts, is satisfied with himself, is self-critical and progress-oriented can successfully lead others. Negative attitude towards oneself excludes affection for others – the basis for cooperation;
- *Determination (or courage) are also qualities of a good manager.* Although the belief is that no man can be decisive in all situations, in all cases. In practice, however, it turns out that determination is dependent and expressive on the emotional component of givenness;
- *Altruism and philanthropy are the basic attitudes of the manager towards his colleagues.* A good leader is always in the background and exposed only when needed. In doing so, he does not neglect caring for others in arousing a sense of importance and need;
- *Ethical principles are the core of conduct that directs the person from the value and the differential – the biological to the valence of the human.* The sense of good/bad, just/unjust develops in the process of education, which means that ethics is learnable and that its key source is interpersonal relationships. The most important goal of ethical development is a good man, who is also the primary trait of a good leader.

Given the complexity of the tasks (and expected personality traits) that the manager of the future will have to perform, we believe that he will need a wide range of skills that will allow him flexibility, dynamism, adaptation to new changes, risk taking and increasing responsibilities, etc. Therefore, it is very important for the future of continuing education and training for managers, both formal and informal, that it will constantly ensure that programs are relevant to the needs of businesses. State and private educational institutions will have to develop, update

their programs (teaching content), supplement their teaching forms, methods and resources. Only in this way will they attract (educate) managers, otherwise they will remain outside the management development flow and without demand for their „products”. Given the economic and political integration of European countries, they will have to liaise with foreign educational institutions and involve (recognized) foreign lecturers with international experience.

Managers are becoming increasingly aware that, in addition to being responsible for their own knowledge and development, they must also take full responsibility for the advancement and development of employees and all employees. Because they will have to cope with all the global challenges that will always require new skills, they will need to be educated on a permanent basis. Krajnc (2002, p. 221) emphasizes the importance of developing one’s own identification of an individual, which enables him / her to open communication, integration at a higher democratic level in relation to other people. A manager with a formed identity will be able to accept and tolerate the otherness and diversity of others, as he must actively confront the processes of globalization aimed at accepting the world as one community.

3. A MODERN E-MANAGER

The shift from e-commerce to business is a change across the organization, not just a replacement for new technologies. The Internet economy is changing everything: the way organizations are managed, the organizational culture, and managers are required to acquire new skills. The Internet requires many new skills, but it is believed that a good manager can also become a good e-manager. Certain quality attributes of managers have become even more important in the modern economy than they have been before (Penger, 2001, p. 25).

The past few years have seen a remarkable development of information literacy around the world. Data, information and knowledge are crucial for each individual. Nowadays, information literacy is no longer relevant only to individuals, but to the whole economy and all the population. We know many forms of information literacy, and they are all very important. It is important both in e-learning and in other traditional forms. Information literacy is very important today for most workers and jobs (Grčar et al., 2006, pp. 1-2). Information can take many forms: textual, graphic, audio visual. They are available to us in various places, in the mass media, on the Internet, in the library, within the local community, in interest organizations. This information is made available to users in unfiltered form and doubts about its authenticity, reliability and validity are raised. Since a wealth of information does not make itself an informed individual; an individual needs a whole range of interrelated skills to use the information effectively. We need to create an information literate (Miller, 2016, p. 6).

Information literacy is generally defined as the ability to identify information needs, to obtain, evaluate and use information from a variety of sources. It is a widespread concept of traditional literacy because it binds to the use of any character system and involves the understanding and creative use of information also transmitted through modern computer, communication and reproduction technology. It is development oriented. It is an integral content of human continuous learning, learning to master it so that we can learn, explore (Novljan, 2002, p. 10). Javrh et al. (2018, p. 13) describe the concept of digital literacy as a fundamental ability of an individual to use and function in the digital world. Digital literacy is the ability to safely and critically use information society technologies in a variety of fields: at work, in leisure, and to communicate with others. A key component of this capability is digital competence. Digital literacy encompasses

the critical and secure use of digital technology at work, for personal leisure and communication. Fundamental computer knowledge, such as the use of a computer to search, evaluate, store, produce, present and share information, and to communicate and participate in shared networks on the Internet, is fundamental. For example, digital literacy in everyday life means that an individual is able to install a proper tablet game on their child, share beautiful travel clips with their friends, have no problems online shopping, making online payments, etc. A digitally literate individual knows and uses digital appliances and gadgets, such as computers, smartphones, and web tools, and can connect and update them for his or her personal needs, while being skilled enough to use this knowledge and he does his job easily. Using digital technology, it searches for and manages a variety of information, communicates and performs various tasks in many ways. It manages various mobile and computer applications. He knows how to choose the right path to reach his goal, and understands the legalities of the digital social environment and finds itself in it.

An information literate person should know at least the lowest level of the computer (basic computer equipment, media, input and output units), should be able to operate, start and shut down the computer, use input and output units, adjust the desktop, edit the computer settings, use the Internet (basic on security, web browser, bookmarks, searching information on the internet, printing) and working with email (spam, electronic communication) (Borse, 2006, pp. 3 – 4). An information literate person is capable to (Stojar, 2010, p. 7):

- identify and identify the information need,
- obtain the necessary information effectively and efficiently,
- critically evaluate information and information resources,
- integrate selected information into your background knowledge,
- successfully use the information to achieve a more specific goal,
- understand the economic, legal and social aspects of the use of information and obtain and use information in accordance with ethical rules and regulations.

Lavtar (2003, pp. 14–19) summarizes the seven dimensions of literacy:

- *Tool literacy*: the ability to understand and use practical and conceptual information technology tools (software, hardware) relevant to the education, field of work and personal life of the individual. Basic computer and network application programs are included;
- *Literacy for the use of resources*: the ability to understand the forms, formats, locations of information resources and methods of accessing them, especially the development of network information resources. This definition most closely matches the concepts of information literacy by librarians and contains the concepts of classification and organization of information resources;
- *Socio-structural literacy*: means knowing how and how information is socially shaped. This means how it suits the various groups in society. It also means knowing the institutions (universities, libraries, companies) that create and organize information, knowledge;
- *Research literacy*: encompasses the ability to understand and use the tools of today's researchers (e.g. computer programs for quantitative and qualitative analysis);
- *Publishing literacy*: the ability to design and publish research and ideas electronically, in text and multimedia formats (including WWW, CD-ROM, e-mail);
- *Technology literacy*: the ability to adapt, understand, evaluate and apply information technology innovations;
- *Critical literacy*: the ability to critical evaluate the intellectual, human and social strengths and weaknesses, capabilities and limitations, benefits of information technology. It includes a historical, socio-political and cultural perspective.

The most important skills and abilities of the modern e-manager are presented in the table below.

Table 1: The most important features and capabilities of an e-manager

The ability	Identifying the content to which the ability relates
Speed	Speed of business depends not only on the Internet and support technologies, but on the ability of the e-manager to make quick decisions. In the Internet age, management performs activities in parallel rather than sequentially.
Ability to learn and develop	Human capital is the most important resource of modern organization. Talented and capable employees must be allowed personal development. In recent years, the Internet has created jobs such as information architect, e-commerce manager and knowledge manager.
Openness	An OECD survey found that business openness is emerging as a strategy. E-businesses disclose information to business partners through access to databases. This requires mutual trust.
Ability (virtual collaboration)	An e-manager must be able to work with the team, employees and outsiders, who are increasingly remote, so he must learn new ways of virtual collaboration. Because of the Internet, teams are physically and temporally separated.
Standards	In the age of e-commerce, when software replaces people's work, management must clearly define e-commerce standards.
Good communication	E-managers must have the ability to communicate effectively across business units within the organization and with external members. The horizontal network architecture enables direct communication of the employee with the senior manager and removes the intermediate links.
Content management	E-managers must ensure that the Internet image is successful, provides proper navigation and contains the right content. More complex pages mean harder updates with new features and higher maintenance costs.
Customer focus	E-managers need to focus on increasingly individualized customer relationships.
Knowledge management	E-managers need to develop a philosophy of knowledge management. The development of complex databases and intranets enables companies to acquire, retain and impart knowledge.
Keeping employees through cases	Management must first and foremost encourage the use of Internet technology by all employees.
Internet literacy	The Internet age manager must be literate in order to take advantage of the immediate availability of information and data over the network.
Strategic decision making	Because of the speed dynamics, e-managers must be able to make quick decisions about strategic, non-routine content.

Source: Penger, 2001

Information literacy enables managers to be more responsible in jobs and careers. Information literacy enhances their competences in evaluating, managing and using information (Stopar, 2010, p. 9).

4. CONCLUSION

The importance of digital technology in both the personal lives and work environments, and therefore the digital skills needed to make the best use of it, have been constantly growing in the past decades.

Managers must have developed the following digital skills: instrumental skills, structural or informational skills, and strategic skills, which refer to the ability to use the information proactively to affect one's professional and personal environment.

According to Fau and Moreau (2018, p. 24) managers should focus on three areas to create and enabling environment: Digitization of businesses, by providing a framework and incentives for

businesses to adopt new technologies and update their working practices by integrating digital technologies. This creates a demand for digital skills that can foster and enhance the development of such skills internally and externally (workplace training courses, specialized courses in higher education, etc.); technological infrastructure, through investments aimed at providing quality high-speed Internet access, reducing access costs, connecting populations in remote regions; the development of online content (locally relevant content, content in local languages, etc.) to create a virtuous circle in which enhanced content is both a driver and a consequence of digital skills.

REFERENCES

- Bahtijarević-Šiber, F. (1999). *Management ljudskih potenciala*. Zagreb: Golden marketing.
- Borse, N. (2006). *Računalniška pismenost za odrasle*. Novo mesto: RIC.
- Dimovski, V. in sod. (2005). *Učeča se organizacija*. Ustvarite podjetje znanja. Ljubljana: GV Založba.
- Fau, S. and Moreau, Y. (2018). Managing tomorrow's digital skills: what conclusions can we draw from international comparative indicators? United Nations Educational, Scientific and Cultural Organization, Education Sector. <https://unesdoc.unesco.org/ark:/48223/pf0000261853> (Accessed on 18 December 2019)
- Görg, B. (1991). *Prihodnost menedžerjev, menedžerji prihodnosti*. Ljubljana: DZS.
- Grčar, A. in sod. (2006). *Informacijska pismenost med teorijo in prakso – vloga visokošolskih in specialnih knjižnic*. Ljubljana: Abo grafika d.o.o.
- Hesselbein, F. in sod. (1996). *The Leader of the Future: new visions, strategies and practices for the next era*. San Francisco: Jossey-Bass.
- Javrh, P. in sod. (2018). *Digitalna pismenost*. Ljubljana: Andragoški center Slovenije.
- Kanjuro Mrčela, A. (1996). *Ženske v menedžmentu*. Ljubljana: Enotnost.
- Krajnc, A. (1996). Kakšno znanje potrebuje sodobni človek. *Andragoška spoznanja*, 1996, št. 3, str. 5-10.
- Krajnc, A. (2002). Kdo se lahko vseživljenjsko izobražuje. In: Klapan, A. (ur.); Matijević, M. (ur.): *Obrazovanje odraslih i cjeloživotno učenje: zbornik radova međunarodne konferencije Obrazovanje odraslih u Republici Hrvatskoj u kontekstu cjeloživotnog učenja: book of proceedings of the International Conference Adult Education in the Republic of Croatia in the Context of Lifelong Learning*. Zagreb: Hrvatsko andragoško društvo, str. 217-224.
- Lavtar, D. (2003). *Informacijska pismenost*. Diplomsko delo. Ljubljana: Univerza v Ljubljani Fakulteta za družbene vede.
- Mayer, J. (2002). *Ustvarjalna organizacija. 21. znanstvena konferenca o razvoju organizacijskih ved, Portorož, 27.-29. marec, 2002*. Management in Evropska Unija: Zbornik posvetovanja z mednarodno udeležbo. Kranj: Moderna organizacija, str. 192-201.
- Miler, B. (2016). *Informacijska pismenost dijakov po končani osnovni šoli – primer dijakov prvih letnikov srednjih šol na Koroškem*. Diplomsko delo. Maribor: Univerza v Mariboru, Fakulteta za naravoslovje in matematiko.
- Novljan, S. (2002). Informacijska pismenost. *Revija za področje bibliotekarstva in informacijske znanosti*, 46, št. 4, str. 7- 24.
- Penger, S. (2001). Vpliv nove ekonomije na temeljne funkcije managementa v organizaciji 21. stoletja. Magistrsko delo. Ljubljana: Ekonomska fakulteta, In: Dimovski, V. in sod. (2005). *Učeča se organizacija*. Ustvarite podjetje znanja. Ljubljana: GV Založba, str. 86.
- Schein, Edgar H. (2004). *Organizational culture and leadership*. San Francisco: Jossey-Bass.
- Stopar, K. (2010). *Merila in kazalci informacijske pismenosti v visokem šolstvu*. Ljubljana: Zveza bibliotekarskih društev Slovenije.

PLANNING IN CONTEMPORARY MANAGEMENT CONDITIONS

Slobodan N. Bracanović¹

DOI: <https://doi.org/10.31410/LIMEN.2019.15>

Abstract: *Planning has increasingly been gaining in significance in a more recent period and at all levels. There is also room for developing more perfect and newer forms of planning. The market is becoming an economic space both as the subject matter of contemporary business planning and the subject matter of a contemporary plan. The management structure (i.e. management) is not only faced with dilemmas regarded as either plan or market dilemmas, but rather as both plan and market dilemmas.*

Keywords: *Planning, Plan, Visionary ability, Horizon, Strategy, Tactics, Operation plan, Operationality.*

1. PRIOR DETERMINANTS

Planning from the highest macro-aspect (as well as the central level, i.e. the mezzo-aspect) implies a form of the conscious, rational coordination and directing of economic, branch, regional and social-economic development, which is gaining in significance with the new role of the state.

The micro-aspect of management implies planning as denoting the primary function of the management process. Namely, planning is the first (initial) of the equal functions (phases, stages, subsystems, segments) of the management process. In the same manner, planning basically starts, generates (initiates) and intensifies the activities of organizing (labor, manufacturing, services), decision-making, leading and handling, and control activities. The absence of planning leads to chaos.

The causes for, origins of and reasons for the necessity of planning are complex and intricate: 1. the organization and direction of the activities to be performed by managers and (or) employees in organizations (i.e. a vision, a mission, ideas, goals, motives, a strategy, tactical and operational short- and long-term plans) are oriented; 2. a lack of organization, a lack of occupation, a lack of order and a chaotic atmosphere are reduced; 3. redundant, irrational, non-purposeful and ancillary (supplementary) activities are reduced; 4. planning decisions promulgated are determined as the benchmark (i.e. “standard”) of control; 5. the future (in an internal, external and connected environment) is predicted, and we always aspire to direct, adapt and control the future and reduce entropy (the immanent tendency of a system to move towards uncertainty, chaos and destruction); 6. omissions, misses and mistakes that have been made are corrected and rectified; 7. the possibilities of making changes in working are perceived, etc. Apart from this, approaches to planning may be diverse. Planning is a) the basis for the decision-making process (making individual, concrete decisions), also including (encompassing) the related integral process (system) of determining decisions themselves; b) the application of formalized techniques, rules, procedures and methods; c) minimizing economic, business riskiness; d) perceiving entrepreneurship flows; e) thinking, creative working out and “control” of the future, and so on. A whole “panoply” of approaches are also possible to apply.

¹ Faculty of Economics, University of Pristina, Kosovska Mitrovica, Serbia

Planning is also possible to interpret (in a narrower sense) as the flow (process) of determining and making planning decisions. Different planning decisions are immanent: intercausal, interdependent, inter-conditioned and integrated (in an integral system). Planning decisions arise from a vision, mission and ideas (leading ideas and ideals) of business entities and, more broadly perceived, organizations, further including goals, means, projections, concepts, strategies and plans. It is possible to generate planning decisions in a formalized process based on relevant planning methodologies, and frequently on the unformalized development of processes, whereas interwoven (“cross” and other) flows are also beyond dispute. Information (data, facts) are the underpinning for making timely and quality planning decisions. This has been made possible by the modern, fast, expansive development of the cybernetic and computer systems. The informational basis was much scarcer in the prior era.

A fact is established that planning is a conscious and continuous process of exploring, analyzing, projecting, making concepts of and predicting the factors of the (internal, external and related) labor and organizational environment even on this basis of making planning decisions on a vision, a mission, goals, means, a strategy, plans and important planned tasks.

The effects of the flow of prediction reflect in planning assumptions (starting points, premises) that are entered into a planning documentation. Prediction may also be an autonomous activity in relation to planning. Planning and prediction are, however, interconnected, inter-causal, interdependent and inter-conditioned activities (no planning is possible without predictability). Predictability is faced with a pronounced problem, particularly so with a longer and long-time horizon, since a longer time horizon reduces the possibilities of more precise, more detailed and more successful prediction (and *vice versa*). Misses in prediction are frequent. Planning is potentiated as a continuous, dynamic and creative process instead of a plan as an expression, i.e. a formal or (relatively) “static” document. (5; 99-100)

2. PLANNING MANAGEMENT DOMAINS AND SYSTEMS

Historically observing, diverse management systems have been developing (evolving) in alignment with the growth of the challenges created by the intensification of the “turbulence”, the unpredictability of the future and the complexity of the environment of a business entity (enterprise), or an organization and institution in a broader sense. The future is more complex, more intricate and less predictable, and in accordance with this, systems are becoming better-built, more sophisticated (“more refined”), more complete and wider in comparison with previous systems. Problems are more difficult or more complex at a higher level of development.

There are indicative phases and (or) stages, as well as iterations (“steps”) in the development of planning and strategic management domains, i.e. areas, fields and systems.



Diagram 1. The forms, phases or stages in the development of planning, strategic systems

- a) Basic financial planning is manifested as the starting (initial) phase in the creation and development (evolution) of a strategic management system. This system is possible to apply in the conditions and circumstances when the flows (of regularities) from the past are continued in the future (“extrapolation”). Changes are gradual, easy (slower). The environment of the business entity (enterprise) is known, stable and balanced. Current manufacturing-service and financial plans of a shorter term are determined based on the analysis of the past condition. The mistakes, omissions and misses of the prior planning period are also corrected. Operational (current) control and the (annual) budget are potentiated with an emphasis on manufacturing-service and financial indicators (parameters) and information in the current planning interval. The aim of this form of planning is to generate a revenue, a realization, income, a profit (the “budget”, funds). In this domain, we especially speak about operational, current “budgeting”.
- b) Planning based on prediction is a significant expansion and “steps forward” (in comparison with prior short-term financial planning). The stress is on the analysis of the environment with the (“static”) allocation of resources and means to selected business fields (“business”). The application of the system is possible when the circumstances of the environment are the marks of the predictability of a nearer future by passing on trends and tendencies from the past (the method of the “extrapolation” of data time series, mainly of a linear trend). Changes are anticipated. Long-term planning based on the extrapolation of trends from the past into the future has in the present time importantly lost its (usable, practical) value and is no longer applied in business practice.
- c) Externally-oriented planning is connected with making a marketing concept and philosophy, as well as the necessity for a broader and more intensive reaction to supply, demand, prices and competition. A meticulous assessment and evaluation of determining variants and (or) alternatives is based on a breakdown analysis of the condition and situation, as well as the movement of the competition. Resources, sources and funds are (dynamically) allocated to the main directions of growth and development that more optimally enable the achievement of the goals and (or) interests of a business entity (enterprise, corporation) and another organization.
- d) The projection and concept of planning strategic management enables the formation of a thought-out, more stable, fast (to a rational extent), adaptable, flexible, creative, constant and “iterative” management flow process. Planning dimensions are strategically selected. An appropriate value system and culture (a business “climate”) are supported. It is indicative as the basis, research and analysis. It is aimed at having a business (or public, or social) entity react to challenges and requirements of the environment for achieving efficiency, effectiveness, successfulness (by suppressing or preventing unpredictable risks and surprises). The synchronization of all available resources of a business and organizational entity for the purpose of creating and developing mid-term and (or) long-term strategic advantages is potentiated (logically, covering also the related other tactical, short-term and operational planning or control. (5; 100-103)



Diagram 2. The aspects, the constitutional factors of strategic planning and programming

Nowadays, a substantial number of business entities worldwide are characterized by the insufficient growth and stagnation of or a decline in the business activity in connection with the economic-financial crisis (manifested in 2008), which (although referred to as “global”), is primarily the determinant of the western hemisphere. Through the inter-connectedness of economic, business flows, crisis effects flow over to other economic spaces. This is the era of abrupt changes, transformations, transfigurations and “discontinuities” in which (especially) the past experience is not a sufficient or fully reliable idea and the “leading idea” and underpinning for a nearer future, particularly not so for a more distant future. Sudden hits and “shocks” require adaptability as well.

Observing the evolution (i.e. the gradual flow) of its development, strategic planning of development is dynamic, multifactorial, complex and intricate, and requires more time than simple long-term planning. Strategic planning is becoming a necessity at a high level of unrest, “turbulence”, when changes, modifications and challenges in the future are made or appear, respectively, in “discontinuity” (not in continuity), where these discontinuities are (at least partly) predictable. As the initial step (the “iteration”), the strong or weak sides of a business entity, as well as the other domains of a transitional form, are analyzed as the initial step (the “iteration”). It is necessary that strategic research and analysis should be performed and a choice made, and that an important strategic change should be made. (5; 105)

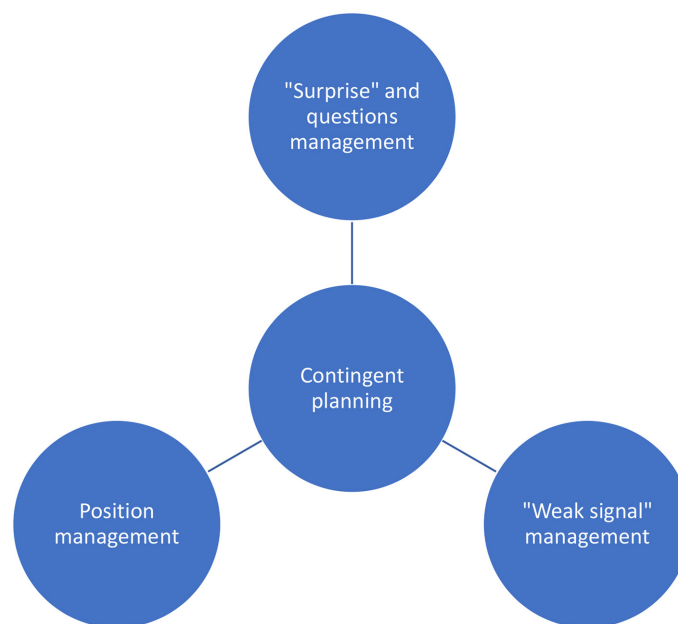


Diagram 3. The projections or concepts of planning strategic management

The strategic position of an organization, business entity (enterprise, company) means the position of the business doer on a market and changes (transformations) in comparison with the existing competition (implying disloyal competition, too). Apart from this, the strategic position should necessarily correspond with the levels of unrests, turmoil and “turbulence”. There are complementary (supplementing) abilities and “levers” of an organization: a) functional (manufacturing, services, accounting, finance, personnel, marketing, etc.); b) general (management structures, decision-making by management); and c) separate, specific and special abilities (of entrepreneurship). (5; 105-107; 1; 368-369)

Contingent (multivariant) planning emphasizes the fact that different methods must necessarily be used to react to different conditions and situations in a proper and appropriate manner, not

unilaterally in a unified manner. This system applies the “scenario method” (the creation of plans for diverse “scenarios”). More concretely, the “scenario method” signifies a tendency to shed light on and (or) identify possible flows and events in the future which are based on various premises of the trends of and changes in important factors of the environment of the organization in a future time. It is important to assess and evaluate the possibility and probability of a certain trend, flow, event, and/or phenomenon. (5; 107)

Managing strategic questions implies systematic procedures, methods and techniques of early (initial) identification and a quick and timely reaction to sudden changes and hits (or “shocks”) inside and outside the business entity, i.e. in a closer and (or) more distant environment. A strategic question is a condition, dilemma, problem (internal and (or) external), with big effects on the present activity of business (and other, as well) doers, and of future effects. This planning conception is considerably simpler (than the previously mentioned). The starting premise is that a certain (small, or smaller) volume of causes is effectuated in a considerably greater scope (volume) of all results and events. It is not, however, possible to absolutely precisely determine the proportions between the volume of such causes and the volume of consequences caused. There are also urgent and (or) less urgent questions. The volume of the questions is smaller when strategic marks are concerned (and they may require a more urgent action). Certain questions require constant “monitoring” and supervision. (5; 108-109) The planning management concept with the help of “weak signals” is also indicative.

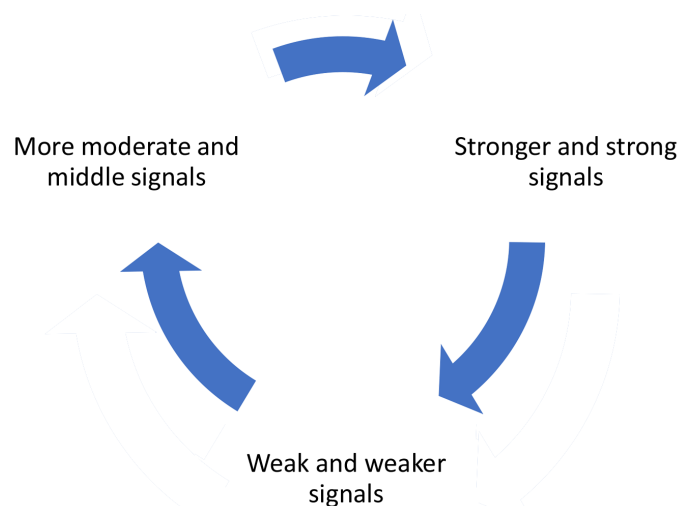


Diagram 4. The modalities of “signals” in planning, management, coordination and directing

The questions that become crystal clear by perceiving (“supervising”) the environment of the organization differ from one another in the scope and (or) the structure of the included data and information. Certain questions are (immediately) determined as visible and concrete, and they belong to “stronger and strong signals”. These signals enable business entities the space and chances to create special and (or) specific plans as a reaction and an activity (action) to received signals. Furthermore, other questions include insufficient and partly true, or also untrue, information in connection with the events of a future significance for the organization’s business doing and development. these questions include “weak and weaker signals”. Over time, such weaker signals develop (“mature”) and transform into more moderate, or stronger and strong signals. When the economy and (or) a social organization expects weaker signals to become strong, then a risk of not reacting purposefully and rationally and a risk of losing the acquired strategic position appears. The necessity for an organization to start finding out the paths and

solutions as early as in the period in which the signals of the environment are weak or weaker is manifested by the circumstances of the higher and high levels (degrees) of unrest and deformations. There are also different levels and intensities in the development of data, information and facts, as well the strength of signals (moving from lower levels to the top, or *vice versa*). Reacting to the signals of a divergent strength is mainly gradual, though it may also be both abrupt and in leaps and bounds. The fields (zones) of a realistic and “feasible” solution, as well as creative and action plans for the formation of “distinctive” advantages, are indicative. (5; 110)

Strategic surprise management is a more perfect management and entrepreneurial system. The future brings with itself unknowns and uncertainty (“non-transparency”). Very clearly and logically, surprises are not expected and predictable, because, if they were expected and predictable, they do not represent real surprises, either. Apart from this, we tend to manage surprises once they have happened, but this is extremely difficult to do. Understandably, conditions and situations without smaller and (or) bigger surprises are safer and more optimal. Starting from research in and analysis of military surprises (in armed forces), economic, state-owned and social organizations started (in the past) using this management system. We speak about a high level of unrest, oscillations, perturbing flows in the environment. Changed and new problems in which a subject possesses insufficient experience, or no prior experience at all, impose themselves. Answers, solutions and ways out (passages) are urgent and quick, whereas ordinary everyday systems, techniques, rules, procedures and methods are incapable of creating preconditions and conditions for an adequate and timely reaction. Unless there is an adequate answer, consequences are complex and multifold (financial collapses and turns, the melting of monetary and financial reserves, a loss of the main chances of development, appropriate variants or determining alternatives, opportunity, tangible costs and intangible expenses, and so forth). (5; 111)



Diagram 5. The main factors of the strategic surprise management and planning system

The management decision-making structure has a responsibility of various forms (as per groups and teams), namely: answers, solutions and reactions to strong hits, “shocks” and surprises; enabling the continuity of business doing (“business”) by suppressing business “friction”; the maintenance and control of ethical norms (morale) in the organization and the system; the correction of mistakes, misses and omissions, and so on. The highest level (“top” management) creates a comprehensive business projection, concept and strategy; determines the responsibility for application; directs or coordinates the flows of such realization in a goal-oriented, conscious and rational manner.

The communication “network” in conditions and cases of dangerous risks is manifested separately and exceeds the usual (normal) delimiters of the organization and achieves a more dynamic communication inside the organization as a whole. Within the “network”, there is a center for the evaluation and distribution of data and information which rates and assesses

input information and forwards them to the responsible segments of the “network” in order to find a solution. When surprises are concerned, the tactical and operational network acts in the sense that the members of a tactical and operational group and (or) team exceed the established organizational channels and lines, and form “action units” (a plan and other). A connection (communication) between management structures is directly established. These groups achieve (implement) business factors. Different networks are possible: 1. technology, 2. finance, 3. the market, 4. information and so on.

With “communication networks”, tactical-operational groups (or (and) “groups”) enable a faster and fast reaction and finding solutions (ways out) to changed or new problems from the aspects of creativity, research, analysis, techniques, group and (or) team work.

“Networks” are (also) indicative (as exercises) in the conditions of the nonexistence of the most critical situations.

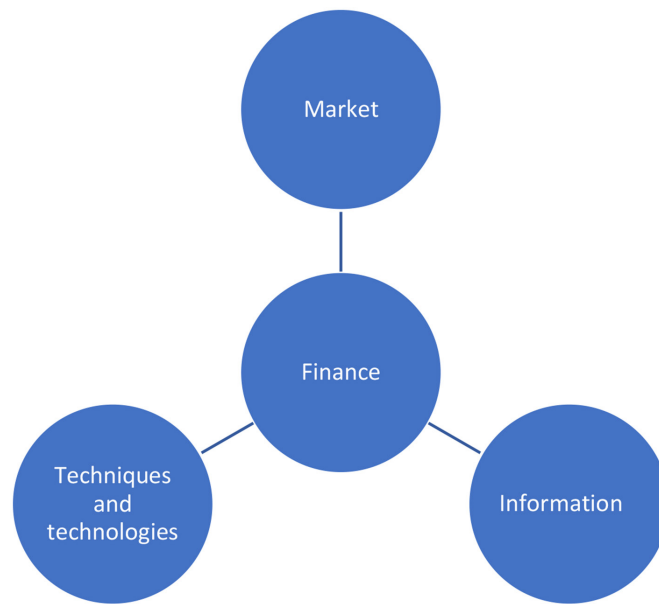


Diagram 6. Preformed and possible “networks” for different modalities of surprises

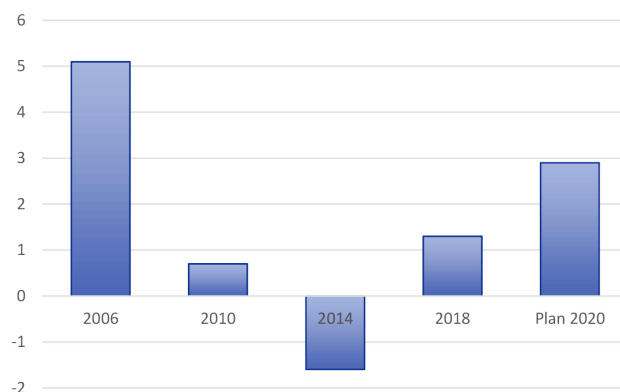
The choice of an optimal planning management for organizations and technical-economic system is of a rational character. Diversified entities and organizations should necessarily apply combined strategic management systems, as well as tactical and current operational activities (while, at the same time, it is necessary that these terms should not be confused). Furthermore, the concept of “limited rationality” is relevant. Individuals and organized systems are being faced with the difficulties and problems of a higher and high level of complexity and intricacy. Ideas about narrowing (“reducing”) such intricacy emerge. Intricacy, however, is an inevitability in the contemporary conditions of business doing at all levels. Besides, the concept of “the balanced scorecard”, which is considered as an acceptable planning management system, has recently been established. (5; 112) This, however, has not exhausted the “panoply” (room, “spectrum, diapason”) of possible planning management systems in the contemporary development conditions, which may still be further improved and expanded. In a more recent time (since the beginning of this century), planning has increasingly and continuously been assuming a bigger role and gaining in greater significance (at micro-, mezzo- and macro- management, organizational and technical-economic, system and other levels). The market is an economic space which is also planned in a modern manner.

3. CERTAIN MACRO-LEVEL PLANNING MODALITIES

As has already been emphasized, planning is characteristic of all management and organizational levels in the economy, state and (or) society. The achieved and possible planned movements in the important macroeconomic categories are shown in the following tables:

Table 1. The real dynamics of the growth of the gross national (domestic) products in Serbia (6; 12-13)

No.	Elements	2006	2010	2014	2018	Plan 2020
1.	Real Growth (%)	5.1	0.7	-1.6	1.3	2.9

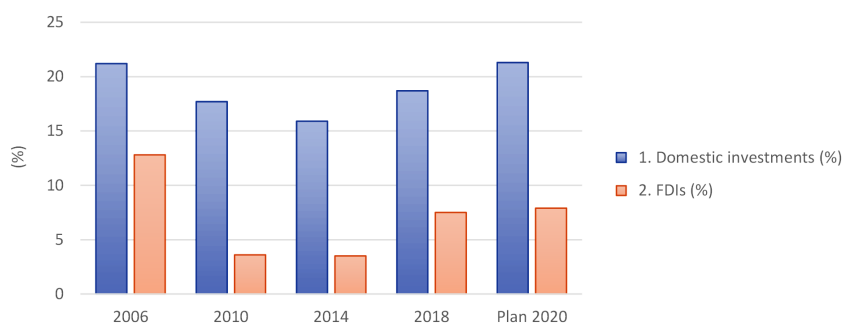


Graph 1. The real achieved and planned dynamics of the growth of the GDP presented graphically:

According to the graph, it is possible to perceive a changeable real growth of the gross national (domestic) product in Serbia in a long-term period. The planning variant of the future tendency of the growth rate is also shown.

Table 2. The trend of the structural share of domestic and foreign investments in Serbia (6; 12-13)

No.	Elements	2006	2010	2014	2018	Plan 2020
1.	Domestic investments(%)	21.2	17.7	15.9	18.7	21.3
2.	FDIs (%)	12.8	3.6	3.5	7.5	7.9



Graph 2. The structural share of investments presented graphically as well:

According to the graph, it is possible to perceive a variable tendency of the movement of the total (gross) investments into fixed (basic) funds in Serbia, reflecting on the efficiency and effectiveness of such investments (4; 364-372). Both the achieved and the planning trends of the flows of foreign direct net investments also fluctuate.

4. CONCLUSION

In this paper, possible developed variants and (or) alternatives of the planning strategic management system are presented. Strategic activities of a longer and long period are connected with tactical and (or) operational planning activities of a short and shorter term. (2;169-194, 3;181-219) There is room for the future improvement and development of new planning systems, given the fact that there are no solutions for all time in this field, either. The absence of planning activities causes disturbances, a lack of organization and chaos in management, simultaneously with the increasing uncertainty and entropy of the overall business and other systems. The interpretations that more favorable effects are achieved through spontaneous activities without any planning (at all) are of a lay nature. These may only be coincidences. Planning is primarily monitored at the micro- (business entities), as well as mezzo- (integrations, activity branches) and macro- (social) levels. (7;195-211) More recently (at the beginning of this century, especially so after the breakout of the economic crisis of 2008) the plan has gained in significance. The market has also become the subject matter of planning.

REFERENCES

1. Dragutinović D., Filipović M., Cvetanović S. (2005), Teorija privrednog rasta i razvoja, Centar za izdavačku djelatnost Ekonomskog fakulteta u Beogradu, Beograd;
2. Đurić Z. (2011), Menadžment porodičnog biznisa, Beogradska poslovna škola, Visoka škola strukovnih studija;
3. Jančetović M., Đurić Z. (2005), Strategijski i operativni menadžment, Beogradska poslovna škola;
4. Marić D. (2012), Odnos ekonomskih načela, efikasnosti i efektivnosti sa stanovišta strateškog menadžmenta, Zbornik radova, Međunarodni naučni skup ES-NBE (2011), Ekonomska nauka u funkciji kreiranja novog poslovnog ambijenta, Ekonomski fakultet Priština, Kosovska Mitrovica, str. 364-372;
5. Mašić B., Dželetović M. (2015), Uvod u menadžment, Inovacioni centar Fakulteta bezbjednosti Univerziteta u Beogradu, Akademska knjiga, Novi Sad;
6. Ministarstvo finansija Republike Srbije (april 2019), Bilten javnih finansija, Beograd, str. 12-13.
7. Rikalović G. (2002), Dugoročni ekonomski razvoj – način stvaranja bogatstva, Zbornik radova Srpske akademije nauka i umjetnosti, knjiga 12, Beograd, str. 195-211.

VOLUNTEER TOURISM AS TOURIST TREND

Sandra Mrvica Mađarac¹

Mirjana Nedović²

DOI: <https://doi.org/10.31410/LIMEN.2019.25>

Abstract: *Modern tourists on their vacations seek for an experiences and activities and one of the possible solutions for active vacation is offered in the form of volunteer tourism. Volunteer tourism is a tourist trend (volunteer plus tourism) that provides humanitarian work and the contribution of tourists to the local community during the holiday season. Through volunteering tourist is directly acquainted with the destination, its culture, problems and local customs and for the tourists through their humanitarian work is provided a sense of value. Volunteer activities can be carried out in the fields of ecology, agriculture, orphanages, animal care, heritage rebuilding, education, etc. In addition to the positive side, the negative side of volunteer tourism has also been criticized. The main argument for this is the attitude that this tourist product implies underdevelopment and poverty as a „tourist attractions”. For the purpose of this study, a group interview was carried out that includes the students to determine if they were familiar with the concept of voluntarism, whether they would go on this kind of tourist vacation and also what is their opinion on voluntarism.*

Keywords: *Volunteer tourism, Active vacation, Group interview.*

1. INTRODUCTION

Today's tourists, apart from their holidays, during their stay in a tourist destination they seek for the experience and to active spending of their vacations. During their vacation, tourists want to get to know better the local population, their lifestyle and local customs. It is for these reasons that volunteer tourism is one of the possible ways to spend the vacation. As a more decent way of tourist travel, volunteer tourism offers to tourists the opportunity to engage in a humanitarian work in the course of their tourist journey. Volunteer vacations give tourists a sense of purpose while vacationing because the volunteer tourists besides travelling also help people who seek for help. In addition to helping people, there also exists a wide range of humanitarian work that can also be used for tourism purposes. However, volunteer tourism has its criticisms as well. This paper explores attitudes towards volunteerism through a method of group interview and it cites a SWOT analysis intended for the development of volunteer tourism as a form of tourism that can be widely applied.

2. THE MEANING OF VOLUNTEER TOURISM

Volunteer tourism is a new trend in tourism offerings that involves an experience that is greater than the travel itself. In addition to containing the tourism component, it also contains its humanitarian character because it includes tourists who wish to spend their holidays actively and participate in humanitarian activities. Volunteer tourism is aimed at the part of the tourist market which wishes to get to know tourist destinations through direct social contact with the local community and to participate in socially responsible programs.

¹ College of Applied Sciences "Lavoslav Ružička" in Vukovar, Županijska 50, 32000 Vukovar, Croatia

² College of Applied Sciences "Lavoslav Ružička" in Vukovar, Županijska 50, 32000 Vukovar, Croatia

Volunteer tourism is approach to get to know a new country better and to play an important role in that local community. Volunteer tourism can be defined as a combination of volunteer work in a tourist destination with the best traditional elements in that destination, namely: art, culture, history and geography.

Volunteer tourism provides:

- Involving in socially responsible programs implemented in the local community and engaging more deeply with the community in question,
- Mastering the new skills or perfecting the existing skills through work,
- Interactive learning,
- Meeting with the local population, with people you would not meet at a hotel or in another tourist destination,
- Touring and getting to know places that otherwise tourists would never see during the classic tourist tour,
- An opportunity for the new friendships,
- Experience of the true satisfaction after the holiday (Volonturizam, 2019).

Volunteers are tourists who for various reasons are volunteering in an organized manner during their vacation, on the way to help or to alleviate material poverty of certain social groups; they help regenerate the environment or conduct research on various social and environmental issues (Wearing & McGehee, 2001).

In accordance to the concept of sustainable development of the local community by volunteer tourism are linked all stakeholders of this development, such as: local government, profit and non-profit sector, and from the tourist aspect to incite the possibility of active involvement in local community development, which contributes to the creation of priceless experiences that are remembered through the entire life of an individual (Matošević Radić, Hrabar & Buzdovačić, 2017).

Before a potential volunteer tourist has engaged with this type of tourist travel, it is necessary to gather information's about organizations that organize volunteer tourists travels that, in addition to the profits made from this type of travel, should take into account the sustainability in volunteering tourism, the needs of the local community and in this way not to jeopardize the market work at a certain location, i.e. because of the presence of volunteer tourism for the local population will not be deprived of the opportunity to work. For this reason, volunteers should educate the local population and create new business opportunities for them.

Usually, the volunteer tourist pays for the costs of his / her own travel and for stay in the destination, and often the costs of organizing a volunteer project in which he or she participates. In contrast to the volunteers who participate in the volunteer projects in their local communities, volunteer tourists work in places that are far from their homes, working in an unfamiliar environment that includes new people, unknown or lesser known cultures, different traditions and different living conditions (Kumaran & Pappas, 2012). To one's work could be considered as volunteering, it is necessary to be fulfilled three basic parts of volunteer tourism:

- Voluntariness; for their work is an expression of the goodwill of an individual tourist, that is done without any compulsory actions,
- Being unpaid; volunteerism is completely free of charge, with no expected monetary or material compensation,

- Solidarity; volunteer works out of expression of compassion for others and from a desire to help someone (Travel magazine, 2014).

There are numerous humanitarian activities that can be encompassed by the volunteer tourist travel programs such as: humanitarian assistance, various environmental activities, different ecological actions implied for the development of eco-agriculture, conservation and care of the endangered animal species, restoration of archaeological sites, the fight for human and animal rights, construction of facilities (schools, hospitals, kindergartens, and others), participation at festivals, working on educational projects and so on.

Although it has many advantages, volunteer tourism is often subjected to criticism. This situation may arise when organizations of the volunteer tourist travel have in mind only the wishes and needs of tourists, but not the needs of the community to which the help would be provided (Association „MI“, 2017). It also criticizes the marketing of volunteer tourism programs that promote companies engaged in the organization of volunteer travels, insufficient legal regulation, and screening of potential volunteers before departing for a trip. The moral side of such a trip has also been criticized because underdevelopment and local economic and social problems can be considered as tourist attractions.

Through the development of the tourism product in volunteer tourism it is necessary to distinguish the following factors (Callanan & Thomas, 2005):

- Length of visit (of the volunteer engagement),
- Level of involvement in the volunteer project (from passive to active inclusion),
- Skills and qualifications of volunteer tourists as participants in relation to a specific project,
- The degree of focus on the volunteer project considering participants' self-realization and contribution to the local community.

In order to create a quality offer of volunteer tourism programs it should be necessary to (Cimerfraj, 2018):

- Set high goals; volunteers are prepared for the difficult tasks if they see a long-term benefit to the local community and if they feel themselves useful,
- Align the skills and knowledge of tourist volunteers with the task; it is necessary to set the conditions that a volunteer tourist must meet in order to participate,
- Condition the length of stay; to harmonize the tourist journey with the duration of the project,
- Ensure that projects are not funded from the volunteer funds.

The cooperation of the for-profit and non-profit sector in the development and implementation of quality volunteer projects creates „volunteer tourists partnerships” among all involved stakeholders, such as: volunteers, organizations that organize volunteer trips, travel agencies, online brokers and tour operators who will take over the promotion and distribution of volunteer products, aviation companies that could provide discounts for this type of travel, local non-governmental organizations that implement volunteer programs in the local community, but also the users of the volunteers program (Kumaran & Pappas, 2012). The business sector has recognized the benefits of collaborating with nonprofits organizations that impact on increasing their productivity, the quality of employment and to maintain positive public image. Non-profit organizations also benefit from this kind of partnership because they include access to special-

ized skills, build organizational capacity and increase public awareness about the social issues (Association „MI“, 2017). Volunteering tourism has become one of the strongest trends in tourism that meet the needs of well-informed tourists as those who on their personal level show an interest in travel, new and authentic experiences and personal development, with intensive interaction with the local population and striving to bring about positive changes to the region and society they are visiting (Wearing, 2001).

3. SWOT ANALYSIS OF VOLUNTEER TOURISM DEVELOPMENT

In Table 1 is shown the SWOT analysis of the development of volunteer tourism, that is, the strengths, weaknesses, opportunities and threats in the environment that affect the development of volunteer tourism. The situational analysis is the basis for setting the right strategy and redefining the goals that wants to be achieved.

Table 1. SWOT analysis of the development of volunteer tourism

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • the humanitarian character of volunteer tourism • a large and unexploited volunteer market • a new market segment for tourists • education of the local population • increasing the quality of life on the destination • long-term benefit for the local community • personal satisfaction of tourists by actively spending their holidays • new friendships • meeting the new cultures and customs • good examples from the practice 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • the commission fee from the humanitarian work is taken by intermediaries for such travelling • consideration of poverty and underdevelopment of tourist attractions • insufficient legal regulation • lack of conditions related to the knowledge and skills of volunteer tourists • the length of stay if it's too short • an insufficiently known form of tourism • inadequate accommodation capacities
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • great opportunities for humanitarian work • greater promotion of volunteer tourism • joint action of local stakeholders • development of new tourism products • greater promotion of such travels • aligning the wishes of volunteer tourists with the volunteering activities • creating volunteer tourists' packages • opportunity for further development of civil society organizations • ability for financing when using the EU funding • possibility for the creation of the quality volunteer tourism travel deals • business opportunity for travel agencies 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • replacement for paid work • greater satisfaction of the tourist's needs than the local community i.e. the volunteer tourism destination • financing projects with volunteers' money • insufficiently aligned skills and knowledge of volunteer tourists with the volunteering tasks

Source: author's work

From Table 1 is visible that strengths outweigh weaknesses and opportunities outweigh threats, so a possible strategy for the growth and development of volunteer tourism emerges in order for developing strengths and seize advantageous opportunities that appear in the environment.

4. RESEARCH METHODOLOGY AND RESULTS

The data for the survey were collected with the use of the group interview method in October 2019 on a sample of 25 respondents of 20-22 years of age.

An interview method was an oral interview, a special form of conversation that differs from „ordinary” interview formally, substantively and psychologically; interview was conducted with a specific purpose and objectives to the previously prepared plan, and here we know exactly who the examiner was and who was the respondent (Zelenika, 2011).

The reminder for the group interview consisted of six major questions with regards to the attitudes and preferences toward volunteer tourism. Before the interview has started, the respondents were acquainted with the term volunteer tourism since no one in the group has known what the term volunteer tourism meant.

The results of the study showed that no one in the surveyed group is engaged in volunteering and that no one in the group had ever taken a volunteer travel. If they would be given the opportunity, 13 respondents from the group (52%) would go on this form of travel and they plan it in the future. They are most interested in caring for the poor and for the animals as well as for preserving the environment as guided activities on a possible volunteer tourist travel. For caring of children and elderly, feeble individuals, agricultural and construction building works no one in the group expressed a desire to participate in a volunteer tourist travel that would involve these activities. If given the opportunity, the segment of the group that was planning a volunteer tourist travel in the future would be happy to go to some of the European countries and to Africa. The group is interested in this form of travel and they consider it as something new and interesting, and at the same time they would present their humanitarian work.

5. CONCLUSION

Volunteer tourism combines travel and vacations with humanitarian work in a tourist destination. For the contemporary tourists there is a need for higher goals in their free time, so they seek to leave behind positive results, expand their worldviews and to help people and regions in need of help. Because a lot of unclear rules on volunteers and volunteer tourism when it comes to the process of selection of volunteers, this form of tourism has many critics, therefore, it would certainly need to check volunteers through testing as well as the organizations that provides this form of travel. There are numerous opportunities for volunteer tourism application; from the child care, care for the elderly and feeble, environmental actions, animal care, construction building and others.

The research conducted through a group interview reveals the fact that volunteer tourism is still an unknown and under-recognized form of tourism, but because of its humanitarian character and the discovery of unknown destinations, it has the potential for development. Respondents are most interested in caring for the poor and animals as part of such a travel and so they consider volunteering to be a very interesting form of tourism, and if given the opportunity they would be happy to go to one of the European countries and to Africa. From the group interview analysis, it can be concluded that the respondents have confirmed strategy of growth and development of this form of tourism, hence it could be widely used in many tourist and other destinations.

REFERENCES

- Association „MI“ (2017). *Guide for Volunteer trips*. Split, Croatia: Association „MI“
- Callanan, M., Thomas, S. (2005). Volunteer tourism – Deconstructing volunteer activities within a dynamic environment. In Novelli, M. (Ed.), *Niche Tourism – Contemporary issues, trends and cases* (pp. 183-200). Oxford: Elsevier, Oxford, UK
- Cimerfraj (2018). *What is Volunteer tourism*. <https://www.cimerfraj.hr/ideje/turisticki-trendovi-volonterski-turizam>
- Kumaran, M., Pappas, J. (2012). *Managing Voluntourism*. Gainesville, USA: University of Florida
- Matošević Radić, M., Hrabar, A., Buzdovačić, F. (2017). The contribution of the voluntourism to the sustainable community development by satisfying the needs of contemporary tourist consumers. *The Challenges of today* (pp. 165-173). Šibenik, Croatia: Polytechnic of Šibenik
- Travel magazine (2014). *Humanity in the service of travel*. www.travelmagazine.rs
- Volonturizam (2019). www.volonturizam.info/hr
- Zelenika, R. (2011). *Methodology and technology of making scientific and professional work*. Rijeka, Croatia: Faculty of Economics and Business Rijeka
- Wearing, S. (2001). *Volunteer tourism: Experiences that make a difference*. Wallingford, UK: CABI.
- Wearing, S., McGehee, N.G. (2013). Volunteer tourism. *Tourism Management*. 38., 120-130.

THE BULGARIAN INDUSTRY: THE STATE, DEVELOPMENT AND PROSPECTS OF INDUSTRIAL POLICY

Nikolay Sterev¹ 

DOI: <https://doi.org/10.31410/LIMEN.2019.31>

Abstract: *Bulgarian industry has the potential to become a crisis balancer as it reduces the negative impact of a financial crisis and drives the contemporary economic growth. In addition, not only the Bulgarian but European and world industries are developing at a rate unknown at this time. In just one generation, we have witnessed two major industrial revolutions (Industry 3.0 and Industry 4.0, respectively) and we are on the birth-stage of the next one (Industry 5.0). The success of an industrial enterprise, the success of the entire industry requires flexibility, adaptability and, above all, institutional support. So, the paper is addressed to research the following questions: 1. How the global industry is developing, 2. Where is the Bulgarian industry located and what are the opportunities for the development of Industry 4.0 via Internet 4.0, 3. What should be the next step in development of the Bulgarian industry.*

Keywords: *Industrial growth, Industrial development, Industry 4.0.*

1. INTRODUCTION

The main pillars within the industrial development could be found by analyzing the major changes of the industrial practices (main operational and management) in industry. Thus, the key points used in the assessment of the industry development are related to the change (or rather revolutionary) of the methods, approaches or tools for the establishment and / or operation of the industrial business and / or industrial sub-sectors. On this basis, „key” events can be highlighted, leading to a change in the development of industrial production. An example is the creation of a worldwide network – the Internet, which is currently changing the industry and its manufacturing and management-organizational processes from the inside out.

On this basis, five (resp. 4 past and 1 up-coming) major „industrial revolutions” can be identified, leading to change throughout the world industry (Figure 1).

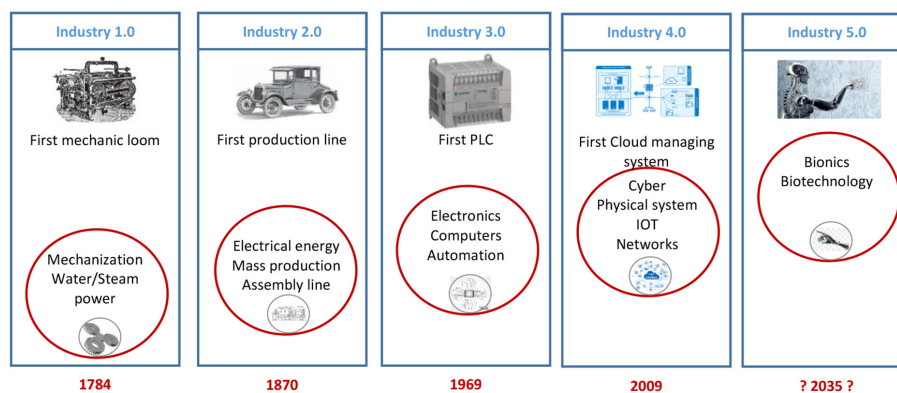


Figure 1. Industry Revolution Stages

Source: Modification of T&A (Taskforce & Advisor Sàrl), <https://www.ta-ad.biz/en/tindutrie-4-0>

¹ UNWE-Sofia, Head of Industrial Business Department at UNWE-Sofia, Chairman of Bulgarian Association of Professors of Economics and Management of Industry (APIUI), Bulgaria, 8 Decemvri, Studentski grad

Analyzing the main characteristics of any change in industrial production, related to the „revolutionary” changes in the Industry and the interrelations between the basic production and organizational-managerial factors, we can summarize the five evolutionary stages in the development of the Industry, named „Industry x.0”:

- **Industry 1.0: 18th Century Industrial Revolution**, related to the mechanization of labor and the introduction of wind, water and steam (steam engine) into production technologies;
- **Industry 2.0: 20th Century Industrial Revolution**, related to the use of electricity (electric engine) and the use of a “New Organization” of Mass Production;
- **Industry 3.0:** Introducing computers to help manufacturing in the 1960s and 1970s. **Production automation** is achieved;
 - *Industry 3.5:* Opening local economies globally. In the 1980s, a process of re-locating production according to production efficiency began. It is characterized by „export” of production from developed countries to underdeveloped economies;
- **Industry 4.0: 21st Century Industrial Revolution**, related to Introducing Internet technologies into production. They allow the use of various **cloud technologies**, which leads to the so-called big data that is at the core of **organizational excellence**;
- **Industry 5.0: Next Generation Industrial Revolution**, related to introducing **Bionics** and **Biotechnology** into production. Allows the use of biological sensors to control and organize production. The challenge is to use an appropriate open source biological language to allow the use of biological / synthetic cells in industrial production.

