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Corporate social integration - electronic business and public policies

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The concepts of socially responsible business and socially responsible behaviour are part of a broad CSR (Corporate Social Responsibility) system of values. The corporate social responsibility and sustainable development are forms of the CSR concepts implementation in public policies, among which the policy of energy efficiency. The authors of this paper regard e-Government as one aspect of e-business implementation. The aim of the e-Government is to make the information of public concern transparent and accessible to the citizens, by way of interactive e-services. Our aim in this paper is to extend the focus of research from the corporate social responsibility to the social responsibility of e-Government. Since the e-Government has the capacity of transforming the CSR concept into the concept of corporate social integration, the authors attempt to prove that, in addition to the profit oriented companies, the socially responsible behaviour incorporates the state administration, governmental and non-governmental organizations as well as the networked community of responsible individuals.

1. Introduction

In addition to technological and economic advantages, the electronic business offers opportunities of highly progressive attributes of business. In the traditional business environment, the CSR was originally introduced as a useful tool in public relations that serves to ensure a consistent management of the company's reputation, and only then as a strategic model of sustainable business doing, thoroughly integrated with the social community. The CSR and the sustainability are the ethical choice and the business philosophy that recognize all the social, cultural, and ecological consequences of the business practice and demonstrate the activities that lead to social welfare, but which are outside the interests of the company itself as well as outside the obligations imposed by legal regulations [1] (Pickton, D. and Broderick, A., 2005:229). The arguments in favour of the CSR are related to the CSR impact upon the community, the culture and the environment in which the companies work [2] (Porter, M. & Kramer, M., 2006:81). The attitude that the CSR includes only the business sector, the companies and firms, and that this value concept should be implemented only by the firms and companies is open to criticism. The largest contribution in the field of the CSR promotion was provided by the European Commission. The Government in Europe contributed to the CSR more than any other civil society organization [3] (Mesanovi, E., 2005).

The CSR concept is based on the analysis of the corporate role in the European Union from the aspect of the importance of the corporate influence upon the society and the future of Europe as an economic power. The use of the term "corporate" brings a certain ambiguity

into the understanding of the corporate social responsibility and integration concept. The understanding of this concept implicitly make one think of large corporations, whereas the governmental and the non-governmental sectors, as well as small and medium-sized enterprises, are usually neglected. The problem results from misunderstandings in the cases corporate is viewed only as the corporation attribute. It is necessary that the concept of corporate be redefined, starting from its etymology: the word "corps" is of French origin, first appeared in the XIV century from the Latin word corpus (body). It is of military origin and signifies:

- a) a separate branch or unit of military forces with special purpose;
- b) a tactical unit of a country's military forces, larger than a division, but smaller than the army, under the command of a general and consisting of at least two divisions and several subsidiary troops for action;
- c) a body composed of people acting together and having a common objective .

The original meaning of the word "corporative" (corporativement, fr., in the company, common) developed a host of meanings used today in the management theory, which, if not understood, prevent one from grasping the broadest context of the meaning of the corporate social integration on the Internet. The "corporate" is most commonly associated with a group and an organization, and only then with an incorporated company; the term "corporate state" denotes a big, powerful state that seems to function without human intervention; it is a

¹ The American Heritage® Dictionary of the English Language

state in which large organizations such as commercial unions and employer organizations govern the country and appoint the parliament members. The corporation is a legal body, a legal entity, and the corporativism is the government system in which big, powerful pressure groups affect the state policy [4].

2. Electronic business as function of public policies

The assessment of the e-business impact upon the public policy practices (PIA, Policy Impact Assessment) highlights a large number of aspects the concept of socially responsible e-business is expected to answer. The analysis of the socially responsible electronic business in the function of public policy practices includes the following aspects [5]:

- a) the assessment of the electronic business impact upon environment (EIA, Environment Impact Assessment);
- b) the assessment of the electronic business impact upon society (SIA, Social Impact Assessment);
- c) the assessment of the electronic business upon technology development (TIA, Technology Impact Assessment);
- d) the assessment of the electronic business impact upon health (HIA, Health Impact Assessment).

Firstly, the Internet is an ideal medium for initiatives that are not enforced by legal regulations. Secondly, the socially responsible electronic business creates socially and ecologically more acceptable dimensions of the relations between companies, organizations and institutions and the social community in the on-line area. The implementation of information and communication technologies provides an opportunity for change management in a broader social community, which includes both the pressure groups and the public administration. Electronic business generates new solutions and social innovations that are capable of overcoming the bureaucratic and budgetary constraints of work in state administration. The CSR concept defines the subject of study of the socially responsible electronic business from the aspects of goals, means, results and manifestation - performance. Is it possible to apply the sustainable development concept to the e-business area in the field of energy efficiency? Can e-business help create preconditions for a sustainable development of the global community and state administration, and to what extent?