2. DEVELOPMENT OF THE BULGARIAN INDUSTRY

Observing the key stages of worldwide industry development, an important issue for the Bulgarian industry could be found. Historically, there are several major key points that link the development of the Bulgarian Industry to the global development:

- The Bulgarian industry began to develop in the first half of the 19th century with establishment of the very first industrial factory in Bulgaria: textile factory, in 1834. For the next 50 years the total number of established Bulgarian industry sites vary between 11 – 40 factories based on steam, water or animal power (**Industry 1.0**);
- At the end of 19th century and in the beginning of 20th century there is fast development of Bulgarian Industry as the Industry producers were encouraged through variety of tariff protections from foreign competition. The very first industrial protection law was adopted in 1894. Thus, from established 72 industrial factories with 3 027 employees in 1894, the Bulgarian industry enlarges several times till 1912 with already established 389 industrial sites with 15 560 employees. It is very important issue that there is start point of diversification of industries sub-sectors as development of: mining production, food production, textile and clothing production, tobacco production, etc. Between World War I and World War II, industrial development continued at an accelerated pace, with establishment of new-born business as there are established 3,815 enterprises (mostly small and medium-sized) with 87,442 employees in 1934. According to the official data, this industrial growth was based on development of the energy industry and the equipment of electricity-generating companies (**Industry 2.0**);
- The next restructuring of the Bulgarian industry began in 1947 after the nationalization that held on 23 December 1947. At that moment, there are 4 628 enterprises with 158 127 employees. As a result, the „consolidation” of industrial businesses in the governmental rule is achieved, with close off almost 40% of existing industrial enterprises. A

plan for accelerated industrialization and development of the heavy industry: chemical, metallurgical and mining industries is also adopted. After 1966, Bulgaria continues the course for accelerated industrialization, but the emphasis is on the **modernization of production**, as well as the **mechanization** and **automation** of production processes, incl. and the use of electronic learning machines in manufacturing. The basis is the acceleration of scientific and technological progress (**Industry 3.0**);

- The next change in the industrial structure of Bulgaria started in 1989 with the political changes in Central and Eastern countries. At the end of 1989 there are 2,593 industrial enterprises and 1.58 million people employed. A considerable number of enterprises were created, and with the adoption of the Privatization and Post-Privatization Control Act in 1992. Most of the state-owned enterprises are sold through mass and cash privatization. In a large part of the transactions, especially in the case of cash privatization, Bulgarian industrial enterprises become the property of foreign investors. With this industrial change, the Bulgarian industry becomes an integral part of the European industry as an „important” element of European production chains (*Industry 3.5*) (Ivanov 2013,2015).
- In recent years, since 2000, a special emphasis in the development of industry has been the development of Internet technologies. Following the global development from Internet 1.0 to Internet 4.0, Bulgarian industrial companies are increasingly relying on the use of cloud technologies and big data in their operations. According to experts (Biolcheva 2017), over 40% of industrial enterprises use social networks, Internet of Things (IoT) and other Internet technologies in their businesses (**Industry 4.0**).

The transition of the Bulgarian Industry during the different stages of its development can be represented by the dynamics of the industrial production (Figure 2).

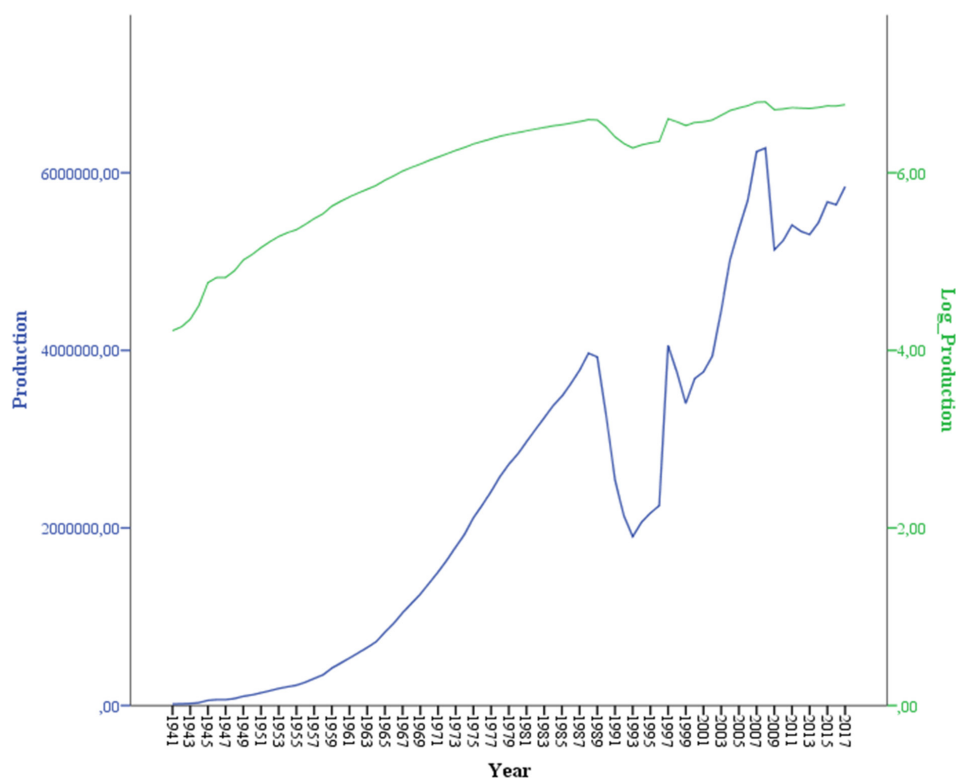


Figure 2. Dynamics of the industrial production in Bulgaria 1939-2018.

Source: Own Presentation and Modification by Kopeva D., D.Blagoev, N. Shterev, 2012

The transition of the Bulgarian industry to **Industry 5.0** is connected with the subsequent digitization of the production and organizational-management processes. On this basis, the development of the Bulgarian industry is directly related to the establishment and development of the so-called **digital enterprises** (ME 2017). The steps to be taken by the industrial business with the support of the Bulgarian Ministry of Economy can be reduced to the following more significant ones:

- **Digitizing** the company **workflow** – working instructions; production and organizational forms; purchase and delivery applications; product specifications;
- **Real-time monitoring** of production – working with wireless sensors and equipment that monitors production performance electronically (IoT: Internet of Things);
- Introduction of the so-called. **smart processes** based on machines and equipment that can monitor and analyze incoming information and make independent decisions;
- Connecting production to the Internet through various **B2B and B2C Virtual Social networks**.

4. COMMON BULGARIAN INDUSTRIAL DEVELOPMENT FRAMEWORK

Recognizing the challenge of the „expected” **Fifth Industrial Revolution** and securing the smooth shift from Industry 4.0 to Industry 5.0, the European Commission and the European Council have already prepared in 2014-2015 a number of operational documents, the most important of which is the European Industrial Renaissance Strategy (EC, 2014), based on the European Industry Report (EC, 2013a) and European Competitiveness Report (EC, 2013b).

The challenge to the governing Bulgarian industry is appoint to decide the task: how to use appropriate industrial policy instruments for different levels:

- macro-level with national / European industrial policy and digitalization strategies;
- meso-level with supporting establishment and development of industrial clusters and clusters of affiliated industrial enterprises;
- micro-level as encouraging usage of leadership approach.

Moreover, the positive impact that should be pursued through different company goals or sectoral and national strategies and policies is the realization of real dynamic development of the companies and the Bulgarian industry as well.

On this basis, an appropriate set of horizontally and vertically coupled strategies and operational measures based on the inter-firm cooperation (Slavova 2016) needed to be derived by adoption of national priorities for promoting Industry 4.0:

- **Innovation Strategy for Smart Specialization (IS3) of the Republic of Bulgaria 2014-2020 and Intelligent Specialization Process**

The strategic goal of IS3 is Bulgarian industry to move from the group of “stealthy innovators” to the group of “moderate innovators”. In practice, this change in will be implemented through an effective policy to promote:

- Innovation, research and development of human capital (Milusheva 2016);
 - investments in high-tech areas in which Bulgaria has traditions, has created specialists and successfully competes on the international market incl. transport and logistics (Yordanov 2019);
 - export-oriented industries.
- **Strategy for industrial Renaissance and re-industrialization program:** a draft strategy has been prepared but has not been adopted in the final version.

The thesis presented in the draft Strategy for industrial Renaissance is that two very important sides of support for the Bulgarian Industry (macroeconomics and business environment) are insufficient in the context of long-term real Renaissance of industry in Bulgaria. The significant problematic fields in the Bulgarian industry and the challenges of re-industrialization are not limited to the strengths and capabilities of companies and businesses in general, but to the horizontal and vertical connections inside the value-added chains. Without an active and focused government policy (s) and resulting supportive tools, the industry status quo is difficult, even impossible, to change.

- **National SME Encouragement Strategy 2014-2020**

With the Entrepreneurship 2020 – Bulgaria Action Plan, our country is committed to pursuing a policy of encouraging and setting up new businesses in the long run. The sources of funding for the measures are foreseen both within the approved budget of the responsible institutions, as well as from the operational programs of the European Structural Funds and the Commission’s COSME program. Specific implementation measures are proposed for each area of action.

5. CONCLUSION

The development of the industry, both in Bulgaria and globally, goes through different evolutionary stages: from Industry 1.0 in 1784 (for Bulgaria – 1836) to Industry 4.0 in 2010. The key feature of this evolution is the achievement of continuous industrial growth, which is based on creating organizational excellence and bringing production and sales closer together through the digitization of business beyond 2010.

On this basis, an appropriate set of horizontally and vertically coupled strategies and operational measures can be derived from the National priorities related to the promotion of Industry 4.0 (Iliev, Blagoev Shterev 2014):

- Develop and adopt Strategy for Industrial Renaissance with the active involvement of representatives of different sectors and stakeholders;
- Develop an Action Plan (Re-industrialization Roadmap) with specific activities, performance indicators and timelines;
- To propose appropriate mechanisms and tools, incl. financial programs, schemes and tools to ensure the implementation of the Action Plan and Strategy.

ACKNOWLEDGMENT

This research was supported by the University of National and World Economy [grant number NID NI 18-2018] in contribution to the National Scientific Fund Project: Regional Indexing of Innovation Activity in Economic Sectors (IRISI) – scenarios over the four priority thematic areas for smart specialization identified in IS3 and their place in the circular economy [grant number OPR 01/4]

REFERENCES

- Biolcheva P., 2017, *Stimulating innovation in start-ups*, Proceedings of Conference: Modern logistics – business and management, UNWE-Sofia, October 2017, pp.336-344 (Bulgarian)
- EC, 2013a, *Towards knowledge-driven Reindustrialisation*, [on-line] http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/europeancompetitiveness-report/files/eu-2013-eur-comp-rep_en.pdf
- EC, 2013b, *Industrial Performance Scoreboard*, [on-line] http://ec.europa.eu/enterprise/policies/industrial-competitiveness/monitoring-memberstates/files/scoreboard-2013_en.pdf
- EC, 2014, *For a European Industrial Renaissance*, SWD (2014) 14 final, [on-line], <http://cor.europa.eu/en/activities/stakeholders/Documents/Com%202014-14.pdf>
- Iliev Y., N. Sterev, D. Blagoev, 2018, *Industry of Bulgaria: Past, Present and Future*, Proceedings of the Conference in Honor of the 130th Birthday of Prof. Dimitar Dobrev, IK-UNSS, Sofia (in Bulgarian)
- Ivanov, I. 2013, *The Bulgarian Defense Technological and Industrial Base (Contemporary Problems Before Its Functioning and Development)*. Proceedings from the Jubilee International Scientific Conference, UE – Varna (in Bulgarian)
- Ivanov, I. 2015, *Restructuring of the defense industry in Bulgaria at the end of XX and the beginning of XXI century (conflicting economic and historical essay)*, Proceedings from the International Scientific Student Conference on Economics, Politics and Management, Sofia, Publishing Complex – UNWE IK-UNSS, (in Russian)
- Kopeva D., D.Blagoev, N. Shterev, 2012, *Industrial dynamics in Bulgaria – the connection between past and future*, 11th Comparative Analysis of Enterprise Data & COST Conference 2012, 26-28 April 2012, Nuremberg, Germany, [on-line] <http://doku.iab.de/fdz/events/2012/Kopeva.pdf>
- Milusheva V., 2016, *Aspects of company competitiveness evaluation*, Proceedings of Scientific-applied conference: Strategic visions: Effective management for economic, organizational and social transformations (innovations – institutions – business), pp. 364-369, NBU, Sofia (in Bulgarian)
- Ministry of Economy (Bulgarian), 2017, *Digital Industry Transformation Strategy for Industry (Industry 4.0)*, https://www.mi.government.bg/files/useruploads/files/ip/kontseptsia_industria_4.0.pdf (in Bulgarian)
- Rodrik, D., 2004, *Industrial Policy for the Twenty-First Century*, Harvard University
- Slavova, P., 2016, *Conditions of Productivity Processes in a Company of Food Industry in Bulgaria*, Proceedings of 3rd International Conference on New Challenges in Management and Organization: Organization and Leadership, 2 May 2016, Dubai, UAE, [on-line] <https://www.sciencedirect.com/science/article/pii/S1877042816311478>
- Stoyanova T., N. Sterev, 2018, *The role of measurements of OP Innovations and Competitiveness (OPIC) for intelligent growth of Bulgarian Economy, Local and Regional Economy in Theory and Practice – Conventional Generation in The Context Of Local And Regional Development, №395/2018*, Wroclav, [on-line] http://cejsh.icm.edu.pl/cejsh/element/bwmetal.element.desklight-f54fe02d-5076-4a21-a5bc-f37eb708ff17/c/Ekonomia__XXI_Wieku_2018_2_18_Czesc7.pdf
- T&A (Taskforce & Advisor Sàrl), <https://www.ta-ad.biz/en/tindustrie-4-0>
- Yordanov D., 2019, *Consumer assessment of the quality of transport services and guidelines to increase their competitiveness*, *Economic Alternatives Journal*, issue 4/2019, Sofia

GREEN TRANSPORT – THE USAGE OF ELECTRIC SCOOTER FOR PUBLIC TRANSPORT IN TOWNS

Anton Vorina¹
Gabi Čakš²
Jelka Županec³

DOI: <https://doi.org/10.31410/LIMEN.2019.37>

Abstract: *In recent years, we are seeing more and more scooters powered by an electric motor on the roads. They flooded the streets of every city and town. They have become extremely popular among children and adults. Their multiplicity raises many questions, comparisons, doubts and challenges. The aim of the paper is to answer the four research questions: 1. How long does one rechargeable scooter battery last? 2. Which (European) countries prohibit the use of electric scooters? 3. Will electric roadways reduce traffic jams? 4. What are the rental possibilities of electric scooters in Slovenia? The data will be obtained through desktop research. For collecting data, we will use the internet resources. We found out that in Slovenia there still exist unspecified regulations for driving/using the electric scooter. On the other hand, in Germany, the users of electric scooters should respect very strict state regulations for driving the electric scooter.*

Keywords: *Green transport, Electrical scooter, Logistic.*

1. INTRODUCTION

Today's society has worked closely with modern technology and devices. Without these inventions, we can no longer imagine our daily life. We are surrounded by them, both privately and business-wise. Today's society requires fast, simple and an effective technology with a low-cost budget. Riding an electric scooter has the advantage of riding for all population – both young and old. However, this advantage may present a problem for us as it can become very dangerous in the surrounding area when we remain in the carriageway area. We mostly ride it on pavements and because electric scooters are very quiet, they can be deadly dangerous to pedestrians.

There are not many articles on the subject, so we used the literature of recent times (mostly from 2018 to 2019).

The objective of the research is to answer the seven research questions:

1. How long does one rechargeable battery last?
2. Which (European) countries prohibit the use of electric scooters?
3. Will electric roadways reduce traffic jams?
4. What are the rental possibilities of electric scooters in Slovenia?

¹ Celje School of Economics, Vocational College, Mariborska 2, 3000 Celje, Slovenia

² VIZ II. OŠ Rogaška Slatina, Ulica Kozjanskega odreda 4, 3250 Rogaška Slatina, Slovenia

³ Osnovna šola Frana Metelka Škocjan, Škocjan 51, 8275 Škocjan, Slovenia

2. AN ELECTRIC SCOOTER

2.1. The history of electric scooters

Just a short walk through the city gives you the immediate impression of the electric scooter which is currently one of the most popular means of transportation for urban centers. They represent a fast-growing segment that has experienced a real blast in the last year or two. Greener use and their convenience are driving the market to grow at an extraordinary pace worldwide. However, most people do not even imagine that the history of electric scooters dates back to 1895. At that time, the first patents were filed for an electric powered personal transport vehicle. The first electric scooters did not have much in common with today's representatives, but it is interesting to know where their history comes from. One of the most important factors for the rapid commercial rise of electric bikes and electric scooters are modern batteries. Even two decades ago, the electric scooters weighed 113 pounds. According to records, the first electric vehicle patent was filed in 1895 by inventor Ogden Bolton of Ohio, in the United States. In 1896, the bicycle manufacturer Humber introduced the first commercial electric bicycle. This e-bike was powered by a series of batteries that provided power to the front-wheel drive. The first scooter, which was also reminiscent of today's representatives, was introduced in 1915 by Autoped. The latter's propulsion was fueled, and yet it was one of the first widespread motor-powered scooters. The electric scooters become popular with the New York Police because police officers used them for their city check trips and controls [1].

2.2. An electric scooter- the solution for traffic jams?

The latter have become extremely popular in recent months, especially in Ljubljana, Slovenia where there are more and more quiet but fast electric vehicles rolling between pedestrians, cyclists and also cars. The popularity of such vehicles is also evidenced by the offer made by many supermarkets and brands of such vehicles, especially the one with a lower price. Electric scooters are offered by oil traders and are available in shopping schemes and discount catalogues. Although there are many offers on the market where one can buy or rent an electric scooter in Slovenia, the market is even richer abroad, especially in bigger foreign cities and urban centres, where rental systems for electric scooters are enriched by the dealers. It is clear that all major players in the mobility market, including Uber, which offers scooter rentals in the USA cities, through its mobile app, have taken on an extremely lucrative business. The one who closely follows the development in this field will certainly read that the scooter sharing market has already claimed the first casualties – both in the business of electric cleaner providers (some have already been canceled) and among users – due to accidents and injuries. Nevertheless, electric scooters (and electric bikes) are already one of the given solutions to the congestion and congestion of large urban centers – both in the context of a cleaner environment and in addressing congested public transport systems and reducing the number of cars on the streets. It will be shown in the future if they are really effective [2].

2.3. An equipment and the battery maintenance

The choice of electric scooters is already extremely wide, so it is advisable to narrow it down to some models that are appropriate in weight and size, in handlebar height, less in terms of design and appearance, although more and more brands offer scissors separately for women and men. Pay attention to the way and the quality of the workmanship, and like the wheels, the

more expensive models are said to be made of higher quality, of higher quality materials and lighter, especially those of carbon fiber. Three-wheelers are easier to handle, with lean weight and tilt control. The models also differ in braking modes: at higher speeds and when driving downwards, the rear brake is applied by pushing the rear wheel fender, while many models of electric scooters have brake levers already in place. The wheels are plastic, silicone or inflatable, again depending on the model and price range. For the more expensive models, make sure they are equipped with smooth rotary bearings. E-scooters are powered by a variety of batteries, from classic lead ones, which are also the heaviest, to the more modern and lighter lithium-ion ones. They can be installed in different places. More modern scooters come with an integrated battery. Good batteries should last from five hundred to even two thousand and more charge cycles with care. They last from 2-3 hours to five hours or more. The lithium batteries do not have to be fully charged after each run, and it is sufficient to charge up to 80% of capacity. Do not discharge it completely, because when the battery reaches the minimum voltage, it loses a bit of its capacity permanently [3].

2.4. The advantages and disadvantages of electric scooters

The advantages of E-scooters are that they are lightweight, portable (you can take it with you to work), they provide a faster travel speed than normal, they are powered by legs, they achieve double walking speed, they are easy to (re)charge, they are foldable, which means that they do not take up much space.

Among the disadvantages, or even the possible dangers, are considered the relative instability of the vehicle itself, inaudibility at high speed, which is especially evident on pedestrian surfaces, a poor equipment, a lack of adequate equipment such as lights, and the same applies to users who are much less secured/safe similar as riding by bicycle or moped [4].

2.5. Accidents with electric scooters in Slovenia and in Europe

This year (2019), 220 injured E-scooters users were treated at UKC (General Hospital in Ljubljana) Slovenia. There were tremendous bruises, wrist fractures and severe head damages [5].

Many fatalities abroad were reported. The exact number of casualties is unknown. The case of the victim in Paris claims: The accident occurred at midnight (the motorcycle hit the e-scooter) on the A86 motorway on Friday, four kilometers from Versailles, southwest of Paris. Police said it was unclear whether the e-scooter driver wore a helmet or not, whether there were lights on (visible) or not. The motorist remains in serious condition at the hospital. Police found his engine 400 feet away from the point of the crash. In 2018, 5 deaths in France and 3 in Spain were dealt with [6].

2.6. The future of the use of electric scooters

The start-up company MikMik in the Slovenian market exclusively represents the rental system (Figure 1) of electric scooters without charging stations. Using the mobile application, the user finds the closest scenery on the map, which, when completed, can easily park at the desired final destination, subject to road traffic regulations. The system, unlike other transport providers, operates without a main terminal and stops. After driving, he can leave the scroll anywhere he wants, and parking rules are listed in the app and also locked in the app. The next user can find the hidden way via the built-in GPS tracker. The scooter can travel up to 25 kilometers with a

full battery and can reach up to 15 kilometers per hour. This is a new dimension of e-mobility in Slovenia, with which MikMik wants to reduce its dependence on cars and leave the next generations with a cleaner and healthier planet. For urban life, this form of transportation has many advantages. It provides affordable urban transport and quick and easy mobility to micro-locations. Therefore, they want to provide cities with new efficient mobility options and complement public transport systems while minimizing unwanted side effects [7].



Figure 1: Rent e-scooter provides by MikMik company

Source: [7].

Electric scooters are a major shift in transportation and traffic market. Something that initially looked like a toy will shape the future of cities, our behavior and technology. According to various authors, a new level of personal mobility is coming to reality. They represent a great competition to big companies like Uber, Bird, Lime. The possibility is that electric scooters will start transporting billions of people and will probably soon replace public transport [8].

3. ANSWER TO RESEARCH QUESTIONS

The answers to research questions are given below.

3.1. How long does one rechargeable battery last?

We found out that batteries of an average e-scooter can last from 2-3 hours of driving; better and more expensive scooters' batteries last up to 5 hours or more. The batteries do not need to be fully charged after each run; it is sufficient to charge up to its 80% of capacity.

3.2. Which (European) countries prohibit the use of electric scooters?

E-scooters are banned in Italy, Milan. E-scooter users were banned from pavements in France this September. E-scooter driving in the UK is prohibited, except on specific playgrounds. Germany is the last country to turn on the green light for E-scooters, both on

the road and on the pavements. We have found that there is no appropriate traffic law that permits the use of the E-scooter in road transport in Slovenia. E-scooter drivers must be up to 5 km / h (just like pedestrian walking speed), otherwise, the driver is fined 500 euros.

3.3. Will electric roadways reduce traffic jams?

E-scooters are being used by more and more people, especially for short distances. If we have a store close by, we can easily use the E-scooter, without spending a lot of time looking for a free parking space, as we can fold and take the E-scooter with us, or leave it in front of the store. This is one of the many factors that could or will reduce the traffic jams on the road. However, E-scooter drivers ride on pavements and areas of common traffic and this creates a traffic jam.

3.4. What are the rental possibilities of electric scooters in Slovenia?

We note that there is a company MikMik in Slovenia, located on the coast, which rents electric scooters, without charging stations. The E-scooter rental system is available through their mobile application. This is a new dimension of E-mobility, with which the company wants to reduce its dependence on passenger cars and thus reduce traffic jams, especially in urban centers.

4. CONCLUSION

The article describes the basic characteristics of electric scooters, their advantages and disadvantages, as well as the dangers of using them. Some electric scooters are foldable and can be taken with a person to work. They are virtually inaudible, so they can be very dangerous for pedestrians or passers-by, as they reach speeds of 25km / h to 35km / h. We believe that E-scooter drivers should also wear a helmet. There is a large increase in the use of electric scooters in Slovenia, especially around the cities, so MikMik has decided to allow the rental of electric scooters on the coast, although they are prohibited by law. Let's look at the current law – an electric scooter is forbidden for the simple reason – because these are special vehicles that are powered by an engine and exceed pedestrian speed, as laid down in Article 97, paragraph 5 of the Road Traffic Rules Act. Because e-scooters do not belong to bicycles, scooters or mopeds, they are therefore prohibited from running on cycle paths or on pavements. Of course, users do not adhere to this, nor are they punished by the state, and the number of injuries is increasing [9].

We did not find out where electric scooters can be recharged in public places (like electric cars can be stuffed). We believe that it will be necessary to clearly state in Slovenia the traffic legislation regarding the use of electric scooters on roads and bike lanes, as they did in Germany for a year. In Germany, from March 2019, the following regulations apply to electric scooters:

- Minimum age: The minimum age for e-scooter rides is 14 years, with many rental companies requiring a minimum age of 18 years.
- Driver's license: A moped driver's license is required to use e-scooters whose speed exceeds 6 km / h. If you have a driver's license for a scooter, motorcycle or car, the requirements are met automatically. For e-scooters with a maximum speed of up to 6 km / h, a driver's license is not required. Please note that you cannot drive e-vehicles on public roads without a valid driving license. Private reasons are excluded as road regulations do not apply here.

- Cycling route or road: E-skiers are allowed to ride both the cycle route and the road. E-scooter users/ drivers are not allowed to drive on the footpath.
- Insurance and Helmet: The e-scooter does not require a helmet, license plate or driver's license, but is an obligation to insure liability. However, it is advisable to wear a helmet for your own safety.
- Road safety: E-scooters have to have, like a bicycle, a headlight and a tail light, a bell and brakes [10].

Further research should explore the situation in other European countries and possibly include the police as a source of information and existing users of electrical scaffolding.

REFERENCES

- [1] *Zgodovina električnih skirojev.* (2019). Acquired 10. 9. 2019 from the website <http://www.zdravobitje.si/zgodovina-elektricnih-skirojev/>.
- [2] *Na cestah vse več električnih koles in skirojev.* (2019). Acquired 10. 10. 2019 from the website <https://www.amzs.si/motorevija/mobilnost/promet/2019-05-05-na-cestah-vse-vec-elektricnih-koles-in-skirojev>.
- [3] *Električni skiro je novi kralj ceste.* (2019). Acquired 12. 11. 2019 from the website <https://siol.net/sportal/rekreacija/elektricni-skiro-je-novi-kralj-ceste-505356>
- [4] Švarc, Artur. (2019). *Prevozno sredstvo prihodnosti ali grožnja?* Acquired 20. 11. 2019 from the website <http://www.avtomanija.com/default.asp?rb=19&id=77>.
- [5] *Tako hude so poškodbe voznikov skiroja.* (2019). Acquired 15. 11. 2019 from the website <https://www.zurnal24.si/slovenija/tako-hude-so-poskodbe-voznikov-skiroja-333573>.
- [6] *Voznik električnega skiroja se je smrtno ponesrečil med vožnjo po avtocesti.* (2019). Acquired 20. 11. 2019 from the website <https://www.rtvsllo.si/svet/voznik-elektricnega-skiroja-se-je-smrtno-ponesrecil-med-voznjo-po-avtocesti/496721>.
- [7] *Najemi električni skiro in se zapelji ob obali.* (2019). Acquired 20. 11. 2019 from the website <https://www.aktivni.si/ostali-sporti/najemi-elektricni-skiro/>.
- [8] Podgayetsky, Yev. (2018). *What's the future of electric scooters? 18-point roadmap.* Acquired 20. 11. 2019 from the website <https://medium.com/swlh/whats-the-future-of-electric-scooters-18-point-roadmap-14e1f3f9e00d>.
- [9] *Promet – Električni skiroji.* (2019). Acquired 18. 11. 2019 from the website <http://www.avtomanija.com/default.asp?rb=19&id=77>.
- [10] Eggerth, Tanja. (2019). *E-Scooter: Straßenzulassung in Deutschland – alle Infos.* Acquired 15. 11. 2019 from the website https://praxistipps.chip.de/e-scooter-strassenzulassung-in-deutschland-alle-infos_109520.

THE BULGARIAN DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE AND THE NATIONAL SECURITY OF BULGARIA

Ivaylo Ivanov¹

DOI: <https://doi.org/10.31410/LIMEN.2019.43>

Abstract: *The scale of production and export of defence-related and special production from Bulgaria has increased steadily over recent years. The Export of this group of goods is expected to exceed the value of €1 billion at the end of 2019. The Bulgarian Defence Technological and Industrial Base (BDTIB) is making a significant contribution to this process. The purpose of the author is to present summarized results of an analysis of the challenges to the functioning and development of this important for the Bulgarian economy industrial sector. From a practical point of view, the results of the analysis would be particularly useful for decision-makers in the sector at the state and company level, researchers and other stakeholders. Significant opportunities and risks to the BDTIB have also been outlined in two main directions. The first one is related to the current situation on the specific and highly competitive international markets for defence goods and services defined as very dynamic and rapidly changing. Bulgarian enterprises are forced to actively compete for their presence in these markets without any state support. The second challenge ahead of BDTIB is the dismal results of the overall process of modernizing the Bulgarian security sector. BDTIB continues to seek its adequate role in the national modernization projects for the Bulgarian Armed Forces and Ministry of Interior of the Republic of Bulgaria. For all these reasons, the results of BDTIB's activities in recent years have contributed indirectly to Bulgaria's national security.*

Keywords: *Bulgaria, Economic development, Defence-related and special production export, National modernization projects, Bulgarian Defence Industry Association.*

1. INTRODUCTION

During the 1990s the need for transforming the existing socio-economic system in Bulgaria slowly but surely became clear for everyone. The economic transformation as an absolute necessity was the only chance for the country to exit the permanent crises after the end of the planned economy in 1989. The chosen approach for national economic transformation was a liberal market economy. Privatization and most of the structural reforms were implemented effectively but not efficiently. The contemporary development course of the Bulgarian economy is predetermined by the lack of holistic vision and strategy of the transition measures design and implementation. During the transition period, the Bulgarian industry as a whole and its defence sub-sectors were also dramatically affected by a change of the ownership and transformed to some extent.

There are lots of basic problems that represent obstacles for the up-to-date development of local Bulgarian defence and technological industrial base. One of the aims of the present article is not only revealing that problems; but outlining the horizon ahead of this important industrial sector for the Bulgarian economy, too. This is important as this sector has a chance again to be an engine for the whole industrial business development in the country, especially in the background of the integration processes and defence cooperation across Europe. Additionally, the industry's direct influence on some of the aspects of national security has to be explored and revealed.

¹ University of National and World Economy – Sofia, Studentski grad, “8-mi dekemvri” blvd., 1700 Sofia, Bulgaria

2. A TERMINOLOGICAL CLARIFICATION – THE DEFENCE INDUSTRY VS THE DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE

One terminological clarification is needed. In the present paper, the term “Defence Technological and Industrial Base (DTIB)”² is used predominantly. The unprejudiced reader has to know that DTIB is a more complex and comprehensive term than classical examples like Military-Industrial Complex (MIC) and Defence industry etc. DTIB may include all the industries in which products and services are at disposal not only at defence needs but mainly for security ones. The DTIB appearance in the theory and the practice is a result of the enormous transformations in the defence industries, started at the end of the 1980s, and accelerated sharply in the 1990s. These transformations are determined by the fundamental changes in the international military-political situation, military-technical and economic factors. From the historical point of view in the present paper, the term Bulgarian military-industrial complex (BMIC)³ is also used.

The changes in the defence industries sector across the European Union (EU) impose this new philosophy in Bulgarian practice, too. The main activities are oriented to restructuring and development of competitive defence industries in the EU framework, an integrated European market for defence products, and consolidation of a robust European Defence Technological and Industrial Base (EDTIB) (Need for a European defence industry: industrial, innovative and social aspects 2012). The maintenance of a strong and competitive DTIB in Europe is a fundamental underpinning of the European Security and Defence Policy (Strategy for the European Defence Technological and Industrial Base, 2007). The European Defence Fund announced by President Juncker in September 2016 (State of the Union Address, 2016), and backed by the European Council in December 2016, is already a fact (European Commission – Press release, 2017). That ambitious European Defence Fund will contribute to a European Union that protects and defends its citizens, complementing other ongoing work strands, namely the Global Strategy’s Implementation Plan on Security and Defence, which sets out a new level of ambition for the Union and identifies actions to fulfil it, as well as with the implementation of the EU-NATO Joint Declaration signed by the President of the European Council, the President of the Commission and the Secretary-General of NATO. It is too early to determine the effects of the Fund but its influence over the defence industry sector in the EU is inevitable.

3. WORLD TENDENCIES IN DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE DEVELOPMENT

After the end of the Cold war, an intensive and deep reorganization of so-called “military sectors” of all economies followed. The structural changes in the economy could be described with new ratios between the military and civil production. The military/defence sectors of the economy are reorganized in a course of convergence between defence and civil production. This process is based on flexible dual-use technologies.

As a whole, the defence industrial transformation processes at the end of the XX and the beginning of the XXI century are in the general trend of the industry and technology development. The new challenges of the environment – terrorism and the other asymmetric threats caused

² Defence Technological and Industrial Base (DTIB) – Industrial assets that are of direct or indirect importance for the production of equipment for a country’s armed forces.

³ Bulgarian military-industrial complex (BMIC) – The existing technology and production structure of the Bulgarian defence industry during the Cold war

brand-new needs. The demand for goods and services from the defence industry has changed. The new challenges have led to defence strategy transformation of most of the countries – from preparation policy based on the struggle against a distinctive enemy to policy based on capabilities' development for coping with the threats of the present-day.

The result of that serious transformation affected significantly the international defence economic relations. The difference lies in the refusal of one national R&D and production model of modern armaments and equipment. The globalized defence industry is acquiring a clear form of firm's nets with distinct strategic centres.

These conditions leave their stamp on the development of the nowadays DTIB in each level – global, regional and national. Meanwhile, the BDTIB lags significantly from this trend.

4. THE BMIC – SHORT HISTORY

The fundamentals of the present Bulgarian defence industry (BMIC) were put in place in the late 1960s and throughout the 1970s when dozens of enterprises were built and modernized with significant Soviet help. During the socialist period, the BMIC consisted of three main groups of enterprises (Ivanov, 1998, p. 95). The production capabilities were of a combined-type, with a technological division of labour. The production process was designed for mass production with high levels of technological specialization. Defence production was a state monopoly as the enterprises were fully state-owned, with very high centralization of the overall management, including planning, investment, a supply of raw materials and production equipment and trade realization of the production. The production cycle started with centralized planning and financing of R&D and all necessary patents and licenses for production. All of this was established in the frameworks of the Council for Mutual Economic Assistance (COMECON) and subordinated to the strategic needs of the Warsaw Pact (WP) (Dimitrov 2002, pp 10-16).

A highly specialized production base in metal-working, machine-building, and electronics have been developed. This specialization included SALW (Small Arms and Light Weapons), armoured vehicles, and electronics (Dimitrov 2002, p. 13). During the socialist period, the BMIC was characterized by a clear focus on the manufacture for export (about 90 percent of its output), advanced production technology and efficient production structure. Its product range was oriented towards market niches and Bulgaria's specialization within the WP (Dimitrov and Ivanov 1993, p 94). Bulgaria supplied arms to countries from the WP, the Middle East, North Africa, India and other smaller markets (Brauer and van Tuyil 1996, p 128.) A relatively large share, between 30 and 40 percent of the exports, depended on the political relations that Bulgaria had with these partner countries. This trade was worth several hundred million US dollars per year.

The collapse. The political changes at the end of the 1980s and the beginning of the 1990s, the breaking up of the WP, the disintegration of COMECON brought with them lots of common and special economic problems for BMIC. According to the Weapons Under Scrutiny Report (Bulgarian Center for Study of Democracy, 2004) the difficult process of transition to democracy and a market economy, characterized by a financial and economic crisis, a weakening of state control, and political instability, had a huge impact on the Bulgarian defence industry. Bulgaria's traditional export markets declined rapidly; for several reasons. Firstly, on a global level, increased demand for modern armaments hurt exports of some of Bulgaria's relatively low-tech items such as SALW. Secondly, increased export control measures, at the national and interna-

tional level, restricted exports to many countries that Bulgaria had previously supplied, some of which came under the United Nations (UN) embargoes. Thirdly, some of Bulgaria's traditional clients developed their basic production capabilities, reducing their need for imports. Fourthly, most arms' importers, especially those from former communist countries, shifted demand to weapons produced to NATO standards, thus reducing the demand for old Soviet-style weaponry (CSD 2004, 'Weapons under scrutiny' report, pp 9-10). For Bulgarian defence industry a new way had to be found out of the frameworks of COMECON and WP- on the world defence market.

In the years of transition to a market economy Bulgaria has undergone a massive deindustrialization losing some of its most sophisticated industries, accordingly severely deteriorating its position in the international division of labour (Zhelev, 2013). After 1989, the MIC underwent widespread structural reforms that reorganized its branch structure, reduced production, stopped technological upgrades and brought the reconstruction and modernization of companies' plants to a virtual halt. In the early 1990s, the management and the large bureaucracy of the defence companies still carried the mentality of the command-administrative economy. There was a need for a new business culture and a new type of relationship with the state, as the MIC was still state-owned. The state did not succeed in formulating a consistent defence industry policy or guidance for long-term development. Reforms were often simply imposed or took shape on an ad hoc basis, in response to severe crises within the industry (CSD 2004, p.19).

After 1989 the production of the enterprises part of BMIC was sharply reduced, the technology renovations were also stopped. There were no possibilities for reconstruction and modernization of the assets available. Bulgarian governments failed in their efforts for the elaboration of defence-industrial policy, nor succeed to draw a long-term plan for the whole industry development as a whole. In its way of transition to a market economy, the Bulgarian industry failed in deep crises with lots of dimensions – structural, market, resources, lack of human resources, finance and lack of technologies.

The processes of demonopolization and decentralization teared up the existing technological relations between the enterprises. As a result, many of them dropped out of the BMIC by reasons of bankruptcy, liquidation and privatization, corruption, buying out with the intent to close the entity and product line changes.

In the process of restructuring the existing BMIC, the systemic relations between the participants in that system were destroyed. In those days the collapse of the system was predetermined by external factors and tendencies in the world defence market on one side and from the slow and inadequate transition to a market economy in Bulgaria, on the other side.

The export from BMIC has begun to drop. The new political conditions restricted the access to the needed technologies which had been received in the past from the former USSR or indirectly from the West. In the existing new competitive conditions, the lack of technologies made the situation impossible for BMIC to create and sell market demanded products. The problem of intellectual property was never solved properly. Especially the relations with the Russian Federation have not been settled. The total crisis in Bulgaria did not enable new technologies to be nationally developed or bought from abroad.

At the entrance of BMIC as a system, basic resources along with the needed technologies and the former markets were no more available. In the new market-driven conditions most of the

enterprises missed devising their own production and market policy. The end was inevitable – a systemic crisis of BDTIB. The crisis found its expression in the system falling apart. The resources available like personnel and means of production were on a world level. But the lack of the other internal resources which were needed for a self-organized saving of the system has prevailed. The external conditions did not allow product realization – the most important markets have been lost. The entrance of the system was closed – no earnings, no resources available. The system BMIC had not had the option to achieve its goals. Because of the lack of new products at the exit and some internal conflicts in the system (economic, social, political and managerial), the BMIC stopped to exist.

Privatization through employee/management buyouts has not contributed to companies' development (CSD 2004, p.11). Some companies remained in a poor state, with limited access to fresh capital, unable to invest in new technologies and lacking marketing, trade, logistics and business planning skills. Several conversion programs have been developed during the transition to a free market economy, but they have had minimal or no impact. The conversion has been left to the companies' management rather than pursued purposefully by the government. There were no investments for restructuring and/or conversion, nor tax incentives or subsidies.

In general terms, the global tendencies and processes in conjunction with the local ones in Bulgaria predetermined the present state of the Bulgarian defence enterprises and their transformation in BDTIB.

5. THE PRESENT PROBLEMS AHEAD BDTIB

Nowadays most of the outlined problems of the Bulgarian enterprises part of BDTIB are unsolved. The financial, human resources and managerial ones prevail over the others.

In 2004 the leading enterprises in BDTIB created a Bulgarian defence industry association (BDIA)⁴. In the framework of the association, there are lots of initiatives for decision consolidating of the problems already outlined.

The participation of the Bulgarian state in seeking decisions of the problems concerned is limited to its support and regulatory role in the economic activities on its territory. In this case, the roles of the Bulgarian Ministry of Defence (MoD) and the Ministry of Economy are to provide institutional support to different activities that aim to promote the capabilities of the BDTIB. The formula for industry participation in the processes of modernization of Bulgarian armed forces (BAF) is still not elaborated. Armed Forces Modernization Plan is more than ten years on the run, and the relevant participation of Bulgarian industry in its implementation is still uncertain. In the principal documents on national security and defence, the role of the Bulgarian defence industry is hardly mentioned at all. A positive step in this direction is the six-year work of the so-called "Industrial Forum" (<https://iforum-bg.mod.bg/>). It is a platform for practical interaction and cooperation between the public administration, industry and defence and security research and educational organizations in Bulgaria.

Maybe-because of the wish of BDIA with still unelaborated administrative mechanisms to take part in the modernization, regardless of the principle the army supplies to be done in the most cost-efficient way. The Bulgarian producers tend to do anything possible to guarantee their

⁴ Information for the participants in BDIA could be found at the association website: <http://www.bdia-bg.com>

monopoly in specific defence supplies to BAF. In its strategic documents, available only in the Bulgarian language on the BDIA website, the association even goes too far as to suggest, in cases when enterprises take part as main subcontractors in some modernization projects, to be able to deliver and support products and services independently of the main contractor.

The impression created is that BDIA strives for gaining access to BAF modernization projects resources by all means. Maybe part of the Bulgarian enterprises, which could be involved in those projects as subcontractors, see them as one possible way to gain technologies from some of the prime contractors.

In 2012 a Strategy for development of BDTIB was adopted. The strategy represents mainly the viewpoint of BDIA. It would be very difficult for this strategy to be realized. Because of lots of contradictions with the legislation and regulation at the European level. Especially with the 'Defence Package' which included a Communication entitled "Strategy for a stronger and more competitive European defence industry" (COM (2007)764 highlighting the need for regulation at European level, and legislative proposals for two Directives: Directive 2009/43/EC on transfers of defence-related products within the EU; and Directive 2009/81/EC on Defence and Security Procurement.

Till now the implementation of this strategy is not a fact. Only at the end of 2015 a program and a plan for its realization were accepted. Maybe more than five years after this strategy acceptance and in terms of turbulent and dynamic changes in the country and the world it is time for reconsideration. At least it is needed in the area of the strategic goals and the instruments for their achievement.

One other possibility for development is not fully used so far. The participation of the BDTIB in high-tech international projects in NATO's framework is not successful enough. Bulgaria's participation in NATO does not mean direct access to the corresponding markets. At the present time, there are no considerable effects for Bulgaria and its enterprises due to lack of capacity or just interests from Bulgarian side.

6. THE DRIVING FORCES, KEY FACTORS FOR SUCCESS AND CHALLENGES CONFRONTING THE BDTIB

BDTIB is still predominately a traditional producer of SALW. This is an increasingly competitive market, characterized by heavy dependence on the existence of regional conflicts. Mainly the conflicts in the Middle East and some other local conflicts (in Ukraine, Nigeria, Algeria, Yemen, Afghanistan etc.) are the engines of the increasing export of defence production from Bulgaria. As stated in a Rand Corporation Europe Report for the European Defence Agency (2016, p.6) the sector is active in exports to non-EU markets, including Afghanistan, Algeria, India and Iraq. At the same time, Bulgaria is looking to expand its arms exports to China and Vietnam. The defence output and export trends are hard to analyze in detail since the information for most of them is classified. Revealing information on the arms production and trade that does not jeopardize the financial situation of the companies is not a common practice in Bulgaria.

At the traditional "Hemus"⁵ International Defence Equipment and Services Exhibition (held in the city of Plovdiv every other May) in 2016, it was announced by the Deputy-minister of Econ-

⁵ <https://www.hemusbg.org/en>

omy that the country's exports of ammunition and military equipment totaled EUR 235 million for 2013. For 2014 the export totaled EUR 403 million. The expectations for 2015 export are estimated to EUR 642 million. The tendency in SALW is to produce and export ammunition rather than small arms (Milev, 2016).

As can be seen in the table below, export trends for 2015 and the following years remain steadily upward.

Table 1. Export trends – BDITB

	2013	2014	2015	2016	2017	2018
Export (MEUR)	235	403	642	1,015	1,219	764,54

Note: The total value of permitted transactions of defence-related products for 2018 is more than EUR 1 billion, but part of them are realized in the year 2019.

Source: Annual reports – Interministerial Commission for Export Control and Non-Proliferation of Weapons of Mass Destruction⁶, 2013-2019

The main exported products continue to be classic ammunition, fuses, bombs, rockets, missiles and torpedoes. Much smaller volumes include small arms and light weapons as well as large weapons (weapon systems).

The key factors for this, according to the author temporary success are:

- Along with the good market situation finding the right intermediaries on the ground in the countries end-users of the production is crucial. For this reason, from the available information from the reports of the Interdepartmental Council on Defence Industry and Security of Supply⁷, it is clear that the main export outputs are not from the members of BDIA. At the same time as it could be seen at their website (<https://bdia-bg.com/activities/facts-and-figures>) the members of the Association, produce and realize on the national and international markets more than 90% of the defence production produced in the country (for instance in value terms, only for defence-related products over 1 096 878 248 euro, which represents 90% from 1 218 753 609 euros for 2017).
- Another success factor is the supply of adequate products for Russian (Soviet) systems of weapons and equipment, which are widely used in areas of hot conflicts.
- Significant added value brings the fact that many Bulgarian companies implement an active and flexible marketing policy in dealing with customers at their traditional and new markets.
- The recognized quality of Bulgarian products by its consumers is another key factor for success. Alignment with the market situation alone in the absence of clearly defined and followed strategic moves cannot lead to long-term success.

According to Zhelev (2017) after the global crisis it was realized that manufacturing should be assigned a major role for Europe to continue to be a global player. The European Commission has called on EU countries to step up their industrial policies and try to restore the central position of manufacturing for creating jobs and growth. As a member from the Republic of Bulgaria in the AeroSpace and Defence Industries Association of Europe (with 843, 400 workers and 220 bln. Euro for 2017) BDIA could help this process EU and at the national level.

⁶ <https://mi.government.bg/en/themes/interministerial-commission-for-export-control-and-non-proliferation-of-weapons-of-mass-destruction-198-338.html>

⁷ <http://www.micmrc.government.bg/>

The main challenge for BDTIB is to become a generator of economic and social security in the country. The results of BDTIB's activities in recent years have contributed indirectly to Bulgaria's national security. The contribution can be defined in two directions. On the one hand, is the realization of highly-efficient export within the framework of the overall export of the country. On the other hand, the enterprises in the sector create significant employment in different regions of the country mainly outside the capital city – Sofia. The largest industrial enterprises in the country are part of BDTIB. More than 30,000 employees work in companies that are part of BDTIB. They together with their partners and subcontractors represent over 70,000 employees forming the basis of the socio-economic structure of BDTIB. The long-term success of that industrial sector could not be possible without consolidated state-enterprise policy grounded on uninterrupted technological, market, scientific development and innovation.

CONCLUSION

Long term success of BDTIB is possible if all actors become aware that the present situation on the markets could not continue in the long run. The possibilities for sustainable dynamic development of that industry could be created only on the base of consolidated state policy grounded on uninterrupted technological, market, scientific development and innovation. The strategic partnerships with leading enterprises and consortiums – suppliers of equipment and services for NATO and EU countries, are the most possible decisions for guaranteeing long-term competitiveness of BDTIB. That is the way for enhancing the innovations, the product and technology modernization. Unfortunately, the absence of adequate strategy and adequate industrial policy and no priorities on a national level in Bulgaria are serious obstacles. In such a situation it would be very hard for BDTIB to enter in target market niches, to develop superior specialization and adequate capabilities or to take part in BAF modernization process. What is more – the problems noted in 2004 (CSD, p.22) are more serious nowadays. Most of the enterprises still have limited access to financing and are not able to invest in new technologies, and are thus compelled to rely on old products. The state has distanced itself from research and development (R&D). Human resources in the research field are in constant decline due to low pay, better opportunities in other industries, or better offers from the defence sectors of other countries. This leads to a permanent decline in the defence industry's R&D, and dependency on SALW production and export, which involves less technological sophistication. The arms trade (as the main result from the activities of BDTIB) is dependent on both the political framework reflected in the national defence-industrial policy and the capabilities of the defence companies. Unfortunately, there is no such policy, created and implemented in Bulgaria. The role of the Industry as a whole in the BAF modernization process also has not been determined yet. BDTIB is heavily dependent on the national economy and the modernization process of the BAF.

ACKNOWLEDGEMENT

This research was supported by the University of National and world economy – Sofia, Bulgaria [Project № NID NI-18/2018 “Development of the Industry in Bulgaria after 1989: Economic, Social and Political effects] and the Institute for Study of Conflicts, Bulgaria.

REFERENCES

- Brauer, J., & van Tuyil, H. (1996). Division of Labor in the Non-Soviet Warsaw Pact Arms Industry: 1945–89. In F. J. Chatterji M. (Ed.), *Arms Spending, Development and Security* (pp. 115–135). New Delhi: Ashish Publishing House.
- Center for Study of Democracy (CSD). (2004). *Weapons under Scrutiny: Implementing Arms Export Controls and Combating Small Arms Proliferation in Bulgaria*, Sofia. ISBN 954-477-117-4.
- Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (2007). *A strategy for a stronger and more competitive European Defense Industry*. {SEC(2007) 1596} {SEC(2007) 1597}. Brussels. Retrieved April 11, 2019, from <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52007DC0764>
- Dimitrov, D. (2002). *The Restructuring and Conversion of the Bulgarian Defense Industry during the Transition Period*. Bonn: Bonn International Center for Conversion. Retrieved April 11, 2019, from https://www.bicc.de/uploads/tx_bicctools/paper22.pdf
- Dimitrov, D., & Ivanov, T. (1993). *Problems of National Defense Economy at the end of the 1980s and beginning of the 1990s*. Sofia: University Publishing House ‘Stopanstvo’.
- Directive 2009/43/EC. (2009, May 6). Directive 2009/43/EC. *Directive 2009/43/EC of the European parliament and of the Council simplifying terms and conditions of transfers of defense-related products within the Community*. European parliament and the European Council. Retrieved 05 19, 2019, from <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?>
- Directive 2009/81/EC. (2009, July 13). Directive 2009/81/EC. *Directive 2009/81/EC of the European Parliament and of the Council on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence*. Brussels: European Parliament and of the European Council. Retrieved May 26, 2019, from <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32009L0081>
- Ivanov, T. (1998). *Defense Economics and Security Policy of Bulgaria in the Mid-1990s*. Sofia: “St. George the Victorious” Publishing house.
- Milev, M. (2016, June 26). Where do the Bulgarian weapons go? *Capital newspaper*. Retrieved October 25, 2019, from http://www.capital.bg/politika_i_ikonomika/bulgaria/2016/06/26/2783493_kude_otiva_bulgarskoto_orujie
- Own-initiative opinion of the European Economic and Social Committee. (2012). ‘Need for a European defense industry: industrial, innovative and social aspects’. (*Official Journal of the European Union 2012/C 299/04*). European Economic and Social Committee. Retrieved 11 23, 2019, from <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52012IE1590&from=BG>
- Press release of the European Commission. (2017). *A European Defense Fund: €5.5 billion per year to boost Europe’s defense capabilities*. Retrieved June 19, 2019, from http://europa.eu/rapid/press-release_IP-17-1508_en.htm
- RAND Europe. (2016). *Central and Eastern European countries: measures to enhance balanced defense industry in Europe and to address barriers to defense cooperation across Europe*. Brussels: European Defense Agency. Retrieved April 11, 2019, Available at: <https://www.eda.europa.eu/docs/default-source/documents/rr-1459-eda-central-and-eastern-europe-report---technical-annex---final.pdf>
- State of the Union Address. (2016). State of the Union Address. *Towards a better Europe – a Europe that protects, empowers and defends– Speech of the President Juncker*. The

European Commission. Retrieved August 25, 2019, from http://europa.eu/rapid/press-release_SPEECH-16-3043_en.htm

Strategy for the European Defense Technological and Industrial Base. (2007). European Defense Agency. Retrieved September 29, 2019, from https://www.eda.europa.eu/docs/documents/strategy_for_the_european_defense_technological_and_industrial_base.pdf

Zhelev, P. (2013). Industrial Growth – an Objective Necessity for the Economic Development of Bulgaria. In I. Kikerkova (Ed.), *Systemic Economic Crisis: Current Issues and Perspectives* (pp. 101-114). Skopje: Ss. Cyril and Methodius University, Skopje.

Zhelev, P. (2017). Structural Transformation and Industrial Competitiveness of Bulgaria after 10 Years of EU Membership. *Godishnik na UNSS* (Issue 1), 87-103. Retrieved from http://unwe-yearbook.org/uploads/Yearbook/Yearbook_2017_No7_%D0%9F%D0%B0%D1%81%D0%BA%D0%B0%D0%BB%20%D0%96%D0%B5%D0%BB%D0%B5%D0%B2.pdf

RISK-BASED APPROACH IN THE PREVENTION OF MONEY LAUNDERING

Georgi Petrunov¹ 

DOI: <https://doi.org/10.31410/LIMEN.2019.53>

Abstract: *New compliance regulations developed in the past several years by international organizations for tackling money laundering emphasize the risk-based approach as a critical element in the prevention of the crime. This article elaborates on the new trends in this field. The first section looks at the main documents underlying the legal framework set in place to protect the financial system from being used for money laundering purposes. Highlighting key concepts in the selected documents, the article reveals important changes in the philosophy backing up anti-money laundering policies: from sanctioning to prevention through the application of macro and micro risk assessments. In this context, the article further discusses the requirements for businesses to follow a risk-based approach in evaluating the risk of money laundering in establishing business relationships with new customers; the need to monitor and control these relationships. Specific steps are proposed to design a comprehensive risk-based anti-money laundering program.*

Keywords: *Financial system, Banking, Crime.*

1. INTRODUCTION

In today's global market, people, goods and capital move freely and quickly, which provides many opportunities for business development beyond national borders. The tendency is for continuous increase of financial flows. As reported by the European Central Bank, the number of transactions in the EU has increased many times – if at the beginning of the 21st century there were 48 billion transactions, then in 2018 their number is already nearly 140 billion (European Central Bank, 2019). This huge movement of funds also has its challenges. One of the most significant problems that is evolving in parallel with the expansion of international business opportunities is the movement of criminal proceeds as part of the money laundering process. Criminals benefit from open borders and improved transport connections, and the rapid progress in communications and technology to almost the same extent as legal businesses, and in some areas have adapted even better (Chatterjee, 2005; Albertson & Fox, 2012). In the massive financial flows, it is very difficult to distinguish between licit and illicit funds – an advantage that money launderers use readily. Based on this indistinguishability of financial flows, during the initial development of global processes in the economy some researchers argue that the „dirty money” flows need not be stopped because they provide much needed resources in economies, especially if the crime is committed in another country. Today, however, the international community is unanimous about the harms caused by illicit financial flows on various spheres of society. With regard to the financial system, researchers point to a number of negative effects, some of which are – the destruction of the integrity and stability of financial systems; a threat to fiscal stability; macroeconomic instability, etc. (Reuter, 2013). Along with this, the main motive for combating money laundering is the belief that „dirty money” gives enormous power to criminals, through which they not only continue to carry out and expand their criminal activities, but also enter the legal economy, and often in politics.

¹ University of National and World Economy, Sofia, Bulgaria, boul. 8th December

These reasons have pushed the international community to take action to counteract money laundering globally and nationally. Over the last three decades, a broad legal framework has been developed that sets out specific guidelines and requirements that countries, and in particular financial institutions and business organizations, must adhere to in the conduct of their business. The belief is that anti-money laundering (AML) measures must become an integral part of financial and non-financial institutions' corporate social responsibility policies (Simonova, 2011).

This paper outlines some of the new regulations for counteracting money laundering in the financial system, focusing on how the anti-money laundering system is changing – from a rule-based approach to a risk-based approach. The development of the global financial market and the opportunities offered for money transfers indicate that constant monitoring and evaluation are needed to be successful in combating money laundering. Therefore, in the last few European directives and in the recommendations of the Task Force on Financial Action against Money Laundering (FATF), the risk approach has been identified as the main element for effective prevention of the use of the financial system for criminal purposes.

2. SHIFT TOWARDS RISK-BASED APPROACH IN ANTI-MONEY LAUNDERING FRAMEWORK

The active work towards an international anti-money laundering framework began in the late 1980s. A key role played by the 1988 United Nations Convention on the Illicit Trafficking in Narcotic Drugs and Psychotropic Substances. Through it, the proceeds from the production, trafficking and trade in drugs and psychotropic substances are incriminated and a definition of money laundering is proposed, which is used in a number of international documents thereafter. The list of predicate money laundering offenses gradually begins to expand, and today in most countries, any crime from which illicit property has been acquired can be linked to money laundering.

In 1989, the Special Task Force on Financial Action against Money Laundering (FATF) was established, which, through its 40 Recommendations, set the basic standards for combating money laundering (and, later on, terrorist financing). The recommendations have been revised several times to best meet the changing conditions and different methods used by criminals to launder money. The EU has transposed these standards through its five anti-money directives so far.

The 2003 FATF Recommendations introduce a new concept for AML: a risk-based approach, which provides for the allocation of resources based on an assessment of the money laundering risk that clients and their business represent. The idea is reflected at European level through Directive of 2005 (2005/60/EC). During this period, a risk assessment is recommended to be applied in conjunction with the current rule-based approach, i.e. it is only one of the elements and numerous rules that reporting entities must follow. It is only in the 2012 Recommendations and in the subsequent Fourth Directive (EU) 2015/849 and the Fifth Directive (EU) 2018/843 that the risk-assessment approach has been taken as a leading method for counteracting money laundering. According to FATF, the risk approach allows Member States to adopt a more flexible set of measures commensurate with the nature of the risks and to apply them effectively to higher risk areas.

The rule-based approach adopted by the first two European directives focuses on imposing common rules for the investigation of a crime already committed, while the risk assessment concept aims at preventing it and preventing the flow of 'dirty money' into the economy (Costanzo, 2013). The purpose is to carry out a dynamic risk assessment, first at the macro level, and then at

the micro level (by financial and non-financial organizations and institutions themselves), in order to respond in the most efficient way to today's rapidly changing conditions. The rule-based approach relies on the assumption that common pre-defined rules for all countries and reporting entities will cover the potential risks of money laundering. The risk-based approach challenges this notion arguing that the application of uniform rules for all leads to ineffective results (Bello & Harvey, 2017). AML regimes must be different to reflect the particularities of the country first, especially with regard to the characteristics of the legal system and the overall risk profile (Costanzo, 2013), and then the individual business activities and business sectors (Jeans, 2016).

The Fourth European Directive (EU) 2015/849 explicitly puts forward the risk-assessment approach, aiming to enable entities to better identify, understand and mitigate money laundering risks (Ernst & Young, 2016). The reporting entities are required to document and systematically update the risk assessments they carry out on their clients. To do this, the level of risk for the organization should be determined, the controls and information collected for customers increased, the number of people designated to fall into the category of politically exposed persons (PEPs) increased and more. The fifth Directive (EU) 2018/843 introduces new enhanced controls on virtual money and prepaid cards. The requirements for identifying the beneficial owner become much stricter. The fifth directive is to be transposed into national law by 10 January 2020. The two directives significantly increase the penalties for non-compliance in this field.

Through the emphasis on risk-assessment as the lead approach in anti-money laundering measures, a change in the philosophy informing the policies in this field is taking place – from sanctioning crimes already committed, efforts are increasingly focused on preventing and predicting the risk of criminal phenomena. This change significantly enhances the role of private business. Whereas in the beginning the state and its institutions played a decisive role in the fight against money laundering, today the private sector is one that has a very significant function in counteracting, even challenging the main role of the state (de Oliveira, 2018). It is the private actors who decide which client, transaction or operation poses a risk and which does not, what to report as suspicious of money laundering and what not (Helgesson & Mörth, 2018).

3. IMPLEMENTING THE RISK-BASED APPROACH

The European Directives and the FATF Recommendations guide countries to conduct risk assessments that take into account their capacity and experience in each sector that needs to comply with money laundering requirements. Member states need to identify, evaluate and understand the risks of money laundering and take commensurate preventative measures (European Commission, 2019).

Implementing the risk-based approach for the prevention of money laundering is more complicated than the rule-based approach, where the emphasis is on compliance. The application of the risk approach is not limited to the one-off initial identification of risk for the organization concerned, but requires systematic monitoring and update of the assessment. The regime based on the risk approach entails the preparation of risk assessment at several levels – supranational, national and by the reporting entities. The first assessment is drawn up by the European Commission, the second by the national institutions responsible for implementing the legislation in this field. The national money laundering risk assessment needs to be updated on a regular basis, in order to reflect the results of the supranational risk assessment and the EC recommendations. Non-financial and financial institutions subject to anti-money laundering legislation also need to apply risk assessment in their activities, and they may also take advantage from an initial assessment at sectoral level.

In preparing their own risk assessment, the reporting entities should take into account the existing risk factors such as client activity, country of origin and place of business, types of services offered, nature of the requested operation and transaction, etc. Based on the risk assessment, the reporting entities carry out a certain type of complex checks – simplified or extended, in order to create a client profile. Depending on the risk level – high, medium, or low – associated with a client, the amount and content of information that will be collected about a client is determined. At what intervals the information collected about the client is updated also depends on the results of the risk-based approach and the category in which the client account is placed.

The content of the program that reporting entities will need to implement in order to comply with the legal stipulations against money laundering depends to a large extent on the degree of risk – for the country as a whole and for the particular business in particular. However, there are several basic elements that such a program should include. First, it is necessary to decide who will be charged with the responsibility of enforcing the legal requirements – whether there will be a separate position / department for this or in case of a smaller company, this responsibility may be assumed by the manager. A risk-based money laundering program starts with a risk assessment of the organization concerned, which takes into account the results of national and supranational risk assessments. This step requires: drawing up a list of potential risks and risk factors; establishing clear criteria for determining the level of risk of different clients and the intervals at which to update the risk assessment; analyzing the identified risks. The next important step is to establish clear procedures that the employees need to follow for identifying clients: what information should be collected, when a simplified or expanded comprehensive check should be carried out, what are the means of establishing the origin of the funds and the actual owner, how to identify related transactions, to whom to report, when to monitor and evaluate business relationships, etc. Another element in an anti-money laundering program is the establishment of rules for the collection, archiving and disclosure of documents, data and information about clients of the organization. Rules for training and for monitoring the implementation of the legal requirements are also essential. These steps are interrelated and the quality of their implementation determines the effectiveness of the money laundering prevention program. This, of course, is not an exhaustive list of instructions, but rather guidelines, which can be modified and amended depending on the specific activity of the reporting entity and the degree of risk of money laundering related to this activity.

4. FUTURE RESEARCH DIRECTIONS

Despite the consensus among international money laundering organizations on the direction of development, some authors have noted (Helgesson & Mörth, 2018) that following a risk approach as a fundamental principle in combating money laundering may be contrary to the specifics of some business areas. This contradiction, in their view, stems from the three basic assumptions on which this approach is built: responsibility of the private sector; identifiable risks by the private sector; proactive attitude by the private sector.

The first assumption implies that the primary responsibility for determining what is a risk and what is not is transferred to the reporting entities. In addition, it is assumed that the risks of money laundering can be identified and the employees of the reporting entity would, accordingly, suspend the suspicious transactions and report them. According to researchers, these requirements may conflict with the characteristics of particular professions, for example, lawyers, and the principle of confidentiality between client and lawyer. In this regard, calls are made for further research and analysis of how reporting entities – the frontline practitioners in the

anti-money laundering system – understand the regulations and rules in this field and how they manage to put them into practice.

The observations of Levi et al. (2018) indicate that it seems to be taken for granted that the system of money laundering prevention will have a positive impact on welfare, without it being subject to an impact assessment and a cost-benefit analysis (direct and indirect) of its implementation. This does not mean that the efforts to combat money laundering do not have the desired effect; rather, what is needed is a better assessment of how the measures are implemented, analysis of the different impact they have on reporting entities, on developing countries and the various sectors; in other words, it is necessary to gather credible evidence of the effectiveness of the system. To achieve that objective, further research needs to be done and more data collected about the crime itself, in order to determine whether the adopted measures have led to a decrease in the crime rate.

5. CONCLUSION

Notwithstanding the questions about the effectiveness of the anti-money laundering measures, it should be noted that one of the important benefits of applying the risk assessment approach is that it allows the reporting entities to decide for themselves which aspect of their business deserves more attention. Of course, no system can detect every single risk of money laundering, but reporting entities must apply the system that is best suited to their business. The risk assessment approach is no guarantee that all questions about this crime will find answers. The approach is useful as it demonstrates that there cannot be a one-size-fits all solution and that not all reporting entities are equally vulnerable to money laundering. The risk-based approach allows to prioritize those clients, transactions and operations that are defined as riskier for money laundering. This is of particular importance today, in the context of growing amounts of information becoming available; the application of the risk-based approach is expected to gain in relevance and usefulness in the coming years.

Of great importance is the requirement to build a supranational and national risk assessment, which implies a shared understanding of the risk of money laundering among a wide range of stakeholders at different levels. In itself, having consensus on an important issue like money laundering, which is a threat to every country in the world, is an important prerequisite for effectively combating crime and protecting the financial system from misuse.

ACKNOWLEDGMENT

This paper is result of the author's work in frame of research project № NID NI-10/2018: "Money Laundering from Human trafficking" financed by University of National and World Economy, Sofia.

REFERENCES

- Albertson, K. & Fox, C. (2012). *Crime and Economics*. London: Routledge.
- Bello, A. & Harvey, J. (2017). From a risk-based to an uncertainty-based approach to anti-money laundering compliance. *Security Journal*, 30(1), 24-38.
- Chatterjee, J. (2005). *The Changing Structure of Organized Crime Groups*. Ottawa: Royal Canadian Mounted Police.
- Costanzo, P. (2013). The risk-based approach to anti-money laundering and counter-terrorist financing in international and EU standards: what it is, what it entails. In B. Unger & D. van

- der Linde (Eds.). *Research Handbook on Money Laundering* (pp. 349-367). Cheltenham, UK: Edward Elgar Publishing.
- de Oliveira, I. S. (2018). The governance of the financial action task force: an analysis of power and influence throughout the years. *Crime, Law & Social Change*, 69(2), 153-172.
- Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the Prevention of the use of the financial system for the purpose of money laundering and terrorist financing, OJ L 309/15, 25.11.2005.
- Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC, OJ L 141/73.
- Directive 2018/843 of the European Parliament and of the Council of 30 May 2018 on amending Directive (EC) 2015/849 on the Prevention of the use of the financial system for the purpose of money laundering and terrorist financing and amending Directive 2009/138/EO and 2013/36/EC.
- Ernst & Young. (2016). Wind of change: Risk Assessment Anti-Money Laundering, Countering Terrorism Financing, Application of International Sanctions. Available at: https://www.apcf.ro/static/files/EY_Romania_Wind_of_Change_AML_Risk_Assessment.pdf.
- European Central Bank. Number of payment transactions involving non-MFIs. Available at: <http://sdw.ecb.europa.eu/reports.do?node=1000001386>.
- European Commission. (2019). Commission Staff Working Document accompanying the document Report from the Commission to the European Parliament and The Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities Brussels, 24.7.2019, SWD (2019) 650 final.
- Helgesson, K. S. & Mörth, U. (2018). Client privilege, compliance and the rule of law: Swedish lawyers and money laundering prevention. *Crime, Law & Social Change*, 69(2), 227-248.
- Jeans, N. (2016). Risk-based approach to KYC. *Thomson Reuters*. Available at: <https://blogs.thomsonreuters.com/answeron/kyc-risk-based-approach/>.
- Levi, M., Reuter, P. & Halliday, T. (2018). Can the AML system be evaluated without better data? *Crime, Law & Social Change*, 69(2), 307-328.
- Reuter, P. (2013). Are Estimates of the Volume of Money Laundering either Feasible or Useful? In: B. Unger & D. van der Linde (Eds.). *Research Handbook on Money Laundering* (pp. 224-231). Cheltenham, UK: Edward Elgar Publishing.
- Simonova, A. (2011). The risk-based approach to anti-money laundering: problems and solutions. *Journal of Money Laundering Control*, 14(4), 346-358. <https://doi.org/10.1108/13685201111173820>.
- The Financial Action Task Force (FATF). *The FATF Recommendations 2003* (October 2004). Available at: <http://www.fatfgafi.org/media/fatf/documents/FATF%20Standards%20-%2040%20Recommendations%20rc.pdf>.
- The Financial Action Task Force (FATF). *The FATF Recommendations 2012* (February 2012). Available at: http://www.fatfgafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf.
- United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, (Vienna, 1988). Available at: https://www.unodc.org/pdf/convention_1988_en.pdf.

APPLYING THE URBAN FUTURES METHODOLOGY FOR EVALUATING THE METROPOLITAN DEVELOPMENT IN TIMISOARA, ROMANIA

Bogdan Nadolu¹ 

Delia Nadolu² 

DOI: <https://doi.org/10.31410/LIMEN.2019.59>

Abstract: *Timisoara is one of the first five city from Romania, an important Growing Pole in DKMT Euro-region. Timisoara is also into an inner-periphery, among four European capital, Bucharest, Belgrade, Budapest, and Wien that are less than 600 km away. After the political change from 1990 the entire country was massive affected by economic, social, cultural and juridical reconfiguration. During 1990s the city has to deal with a significant population lose, due urban sprawl, negative birth rate and outmigration. Nowadays the municipality try to strengthen the Timisoara's resilience by developing the metropolitan area. This paper present how can be used the Urban Futures Methodology to evaluate the sustainability of public policies, actions, measures applied toward the transform the city into a metropole. This work was supported by a grant of the Romanian National Authority for Scientific Research and Innovation, CCCDI-UEFISCDI, project number 66/2017 COFUND-ENSUF-3S RECIPE (I), within PNCDI III.*

Keywords: *Urban resilience, Inner periphery, Urban governance.*

1. INTRODUCTION

One of the main benefits of the fall of the Iron Curtin was the opening of the boundaries and the massive migration from East to West. A direct consequence of the restauration of the free circulation of the people was the depopulation of the Eastern countries. Almost all post-socialist cities from Central and Eastern Europe that are inner peripheries has known a significant process of shrinkage. The main cause was obviously the significant difference of living condition between West and East Europe. Another issue was related by the urban development, more strategic and functional in West comparatively with forced industrialization in East (Szelenyi). Thus, almost all medium and large cities in Romania, including Timisoara were developed over the historical configuration, with a non-functional mix of houses on ground neighborhoods and ten level block flats, with inadequate structure of urban services and utilities and, in many causes overcrowded due to extensive industrial facilities and demand of working forces. In this context, due to 1990s' Timisoara has lost around 50.000 inhabitants by urban sprawl toward nearby villages, by negative birth rate (after the liberalization of the abortion) and by outmigration. After 2010 the city has recovered a part from these demographic declines and now the official population volume is relatively stable at 330.000 inhabitants (Figure 1).

Urban shrinkage is nowadays a common stage into the evolution of medium and large cities all over the globe. Following the official statistics in Europe, in particular, 38 out of 100 cities have less population today than they did 25 years ago, before the fall of the Berlin Wall. By the mid-2000s, the share of shrinking cities across Europe's larger urban areas with 200,000 residents and above had reached 42% (Turok & Mykhnenko, 2007; Mykhnenko & Turok, 2008). Into the

¹ West University of Timisoara, Bd.V.Parvan, no 4, Timisoara, Romania

² West University of Timisoara, Bd.V.Parvan, no 4, Timisoara, Romania

last quarter of century, the population loss, socio-economic decline or stagnation have had a profound impact on more than 2,700 municipalities in the European Union alone. Many cities, situated in close proximity to powerful centers of economic growth and cultural vibrancy, find themselves in their shadows – at the *inner periphery* – of regional, national, and global developmental trends (ESPON, 2013; Pike et al., 2016). During the last decade into the academic and public discourse it was made a great progress in recognizing the causes of the socio-economic *inner peripherality*, and in documenting the complexity of its consequences (see Boom & Mommaas, 2009; Ganser & Piro, 2012; Grossman et al., 2013; Martinez-Fernandez et al., 2012; Pallagst et al., 2014; Oswalt, 2005). A good deal of concerted action has already been taken on the part of many governments and local authorities in Europe and beyond, reacting to the most immediate, visible, and damaging consequences of urban shrinkage (Haase et al., 2016; Langner & Endlicher, 2007; Neill & Schlappa, 2016; Richardson & Nam, 2014).

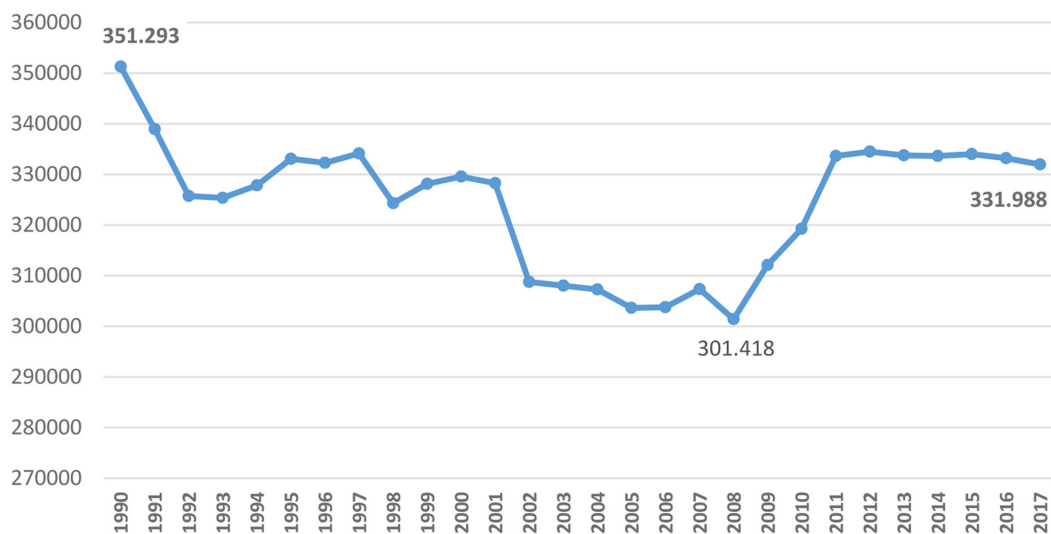


Figure 1 The evolution of the Timisoara’s population after the 1989

Sources: Romanian National Institute of Statistics

2. METHODOLOGY

As an inner-periphery the further natural development of the Timisoara is limited by three big European capitals that are neighbor: Bucharest, Belgrade and Budapest. Starting from 2000 the Timisoara City Hall has prepared the Metropolitan master plan for defining a clear goal of urban planning. Since than there were develop several actions and projects to connect the city with the new residential neighborhoods, and to implement various urban services into these areas. Even the Timisoara’s aerosolization can be considerate a very legitime purpose for further development of the city its implementation is not a surely and sustainable approach. Thus, for the evaluation of the viability of the development of the metropolitan area in Timisoara as a direct measure against the population decline for an inner periphery city, we have applied the Urban Future Method into the project 3S RECIPE *Smart Shrinkage Solutions. Fostering Resilient Cities in Inner Peripheries of Europe* financed by a grant of the Romanian National Authority for Scientific Research and Innovation, CCCDI-UEFISCDI, project number 66/2017 COFUND-ENSUF-3S RECIPE (1), within PNCDI III.

Following the authors description, “*the Urban Futures Method aims to broaden the way we thing about the form and function of urban development and regeneration by focusing on the*

likely long-term performance of today's urban design solution and their associated risks. The Urban Futures Method is primarily for use when the stakeholders involved in implementing a sustainability solution consult together to make decisions as part of the redevelopment process. The greatest value comes when there is an opportunity for all partners involved to exchange knowledge and ideas and to create better solutions based upon their combined knowledge." (Lombardi et al., 2012). The UFM involve a group decision activity with the following steps: (i) identify a sustainability solution for an urban problem and its intended benefit (solution-benefit pair) for analysis; (ii) identify the conditions necessary for this benefit to be delivered; (iii) determine the performance of the necessary conditions in the future – *will the necessary condition be in place?* (iv) determine the resilience of the solution benefit pair to future change; (v) decide on the appropriate course of action: to implement the solution as is, adapt it to address vulnerabilities, or replace it with an alternative solution. Depending of the group structure the output can have different profile, but as the participants are mostly stakeholders or people connected with the analyzed topic the results remain into some frame.

The smart shrinkage solution analyzed by UFM may be strategic, as principle or detailed, focus on a specific target related to population decline and associated consequences. Whatever the short-term effect of a given solution, policy-makers must adopt a longer-term perspective to ensure its continued performance throughout its intended lifespan, despite changing conditions. The question to ask is, thus: *Will today's smart shrinkage solutions deliver their intended benefits over a 40-year regeneration cycle, typically used for planning investment and development proposals?* During this project, we have tested the likely future performance of each urban development and regeneration-related 'smart shrinkage solution-benefit pair' – that is, actions taken today in the name of sustainable urban development – in a series of possible future scenarios for the year 2060. If a proposed solution delivers a positive legacy, regardless of the future against which it is tested, then it can be adopted with confidence. Four plausible but distinct future scenarios were included into our analysis (see Lombardi et. al., 2012: Table 2). A summary of these four global archetypal urban future scenarios is provided below:

- (i) **The New Sustainability Paradigm:** equity and sustainability. *An ethos of "one planet living" facilitates a shared vision for more sustainable living and a much-improved quality of life. New socio-economic arrangements result in changes to the character of urban industrial civilization. Local is valued but global links also play a role. A sustainable and more equitable future is emerging from new values, a revised model of development and the active engagement of civil society.*
- (ii) **Policy Reform:** economic growth with greater equity. *Policy Reform depends on comprehensive and coordinated action for poverty reduction and environmental sustainability, negating trends towards high inequality. The values of consumerism and individualism persists, creating a tension with policies that priorities sustainability.*
- (iii) **Market Forces:** competitive, open global market. *Market Forces relies on the self-competitive markets. Current demographic, economic, environment and technological trends unfold without major surprise. Competitive, open and integrated markets drive world development. Social and environmental concerns are secondary.*
- (iv) **Fortress world:** protection and control of resources. *Powerful individuals, groups and organizations develop an authoritarian response to the threats of resources scarcity and social breakdown by forming alliances to protect their own interests. Security and defensibility of resources are paramount for these privileged rich elites. An impoverished majority exists outside the fortress. Policy and regulation exist but enforcement may be limited. Armed forces act to impose order, protect the environment and prevent a societal collapse.*

Into the 3S RECIPE project it was analyzed the urban resilience of the Timisoara's metropolization by Urban Future Method. For this it was organized one workshops with 16 local stakeholders from Timisoara City Hall, Romanian Development Agency, National Institute of Statistics, experts for the urban commission of County Council, Timisoara Intercultural Institute NGO, Vitamina NGO and West University of Timisoara. The starting point was the identification of the municipality response to the population decline due to 1990s. In Table 1 there are presented the identified policies responses for each cause of depopulation:

Table 1. Policies response of the Timisoara's Municipality to the causes of the depopulation during 1990s.

Causes	Policies responses
out-migration	<ul style="list-style-type: none"> • economical facilities for investors; • support for newcomers – to attract working force and to convince the students to remain in the city after graduate
negative birth-rate	<ul style="list-style-type: none"> • national financial support for new born child
urban sprawl	<ul style="list-style-type: none"> • Metropolitan Development Plan (2000)

Source: author work

The UFM was applied on the evaluation of the actions, projects and interventions implemented by the Timisoara City Hall toward the metropolization of the city. For this development the participants to the workshop have identified several benefits, such: urban planning and organization at a large scale, preserving local identity, access to social services for a large amount of population from closer villages, implementing of the principle of urban ecology, the improving of quality of life, the diversification of the occupation (due to a more developed labor market), the economic development, the extension of the infrastructure and of the transportation system and, last but not least, the diversification of the leisure activities. For each of these benefits the participants to the workshop have identified one afferent necessary condition that contribute to the existence of these benefits. Besides the ten necessary conditions directly related with the ten benefits synthetized for the developing of the metropolitan area, it was formulated a supplementary condition related by the increasing of the volume of population. It is obviously that if the Timisoara as an urban inner-periphery will don't attract more inhabitants the metropolitan plan is not sustainable.

Into the second part of the workshop it was analyzed each necessary condition from the perspective of the fourth archetypally scenario: The New Sustainability Paradigm, Policy Reform, Market Forces and Fortress World. The participants have to mark with yes/no/maybe and to formulate a short argue for each condition into the perspective of each scenario. It was obtained a grid where can be observed what it will happening with the Timisoara's metropolization if in the next 40 years the city will evaluate for one of other from these scenarios. As can be observed into the Table 2 the Policy Reform Scenario is the most adequate future evolution of the city for implementing the metropolization process, since the Fortress World is less adequate. The option for one or other of these future evolutions is not complete under the municipality control, they are depending also by several regional, national and euro-regional factors. Despite these, if there are clear sign for going toward others scenario with a less support for the developing of the metropolitan area the City Hall and other stakeholders will have at least the possibility to reconfigure the development strategy, and to reduce the allocated resources for this less sustainable project.

APPLYING THE URBAN FUTURES METHODOLOGY FOR EVALUATING
THE METROPOLITAN DEVELOPMENT IN TIMISOARA, ROMANIA

	New sustainability paradigm	Policy reform	Market Forces	Fortress world
NC0. Increasing the population volume	YES – Increasing the population volume would be facilitated by this scenario aiming a better quality of life and active civic participation of citizens	YES – because this scenario aims to reduce poverty and social inequality, promoting welfare (although such living conditions may reduce the birth rate)	MAYBE – depending on the market forces dynamics, population may grow or decreases	NO – this scenario promotes a minority with access to the resources and drives away the poor majority
NC1. Linking of the development strategies to generate synergies at the metropolitan area	YES – raising awareness of public sphere and prioritizes solving common issues/ social problems into an integrative approach. The correlation of the Timisoara's and nearest villages' strategies generate a sustainable urban ecosystem.	YES – the only way to gather/focus the resources and achieve social integrated development on all levels so that the entire metropolitan population to can benefits of a better life	MAYBE – depending on the interest of actors (playing on the free market), could appear divergent mechanisms favourable for speculation which contravene common strategies	NO – in this scenario resources are available only for a privileged rich elite. This elite will promote only its agenda, independent by the common policies and regulations/social development.
NC2. Strengthening local values, construction of an integrative spirit and a metropolitan mentality	YES – Timișoara has a <i>green identity</i> , being called „The City of Roses” Timișoara's cosmopolitan identity should be preserved and transformed into a more inclusive, metropolitan identity. All these elements are favorable for a sustainable harmony cohabitation/conviviality with an active civic society and an increasing quality of life.	MAYBE – depends on the development of civil society and on the collaboration between the public institutions, political actors at the central level, local administration and local/ regional NGO's. The reform of the public policies can be oriented even at micro level (with promoting of the Timisoara's spirit) or at macro level (with promoting European values)	MAYBE –if the newcomers and the new economic agents will use and promote the local brands, local specificity. Market forces could increase the local entrepreneurship competitively or the multinational corporations.	YES – The focus on preserving local identity, Timisoara's values and habits, will highlight the differences/gaps at the metropolitan area's borders, and could increase the isolation of the metropolitan area.
NC3. Expand and diversification of social services, education and health facilities	YES – poverty reduction, increasing the quality of life and environmental sustainability could be achieved by coherent social strategies and policy offering diversification of social services, education, health facilities, social economy offer (depending on the community needs and problems).	YES – a shared vision of a more sustainable environment and improved quality of life will respond to the need and diversification of social services. The dynamics of metropolitan realities will claim a permanent adaptation of the social services to improve the quality of life and to ensure a sustainable environment.	MAYBE – if the social services private providers will get a profit by diversifying these services.	NO – the privileged elite have no interest in expanding social services, or to diversify social resources and social services for the fortress outsiders
NC4. Developing housing policies	YES – the active engagement of civil society will continuously remind and prioritizes on the public agenda the need of a coherent housing policy aiming an equitable future.	YES – the metropolitan area will continuously need a housing policy reform, with focus on better living conditions to reduce poverty and well-integrated regulation to ensure environmental sustainability. The housing policy is directly associated with the development, mobility, environment youth, education policies.	YES – the land owners and the real estate developers will compete for building houses with increased living conditions and residential areas well equipped (playing grounds, recreational facilities, transportation and so on)	NO –the powerful groups will not be interested to support the costs of a housing policy
NC5. The transfer of some urban functions to periphery (of the metropolitan area)	YES – a sustainable solution of development consists in the availability of urban functions (would be less time consuming and will reduce the pollution and the transportation costs). Also, the suburbs will develop real social life and would be transformed from the „residential dormitory” into a „living/ vivid social community”.	YES – there is a need for the stakeholders' consensus towards a master plan centered on the urban functions needed by the metropolitan areas	MAYBE –uncontrolled investments could produce irreversible effects on the community life. Urban functions at the peripheries can have or not have a potential competitiveness comparable with those of the city center	NO – the privileged group will tend to oppose the transfer of the urban functions at/outside the fortress borders

	New sustainability paradigm	Policy reform	Market Forces	Fortress world
NC6. A more diversified work opportunity	NO – caring for a sustainable living and effort for improving the quality of life assume rejection of specific work domains and limit the diversity of work opportunities that are not eco-friendly.	MAYBE –work opportunities may diversify in social services area, in education and health care, but also new domains that can facilitate the work integration for vulnerable categories of population (social entrepreneurship, social economy organisations for unqualified workers, but also encouraging IT industry and other high qualified jobs in sustainable, and eco-friendly domains).	YES – a powerful labour market creates a more diversified work opportunities, encourages start-ups, and increases the competition on the labour market.	NO – the powerful group tend to be more conservative and oppose to any diversity/diversification for outsiders.
NC7. Attracting new economic agents into metropolitan area (in the suburbs)	MAYBE – welcomes the eco-friendly investors and economic agents and reject the others.	YES – a well-planned and integrated strategy for the development of the metropolitan area will increase the trust of the economic agents to invest and the active measures for maintaining the environment sustainability (the development of industrial parks adequate equipped).	YES –stimulating the dynamics of labor market – ensures new jobs, available land and attract work force from the region (within a 200-250 km radius, near the metropolitan area).	MAYBE –if the dominant group will need more workers or other economic agents to control resources.
NC8. Improving and diversifying the public transportation system (e.g. new routes for public transportation, diversifying alternative transportation, car sharing services)	YES –facilitate and promote a healthy lifestyle, a cheaper and sustainable ways/alternatives for the present public transport services. The new geographical configuration of the metropolitan area allows changing and improving of the transportation system.	YES – an integrated development strategy for the metropolitan area should stimulate public investments in alternatives for the public transport services, to ensure the connectivity between different residential areas.	MAYBE – if stimulating public-private sustainable partnerships, or if economic agents will develop (new) transport facilities for their own employees.	NO – a better connectivity links different communities, but could not divide.
NC9. Developing routes infrastructure: fast routes, expanding the bicycle tracks, metropolitan train, commissioning the Bega navigable channel	MAYBE – reduces transport costs, increases connectivity in the metropolitan area; but is questionable if will improve the quality of life for the inhabitants and if will ensure the environment sustainability.	YES –increases the connectivity between residential areas, industrial facilities and urban facilities (saving time currently spent in traffic jams and reduce transportation costs); considerable investments for developing routes infrastructure.	MAYBE –limited possibility to co-opt private investors for developing routes infrastructure (the legislation states that the routes infrastructure should be in the exclusive administration of the public authorities).	NO –is not in the interest of the dominant group to develop routes infrastructure outside of fortress.
NC10. Developing community centres, cultural centres and leisure centres/entertainment	YES – it will ensure the „community life”, increases the role of the civil society and stimulates an active citizenship.	YES – stimulates cultural policies, cultural NGO’s, and cultural projects/events accessible for the large public (e.g. represents one of the pillars of programme Timișoara – European Cultural Capital 2021).	YES –increasing investments into entertainment facilities, cultural centres (as a profit opportunity, entrepreneurship development in the cultural field)	NO –limited access to culture facilities for a small elite.

3. CONCLUSION

The Urban Future Methodology represent a very usefully tool with an interdisciplinary background and with a direct applicability for the policies makers. It has some weakness related by the configuration of the participations at the workshop (various groups of stakeholders can generate various outputs). However, the UFM provide a very consistent image about what was made related with the specific subject and, most important, make a consistent prediction about what is possible to happen with all of these in the further decades.

ACKNOWLEDGMENT

This work was supported by a grant of the Romanian National Authority for Scientific Research and Innovation, CCCDI-UEFISCDI, project number 66/2017 COFUND-ENSUF-3S RECIPE (1), within PNCDI III “3S RECIPE – Smart Shrinkage Solutions. Fostering Resilient Cities in Inner Peripheries of Europe”.

REFERENCES

- Boom van N & Mommaas H (eds) (2009). *Transformation Strategies for Former Industrial Cities*. Rotterdam: NAI Publishers.
- ESPON (2013). *Inner Peripheries: a socio-economic territorial specificity. GEOSPECS Final Report 14/01/2013*. Geneva: University of Geneva.
- Ganser R & Piro R (eds) (2012). *Parallel Patterns of Shrinking Cities and Urban Growth: Spatial Planning for Sustainable Development of City Regions and Rural Areas*. Farnham, UK: Ashgate.
- Grossmann K, Bontje M, Haase A & Mykhnenko V (2013). Shrinking cities: notes for the further research agenda, *Cities*, 35: 221-225.
- Haase A, Bernt M, Grossmann K, Mykhnenko V, and Rink D. (2016). Varieties of shrinkage in European cities. *European Urban and Regional Studies*. 23(1), pp. 86-102.
- Langner M & Endlicher W (eds) (2007). *Shrinking Cities: Effects on Urban Ecology and Challenges for Urban Development*. Frankfurt: Peter Lang.
- Lombardi DR, Leach JM, Rogers CDF et. al. (2012). *Designing Resilient Cities: A Guide to Good Practice*. Bracknell: IHS BRE Press.
- Martinez-Fernandez C, Audirac I, Fol S & Cunningham-Sabot E (2012). Shrinking cities: urban challenges of globalization, *International Journal of Urban and Regional Research*, 36 (2): 213- 225.
- Mykhnenko V & Turok I (2008). East European cities – patterns of growth and decline, 1960-2005, *International Planning Studies*, 13 (4): 311-342.
- Neill WJV & Schlappa H (2016). *Future Directions for the European Shrinking City*. Abingdon, UK: Routledge.
- Oswalt P (ed) (2005). *Shrinking Cities. Vol. 1: International research*. Berlin: Hatje Cantz.
- Pallagst K, Wiechmann T & Martinez-Fernandez C (eds) (2014). *Shrinking Cities: International Perspectives and Policy Implications*. Abingdon, UK: Routledge.
- Pike A, MacKinnon D, Coombes, M, Champion T, Bradley D, Cumbers A, Robson L & Wymer C. (2016). *Uneven growth: tackling city decline*. York: Joseph Rowntree Foundation.
- Richardson HW & Nam CW (eds) (2014). *Shrinking Cities: A Global Perspective*. Abingdon, UK: Routledge.
- Szeleny I., Andrusz G., Harloe M. (1996) *Cities after socialism*. Willey and Sons Inc.
- Turok I & Mykhnenko V (2007). The trajectories of European cities, 1960-2005, *Cities*, 24 (3): 165-182.

THE SOCIOLOGICAL REALITY OF THE HOMO INTERNETICUS

Bogdan Nadolu¹ 

Delia Nadolu² 

DOI: <https://doi.org/10.31410/LIMEN.2019.67>

Abstract: *The digitalisation of the everyday life has become a common reality for more than a half of the global population. To be connected 24/7 on several devices, to be at only one click/touch away from a huge amount of digital contents, to be available for interactions with almost any users from around the globe have become common facts. The insertion of the communication technology in our daily life is higher and deeper than never before. Into this paper, it was followed to identify the main sociological dimensions of the so-called Homo Interneticus – a new manifestation of the human being on the base of the new communication technologies. What are the main advantages of HI? But the disadvantages? Did we lose something from our human essence by the digitalisation of our existence?*

Keywords: *Internet, Smart-phone use, Online social presence.*

1. INTRODUCTION

During the human evolution there were several events that had a massive impact over our beings: the biped walk, the development of the language, the tools, the agriculture, the printing. In the last almost half of century human civilization has known an unprecedented development of the communication technology, with direct and complex consequences for all dimensions of our lives (Castells 2009). The development and the spread of the New Information and Communication Technologies (NICT), under the global label of the Internet represent a massive social phenomenon that occurs from the 1980s on, with a quasi-anarchic unpredictable and uncontrolled evolution. Beginning as a secret military research project conducted by ARPA (Advanced Research Projects Agency) in 1969 the global network of computers, named firstly ARPANET and after 1990s Internet, has deployed a new era in our evolution: *the information society* (Luckett and Casey 2016). Inside of this unlimited digital universe anyone can say anything, anytime from anywhere (Doheny-Farina 1996).

More than half of global population access daily the digital universe because there are not any restrictions to going on-line, the proper technology is affordable and, last but not least the exploring of this new world is very enjoyable. The digitalisation of everyday life has become a common reality and, in many cases, even a necessity. To be connected full time from several devices simultaneous, to have at only one click/touch distance a huge amount of digital content, to can interact with any other user from anywhere have already become common facts. The communication technology is inserted in our life more extensive and more intensive than ever before. Our goals, values, opinions, behaviours, thinking, sociability, daily routine and social life have been significant reconfigured due the intensive use of the digital technology (Schaefer, Heinze, Rotte and Denke 2013).

¹ West University of Timisoara, Bd.V.Parvan, no 4, Timisoara, Romania

² West University of Timisoara, Bd.V.Parvan, no 4, Timisoara, Romania

In 2004 Michael Goldhaber coined the expression Homo Interneticus as a “new form of human evolution based on their state of communication abilities”. Even it can be considered mostly a philosophical one, we have to admit that it tends to become a very good descriptor of our daily status-quo. The Internet is an important part of human evolution: “... the invention of language was an evolutionary step of the human kind. The internet is a similar step” (Goldhaber 2019). Another reference to this formulation can be found in the Aleks Krotoski documentary movie “Homo Interneticus? – The Virtual Revolution” launched by BBC2 in 2012 (Krotoski 2012). The main issue of this film was how the web may be distracting and overloading our brains.

From a general point of view the Homo Interneticus is mostly defined with an excess of Internet use, so trend to have a negative connotation. Into a small research made in 2017 with an online questionnaire on an available sample (N=488) on this topic, over 70% of the subjects admit that we can nowadays talk about the Homo Interneticus as a new form of human being, and a similar percentage have declared that they don't want to become a Homo Interneticus. The main strengths of the HI where identified as the unlimited access to an enormous amount of information and the hyper-connectivity and the main weakness where the social alienation and the addiction by social media. So, into this light of these answers, to access intensively the Internet assure a high level of information and connectivity but, into the same time, generate alienation and addiction and thus, in the end it is a bad thing.

Of course, these are only subjective perceiving generated by the classical debate of the addiction issue, a subject that are coming from 1980s and was growing continuous until the Internet Addiction Disorder, officially recognized as a mental disorder. Even this aspect is as serious as possible, the intensive use of the Internet is not just a manner of addiction or psychological problem. Almost half of world population spent online at least two hours daily and this is just a social fact (Internet World Stats 2019). It is not necessary a debate about positive or negative consequences, it is happening and that is it. We can label ourselves as Homo Interneticus or not, the nowadays online social existence is a certitude. And this represent actually the main characteristic of the HI: to spend daily a minimal amount of time online. The question is *how long?* There is a clear milestone after we can talk about HI and before just a non-involved Internet user? For this, firstly we have made a very simply math following to calculate how many hours is necessary to generate the entire digital content that is quantified daily. For this we have started from the commercial statistics (Figure 1) that can be found on the Internet related to the idea “what's happening in an Internet minute?” (Desjardins, 2019). We have assumed that there is some inconsistency into this data but, they can be used at least as a general mark.

After that, we have established an estimated average time for each action (30 seconds / Google search, 3 seconds / WhatsApp message, 1 minute/ e-mail and so on) and have get the total amount of online time spend by the entire Internet population daily for generating the entire digital content and activities. And finally, we have divided for each activity the specific volume of time to their number of users (assuming that this is a very approximatively approach due to high dispersion between users). Thus, the final value was around 120 minutes. For generating all the online activity around the world is necessary than every user to spend daily 2 hours on him/her platforms and application (all on google search and email, but only some on Facebook, Twitter, Tik-Tok and so on). Even it is a low consistency of this value we can keep it only as a general milestone. We can assume, only as a hypothesis that the users that spend daily at least two hours online will be named HI and the others, with less than two hours daily can be named occasionally users or non-HI. Is this milestone functionally? Does have any relevance?

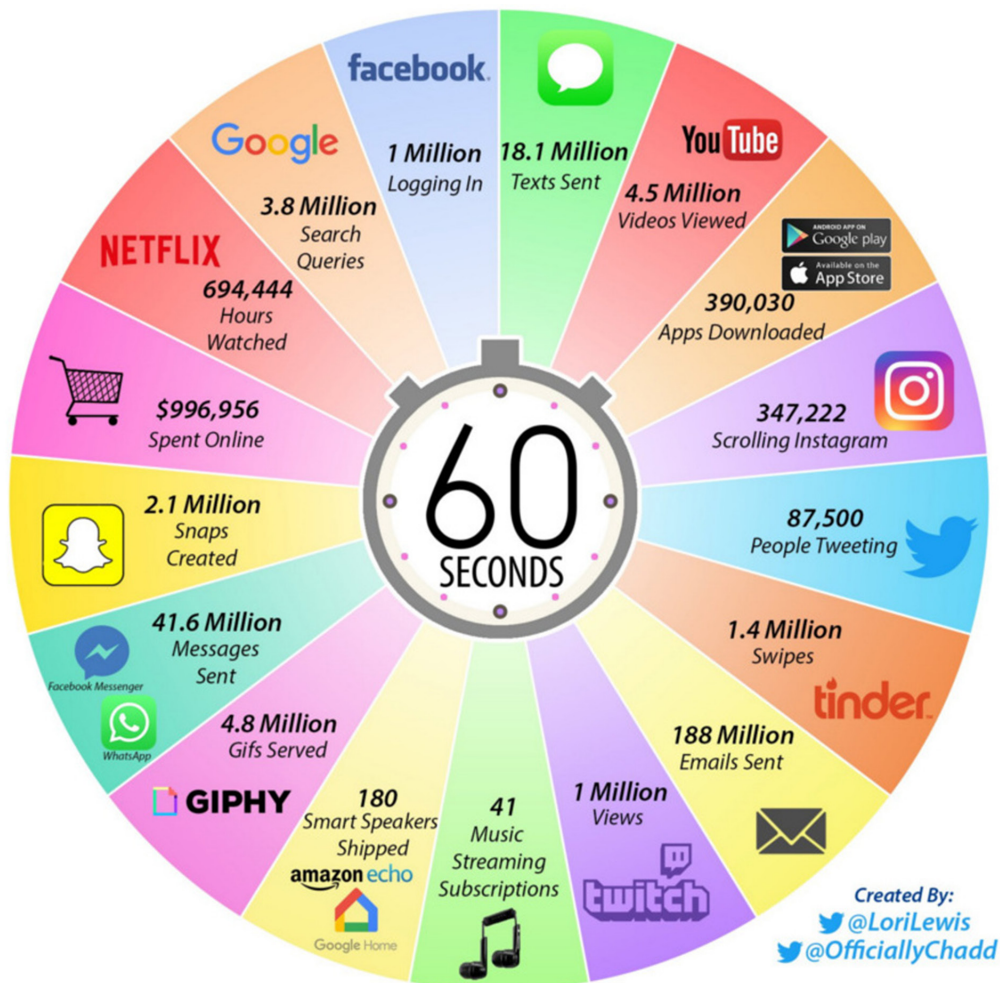


Figure 1. What is Happening in an Internet Minute in 2019

Sources: Jeff Desjardins, 2019

For this we have initiated an experimental survey with an online five items questionnaire, followed by Smartphone Addiction Scale – Short Version (Kwon, Kim, Cho and Yang 2013, Tudorel, Vintila, Vlaicu, Balauta, Goian and Rusu 2018) and ending with the request to upload a screen capture with the phone used during the last week³. This last part of the questionnaire was a real challenge, due to difficulties in obtaining the technical information from various type of smartphone and operating systems, but in the end, it was obtained 140 answers during May-July 2019. It was only a convenience sample, with subjects approached via Facebook using the snowball selections technique. There are not claimed of the representativeness, but the results can provide a useful point of departure for further work. The subjects were informed about the exclusively research purpose of the study and the anonymous and confidential profile.

The sample was formed mostly from young people (63% below 20 years age), relatively balanced by gender (61% women) that are accessing the Internet mostly form smartphone (75%) but that are not addicted to smartphone (69% non-addicted at SAS-SV score). Into the Figure 2 there are the most interesting factual data of this research:

³ For the iPhone users they have only to go into the setting menu and to make three screen captures with the screen time and the more frequent application. For non-iPhone users we asked them to install a small free application, UsageTime [Usage Time Application 2019] that provides immediately their phone utilisation for the last week.

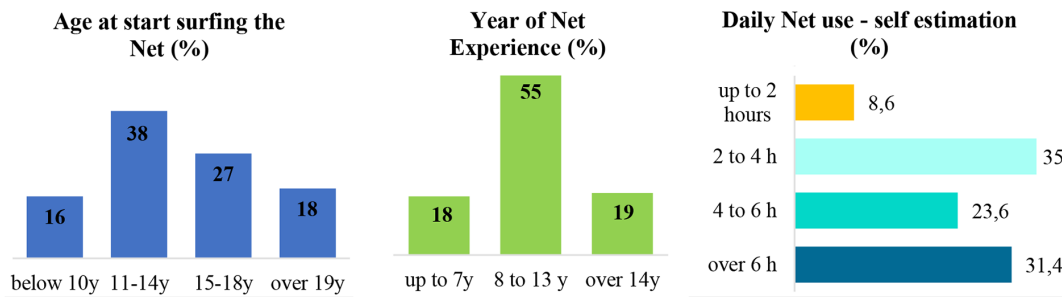


Figure 2 – Descriptive statistics of the factual distributions

Sources: Authors' work

On the base of previous milestone of two hours of online daily activities it was defined four categories of users: Non-Homo Interneticus (Non HI) – up to 2 hours, Light Homo Interneticus (Light HI) – 2 to 4 hours, Medium Homo Interneticus (Medium HI) – 4 to 6 hours and Strong Homo Interneticus (Strong HI) – over 6 hours. The main characteristics of each type of Homo Interneticus are presented in Table 1:

Table 1. Frequencies and characteristics of various type of Homo Interneticus

Self-estimation of the time spends daily online	%	Average age	Average Net start	Average Mobile Use	Average peak Mobile Use	SAS-SV average score
up to 2 hours (Non HI)	9	38y 9m	22y 1m	2:14	3:21	24
2 to 4 hours (Light HI)	35	27y 1m	16 y 3m	4:15	6:22	28
4 to 6 hours (Medium HI)	24	25y 2m	14 y 11m	4:44	7:20	30
over 6 h (Strong HI)	31	25y 1m	13y 11m	4:39	7:16	27

There is a very clear and direct correlation between Internet use and age. All analyzed variables (the average age of starting use the internet, average daily mobile use and the average peak of mobile use) have a linear, direct but negative correlation with age. Also, it can be observed that if for Non-HI and for Light HI the daily online time is spent mostly from smart-phone for medium and strong HI the average mobile use remine below 5 hours, even the average peak goes over 7 hours. So, for a deep digital experience there are used multiple devices, not only the smartphone. Finally, one of the most important aspect is that all of these categories have obtained an SAS-SV average score below the cut-off point of addiction (31 for male and 33 for female). The Medium HI with four to six hours of online daily activities are the closest by the addiction point by smartphone. And this is also reflected into the highest level of mobile phone use (4 hours and 44 minutes) and the highest level of average peak (7 hours and 20 minutes).

2. CONCLUSION

Homo Interneticus, defined as an Internet user that spend daily more than two hours online, is a nowadays reality and is not based on the addiction to technology. The digital natives that are nowadays up to twenty years old have start to go online when they were teenagers and have a quite coherent behavior into the virtual space (socialization, entertainment, productivity). Even if they use almost five hours the mobile phone daily this is not a due to a clear addiction (the SAS-SV score was low) but to the alternative facilities offer by the mobile applications. The questions for the further research are: what will happen with our social space if people trend to reduce with almost five hours their offline availability? What will happen with the nowadays teenagers when they become adults?

REFERENCES

- Castells, M. 2009. *Communication power*. Oxford: Oxford University Press.
- Desjardins, Jeff (2019) *What Happens in an Internet Minute in 2019?* available online at <https://www.visualcapitalist.com/what-happens-in-an-internet-minute-in-2019/>
- Doheny-Farina, S. 1996. *The Wired Neighbourhood*. Yale University Press.
- Goldhaber, M.H. *The mentality of Homo interneticus: Some Ongian postulates*. Last modified 2004. Accessed February 24, 2019. <https://firstmonday.org/ojs/index.php/fm/article/view/1155>
- Homo Interneticus? The Virtual Revolution*. 2012. Dir. Krotoski, A. BBC2. available at: <https://www.youtube.com/watch?v=jYpPt9d971I>
- Internet World Stats. Internet Usage Statistics. The Internet Big Picture. 2019. Accessed March 15, 2019. <https://www.internetworldstats.com/stats.htm>.
- Kwon M., D.J. Kim, H. Cho. and S. Yang. 2013. The Smartphone Addiction Scale: Development and Validation of a Short Version for Adolescents. *Plos One* 8(12).
- Luckett, O. and M. Casey. 2016. *The Social Organism*. New York: Hachette Book.
- Schaefer M, H-J Heinze, M. Rotte and C. Denke. 2013. Communicative versus Strategic Rationality: Habermas Theory of Communicative Action and the Social Brain. *PLoS ONE* 8(5): e65111. <https://doi.org/10.1371/journal.pone.0065111>
- Tudorel, O.I., M. Vintila, L. Vlaicu, D. Balauta, C. Goian and A. Rusu. 2018. Romanian Version of the Internet Addiction Test: Psychometric Properties and Cross-Gender Invariance. *International Journal of Mental Health and Addiction*. Springer Science+Business Media. DOI: 10.1007/s11469-018-0014-6
- Usage Time Application software* (version 1.4.4.). 2019. Vnova Mobile.

THE CONTAGION EFFECT IN EUROPE: A DCC GARH APPROACH

Paulo Alexandre¹ 

Paula Heliodoro² 

Rui Dias³ 

DOI: <https://doi.org/10.31410/LIMEN.2019.73>

Abstract: *This research analyses the co-movements between sovereign debt markets, and the stock markets of Germany, Portugal, and Greece, in the period 2009:10 – 2015:07. It aims to provide answers to two questions, namely, whether: i) Was there contagion between bond markets and the Eurozone stock markets? ii) Did the financial sector show contagion? The study used GARCH-DCC econometric models, with the purpose of estimating the dynamic correlation between the markets, using daily data of 10-year OT yields for Greece and Portugal, as well as price indices for Portugal (PSI-20, PSI Financial), and Germany (DAX-30 and DAX Financial). In addition, we also evaluate the variation of the correlation in each of the identified crisis periods against a reference period (pre-crisis). The results suggest contagion from the Greek sovereign debt market to the Portuguese and German stock markets. We found that the Portuguese debt market influenced the German stock market, in a market and financial sector context. In conclusion, it is assumed that the results reveal some understanding of the behaviour of investors under extreme market conditions and contribute to the understanding of the connection between sovereign risk and financial sector risk by market agents, including regulators and policy-makers, who seek to ensure the stability of the international financial system, of which the stock markets are a part of.*

Keywords: *Financial contagion, Stock market, Euro sovereign debt crisis, GARCH-DCC.*

1. INTRODUCTION

This study aims to investigate the possible occurrence of contagion during the European sovereign debt crisis in the stock markets of some Euro Zone (EA) countries and, in particular, the shares of companies in the financial sector, attempting to determine whether the contagion to this specific sector, was in any case more significant than the potential contagion in the stock market as a whole.

The creation of the EA has further increased financial integration among the countries participating in the Monetary Union (MU), therefore contributing to increased financial stability through the creation of larger, more liquid and competitive markets, which offer greater possibilities of risk diversification and lower transaction costs, which ultimately have a positive impact on each country's economic growth potential. However, in a scenario such as the sovereign debt crisis, stronger financial integration results in higher risks/costs, not only for the countries directly affected but, apparently, for all others. This situation is caused by the potential existence of contagion effects between the various markets of the various countries, which cause shocks specific to some specific countries to spread throughout the EA (Gonzalez-Paramo 2011).

¹ Polytechnic Institute of Setúbal, School of Business and Administration, Esce, Campus do Instituto Politécnico de Setúbal, Estefanilha, 2914-503 Setúbal, Portugal

² Polytechnic Institute of Setúbal, School of Business and Administration, Esce, Campus do Instituto Politécnico de Setúbal, Estefanilha, 2914-503 Setúbal, Portugal

³ Polytechnic Institute of Setúbal, School of Business and Administration, Esce, Campus do Instituto Politécnico de Setúbal, Estefanilha, 2914-503 Setúbal, Portugal

This research has two main goals. The first is to investigate the existence of contagion from one country's bond market to another country's bond market in the context of the sovereign debt crisis. The second purpose is to check the occurrence of contagion, specifically among the shares of the companies that make up the financial sector, in order to determine whether the contagion effect to this specific sector is higher than that verified in the stock market as a whole. This study also makes it possible to evaluate whether the impact of the debt crisis on equity markets is variable according to the sovereign risk of the country of the market itself, considering that the equity markets of countries with different risk classes, namely Portugal and Germany, are analyzed.

The results suggest the existence of contagion from the Greek sovereign debt market to the stock markets of Portugal and Germany, both for the stock market as a whole and more specifically for the stocks of the companies that make up the financial sector, in most of the periods of crisis identified. There also has been evidence of contagion to the German stock market from the Portuguese sovereign debt market, although on a smaller scale than in the case of Greek sovereign debt. The hypothesis that there is a higher contagion effect on the stocks of financial sector companies than on the stock market as a whole is not supported by the results obtained in any of the analyses.

This study aims to contribute to the literature essentially in two aspects. Firstly, it analyses the existence of contagion between markets of different asset classes, not in the same country, but in different countries of the EA, focusing on contagion in stock markets. This analysis is made in a context of the sovereign debt crisis, combining the GARCH-DCC methodology with the identification of several periods of crisis in the sovereign debt securities market. Secondly, it explores the relationship between sovereign risk and financial sector risk in the EA, through a study of contagion specific to this sector, seeking to determine whether the market value of companies belonging to the financial sector were strongly affected in comparison to the rest of the market as a whole.

In terms of structure, this paper is organised into 5 sections. In Section 2 we present a review of the literature on contagion in financial markets. Section 3 describes the methodology. Section 4 contains the data and results. Section 5 sets out the conclusion.

2. LITERATURE REVIEW

The sovereign debt crisis in the EA has motivated several studies related to the topic of financial contagion among the various UM countries, with special focus on the contagion of Greece to other countries. For obvious reasons, one of the most debated aspects in the literature has been the contagion between sovereign debt markets during this period. In addition, the existence of studies that prove the occurrence of contagion in the sovereign debt markets of the EA countries, supports in some aspects the possibility of the transmission of shocks also to the stock markets (Alexakis and Pappas, 2018; Finta, Frijns, and Tourani-Rad, 2019; Antonakakis, Gabauer, and Gupta, 2019; Golab and Zamojska, 2019; Pentecost et al., 2019).

Tola and Wälti (2015) and Gómez-Puig and Sosvilla-Rivero (2016) have demonstrated the existence of contagion in sovereign debt markets during the sovereign debt crisis. Tola and Wälti (2015) test the existence of contagion in the sovereign debt markets of nine SAP countries during the sovereign debt crisis. The authors demonstrate the occurrence of contagion on a large scale between the bond markets of the countries analysed during the sovereign debt crisis,

with around three quarters of the country-specific shocks resulting in contagion to other UM countries. Nevertheless, asymmetric contagion was also detected in some cases, a situation that occurs when the shock felt in the debt market of a given country causes a movement contrary to the OT yield of some other country, namely, phenomena of „flight to quality”. Gómez-Puig and Sosvilla-Rivero (2016) indicate the existence of contagion during the initial phase of the euro crisis, namely from the Greek sovereign debt market to the sovereign debt markets of Portugal, Spain, Italy and Belgium, but not to the sovereign debt markets of Austria and the Netherlands.

More recently, Anastasopoulos (2018), Finta, Frijns, and Tourani-Rad (2019), Antonakakis, Gabauer, and Gupta (2019) and Pentecost et al. (2019) examined the effects of contagion between European and non-European markets in the context of the sovereign debt crisis. Anastasopoulos (2018) shows that the contagion effects of the Greek debt crisis were not persistent, while the effects of the depreciation of the yuan were. Finta, Frijns, and Tourani-Rad (2019) suggest the existence of two-way contagion between the stock markets. However, there is asymmetry and time variation in contagion, namely, the shocks from Germany to peripheral stock markets are larger than the opposite. Antonakakis, Gabauer, and Gupta (2019) suggest that Greek economic policy uncertainty is influencing European economic policy uncertainty approximately throughout the analysis period. Finally, the analysis of the response to shocks, suggests that the persistence of monetary policy shocks varies over time and has increased after the global financial crisis of 2007-2009. This magnifying effect partly explains the longer-term recovery of the European economy. Pentecost et al. (2019) found a different pattern of contagion coming from Ireland and compared with other markets such as Greece, Italy, Portugal and Spain. They examined the factors that made countries vulnerable to contagion and showed that financial factors are more important than those from trade.

3. METHODOLOGY

In this study, the first step in econometric analysis is to evaluate the time series stationarity. This analysis becomes essential since such characteristics are fundamental for the data generator process modelling (Lütkepohl and Krätzig 2004). The Augmented Dickey-Fuller test (Dickey and Fuller 1981) postulates that the null hypothesis is non-stationary or integrated of order d ($d > 0$), $I(1)$, against the alternative hypothesis of stationarity (Said and Dickey 1984). To validate the ADF test, we use the KPSS test (Kwiatkowski et al. 1992), where the hypotheses presented are contrary to the ADF test, i.e. H_0 postulates that the series is $I(0)$ against the alternative that the series are $I(1)$ (Noman and Rahman 2010).

The methodology used to determine the occurrence of financial contagion from the sovereign debt market in Greece to the stock markets in Portugal and Germany, and from the sovereign debt market in Portugal to the German stock market, is based on the estimation of the dynamic conditional correlation between the changes in OT's yield and the yields of the stock index, using a GARCH-DCC (Generalized Autoregressive Conditional Heteroskedasticity – Dynamic Conditional Correlation) model. Once this correlation is determined, it is analysed how it evolves in each of the identified crisis periods (from the sovereign debt market) compared to a reference period (pre-crisis).

We consider that this approach is suitable because, in the view of this study, financial contagion is associated with the occurrence of excessive co-movements, i.e. to episodes of increased correlation between asset returns, which can therefore be identified.

The model of dynamic conditional correlation (DCC-GARCH), suggested by Engle (2002) and Tse and Tsui (2002), is distinguished from other models, such as the constant conditional correlation proposed by Bollerslev (1990) in that the conditional correlation matrix changes over time.

In the DCC-GARCH model, the conditional covariance matrix is written as follows:

$$\Sigma_t = D_t \Gamma_t D_t \quad (1)$$

Where:

$$D_t = \text{diag}(\sqrt{h_{11,t}}, \sqrt{h_{22,t}}, \dots, \sqrt{h_{nn,t}}) \quad (2)$$

$$\Gamma_{t+1} = [\text{diag}(Q_t)]^{-1/2} Q_t [\text{diag}(Q_t)]^{-1/2} \quad (3)$$

$$Q_t = (1 - \alpha - \beta) \bar{Q} + \alpha U_{t-1} U'_{t-1} + \beta Q_{t-1} \quad (4)$$

4. DATA AND RESULTS

4.1. Data

The data used in this study to evaluate the occurrence of contagion from the sovereign debt markets of Greece and Portugal to the stock markets of the selected countries were extracted from the Thomson Reuters platform. For the sovereign debt markets, implicit interest rates, Treasury Bond yields (OT's) with 10-year maturity in Greece and Portugal are used.

To analyse possible contagion to the stock markets of Germany and Portugal, the reference indices for Germany and Portugal (DAX-30 and PSI-20) are taken into account. The DAX and PSI Financial indices are used to study the contagion specific to the shares of companies belonging to the German and Portuguese financial sectors, respectively, as they reflect exclusively the market value of companies in this sector (banks, insurance companies and various financial services) in these two countries. These data are of daily frequency and refer to the period between October 1, 2009 and July 13, 2015.

4.2. Results

This study was conducted with the objective of ascertaining the existence of contagion from the Greek sovereign debt market to the stock markets of Portugal and Germany, and from the Portuguese sovereign debt market to the German stock market, in the period between 1 October 2009 and 13 July 2015, namely to the stocks of the companies belonging to the financial sector, with the objective of determining whether the contagion effect to this specific sector was in any way stronger than that verified in the stock market as a whole.

The results suggest the existence of contagion from the sovereign debt market in Greece to the Portuguese stock market as a whole, since most of the periods of crisis identified in the Greek debt market gave rise to episodes of contagion to Portuguese shares (73%). It was also ascertained, specifically, the existence of contagion from the Greek sovereign debt market to the shares of the companies that make up the financial sector of the Portuguese stock market, since most of the periods of crisis identified in the Greek debt market resulted in contagion episodes to these listed companies (80%).

However, considering that the number of contagion episodes in each of the analyses was very close, and the fact that the average decrease in the correlation (between OT yield changes and equity index yields) in these same episodes, relative to the reference periods, was slightly higher in the analysis of contagion to the whole stock market, it was not concluded that there was a higher contagion effect than those listed in the financial sector compared to the Portuguese stock market as a whole. In addition, the analysis suggests that the turbulent period associated with the 1st international bailout of Greece (May 2010) and, more recently, the stalemate period preceding the principle of agreement leading to the 3rd Greek bailout (June/July 2015) have caused apprehension among investors.

There was also evidence of contagion from the Greek sovereign debt market to the German stock market as a whole, as most of the periods of crisis identified in the Greek debt market resulted in episodes of contagion to German stocks (80%). It was also found that contagion from the Greek sovereign debt market to the stocks of the companies that make up the financial sector of the German market, as most of the periods of crisis identified in the Greek debt market led to episodes of contagion to these listed companies (73%). However, the results obtained do not support the existence of a stronger contagion effect on the shares of the financial sector in relation to the entire German stock market, given that both the number of contagion episodes ascertained and the average decrease in the correlation (between the changes in the OT's yield and the yields of the stock index) verified in these same episodes, in comparison to the reference periods, were higher in the analysis involving the entire German stock market.

In addition, as in the analysis of contagion of Greek debt to the Portuguese stock market, the research indicates that the 1st international bailout of Greece (May 2010) and the negotiations that led to the principle of agreement of the 3rd Greek bailout (June/July 2015) were the events in which there was a greater transmission of negative investor sentiment to German shares. It should also be noted that, in the case of the latter event, this transmission seems to have penalized most German stocks more than those listed in the financial sector.

The results suggest that investors do not seem to have made a distinction between the stock markets of Portugal and Germany according to the sovereign risk of each of the countries, and they have been affected in the same way in most of the periods of crisis identified in the Greek debt market, since they present a very similar number of contagion episodes.

The analysis involving the Portuguese sovereign debt market and the German stock market as a whole, also revealed contagion from the first to the second, as most of the periods of crisis identified in the Portuguese sovereign debt market, caused episodes of contagion to German shares (60%). Similarly, the existence of contagion in the Portuguese sovereign debt market was specifically found to exist in the stocks of the companies belonging to the financial sector of the German Stock Exchange, considering that half of the periods of crisis identified in the Portuguese debt market caused contagion episodes to these listed companies (50%).

However, given that the number of contagion episodes was higher in the analysis of contagion to the entire German stock market, and given that the average decrease in the correlation (between OT yield changes and stock index yields) in these same episodes, relative to the reference periods, was quite close in both analyses, the existence of a contagion effect higher than those listed in the financial sector relative to the German stock market as a whole was not determined.

The analysis of contagion from the Greek and Portuguese sovereign debt markets to the German stock market indicates that the latter was more contagious to the evolution of the price of Greek sovereign debt securities than to the Portuguese, since both the (absolute) number of contagion episodes ascertained and the proportion of these to the total of crisis periods identified in each of these sovereign debt markets were higher in the analysis involving the Greek debt market. This is not surprising given that the Greek sovereign debt crisis has been more serious and more difficult to resolve than the other crises experienced by other euro area countries since 2010, namely the Portuguese and Irish ones, which presupposes a more significant contagion effect from the Greek debt market to the markets of the other euro countries. These results are in line with the evidence suggested by Beirne and Fratzscher (2013), Kenourgios (2014), Finta, Frijns, and Tourani-Rad (2019), Pentecost et al. (2019) which show contagion from the sovereign debt crisis.

5. CONCLUSION

In conclusion and based on the outcome of this investigation, we can notice the existence of contagion from the Greek sovereign debt market to the Portuguese and German stock markets and also, although on a smaller scale, from the Portuguese sovereign debt market to the German stock market, both to the market as a whole and specifically to companies listed in the financial sector. However, contrary to our expectations, in none of the cases analysed was solid evidence obtained that would determine the existence of a contagion effect greater than the shares of the companies comprising the financial sector, in relation to that verified in the stock market as a whole.

Considering the existence of contagion effects among the various countries of the EA, both between bond markets and between bond markets and shareholders, as this study demonstrates, when an EM country is affected by a crisis it puts at risk the financial stability of the others. Therefore, in an economic policy level, and in a scenario of imminent crisis, it is considered to be of extreme importance the immediate action of the Government of the affected country to obtain agreements with the international authorities that make it possible to contain and reduce the contagion to other countries, namely through economic and financial assistance programs. In addition, it is understood that the European institutions, together with the increasing financial integration among countries, will be expected to implement more and better trans-European control mechanisms that are effective and that make it possible to detect and resolve, in a timely manner, situations of imbalance, structural or conjunctural. This is important since requests for external assistance, on their own, will not solve the situation in the medium/long term, as exemplified by the three Greek bailouts in recent years.

REFERENCES

- Anastasopoulos, Alexia. 2018. "Testing for Financial Contagion: New Evidence from the Greek Crisis and Yuan Devaluation." *Research in International Business and Finance*.
- Antonakakis, Nikolaos, David Gabauer, and Rangan Gupta. 2019. "Greek Economic Policy Uncertainty: Does It Matter for Europe? Evidence from a Dynamic Connectedness Decomposition Approach." *Physica A: Statistical Mechanics and its Applications*.
- Beirne, John, and Marcel Fratzscher. 2013. "The Pricing of Sovereign Risk and Contagion during the European Sovereign Debt Crisis." *Journal of International Money and Finance*.
- Bollerslev, Tim. 1990. "Modelling the Coherence in Short-Run Nominal Exchange Rates: A Multivariate Generalized Arch Model." *The Review of Economics and Statistics* 72(3): 498. <http://www.jstor.org/stable/2109358?origin=crossref>.

- Dickey, David, and Wayne Fuller. 1981. "Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root." *Econometrica* 49(4): 1057–72.
- Engle, Robert. 2002. "Dynamic Conditional Correlation." *Journal of Business & Economic Statistics* 20(3): 339–50. <http://www.tandfonline.com/doi/abs/10.1198/073500102288618487>.
- Finta, Marinela Adriana, Bart Frijns, and Alireza Tourani-Rad. 2019. "Time-Varying Contemporaneous Spillovers during the European Debt Crisis." *Empirical Economics*.
- Gómez-Puig, Marta, and Simón Sosvilla-Rivero. 2016. "Causes and Hazards of the Euro Area Sovereign Debt Crisis: Pure and Fundamentals-Based Contagion." *Economic Modelling*.
- Gonzalez-Paramo, Jose Manuel. 2011. "Sovereign Contagion in Europe." *Economic and Financial Review* 18(4): 152–66. <http://www.eefclondon.org/pubs/efr.html%5Cnhttp://search.ebscohost.com/login.aspx?direct=true&db=ecn&AN=1295568&site=ehost-live&scope=site>.
- Kenourgios, Dimitris. 2014. "On Financial Contagion and Implied Market Volatility." *International Review of Financial Analysis* 34: 21–30. <http://dx.doi.org/10.1016/j.irfa.2014.05.001>.
- Kwiatkowski, Denis, Peter C. B. Phillips, Peter Schmidt, and Yongcheol Shinb. 1992. "Testing the Null Hypothesis of Stationary against the Alternative of a Unit Root." *Journal of econometrics* 54(1): 159–78.
- Lütkepohl, Helmut, and Markus Krätzig. 2004. *Applied Time Series Econometrics Applied Time Series Econometrics*.
- Noman, Abdullah M, and M Zillur Rahman. 2010. "Stationarity of South Asian Real Exchange Rates Under Exponential Star (ESTAR) Framework." *The Journal of Developing Areas* 43(2): 41–50. http://muse.jhu.edu/journals/journal_of_developing_areas/v043/43.2.noman.html%5Cnhttp://muse.jhu.edu/journals/journal_of_developing_areas/v043/43.2.noman.pdf.
- Pentecost, Eric J., Wenti Du, Graham Bird, and Thomas Willett. 2019. "Contagion from the Crises in the Euro-Zone: Where, When and Why?" *European Journal of Finance*.
- Said, Said E., and David A. Dickey. 1984. "Testing for Unit Roots in Autoregressive Moving Average Models of Unknown Order." *Biometrika* 71(3): 599–607.
- Tola, Albi, and Sébastien Wälti. 2015. "Deciphering Financial Contagion in the Euro Area during the Crisis." *Quarterly Review of Economics and Finance* 55: 108–23.
- Tse, Y. K., and Albert K.C. Tsui. 2002. "A Multivariate Generalized Autoregressive Conditional Heteroscedasticity Model with Time-Varying Correlations." *Journal of Business and Economic Statistics* 20(3): 351–62.

THEORETICAL AND PRACTICAL CONSIDERATIONS REGARDING ABUSIVE CLAUSES IN THE CREDIT CONTRACTS, REGARDED AS ADHESION CONTRACTS

Diana Gorun¹
Mirela Niculae²
Beatrice-Tanta Strat³

DOI: <https://doi.org/10.31410/LIMEN.2019.81>

Abstract: *Credit agreements are regarded as adhesion contracts, containing clauses to which the customer is obliged to accept, which can easily be defined as abusive. Because of their unpredicted and onerous effects, it was legally established the unpredictability in the adhesion contracts, which justified the intervention of the courts of instances to review or to adapt the contract according to the exceptional circumstances' changes.*

Keywords: *Unpredictability, Effects, Legislation.*

1. INTRODUCTION. PRELIMINARY ISSUES CONCERNING THE LIMITATION OF COMPULSORY CONTRACT FORCE. THE CIRCUMSTANCE IN CREDIT AGREEMENTS. CONTEXT OF THE NECESSITY OF OCCURRENCE OF LAW NO. 77/2016. CASE LAW AND RELEVANT DOCTRINE

The Romanian legislator, taking into account the evolution of the economic-social situation at the level of the Romanian society and the way in which credit agreements between financial institutions – banking and consumers have been conducted/executed, provided by article 1271 of the new Civil Code an exception to the principle of binding force of the contract. In this category can be included the credit agreements. Under that latter point, it should be noted that, on the role of the courts, many cases have been judged to establish unfair clauses in credit agreements. Of course, we are referring to the adhesion contracts, the unfair terms of which have been found to be 80% of the courts in the light of legal provisions on consumer protection.

Unfair terms have been established by the courts by a relevant case-law relating to consumer protection.

The historical context was underlined in all judgments handed down by the Romanian courts, by the emergence of the unpredictability in the adhesion contracts, which justified the court's intervention to revise/adapt/terminate the contract in the light of the exceptional changes in the circumstances.

For example, the civil Decision No. 2886 of 5th of September 2017, delivered by the Bucharest Court of Instance – Civil Section VI, in the case no. 13675/300/2016. It is highlighted the historical course of the foreign currency as an exceptional circumstance affecting the performance of the contract in such a way that it has become burdensome for consumers, banks , customers.

¹ School of Law – Romanian-American University, Bd. Expozitiei no. 1B, sector 1, Bucharest, Romania

² Faculty of Finance, Banking and Accounting – Christian University Dimitrie Cantemir, Splaiul Unirii no. 176, sector 4, Bucharest, Romania

³ Highest Court of Justice, Bucharest, Romania

Decision on the currency risk clause, in the meaning of „The accelerated increase in the value of the Swiss franc in relation to the national currency, as well as the expenditure generated by the currency exchange mechanism in lei in Swiss francs and Swiss francs in Lei, the lack of Swiss francs from foreign exchange offices for a long time, the differences between the course of the bank and the foreign exchange offices, namely the course set by BNR, the differences between the sales and purchase rates led to the continuous increase in the cost of contracts, producing a major imbalance of the reciprocal benefits of the parties, to the detriment of the borrowers, with the effect of obtaining benefits by the borrowing bank, without consideration from it. The bank stipulated in the contract concluded with the complainant, their obligation to bear exclusively foreign exchange differences, without limiting in any way the scope of that obligation, so that in the situation of doubling the value of the Swiss franc in relation to the national currency the credit agreements concluded between the parties acquire a random character, which leads to a breach of the criterion of equivalence of benefits. The currency risk clause provided solely to consumers distorts the binding legal report by excessively hinting the consumer's situation and at the same time conferring a manifestly disproportionate economic advantage on the bank, which gains unfair gain to the detriment of consumers, contrary to the principles of fairness and good faith, which must govern contractual relations. The Financier, in his professional capacity as a banking system, with a vast portfolio of loans in Swiss francs, both directly in Romania and through the parent bank in Hungary, he met or had to know the studies and specialist reports from the period 2005-2007, prior to granting the loan, made by specialists of the Swiss National Bank – SNB (a. Ranaldo, P. Soderlind, Safe Haven Currencies, SNB Working Paper, 14 September 2007, P. 2; Quarterly report of the Swiss National Bank on the 3/2007 quarter of September 2007, pp. 32-33) and specialists of the National Bank of Romania (Florian Neagu, Angela Margărit, risks to financial stability in Romania generated by the population sector, BNR, study notebooks, August 2005, p. 10; The Financial Stability Report for the year 2006 by B.N.R. in the year 2007, p. 33), which showed that the Swiss franc is a currency with the highest properties of refuge, recording significant assessments during the crisis episodes, 20 in number, from 1993-2006, and that the risks of exchange rates are fully transferred to uncoated debtors, consumers who do not earn income in Swiss francs. The National Bank of Romania has warned all banks over time (see, to this effect, the retrospective study of B.N.R. in February 2015 entitled Credit Analysis in Swiss francs, p. 29) about the risks of lending, especially in exotic currencies such as the Swiss franc, the currency of a country with which Romania has no very extensive economic ratios. The quotation of this currency (CHF) is made in Romania through the euro, not directly, B.N.R. with no objectives or levers related to the quotation of this coin to the lion. „

In most cases, banks did not notify the customer of the risk of CHF hyper-valorisation, a predictable phenomenon for the financial experts operating within them, given that CHF is an unstable currency and at the time Conclusion of the Contract – 2007 – 2008-This was at a historical minimum.

By the emergence of this phenomenon, the effects of the legal act came to be other than those which the parties understood to establish, which prompted with necessity the revision of the effects of the contract under the theory of unpredictability, which with the entry into Force of the new Civil code benefits from a general regulatory regulation constituting a legislative transposition of the solutions outlined in practice.

In this situation, the courts in most of the case have appreciated that it is necessary to revise the effects of the contract by stabilising the currency exchange rate and the denomination of the

payment, given that the change in economic conditions has been unpredictable, with consumers having no specialised knowledge in the financial-banking field allowing them to anticipate a manifest devaluation of the Leu versus CHF. In the same context, it was held that the revision/adaptation/termination of the effects of the contract corresponds to the agreement of the parties' will, since the CHF hyper-valorisation hijacks the contract from the purpose for which it was concluded whose execution no longer corresponds to the parties' concordant will.

The context presented set up this legal operation of the revision/correction/termination of unfair terms in credit agreements with a view to ensuring the parties under the right imposed on a fair trial, the prompt rescue of the contract being. Thus, it follows that the 'intervention of the court' in such disputes is impetuous necessary in establishing the contractual balance with the correlation of the principle of good faith and fairness. These aspects were stated by the courts vested in the judgment of the actions initiated under Law No. 77/2016, for example, Decision No. 1143 of 13th of December 2017 delivered by the Dolj County Court of Instance – Civil Section. In other cases, without listing them, the courts have summarised to examine only the conditions of admissibility laid down in article 4 of the law.

The courts have extensively motivated the phenomenon of foreign currency in the context of the crisis – economic in the case of finding unfair terms in credit agreements, for example, Decision No. 723 of 12th of December 2017 pronounced by the Buzău County Court of Instance – Civil, administrative and fiscal Section II, Decision No. 2886 of 5th of September 2017 delivered by the Bucharest Court of Instance – Civil Section VI, decision No. 799 of 11th of December 2017 delivered by the Dolj County Court of Instance – Civil Section II, etc.

In addition to those shown above, it is necessary to mention some arguments in the explanatory memorandum to the drafting of the payment law, namely:

„Restoring the contractual balance means that, in the situation of a „contract crisis”, the parties share the risk. In the context of the enforcement procedure, the good, which has come to a much lower value than the original value, will only partially cover the claim, and the debtor who does not hold another good pursuable, obviously, will not be able to pay the remaining uncovered credit difference. The creditor, who would receive in payment the good executed, could mark lost with Celerity and at a lower cost. Therefore, a solutum saves both the debtor's situation (except for unlimited liability, receiving the chance of a new beginning) and the cash-flow-of the Creditor (which will no longer have to constitute provisions and incur legal costs). The debtor will thus share the risk of declining property value with the creditor. „

Basically, the purpose of the law is a fair solution for both the debtor and the creditor in the context of restoring the contractual balance in the situation of an economic crisis of the contract, by dividing the risk of the contract.

Thus, the legislature provided for in the new Civil Code circumstanced in article 1271, as an exception to the binding effect of the contracts, established on the basis of the *pacta sunt servanda* principle.

We will no longer analyse the *pacta sunt servanda* principle, considering the fact that this theme has formed the subject of many debates, the theme of numerous articles, and the jurisprudence is rich and complex.

Therefore, where there is an event/phenomenon not envisaged by the Contracting Parties at the time of the conclusion of the contract, which significantly affects the contractual balance, so that it becomes very burdened for one of the parties, we are in the hypothesis of the unpredictable or hardship; this clause is known in the doctrine under two forms, namely *hardship*, in English and *clause d'imprevision*, which originates from the French language. The concept of *hardship* is a creation of the Anglo-Saxon practice, its use by the parties integrating itself into the dominant tendency to ensure the stability of foreign trade contracts, by promoting legal mechanisms capable of adapting them to the dynamic market conjuncture.

In support of the theory of the unpredictability were invoked as arguments of the *rebus sic stantibus* clause, latin expression used to name the clause that whenever unpredictable events of a kind change the contractual conditions, the existing situation will be maintained at the time of the conclusion of the Convention.

2. DECISION NO. 623/2016 OF THE CONSTITUTIONAL COURT AND ITS IMPACT OVER THE JUDGMENT OF THE CASES BASED ON THE PROVISIONS OF LAW NO. 77/2016

Constitutional Court, by Decision No. 623 of 25th of October 2016, published in the Official Gazette of Romania, part I, No. 53 of 18th of January 2017, found that the phrase “as well as the devaluation of immovable property “ in art. 11 first sentence of Law No. 77/2016 is unconstitutional and the provisions of art. 11 thesis first reported to art. 3 second thesis, art. 4, 7 and 8 of the Law No. 77/2016 are constitutional in so far as the court verifies the conditions relating to the existence of the circumstance.

As a result, in addition, the judicial practice of court courts now finds the existence of an unpredictability in the cases of finding abusive clauses in credit agreements, contrary to what is envisaged in the interpretation of the Constitutional Court.

Article 11 of the Law on Payment provides as follows: „In order to balance the risks arising from the credit agreement, *as well as the devaluation of immovable property*, this law applies both to credit agreements which are in progress at the time of its entry into force and to contracts concluded after that date.”

In other words, the provisions of article 11 concerning the retroactive application of the law, i.e. contracts in progress, are considered to be constitutional, except for the phrase „*as well as the devaluation of immovable property*”, which has to be eliminated.

For example, in the file No. 2195/215/2016, the Dolj County Court of Instance – Civil Division II, pronounced the decision No. 965 of 7th of November 2017 gave the debtors a profit, stipulating that:” debtors shall notify the Bank of the extinguishing of debts and not the transfer of ownership at a later date, according to articles 7 and 8 of the law and as the Court observes the requirements of the unpredictability, the court retains that the notification made by the corresponds to the meaning of Law no. 77/2016 and tends to lead to the execution, completion of the contract in this special form governed by the legislature by law no. 77/2016, the liabilities of the contract being extinguished”. The conclusion of the Translative property contract, respectively from the date of the final judgment, according to the provisions of art. 8 or, where applicable, of art. 9, any debtor’s debt to the creditor will be extinguished, the latter unable to claim additional

sums of money. The provisions of this article shall also benefit from the co-debtor or the other who has guaranteed the obligation of the principal debtor.

This judgment is lawful and thorough, given precisely in accordance with the provisions of Law No. 77/2016 since the Court of Justice had envisaged the fluctuation of the currency in which the credit agreement was concluded but also that, examined another objective element of the unpredictability, namely the devaluation of the value of the apartment brought as collateral for the execution of the credit agreement, is a criterion which in conjunction with the principle of fairness, as part of the unpredictable theory as set up under the old Civil code regime, leads to the generation of imbalance of benefits resulting from the contract of Credit, all the more so as the credit agreement was concluded for the purchase of a dwelling property.

So the Court concludes that “the law of payment shall also apply where, at the time of the occurrence of the normative act, the immovable property has already been executed in the enforcement proceedings and the creditor continues to execute as a result of the flow not fully covered, as is the case in the present case. As long as art. 8 para. 5 enshrines the right of the debtor to be enforced to request the Court to determine the termination of liabilities in the contract, without distinguishing the form of enforced enforcement which continues against the debtor, the creditor’s objection to the debtor’s notification of the provisions of the Law no. 77/2016 cannot be accepted exclusively for the inexistence of the immovable property in the debtors’ patrimony, while they seek to extinguish the remaining debts after the award Foreclosure, Enforcement continues for the difference resulting from the performance of the guarantee. “

In the file no. 23385/215/2016, the Dolj County Court of Instance – Civil Division II has given the debtors a profit, by rejecting the call made by the bank, in the recitals of the decision, among other things, they analysed alongside the evolution of the currency rate, the debtor’s financial situation, noting from the probate administered that it is unable to pay the flow due to a significant reduction in revenues. However, as the court of First Instance has analysed the fulfilment of the conditions of the unpredictability by reference to all the circumstances and circumstances of the case, it cannot be held that the court has issued an unlawful and non-legislative sentence.

In this case, the first court examined the circumstance in the light of the decision of the Constitutional Court No. 623/2016. As regards the Analysis of the Fulfilment of the Conditions of the unpredictable, the court found their meeting and, in a subsectional manner, the unfounded nature of the creditor’s appeal, having regard to the following: The credit agreement was concluded on 08.07.2008, when the euro value was 3.6102 lei, while, at the time of the wording of the notification, 21.07.2016, the euro value was 4.5411 lei. The statistical data in question are public and are considering the BNR course (and can be accessed on the website www.bnro.ro).

The Court appreciated that an increase in the course of the national currency-foreign currency in which credit was granted, between the date of conclusion of the credit agreement and the date of the wording of the notification, such as the one in the case, exceeds the limits of resonance and passes within the sphere of excessive oncoming, being in the realm of an over-added risk. However, a regular, objective and reasonable consumer of a prudent and diligent man has not assumed a currency fluctuation such as that in the case. The variation in the foreign currency in which the credit was granted-national currency is an external circumstance, independent of the will of the parties which could not reasonably be foreseen at the time of the conclusion of the credit agreement. At the same time, it did not result in any probatory evidence from which

the consumer debtors assumed a fluctuation exceeding the limits of resonance, passing within the sphere of excessive oncoming. Moreover, the contract did not expressly specify that the consumer debtor assumes the currency risk irrespective of the currency fluctuations which may arise during the performance of the contract between that foreign currency and the national currency. The materialization of the currency risk characteristic of the unpredictable question only at the time of a significant, exceptional overhaul of the limits of variation of the foreseeable course at the time of the conclusion of the contract, either as a sudden effect of a currency shock or as a cumulative effect of a continuous depreciation, and provided that this overhaul would transform the obligation to repay the loan in an excessively onerous way for the debtor.

Such a currency fluctuation, capable of transforming the obligation to repay the loan in an excessively onerous debtor for the borrower, existed in the present case.

Therefore, it was obvious that the debtors were unable to pay off the rates, arriving in the situation of being executed on the property of the mortgage Guardhouse, the building on which a mortgage of rank II was awarded.

It has also been pointed out that the incidence of the principle of monetary nominalism in foreign currency credit agreements does not constitute a barrier to the application of the mechanism of the unpredictability, if the conditions of its incidence are met, a matter retained by the Constitutional Court Decision No. 62/2017.

The specifics of foreign currency credit agreements imply that the materialisation of the currency risk does not affect the intrinsic value of the foreign currency in which the credit is denominated, but the amount of the financial effort to be allocated to the debtor for procurement of resources necessary for reimbursement.

Therefore, the materialisation of the currency risk comes into question at the time of exceeding the limits of the foreseeable course fluctuations at the time of conclusion of the contract, irrespective of whether such overtake is the sudden effect of a currency shock or the cumulative effect of continuous depreciation. The fluctuation of the exchange rate must not be irreversible, but must have a correspondent in serious damage to the consumer's obligation, and in this case, there is such an effect.

3. CONCLUSION

In resolving the justified cases – and not only but also those which have as their object the finding of unfair terms in credit agreements – the courts are obliged to consider the Constitutional Court Decision no. 623/2016, namely the fulfilment of the conditions of the unpredictability as follows:

- under the binding force of the previous Civil Code, both the doctrine and the judicial practice acknowledged the possibility of applying the theory of unpredictability where an exceptional and outward event of the will of the parties which could not reasonably be foreseen by them at the time of the conclusion of the contract would render the debtor's obligation excessively onerous. Under the Civil Code regime of 1864, the theory of unpredictability was based on the provisions of art. 970 stipulations: „Conventions must be executed in good faith. They oblige not only to what is expressly in themselves, but to all the consequences, what equity, habit or law gives the obligation to its nature. „ So, even

if it was not enshrined *in Terminis*, from a normative point of view, the circumstance resulted from the very regulation of the relative principle of contracts, which is justified by the elements of good faith and fairness that characterizes the execution of contracts. The conditions for the application of the unpredictable were made in the case-law and largely taken over in the current Civil Code, in a roughly identical form. (art. 1271);

- the theory of the unpredictability, based on the two principles (the mandatory power of law/force that the contract has for the Contracting Parties, on the one hand, and good faith in its execution, on the other hand), attenuates the binding nature of the contract, in so far as, during the period of its execution, an unpredictable situation arises, but none of the contracting Parties abdicate from its obligations under the good-faith performance of the contract. Therefore, fairness, along with good faith, provides a foundation of the unpredictable, starting from the relationship between them.

ANTI-MONEY LAUNDERING POLICIES IN THE FINANCIAL SECTOR

Vania Nestorova¹

DOI: <https://doi.org/10.31410/LIMEN.2019.89>

Abstract: *Money laundering is one of the most significant risks that threaten the financial systems at national and international level. Efforts to curb this phenomenon have a history of about thirty years and have undergone major developments. In condition of expanding of the globalization into various spheres of economic and social life and the rapid pace of entering of the technology, the dynamics in the development of the anti-money laundering policies reflects the need for greater protection of countries' financial systems against the entry of criminally acquired funds and for better risk management. This presentation traces the updating of international standards for combating money laundering in the last decade and their upgrading with new measures, which to meet the challenges of nowadays reality. Objects of analysis are the policies of particular importance for financial institutions, which aim to ensure the stability of financial systems. The Standards of the Financial Action Task Force, as well as the 4th and 5th Directives of the European Union, are considered as main accents of the paper.*

Keywords: *Money laundering, Financial systems, Preventive measures.*

1. INTRODUCTION

The legalizing of criminal assets is one of the main ways, facilitating the criminal entities to continue and to expand their criminal activity. The legalizing of such funds gives also advantage to criminal groups to entry the legal economic market, jeopardizing the existence of normal effective competition. Insofar the fair competition is at the heart of the stable market economy and creates conditions for development of the productivity and innovations, the reduction of competitive participants in the market is a prerequisite for reducing the viability of the economy, the sustainability of the social system and for lowering the standard of living of civil society. In addition to unfair competition, in a study B. Unger et al.² accept as possible for the economy numerous short-term risks from the money laundering, including distortion of the economic performance, the investments, consumption and savings; changes in imports and exports, increasing volatility in interest rates and exchange rates, as well as in cash flows. As a long-term effect the researchers count expanding the criminal presence in the economy, changes in foreign investment, influencing the reliability of the financial sector, etc.

2. DEVELOPMENT OF LEGISLATION TO COUNTER THE THREATS TO THE FINANCIAL SYSTEM OF MONEY LAUNDERING

Peter Lilly (2006) says that “the first key to the world of money laundering is to get a bank account or at least get into the banking system.”³ The vulnerability of the financial systems to

¹ University of National and World Economy, Student Town, Sofia, Bulgaria

² Unger B., Rawlings G., Siegel M., Ferwerda J., de Kruijff W., Busuioic M., Wokke K. (2006). The amounts and the Effects of Money Laundering, Report to the Dutch Ministry of Finance Utrecht school of Economics, Utrecht School of Economics, The Netherlands

³ Lilley P., 2006. Dirty dealing. The untold truth about global money laundering, international crime and terrorism, Cogan page ltd, UK

money laundering was identified in the second half of the XX century. Despite that money laundering has been criminalized in the 80s, measures for counteractions of that phenomenon have been taken in U.S. a decade earlier. In the 1970, the U.S. Congress passed the Bank Secrecy Act (BSA), also known as the Currency and Foreign Transactions Reporting Act. Under the BSA, financial institutions are required to assist the government agencies in detecting and preventing money laundering. BSA envisages these institutions to submit some kinds of reports as Currency Transaction Reports (CTR), Suspicious Activity Report (SAR), Foreign Bank Account Report (FBAR) etc. for each cash transactions exceeding \$10,000 (daily aggregate amount), for suspicious activity that might signal criminal activity (e.g. money laundering, tax evasion), to keep records of cash purchases of negotiable instruments etc.

In 1988, the Basel Committee on Banking Supervision also signalized for this threat in its Declaration “To prevent the use of the banking system for the purpose of money laundering”. The huge negative effects from money laundering, in particular when the banking systems have been involved in such activity, motivated the countries for common answer to this phenomenon. As a result of the international efforts, in 1989 a special intergovernmental body – Financial Action Task Force (FATF), was created with the aim to develop and implement anti-money laundering policies at international level. Next year (1990), FATF presented 40 Recommendations, which serve as international standards, outlining the framework for the measures that have to be taken at national level 22 of those recommendations are targeted to the financial sector.

The globalization of the world economy by facilitating the cross-border movement of goods and capital, as well the development of technology, has also increased the opportunities to transfer criminally acquired assets through the national and global financial systems, including for their introduction into the formal economy as a legal financial resource. In 1996, the International Monetary Fund estimated the flow of globally laundered money between 2% and 5% of world Gross Domestic Product. United Nations Office on Drugs and Crime estimates that the total amount of criminal proceeds generated in 2009, excluding those derived from tax evasion, may have been approximately \$2.1 trillion, or 3.6 per cent of GDP in that year (2.3 to 5.5 percent)⁴. According to the report, of that total, the proceeds of transnational organized crime may have amounted to 1.5 per cent of global GDP, and 70 per cent of those proceeds are likely to have been laundered through the financial system. These new threats and the scale of profits from national and transnational organized crime, forced the revision of the existing FATF standards, which was made in 2012. For their updating, Giancarlo Del Bufalo, the President of FATF, points out that the revised Recommendations include requirements for stronger safeguards in the financial sector, strengthened law enforcement tools and improved international cooperation.⁵

Some of the main changes of the FATF Recommendations in the area of the protection of the financial system are related to:

- an enhanced risk-based approach, which enables countries and the private sector to apply their resources more efficiently by focusing on higher risk areas;
- improved transparency to make it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements;
- stronger requirements when dealing with politically exposed persons (PEPs) etc.

⁴ UNODC report: Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes

⁵ FATF. FATF steps up the fight against money laundering and terrorist financing, FATF Recommendations 2012, Press Handout, Paris, 16 February 2012

The revised standards are also at the heart of the measures taken by the European Union to update Community legislation, both in the area of prevention and prosecution of money laundering. At that moment, regulative measures for protection of financial systems are envisaged in some EU acts, but those measures are no longer comprehensive enough to respond to the current threats. In April 2015, the European Commission (EC) presented through a Communication to the European Parliament, the Council of the EU, the European Economic and Social Committee and the Committee of the Regions its European Security Plan. In that document, place among the other threats to the security (terrorism, cybercrime etc.) is assigned to the organized crime networks, operating at the territory of the Union, and their main purpose – the profit. Considering that international criminal networks use legal business structures to conceal their source of criminal profits, the attention in the plan is drawn to the need to take actions against infiltration of the organized crime into the legitimate economy. Appropriate in this line measures the Commission proposed through new legislative suggestions, part of which – the Fourth anti-money laundering package.

3. ACCENTS IN DIRECTIVE (EU) 2015/849

Significant step to make the EU's anti-money laundering efforts more effective is the adopted in May 2015 Fourth anti-money laundering package (Directive (EU) 2015/849 and Regulation (EU) 2015/847⁶). Compared to the existing at that moment Community regulation, the 4th Directive introduces serious measures for the security of financial systems. Some of the main initiatives include:

- Establishing of national registers of beneficial owners, the information in which will be made available to national authorities and obliged entities. The measure is provided to facilitate the identification of any natural person who exercises ownership or control over a legal entity. In order to ensure effective transparency, the widest possible range of legal entities, established or created by any other mechanism within the territory of the member states, have to be covered.
- Introducing an obligation for Member States to assess regularly the national risk of money laundering (and supranational by the EU Commission). The results of the national risk assessments require to be made available to the obligated entities in appropriate way and in a timely manner, so that they can identify, understand, manage and mitigate their own risks.
- Establishing of coherent policy towards third countries with deficits in their regulatory regimes to counter money laundering and terrorist financing.
- Enhancing the requirements to the obliged entities (incl. financial institutions) for implementing a comprehensive, risk-based approach, based on objective data in order to deal more effectively with the risks of money laundering and terrorist financing. The Directive counts that the criminals use the new technologies as new and innovative ways for money laundering, so that requires they the later to be taken into account in the risk assessment.
- Increasing the requirements to the obliged entities to perform enhanced due diligence to clients, who perform or have performed important public functions in the country or abroad, as well as in relation to senior positions in international organizations.

⁶ Directive (EU) 2015/849 of the European parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC// Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006, both OJ L 141, 5.6.2015

- Clarifying the requirement, relevant to the necessary approval from senior management for establishing business relationships.⁷
- Introducing requirement competent authorities to provide feedback to obligated entities on the usefulness and follow-up of their suspicious transaction reports.
- Reminding to obligated entities to put in place effective systems that allow them to have full and timely access, through secure and confidential channels, to information on business relationships they maintain or have maintained with certain individuals. The Directive encourages Member States to introduce banking registry systems or electronic data, that would give FIUs access to bank account information, without need for judicial authorization where it is applicable.

And before the deadline for transposition of the 4th Directive to be finished, the European Commission made the next major step in countering money laundering at Community level. In February 2016, the Commission presented an Action Plan to strengthen the fight against terrorist financing, envisaging new counter-measures, including to financial systems. According to Valdis Dombrovskis – vice-president of EC, the legislative proposals aim to improve the oversight of the many financial means used by terrorists, from cash and cultural artefacts to virtual currencies and anonymous pre-paid cards, while avoiding unnecessary obstacles to the functioning of payments and financial markets for ordinary, law-abiding citizens⁸.

4. THE NEW DIRECTIVE (EU) 2018/843

In July 2018, Directive 2018/843/ EU⁹ – the Fifth Anti-Money Laundering Directive, is already a fact¹⁰. The same year a new Regulation for improving the control of cash imported into and exported to and from the EU, as well as a Directive on combating money laundering by criminal law were also adopted. The Fifth Directive significantly improves the Community framework in the fight against money laundering, extending the scope of the Fourth one in several main areas:

- Increases transparency about beneficial owners of companies. The information contained in the beneficial owner registers is required to be public and the Commission have to ensure all national registers to be linked to 10th of March 2021. In order to ensure legal certainty and a level playing field, Member States are required to notify the Commission of the categories, description of the characteristics, names and where applicable legal basis for the trusts and similar legal arrangements on their territory. Consolidated list of such trusts and similar legal arrangements will be published by EC in the Official Journal of the EU in order to facilitate their identification by other Member States.
- Includes new groups of obliged entities.
- Expands the scope of the enhanced due diligence to the virtual currency trading platforms and virtual wallet providers, offering greater anonymity in financial transfers.

⁷ The Directive envisage that such approval may be granted by persons with sufficient knowledge of the institution's risk exposure to money laundering and terrorist financing and a sufficiently high ranking to make decisions concerning that risk exposure

⁸ Commission presents Action Plan to strengthen the fight against terrorist financing. EU Commission, Press release. February 2016. Strasbourg, available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_16_202

⁹ Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU OJ L 156, 19.6.2018

¹⁰ The time for its transposition expired on 10 January 2020.

The Directive provides harmonized definitions of “virtual currency” and “custodian wallet provider”.

- Limits further the anonymity of prepaid cards, reducing the identification threshold from €250 to €150.
- Introduces safeguards in relation to financial flows from and to high-risk third countries. The Commission is empowered to adopt delegated acts in order to identify high-risk third countries, taking into account different aspects, described in the Directive.
- Requires Member States to put in place centralized automated mechanisms, such as central registries or central electronic data retrieval systems, which allow the identification, in a timely manner, of any natural or legal persons holding or controlling payment accounts, bank accounts (identified by IBAN) and safe-deposit boxes, held by a credit institution within their territory. Member States are required to notify the Commission of the characteristics of those national mechanisms.

5. NEXT INITIATIVE

Recognizing that the harmonized measures adopted at Community level are not always effectively implemented by the Member States, in the light of the new rules the Commission draws attention also to additional measures to strengthen the supervision of financial institutions. In 2017, a Proposal¹¹ to amend the Regulation, establishing the European Banking Authority (EBA), was made by the Commission with a view to enhance EBA’s role in the supervision of the financial sector. Through the amendments, EBA will be the primary supervisory authority overseeing compliance with Community law by national supervisory authorities. According to the position, approved by the Council of the EU¹², it is expected EBA to be entrusted for collecting of information from national competent authorities on weaknesses, identified in the context of their activities of preventing or money laundering and financing of terrorism; for improving the quality of supervision by drawing up common standards and coordination between national supervisors; conducting risk assessments for the competent authorities on their strategies and resources to counter the most important emerging threats in the area concerned etc.

6. CONCLUSION

The review of the international standards and European legislation shows that the topic of preventing the use of financial systems for money laundering stays active on the agenda of the international and European institutions. The changing nature of money laundering threats, facilitated by a permanent evolution of technology and of the variety of means, using by criminals

¹¹ Proposal for a Regulation of the European parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority); Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority); Regulation (EU) No 345/2013 on European venture capital funds; Regulation (EU) No 346/2013 on European social entrepreneurship funds; Regulation (EU) No 600/2014 on markets in financial instruments; Regulation (EU) 2015/760 on European long-term investment funds; Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; Regulation (EU) 2017/1129 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market; and (EU) Directive 2015/849 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing [doc. 12111/18 – COM(2018) 646 final]

¹² Council of EU. Financial supervision: Council presidency and Parliament reach provisional deal on supervisory framework for European financial institutions, Press release, 21 March 2019

for legalizing of their criminal money, requires continuous adaptation of the legal framework in order to address efficiently existing risks.

The revision of the FATF Recommendations and the following-up more extensive and more comprehensive legislative and organizational measures, are a clear proof that the efforts to curb money laundering are and will continue to be an essential part of the common measures, design to guarantee the security of the financial systems and to prevent new threats from arising.

REFERENCES

- Lilley P. (2006). *Dirty dealing. The untold truth about global money laundering, international crime and terrorism*, Cogan page ltd, UK
- Unger B., Rawlings G., Siegel M., Ferwerda J., de Kruijf W., Busuioic M., Wokke K. (2006). *The Amounts and the Effects of Money Laundering*, Report to the Dutch Ministry of Finance Utrecht school of Economics, Utrecht School of Economics, The Netherlands
- Council of the EU. Financial supervision: Council presidency and Parliament reach provisional deal on supervisory framework for European financial institutions, Press release, 21 March 2019. Available at:
<https://www.consilium.europa.eu/en/press/press-releases/2019/03/21/financial-supervision-council-presidency-and-parliament-reach-provisional-deal-on-supervisory-framework-for-european-financial-institutions/>
- EU Commission. Commission presents Action Plan to strengthen the fight against terrorist financing, Press release. February 2016. Available at:
https://ec.europa.eu/commission/presscorner/detail/en/IP_16_202
- FATF. FATF steps up the fight against money laundering and terrorist financing, FATF Recommendations 2012, Press Handout, Paris, 16 February 2012, Available at:
<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfstepsupthefightagainstmoneylaunderingandterroristfinancing.html>
- UNODC report: Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes. October 2011. Available at:
https://www.unodc.org/unodc/en/frontpage/2011/October/illicit-money_-how-much-is-out-there.html

COMPELLING BUSINESS NEED FRAMEWORK FOR DRIVING EMPLOYEES' ENGAGEMENT

Tatjana Jovanovic¹ 

DOI: <https://doi.org/10.31410/LIMEN.2019.95>

Abstract: *In the today's economy that is constantly disrupted and challenged it is important to have motivated and engaged employees as they contribute more to the business in terms of productivity, they are more committed and create higher customer satisfaction. Unfortunately, many companies fail at the very beginning of the journey by not succeeding to onboard employees and get their buy-in for the business strategy. The aim of the article is to outline a specific and practical step-by-step framework for generating employees' engagement, not only in executing strategy, but also throughout their active participation in creating it – all enriched by illustrative case study.*

Keywords: *Strategy, Compelling business need, Employees' engagement.*

1. INTRODUCTION

One of the major pitfalls of working with business strategies is that they became too complex. Often it is unclear who owns them, how they are related to an employee and thus if they can drive employee engagement. However, in the dynamic and complex world that is constantly changing at the pace as never before, it is of critical importance to create, reinforce and amplify employee engagement.

The workforce has changed and nowadays business companies are using of advanced techniques and evolving technologies, which urges for having employees with increased technical and sophisticated skills who cannot be managed in old autocratic management style i.e. through schematism, standardized operation with „hierarchical supremacy and subordination“ (Radosavljevic & Radosavljevic, 2015, p.218). These employees expect more autonomy and space to deliver. Additionally, it is evident that no one has a better insights into what is really happening, what is missing or could be improved, from those who are doing the front business, the one who are executing business as they are in direct contact with customers and thus have a unique opportunity and perspective which enables them to create credible and relevant innovations.

Stated above already gives good indication why attention of managers is shifting towards employees' side of organizations. Specifically, concept of employee engagement, employee commitment and similar terms started to be in a spot light since the last quarter of twentieth century. So, although employee engagement is a complex concept it became clear that it is a vital component for every organization to thrive in the competitive environment. The need for employee engagement is linked to the need of the business to increase efficiency, productivity and to get maximum output from efforts.

This article is an attempt to present a specific approach to business strategy co-creation, which is based on few clear conditions for articulating compelling business need to which employees can relate and attach to. The presented framework through the illustrative case studies shows

¹ Banca Intesa a.d., PhD student at UNION Nikola Tesla University, Bl. A. Carnojevica 80, Belgrade, Serbia

that it ensures the answer to very important questions “why?”, that is “why am I doing something in the organization and how this contributes to the organizational goal?” Furthermore, it enables quantifying and following up on the strategy and projects/initiatives related to it in a meaningful, predefined way. Fundamentally, it presents how the focus should shift from broad vision and projections based on external environment to what assumptions have been made related to internal resources, its utilization and how strategy can be co-created and endorsed by those that will execute the business strategy – our employees.

2. EMPLOYEE ENGAGEMENT

Employee engagement is not a clear concept and throughout years it evolved. For instance, Harter, Schmidt and Hayes (2002) stated that “Employee engagement refers to the individual’s involvement and satisfaction with as well as enthusiasm for work” (p. 269). Czarnowsky (2008) specified that engaged “employees are mentally and emotionally invested in their work and in contributing to their employer’s success” (p. 6). Fleming and Asplund (2007) described employee engagement as, “the ability to capture the heads, hearts, and souls of your employees to instill an intrinsic desire and passion for excellence” (p. 2) and Chartered Institute of Personnel and Development ([CIPD], 2010) outlined that it goes above motivation and job satisfaction but should be rather seen as a blend of willingness to help colleagues and commitment to organization. Regardless of the definition used there are many reasons why employee engagement has become a management hot topic, top priority in HR agenda and gotten in the spotlight of scientific research.

Firstly, reports show that employees who are invested in their roles are more productive than those who are not – engaged employees increase productivity and the companies with high employee engagement outperformed those with low engagement in many aspects including, profitability, productivity and customer satisfaction (Hanaysha, 2016). This finding is also outlined in the research of Gallup conducted in 2012 (<https://www.gallup.com/workplace/236927/employee-engagement-drives-growth.aspx>). Indeed, it seems that employees that are engaged in their work are at the same time the best people to interact with customers as in various research relationship between engaged employees and increased customer loyalty and/or satisfaction was confirmed (Haid & Sims, 2009; Gonring, 2008). This finding is very close to everyday logic as employees are often the key that makes distinction between positive or negative customer experiences i.e. the difference if customer will stay or not.

Another reason that brought employee engagement to attention of academic and practitioners, is that engaged employees are involved and invested in their roles and they are less likely to leave their job, their turnover intentions are lower (Wesley & Krishnan, 2013) as well as absenteeism rate and safety incidents (<https://www.gallup.com/workplace/236927/employee-engagement-drives-growth.aspx>). High engagement at work goes hand in hand with enthusiasm, challenge, and feeling of personal significance (Harpaz and Snir, 2014). Also, as Truss, Alfes, Delbridge, Shantz and Soane (2013) found those employees highly engaged in their work are focused on, attached to and happy about the work, feel valued, so for them working time passes quickly.

Additionally, employees who are engaged and feel good about their job and contributions to the company are more likely to be proud of the company they work for, are happy about the job, so could be seen as ambassadors of the company who spread positive word of mouth about the company to the external world and thus contribute to employer brand equity (Martin & Hetrick, 2006).

In summary, engaged employees to their work maximize their potential through performance which in return results in supreme performance of company and ultimately profit. As much as employee engagement is instrumental for organizational development it is equally important for individual development. Based on the above it is of critical importance to create an ambient that reinforces and drives employee engagement, as the initiatives of management can thrive and go above pure execution only with cordially engaged employees.

3. THE MAGNITUDE OF A BIGGER PICTURE

In essence, engagement could be seen as one's present here and now, focused, and at the same time energized existence where people go above and beyond what is expected of them because they feel part of a purpose larger than themselves – in a job context it means that the job and link achievements to it have a meaning (Kahn, 1990). As research shows engaged employees are engaged because they feel their work matters – it is meaningful (Geldenhuis, Łaba, & Venter, 2014). Purpose or meaning set the base for engagement. It is the essential element that makes an engaged organization possible and thus represents the preliminary step in creating an engaged culture. As Sinek (2019) stated, "...help us imagine a positive, specific, alternative vision of the future, it stirs something inside us that makes us want to raise our hand to join up and join in" (p. 39).

In addition, it is found that the alignment of the strategic vision with employee productivity is a key contributor to the success organization (Cato & Gordon, 2009) because such alignment motivates and inspires employees to be more creative, improve their performance and effectiveness (Obdulio, 2014). Thus, a good starting point for engaging employees is clearly and transparently articulated strategy, vision where the company is going, how it is going to get there and what needs to be done. This gives an organization a unique opportunity to share with its members what the organization sees as important, where priorities are, what role it plays in the external environment and how each employee can contribute to it (Aaltonen & Ikävalko, 2002; Boswell, 2006; Dobni, 2010). Once this is understood, seed of culture of engagement is seeded, employees know what they need to do, why to do it as part of bigger picture, and how to do it i.e. they live company's values at work. To maintain the momentum, those who display the above need to be recognized and celebrated across organization.

The most capable managers set challenging but attainable goals which are positioned as a part of a bigger picture, so that employees are constantly driven to work hard to reach them. This means that in order to have employees motivated and engaged they need to firstly understand clearly what is expected of them, and how their jobs contribute to the success of the organization and why something should be done. It is clear that exclusive and huge responsibility of management is to communicate the organization's strategy and goals to the employees; and to make employees fully onboarded. Although it sounds easy unfortunately in many cases it happens that the vision is relevant to those that are leading organization but disconnected from employees. It could be the explanation why only 33 percent of employees are engaged at work as found by Gallup's State of the American Workplace Report (file:///C:/Users/Korisnik/Downloads/Gallup_State_of_the_American_Workplace_Report.pdf).

Namely, on the one hand side the vision, strategy, purpose and big picture are often created by those who run and/or own company. On the other hand, it is their responsibility not only to cascade it to employees but also to make them able to see how their individual role fits into the overall achievement of the company's purpose which gives it meaning. Meaningfulness entails

“a feeling that one is receiving a return on investments of one’s self in a currency of physical, cognitive, or emotional energy” (Kahn, 1990, p.703-704). When an organization actually creates a purpose then a team could connect with, and that is when it starts to give meaning to employees’ daily activities.

Obviously, the clear articulation of a corporate vision and the employee’s connection to it are important in all times, but particularly in turbulent period like business restructuring or transformation. So, it is manager’s job to help employees find a meaning in what they do. Once employees believe their work is meaningful, they will be more engaged, committed, thrive and give the best out of them willingly.

4. COMPELLING BUSINESS NEEDS (CBN)

Compelling Business Needs (CBN) framework is proposed to create augment and engagement of all employees through balancing top-down and bottom-up approaches by articulating business strategy and objectives including specific activities and projects that will contribute to achieving bigger picture. It is based on reducing complexity, spelling important elements in a simplistic way with their clear inter-connections making it relevant to all stakeholders, in particular employees. Namely, in order to create ownership of all involved parties it helps them see the value in the proposed strategy and planned moves forward. The CBN is developed to drive ownership and engagement throughout the process which is presented below.

Phase One: Pre-work where top leader are asked to reflect on: Growth Prospect, Productivity opportunities, People Capability – Key questions to support their thinking are various, such as: What are the Organization Goals in numbers? What would be key strategies to achieve them? How might they translate into Compelling Business Needs? Key Outcome of the prework for management team is creation in the predefined template functional / departmental key business challenges i.e. top 3 areas that are vital for success in the upcoming 12-18 months, how this could be achieved, through which activities / initiatives / projects and how the success for each of them would look like, basically sketching how it could be measured. Therefore, each top manager will have 3 separate papers, one per identified vital area with elements mentioned above. When pre-work distributed to management team it is important to realize if they can prepare based on already known or they need to run sessions with their teams to do so.

Phase Two: Management team drafts CBN which requires minimum one day workshop composed of few important mail stones. Namely, there are few exercises that are done individually and each latter followed by small group work. The flow or sequences of the exercises are designed in such a way to help participants paint the picture where they (i.e. company, organization, function) want to be, what are their current strengths and weaknesses, where they are now and how to close the gap between today’s and desired state – where the most of the time is spent on. In essence, it fosters transparent and constructive discussion and alignment within top management on what we needs to be achieved i.e. top 3-5 things (i.e. strategy), how they will be achieved (objectives/initiatives/activities/projects), and setting quantitative or qualitative targets to measure the progress towards set objectives (i.e. key performance indicators).

Phase Three: Team buy-in where the above drafted CBN is presented to the entire team. It is done in short condensed version, where each member of top-management has a role to play, in order to display ownership of the entire management. Following that, the participants are

divided in smaller groups and work on a CBN. Firstly, individually they write on Post-its if they like or dislike something within the CBN, what should be modified, removed or added and why. Then they place Post-it's on a printed CBN and in a small group they discuss and review all inputs. Following their discussion and alignment each group has a chance to present it to the entire auditorium i.e. other groups. The facilitator plays a critical role in incorporating those feedbacks/suggestions into the CBN and thus encouraging all participates to participate in co-creation of the final CBN. Visually it should be short and simple, all captured in a format of a table that could be seen by all participants.

Effective CBN is designed to help the organization and each employee, or at least critical mass of them, to gain a broader picture and purpose i.e. “why do we change?”, “what is my role?”, “how can I contribute?”. This is achieved due to characteristics of effective CBN (Table 1).

Table 1. Characteristics of effective CBN

Stretching	• Creates positive “structural tension” between current and the future state i.e. where do we want to be and where are we now
Energizing	• Touches the heart of the organization; not just the mind. It is developed, co-created by management and employees to define “what we stand for”
Memorable	• Easy to recall. Tie to the business need is crystal clear to everyone & everybody knows how their work will deliver the CBN

Source: the author of the text, 2019

Once CBN is co-created all agreed projects, initiatives and activities should be assigned/distributed to employees and there are various ways how it could be achieved. For instance, if there is an issue of silos approach in the organization than it would be beneficial to consider creation of cross-functional team. Assigning employees could be done also based on their self-nomination, or individual developmental need – all depending what message the organization wants to address or promote. In any event, sequential deployment methodology with continuous measurement of deployment and performance progresses have to be established. The progress needs to be tracked along with sustainability and continuous improvement mechanisms embedding governance, accountabilities and change management.

The author of the text attained experience in running the CBN sessions throughout over 3 years' time horizon, in various functions (front and supporting), with different sizes of teams (from 10 to over 500), in different companies, operating in various industries. Based on this, the author proposes CBN as a framework to create an overview, as well as ownership, within organization. It builds the structure while going through phases of CBN, or in simple terms – connect the dots and see makes all employees see how each part contributes to the overall success. To support these arguments, two case studies are presented below, enriched by introducing calculation of the net promoter score (NPS), which is widely used by Fortune 500 companies (<https://customer.guru/net-promoter-score/fortune-500>) and it is calculated using a 0-to-10 scale to answer 1 question: „How likely is it that you would recommend [X] to a friend or colleague?”.

The first illustrative case refers to the group of 20 employees from supportive function employed in international fast-moving good company (FMCG) and after third consecutive year of using CBN the NPS was calculated. Response rate was 70% and in line with NPS (<https://www.questionpro.com/features/net-promoter-score.html>) there was one question: “Considering your complete experience with CBN, how likely would you recommend it to a friend or colleague?” Again in line with NPS rules, response to this question is measured on a scale of 0-10 and

obtained NPS was 57 which is considered as “excellent” result (<https://www.questionpro.com/blog/nps-considered-good-net-promoter-score/amp/>). In order to gain more insights through qualitative data the open ended “why?” question was added i.e. to explain the selected score. Based on these answers it is clear that CBN helped participants get the purpose. For instance participants stated for CBN: “Motivational, inclusive, you know the purpose of your work.” or “Because it’s the best way to follow the strategy with the relevant measurements engagement, ideas, mission sharing, co-ownership, clarifications on what is my role”, or similar “The best thing about CBN workshops is that you can see how everything fits together and how all pieces are a part of a bigger picture”.

Another illustrative, and the most recent case is with the management of one supportive function within an international financial institution composed of 10 people, who participated for the first time in crafting the priorities through the CBN framework. NPS question accompanied with “why?” was given to them immediately after the phase two i.e. drafting CBN. With response rate of 80% obtained NPS was 63 with comments that praised structure, interaction and great opportunity to “get away with get ahead”. This was followed with phase three i.e. co-creation of CBN where all 43 employees from the sector participated. The response rate was 58% with 80 obtained NPS 80 and again, participants mainly emphasized the importance of meaningfulness though comments like “Onboarding of all people regarding what needs to be done” or “Great way to bond the team, align expectations about upcoming initiatives and get everyone involved in achieving goal and strategy implementation”.

5. FUTURE RESEARCH DIRECTIONS

The attempt of this paper is to outline the specific CBN framework enriched with snapshots of two cases that provide some noteworthy implications for practitioners.

Namely, CBN framework closes the entire loop, ecosystem which relays on strategy co-creation, ownership through purpose creating, and a sequential, project/activities-based deployment methodology with continuous measurement of execution and performance progresses. The results of the presented cases give clear indication that the CBN is a framework which helps employees to get the purpose of their work. Also, the entire system is very cost efficient as it requires merely zero additional resources and it could be easily integrated into a company.

Results of presented case studies are very preliminary and based on NPS, which is not commonly used in academic research despite the value of NPS as a predictor or indicator of customer satisfaction and loyalty (<https://www.lightercapital.com/blog/net-promoter-score-how-to-calculate-nps/>). This opens a room for further studies to document the value of NPS, although there are some pioneer attempts (Koladycz, Fernandez & Gray, 2018), which are indicating that usage of NPS is “promising approach to gaining insight into the client experience” (p.1). If HR is to consider employees and/or future employees as clients and customer, then usage of NPS internally, within companies, is another quite untapped area for academic research.

When it comes to CBN presented in the paper, lack of having structured questionnaire is limitation itself, as future study should also focus on testing the framework statistically and link it with more tangible business results.

6. CONCLUSION

The literature indicates that employee engagement is closely linked with organizational performance, as engaged employees have lower absenteeism rate, lower turnover, feel good about their job and are willing to give extra mile, which results in better customer experience, more innovation, and ultimately leads to better productivity and profitability of the company. Most researches emphasize the importance and positive impacts of employee engagement on the business, and therefore they are focused on identifying the drivers of engagement. However, there are not many clearly articulated strategies to get employees engaged, where to start, how to embark the journey, and, most importantly, how to stay on the course with employees onboarded – all embedded with proper cost-benefit analysis, regarding engagement decisions as efforts aimed at increasing employee engagement definitely have financial implications on organizations. The author of the article believes that paper presented provides useful thoughts and clear steps for those who would like to further engage into building effective and efficient system for engaging employees.

REFERENCES

- Aaltonen, P., & Ikävalko, H. (2002). Implementing strategies successfully. *Integrated Manufacturing Systems*, 13(6), 415-418.
- Boswell, W, Bingham J & Colvin, A. (2006). Aligning employees through „line of sight”. *Business Horizons*, 49(6), 499-509.
- CIPD. (2010). Creating engaged workforce research report (January). [Report]. Retrieved December 11, 2019, from http://www.cipd.co.uk/nr/rdonlyres/dd66e557-db90-4f07-819887c3876f3371/0/creating_engaged_workforce.pdf.
- Cato, S. T., & Gordon, J. (2009). Relationship of the strategic vision alignment to employee productivity and student enrollment. *Research in Higher Education Journal*, 15, 1-20.
- Czarnowsky, M. (2008). *Learning's role in employee engagement: An ASTD research study*. Alexandria, VA: American Society for Training and Development.
- Dobni, C.B. (2010). Achieving synergy between strategy and innovation: The key to value creation. *International Journal of Business Science and Applied Management*, 5(1), 48-58.
- Geldenhuis, M., Łaba, K., & Venter, C.M. (2014). Meaningful work, work engagement and organisational commitment. *SA Journal of Industrial Psychology*, 40(1), 1-10. Retrieved December 10, 2019, from http://www.scielo.org.za/scielo.php?pid=S2071-07632014000100004&script=sci_arttext&tlng=es
- Gonring, M.P. (2008). Customer loyalty and employee engagement: an alignment for value. *The Journal of Business Strategy*, 29(4), 29-40.
- Haid, M. & Sims, J. (2009). Employee Engagement: Maximising Organisational Performance. *Right Management*. Retrieved November 15, 2019, from <https://www.scribd.com/document/135551350/Employee-Engagement-Maximizing-Organizational-Performance>
- Hanaysha, J. (2016). Improving employee productivity through work engagement: Evidence from higher education sector. *International Journal of Industrial Engineering Computations* 6(1), 61-70.
- Harpaz, I., & Snir, R. (2014). *Heavy Work Investment: Its Nature, Sources, Outcomes, and Future Directions*. Routledge/Taylor & Francis Group.
- Harter, J. K., Schmidt, F. L., & Hayes, T. L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. *Journal of Applied Psychology*, 87(2), 268–279. Retrieved November 8, 2019, from

<https://doi.org/10.1037/0021-9010.87.2.268>

Fleming, J.H., & Asplund, J. (2007). *Human Sigma*. New York; Gallup Press.

Kahn, W.A. (1990). Psychological Conditions of Personal Engagement and Disengagement at Work. *Academy of Management Journal*, 33(4), 692-724.

Koladycz, R., Fernandez, G., Gray, K., & Marriotte, H. (2018). The Net Promoter Score (NPS) for Insight Into Client Experiences in Sexual and Reproductive Health Clinics. *Global Health: Science and Practice*, 6(3), 413-42. Retrieved December 3, 2019, from <https://doi.org/10.9745/GHSP-D-18-00068>

Martin, G. & Hetrick, S. (2006). *Corporate Reputations, Branding and People Management: A Strategic Approach to HR*. Butterworth-Heinemann.

Obdulio, D. L. (2014). How management can improve corporate culture in order to have an effective work environment. *Trade Publication*, 75(8), 14-17.

Radosavljevc, M. & Radosavljevic, Z. (2015). *Menadžment teorija i praksa*. Beogradpress.

Wesley, J. R. & Krishnan, G. (2013). Correlates employee engagement with turnover intention. *Intercontinental Journal of Human Research Review*, 1(9), 53-62. Retrieved December 7, 2019, from https://www.academia.edu/11650226/Correlates_Employee_Engagement_and_Intention_to_Quit

Sinek, S. (2019). *The infinite game*. Penguin, Random House UK.

Truss, C., Alfes, K., Delbridge, R., Shantz, A., & Soane, E. (2013). *Employee engagement in theory and practice*. London: Routledge.

<https://www.gallup.com/workplace/236927/employee-engagement-drives-growth.aspx>

<https://customer.guru/net-promoter-score/fortune-500>

<https://www.questionpro.com/features/net-promoter-score.html>

<https://www.questionpro.com/blog/nps-considered-good-net-promoter-score/amp/>

<https://www.lightercapital.com/blog/net-promoter-score-how-to-calculate-nps/>

file:///C:/Users/Korisnik/Downloads/Gallup_State_of_the_American_Workplace_Report.pdf

PROBLEMS OF RENOVATION OF URBAN TERRITORIES IN THE RUSSIAN FEDERATION

Sergey Maksimov¹ 

Georgi Zabunov² 

DOI: <https://doi.org/10.31410/LIMEN.2019.103>

Abstract: *The aim of the authors is to outline the main problems of urban renewal in contemporary Russia. The reasons for the transition to renovation as the main direction of urban development are revealed: changing structure of the economy, aging of the existing real estate, changing the real estate needs of the population and business. The experience of implementing renewal programs in developed countries such as the UK and Japan as well as in new EU member states such as Bulgaria is analyzed. The importance of public-private partnerships for successful urban renewal programs is emphasized.*

Keywords: *Urban renewal, Urban areas, Public-private partnership.*

1. INTRODUCTION

The high share of urban territories renewal is a distinctive feature of the construction activity in modern Russia. Interesting processes have been observed in housing for the period of transition to a market economy in the Russian Federation (RF). The last decade of the 20 c. was a period of a significant economic downturn and, therefore, of a sharp fall in construction. For instance, the volume of housing then decreased almost three times as much as the volume in the 1980s. The recovery began in the first decade of the 21 c. What is typical of this period is the so-called spot building. It means that the creation of new real estates is done by filling the “gaps” within the boundaries of already built-up territories. During the second decade of this century, construction is already realized through the execution of projects for integrated development of new territories and the use of parcels that have not been developed yet. The English term for such parcels is greenfield. The transition to an integrated development of new territories allows to increase the volume of housing and to build adequate social and commercial facilities. However, there are negative phenomena as well: cities sprawl, traffic problems exacerbate, social facilities are often built a lot later than housing and all this usually leads to great dissatisfaction among homeowners. In the meantime, owing to the long periods of insufficient investment in major repairs and modernisation of existing real estate, they depreciate and whole urban areas are in poor condition (for example, the territory of the so-called “Grey belt” of Saint Petersburg). A new trend emerged in the second half of the second decade of the 21 c. A transition was made from integrated development projects of new territories to renewal (reconstruction, renovation) of built-up territories. The English term for this is brownfield. It should be taken into consideration that in specialised Russian literature the terms renewal and redevelopment are often opposed to each other even though authors do not find fundamental differences between them. Both terms mean a process of transformation of built-up territories in accordance with the changing needs of the society, business and population and involve the creation of estates and territories with modern infrastructure. This often requires a change in the functional purpose of individual sites or a certain number of real estates.

¹ St. Petersburg state University, 199034, St Petersburg, 11 Lieutenant Shmidt Emb., Russia

² UNWE – Sofia, 1700 Sofia, Student Town, Bulgaria

2. RENEWAL OF URBAN TERRITORIES IN RUSSIA

The main reasons that necessitate the renewal of urban territories and the change in the direction of urban development are the changes in the structure of urban land use. These changes, in turn, are the result of structural changes in urban economy (e.g. reduced production of goods at the expense of services), physical and moral obsolescence of the existing urban real estates (primarily residential real estates), low efficiency of urban areas use (relatively low density of development in city centres), etc. What is of great importance is the need for expansion of construction opportunities, the use of renewal as a means of solving social problems by city authorities, etc.

The structure of Russian urban development implies a considerable need for renewal. A significant number of the residential buildings were built during a period known in Russia as the initial period of mass industrial housing. People call these buildings Krushchevkas and Brezhnevkas because they were built during the time of the leaders Krushchev and Brezhnev. According to the portal dom.mingkh.ru, about 307 thousand residential buildings with a residential area of 518 million square metres were built in the country within the two decades from 1950 to 1969. This makes 8 million 160 thousand flats (Ministry of Housing and Communal Services, 2019). If we assume that at least 50% of these flats need renewal, then there should be built more than 4 million flats with a residential area of 250 million square metres. At the same time, according to the data from the central statistical service of Russia, Rosstat, 1 070 600 flats with a total area of 75,3 million square metres were put into operation in 2018. This is 95,1% of the number of flats built in the previous year (flats with a total area of 79,2 million square metres were put into operation in 2017). A downward trend was observed because the flats built in 2017 amount to 98,7% of those built in 2016. Building construction structure should not be neglected. The relative share of individual housing in the total area of completed homes was 43,1% (Rosstat, 2019). In accordance with the Russian Federation's (RF) legislation, individual housing is a detached house of not more than 3 floors, with a garage, intended for a single family. This means that the volume of multi-storey housing is just over half of the total number of the homes put into operation. The need for renewal of big urban territories is obvious. For Saint Petersburg the situation is even more complicated. In this city, Krushchevkas were built during the period 1958-1970, i.e. for more than 10 years. 2400 buildings with a total area of around 9 million square metres were built over this period, which is almost 190 000 flats. Actually, these are about 10% of all housing in the city with 12 % of the urban population living in them (Region.Ru, 2003). Unfortunately, the renovation of the Krushchevkas is not the only problem the city is faced with. After 2020 the panel blocks that were built in the 1970s will be 50 years old. This is the conditional limit after which measures should be taken for their renovation. In the decade 1970-1979 more homes were built compared to the previous 20 years with a residential area of over 520 million square metres. By the middle of the next decade, the problem of their replacement will arise, so urban areas redevelopment seems to be the leading direction of urban development in Russia for many years and even decades. Redevelopment processes have started in Moscow, which provoked intense discussions among citizens, urban authorities, the business community and the general public. There have been discussed technical, organisational, economic and social problems. Federal legislation was introduced consisting mainly of bills for the renovation of the residential buildings in the Russian Federation. Now there are two major bills: the first one was tabled in the state Duma by a group of MPs in the autumn of 2018 and the second one – in the autumn of 2019 by the Legislative Assembly of Saint Petersburg.

The programmes for the urban renewal of Russian cities and the country as a whole are of key importance and require careful preparation. The legal and administrative mechanisms that

should ensure the effective interaction of various institutions need thoughtful consideration. To achieve this, it is important to study and learn from the foreign experience. The experience of countries with long-standing renewal practice like Great Britain and Japan is very useful. The experience of countries like Bulgaria is valuable as well. Due to historical reasons, the problems that Bulgarian and Russian cities face are similar, even though the scale is different.

3. THE EXPERIENCE OF THE UNITED KINGDOM

A characteristic feature of the British approach to renewal is the active role of the central government. Renewal policy is considered an integral part of the national programmes aimed to solve a wide range of social issues, such as reducing unemployment and increasing job creation. The second significant feature is the fact that the government considers renewal programmes a factor for the development of regions far from the capital.

The renewal policy of the United Kingdom is the most long-standing one. The specialised journal *Town Planning Review* (TPR) has been published since 1910 and in its first issue started analysing the problems of the then British cities and the possibilities for solving them by using the tools of the concept of the Garden Cities which was popular at that time (Shaw & Robinson, 2010). The period from the 1970s to the present day is of interest for the purposes of this study. It can be divided into three main stages.

The first stage of mass renewal in the country begins after the Conservatives came to power in 1979, when the central government started implementing an active policy of urban renovation. The government's ambition was to join forces with the private sector in order to solve urban problems.

The second stage begins in 1990 again under the Conservatives. This time the focus was on the simplifying and decentralising of renewal policy by attracting local authorities and private investors through centralised tenders.

The third stage begins in 1997, when the government put emphasis on the fact that renewal policy must be an ongoing process. As a result of the activities during the first two periods, a lot of British cities have developed successfully, but there have also been identified depressed areas that are difficult to change. However, according to the British government, there still has not been developed a good enough mechanism for interaction between the central government, local authorities and the private sector.

The Labour government that came to power in 1997 defined the implementation of an effective nationwide programme for renewal as one of its main objectives. A number of documents were adopted, the most important of which, according to British experts, is „The National Strategy for Neighbourhood Renewal“ (Social Exclusion Unit [SEU], 1998), within which a lot of national programmes were developed: „Neighbourhood Renewal Fund“, „New Deal for Communities“, „Neighbourhood Management Pathfinders“. It is this legislative framework developed by the government that forms the basis of the renewal programme whose peak was reached in the period 2002 – 2011 (Shaw & Robinson, 2010).

The renewal programme under „The National Strategy for Neighbourhood Renewal“ is intended to improve housing market, commercial real estate market and the infrastructure related to them in 25 country regions. The programme is aimed to solve problems like the improvement of

housing quality, updating building layout and design, improving facilities, creating green spaces in and around neighbourhoods, eliminating serious imbalances between population needs and existing opportunities for construction of modern homes.

In order to implement the programme, there were set up governmental structures, such as Social Exclusion Unit (1997), Neighbourhood Renewal Unit (2001), Commission for Architecture and the Built Environment (1998), Urban Policy Unit (2001) and Academy for Sustainable Communities (2005). Their activity is coordinated with the adoption of key documents, such as Bringing Britain Together (1998), the above-mentioned National Strategy for Neighbourhood Renewal (2001), Sustainable Communities Plan (2003), Sustainable Communities: Homes for All (2005), Sustainable Communities: People, Places & Prosperity (2005), Transforming Places, Changing Lives: A Framework for Regeneration (2008), etc. The main actors responsible for the programme implementation are: Regional Development Agencies, Local Strategic Partnerships, Urban Development Corporations, Urban Regeneration Companies, City Region Partnerships, Homes and Communities Agency. They ensure the efficient interaction between regional and local authorities, public and private organisations, ordinary citizens.

Providing adequate financing is the most serious problem with the programme implementation. For this purpose, are used the Neighbourhood Renewal Fund, Safe and Stronger Communities Fund, Area-Based Regeneration Grant, Working Neighbourhoods Fund, etc. The initial funding of the programme was provided by the central government: in February 2003 the British government allocated £500 million to support the new programme (Leather, Nevin, Cole, & Eadson, 2012) and to ensure its implementation until 2006. Later the funding was extended to March 2008. The programme involved the demolition of old buildings and the construction of new ones as well as the reconstruction of existing ones. Decisions were made individually and regional specificity was taken into consideration. What is typical of the renewal programme of Great Britain is the fact that regional and local authorities made the lists of the neighbourhoods to be included in the programme. Homeowners could vote to participate or not to participate in the programme after reviewing the lists. If 2/3 of the votes were in favour, there was a positive decision and inclusion in the programme.

Altogether, from 2002 to 2011 the government allocated £ 2,2 bn for renovation of homes, thus including over 780 000 flats and over 1,9 million people living in them. In the beginning of the programme, each of the regions prepared a list of the main problematic areas and the funding included both small local projects and big urban ones.

By 2011, when the programme finished, there had been achieved the following results: reconstruction of over 108 000 existing houses; attracting private investment for the building of over 15 000 houses; preparing land for the future building of about 30 000 modern real estates; improving housing quality; decreasing the number of depressed areas in the country; creating jobs in construction business. As a whole, the programme was successful.

4. THE EXPERIENCE OF JAPAN

The history of the modern programmes for housing renewal in Japan started in the 1980s. The first renewal wave in the 1980s, however, did not deliver impressive results because of the economic problems in the country in the 1990s. This was the reason why the projects were either suspended or cancelled. Since the practice of this period is considerable, the country became

aware of the need to develop a legislative framework for further projects. Thus, in the beginning of the XXI c., the legislative framework for urban territories renewal had already been established. In 2002 the „Urban Renaissance Special Measure Law“, which defined the guidelines of the renewal programme in the country, came into effect. In accordance with the law, in the country and under the renewal programme there were identified 65 zones with a total area of over 6612 hectares, including 8 zones with an area of 2514 hectares in Tokyo (Shima et al., 2007). According to the government, the main challenge is attracting private investments for renewal programmes.

The major features of the renewal projects implemented in Japan are the following:

- Several organisations participated in the implementation of the projects. It is mandatory for them to include governmental structures at federal and urban levels, various governmental and non-governmental organisations as well as land and flat owners. A great role is played by the organisations set up by the participants who get involved at particular stages of the programme. For instance, in Tokyo there was set up an NGO organisation that discusses and approves a restructuring project.
- Initially, when implementing renewal programmes, 100% homeowner consent was required in order to start the project. This blocked a lot of the projects since it is practically impossible to obtain the consent of all homeowners. That is why the law was revised later on and it was made possible to start a project with consent of 80% of the participants (Cho, 2011).
- A great number of private investors participate in the projects. Often local projects are riskier for private investors, who are the main actors in the reconstruction, because of the need to obtain a higher percentage of owner consent. Large-scale projects turn out to be more lucrative and easier to coordinate and, as a result, less risky. This is the reason why in the central parts of Tokyo as well as in other Japanese cities it is possible to find single old buildings and at the same time large redeveloped territories.
- Collective decision-making is considered very important. For example, when reconstructing a house, each of the tenants can make suggestions about the design of the new house similarly to the owners.
- To avoid the negative effects of the overheated economy that occurred in the 1990s, the government changed its investment strategy. Instead of direct investments in a given project, it started providing subsidies to the companies and investors involved in the renewal. To increase the effectiveness of project implementation, local authorities play a key role. It depends on them to give all the necessary permits swiftly and that is why they must be involved in the projects from the very beginning.

To sum up, it can be said that urban renewal measures have been successfully implemented in Japan.

5. THE EXPERIENCE OF BULGARIA

The experience of countries like Bulgaria is of interest to Russia. As a former country with central planning, Bulgaria faces problems similar to the Russian ones. Generally, the housing situation in the country is dissatisfactory, even though the rates of new housing provide normal reproduction of more than 2 homes per 1000 inhabitants on average. It is expected that by 2020 the rates of the period 2007-2009 will be reached and exceeded. At that period, 20 thousand homes were built annually. The major problem is that almost 27% of the homes (698 000) are

in panel blocks which are depreciating quickly due to poor management and maintenance, but are still subject to renovation. A great number of the massive homes have depreciated as well. More than 75% of the flats in the country are in buildings that are over 30 years old (Mathema et al., 2017). The lack of maintenance of these buildings leads to the fast deterioration of their condition. Housing condition is constantly deteriorating due to the inadequate maintenance and management. This deteriorates the standard of living in these homes and changes urban environment. Due to the limited budget, the government is looking for complete solutions. Thus, the National Programme for Energy Efficiency of Multi-Family Residential Buildings was adopted in 2015. Meeting the high standards of energy efficiency of buildings is a criterion for successful renovation. This is an objective that is fully in line with EU's commitment to environmental issues. Buildings consume 40 % of the total energy consumption of the EU. The reduction of this percentage is a priority (European Parliament and the Council, 2010).

The National Programme for Energy Efficiency of Multi-Family Residential Buildings was adopted by Decree № 18 of the Council of Ministers of 2 February 2015. In accordance with the Energy Efficiency Act, the programme coordinator is the minister of regional development and public works. These are not the first steps for renovation of old buildings in Bulgaria. Similar projects were started in 2007 and 2011, but their scope was limited and their nature was of a pilot experiment. The National Programme for Energy Efficiency involves a number of participants: Ministry of Regional Development and Public Works, Ministry of Finance, Bulgarian Bank for Development, municipalities, district governors and external contractors. The programme includes the whole territory of the country. Funding amounting to 2 bn Bulgarian leva (€ 1 bn) was provided for its implementation. The programme was planned to be completed by the end of 2019. As of December 2018, implementation activities on practically all contracts under the programme had started, which was 98,8%. The contracts included 2022 buildings. As of 31 December 2018, a total of 511 buildings (36 545 homes) were put into operation (Ministry of Regional Development and Public Works, 2019).

Regardless of these impressive results, a number of disturbing facts have been found out. Only a small number of Bulgarian citizens benefit from the programme but all taxpayers finance it. There are doubts about corrupt practices related to the implementation process. There are problems related to the quality of the construction activities. According to the official reports on the programme implementation [xxx], the cost of renovating a square metre of living space is similar and even higher than the cost of new construction. The programme was declared national but in Sofia, the city with the largest in number and area panel residential estates, there has been contracted the renovation of only 14 buildings.

Generally, the programme cannot be considered successful.

6. CONCLUSION

Summarising the foreign experience in implementing urban renewal programmes, suggestions can be made regarding the improvement of the effectiveness of such programmes in Russia. They are as follows:

- A federal law must be adopted that sets out the basic principles and approaches for implementation of renewal programmes. The law must take into account the possibilities and specificity of the regions and regulate the responsibilities of governing bodies at regional and local levels.

- The interaction of federal, regional and municipal authorities, private investors and entrepreneurs, and urban community at all stages of programme implementation should be ensured: from its design to its final implementation. Potential conflicts must be anticipated and managed.
- Private investors should be attracted by using various tools: stimuli, subsidies, tax preferences and controlled interest rates.
- The views of all stakeholders should be taken into account not only at the stage of decision-making on whether to implement the programme, but also when defining its parameters after discussions at local and regional levels.

An adequate theoretical framework for research should be considered. Obviously, the research will be of interdisciplinary nature. The search of effective interaction between governmental bodies, business and the community involve economic analysis based on the new institutional economics. The clear distinction between official organisations and institutions broadens the scope of analysis. In this context, we consider institutions the historically established rules for interaction between the participants in the process. Thus, these interactions can be formalised by using qualitative and quantitative models. This allows to carry out an impact assessment of the change in the regulatory framework at different levels of government.

In any case, the lack of good will and willingness for cooperation cannot be compensated by good legislation only. Therefore, it is very important to choose an appropriate form of public-private partnership when implementing renewal programmes. There are no valid recipes and the specificity of all participants must be taken into account. A precondition for success is the high degree of transparency at all stages of the programme design and implementation.

REFERENCES

- Cho, S. (2011). Urban transformation of Seoul and Tokyo by legal redevelopment project. *A|Z ITU Journal of the Faculty of Architecture*. 8(1), 169 – 183. Retrieved from <http://www.az.itu.edu.tr/azv8no1web/15-cho-08-01.pdf>
- European Parliament and the Council. (2010). Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings. *Official Journal of the European Union*. Volume 53, 18 June. doi: 10.3000/17252555.L_2010.153.eng
- Leather, P., Nevin, B., Cole, I., & Eadson, W. (2012). *The Housing Market Renewal Programme in England: development, impact and legacy* [Brochure]. Sheffield Hallam University: Centre for Regional, Economic and Social Research. Retrieved from <http://ukregeneration.org.uk/wp-content/uploads/2012/01/HMR-legacy-paper-1-12.pdf>
- Mathema, A. S., Budovitch, M. M., Giteva-Gantcheva, D. K., Ellmayer-Klambauer, A., Mot, A. M. M., Vasileva, M. A. (2017). *Bulgaria – Housing sector assessment: final report* [Brochure]. Washington, D.C.: World Bank Group. Retrieved from <http://documents.worldbank.org/curated/en/776551508491315626/Bulgaria-Housing-sector-assessment-final-report>
- Ministry of Housing and Communal Services. (2019). *Housing information in Russia, Summary statistics 1900 – 2019*. Retrieved from <http://dom.mingkh.ru/#>.
- Ministry of Regional Development and Public Works. (2019). *Progress report on the implementation of the „National Program for the Energy Efficiency of Multi-Family Residential Buildings” in 2018 and Annex to the report*. Retrieved from <https://www.mrrb.bg/bg/doklad-za-napreduka-po-izpulnenieto-na-nacionalna-programa-za-energijna-efektivnost-na-mnogofamilni-jilistni-sgradi-prez-2018-godina-i-prilojenie-kum-doklada/>

- Region.Ru. (2003). Information Agency Region.Ru 2003. Retrieved from <http://regions.ru/news/1268602/>
- Rosstat. (2019). *Russian Federal State Statistic Service 2019*. Retrieved from https://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d04/19.htm
- Shaw, K., & Robinson, F. (2010) UK Urban regeneration policies in the early twenty-first century: Continuity or change? *Town Planning Review*, 81 (2) 123 – 147. doi: 10.3828/tpr.2009.31
- Shima, Hiramoto, Seta, Katayama, Kim, Cho, Matsutani. (2007, September). *Tokyo's Large-scale Urban Redevelopment Projects and their Processes*. Paper presented at 43rd ISO-CARP Congress, Antwerp. Retrieved from http://www.isocarp.net/Data/case_studies/1040.pdf
- Social Exclusion Unit. (1998). *Bringing Britain Together: A National Strategy for Neighbourhood Renewal (Cm 4045)*. London: SEU.

IS THERE A CONSISTENCY IN THE EU'S APPROACH TOWARDS INVESTMENT ARBITRATION?

Ines Medić¹ 

Mia Grgić² 

DOI: <https://doi.org/10.31410/LIMEN.2019.111>

Abstract: *The history of the European Union's unease on the anti-arbitration policy is long. It dates back in 2007 and the Lisbon Treaty which transferred competence for concluding treaties from the Member States (MSs) to the European Union. In 2019 it is hard to find someone in legal circles who doesn't know about the famous and controversial Achmea judgment. Court of Justice of the European Union (CJEU) played hard on this topic, although Advocate General and the national court of MSs had different and thoroughly argued opinions. By this judgment, all arbitration clauses in intra-EU BITs have been invalidated. On the other hand, CJEU didn't offer an adequate alternative for invalid arbitration clauses, nor answered on the question of substantive protection, which is provided by intra-EU BITs. More controversially, in Opinion I/17 Court declared CETA's provision on dispute settlement valid and EU friendly. The reaction of the MSs almost validated CJEU's intervention into, by then, so carefully built mosaic of investment dispute settlements. Whether it has been given under the pressure of the Commission or at the initiative of MSs, together with the respective judgment, it was an impulsive move. In this Article, the Authors are going to explain how did the Achmea judgment disturbed the internal market and why the past system was more investment-friendly.*

Keywords: *Achmea judgment, Investment arbitration, CJEU.*

1. INTRODUCTION

Every market is trying to attract investors. From the last decades of the past century, bilateral investment treaties (hereinafter: BIT) are the main tool for attracting investors. Actually, the first BIT was concluded by one of the EU's strongest MS, Germany (Bilateral Investment Treaty between Germany and the Islamic Republic of Pakistan, 1959). According to the EU's data, EU is the main provider and a global destination for the foreign investments (<https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 11 January 2020). That is not a surprise considering the size of the internal market and the power of the economies of some of the strongest MSs. Under such circumstances, as soon as it got the opportunity, the EU has started developing its own investment policy with autonomous European rules.

However, the process was not going smoothly. It took some decades of soft low attempts and the introduction of the new competences under the Lisbon Treaty for the EU to gain exclusive competence for foreign direct investments. Despite it all, it took a Court of Justice of the European Union's (hereinafter: CJEU) judgment to persuade (at least some of) the MSs to terminate their intra-EU BITs. Famous *Achmea (Achmea B.V. v. Slovak Republic, C-284/16, hereinafter: Achmea)* judgment declared all arbitration clauses in intra-EU BITs invalid. Just like that, with no alternative and with number of questions unanswered.

In this article the authors are going to give an overview of the EU's policy on the matter and try to predict the future of the investment arbitration on European soil.

¹ Faculty of Law, University of Split, Domovinskog rata 8, 21000 Split, Croatia

² Faculty of Law, University of Split, Domovinskog rata 8, 21000 Split, Croatia

2. SHORT HISTORY OF THE EU'S ANTIARBITRATION POLICY

Although at first sight it might not seem so, even a brief overview of the EU's legislative activities clearly shows that the EU's antiarbitration policy in the field of investment protection dates quite long ago. Precisely, it dates back in 2006 (Ilie, 2018,), but until 2009 and the Treaty of Lisbon the EU's activities in this area were within the ambit of the soft law, at the level of recommendations to the MSs. During these years the Commission's policy was based on the note to the Economic and Financial Committee of the Council (Ilie, 2018). Commission's position amounted to the argument that, upon the accession of the respective MSs to the EU, „most of the provisions included in the intra-EU BITs have been „replaced” by the Community law.” (Potesta, 2009, p. 229). Thus, the Commission recommended to the MSs to terminate all intra-EU BITs based on its position that intra-EU BITs are unnecessary at the internal market since the core of the intra-EU BITs (protection of the foreign investors) is now part of the EU's commercial policy based on four freedoms (free movement of goods, services, capital, and labor) and the principle of non-discrimination. Basically, the Commission was trying to convince MSs that two parallel systems regulating foreign investments (one developed under respective BIT and the other one developed as the EU law on investment protection) could lead to the insecurity and uncertainty (Potesta, 2009, p. 229). However, in the beginning, the majority of MSs rejected this recommendation and maintained the existing intra-EU BITs (Stoyanov, 2019, available at: <https://www.allenoverly.com/en-gb/global/news-and-insights/legal-and-regulatory-risks-for-the-finance-sector/europe/increased-enforcement-risk-in-intra-eu-investment-treaty-arbitration>, retrieved: 12 January 2020, and Ilie, 2018).

After the failures to prove to the MSs that in case of a clash of the EU law and law based on different BITs the EU law must prevail, the Commission tried the other direction. It acted as *amicus curiae* in different arbitral proceedings (e.g. *Eletrcabel S.A. v. Republic of Hungary*, ICSID Case No. ARB/07/19, *Micula v. Romania*, ICSID Case No. ARB/05/20 or *Achmea B.V. v. Slovak Republic*, PCA Case No. 2008-13, etc.) trying to prove that arbitral tribunals cannot have jurisdiction over disputes based on intra-EU BITs. Firstly, the Commission tried to argue that all intra-EU BITs are silently terminated and replaced with the EU law, but the arbitral tribunals were not convinced and in number of occasions they argued that it would be contrary to the provisions of the Vienna Convention on the Law of the Treaties (hereinafter: VCLT) and its provisions on the termination of the treaties (see: *Eastern Sugar B.V. (Netherlands) v. Czech Republic*, SCC Case No. 088/2004, hereinafter: *Eastern Sugar*, para. 181). Consequently, most of the Commission's attempts to prove the lack of jurisdiction on behalf of the tribunals were not accepted by the tribunals. More often than not, arbitral tribunals considered that provisions of the BITs on the investment protection could not be superseded and replaced by the EU law, simply because they deal with different matters (e.g. see: *Eastern Sugar*).

The Treaty of Lisbon has changed, improved and strengthened the EU's position. It gave the EU exclusive competence over foreign direct investments (Treaty on the Functioning of the European Union, Official Journal of the EU C 326, hereinafter: TFEU, Art. 207). Based on that competence, common commercial policy was soon enriched with the new Regulation, establishing transitional arrangements for bilateral investment agreements between the Member States and third countries (Regulation (EU) No 1219/2012, Official Journal of the EU L 351/40, hereinafter: Grandfathering Regulation). This new propulsive force enabled the Commission's second act in the field of the foreign direct investment, i.e. announcement of replacement of old extra-EU BITs with the new ones and Commission's participation in the dispute settlement procedures based on these BITs (see: The Grandfathering Regulation, Preamble rec. 5, Art. 13). Until 2016, EU MSs have concluded 1384

BITs with third countries (Schacherer, 2016, available at: <https://www.iisd.org/itn/2016/08/10/can-eu-member-states-still-negotiate-bits-with-third-countries-stefanie-schacherer/>, retrieved: 13 January 2020). By the same time Commission has given 93 authorisations to open new negotiations, 41 to open re-negotiations and 21 authorisation to conclude protocol for existing BITs (Schacherer, 2016).

However, the question of intra-EU BIT's remained open, despite the fact that Commission didn't stand still. (for more: Dias Simoes, 2017, pp. 234-303). Namely, in 2010 Commission announced its intentions to build the new EU investment policy in its Communication to the Council, the European Parliament, the European Economic and Social Committee and the Committee of Regions-Towards a comprehensive investment policy (available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52010DC0343&from=EN>, hereinafter: Communication, retrieved: 12 January 2020). It highlighted goals like legal certainty, creation of stable, sound and predictable environment for the investors, openness for investments, etc., but it did not show any serious intention for exclusion of the intra-EU BITs from the common commercial policy, at least as long as they „*remain consistent with the EU policy*“ (Communication). However, the tone of Communication clearly indicated the Commission's intention to play bigger role in creating investment policy of the MSs.

Already in 2015, under Art. 258 TFEU, the Commission initiated infringement procedures against five MSs (Austria, the Netherlands, Romania, Slovakia, and Sweden) with the formal request for the termination of their intra-EU BITs due to their incompatibility with the Art 351 TFEU (<https://www.faegeb.com/en/insights/publications/2015/7/ecs-infringement-proceedings-for-intraeu-bits-cause-uncertainty-for-investors>, retrieved: 13 January 2020) but had a little success in its aim to proclaim intra-EU BITs unnecessary and invalid, since only Romania terminated all its BITs on the unilateral basis (Ilie, 2018). Later this year, due to different objections on disadvantages of investment arbitration (e.g. lack of transparency, inconsistency, inability of the host states to regulate public policy matters without risking arbitration because infringement of the BIT, etc.), the EU has finally agreed on the reform of dispute settlement method in investment matters with the aim of setting up the permanent dispute settlement mechanism called the Investment Court System (<https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 14 January 2020).

In March 2018, the EU council adopted directives authorising the EU Commission to negotiate a convention establishing a court for the settlement of investment disputes (Wyss, 2018, available at: <https://www.lexology.com/library/detail.aspx?g=475fa99b-9c5c-4800-bc68-c854cd806525>, retrieved: 13 January 2020). In January 2019, in the aftermath of the *Achmea*, the MSs issued the Declaration on the legal consequences of the *Achmea* judgment and on the investment protection (available at: https://ec.europa.eu/info/publications/190117-bilateral-investment-treaties_en, retrieved: 12 January 2020, hereinafter: Declaration) proclaiming all intra-EU BITs terminated and announcing new multilateral treaty on this issue (Declaration, para. 5). They also promised to, with regard to ongoing cases, inform sitting tribunals not to accept jurisdiction or issue any awards and to direct investors to hold off of any new intra-EU arbitration proceedings (paras. 1-3).

Separate Declaration was also signed by Malta, Luxembourg, Slovenia, and Sweden, in which they consider inappropriate *a priori* excluding intra-EU arbitration based on Energy Charter Treaty (hereinafter: ECT) without any CJEU ruling on the matter (<https://www.regeringen.se/48ee19/contentassets/d759689c0c804a9ea7af6b2de7320128/achmea-declaration.pdf>, retrieved: 12 January 2020). Also, ECT prohibits any reservations on it and EU as well as its MSs and EURATOM gave its „*unconditional consent to the submission of a dispute to international arbitration*“ (ECT, Art. 26). Consequently, any decision of the CJEU on the incompatibility of

the arbitration under ECT with the EU law would conflict with the previously stated will of the EU and its MS (Newing, Alexander, Meredith, 2018). Still, the legal world is uncertain about the EU's intentions at the international level (Newing, Alexander, Meredith, 2018).

But the direction of the revolution was indicated in the Opinion 1/17 of the CJEU on the compatibility of the dispute settlement methods provided by the Comprehensive Economic and Trade Agreement between Canada and EU and its MS (hereinafter: CETA, available at: <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>, retrieved: 13 January 2020) with the EU law. It seems that the EU as the largest market has a monopoly over this issue and that new multilateral approach is the future of the investment law. The EU gave some notice in the CJEU's Opinion on the compatibility of the CETA rules on dispute settlement with the EU law. The main features of the Opinion may be summarized as follows: „the mere fact that CETA's ICS stands outside the EU judicial system does not in itself breach the autonomy of the EU legal order“ (Croisant, 2019); the principle of equal treatment is also respected since all investors are in comparable situation; the principle of effectiveness will not be affected by the tribunal's decisions and finally, with regard to tribunal's accessibility, the Court stated that, dependent on the Council's commitment, Tribunal will be accessible to „the most vulnerable users (natural persons and small and medium-sized enterprises)“.

Following the Opinion 1/17 of the CJEU, in October 2019 the EU Commission presented four proposals regarding procedure, conduct and related matters.

However, the turning point did not follow immediately nor it came from the anticipated direction. It was served by the CJEU, in terms of the famous and controversial *Achmea* decision which in 2018 disturbed the investment policy of the MSs. Namely, by this judgment, all intra-EU BITs are declared invalid. Although the cracks started to appear already in the context of *Micula* case (Joined Cases T- 624/15, T-694/15 and T-704/15, hereinafter: *Micula*), no one seem to have predicted such outcome.

3. ACHMEA AND ITS CONSEQUENCES ON INVESTMENT CLIMATE IN THE EU

Achmea's case was presented to the CJEU in the stage of the enforcement of the arbitral award. Arbitration proceeding was initiated based on Slovakia-Netherlands BIT, concluded in 1991. Namely, in 2008 the Dutch company (Achmea) commenced an arbitration proceeding against Slovakia. Since the seat of arbitration was Frankfurt, the applicable law (based on the place of the seat of the arbitration) was German law. In 2012 the parties got the award by which Slovakia was ordered to pay the damages to the Achmea, but Slovakia commenced the procedure for setting aside the award (for more see: Uzelac, 2019, pp. 7-30). The case went to the German Supreme Court (Bundesgerichtshof, hereinafter: BGH). BGH took a stand that the Slovakia's application was not justified but decided to ask CJEU for preliminary ruling since the CJEU has never considered the compatibility of the arbitration clauses in intra-EU BITs with the EU law (*in concreto* Art. 267 and 344 TFEU). Advocate General (hereinafter: AG) took the same stand as BGH (available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:62016CC0284&from=EN>, retrieved: 14 January 2020) but the CJEU overruled the AG's Opinion and considered that such arbitration clauses in intra-EU BITs could have adverse effects on the autonomy of the EU law in the MSs (*Achmea*, para. 59). Namely, the CJEU considered that the EU law is a part of the national laws of the MSs which means that arbitration tribunals also have to interpret and apply some of the main provisions of the EU law (such as provisions

on the freedom of establishment and free movement of capital). Since arbitration tribunals are not a part of the judicial systems of the MSs they are not allowed to bring questions before the CJEU. Consequently, their awards could endanger the autonomy and efficiency of the EU law (*Achmea*, para. 42, 43, 45 and 59). Compared to the earlier CJEU's ruling in taxation disputes (C-377/13, *Ascendi Beiras Litoral e Alta, Auto Estradas das Beiras Litoral e Alta SA v Autoridade Tributária e Aduaneira*) position of the CJEU in *Achmea* may seem surprising. However, the alleged inconsistency may be justified by the difference between these two cases. The arbitration tribunals dealing with the taxation disputes were at the time part of the judicial system in Portugal (unlike arbitral tribunals in investment disputes) and the dispute was commenced based on the events after the Slovakian access to the EU (unlike the *Micula* case).

The only thing that is crystal clear regarding the *Achmea* judgment is that dispute settlement mechanism under the intra-EU BITs is incompatible with the EU law (paras. 32, 58) and that it does not extend to commercial arbitration (paras. 54-55). All the other consequences of the *Achmea* decision are still unknown. Unfortunately, the decision raises a number of questions, one more important than the other.

First, there are some public international law concerns. Namely, the silence with regard to the VCLT which governs the conclusion, interpretation, validity and invalidity of treaties. Following the provisions of the VCLT, arbitral tribunal cannot decide on the validity of the treaty upon which it bases its jurisdiction. Since it is not bound by the *Achmea* judgment either it can only accept the treaty as it is and check if the conditions for jurisdiction are in place.

Also, *Achmea* ruling has no mention of the International Convention for Settlement of Investment Disputes (hereinafter: ICSID Convention) (1966) or the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (hereinafter: NYC) (1958) nor of the enforcement of an award rendered under intra-EU BIT. With regard to the enforcement before the EU MS authorities of the award rendered based on the intra-EU BIT, procedure might differ depending on the source of the award. Namely, if the award in intra-EU case is rendered by the ICSID, under the Art 54 of the ICSID Convention the award is to be enforced without any review „as if it were a final judgment of a court in that State“. Thus, there are no procedural grounds to defend against it, including *Achmea* ruling. If the award is a non-ICSID award, recognition and enforcement is ruled by the NYC with number of grounds for non-recognition. Of those potentially relevant regarding the *Achmea* ruling (nullity of the arbitration agreement, Art V(1)(a) and public policy, Art V(2)(b)) none can actually be used since the *Achmea* dealt with the dispute settlement mechanism, which cannot be declared invalid by the national authority (due to the VCLT) nor is a part of public policy defence (under the NYC). Thus, if applied without any policy influence, NYC does not leave the room for the reception of *Achmea*. However, national courts of the EU MSs might decide to refuse to give effect to such awards.

Second, there is a question of the scope of the decision. Does it encompass only particular intra-EU BIT or all intra-EU BITs? There is an express declaration that *Achmea* applies to „a provision in an international investment agreement concluded between MSs, such as“ the one under examination (para. 49). Although referring to the BIT in question, it is obvious that the judgment's implications encompass all intra-EU BITs.

There is also a question of jurisdiction stemming from an arbitration agreement or intra-EU investment arbitration proceedings already pending? *Achmea* does not offer any answer to the

question whether the incompatibility of the arbitration clause with the EU law deprives the arbitral tribunal of its jurisdiction. Due to the fact that tribunals are outside the scope of EU's competence and the provisions of the VCLT (art. 54), answer should be negative.

Furthermore, it is not clear whether and how *Achmea* relates to multilateral agreements. Is it applicable to investment treaties to which EU itself is a party like ECT, or to BITs between EU Member States and third countries or the ICSID Convention? If yes, on what grounds? What impact does it have for the future MSs? Is termination of the existing BITs going to be a precondition of their accession? Due to „sunset clauses“ it will not affect disputes which arose before accession. There is less clarity with regard to investments and/or disputes arising after that date.

4. ACHMEA'S FOLLOW-UP

In 2019, after turbulences caused by *Achmea* ruling, General Court of the EU (hereinafter: GCEU) presented the silver lining (Bakos, 2019). *Micula* decision, initially ICSID case (*Ioan Micula, Viorel Micula, and others v Romania*, ICSID Case No. ARB/05/20), became one of the most prominent decisions of the GCEU. It dealt with the *ratione temporis* application of the EU law. In answering the question whether the compensation rendered by the arbitration tribunal can be considered as the illegal state aid the GCEU took the negative stand because all considered events took place before Romania's accession to the EU (*Micula* case, para. 109). Such ruling is of the utmost importance to the foreign investors in young MSs, such as Romania, Slovenia or Croatia and for the investors in old MSs in which so-called „sunset clauses“ are still protecting foreign investors. Still, the decision rendered by the GCEU is subject to the appeal procedure before the CJEU, so it remains to be seen how this saga ends. At the moment, *Micula* case is pending before the UK Supreme Court and according to some predictions waiting for the Brexit come through (Dimitrov, 2019, available at: <http://arbitrationblog.kluwerarbitration.com/2019/10/18/navigating-through-stormy-seas-the-uk-supreme-court-hears-the-micula-case/>, retrieved: 14 January 2020). In any case, it will provide a landmark of the post-Brexit investment climate in the UK. Most of the MSs consider *Achmea* inapplicable in the case of the intra-EU arbitration, but there is no consensus within the EU on this topic. Namely, Hungary gave separate Declaration in which it does not recognize the effects of the *Achmea* decisions on the intra-EU arbitrations based on ECT (Kohegyi, Gans, 2019, available at: <https://www.dlapiper.com/de/germany/insights/publications/2019/01/legal-consequences-of-the-achmea-decision/>, retrieved: 14 January 2020, and <https://www.regeringen.se/48ee19/contentassets/d759689c0c804a9ea7af6b-2de7320128/achmea-declaration.pdf>, retrieved: 14 January 2020).

Consequently, there are cases based on intra-EU BITs in which states tried to rely on *Achmea*, like in ICSID Case No. ARB/12/39 *Gavrilović v. Croatia*, based on Austrian-Croatian BIT. Despite the fact that Croatia invoked the *Achmea* argument, it was rejected because the objection was not raised in due time (Uzelac, 2019, p. 15). On the other hand, in number of cases tribunals considered the *Achmea* decision irrelevant with regard to treaty obligations of states and decided on its non-applicability with regard to jurisdictional objections (e.g. in *UP and C.D. Holding Internationale v. Hungary*, ICSID Case No. ARB/14/1, Tribunal considered that „*Achmea* cannot excuse non-compliance with public international law“ (Dragiev, 2019, p. 2).

There are also some pending proceedings regarding the ECT. Since the CJEU did not take a stand on the compatibility of arbitration clauses in multilateral agreements in which the EU (alongside the MSs) is the party, their current status remains uncertain. So far, the most com-

prehensive ruling on the matter is the *Vattenfall v. Germany*, ICSID Case No. ARB/12/12 (hereinafter: *Vattenfall*). In its ruling the tribunal refused to accept the stand that the EU law makes a part of general international law. Also, in *Masdar Solar & Wind Cooperative U.A. v Kingdom of Spain*, ICSID Case No. ARB 1/14/1 (hereinafter: *Masdar*) the tribunal rejected applicability of the *Achmea* ruling on ECT (Uzelac, 2019, p. 14 and Beham, 2020).

5. CONCLUSION

The EU judicial system has unique features. It is best described by para. 70 of the Opinion 1/09 (European and Community Patent Court) according to which the EU has established „a complete system of judicial remedies’ for individuals, MSs, the EU institutions and its agencies and bodies“. Within that system „the special characteristics of EU law are preserved, the EU law is interpreted uniformly and consistently, the EU law is fully applied and individual’s rights are judicially protected“ (Ankersmit, 2016, p. 49.). Consequently, according to para. 183 of the Opinion 2/13 (Accession to the ECHR), the EU may subject itself to other international courts only „if the indispensable conditions for safeguarding the essential character of those powers are satisfied and there is no adverse effect on the autonomy of EU legal order“ (Opinion 2/13, para. 183). Alteration of this system is only possible by changing the Treaties.

Despite its many advantages with regard to investors, the ISDS clearly does not satisfy the above conditions. First and foremost, there is no requirement on behalf of the parties to exhaust domestic remedies. Moreover, „fork in the road“ clause requires investors to choose a single avenue of judicial relief and prevents them from switching forums after they started the proceedings. Also, tribunals are not a part of national judiciary and as such are not entitled to refer the preliminary question to the CJEU. Thus, if parties opt for arbitration, the tribunal may come to a different interpretation of EU law (e.g. regarding non-discrimination or FET standard) which adversely affects carefully established European judicial system and the autonomy of EU legal order.

But besides looking at the *Achmea* from the standpoint of EU law one might also take a look from the standpoint of international arbitration. Under public international law, BITs remain valid and binding unless they expire or are replaced with the new agreement relating to the same subject matter. Consequently, arbitral tribunals are not bound by the *Achmea* nor have they been convinced by the *Achmea*. Many of them have rejected the jurisdictional objection and proceeded with the case. Besides, most BITs contain „sunset clauses“ which bind a state to BIT for a long period beyond the termination date.

From the parties’ standpoint, relying on the existing intra-EU BITs has never been more uncertain. There are several hurdles to overcome regarding the arbitration tribunals as well as state courts. In order to mitigate the disadvantages, before the dispute arises, they may consider cross-border group restructuring and/or investing through corporate structures located outside of the EU. Once the dispute arises it is already too late to do that and the choice amounts to arbitral tribunal or a state court. Post Brexit UK and/or Switzerland might pop up as the obvious jurisdictions for restructuring and/or bringing BIT disputes.

However, looking back at the Commission’s activities, even long before the Lisbon treaty, it is more than obvious that „the current-model of investor–state dispute settlement has been under attack“ (Hirst, Yeow, 2020, p. 3). Starting with the soft law instruments towards acquired exclu-

sive competence and regulations and directives aimed towards establishment of the permanent investment court system, one cannot notice that there is a consistency in the EU's approach towards investment arbitration. And that that approach is antiarbitration one. An insight into investment treaties recently signed or negotiated between the EU and third countries (e.g. India, Japan, Mexico, Singapore, Vietnam, etc.) (see: <http://www.trade.ec.europa.eu>, retrieved: 15 January 2020) only confirms this view. CETA and its investment chapters (e.g. two-tiered investment court system) may be regarded as *de facto* model for other EU bilateral investment treaties. Sooner or later all of pre-existing intra-EU BITs will also be replaced with a single multilateral agreement with the same model. The ultimate goal of the introduction of the same model and at all levels is to achieve coherency in the EU investment policy. MSs BITs (either intra-EU or with the third states) aimed at promoting their specific interests *vis-a-vis* negotiating partners certainly do not fit this scheme (see: <https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 14 January 2020).

To conclude, as the time goes by investment arbitration on the territory of EU will most likely lose its importance and be replaced with some sort of a court system. Having in mind parallel strengthening of litigation and mediation as an alternative to commercial arbitration it is safe to say that arbitration in general may easily loose its popularity.

REFERENCES

Articles

- Ankersmith, L., (2016), The Compatibility of Investment Arbitration in EU Trade Agreements with the EU Judicial System, *Journal for European Environmental and Planning Law*, April 2016, pp. 46-63.
- Bakos, A.C., 2019, *Schrodinger's Investment: the EU's General Court Considered that the Compensation Ordered by the Micula Tribunal is not a form of State Aid (Although it Might as Well Have Been*, retrieved from: <https://efilablog.org/2019/06/26/schrodingers-investment-the-eus-general-court-considers-that-the-compensation-ordered-by-the-micula-tribunal-is-not-a-form-of-state-aid-although-it-might-as-well-have-been/> , retrieved: 15 January 2020.
- Beham, M., Prantl, D., 2020, January 7, *Intra-EU Investment Reform: What Options for the Energy Charter Treaty?*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2020/01/07/intra-eu-investment-reform-what-options-for-the-energy-charter-treaty/> , retrieved: 12 January 2020.
- Croisant, G., 2019, April 30, *Opinion 1/17- The CJEU confirms that CETA's Investment Court System is Compatible with EU Law*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2019/04/30/opinion-117-the-cjeu-confirms-that-cetas-investment-court-system-is-compatible-with-eu-law/?print=print>, retrieved: 15 January 2020.
- Dimitrov, I., 2019, October 18, *Navigating Through Stormy Seas: The UK Supreme Court Hears the Micula Case*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2019/10/18/navigating-through-stormy-seas-the-uk-supreme-court-hears-the-micula-case/>, retrieved: 14 January 2020.
- Dias Simoes, F. (2017). A Guardian and a Friend? The European Commission's Participation in Investment Arbitration, *Michigan State International Law Review*, Vol. 25.2, 2017, pp. 234-303.

- Dragiev, D., 2019, January 16, *2018 In Review: The Achmea Decision and Its Reverberations in the World of Arbitration*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2019/01/16/2018-in-review-the-achmea-decision-and-its-reverberations-in-the-world-of-arbitration/>, retrieved: 15 January 2020.
- Hirst, P., Yeow, M. (2019). *International arbitration: Current trends and what to expect in 2020 and the years ahead*, 2020, retrieved from: <https://www.lexology.com/library/detail.aspx?g=1014006f-0259-435d-819b-0c099a4dd53f>, retrieved: 15 January 2020.
- Ilie, L., 2018, January 21, *What is the Future of Intra-EU BITs?*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2018/01/21/future-intra-eu-bits/>, retrieved: 14 January 2020.
- Kohegyi, D., Gans, S. K., 2019, January 19, *EU Member States issued a joint declaration on the legal consequences of the Achmea decision*, retrieved from: <https://www.dlapiper.com/de/germany/insights/publications/2019/01/legal-consequences-of-the-achmea-decision/>, retrieved: 15 January 2020.
- Newing, N., Alexander, L., Meredith, L., 2018, April 28, *What Next for Intra-EU Investment Arbitration? Thoughts on the Achmea Decision*, Kluwer Arbitration Blog, retrieved from: <http://arbitrationblog.kluwerarbitration.com/2018/04/21/what-next-for-intra-eu-investment-arbitration-thoughts-on-the-achmea-decision/>, retrieved: 15 January 2020.
- Potesta, M. (2009). *Bilateral Investment Treaties and the European Union-Recent Developments in Arbitration Before the ECJ*, 8 *Law & Practice International Courts & Tribunals*, pp. 225-245.
- Schaherer, S., 2016, August 10, *Can EU Member States Still Negotiate BITs with Third Countries?*, retrieved from: <https://www.iisd.org/itn/2016/08/10/can-eu-member-states-still-negotiate-bits-with-third-countries-stefanie-schacherer/>, retrieved: 15 January 2020.
- Stoyanov, M., 2019, November, *Increased enforcement risk in intra-EU investment treaty arbitration* retrieved from: <https://www.allenoverly.com/en-gb/global/news-and-insights/legal-and-regulatory-risks-for-the-finance-sector/europe/increased-enforcement-risk-in-intra-eu-investment-treaty-arbitration>, retrieved: 12 January 2020.
- Uzelac, A. (2019). *Why Europe should reconsider its anti-arbitration policy in investment disputes*, *Access to Justice in Eastern Europe*, Issue No. 1(2), pp. 6-30, doi: <https://doi.org/10.33327/AJEE-18-2.1-a000008>.
- Wyss, W. 2018, *Achmea-Earthquake – Time to Consider a Swiss Solution*, retrieved from: <https://www.lexology.com/library/detail.aspx?g=475fa99b-9c5c-4800-bc68-c854cd806525>, retrieved: 13 January 2020.

European Union Law

- Treaty on the Functioning of the European Union, Official Journal of the EU C 326
- Communication to the Council, the European Parliament, the European Economic and Social Committee and the Committee of Regions-Towards a comprehensive investment policy, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52010DC0343&from=EN>, retrieved: 12 January 2020
- Declaration of the Representatives of the Governments of the Member States on the Enforcement of the Judgment of the Court of Justice in Achmea and on Investment Protection in the European Union, available at: <https://www.regeringen.se/48ee19/contentassets/d759689c0c804a9ea7af6b2de7320128/achmea-declaration.pdf>, retrieved: 12 January 2020
- Regulation (EU) No 1219/2012 of the European parliament and of the Council of 12 December 2012 establishing transitional arrangements for bilateral investment agreements between Member States and third countries, Official Journal of the EU L 351/40

Treaties

Comprehensive Economic and Trade Agreement between Canada and EU and its MS available at: <https://ec.europa.eu/trade/policy/in-focus/ceta/ceta-chapter-by-chapter/>, retrieved: 13 January 2020

Energy Charter Treaty, 1994

International Convention for Settlement of Investment Disputes, 1965

New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, United Nations, 1956

Vienna Convention on the law of the treaties, United Nations, 1969

Case Law

Achmea B.V. v. Slovak Republic, C-284/16

Ascendi Beiras Litoral e Alta, Auto Estradas das Beiras Litoral e Alta SA v Autoridade Tributária e Aduaneira, C-377/13

Micula case, Joined Cases T- 624/15, T-694/15 and T-704/15

Opinion 1/09 (European and Community Patent Court)

Opinion 2/13 (Accession to the ECHR)

Achmea B.V. v. Slovak Republic, PCA Case No. 2008-13

Eastern Sugar B.V. (Netherlands) v. Czech Republic, SCC Case No. 088/2004

Eletrcabel S.A. v. Republic of Hungary, ICSID Case No. ARB/07/19, *Micula v. Romania*, ICSID Case No. ARB/05/20

Gavrilović v. Croatia, ICSID Case No. ARB/12/39

Ioan Micula, Viorel Micula, and others v Romania, ICSID Case No. ARB/05/20

Masdar Solar & Wind Cooperative U.A. v Kingdom of Spain, ICSID Case No. ARB 1/14/1

UP and C.D. Holding Internationale v. Hungary, ICSID Case No. ARB/14/1

Vattenfall v. Germany, ICSID Case No. ARB/12/12

Web

<https://www.faegrebd.com/en/insights/publications/2015/7/ecs-infringement-proceedings-for-intraeu-bits-cause-uncertainty-for-investors>, retrieved: 13 January 2020

<https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 14 January 2020

<https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:62016CC0284&-from=EN>, retrieved: 14 January 2020

<https://www.trade.ec.europa.eu>, retrieved: 15 January 2020

<https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 14 January 2020

<https://ec.europa.eu/trade/policy/accessing-markets/investment/>, retrieved: 11 January 2020

THE ROLE OF PUSH AND PULL MOTIVATIONS IN BRANDING FOR RURAL TOURISM: LAKE TISZA COMPLEX PROJECT

Damla Bal¹ 

Éva Erdélyi² 

DOI: <https://doi.org/10.31410/LIMEN.2019.121>

Abstract: *The aim of this study is to understand the push and pull travel motivations of domestic tourists in Hungary and examine its importance in building a positive destination brand of Lake Tisza region that will affect the decision process of the individuals. An interview was done with Tisza office to have a closer look to the development project of Lake Tisza; the existing brand image of the region was examined through destination observation and several on-site interviews. The data, collected through an online questionnaire and analysed using different statistical methods, shows that the push motivation which is relaxing away from the ordinary life is the most important for the domestic tourists in Hungary; nevertheless, the pull motivations are the basis which triggers the push motivations. It is suggested to brand the destination attributes of Lake Tisza region as a way of relaxing away from the ordinary life.*

Keywords: *Push and Pull Motivations, Rural Tourism, Branding.*

1. INTRODUCTION

Development of tourism activities in the rural regions has a substantial position in the national strategies of counties. Hungary has a development project which is called as Lake Tisza Complex Project targeting an increase in the numbers of visitors. It is highly significant to create a brand to be different from competitors in order to gain high profits and grow in a competitive environment that intensifies with the development of technology in the global market. A brand is an important tool for the marketing of the destinations and its services. In order to gain a positive and long-term place in the minds of individuals, destinations focus on brands as a powerful resource that can influence the decision process of tourism consumers.

It is known that the concept of brand is not only a phenomenon that has gained importance in today's competitive environment; but also, in the old times the pictures and symbols were used to distinguish the products from each other. Branding theory was first introduced in 1950s in the context of consumer products; however, in 1990s branding was developed going beyond to its limits in that context and started being applied to brand owning corporations (Kavaratzis, Warnaby, and Ashworth, 2015). Branding, which was initiated on the ground of determining the responsibility for the product, has become a competition issue in which businesses emphasize their superiority over each other.

A brand is a wide-ranging term, and many of the characteristics that determine the goods fall within the scope of the brand. American Marketing Association, AMA Dictionary defines the brand as “a name, term, design, symbol or any other feature that identifies one seller's good or

¹ Budapest Business School – University of Applied Sciences, H- 1054 Budapest, Alkotmány utca 9-11, Hungary

² Budapest Business School – University of Applied Sciences, H- 1054 Budapest, Alkotmány utca 9-11, Hungary

service as distinct from those of other sellers.” International Organization for Standardization (ISO) adds that “a brand is an intangible asset that is intended to create distinctive images and associations in the minds of stakeholders, thereby generating economic benefit/values.” However, the brand is composed of many dimensions such as emotional benefits, user imagery and as well as the basic features of the product (Aaker, 1996, p.74). Another definition of brand is “a sign or set of signs certifying the origin of a product or service and differentiating it from the competition” (Kapferer, 2008). In accordance with Moilanen and Rainisto’s definition, “a brand is an impression perceived in a client’s mind of a product or a service. It is the sum of all tangible and intangible elements, which makes the selection unique” (2009, p.6).

Branding is a marketing practice that provides significant benefits for product owners, agents and consumers. The brand is an element that gives consumers the convenience and confidence in terms of quality to recognize and distinguish the products that they will buy. Consumers’ perception of the brand and their confidence in the brand are important in the development of the product owners’ business image. For this reason, the brand is an important image element of the product owner. For agents selling with a specific brand name, the brand is effective in generating demand because of that consumers want to take advantage of the benefits of brands.

Since building and managing the value of a brand as the main source of success are increasingly fundamental today, destination managers need to focus on the main components of brand and develop these components in line with the travel motivations of the individuals in the long term. Travel motivations play an important role in generating tourism products for tourists, have a relationship with the satisfaction of the tourists and contribute to the understanding of decision process of tourists (Crompton and McKay, 1997, cited in Kassean and Gassita, 2013).

In accordance with Dann (1997), who’s “the push and pull theory of motivations is widely accepted in tourism research, multiple factors motivate tourists to visit particular places or destinations, but these factors can be categorised as either push or pull motivations” (Yousaf and Amin, 2018). In the literature push factors stands for the internal feeling that drives individuals to take travel decisions, on the other hand pull motivations are related to the attractiveness of the destinations that leads individuals to travel.

Crompton (1979) works on a theoretical framework based on Dann’s (1977) study and finds the following influencing push motivations; “the desire for escape from a perceived mundane environment, rest and relaxation, prestige, regression, health and fitness, adventure and social interaction, enhancement of kinship relationships, exploration and evaluation of self, excitement” (Kassean and Gassita, 2013). Yuan and McDonald (1990) determine five push factors out of 29 motivational items in their study focusing on the four countries; and the push factors, what they identify, are “escape, novelty, enhancement of kinship relationships, prestige, relaxation/hobbies” (Kassean and Gassita, 2013). Pearce (2002) also develops a framework which lists push motivations as “novelty, escape/relaxation, self-actualization, nature, self-enhancement, romance, kinship-belonging, autonomy, self-development (host-site involvement), nostalgia, stimulation, isolation and recognition” (Kassean and Gassita, 2013).

“The push factors can be summarized as factors encouraging people to travel, representing individuals’ socio-psychological needs; in contrast, pull factors are mostly related to destinations’ amenities, for example, service quality, prices and infrastructure” (Yousaf and Amin, 2018). Weaver and Lawton (2012) recommend that the pull motivation factors can be categorised as

“geographical proximity to markets, accessibility to markets, availability of attractions, cultural links, availability of services, affordability, peace and stability, positive market image, pro-tourism policies” (Camillo, 2015).

This research has been designed to determine the push and the pull motivations of domestic tourism consumers in Hungary to provide guidance in developing the effectiveness of Lake Tisza destination brand. This paper will contribute to the theoretical framework by measuring the push and the pull travel motivations of domestic tourists in Hungary, and finding a strategy to increase the brand awareness. The study aims to provide suggestion for increasing the effectiveness of marketing activities focusing on Lake Tisza Complex Project brand.

Based on destination observations done in the summer-autumn period of 2019, it is seen that the region has huge potential for the development of tourism activities and tourists who enjoy nature & calm atmosphere and being physically active. First, the number of cyclists draws attention that it is getting higher and higher. According to the interview with the director and international relations officer of Tisza Office, the number of cyclists has increased %50 comparing the previous year. In the light of data, which is taken from Tisza office, total number of cyclists were 30.884 in 2017; on the other hand, total number of cyclists were 56.959 in 2018. In 2019, the number is 39,739 which represent the cyclists between January and August. Additionally, ongoing development projects for the region are mentioned during the interview: fish pass (which is an ecological project aiming the restoration of the fish migration paths in Danube), development of marinas, import of holiday boats, development of cycle path, development of walking and hiking path. It is said that the walking path is in a bad condition in the winter season and rainy weathers. The project aims to solve this problem in order to provide better service to the local people and tourists.

Based on the on-site interviews, Tisza region is not popular as much as Lake Balaton, because of the marketing activities. There is an image that Lake Balaton is fancier than Lake Tisza because of the infrastructure, vineries and small-sized mountains. However, they mention that Lake Tisza is more untouched and has lots of green areas and good for big families. Additionally, it is told that the music festival which is organised every year has a good image for them that is one of the attributes of the cognitive image and the other mentioned attributes are calm atmosphere, fishing, canoe, and cycle area. They see the National Park as an advantage to the destination because it is very close to Lake Tisza. Regarding the affective image of the destination, they mention that it depends on the time spent there and it is decided that Lake Tisza does not have any strong affective and unique image yet.

In order to reach the local people and Tisza Lake lovers, the questionnaire was shared on many Facebook group which are related to the Tisza region. Surprisingly, the owner of one of those Facebook group contacted with me and provided information regarding the issue. In light of her view, there are a lot of foreign people who has cottages in the region. The common nationalities are Dutch, Belgian and German. Interestingly, during the observation period it was seen that some restaurants have German menu instead of English; and, there were a lot of German speaking people sitting in the restaurants.

123 valid answers are collected through an online questionnaire and results are analysed using different statistical methods. Based on results, woman respondents are 49,59% of the respondents and man respondents represent 50,41%. 25-34 old years respondents consist of 54,47%, and

18-24 years old respondents constitute 28,46% of the sample group. 57,72% of the sample group live in Budapest. 39,84% of them have bachelor's degree while 36,59% of the respondents have master's degree. 42,28% of the respondents are single, and 35,77% of the respondents are in a relationship. 21,95% of the respondents are married. 86,18% of the respondent do not have any child. 43,90% of the respondents are full-time employed and 21,14% of respondents are students. 65,04% of the respondents have medium income level.

In order to summarise the collected data, mean is used that is one the measures of central tendency (Nicholas, 1999, p. 14). The mean, which is also called as the “average, is calculated by adding all the figures within the data set and then dividing by the number of figures within the set” (Kenton, 2019). Based on the mean calculations of the data, the relative importance of pull travel motivations for the Hungarian domestic tourists are displayed below.

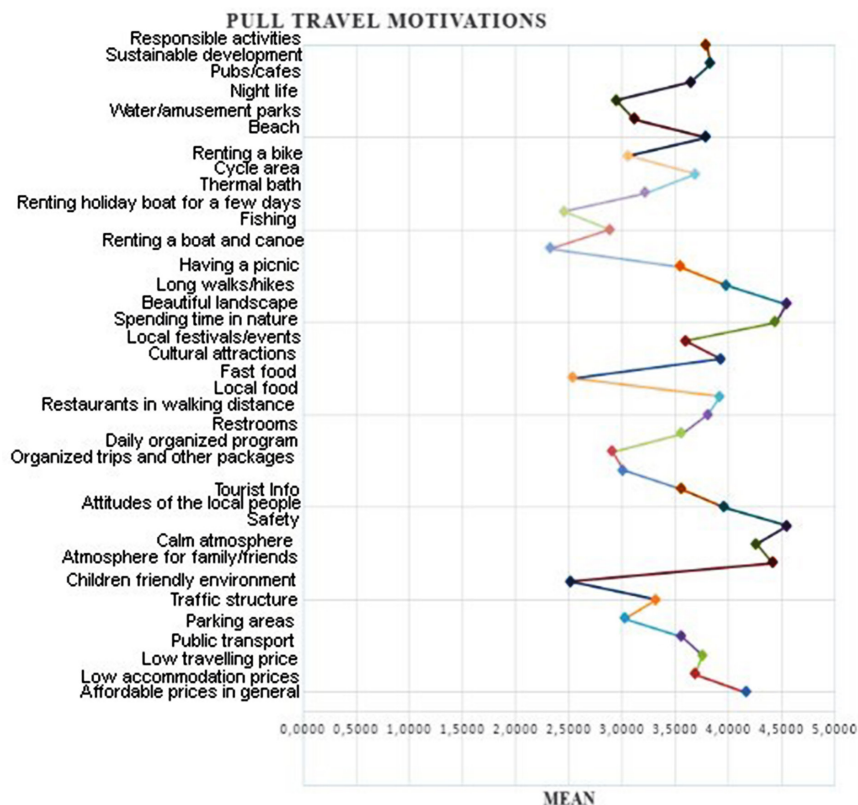


Figure 1. Mean calculations of the pull motivations.

Source: Own Source

As one can see from the above figure that there are statistical differences between the pull travel motivations of the respondents. The most important factor is safety that %69,9 of the respondents choose as very important. Respectively the other “very important” pull motivation factors are beautiful landscapes for %67,5 of the respondents, spending time in nature for %58,5 of the respondents, destinations’ opportunities for family & friends to have a good time for %63,4 of the respondents level, calm atmosphere for %47,2 of the respondents and affordable prices in general for %46,3 of the respondents.

In order of long walks & hikes, attitudes of the local people, cultural attractions, local food, sustainable development, restaurants in walking distance, beach, responsible activities are very close to important level for the respondents; besides, low traveling prices, cycle area, low ac-

commodation prices, pubs & cafes, local festivals & events, public transport, tourist info, restrooms, having a picnic are also close to important level even though it is not as strong as previously mentioned attributes of pull motivations.

Afterwards, traffic structure, thermal baths, water & amusement parks, bike rental, parking areas, organized trips and other packages, night life, daily organized programs, fishing have neutral impact on the sample group. Fast food, children friendly environment, holiday boat rental for a few days, boat & canoe rental have less importance for the respondents. However, as the sample group is not composed of families with children, one can assume that the result might not show the importance of children friendly environment. On the other hand; it is useful to see that for the people who do not have any child, children friendly environment is not important.

Public transportation accessibility is much more important for younger people, especially who are between 25-34 years old. %38 of 25-34 years old respondents see it as very important and %20,80 of 25-34 years old respondents see it as important. %40,63 of the 18-24 years old respondents mark it as very important. Due to the low participant of aged people, it is decided to put together the number of respondents who are over 35 years old. Based on that, %14,30 of over 35 years old respondents see the accessibility of public transportation as very important. However, parking areas are more important for the elderly respondents. As %35 of over 35 old years respondents mark parking areas as very important and %19,20 percent of them see it as important. Interestingly, %8,65 of 25-34 years old respondents see the parking areas as very important; however, for the majority of them (%40) parking areas are neither important nor unimportant. For %15,75 of 18-24 years old people, parking areas are very important and %28,3 of them decide that it is important.

Mean method is also used to summarize the collected data and by the help of the excel program the below graph is created.

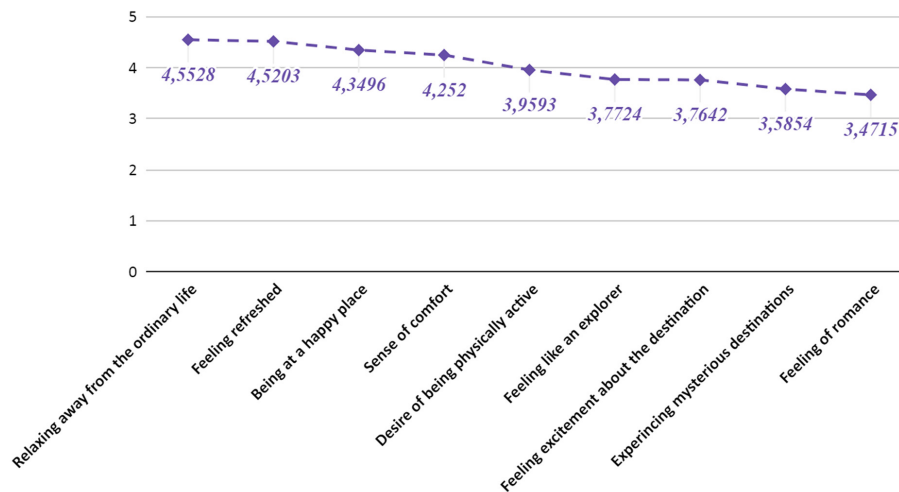


Figure 2. Mean calculations of the push motivations

Source: Own Source

It is seen that relaxing away from the ordinary life is the most encouraging push motivation that for %67,5 of respondents mark it as very important. Additionally, feeling refreshed is very close to the relaxing away from the ordinary life. The other pull motivations which are important are being at a happy place and sense of comfort, desire of being physically active. Addition to this, feeling like an explorer, feeling excitement about the destination, and feeling romance have relatively importance.

In compliance with correlation calculations of demographic characteristics of the respondents and the push motivations on SPSS program, it is seen that household income level correlates with the motivation of relaxing away from the ordinary life. For %69 of respondents who have medium income level, relaxing away from ordinary life is very important and %66,70 of respondents with low income level see relaxing away from ordinary life as very important. Additionally, %23 of respondents with medium income level mark this pull motivation as important; and for %25 of respondents who has a low-income level relaxing away from ordinary life is important.

Another surprising result is that for the respondents who travel with friends the importance of feeling excitement about a rural destination has higher importance; and who travel with family feeling excitement is relatively important. %19 of respondents who travel with family vote for very important and %38,60 of them vote as important regarding the importance level of feeling excitement; %52 respondents whose travel mates are friends see this motivation as very important and %28 of them decide that it is important. For the solo travellers it is not very important motivation as just %19 of them thinks it as very important and %38 of them see it as important.

The motivation of experiencing mysterious destinations is also respectively important for the respondents who travel with friends and family. %48 of respondents whose travel mates are friends see this motivation as very important and %24 of them see it as important. %17 of respondents who travel with family thinks it as very important and for %32,50 of them experiencing mysterious destinations is important. %12,50 of the solo travellers it has very importance and %38 of them see it as important; however, for the majority of solo travellers (%45) it is neither important nor unimportant.

Enigmatically, the motivation of feeling romance in the destination is not important for married respondents. %36 of married respondents think that it has a neutral impact on their decision-making process. For %45,50 of respondents who are in relationship romantic image of the destination is important and %21,50 of them it has very significance. Although %31,50 of single respondents see it as neutral, for %29 of them it has importance and for %22,40 of single respondents it is very important.

CONCLUSION

To sum up, based on the questionnaire results, the most important pull motivation is safety that %69,9 of the respondents mark it as very important. In order of the other very important pull motivations are beautiful landscapes for %67,5 of the respondents, spending time in nature for %58,5 of the respondents, destinations' opportunities for family & friends to have a good time for %63,4 of the respondents level, calm atmosphere for %47,2 of the respondents and affordable prices in general for %46,3 of the respondents. The most important push motivation is relaxing away from the ordinary life for 67,5% of the respondents and the second very important push motivation is feeling refreshed in the countryside for 64,2% of the respondents. In the light of these results, it is suggested that the branding activities of the Lake Tisza Complex Project have to involve influential aspects to trigger those six pull motivations and two push motivations of the domestic tourists in Hungary to affect their travel decisions. Especially, the destination attributes need to be branded as a way of relaxing away from ordinary life and relaxing in the nature.

It is expected that the marketing directors and the managers of the project will take advantage of this study. For the next study, the researcher aims to build the whole marketing plan of Lake Tisza Complex Project.

REFERENCES

- Aaker, D. A. (1996). *Building Strong Brands*. New York: Free Press.
- AMA. (2014). *What is Marketing? — The Definition of Marketing — AMA*. American Marketing Association. Retrieved from <https://www.ama.org/the-definition-of-marketing-what-is-marketing/>.
- Camillo, A. (2015). *Handbook of research on global hospitality and tourism management*. Information Science Reference.
- Franzen, G., Moriarty, S. (2008). *The Science and Art of Branding*. Google Books. Retrieved from <https://books.google.com.tr/books?id=XrcqlxhzdHQC&printsec=frontcover#v=onepage&q&f=false>.
- Kapferer, J. (2008). *The New Strategic Brand Management – Jean Noel Kapferer*. Retrieved from https://www.academia.edu/12869300/The_New_Strategic_Brand_Management_-_Jean_Noel_Kapferer_PDF_
- Kassean, H. and Gassita, R. (2013). Exploring tourists push and pull motivations to visit Mauritius as a tourist destination. *Tourismos: An International Multidisciplinary Journal of Tourism*, 8(2), pp. 39-56.
- Kavaratzis, M., Warnaby, G. and Ashworth, G. (2015). *Rethinking Place Branding – Comprehensive Brand Development for Cities and Regions*. Springer. Retrieved from <https://www.springer.com/gp/book/9783319124230>.
- Kenton, W. (2019). *Descriptive Statistics*. Investopedia. Retrieved from https://www.investopedia.com/terms/d/descriptive_statistics.asp
- Marketing-dictionary.org. (2018). *Brand | Common Language Marketing Dictionary*. Retrieved from <https://marketing-dictionary.org/b/brand/>.
- Moilanen, T. and Rainisto, S. (2009). *How to Brand Nations, Cities and Destinations*. London: Palgrave Macmillan UK.
- Nicholas, J., & Mathematics, S. (1999). *Introduction to descriptive statistics*. Mathematics Learning Centre, University of Sydney.
- Roy, D. and Banerjee, S. (2014). Identification and measurement of brand identity and image gap: a quantitative approach. *Journal of Product & Brand Management*, 23(3), pp.207–219.
- Yousaf, A., Amin, I., & Santos, J. (2018). Tourist's Motivations to Travel: A Theoretical Perspective on the Existing Literature. *Tourism and Hospitality Management*; 24(1), 1-15

IDENTIFICATION OF CRITICAL SUCCESS FACTORS FOR THE IMPLEMENTATION OF THE BLOCKCHAIN PROJECTS IN THE SMART CITIES

Zoran Ćirić¹
Otilija Sedlak²
Stojan Ivanišević³

DOI: <https://doi.org/10.31410/LIMEN.2019.129>

Abstract: *The primary objective of this paper is to conduct a systematic literature review to analyse contemporary scientific literature to determine a list of blockchain IT system implementation critical success factors. Scientific literature is available for the critical success factors that are impacting implementation for IT projects in general; however, it is of scientific and practical importance to whether these factors and their influence change when it comes to blockchain projects and even to determine does some additional critical success factors impact the success of the blockchain information system implementation in the smart cities.*

Keywords: *Blockchain, Smart city, Project management, Information systems, Sustainability.*

1. INTRODUCTION

Blockchain is one of the most popular buzzwords at the end of the decade. The hype associated with crypto currencies made blockchain technology worldwide famous. The positive aspect of the hype was that many new startups and ideas revolving around the implementation of the blockchain technologies arose. However, this hype did a lot for the blockchain technology spread but also caused a lot of damage to the understanding the nature of this technology and the way it can revolutionize entire business models through improvement of the information systems. Viewed from the information technology point of view, the blockchain is a new way of data layer organization, not some magical new paradigm that will change everything and make everything else obsolete. Storing data in encrypted, anonymised, append-only, distributed, a peer-to-peer database that has computer algorithm for deciding what truth instead of arbitrary central authority is a revolutionary leap, but it has to be viewed as an important part of current information technologies and systems not per se. Blockchain projects are already implemented in many areas, including information systems in smart cities. They are implemented by IT projects managers and perceived as IT project which they are. The goal of this paper is to attempt to identify some additional project implementation success factors that are native to the blockchain projects within smart cities or the blockchain projects in general in case that data on blockchain projects is scarce. Since blockchain theory is the novel subject of the scientific literature, practical example and use cases are even more scarce, the authors of these papers will attempt to find and examine all available source of information including non-scientific articles and data available on the internet.

¹ University of Novi Sad, Faculty of Economics Subotica, Segedinski put 9-11, Subotica, Serbia

² University of Novi Sad, Faculty of Economics Subotica, Segedinski put 9-11, Subotica, Serbia

³ JKP Informatika Novi Sad, Bul. cara Lazara 3, Novi Sad, Serbia

2. BLOCKCHAIN TECHNOLOGY IN THE SMART CITY CRITICAL SUCCESS FACTORS

The authors analysed the available scientific literature and other available literature to find any additional CSF related to blockchain projects specifically or to determine the deviation of strength for any CSF in the list.

Architecture – Technology	<p>Software engineers should define criteria for selecting the most appropriate blockchain implementation, evaluating the adoption of sidechain technology, or the implementation of an ad-hoc blockchain (Porru, 2017).</p> <p>Enhancements in blockchain design are needed to improve scalability by reducing latency, increasing throughput and enhancing security. Progress in this domain will expand the technology’s adoption (Schatsky & Muraskin, 2015).</p> <p>Integration in IT architecture, In-house/ internal development, Flexible infrastructure (Holotiuk & Moormann)</p>
Blockchain size – throughput	<p>As the blockchain adoption increases, blockchains will grow exponentially, commonly referred to as blockchain bloat (Swan, 2015). To become a mainstream technology, blockchains of the future must be scalable and fast (Schatsky & Muraskin, 2015). The size of the blockchain ledger is already more than the capability of some of smaller devices and may lead to making a vast part of the public unable to participate or delays in processing transactions (Innovalue, 2015).</p> <p>The blockchain technology is still in the early stages of development and faces several technical limitations such as throughput (a theoretical current maximum number is seven transactions per second), latency (each block takes 10 min to process which means at least 10 min needed for your transaction to be confirmed), and size and bandwidth (long time needed to download the entire blockchain) (Wang et al, 2017). Increased efficiency is anticipated, as “transaction costs are expected to decrease” (with blockchain) (Ølnes et al, 2017).</p>
Business model	<p>Traditional business models might not seem applicable to the blockchain, since the whole point of decentralized peer-to-peer models is that there are no facilitating intermediaries, whereas most of the businesses are formed around the concept of intermediation (to reduce total transaction cost for the customer while earning a fee for themselves) (Prasad et al, 2018). However, there are many worthwhile applications of blockchains even in a traditional business (Swan, 2015).</p> <p>One factor that drives the interest in distributed ledger-based methods is the ease with which they can be added to existing workflows and data processing lifecycles (Anjum et al, 2017).</p>
Cloud services integration	<p>A key success factor for blockchains in an enterprise is middleware – integration of blockchains with each other and with many other systems in real-time, using different technologies and communication protocols (Everest Group, 2016).</p>
CASE Tools	<p>Creation of software tools for smart contract languages. The implementation of Smart Contract Development Environments (SCDEs)–the blockchain-oriented declination of IDEs–might be pivotal for the building and diffusion of expertise (Porru, et al, 2017).</p>
Cost-effectiveness	<p>Therefore, blockchain-based cloud services must be highly cost-efficient, even while scaling up and wasting many computational resources (mining) by design (Swan, 2015).</p> <p>Not all blockchain projects result in a reduction of costs and blockchain is just one part of a complete solution (Robben & Verslype).</p>
Energy efficiency	<p>Blockchain mining draws an enormous amount of energy, estimated to be \$15m per day or even more, to compute and verify transactions securely and with trustworthiness (Swan, 2015). There have been some work and proposals to improve energy efficiency through economic models (Wang & Liu, 2015), more efficient block design (Paul et al, 2014) and faster Bitcoin mining through the simultaneous usage of CPUs and GPUs (Anish, 2014).</p>
Industry collaboration	<p>Blockchain will be successful if a strong community and value-creating network can be formed (Prasad et al, 2018). This will need shared solutions and shared solutions will require governance and consensus around technology choices. Industry leaders must collaborate to design the right solutions and should form consortia and work with regulators early on (McKinsey, 2015).</p>
Legislation – Regulatory clarity	<p>Regulatory clarity (or lack thereof) will decide whether the blockchain industry will develop into a full-fledged industry (or not). Multiple countries have banned or continued to deliberate cryptocurrency-related issues (Swan, 2015). Recently, the Union Budget of India 2018 declared cryptocurrencies to be illegal tender but supported exploration of blockchain technology (Mathur, 2018).</p> <p>Forthcoming regulation is likely to influence the future of blockchain as the technology can store substantial amounts of sensitive data, including payment information and customer data (Holotiuk & Moormann).</p>
Metrics	<p>Due to the distributed nature of the Blockchain, specific metrics are required to measure complexity, communication capability, resource consumption (e.g. the so-called gas in the Ethereum system), and overall performance of blockchain systems (Porru et al, 2017).</p>

Modelling languages	Diagrams such as the Use Case Diagram, Activity Diagram, and State Diagram could not effectively represent the blockchain environment (Porru et al, 2017). Currently, the industry is not providing sufficient use cases which present potential applications within the organization (Ølnes et al, 2017). Focus on the customer when designing use cases (Holotiuk & Moormann).
Organisational Structure	The successful adoption of blockchain requires a lot of organisational support in various forms. In all cases, the blockchain adoption is widely supported by the top management and considered important enough to invest in the adoption (Holotiuk & Moormann).
Privacy	There are studies to show experimental evidence on the lack of anonymity in the Bitcoin network and possibility to do transaction linking to IP addresses (Moser et al, 2013; Koshy et al, 2014; Feld et al, 2014). The success of the Estonian medical record blockchain project will depend upon its ability to keep medical records private while at the same time widely available to medical providers and insurance companies (Heston, 2017). Loss of privacy, trust and confidentiality (Bhargava et al, 2013).
Project management	The project management teams are responsible for organisational tasks concerning blockchain (Holotiuk & Moormann).
Rich ecosystem	Blockchains include several different types of participants as a business network, and its real value is achieved when these business networks grow (IBM, 2017).
Security	A Blockchain must guarantee data integrity and uniqueness to ensure Blockchain-based systems are trustworthy. The same group of authors, recommend software review as additional development methodology (Porru et al, 2017). Blockchain, especially public ones, has some potential security issues (Swan, 2015). An improved security perception will be a CSF of blockchain (Prasad et al, 2018; Riggins & Wamba, 2015).
Sidechain Development	Development of sidechains, alternative blockchains with additional features but still linked to Bitcoin, could be a CSF for the broader adoption of blockchain technology (Bogart & Rice, 2015).
Standardisation	Industry Standards will need to emerge for better enterprise adoption of blockchain technologies (Everest Group, 2016). There are many types of blockchain available on the market. Consequently, experts are unsure “if blockchain will become a standard in the banking industry.” (Ølnes et al, 2017).
Team skills	The Blockchain sector will need professional figures with a well-defined skills portfolio comprising finance, law, and technology expertise. Skilling up current resources and/or hiring blockchain skills will be a CSF for better returns on blockchain investments and, therefore, increased blockchain adoption (Porru et al, 2017). Enterprises will need a smart contracts talent pool that can connect legal text to business logic and convert that to a programmed smart contract on blockchain (Everest Group, 2016). An acute shortage of available talent for blockchain industry jobs has been reported as a major problem preventing wider growth and use of the technology (Castillo, 2017). Skilled experts in the area of blockchain that may fill existing knowledge gaps are currently expensive and rare in the market (Holotiuk & Moormann).
User control of data	User control on data will be an important driver for the success of blockchain-based cloud services, as that will help assuage user’s privacy concerns with a decentralized system with multiple (and potentially unverified) nodes (Bogart & Rice, 2015; Swan, 2015).
User engagement	User engagement is one of the primary success factors defining the success of blockchain technology (Prasad et al, 2018). Blockchain is still an emerging technology for most construction people. Lack of awareness and understanding prevents the diffusion of this technology. There are many issues to be resolved before individuals would feel comfortable storing their personal records in a decentralised manner with a pointer and possibly access via the blockchain (Wang et al, 2017).

3. CONCLUSION AND FURTHER RESEARCH

The currently available scientific literature on critical success factors for the software development projects can be compared to the list of CSF (critical success factors) authors created. Authors in the scientific literature did extensive analysis and created a scientific viewpoint on the subject of critical success factors for the project implementation (Sudhakar, 2012; Müller & Jugdev, 2012; Ram & Corkindale, 2014). G. Sudhakar (2012) in an extensive literature review identified 35 critical success factors based on the past empirical and theoretical studies that increase the project success. Software development and implementation CSF will be compared to the factors found in this research to detect the overlap of CSF related to blockchain and

CSF related to software development and implementation projects. The overlapping CSF is Architecture –Technology, Business model, Cost-effectiveness, Cloud services integration, Organisational structure, Project management, Team competence and User engagement. The rest of the factors are primarily associated with the blockchain technology as a factor. Blockchain specific CSF are as follows: Blockchain size – throughput, blockchain development and testing CASE Tools, Energy efficiency, Industry collaboration, Legislation – Regulatory clarity, Metrics, Modeling languages, Privacy, Rich ecosystem, Security, Sidechain Development, Standardization, User control of data.

In this work software, development and implementation are viewed holistically because of their inseparable nature (no software is developed not to be implemented, and successful implementation is the successful result for any software development project). The created list is just a literature review of the available literature and has no pretensions to be considered as final and whole. This list is a starting point for further research. Additionally, the research gathered results from many areas that contribute to smart city components, e.g. supply chains that contribute to the mobility of the smart cities but was also broadened by all other available resources related to the CSF of the blockchain projects.

Further research should tie blockchain CSF more tightly and specifically to the blockchain projects in the smart cities and also try to use the scientific method to extract knowledge from domain experts that are not researchers.

REFERENCES

- Anish, D.J. (2014), “Bitcoin mining acceleration and performance quantification”, IEEE 27th Canadian Conference on Electrical and Computer Engineering, pp. 1-6.
- Anjum, A., Sporny, M., & Sill, A. (2017). Blockchain standards for compliance and trust. IEEE Cloud Computing, 4(4), 84-90.
- Bhargava, B., Ranchal, R., & Ben Othmane, L. (2013). Secure information sharing in digital supply chains (pp. 1636–1640). Presented at the 3rd IEEE Int. Adv. Comput. Conf., IEEE. <https://doi.org/10.1109/IAdCC.2013.6514473>
- Bogart, S. and Rice, K. (2015), “The blockchain report: welcome to the internet of value”, available at [www.the-blockchain.com/docs/The%20Blockchain%20Report %20-%20Needham%20\(Huge%20report\).pdf](http://www.the-blockchain.com/docs/The%20Blockchain%20Report%20-%20Needham%20(Huge%20report).pdf)
- Castillo, M.d. (2017), “The lack of blockchain talent is becoming an industry concern”, available at: www.coindesk.com/blockchain-hiring-difficulties-becoming-industry-concern/ (accessed March 20, 2017).
- Everest Group (2016), “Smart contracts on a distributed ledger – life in the smart lane”, available at: www2.everestgrp.com/Files/previews/Smart%20Contracts%20on%20Distributed%20Ledger%20-%20Life%20in%20the%20Smart%20Lane.pdf
- Feld, S., Schnfeld, M. and Werner, M. (2014), “Analyzing the deployment of Bitcoin’s {P2P} network under an AS-level perspective”, *Procedia Computer Science*, Vol. 32, pp. 1121-1126.
- Goparaju Purna Sudhakar, (2012), „A model of critical success factors for software projects”, *Journal of Enterprise Information Management*, Vol. 25 Iss 6 pp. 537 – 558, Permanent link to this document: <http://dx.doi.org/10.1108/17410391211272829>
- Heston, T. (2017). A case study in blockchain healthcare innovation.
- Holotiuk, F., & Moormann, J. Dimensions, Success Factors and Obstacles of the Adoption of Blockchain Technology.

- IBM (2017), “IBM names three blockchain adoption principles essential for every CEO to consider”, available at www-03.ibm.com/press/us/en/pressrelease/52018.wss
- Innovalue, L.L. (2015), “Blockchain and financial services: industry snapshot and possible future developments”, available at www.the-blockchain.com/docs/Locke%20Lord%20%20Blockchain%20in%20Financial%20Services%202015.pdf
- Jiwat Ram, David Corkindale, (2014), „How “critical” are the critical success factors (CSFs)?: Examining the role of CSFs for ERP”, *Business Process Management Journal*, Vol. 20 Iss 1 pp. 151-174 <http://dx.doi.org/10.1108/BPMJ-11-2012-0127>
- Koshy, P., Koshy, D. and McDaniel, P. (2014), “An analysis of anonymity in Bitcoin using P2P network traffic”, in Christin, N. and Safavi-Naini, R. (Eds), *Financial Cryptography and Data Security. Lecture Notes in Computer Science*, Vol. 8437, Springer, Berlin, Heidelberg, pp. 469-485.
- Mathur, N. (2018), “Budget 2018: Arun Jaitley outlaws cryptocurrency”, available at www.live-mint.com/Politics/xmBDodP2H2hbXH7eV1VTqL/Budget-2018-Crypto-currencies-illegal-will-eliminate-their.html
- McKinsey (2015), “Beyond the hype: blockchains in capital markets”, available at www.mckinsey.com/industries/financial-services/our-insights/beyond-the-hype-blockchains-in-capital-markets
- Moser, M., Bohme, R. and Breuker, D. (2013), “An inquiry into money laundering tools in the Bitcoin ecosystem”, *eCrime Researchers Summit (eCRS)*, San Francisco, CA, pp. 1-14.
- Ølnes, S., Ubacht, J., & Janssen, M. (2017). *Blockchain in Government: Benefits and implications of distributed ledger technology for information sharing*.
- Paul, G., Sarkar, P. and Mukherjee, S. (2014), “Towards more democratic mining in Bitcoins”, in Prakash, A. and Shyamasundar, R. (Eds), *Information Systems Security. Lecture Notes in Computer Science*, Vol. 8880, Springer, Cham, pp. 185-203.
- Porru, S., Pinna, A., Marchesi, M., & Tonelli, R. (2017, May). *Blockchain-oriented software engineering: challenges and new directions*. In *2017 IEEE/ACM 39th International Conference on Software Engineering Companion (ICSE-C)* (pp. 169-171). IEEE
- Prasad, S., Shankar, R., Gupta, R., & Roy, S. (2018). *A TISM modelling of critical success factors of blockchain-based cloud services*. *Journal of Advances in Management Research*.
- Ralf Müller, Kam Jugdev, (2012), „Critical success factors in projects: Pinto, Slevin, and Prescott – the elucidation of project success”, *International Journal of Managing Projects in Business*, Vol. 5 Iss 4 pp.757-775 <http://dx.doi.org/10.1108/17538371211269040>
- Riggins, F. J., & Wamba, S. F. (2015). *Research Directions on the Adoption, Usage, and Impact of the Internet of Things through the Use of Big Data Analytics* (pp. 1531–1540). IEEE. <https://doi.org/10.1109/HICSS.2015.186>
- Robben, F., & Verslype, K. *Blockchain: concept, critical success factors and possibilities in the food chain*.
- Schatsky, D. and Muraskin, C. (2015), “Beyond Bitcoin: Blockchain is coming to disrupt your industry”, available at <https://dupress.deloitte.com/dup-us-en/focus/signals-for-strategists/trends-blockchain-bitcoin-security-transparency.html#endnote-30>
- Swan, M. (2015), *Blockchain: Blueprint for a New Economy*, O’Reilly, Sebastopol, CA.
- Wang, J., Wu, P., Wang, X., & Shou, W. (2017). *The outlook of blockchain technology for construction engineering management*. *Frontiers of engineering management*, 67-75.
- Wang, L. and Liu, Y. (2015), “Exploring miner evolution in Bitcoin network”, in Mirkovic, J. and Liu, Y. (Eds), *Passive and Active Measurement. Lecture Notes in Computer Science*, Vol. 8995, Springer, Cham, pp. 290-302.

WOMAN ENTREPRENEURSHIP

Ana Vukičević¹ 

Anja Celić² 

DOI: <https://doi.org/10.31410/LIMEN.2019.135>

Abstract: *It is impossible to define entrepreneurship by one unique definition so there are numerous definitions that are trying to explain this complex phenomenon. Since defining woman entrepreneurship is based on gender determination it is fair to define it as entrepreneurship' woman activity. With the development of democratic society, woman enter the world of entrepreneurship in developed countries and start equal competitiveness with men in entrepreneurship business after the emergence of centers for woman education where they are specialized in marketing, finance, strategic development and management sector. Democratic and developed urban areas, with developed economies, contribute to woman entrepreneurship aware of its direct impacts on positive economy development on national level. This paper is concerned with structural obstacles that include education choices, traditional view and stereotypes about woman role in society. Moreover, this paper is concerned with economy obstacles together with "soft" obstacles that include lack of access to technical, scientific and general business networks as well as lack of business training for woman.*

Keywords: *Entrepreneurship, Woman entrepreneurship, Innovations.*

1. INTRODUCTION

Entrepreneurship has been recognized as a vital part for purposive economy system. Small, medium and large entrepreneurs create more workplace; they increase the level of export and create more innovations. With the emancipations as well as gender equalizations, woman entrepreneurship is recognized as an alluring business choice. However, there are still specific obstacles specific to woman entrepreneurs. Traditional view of woman role in society still define the decision of woman education choices. Woman are perceived as less prone to risk and hard to balance personal with professional life due to the long hours that most of new innovative entrepreneurs need to be prepared for. Moreover, woman found it difficult to access finance for starting a business than a man. By eliminating these obstacles, possibilities open for increasing the potential and innovative creativity for woman. Woman leadership can facilitate in economy growth, overall economy development and help boost the workplace.

This paper is concerned with structural, economy and soft obstacles of woman entrepreneurship. The chapters in this paper are divided in four sections. After the introduction, the authors specify woman entrepreneurship in depth. The third section is concerned with the woman entrepreneurship in Europe and author provide newest statistical data on woman leadership and innovations. The fourth chapter, the conclusion, summarizes the whole findings and gives propositions for further research.

¹ University of Applied Science in Šibenik, Trg Andrije Hebranga 11, 22 000 Šibenik, Croatia

² Stjepana Radića 72, 22 000 Šibenik, Croatia

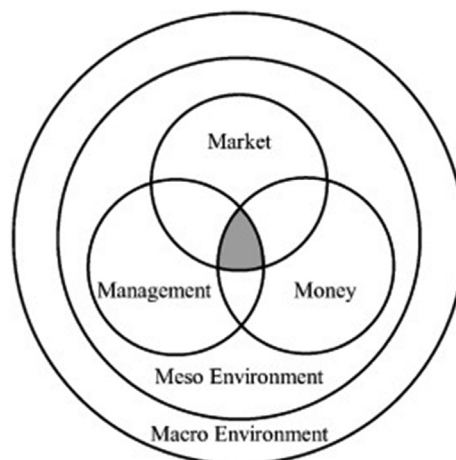
2. WOMEN ENTREPRENEURSHIP SPECIFICATIONS

Entrepreneurship can be defined as a possibility of creation from nothing, and with that definition, woman entrepreneur is a person that in that process needs to recognize a chance, ensures the creating and division of new value, takes a risk of money, time and reputation in order to accomplish a goal. There is no clear scientific relation that could explain the smaller amount and impact of women in business world since there are numerous reasons coming from stereotypes and values of a society, culture differences and defined opportunities in business world that are more suitable to man than to woman who are combining business obligations with motherly obligations. Woman entrepreneur do not accept a raw form of business and in economy based on profit they bring an orientation toward emotions, satisfaction and accomplishment beyond the frames defined by business itself (Batošić, 2018).

The first article on the subject of woman entrepreneurship was published by the author Eleanor Brantley Schwartz titled “Entrepreneurship, a New Female Frontier”. In that article, the author comes to conclusion that woman as well as men, are led by same motives for becoming an entrepreneur: desire for accomplishment, business satisfaction and independence. Since that article has been more than 40 years, the interest of the academic and business community for this specific phenomena does not decrease. Research all around the world emphasize the fact that entrepreneurship business started by woman are important not only for gender equality but for entrepreneurship activity overall and for new jobs opening (Ivanković et al., 2016).

Some of the women entrepreneurship’ characteristics can be described as following: (Marković, 2017)

- Work place opened by woman entrepreneur is more secure since woman business are smaller
- Women entrepreneurs take more of employees, quality and human relationship
- Woman entrepreneurs are more supportive in their ambitions
- They measure success not only by profit, but also with customer satisfaction, development of employee capabilities and good employee relationship
- Women are more prepared for team work, they take care more of organization’ success than they personal ego
- Woman are more careful when it comes to taking loans and by taking any professional risk



Picture 1. 5M of woman entrepreneurship

Source: Brush & Welter, 2009., p. 13.

The picture 1. shows Venns' diagram that clarifies the entrepreneurship activity through 5M organization. To launch certain entrepreneurship activity, three factors are required: market, money and management, but for woman entrepreneurship, the addition of two more factors is required: motherhood and meso and macro environment. Motherhood is the factor on which all other circles overlap - it is a metaphor that represents the contexts of family and household, defines woman position and symbolizes the meaning of gender awareness (Zirdum & Cvitanović, 2017, according to Brush et al., 2009).

Globalization, rapid technology development and changes in society together with gender equalization have direct impact on development of business creativeness and entrepreneurs' potentials for woman in managing individual businesses and management functions (Zirdum & Cvitanović, 2017).

3. OBSTACLES AND CHALLENGES OF WOMAN ENTREPRENEURSHIP

The main obstacles of woman entrepreneurship can be defined as following: (Ivanković et al., 2016)

- social obstacles- lack of self-confidence, lack of vision and aspiration, lack of confidence and risk taking activities;
- education and skills – lack of proper education and skills required in entrepreneurship;
- financial obstacles – lack of initial capital and other forms of financing, insufficient information concerning possibilities of state financial aid for new entrepreneurs, inadequate bank relationship toward entrepreneurs, low offer of entrepreneurship capital for starting a business.

Moreover, woman entrepreneurs still have to overcome the difficulties connected with gender prejudice from the past together with society inequality that is still present. Main challenge in discrimination problem should be handled by legislative power since the problem is among small and medium organizations. The legislative power should be responsible for implementation of state strategies that will solve problems of gender inequality more effectively. These strategies should include different society manners, empower woman employment and self-employment and create programs that will resolve problems of woman entrepreneurship. These programs should ensure more just or equal ways of woman employment in business organizations (Gosarić, 2016., according to Kolaković, 2006).

Key problems of woman entrepreneurship are: (Batošić, 2018)

- considerable under- representation in entrepreneurship activities
- considerable under- representation in employment
- lower pays in doing the same or similar jobs as men
- considerable domination in unemployment
- considerable management under-representation
- considerable under-representation in ownership structure of an organization
- disconnection of activities for empowering woman business
- insufficient coordination and cooperation among implementation of public politics, programs and initiatives that contribute development of woman entrepreneurship
- insufficient statistical data based on gender.

When starting a business woman entrepreneurs are faced with more obstacles than men. There are still present the imposed perceptions and choices that woman have in making a decision

about education and these choices determines their possibilities in future concerning employment. Humble choice and orientation toward certain activities and occupation leads to limitations in business activities in technological intense industry. Beside the stereotype how woman does not fit in business world, there are stereotypes about woman in science concerning the technology. Woman are marked with stereotypes concerning other possibilities since the belief is that woman are limited by time and effort needed for starting a business due to the role of mother and house keeper. Stereotypes and limitations are present not only in financing woman entrepreneurship but also in assistance and in mentoring. All of mentioned led to distorted woman's perceptions about themselves that led to lack of self-esteem and capacity for risk taking (Batošić, 2018).

It is more than interesting to look of some facts that determine the increase of woman activities in entrepreneurship. First characteristic is the fact that comes for different attitude toward genders. Second characteristic is concerned with specific entrepreneurship behavior for different countries. Moreover, strong impact on woman entrepreneurship has democratic and family structured the level of development in countries. In undeveloped countries, the increase of number of population is proportionally increased with the growth of entrepreneurship activities in both genders that is determined by growth of entrepreneurship opportunities and growth of total customer demand. Thereupon, the competition grows as the opportunities for self-employment. Besides, the discursion involves the differences in birthrate rate so in developed countries there is increase of number of non-married woman while in countries in development it decreases in woman activates in entrepreneurship is expected (Marković, 2017).

4. WOMAN ENTREPRENEURS IN EUROPE

In the research led by European Commission (European Commission, 2014, 15/12, Statistical Data of Women Entrepreneurs in Europe) that included 37 countries, from which included 28 countries of EU and also Albania, Macedonia, Island, Israel, Turkey, Lichtenstein, Montenegro and Serbia. The research had shown that in 2012 in Europe – 37, there was 40,6 million of active entrepreneurs; 29 % of them where woman. The country with the highest rate of woman in entrepreneurship activities was Lichtenstein with 43%, followed by Latvia, Luxemburg, Portugal and Croatia with 37%. The lowest rate of woman entrepreneurship in 2012 was in Turkey (15%).

Most of the men and woman in Europe-37 were solo entrepreneurs – 78 % of woman were solo entrepreneurs, and 22 % where employing others as well. In Europe – 37, woman entrepreneurs chose following activities: health care activities and social work activities (60%), education (55%), only 21 % of woman were in manufacturing industry; 21 % in communication and technology activities; and only 3% in construction.

Based on research, 59 % of woman entrepreneurs were in age rate from 25-49, 32 % of them in age rate from 50-64, 6 % older than 65, and only 3 % of them from 15-24. In the most countries in Europe – 37 woman entrepreneurs were more educated than men entrepreneurs, and the average education level were among woman entrepreneurs in Estonia, Ireland, Belgium, Germany and Luxemburg. The lowest education level, based on this research, was in Turkey, Portugal, Romania, Albania and Croatia (Zirdum & Cvitanović, 2017)

5. CONCLUSION

With more educational options and training programs, woman entrepreneurship has become one of the leading force for economy of developed countries. However, women still face with stereotypes that slows their career success and discourage them in taking innovative actions. There is a need for most component leaders on leading positions, whether in business arena or in society, and the factor such as gender cannot be perceived as a defect or as an advantage. Society cannot prosper without joined participation of men and women in economy decision making.

The future research should involve the assessment of the active measures such as positive discrimination and measures related to gender equalization in countries that apply these measures. Moreover, it would be interesting to research how these measurements have infected women entrepreneurship.

REFERENCES

- Batošić, S. (2018). *Žene u poduzetništvu u Republici Hrvatskoj*, Sveučilište u Splitu, Split, pp. 1-48.
- Gosarić, I. (2016). *Povijesni razvoj poduzetništva na primjeru ženskog poduzetništva*, Sveučilište Sjever, Varaždin, pp. 1-65.
- Ivanković, D., Kulenović, Ž., & Sudarić, Ž. (2016). *Žensko poduzetništvo i poduzetnička aktivnost žena u Republici Hrvatskoj*, International scientific conference ERAZ 2016, Beograd, pp. 576-582.
- Marković, I. (2017). *Žene u poduzetništvu – izazovi i ograničenja*, Split, Sveučilište u Splitu, pp.1-44.
- Zirdum, G. & Cvitanović, V. (2017). *Prepreke i mogućnosti razvoja ženskog poduzetništva u RH*, Obrazovanje za poduzetništvo, Zagreb., pp. 201-220.

POLITICAL “IDEALISTIC” LEADERSHIP AND THE RULE OF LAW

Larisa Vasileska¹ 

DOI: <https://doi.org/10.31410/LIMEN.2019.141>

Abstract: *One of the most difficult concepts to define and give universal definition certainly is the concept of “leadership,” because it is applicable in every aspect of our life. The orthodox meaning of leadership is “for individual within a group to lead and others to follow.” However, here it addresses the dilemma of where, exactly the quality of the “leader” or the “leadership” resides. Is it morality important for leadership? What about the concept of “ethical consciousness” of a leader? Almost every politician we hear today regularly extols the rule of law. However, what does the rule of law actually mean? We need leaders who better understand the rule of law. This paper will try to find answers to very thorny question: If we define leadership as value-based virtue, which values matter most? In addition, how do we deal with the most sensitive decisions made by governments, which are currently incompatible with the definitions of the rule of law and international law.*

Keywords: *Political leadership, Idealistic leadership, Morality, Ethics, Rule of law.*

1. INTRODUCTION

The great Nelson Mandela said that, “A leader is like a shepherd. He stays behind the flock, letting the most nimble go out ahead, whereupon the others follow, not realizing that all along that they are being directed from behind.”

Leadership is one of the most widely studied topics today. Authors are constantly publishing articles and books attempting to tackle the numerous variables associated with “successful leadership.”(Waggoner, 2010)

In the existing literature, leadership is defined in so many different ways that it is hard to come up with a single working definition. With the changing times, the definition of leadership is also changing. In a democratic society a leader is no more seen as a powerful or an influential person telling people what to do and what not to. But, in a country where there is no rule of law, it seems that the leaders, and in this case political leaders, are still influential and sometimes it seems that they have magical “powers” with “idealistic” believes to “hypnotize” people and make them believe in the things that they are saying, because those things are the “best” for them as citizens and for the whole country.

The purpose of this paper is to shed light on the construct of ethical and idealistic political leadership by reviewing the relevant literature. The aim of the paper include providing definitions of leadership, ethical values and describing ethical political leader’s personality.

Leaders in my opinion should operate outside the boundaries of organizationally defined procedures. As the great Sun Tzu in his *The Art of War* wrote: „Don’t follow where the pathway goes, lead instead where there is no path and leave a trail.” Leadership should involve risk and

¹ University „St. Kliment Ohridski” - Bitola, FTU - Ohrid, Kej Makedonija br.95, Republic of North Macedonia

uncertainty, and the reality of leadership always requires that someone should accept the risk as a part of their job, when acting outside the prescribed procedures. But one should always act according to the rule of law and never forget the moral and ethical values.

It is said that “part of what makes humans unique is our freedom to determine how we’ll act.” Thomas Aquinas, Italian philosopher from 1265-1274 in his work “*Summa theologiae*” wrote: “that our conscience emerged from *synderesis* which means the ‘spark of conscience’. He literally meant that the human mind has the ability to understand the world in moral terms. Conscience was the process by which a person brought the principles of *synderesis* into a practical situation through our own decisions. We have the ability to make practical decision in light of ethical values and principles” (The Ethical Centre, 2017)

On the other hand, in Aristotelian ethics, Aristotle (384-322 B.C.E.) is using the word “*phronesis*”, which is an ancient Greek word for a type of wisdom or intelligence, type of wisdom relevant to a good judgment. Or literal meaning “the goodness of practical reason”, or the ability to evaluate the situation clearly, so we would know how to act virtuously under the given circumstances. Science says that our conscience is formed or shaped by experience or by education and through that we are aware of the facts, evidence and circumstances which enables us to act accordingly. “Seeing conscience in this way is important because it teaches us that ethics is not innate. By continuously working to understand our surroundings, we strengthen our moral muscle.” (The Ethical Centre, 2017)

Aristotle in his best-known work on ethics, “*Nicomachean Ethics*” is emphasizing the role of habit in conduct. According to Aristotle, it is commonly thought that virtues, “are habits and that the good life is a life of mindless routine.” Aristotle also uses the word “*hexis*” to indicate the moral virtue.

Most of the political debates nowadays, are linked to conscientious objection, to the objections on moral or religious grounds or objections for reasons of conscience complying with a particular requirements. It seems that all of us would like to have an answer to the many questions that we constantly ask ourselves, for instance: “Should pro-life doctors be required to perform abortions or refer patients to doctors who will? Must priests break the confessional seal and report sex offenders who confess to them?” Most of the Western nations, believed in the idea that a person should never be forced to do something that is against their deeply held values and principle, or simply described as the “*primacy of conscience*”. (The Ethical Centre, 2017)

Perhaps the subtlest, and therefore most elusive, dimension of leadership concerns values. For some, the word „leadership” is a totally value-neutral term. Anyone who influences others is a leader regardless of whether the impact is positive or negative. As educator Parker Palmer has noted, „a leader is someone with the power to project shadow or light onto the world around him. The result can be a world as light-filled as heaven or as shadowy as hell”. (Palmer, 2000)

A leader with an understanding of ethics, a history of ethical decision-making and the ability to develop and execute plans of action shows stability, empathy, integrity and resolve. All of these traits shown in a leader’s track record will infuse a greater sense of trust within followers.

Jessica Waggoner in her thesis “„Ethics and Leadership: How Personal Ethics Produce Effective Leaders” states that: “Without good ethics it is extremely difficult for a leader to develop

integrity, authenticity, an identity or other traits that produce effective leadership. Without these characteristics it is impossible for a leader to develop trust. Without the glue of leadership it is very unlikely a leader will be effective. As you can see, good personal ethics are the backbone of effective leadership. “(Waggoner, 2010)

Piter Van Lockem (2017) in his paper “Legislation against the rule of law – an Introduction” writes that the “rule of law seems an important as well as a vulnerable rule. The importance depends on whether one prescribes a thick or thin definition of the rule of law. Even in a thin concept, according to which the rule of law implies foremost that the actions of government officials and those of citizens are bound by the law, the rule of law is of great significance.”

The most important requirement made by the international donor-institution and European Union, for the countries that want to join the Union is implementing the rule of law. This requirement from the European foreign policy makes the rule of law an export product and has a negative implications for the countries that need to implement the rule of law and leaves hardly any room for democratic participation in the rule making. “This policy not only undermines democracy in the receiving countries, but undermines the development of the rule of law as well, because of not having a legislation process by which governments and citizens bind each other in a mutual and reciprocal context.” (van Lochem, 2017).

In failed states it is even common to ignore the rule of law. However, unfortunately, it seems that nowadays, there is a growing tendency political leaders of the countries that are considered to be on the top of the rule of law list and countries that are governed by the rule of law, to make questionable statements about the rule of law. From their statements we can conclude that they actually don’t understand the true meaning of the rule of law. Here are quote parts of actual statements from the US political leaders indicating: “‘disdain for the rule of law’, ‘assaulting the rule of law’ or even ‘mobilizing for war against the rule of law’”. Political leaders from US are not the only ones giving contradictory statements. Media in the European countries, the ones that have so many requirement for others on the concept of the rule of law, has recorded statements by the EU political leaders “prepared to limit or even act against the rule of law.” (van Lochem, 2017).

One of the cases that is argued every day in the media is the decision of the Macedonian government in changing the name of the country. A referendum was held in the Republic of Macedonia on 30 September 2018, with voters asked whether they support EU and NATO membership by accepting the agreement struck between the Republic of Macedonia and Greece in June 2018. A referendum to change the name of Macedonia failed to secure the 50 percent turnout required to make the vote valid, with registered voter turnout of 36.8%.

The Universal Declaration of Human Rights recognized that “everyone has the right to take part in the government of their country”, and that “the will of the people shall be the basis of the authority of government.” The citizens of Macedonia did not give authority to the Macedonian Government to change their country’s name and identity. Notwithstanding the will of the people expressed in the failed referendum still, the international community and our government are pushing for implementation of the Prespa Agreement. So where is the rule of law in all of this? Where are the moral and ethical values that governments from European Union are pushing? According to European Parliament website, the European Union’s fundamental values are respect for human dignity and human rights, freedom, democracy, equality and the rule of law.

These values unite all the member states – no country that does not recognize these values can belong to the Union.

The name of Macedonia was changed with a promise of a better future, and without regard to the enormous expense to the nation of creating a new, semi-sovereign country, with a new name and a new internal and international legal identity.

But, maybe the world leaders that are pushing the implementation of the Prespa Agreement have forgotten the legal maxim “*Lex iniusta non est lex*” originating with St. Augustine and used by St. Tomas Aquinas, “an unjust law is no law at all”.

2. POLITICAL IDEALISTIC LEADERSHIP VERSUS PRAGMATIC POLITICAL LEADERSHIP

According to vocabulary.com. “An idealist is someone who envisions an ideal world rather than the real one. Some people consider idealists to be naive, impractical, and out of touch with reality. Idealists think that striving for perfection makes the world a better place. In the article in Forbes woman, by Susan Gunelius, where she argues which leader is better -- a pragmatic, realistic leader or an idealistic, visionary leader, she gives very interesting definition. She writes that the idealistic leaders are actually visionary thinkers. “They focus on the big ideas and end results with less concern with the steps to get there. Therefore, they can be accused of looking through rose-colored glasses when, in fact, they simply “see” the end goal and truly believe there is a way to get there.” (Gunelius, 2010)

Antonym of idealist is pragmatist. According to vocabulary.com “a pragmatist is someone who is practical and focused on reaching a goal. A pragmatist usually has a straightforward, matter-of-fact approach and doesn’t let emotion distract him. A pragmatist can also *ignore her own ideals to get the job done*, so in this way it can have a slightly negative meaning. The word is often used in reference to politicians to mean that they are either sensible or willing to cut corners for their cause.” (vocabulary.com) So it seems that most of the political leaders in the world politics are not idealist, but pragmatist leaders and they only focus on the processes behind any task, initiative, or goal with a main priority just to figure out how the team is going to get things done. Without any concern of the rule of law, ethics or moral values.

As we emphasized before, being ethical is about playing fair, thinking of others and thinking about consequences of one’s actions. Ethical leaders think about long-term consequences, drawback and benefits of their decisions. For the sake of being true to their own values and beliefs, they are prepared to compete in a difference battle, (Mihelic et al, 2010) in our case on the political arena, where the imperative is: Do what is right.

The criteria relevant for judging ethical behavior of a leader include individual values, conscious intentions, freedom of choice, stage of moral development, types of influence used, and use of ethical as well as unethical behavior (G. Yukl, 2006).

Up until now, we agreed on defining leadership as value-based virtue. Professor Donald G. Zaunderer compares ethical versus unethical leaders and states some of the characteristic behaviors/values of ethical political leader and unethical political leader.

Characteristic behavior of the <i>Ethical Leader</i>	Characteristic behavior of the <i>Unethical Leader</i>
“humble person, maintains concern for the greater good, is honest and straightforward, fulfill commitments, shows respect for each individual, encourages and develops others, shows courage to stand up for what is right.”	“arrogant and self-serving, excessively promotes self-interest, practices deception, breaches agreements, deals unfairly, shifts blame to others, diminishes others’ dignity, withholds help and support, lacks courage to confront unjust acts.”

Source: Based on Donald G. Zauderer in his paper “Integrity: An Essential Executive Quality,” *Business Forum*, (Fall 92), pp. 12-16

Values are general principles that guide action. Values are not actions, they are codes which underlie the sanctions or punishments for some choices of behavior and rewards for other. Throughout history values have sparked interest of many researchers in various sciences. (Mihelic et al, 2010). According to Dolan et al (2006), ethical moral values refer to forms of conduct that one has to live by in order to reach desired outcomes in the form of final values.

Stephen Covey is an author on leadership that popularizes the notion that leadership inherently involves core values, or principles, that inform the leader’s actions. According to him, the most effective leaders are, first models of what he calls principle-centered leadership. „They have come to realize that we’re all subject to natural laws or governing principles, which operate regardless of our awareness of them or our obedience to them. Our effectiveness is predicated upon alignment with these inviolable principles -- natural laws in the human dimension that are just as real, just as unchanging, as laws such as gravity are in the physical dimension. These principles are woven into the fabric of every civilized society and constitute the roots of every organization that has endured.” (Convey, 1996)

3. CONCLUSION

The art of leading others come from the art of leading oneself
Philippe Daudi

The widespread fascination with leadership may be because of the impact that leadership has on everyone’s life. Leadership is one of the most discussed topics today. Authors are constantly writing articles trying to find the perfect answer to what is a “successful political leadership.”

The degree of ethics in leadership is determined by relevant argumentation and debates. Ethics of politics focuses on the relationship between politics and morality. The politics itself cannot be exempt from morality, moral standards and principles. We should all agree with the opinion that ethics of politics has to focus both on ethics of political virtues (justice, wisdom, conscience, law, responsibility, and obligation) and also on ethics of political institutions (moral aspects of progress, international politics ethics).

We must conclude that, good political leadership “must include strong morals and be effective at the same time because a leader’s role is to utilize tension and conflict within people’s value systems and play the role of raising people’s consciousness”. In conclusion, if political leaders understand the importance of ethics and ethical behavior that can positively affect leadership and when the above mentioned virtues are a priority for leaders, it will result or produce ethical and effective leadership.

REFERENCES

- Aristotle, Joe Sachs (trans.). (2002). *Nicomachean Ethics*, Focus Philosophical Library, Pullins Press
- Burns, J. M. (1978). *Leadership*. New York: Free Press.
- Covey, Stephen R. (1996). „Three Roles of the Leader in the New Paradigm” in Hesselbein, F., Goldsmith, M., and Beckhard, R. *The Leader of the Future*. New York: Drucker Foundation, pg. 151
- Dolan, S. L., Garcia, S., & Richley, B. (2006). *Managing by values; A corporate guide to living, being alive and making a living in the 21st century*. New York: Palgrave Macmillian.
- Gerzon., Mark. (2003). *Leaders and Leadership*, Retrieved from <https://www.beyondintractability.org/essay/leaders#narrow-body>
- Gunelius, Susan (2010). *Are You a Pragmatic or Idealist Leader?* Forbes Woman, Retrieved from <https://www.forbes.com/sites/work-in-progress/2010/04/15/are-you-a-pragmatic-or-idealist-leader/#41420fec3e67>
- Mihelič, Katarina Katja, Lipičnik, Bogdan & Tekavčič, Metka (2010). *Ethical Leadership*, International Journal of Management & Information Systems – Fourth Quarter 2010, Volume 14, Number 5
- Palmer, Parker. (2000). *Let Your Life Speak*. San Francisco: Jossey Bass
- The Ethics Center: Ethics Explainer: Conscience, Retrieved from <https://ethics.org.au/ethics-explainer-conscience/>
- Van Lochem, Peter (2017) *Legislation against the rule of law – an introduction*, *The Theory and Practice of Legislation*, 5:2, 95-100, DOI: 10.1080/20508840.2017.1387729
- Waggoner, Jessica. (2010). „Ethics and Leadership: How Personal Ethics Produce Effective Leaders”, CMC Senior Theses. Paper 26. http://scholarship.claremont.edu/cmc_theses/26
- Yukl, G. (2006). *Leadership in organizations*, 6th edition. New Jersey: Pearson Prentice Hall Upper Saddle River, NJ.
- Zauderer, Donald G. (1992). *Integrity: An essential executive quality*, *Business Forum*; Fall 92, Vol. 17 Issue 4, p.12

STRATEGIC DEFENCE IMPLICATIONS OF HAZARDOUS MATERIAL TRANSPORT

Mohamed Alhudaiddi¹

Damir Ilic² 

Marko Gnjatovic³ 

DOI: <https://doi.org/10.31410/LIMEN.2019.147>

Abstract: *The topic of hazardous material management and transport, especially nuclear waste, is gaining even more importance in theoretical and professional research, as well as in the everyday life in the EU countries, since the awareness of environmental protection and safety is on the rise. Nevertheless, the implications of transport of nuclear waste are an increasing concern of other European countries (non EU), especially in the Balkans. Furthermore, this topic has significant political and security implications on the global level, since nuclear waste storage and transport is prone to potential terrorist attacks. This paper analyses current approaches to nuclear waste management and transport in terms of its influence on the global security and proposes a model for transportation cycle that has implications on the security of the EU countries and the Balkan, non EU, countries.*

Keywords: *Radioactive material, Transportation risk model, Nuclear waste management.*

1. INTRODUCTION

The concept of radioactive waste management has been successfully applied to the industry and it is an integral part of national waste management strategies worldwide since the mid-20th century. According to the International Atomic Energy Agency (IAEA), radioactive waste means „any material that contains or is contaminated by radionuclides at concentrations or radioactivity levels greater than the exempted quantities established by the competent authorities and for which no use is foreseen” (1995: p. 3). The effective management of radioactive waste includes a various range of activities from handling, treatment, conditioning, transport, storage and disposal (Saling, 2018). Nuclear and radioactive waste are generally recognized as a pertinent factor that directly threatens the air, soil, surface and groundwater, human health and other living organisms.

Developed industrial countries and international organizations have performed researches that have produced a huge number of rules and principles governing the functioning of the radioactive waste management system. In order to mitigate the unintended consequences of nuclear waste, a wide range of measures are in place during the manipulation with waste, especially in the process of waste transportation. The question has emerged whether the success achieved by radioactive waste management in the developed countries, could be successfully applied (with the different approach) in the developing countries. The revision and adoption of the new law in 2019 is an important step for Serbia towards strengthening the domestic legal framework as well as striving to harmonize regulations with the EU. Additionally, in order to arrange the

¹ University „Union - Nikola Tesla“, School of Engineering Management, Bulevar vojvode Misica 43, 11000 Belgrade, Serbia

² University „Union - Nikola Tesla“, School of Engineering Management, Bulevar vojvode Misica 43, 11000 Belgrade, Serbia

³ University „Union - Nikola Tesla“, School of Engineering Management, Bulevar vojvode Misica 43, 11000 Belgrade, Serbia

nuclear and radiation protection system as a whole, several strategies are foreseen in the future, including the Strategy for spent fuel and radioactive waste management.⁴

The goal of this paper is to analyse existing literature on the topic of nuclear and radioactive waste management, analyse the perception of the participants in the different scientific and practical fields regarding to transportation risk management (TRM), and to develop a model of excellence for TRM in line with the future Strategy for spent fuel and radioactive waste management in the Republic of Serbia.

2. THE NATURE OF NUCLEAR WASTE TRANSPORTATION RISK

For the domestic purposes, when it comes to nuclear waste, two terms are relevant and have to be explained. First, according to national Law on Radiation Protection and on Nuclear Safety (Official Gazette RS, 95/2018, 10/2019), spent nuclear fuel (SNF) “is nuclear fuel that is irradiated into, and permanently removed from the nucleus of a nuclear reactor” (Art. 5). Secondly, the radioactive waste (RW) is defined as “radioactive material in a gaseous, liquid or solid state whose further use is not planned or intended” (Art. 5).

According to the standards for risk management established by the International Organization for Standardization, risk is determined as the result of two factors - the consequences produced by materialized hazard and the likelihood of its occurrence (ISO, 2018). In the transportation process, a risk analysis should answer the question: what is the degree of probability that the emerging hazard will produce an unintended consequences on the values acquired, such as life and human health, material goods and the environment?

The transport of radioactive materials is carried out in almost every phase of the nuclear fuel cycle, from mining to disposal (Wilson, 1996). It is important to underline that transport does not only include nuclear fuel but also includes the transport of other types of radioactive waste generated in medicine, industry or from scientific waste generators. Transportation of nuclear and radioactive waste is an important process in the overall waste management system. The term „transport” in this sense means the transport of radioactive material from the place of its generation to the place which is provisionally envisaged for further operations for material manipulation or the final place for its disposal. Consequently, it is important to point out that there are different types of radioactive waste. Various nuclear waste taxonomies can be found in literature. Classification nomenclature for nuclear waste can distinguish waste in terms of three different features (Besnard et al., 2019):

- Through the level of radioactivity: low, intermediate and high
- Through the period of radioactive decay: short-lived and long-lived
- Through the management option: type of storage/disposal facility.

The International Atomic Energy Agency (IAEA) with its General Safety Guide on the Classification of Radioactive Waste offers an extensive basis of classification. This approach is widespread in use especially among countries that do not have higher-level nuclear waste generators (Schneider & Froggatt, 2018). Radioactive waste is typically categorized as either low-level (LLW), intermediate-level (ILW), or high-level (HLW), dependent on the level of its radioactivity. Each has its own characteristics and we will represent the IAEA taxonomy and description in

⁴ The other strategies that have to be adopted are: Radiation and nuclear safety strategy, Radiation and nuclear security strategy, and Existing exposure management strategy.

this regard (Table 1). For each waste type, there are defined recommendations, procedures, and safety standards to minimize the level of unintended consequences (IAEA, 2018). For example, transporting a small amount of HLW requires a higher level of safety procedures than transporting a larger quantity of LLW. So, the type of waste will depend on how it is transported.

Table 1. Waste classes defined by the IAEA

Waste class	Typical characteristics
Short-lived low/intermediate-level waste (L/ILW-SL)	Restricted long-lived radionuclide concentrations, e.g. long-lived α -emitters average <400 Bq/g or 4000 Bq/g maximum per package
Long-lived low/intermediate-level waste (L/ILW-LL)	Long-lived radionuclide concentrations exceeding limitations for short-lived wastes
High-level waste (HLW)	Thermal power greater than about 2 kW/m ³ and long-lived radionuclide concentrations exceeding limitations for short-lived wastes (includes spent fuel and High-level waste)

Source: Adapted from IAEA, (2009: 5-7).

In its extensive historical research of transport incidents, Connolly & Pope have concluded that the three main incident's categories are: radioactive contamination on the surface of the casks or the transport vehicles, accidents in transportation route, and the Incidents caused by public protests (2016). Contamination may result from the use of inadequate transportation equipment (inadequate type of casks) or as a result of damage to casks. Therefore, as one of the mandatory preventive measures before and during the transport, the radiation level is measured at 1 meter from the transport vehicle (Gelder & Shaw, 2000). Accidents in transportation routes are very difficult to predict and eliminate due to a large number of factors that may vary. Population density, traffic infrastructure level, traffic density, time of day, weather conditions, etc. can cumulatively affect the degree of onset of the consequences. There are many risk management options, most of them combining different strategies and tools. In order to include different types of variables in the analysis, the authors formulate complex models for risk analysis structured as a decision support system using intelligent maps and a variety of GIS (Gheorghe et al., 2005; Tena-Chollet et al., 2013). Another model is the use of game theory for route planning (Bell, 2007; Reilly et al. 2012), or the use of composite risk assessment systems like RADTRAN (Kros & Weiner, 2013; Weiner, 2013; Choi et al., 2020). When it comes to incidents caused by public protests, it should be emphasized that they were not due to the direct unintended consequences of radioactive contamination but because of animosity and negative perceptions of radiation, nuclear energy in general, or even because of radiophobia (Connolly & Pope, 2016; Kesavan, 2017). However, they affect the transport of materials by disabling the normal transportation process, delaying it and making the whole process more expensive. Other consequences may also arise which have the most severe effects in terms of public order and safety, such as multiple injuries and extensive material damage during the 2010 riots in Germany (Weaver, 2010).

The main security concern about the radioactive and nuclear waste management is due to the natural characteristics of waste - radioactivity. This means that the waste cannot be completely destroyed as other types of waste such as biological, medical or other waste. Consequently, the waste treatment technology is actually about translating the waste into a form that meets the safety requirements and into a form that is suitable for the final disposal (Oh, 2001). Waste management procedures should be carried out in such a way as to take care of the people who manage the waste, the population, material assets and the environment. According to Zhang et al. (2000), there are different ways for risk valuation, and in they represented seven different models. Erkut et al. (2007) proposed the model

which is established on quantitative risk assessment method, and contains three phases: hazard and exposed receptor identification, frequency analysis, and consequence modelling and risk calculation. However, the risk can be enlightened in more comprehensive approach. International Organization for Standardization proposed the risk management model which is established on both quantitative and qualitative risk assessment method and contains several phases: communication, establishing the context, risk assessment, risk treatment, and monitoring and review (ISO, 2018).

3. SCOPE OF THE STUDY AND DATA COLLECTION

3.1. Objectives

The goal of the empirical part of the paper is to analyse the perception of the nuclear and radioactive security experts on key factors of nuclear waste risk management with particular emphasis on the waste transportation cycle. The data was collected in November 2019 through in person semi-structured interviews and the answers have been transcribed by the authors.

3.2. Survey design

The interviewees were asked to identify the main focal point regarding transportation of the spent fuel and radioactive waste management. The questions were specified as follows:

1. Identify the main decisive factors for excellence in nuclear and radioactive waste management.
2. Identify the main factors for excellence in risk assessment process for transportation of the spent fuel and radioactive waste.

The participants were able to give additional comments on the approaches of achieving excellence in spent fuel and radioactive waste management.

3.3. Description of the sample

For the purpose of this study ten participants in different fields were interviewed. The interviewees were members of the fields of security sciences, organizational sciences, transport engineering, and practitioners in nuclear and radioactive security (PNRS) with various education and working experience. The data on the demography of the sample are given at Table 2.

Table 2. Demographic variables

Code Name	Field or sector	Position	Higher education/ working experience(years)
P1	Organizational sciences	Assistant professor	6-10
P2	Organizational sciences	Associate professor	<5
P3	Security sciences	Assistant professor	11-15
P4	Security sciences	Associate professor	6-10
P5	Transport engineering	Associate professor	6-10
P6	Transport engineering	Associate professor	6-10
P7	PNRS	Logistics manager	6-10
P8	PNRS	Logistics manager	11-15
P9	PNRS	Security manager	11-15
P10	PNRS	Security manager	6-10

Source: Authors

4. RESULTS

The participants were identified developing the context, risk assessment procedure, monitoring and the evaluation of a whole process as the crucial factor of engineering a model of excellence based on ISO standard 31000:2018 principles.

The participants recognized the importance of legislative principles in achieving safety transportation, especially regarding state institutions, and identified the Ministry of Energy, Ministry of Interior and the Ministry of construction, transport and infrastructure as the key stakeholders in radioactive waste management. Among the other stakeholders, the Serbian Radiation Protection and Nuclear Safety Agency and Public Company Nuclear Facilities of Serbia play one of the most important roles.

The participants recognized industrial production, residues from the medical use, and the use of radioactive isotopes in scientific research in Vinca nuclear facilities as the main radioactive waste sources.

Definition of the context was recognized as the first step in which all important decisions are made regarding the content and purpose of the TRM. At this stage, internal and external risk factors are identified. External factors such as traffic infrastructure level, traffic density, lack of risk information, weather conditions, public order status and other political factors may directly affect the project's effectiveness. On the other hand, internal risk factors include two groups of factors: human (personnel and organization) and technological (equipment and infrastructure) factors. All participants agreed that the "context" phase is crucial, and that decisions in subsequent phases will depend directly on the decisions made at this stage.

The participants also stated the implementation of both continual internal and external communication is the important issue in order to implement and coordinate the TRM. On the question of defining and prioritizing transportation risks, participants responded that the main risks are: traffic accidents, waste leaking, contamination of staff and the population which is in direct contact with waste, contamination of emergency service workers, contamination of parts of the population, and the contamination of environment as a whole.

Also, the participants identified evaluation of the whole processes and the detection of the possible weak points requesting immediate action as important elements of the commitment to quality transportation risk assessment and identified the Serbian Radiation Protection and Nuclear Safety Agency as the key institution. The question of defining the strategies for high-level waste has remained open, because there is no such waste in Serbia.

The participants have also stated the implementation of the national educational strategy, consisting not only of the practitioners in nuclear and radioactive security and the staff, but of the employers, legislators, community representatives, non-governmental organizations as well. The question of the nuclear and radioactive waste risk cartulary has remained open.

5. THE MODEL FOR TRANSPORTATION RISK MANAGEMENT

In the Republic of Serbia the starting point in developing and implementing a model of excellence for TRM are the standards and principles that are partially implemented in domestic

legislation⁵. According to ISO 31000:2018 principles, the requirements for risk management, and the results of the interviews with the participants, the model of excellence for nuclear and radioactive waste transportation risk management were developed.

The leaders of a working group should form special teams for the analysis of multiple hazards and then agree and determine the final external and internal parameters that can actually contribute to the unintended consequences of radiological accidents.

For the risk assessment process all levels of employees are important, including the driving personnel and other stakeholders, especially the employers, legislators, and the community. The result of risk identification should specify exactly what types of risks exist, when and at what stage they may occur, the intensity of their occurrence and what consequences they may cause. After that, an analysis is made in terms of determining the degree of probability and the level of negative consequences. Finally, the evaluation process determines the final level of risk, which results in an answer to the question of whether it should be tolerated or treated.

Risk monitoring represents a continual review and control of the transportation process as well as the risks in order to accurately determine the risk status. The purpose of monitoring is to conclude all identifiable parameters from the first phase in order to determine deviations and to implement risk treatment in an adequate manner. This is achieved by monitoring the situation in real time throughout the whole transport cycle and recording any possible changes to existing or new parameters that are not anticipated, but that may contribute to the occurrence of the hazard.

Public or private management should periodically evaluate the implementation of TRM, revise basic quality principles if necessary, and suggest changes and improvements of the implementation process.

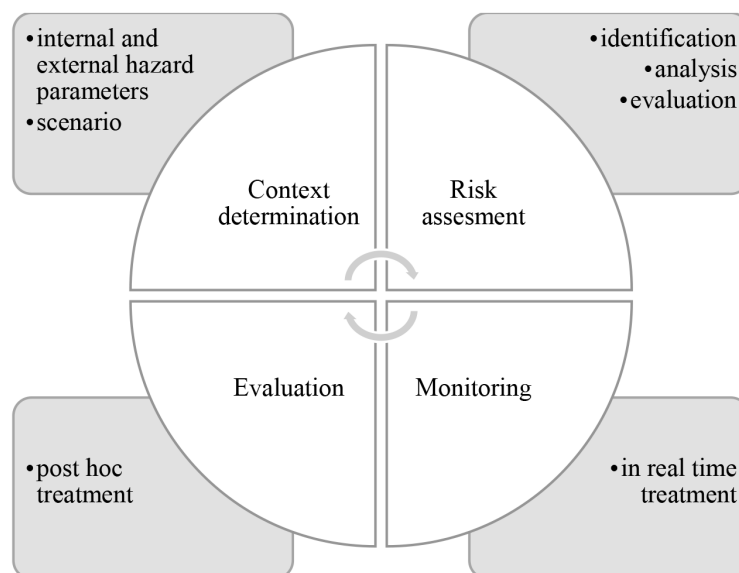


Figure 1. Proposed model of excellence for TRM

Source: Authors

⁵ Some of the domestic legislation regarding to radioactive waste management are: Law on Radiation Protection and on Nuclear Safety (OG 95/2018, 10/2019), Law on Occupational Health and Safety (OG 113/2017), Law on disaster risk assessment and emergency situation management (OG 87/2018), The methodology and content of the disaster risk assessment and protection and rescue plan, Law on Transport of Dangerous Goods (104/16).

6. LIMITATIONS AND SCOPE FOR FURTHER RESEARCH

Like most studies, this research study has its limitations. The sample size is rather small and the topic requires a wider sample and implementation of various statistical methods. Further research is needed in order to additionally explore on a wider sample the perception of the participants on the key elements of excellence in nuclear and radioactive waste management.

7. CONCLUSION

As a result of accession to the EU, Serbia has had to amend its legislation on radioactive material. As part of the trend, important documentation for the country at the strategic level is being implemented and one of them is the Strategy for spent fuel and radioactive waste management. In the Republic of Serbia, radioactive materials are regularly transported between national and international destinations. Packages can include radioactive materials from several sources: industrial production, residues from medical use, or from the use of radioactive isotopes in scientific research. The transport of nuclear materials is carried out in full compliance with existing international regulations that define minimum safety standards for transportation.

Risk assessment based on the ISO 31000 principles have been implemented in various institutions in different countries and national cultures. As the context of radioactive waste management is a key element for future strategy, the goal of this research has been to analyse the perception of the participants regarding transportation risk management based on ISO 31000 principles. The interviewees recognized the significance of ISO guidelines and principles and identified context determination as the first step in achieving the excellence of the risk assessment. According to the literature review and the results of the interviews with the participants in different professional positions, the model of excellence for TRM has been developed consisting of the key elements such as context determination, risk assessment procedure, monitoring and the evaluation of a whole process.

Also, great effort has to be made in the educational process of employees and those who have access to and manipulation of radioactive materials, which is a necessary condition for safe transportation. All of these activities have to be built and upgraded parallel with a comprehensive monitoring and control system for the transport of radioactive waste, which aims to improve the transport service from one, but also to maintain the level of transport safety at the desired level.

At the strategic level, the radioactive transportation system does not represent and should not be observed as a rigid system. On the contrary, it should be perceived as a systematical network of actors and interested users, on the one hand, and a set of the most advanced legal regulations, on the other. Together, they should contribute to transport as efficiently and safely as possible with the aim of minimizing the likelihood of causing negative consequences. Therefore, persistent communication between the actors and the coordination of activities in all spheres of radioactive waste management, especially during the transport phase, is necessary.

REFERENCES

- Bell, M. G. (2007). Mixed routing strategies for hazardous materials: Decision-making under complete uncertainty. *International Journal of Sustainable Transportation*, 1(2), 133-142. <https://doi.org/10.1080/15568310601092013>
- Besnard, M., Buser, M., Fairlie, I., MacKerron, G., Macfarlane, A., Matyas, E., Marignac, E., Sequens, E., Swahn, J., Wealer, B., (2019). The world nuclear waste report – focus Europe. Accessed 20 December 2019 from https://worldnuclearwastereport.org/wp-content/themes/wnwr_theme/content/World_Nuclear_Waste_Report_2019_Focus_Europe.pdf
- Choi, W. N., Lee, U., & Kim, H. R. (2020). Radiological assessment on spent resin treatment facility and transportation for radioactive waste disposal. *Progress in Nuclear Energy*, 118, 103125. <https://doi.org/10.1016/j.pnucene.2019.103125>
- Connolly, K. J., & Pope, R. B. (2016). A Historical Review of the Safe Transport of Spent Nuclear Fuel. Accessed 20 December 2019 from https://www.energy.gov/sites/prod/files/2017/03/f34/Enhanced%20safety%20record%20report%20-%20final%20public%20release_0.pdf
- Erkut, E., Tjandra, S. A., & Verter, V. (2007). Hazardous materials transportation. *Handbooks in operations research and management science*, 14, 539-621. [https://doi.org/10.1016/S0927-0507\(06\)14009-8](https://doi.org/10.1016/S0927-0507(06)14009-8)
- Gelder, R., & Shaw, K. B. (2000). Dose rate measurements around consignments of radioactive material. *International Journal of Radioactive Materials Transport*, 11(1-2), 141-146. <https://doi.org/10.1179/rmt.2000.11.1-2.141>
- Gheorghe, A. V., Birchmeier, J., Vamanu, D., Papazoglou, I., & Kröger, W. (2005). Comprehensive risk assessment for rail transportation of dangerous goods: a validated platform for decision support. *Reliability Engineering & System Safety*, 88(3), 247-272. <https://doi.org/10.1016/j.ress.2004.07.017>
- IAEA (1995). *The Principles of Radioactive Waste Management*, No. 111-F. Vienna.
- IAEA. (2009). *Classification of Radioactive Waste*, IAEA Safety Standards Series No. GSG-1, Vienna.
- IAEA. (2018). *Regulations for the safe transport of radioactive material*. IAEA Specific Safety Requirements No. SSR-6 (Rev. 1), Vienna.
- ISO. (2018). Risk Management-Guidelines (Standard No. ISO 31000: 2018). Washington, DC: International Organization for Standardization. Accessed 23 December 2019 from <https://www.iso.org/obp/ui#iso:std:iso:31000:ed-2:v1:en>
- Kesavan, P. C. (2017). Radiation protection policies and practice rest on a thin sheet of ice called linear, no-threshold hypothesis. *Radiation Protection and Environment*, 40(2), 51.
- Kros, C., & Weiner, R. (2013). Safety case for transporting spent nuclear fuel. *Packaging, Transport, Storage & Security of Radioactive Material*, 24(4), 176-179. <https://doi.org/10.1179/1746510914Y.0000000054>
- Law on Radiation Protection and on Nuclear Safety (Official Gazette RS, 95/2018, 10/2019).
- Oh, C. H. (2001). *Hazardous and radioactive waste treatment technologies handbook*. CRC press.
- Reilly, A., Nozick, L., Xu, N., & Jones, D. (2012). Game theory-based identification of facility use restrictions for the movement of hazardous materials under terrorist threat. *Transportation research part E: logistics and transportation review*, 48(1), 115-131. <https://doi.org/10.1016/j.tre.2011.06.002>
- Saling, J. (2018). *Radioactive waste management*. Routledge.
- Schneider, M., & Froggatt., A. (2018). The world Nuclear Industry Status Report 2018. Accessed 23 December 2019 from <https://www.worldnuclearreport.org/The-World-Nuclear-Industry-Status-Report-2018-HTML.html>

- Tena-Chollet, F., Tixier, J., Dusserre, G., & Mangin, J. F. (2013). Development of a spatial risk assessment tool for the transportation of hydrocarbons: Methodology and implementation in a geographical information system. *Environmental modelling & software*, 46, 61-74. <https://doi.org/10.1016/j.envsoft.2013.02.010>
- Weaver, M. (8 Nov. 2010) "Nuclear Waste Shipment Reaches German Storage Site." *The Guardian*, Guardian News and Media. Accessed 23 December 2019 from www.theguardian.com/environment/2010/nov/08/nuclear-waste-shipment-protest-germany.
- Weiner, R. F. (2013). Spent fuel transportation risk assessment: routine transportation. *Packaging, Transport, Storage & Security of Radioactive Material*, 24(3), 134-146. <https://doi.org/10.1179/1746510914Y.0000000049>
- Wilson, P.D. (Ed.). (1996). *The nuclear fuel cycle from ore to wastes*. United Kingdom: Oxford University Press.
- Zhang, J., Hodgson, J., & Erkut, E. (2000). Using GIS to assess the risks of hazardous materials transport in networks. *European Journal of Operational Research*, 121(2), 316-329. [https://doi.org/10.1016/S0377-2217\(99\)00220-9](https://doi.org/10.1016/S0377-2217(99)00220-9)

INNOVATION AND CREATIVITY AS A PREREQUISITE TO SUSTAINABLE COMPETITIVE ADVANTAGES

Mirjana Nedović¹
Sandra Mrvica Mađarac²
Ivona Bajić Sabljo³

DOI: <https://doi.org/10.31410/LIMEN.2019.157>

Abstract: *Innovation and creativity represents the key assumption when creating competitive advantage for any of the market participant. It is quite sure that without creativity and innovative products and services that already exist or are about to appear at the market, it's not possible to achieve a long-term competitive advantage. The turbulent market and the increasingly demanding consumers who have become picky in the mass of products and services that do meet the same need, presently the added value and unique characteristics of the products and services have become crucial when choosing a product. The purpose of the paper is to highlight the importance of introducing competitive characteristics to products and services as well as introducing innovations to Croatian companies. The aim of this paper is to indicate that there is a room for improvement when it comes to competitiveness and innovation in the Republic of Croatia, as well as for the future predictions within this area. The research methodology is based on the application of analysis and synthesis methods, and methods of comparison and descriptive methods.*

Keywords: *Competitiveness, Innovation, Competitive advantage, Uniqueness of products and services.*

1. WHAT ARE INNOVATIONS?

When it comes to innovation then it can be said that they are preceded by creativity. Innovation has a large impact on achieving the positive economic goals of all market players. It is hard to imagine that any market economy operator on the market can be competitive without the innovation processes, products or services that are subsequently offered to the consumers on the market. In the literature there are numerous definitions of innovation. Innovations can be viewed from numerous perspectives.

We can observe them in the context of the application of the new technologies, so it can be products and services that are obtained on the basis of the research results. When it comes to technology, it can be said that it is the knowledge of how to do something (Sikavica & Novak, 1999).

Human capital and its knowledge have a great influence on finding the new innovative solutions. Investments in human capital development are a necessity for the purpose of creating new products and services as well as processes. Rightly so, the development of the new products, services and processes are of critical importance for growth development and survival of the company. Innovations are the most important factor that pushes the company's goals forward, allowing the company to continuously create added value to satisfy the needs of consumers and also to satisfied the existential needs of the company (Prester, 2006).

¹ College of Applied Sciences „Lavoslav Ružička” in Vukovar, Županijska 50, 32000 Vukovar, Croatia

² College of Applied Sciences „Lavoslav Ružička” in Vukovar, Županijska 50, 32000 Vukovar, Croatia

³ Regional Wholesale Market Osijek Inc., Ul. Svetog Leopolda Bogdana Mandića, 31000 Osijek, Croatia

It is quite clear that in modern business conditions, innovation in any field influences on the further fate of an enterprise in terms of its survival and competitiveness or its disappearing from the market. To recognize customer preferences and to meet their needs better and faster than the competition certainly provides a competitive advantage.

To be innovative, by developing new or by improving the existing products, processes and / or business, can help the company to recognize and meet the desires and needs of customers, and on this way to achieve a competitive advantage (Miloloža, 2016).

At the company level, the innovation is most often manifested through the adoption of new ideas or the improvement of an existing product, service, device, system, policy or program (Damanpour & Gopalakrishnan, 2001).

Today, market entities are operating in the turbulent market conditions, and as they are oriented towards the market, they can be targeted by competitor's imitators. Each market subject for them to understand how good or bad it is, it compares itself with its competitors, and consequently intensely monitors all the steps of a competitor's appearance on the market. By comparing the company with its first competitor, company has been made aware of its qualities and advantages, but also those of its competitors.

Comparing and monitoring competition is not an obstacle to incite innovative product or service solutions, but even the opposite: it can be an extremely good incentive to find better innovative products and services by adding unique features that are hard-to-imitate. What is found to be more difficult to imitate competition in any of its segments, in fact we ensure our competitive advantage over the long period of time.

Market entities should clearly understand what kind of innovation they want, and also what are the results of the innovation they do expect. It is therefore recommended that each economic subject develops a set of questions to ask themselves about the goals that innovation seeks to achieve:

1. How much will innovation cost?
2. For how commercially visible will it really be?
3. How much will it contribute to the value: i.e. how much will it be worth if realized?
4. What will be learned in case the innovation fails to implement? (Dess, Lumpkin, & Eisner, 2010).

Before we get on to the process of innovation, it is completely compulsory to examine all the possibilities and look at the situation in which the market subject will find itself even in the case innovation do not live up to the market.

Crawford (1994) lists five dimensions (see figure 1), by which it defines a new product.

Building a success is possible on all dimensions, however, the range in which something is defined as a new product goes from products for which they were made minimum readjustments, to the product that is completely new when we've come across it and also familiarized with all its characteristics (Grbac, Dlačić, & First, 2007).

It must be noted that the market as well as the consumers, i.e. the buyers must be ready for a new and innovative product, because otherwise if the company launches an innovation on unprepared market with unprepared customers to accept such innovation, we may finish with the negative results instead of the expected positive ones.

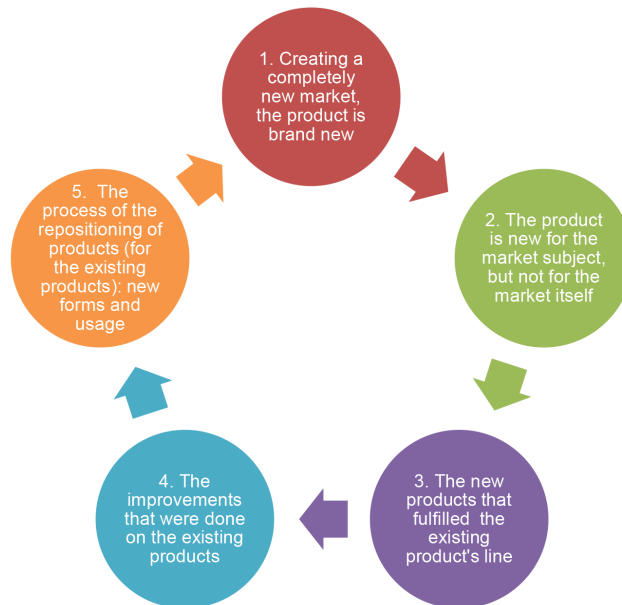


Figure 1. The five dimensions that define a new product

Source: Crawford (1994), *New Products Management*, adapted.

„Not every company that succeeds at shipping its innovative product to market manages to derive benefits from this innovation. If a new product offers features that customers do not either understand or appreciate, it will not manage to attract customer attention. This happens when a company inaccurately predicts consumer preferences and market demand developing a product that customers either do not want at all or are not ready for yet” (Khessinaa, Goncaloa, & Krause, 2018).

1.1. Innovations in the Republic of Croatia

According to data released from the Croatian Central Bureau of Statistics (2018), in relation to what has been reported in this First Release was the outcome of the survey on innovation activities and enterprises that was conducted from 2014 to 2016 on a sample of 4500 enterprises. According to this survey, innovative enterprises are defined as enterprises that introduced either a product or process innovation, or organizational or marketing innovation that was given in the course of the reporting period. Between 2014 and 2016, there were 43,4% of innovative enterprises in the Republic of Croatia.

The share of innovative enterprises grows with the enterprise size. There were 40,5% small, 53,0% medium - sized and 71,7% large enterprises that were innovative. Industrial enterprises had the largest share in innovation activities (47,7%), while 40,8% of service enterprises were innovative.

Market subjects invest energy in creating innovative activities, but there is still a room for further improvements.

According to the Strategy for innovation encouragement of the Republic of Croatia 2014-2020, it is clearly indicated the importance of applying innovations in the economy and in all fields of work. It was adopted in December of 2014, and it seeks to focus on the long-term development and systematic stimulation of innovation as a fundamental value for the success of the economy, but also of society as a whole.

When we considered the situation in the Republic of Croatia, there is also a tendency to improve the innovation system and also the legislative and fiscal framework, to determine the method of communication and models of cooperation between the public, scientific and research sector and the business sector in order to develop new products, services, business processes and technology, as well as the way of application results of scientific research work in economy and society as a whole (Ministry of Economy, Entrepreneurship and Crafts, 2018).

The innovation processes in the Republic of Croatia needs to be better communicated with the public and the real sector needs to be better and more closely linked to scientific institutions for better synergy. Innovation is the driver of development of any economy. It is a prerequisite for creating a competitive advantage, so it needs to be very carefully studied and prioritized.

2. THE CREATIVITY AS A BASIS FOR INNOVATIONS

Creativity represents a driving force and an endeavour to offer something new and different to the market or to the consumers. Creativity observed as a skill or capability is highly desirable and today is encouraged in almost all areas of business. There are numerous definitions found in the literature that describes creativity.

Creativeness is the ability to create unique and new solutions, ideas, products and the like. The results must be original and statistically rare to find. A creative work in particular culture must be judged as valuable, useful, and usable (in the field of the activity in which it has originated), i.e. what is new or different is not always creative but is often unaccepted or weird. Creativity includes: creative products, creative individuals (or groups), creative processes and the creative environment.

The course of creative thinking is a process that has a creative outcome and has several stages: preparation - familiarizing with the problems or issues and preparing to solve them; incubation - in contemporary cognitive psychology it's a part of the process in which parallel mental associations do occur; insight - sudden, rapid solution; evaluation and elaboration - translating the solution into an environmentally friendly product. It is not necessary for the creative process to have all these changes. In psychology, creative thinking is equated with divergent thinking, which is: flexible, fluent and original. Inventive and creative thinking is the process of connecting concepts and things in a new and unfamiliar way, by noting connections between phenomena and things that are not always obvious. Intellectual development (or the so-called convergent thinking) and creativity are not interrelated, but a certain level of intelligence is necessary precondition for creativity. It has not been proven that a special personality structure exists in persons who are called „creative personalities”. Today, modern psychology holds that for the most people are creative (Miroslav Krleža Institute of Lexicography).

Creativity is most often viewed through two conceptual frameworks: 1) as a creative potential, that is, an individual's ability to create something new and useful, which is most often measured by divergent thinking tests, and 2) as a creative achievement - the realization of those ideas as

useful achievements, which are most commonly measures through self-assessments of accomplishments across different fields of human activities (Jauk, Benedikt, Dunst, & Neubauer, 2013).

The creating of new ideas and solutions is a necessity for survival on the market. Without creativity that is associated with innovation, new products and services cannot be realised. There is a need to reflect in this direction and to stimulate creativity in order to reach full expression in all business areas. It is necessary to be aware that in every individual lay a potential for creativity that needs to be developed and encouraged, that is, to use creative processes when solving business problems.

3. ENCOURAGING THE CREATIVITY AND INNOVATIONS – THE COMPETITIVE ADVANTAGE

The creation of a sustainable competitive advantage is the desire of every market entity, and to maintaining it over time poses a real challenge in business. Being competitive implies that the market entity is successful on the market and that it achieves the previously set goals. No matters in which industry they compete some of the businesses are more successful, more profitable and more visible than the others.

Competitive advantage brings value to the customer in a better way than competitors. For the value that gets the customer is willing to pay. If the value is higher than expected (than that was expected by the buyer), the market entity has an advantage over other competitors.

According to Porter (1985), the competitive advantage starts from the assumption that it can come from many different sources, and it shows how such advantage can be related to certain activities, but also to the way in which these activities are related to each other, and to supplier and customer activities. Porter distinguishes two types of competitive advantage: low cost and differentiation.

An innermost issue in a competitive strategy is the relative position of companies within the industry. By positioning we determine whether a company's profitability is above or below the industry average. The company that is well positioned can earn higher rates of return, even if the industrial structure is unfavourable and the average industry profitability is modest (Vrdoljak Raguz & Tolušić, 2012).

How competitive advantage can have a foothold from several sources, one of the sources of competitive advantage is offering innovative and creative solutions for the product or service that will represent value to the consumer. By fostering a creative mindset, it will lead to innovation, and then to the competitive advantage. Therefore, market participants should focus on these two areas in order to, as a logical sequence, derived competitive advantage.

4. THE COMPETITIVENESS OF THE REPUBLIC OF CROATIA

World Competitiveness Report 2017-2018¹⁴ shows that amongst the TOP 10 most competitive countries in the world are: Switzerland, the United States, Singapore, the Netherlands, Germany, Hong Kong, Sweden, the United Kingdom, Japan and Finland. Estonia is on 29th place,

¹⁴ Competitiveness Assessment and Measurement Methodology - The results of the Report are based on a survey of businesses in 14 000 enterprises worldwide, encompassing the statistical data from 2016 and 2017 and data from international organizations: World Bank, OECD, IMF, WHO, UNESCO. In the spring of 2017, 84 heads from the business sector were interviewed in Croatia. This report includes 137 countries.

Czech Republic on 31, Poland 39, and Lithuania on 41st place. Circle of TOP 50 enclose Slovenia on 48th place and Bulgaria on 49th. Romania is at 68th place. Croatia is ranked 74th in the group of Albania (75), Montenegro (77) and Serbia (78).

When considering that Croatia remains 74th in terms of global competitiveness, it can be said that its economy is stagnant. In order for Croatia to be on the path of growing Central and Eastern European transition countries, the medium-term (2020) or at least the long-term goal (2025) should be entering in the TOP 45 countries. The question is only where those countries will be then. Competitiveness is measured not only through domestic improvements, but also through leaps that are relative to others. This is why far greater ambitions and holistic approaches to public policy are needed than more moderate reform moves.

Data for Croatia are provided by the National competitiveness council (NCC), which emphasizes, among the other things, that is necessary: "Together with the development of the scientific and educational system, to strengthen the technological readiness of the economy to apply new knowledge to the creation of new products and services that will, through deeper specialization and growth of productivity, enable successful entry of companies into new markets. It also should be encouraged export oriented direct foreign investments to enable the production of higher end value-added goods and to have a positive impact on the level of competitiveness." (Economic Lab & Policy Centre, 2017)

The Republic of Croatia needs to move towards increasing competitiveness in all areas, together with the competitiveness of new products that may emerge as a result of innovations, which will then form basic for creativity and innovations. Therefore, it is imperative that the management of each market subject, regardless of whether it is a product or a service, places particular emphasis on these major factors that can affect greater competitiveness, not only at the company level but also at the national level.

Management of innovation and new products requires special attention, so today we can talk about management of innovation where the main purpose and meaning will be to offer to the market a new product or service that will be characterized by a unique exceptionality, with improved quality and a modified product and services which will stand out from the competition.

5. CONCLUSION

Creativity and innovations are prerequisites for creating a competitive edge. They represent an opportunity to move the Republic of Croatia closer to the countries that are at the forefront of competitiveness.

It can be said that through innovation creates opportunities for the market subjects to maintain competitive advantage. In order to achieve a competitive advantage, it is necessary to work more and better on creative ideas and solutions. The role of the state is of great importance in achieving competitiveness, because through certain measures and incentives, it can directly positively influence on the aforementioned, i.e. to stimulate a positive environment and bid financially support innovative solutions of market entities, new products, services, etc.

Lifelong learning also plays an important role in society and should be imposed stronger and better in order to deliver results in the field of innovation. Connecting of scientific institutions

and the private sector is one way of working together that can bring benefits to society as a whole, but also to the realization of their own interests and goals.

The quality of products and services, apart from innovative solutions, must be the foundation of everything. Without an adequate level of quality, competitiveness cannot be achieved. For products and services except that they should meet the needs of the consumers they should also have unique features that will set them apart from other available products on the market.

It is quite certain that long-term competitiveness has its starting point in both quality and innovative solutions.

REFERENCES

- Crawford, M. (1994). *New Products Management*. New York: Irwin.
- Damanpour, F., & Gopalakrishnan, S. (2001). pp. 45-46.
- Damanpour, F., & Gopalakrishnan, S. (2001). The dynamics of the adoption of product and process innovations in organisations. *Journal of Management Studies*, 1, pp. 45-46.
- Dess, G., Lumpkin, G., & Eisner, A. (2010). *Strategic Management*. New York: McGraw-Hill Irwin.
- DSZ. (2018). *INOVACIJE U HRVATSKIM PODUZEĆIMA U RAZDOBLJU 2014. – 2016*. Državni zavod za statistiku Republike Hrvatske.
- Ekonomski lab, & Centar za javne politike. (2017). *CEA Centar za ekonomske analize i javne politike*. Retrieved 12 9, 2019, from Ekonomski lab: <https://www.cea-policy.hr/hrvatska-ostaje-74-prema-svjetskoj-konkurentnosti/>
- Grbac, B., Dlačić, J., & First, I. (2007.). *Trendovi Marketinga*. Rijeka: Sveučilište u Rijeci.
- Jauk, E., Benedikt, M., Dunst, B., & Neubauer, C. (2013). The relationship between intelligence and creativity: New support for the threshold hypothesis by means of empirical breakpoint detection. *Intelligence*, pp. 212-21.
- Khessinaa, O., Goncaloa, J., & Krause, V. (2018, 12). It's time to sober up: The direct costs, side effects and long-term consequences of creativity and innovation. *Research in Organizational Behavior*, pp. 107-135.
- Leksikografski zavod Miroslav Krleža. (n.d.). Retrieved 12 6, 2019, from Hrvatska enciklopedija: <http://www.enciklopedija.hr/Natuknica.aspx?ID=33832>
- Miloloža, H. (2016, 11 25). Utjecaj tržišne orijentacije Hrvatskih poduzeća na inovacije proizvoda i usluga. *Poslovna izvrsnost*, 2(10), pp. 89-105. Retrieved 2019
- Ministarstvo gospodarstva, poduzetništva i obrta. (2018). *Ministarstvo gospodarstva, poduzetništva i obrta*. Retrieved 12. 6., 2019, from Istraživanje i inovacije u gospodarstvu: <https://www.mingo.hr/page/kategorija/intelektualno-vlasnistvo-inovacije-nove-tehnologije-odrzivi-razvitak>
- Porter, M. (1985). *Konkurentska prednost*. Zagreb: Masmedia.
- Prester, J. (2006). *Menadžment inovacija*. Zagreb: Sinergija.
- Sikavica, P., & Novak, M. (1999). *Poslovna organizacija*. Zagreb: Informator.
- Vrdoljak Raguž, I., & Tolušić, M. (2012.). Implementacija Porterovih generičkih strategija i postizanje konkurentskih prednosti na primjeru automobilske industrije. *Ekonomska misao praksa* (1), p. 384.

THE RELATIONSHIP BETWEEN MICROFINANCE AND TOURISM (CASE OF ALBANIA)

Forcim Kola¹
Bardhyl Ceku²
Semiha Loca³

DOI: <https://doi.org/10.31410/LIMEN.2019.165>

Abstract: *The purpose of this paper is to analyse the link between microfinance and tourism, explaining how microfinance institutions (MFIs) in Albania are supporting the development of tourism through providing microcredit to small tourism enterprises.*

Microfinance can offer low income people specifically those called un-bankable, the necessary financial support to enter entrepreneurship activities in tourism sector. On the other side, tourism development can contribute to reduce poverty through economic development especially in rural and mountainous areas.

Primary data are used to show a descriptive panorama of the two main variables and a casual analysis is done through secondary data on tourism and microcredit sector in Albania.

Using a Linear Regression Analysis, it is evidenced a relationship between the two analysed variables.

Keywords: *Microfinance, Microcredit, Tourism, Linear regression.*

1. INTRODUCTION

Albania has made remarkable economic progress during the past three decades. Due to the strong growth performance, Albania grew from one of the poorest nations in Europe to a middle-income country, with poverty declining by half during that period.

However, Albania's growth model needs to shift from consumption-fuelled to investment- and export-led growth. The new model will need to help those people with less access to economic opportunities to contribute to, and benefit from economic growth⁴.

More than half of the population live in rural areas, where slightly less than one fifth of Gross Domestic Product (*GDP*) is generated in agriculture, which, following transition, is now almost exclusively based on very small-scale and typically fragmented farming units.

The Albanian government has identified tourism as a key economic sector, touting its potential to spur development of the entire country. Located in the Mediterranean region, Albania could well represent Europe's last tourism "secret."⁵

¹ "Marin Barleti" University, Rruga Sami Frashëri 41, Tirana 1000, Albania

² Agriculture University of Tirana, Kodër Kamëz, SH1, Tirana 1000, Albania

³ "Marin Barleti" University, Rruga Sami Frashëri 41, Tirana 1000, Albania

⁴ [https://www.worldbank.org/en/country/albania/overview/December 2019](https://www.worldbank.org/en/country/albania/overview/December%202019)

⁵ [https://www.export.gov/article?id=Albania-Travel-and-Tourism/January 2020](https://www.export.gov/article?id=Albania-Travel-and-Tourism/January%2020)

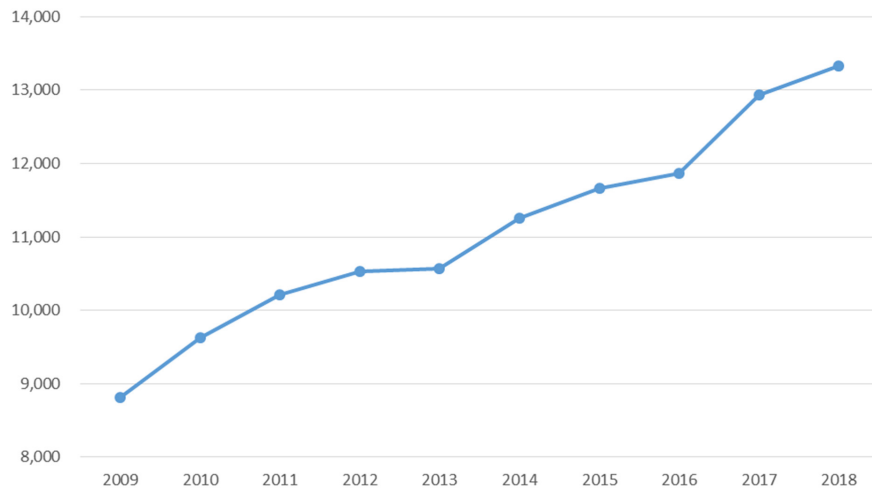


Chart 1. GDP per Capita (USD) of Albania⁶

Whereas tourism has been variably heralded and cursed as a solution to development, sustainable tourism, notably with a pro-poor approach, has recently begun to celebrate successes based on local participation and resources, equitable partnerships, and the maintenance of cultural and environmental integrity of a location.

Referring the GDP structure of Albania, about 50% comes from Service, 20% from Agriculture, same percentage from Industry and some rest from other activities (*Chart 2*).

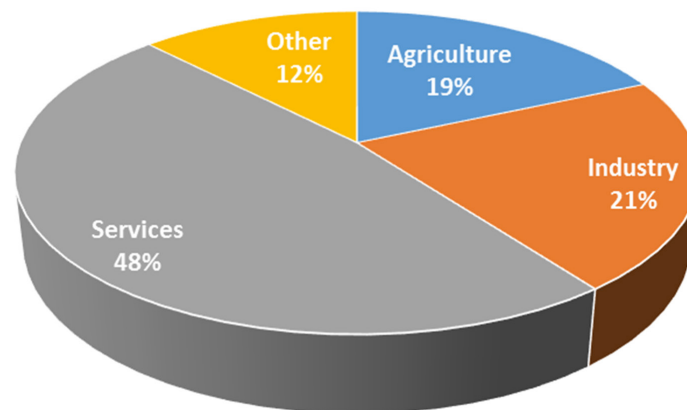


Chart 2. GDP of Albania per sectors (2018)⁷

The sustainable tourism for development is suggested as an entrepreneurial, locally rooted, and locally defined solution, contributing to poverty alleviation through economic and social benefits similar to a social business.

The tourism industry is seen as a promising sector for developing countries. Evidence of successful growth through tourism in developing countries is usually given by increased numbers of international arrivals and gross tourist expenditures in hard currencies. International tourism arrivals to developing countries have increased by 6.5 per cent annually since 1988, a higher rate than average world growth of arrivals. Income through international visitors is representing a large component of international exports in the Least Developed Countries (*Denman et al. 2004, WTO 2002a*).

⁶ <http://www.worldbank.org/November 2019>

⁷ <https://www.statista.com/December 2019>

The number of tourist arrivals to Albania reached nearly 6 million in 2018, a 15% increase over 2017, many of whom were visitors from neighbouring countries. A growing number of U.S. citizens also visit Albania, particularly the southern coastal region, as part of day-excursions from Corfu, Greece.

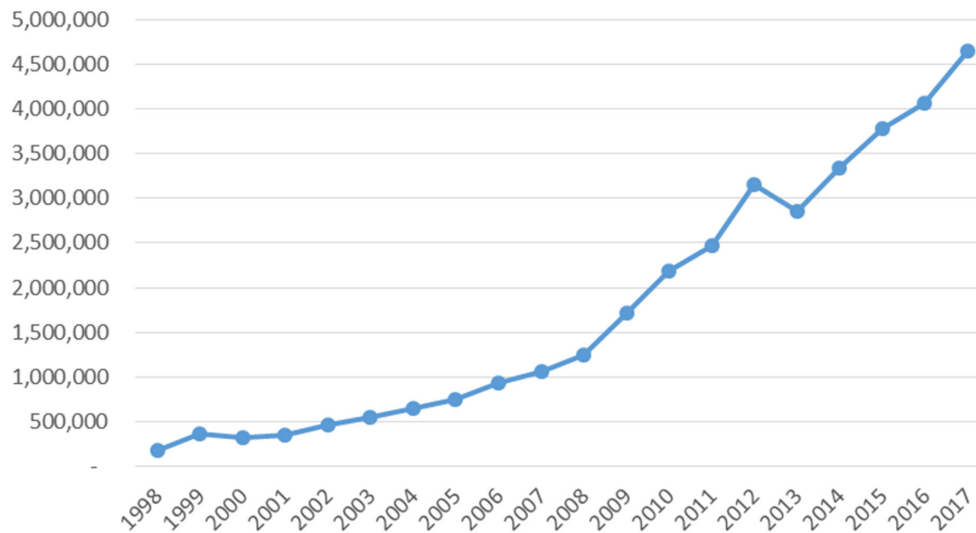


Chart 3. International tourism, number of arrivals⁸

According to the 2019 World Travel and Tourism Council Report on Albania, travel and tourism receipts in 2018 reached \$4.27 billion, or 27.3% of GDP. Tourism service exports generated \$2.15 billion in 2018, or 48% of total exports⁹.

Many researchers have indicated that tourism on its own cannot be an explanation for specialised tourism countries achieving higher growth rates. It appears that faster growth rates are more related to the fact that some economies are more open and liberalized than others.

Tourism is a service industry and benefits strongly from liberalized and open economies. Also, specific factor productivity plays an important role in materializing growth, e.g. the extent to which tourism growth leads to more demand for human resources and human capital accumulation.

The liberalization of developing economies usually starts with the modernization of their domestic financial markets. There appears to be a positive relationship between open and modernized financial markets and poverty alleviation. When it comes to the relationship with poverty alleviation, the main topic is to provide poor people with access to financial services. This is mainly promoted through Microfinance Institutions (MFIs).

Microfinance can offer low income people specifically those called un-bankable, the necessary financial support to enter entrepreneurship activities in tourism sector. On the other side, tourism development can contribute to reduce poverty through economic development especially in rural and mountainous areas.

⁸ <http://www.worldbank.org/November 2019>

⁹ <https://www.export.gov/article?id=Albania-Travel-and-Tourism/January 2020>

2. ECONOMIC DEVELOPMENT AS A RESULT OF TOURISM

Derived Tourism is a major engine for job creation and a driving force for economic growth and development, as highlighted by recent figures.

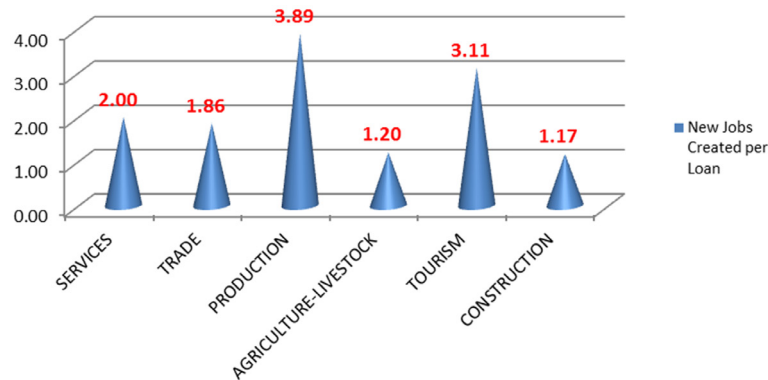


Chart 4. New jobs created per loan as per sectors supported by Microfinance Sector in Albania

According to the World Travel and Tourism Council data, in 2015 tourism directly created over 107 million jobs (3.6 per cent of total employment representing 3 per cent of total GDP) and supported (directly and indirectly) a total of 284 million jobs, equivalent to one in 11 jobs in the world. By 2026, these figures are expected to increase to 136 and 370 million jobs respectively representing one in nine of all jobs worldwide¹⁰.

If we see the figures in Albania, from every loan disbursed by MFIs in tourism sector in Albania, there were created 3,11 New Jobs (*Chart 4*).

These statistics highlighting the significant contribution of tourism to employment and GDP speak for themselves. Furthermore, it is essential to make sure that the growth and development of this sector is sustainable, socially responsible and creates decent work opportunities.

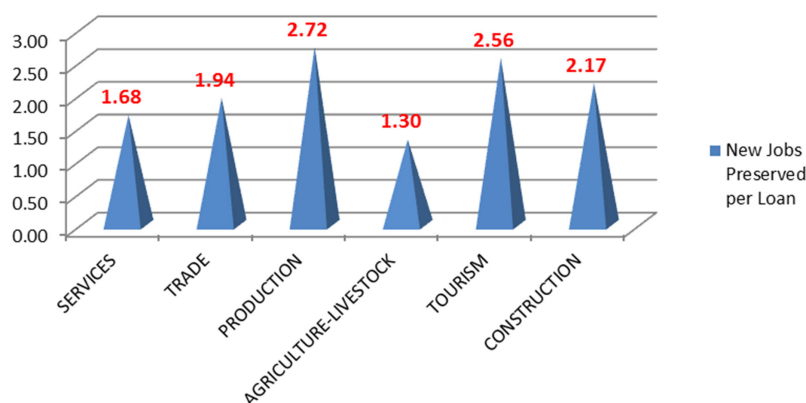


Chart 5. Number of jobs preserved per loan as per sectors supported by microfinance Sector in Albania

Also, evidences from Albania showed us that from every loan disbursed by MFIs in tourism sector in this country, there were preserved 2,56 Jobs (*Chart 5*).

¹⁰ <https://www.ilo.org/global/about-the-ilo/> / January 2020

3. ECONOMIC DEVELOPMENT AND FINANCIAL SECTOR

A well-functioning financial sector is one of the cornerstones of long-term economic growth in a national economy. Financial services are the “gearing oil” of an economy.

It can have positive impacts on capital accumulation and on the rate of technological progress. In order to support and stimulate economic growth in an economy, financial intermediaries like commercial banks and savings- and credit cooperatives are needed to the effect of:

- Savings mobilization,
- Provision of loans to stimulate and facilitate economic growth,
- Management of risks,
- Provision of information on investment opportunities,
- Monitoring of borrowers,
- Facilitation of exchange of goods and services.

The number of banks in Albania declined to 14 in 2018 due to the acquisition of two foreign subsidiaries in the Albanian banking system.

Compared to the banking sector, the non-bank financial institutions account for a small fraction of the financial system when measured by asset size. Currently, there are 30 non-bank financial institutions and 13 savings and credit institutions.

Despite the large number, their financial activity is relatively small. The total assets of non-bank financial institutions account for around 3.9% of GDP as of 2018¹¹.

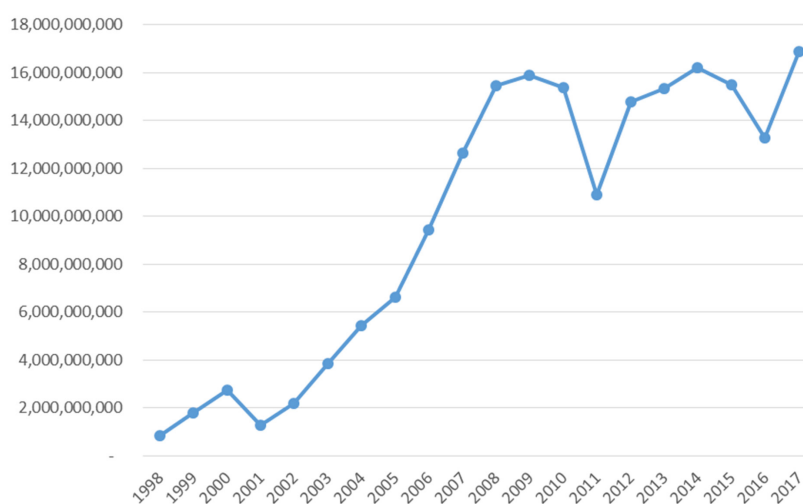


Chart 6. Gross Loan Portfolio of MFIs¹²

According to figures from the World Bank, we can evidence an increase in the Gross Loan Portfolio of the MFIs in Albania (*Chart 6*).

The trend was quite positive from 2001 to 2009 with such a big increase of the loan portfolio of MFIs, and after 2009 we still had an increase but with some changes such as in 2011 and 2016 when we evidenced small decreases.

¹¹ [https://www.ebf.eu/albania/December 2019](https://www.ebf.eu/albania/December%202019)

¹² [http://www.worldbank.org/November 2019](http://www.worldbank.org/November%202019)

4. RELATIONSHIP BETWEEN MFIS PORTFOLIO AND TOURISM DEVELOPMENT

We have taken two variables to analyse the relationship between microfinance and tourism:

X - Gross Loan Portfolio of MFIs,

Y - Number of tourists entering Albania.

In order to explaining how microfinance institutions (MFIs) in Albania are supporting the development of tourism through providing microcredit to small tourism enterprises we made a Simple Linear regression between these two variables, as it is described in the chart below.

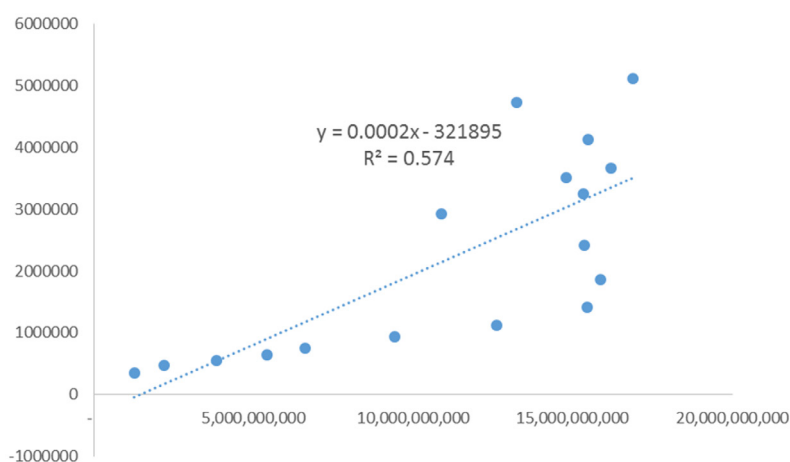


Chart 7. Number of tourists entering Albania to Portfolio of MFIs

We can see a positive relationship between number of tourists entering Albania and loan portfolio of MFIs in Albania (*Chart 7*). This relationship seems to be at an average level but positive, meaning the increase of the crediting by Albanian MFIs will bring more tourists in this country.

This is because as MFIs increase their portfolio, they credit more the tourism sector in Albania, supporting so the small investments in tourism sector to better perform their service and mostly to increase their capacity.

The increased capacity in tourism means bigger offer for tourists entering Albania adding also the improvements in service quality.

This in return brings job creation, more sales of related products on the whole tourism value chain and respectively economic development of the country.

5. CONCLUSION

Microfinance institutions (MFIs) in Albania are supporting the development of tourism through providing microcredit to small tourism enterprises.

It was evidenced that microfinance sector in Albania is creating 3,11 New Jobs and preserving 2,56 Jobs from every loan they disburse in tourism sector in this country.

As collected data have shown, there is an average positive link between loan portfolio of Albanian MFIs and the number of tourists entering Albania during the last years.

That means extending the loan portfolio of MFIs can have a positive impact of increasing the investments and entrepreneurship in tourism sector in Albania, increasing and improving the tourism offer of the country, which in turn results in bringing more tourists to the country developing greatly the whole country's economy.

REFERENCES

- Altman J.C. & Finlayson J. (1992), "Aborigines, tourism and sustainable development", Centre for Aboriginal Economic Policy Research (CAEPR), No.26
- Ashley C. & Roe D. (2002), "Making tourism work for the poor: strategies and challenges in southern Africa", *Development Southern Africa*, Vol. 19, No. 1, pp.61-82
- Ashley C., De Brine P., Lehr A. & Wilde H. (2007), "The Role of the Tourism Sector in Expanding Economic Opportunity", *Economic Opportunity Series*, The Fellows of Harvard College, Overseas Development Institute, International Business Leaders Forum.
- Balomenou, Dr. C. K., D. Lagos, Panagiotis J (2005): *Tourist enterprises financing in Greece*.
- Bannock G. (2005): *The economics and management of small business, an international perspective*: Routledge Taylor and Francis Group, ISBN 0-415-33666-X
- Budeanu A. (2007), "Sustainable tourist behaviour – a discussion of opportunities for change",
- Croes R., Rivera M. - *Poverty Alleviation through Tourism Development: A Comprehensive and Integrated Approach (Advances in Hospitality and Tourism) 1st Edition, 2015*
- <http://www.worldbank.org/> November 2019
- <https://www.ebf.eu/albania/> December 2019
- <https://www.export.gov/article?id=Albania-Travel-and-Tourism/> January 2020
- <https://www.ilo.org/global/about-the-ilo/> January 2020
- <https://www.statista.com/> December 2019
- Sharpley R., Telfer D. - *Tourism and Development: Concepts and Issues (63) (Aspects of Tourism (63)) 2nd Edition, 2014*
- Yunus M. - *Creating a World Without Poverty; Social Business and the Future of Capitalism, 2007*

SUSTAINABILITY OF THE PENSION SYSTEM OF THE REPUBLIC OF SERBIA

Ana Anufrijević¹
Goran Dašić²

DOI: <https://doi.org/10.31410/LIMEN.2019.173>

Abstract: *The pension system is a very important part of every national economy, not only economically, but also socially and financially. It is known that the first pension in Serbia was paid back in 1833. by Milos Obrenovic, so it would be rightly expected that today, after almost 190 years, that there is a stable public pension system that provides security for today's and future retirees.*

It should be noted that in Serbia there is a fear among the population related to private pension funds, known in the literature as the third pillar of pension insurance. Fear is a product of insufficient financial literacy and awareness, on the one hand, but also of the decades-long term to which this insurance applies, on the other.

The problem of the existing public pension system, which is referred to in the literature as „pay and go”, and is also known in practice under the pseudonym „flow boiler”, is its unsustainability. Back in the days when a contribution-based insurance system was being developed in Germany, Bismarck envisaged the limit to which the system could operate. This system is suitable for emerging economies and demographics for the benefit of the young population, that is, as long as the number of employees and retirees is 4:1. Difficulties arise when the ratio of employees to retirees is 3:1. The official ratio of employees and pensioners in Serbia is 1.2:1, indicating that a collapse is inevitable.

Keywords: *Pension system, Employee-pensioner ratio, Demographic structure, PIO contributions.*

1. INTRODUCTION

Serbia is like most EU countries faced with numerous problems of the public pension system. As far as the PAYG system was good while the number of employees who pay contributions was higher than the number of pensioners, so it shows great weaknesses when approaching this magnitude. Nonetheless, it is generally known that the deficiency of the public pension system stems from the fact that the fund's assets are not invested, but are used for current pension payments to pensioners. All EU countries, including Serbia, are awaiting a new reform of the pension system in order to make it more sustainable for future generations. It is also the answer to the question why 14 years after the introduction of the third pillar of Serbia did not try to introduce the second pillar. At this point it is almost certain that the second pillar pension scheme would not bring great benefits.

We like individualized security in exercising the right to pension emphasis should be placed on voluntary pension funds. Those in Serbia recorded a certain growth rate and agreements and membership, but the mass education on this issue is more than necessary. The authors believe that the shares of these funds in Serbia would be greater if the poverty is lower.

¹ Čačak School of Business, Gradski park 2, 11090 Belgrade, Serbia

² Modern Business School – Terazije 27, 11000 Belgrade, Serbia

2. DEMOGRAPHIC PICTURE OF THE REPUBLIC OF SERBIA

In the last few decades, Serbia has been suffering from demographic processes that are characteristic of almost all European countries. Such a picture is characterized by a process of constant aging of the population, resulting from low fertility rates and an increase in life expectancy. Also, the total population of the Republic of Serbia has been declining due to migration, which has been particularly pronounced in recent years.

According to a statement issued by the Statistical Office of the Republic of Serbia in June 2019, the estimated population in Serbia in the previous year was 6,982,604. Looking at gender, 51.3% are women, or 3,580,898; while 48.7% are male, or 3,401,706. The statement points out that the depopulation trend is continuing, which means that the population growth rate is negative compared to the previous year and amounts to -5.5%. Retrospectively, by year, there were 7,236,519 inhabitants in Serbia in 2011, 7,201,497 inhabitants in 2012, in 2013 the population was 7,166,552, in 2014. there were 7,131,787 inhabitants, in 2015. the population was 7,095,381, in 2016 there were 7,058,322 inhabitants, in 2017 that number was 7,020,858, while in 2018, Serbia had a population of 6,982,604. The graphical representation is given in Chart 1.

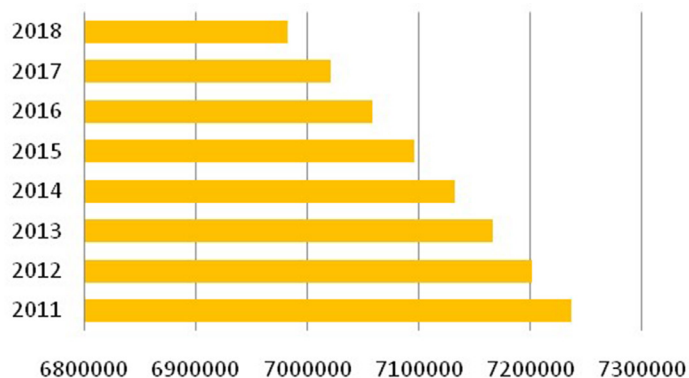


Chart 1. Estimated population in the Republic of Serbia 2011-2018

Source: SORS

According to Kovačević, Gavrilović et al. (Kovačević et al.; 15) the most important feature of the movement of the projected population of the Republic of Serbia over the next forty years is the continuation of the process of depopulation. Their projection is based on five assumptions:

- Realistic, which is the basic projection;
- Low Fertility Projection;
- High Fertility Projection;
- Projection of zero migration balance; and
- Projection of constant migration balance (status quo).

Table 1.1 - Population projections in Serbia

Projection variant	2015.	2020.	2030.	2040.	2050.	2060.	Growth index (2015=100)
Real	7.095.381	6.858.597	6.338.252	5.906.790	5.688.346	5.569.805	78,5
Low Fertility	7.095.381	6.853.692	6.308.937	5.813.116	5.470.912	5.185.332	73,1
High Fertility	7.095.381	6.865.943	6.393.056	6.023.178	5.881.760	5.880.467	82,9
Zero migration balance	7.095.381	6.914.805	6.544.343	6.125.551	5.783.179	5.461.742	77,0
Constant	7.095.381	6.834.893	6.205.379	5.443.626	4.699.619	3.957.923	55,8

Source: (2018) Economic, Demographic and Social Effects of Different Scenarios for Normalizing Relations between Belgrade and Pristina, Open Society Foundation, p. 15

According to the results of the projections, the population of Serbia would increase by 2060. It could range from 3,957,000 (the status quo) to 5,880,000 (the high fertility variant).

2.1. Number of employees and pensioners

The basic indicator of regional economic developments should be to monitor the dynamics of the wage bill by municipalities. This indicator is also suitable for measuring the performance of local authorities in economic development, as well as for measuring the effects of government measures, both through public sector employee remuneration policies and through the ability to attract investment to specific municipalities. In Serbia, big cities such as Belgrade, Novi Sad and Nis differ in the structure of employees from the rest of Serbia. However, this is not the case, and it is similar to all urban capitals and major centers of Europe. However, the main difference from the rest of Serbia stems from the decreasing share of employees in the processing industry and in agriculture, and a larger share of employees in almost all services.

The last two decades for Serbia have been characterized by the number of breakdowns of industrial giants in medium-sized cities. On the other hand, there has been a rapid development of the service sector in Belgrade and Novi Sad, especially in the areas of finance, trade, transport, management, medical and other services. Looking at these two fundamental changes - the breakdown of industry in major cities and the rapid development of Belgrade and Novi Sad, there is a marked dying out of more than half of the municipalities in Serbia, characterized by a relatively small population (below 50,000) with a predominantly agricultural orientation and one or two factories shut down, mainly the textile industry. Many municipalities in Serbia bear the epitome of “slum municipalities” and it is therefore important to know the effects of changes in wage and pension policies on their lives. The following is a table showing the number of pension beneficiaries for the period 1997-2018.

Table 1.2 - Number of pension beneficiaries by type of pension by year

Year	Old-age pension	Disability support pension	Family pension	Total
1997	703.794	438.401	318.111	1.460.306
1998	709.436	435.835	327.773	1.473.044
1999	725.197	434.820	337.958	1.497.975
2000	735.407	427.466	344.348	1.510.801
2001	772.440	428.040	351.511	1.551.691
2002	756.970	413.824	336.703	1.511.497
2003	756.893	408.245	340.434	1.505.572
2004	763.289	398.034	344.744	1.506.067
2005	780.030	306.692	342.254	1.508.576
2006	819.076	377.936	347.036	1.544.048
2007	851.341	368.922	349.292	1.569.353
2008	888.534	362.180	349.625	1.580.239
2009	893.332	358.115	352.220	1.603.068
2010	919.711	352.961	353.909	1.626.581
2011	938.702	345.300	354.943	1.638.645
2012	990.565	342.741	359.834	1.703.140
2013	1.021.216	334.340	367.393	1.722.649
2014	1.053.258	323.210	352.694	1.739.162
2015	1.064.380	312.357	359.205	1.735.942
2016	1.070.004	303.077	354.957	1.728.138
2017	1.076.890	293.835	349.710	1.720.435
2018	1.085.144	285.192	344.316	1.715.152

Source: SORS

Number of formally employed in 2018 in Serbia it was 2.3 million and the number of pensioners is 1.2. The relationship is unfavorable due to high unemployment, the informal economy, undeclared work and migration. This means that the system will inevitably have to be transformed.

The conditions for the formation of the second pillar of pension insurance in Serbia have not been sufficiently met. Contribution rates for pension and disability insurance in Serbia are 26%, of which 14% are at the expense of the employees and 12% at the expense of the employer. Currently, rates are higher only in Hungary, where they are 30.75% and in Italy, where they are 33.0%. According to the OECD, in Austria the rates are 9.5%, in Belgium 16.4%, in Canada 9.9%, in Denmark 9.8%, in Finland 25.2%, in France 25.40%, in 18.7% in Germany, 19.52% in Poland, 18% in Macedonia, and 18% in Slovakia. (OECD, p.141).

The conclusion of the study «The Challenges of Introducing a Private Pension System in Serbia» is that introducing a second pillar in Serbia is not recommended. Despite the differences, the shared experiences of Hungary and Croatia, which introduced the second pillar as one part of the pension system, show that the real rate of return of pre-retirement pension funds was low, while their operating costs were very high, with decreasing funds in the accounts of future retirees. In addition, the private pension funds market quickly monopolized, that is, their concentration came. Due to the underdevelopment of the financial market and the necessary control of investments to mitigate risk, funds predominantly invested funds in government securities. This means that the savings raised through the funds were not invested through the economy and did not provide an incentive for economic growth, but rather allowed the state to spend more, with potentially negative implications for increasing public debt. Also, the transition cost, implicit or explicit, was high in both cases.

2. THIRD PILLAR OF RETIREMENT INSURANCE

The pension systems of all post-socialist countries are based on the first pillar of compulsory state insurance, called the «Generational Solidarity System». Nowadays, this is more and more often an unshackled and archaic model as the working age population approaches the number of retirees. Due to the shortcomings of this system, all countries are considering serious reforms. The fact is that pension systems are in crisis all over the world.

Most economists today consider that Pay as you go pension systems have a misplaced basis and structure. They do not produce or make any real investment, nor specific wealth, but are established as transmission systems that transfer wealth from today's workers to current retirees. The demographic system elaborated by the authors on the example of Serbia in the first part of the paper is present throughout the European Union, which is following the trend of the «aging nation». Accordingly, the population tends to decrease. In the past, demographic variability has often been underestimated, while economic analyzes have focused on other uncertainty factors that have been used to investigate population age structure (Holzmann, R., & Palmer, 2006,101).

According to Schwarz, World Bank experts believe that the pension reforms can be grouped into four types of reforms (Schwarz A. 1996):

1. Parametric reforms, which include changes in the parameters of existing pension systems;
2. The system or structural reform, which include the introduction of a new type of pension system, which would fully replace or supplement the existing system only;

3. Regulatory reforms, which include changes in regulations related to investments of funds, and
4. Administrative reform.

Model “three pillars” proposed by the World Bank has been expanded with two additional pillars: the zero (0) column in order to reduce poverty and IV pillar that includes the wider context of social policy.

Net assets of voluntary pension funds in Serbia at the end of the third quarter of 2019 amounted to 43.5 billion dinars. In the third quarter, net assets increased by 3.36%. The change in the net asset payments affect the net assets of the funds, disbursement of funds and the profit that the funds realized from the investment. In the third quarter of 2019, total payments amounted to the 887,75 million; members withdrew 388,40 million, while income from investments amounted to 930.60 million dinars.

Table 2.1. The net assets in the sector in RSD

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	T3 19
4,6	7,2	9,9	12,5	16,0	19,7	23,6	28,9	32,8	36,2	40,2	43,5

Source: NBS

At the end of the third quarter of 2019, the stage is 11.199,294 users. They have 272.819 contracts in voluntary pension funds. The share of beneficiaries of pension funds in total employment was 9,4%.

Table 2.2. Number of contracts and the number of users in thousands

	2010	2011	2012	2013	2014	2015	2016	2017	2018	T3 19
No contracts	220,4	234,4	240,4	244,5	252,1	258,1	250,5	253,9	261,7	272,8
No Users	166,8	174,9	179,8	183,5	188,0	190,5	183,6	185,4	192,3	199,3
% of active users in total users	43,9	35,1	30,5	30,3	31,3	25,3	28,5	33,6	33,4	33,6

Source: NBS

In the first three quarters of the voluntary pension funds were paid 863.66 million. By the end of 2018 year there were paid a total of 847.43 million, out of which 34.3 percent are individual payments, 28.7 percent were based on employers’ payments to their employees, while 37 percent relates to payments over the pension plan. The great potential for further growth in the number of pension fund members represent companies with a large number of employees. The savings are possible due to the fact that the payment of pension contributions to voluntary pension funds from the employer exempted from payment of income tax and contributions for compulsory social insurance to the amount of 5,757 dinars per employee per month, and to pay the same amount that the employer is done by administrative measure, the suspension of the payment of the employee’s salary, exempt from paying taxes.

Money which have voluntary pension funds, unlike the savings of citizens, is for the most part - even 85.96 percent, in dinars. The remaining part, 14.4 percent, is in euros and dollars.

Most of the money voluntary pension funds are invested in government bonds and those accounted for slightly more than 83 percent of total assets. Then, there is money in shares of 8.55 percent, and the custody accounts and term deposits with banks and to 6.93 percent, and less

than one percent of the funds were invested in bonds of the European Bank for Reconstruction and Development as well as the investment units of open investment funds.

Yields voluntary pension funds depends on the amount and length of payments into the fund and accumulated funds are increasing as a longer period. This type of pension insurance is gaining ground for most users. The problem is the general poverty of the population, because otherwise these funds were more popular.

CONCLUSION

Equalizing the number of employees and the number of pensioners creates a challenge for scientific and professional community around the world. Question is how to solve the problems of public pension funds and how will they survive in the future. The situation in Serbia is very dramatic and the Republic Fund for pension insurance will have to undergo additional reforms. Although the age for retirement is moved, for the future operation of the fund it will not be enough. The pension system, what is in effect, was free to work in the 60th and 70th years of the last century. Back then on one pensioner came about six employees. Nowadays, on one pensioner there is one employee, according to experts, so employees should be four times as much to make the system function in general. All this points to the necessity to reform the public pension system in Serbia, which is totally unsustainable in the long term and does not follow global trends. However, the battle with „time” not only lead Serbia. Pension systems are a problem both in transition and developing countries, and in the developed world economies. As an option for an additional savings of citizens, private pension funds find their place.

REFERENCES

- Holzmann, R., & Palmer, E. E. (Eds.). (2006). Pension reform: issues and prospects for non-financial defined contribution (NDC) schemes. World Bank Publications.
- Kovačević, M., Gavrilović, D., Popović, D., Stevović, M., Sekulić, Lj. i Snančić, K. (2018). Ekonomski, demografski i socijalni efekti različitih scenarija normalizacije odnosa između Beograda i Prištine, Beograd, Fondacija za otvoreno društvo.
- Matković, G., Bajec, J., Mijatović, B., Živković, B., & Stanić, K. (2009). Izazovi uvođenja obaveznog privatnog penzijskog sistema u Srbiji. USAID, Centar za liberalno-demokratske studije, Beograd.
- NBS (2019). Sektor dobrovoljnih penzijskih fondova, Izveštaj za treće tromesečje 2019.
- OECD (2017), Pensions at a Glance 2017: OECD and G20 Indicators, OECD Publishing, Paris. http://dx.doi.org/10.1787/pension_glance-2017-en, 2017.
- Republički zavod za statistiku (2019). Procene stanovništva, 2018.
- Schwarz A. (1996). Taking Stock of Pension Reforms Around the World“, HDNSP, World Bank and Asli Demirguc-Kunt, DECRG, World Bank.