The socially responsible e-business in the field of energy efficiency means the implementation of information and communication technologies of a low energy intensity, therefore the selection of such technologies is a priori

considered to be an aspect of socially responsible behaviour. The socially responsible e-business, however, is also the goal, the vehicle and the result of the dissemination of information on public policies via web-based technologies and e-media. Consequently, electronic business is one aspect of social innovation with a high potential for improving the awareness of the importance of the public policies. Electronic business, planned and conducted in a socially responsible manner, may be the driving power of sustainable development. The sustainable development means a dynamic process that allows for the realization of all human potentials and improves the quality of living, simultaneously protecting and fostering the systems that make life on the Earth possible. Here we deal with a socio-economic and ecological project with a highly positive goal of improving the quality of human life [6] (Alakeson, V. et al., 2002:16).

In order that the CSR concept be integrated with the concept of electronic business, it is necessary that the meanings of these concepts should be defined, compared and counterposed in the traditional and the on-line environments, respectively. A socially responsible electronic business is a system of values that integrates the concern about the community into all on-line activities, including e-Commerce and e-Government, and, recently, the increasingly popular social networking platforms (Facebook, Twitter, etc.) even the affinity browsers such as Google created special websites dedicated to CSR [7].

The potential of CSR contents dissemination via information and communication technologies is strikingly high. The syntagm socially responsible electronic business refers to value attribute of business doing via the electronic services and is represented by a new attribute of electronic business, the social responsibility. We do not, therefore, talk only about the traditional understanding of the CSR in the on-line environment; we talk about the potential of the CSR to integrate. Even though the CSR is still thought to lack a clearly defined set of general criteria of what this concept includes and which fields it refers to, a new theoretical concept of corporate social integration is ever more present in the CSR theory.

Contrary to the traditional understanding of this concept, the integrated CSR may refer to any sectors, both profit and non-profit ones, whereas the socially responsible business generally refers to the profit oriented companies. In practice, the concepts of the CSR and the socially responsible business are usually equalized, as in the implementation of this concept the companies see a valuable PR tool for reputation management, their goals being, very often, making profit and achieving competitive advantage on the market. While the socially responsible

business refers primarily to the private sector, whose mission is to generate profits, the CSR integration concept includes much broader interactions and mechanisms regulating the market and the relations with the stakeholders. The CSR is important for any interactions of an individual or a state, of the civil and non-profit sectors, of the public and private partnerships, etc. All the dimensions of electronic business, the G2G, G2B, G2C, B2B, B2C, B2G, C2G, C2B, and C2C can be included into the CSR. The corporate sustainability, the sustainable development, the corporate social responsibility, the social contract, the corporate entrepreneurship [8] (Cingula, M. and Čalopa, K., 2008:199), the corporate citizenship and philanthropy - all these are modern concepts that are not only related to the companies and the relationships they have with the social community and the stakeholders, but also to the communications of the governments, activists and the civil sector. The integration depends on the stakeholder interaction in the broadest sense of the word, where the stakeholders are the parties of interest, not only the interested parties (stakeholders). The stakeholders and multistakeholders multiply in practice just as the various aspects of public multiply in practice. According to the authors, contrary to more clearly identified stakeholders, the stakeholders include all parties of interest, even those that did not develop an interest in a certain issue, but have the potential to affect the problem, regardless of whether they create it or solve it. The stakeholders, contrary to the stakeholders and multistakeholders affect and are affected by the goals of an organization, however not of a problem itself, hence the notion of a multistakeholders and a stakeholders networks may become generically linked to the internet community.

The literature on the importance of the interactivity of the CSR issues in the corporate Web presentations also reveals a number of acronyms, CSR/CC/SD [9] (Capriotti, P. & Morreno, A., 2006:85). The CSR, the corporate citizenship and the sustainable development are notions related to both the private, the civil and the public sectors, whether we have in mind the traditional or the on-line environments.

In the networking phase of the CSR promoting much attention is paid to the internet as a communication channel which contributes to the dissemination of information on energy efficiency as well as to the reduction of information asymmetry in this area. The contribution of the Internet in disseminating information and improving the awareness of the socially responsible practices is great. There are a lot of examples of global activities in which almost all stakeholders participate. One example of socially responsible business, a result of the Networking

and the stakeholders interaction is the global campaign titled "Earth Hour (60 Minutes for the Planet)" and organized by the World Wildlife Fund (WWF). The United Nations Secretary General, Ban Ki Moon, invited people all over the world to take part in the WWF campaign "Earth Hour" and unanimously demand, via electronic media, that concrete steps be undertaken to stop climate changes. In his video conference address via the Internet, the Secretary General announced that the "Earth Hour" is an expression of public concern for the issue of climate change, the greatest ever. The public attention is thus drawn to the appeal for reaching a global agreement as to the climate changes in the eve of the recent summit of world leaders in Copenhagen, in December 2009. It was in this way that the stakeholders urged that their representatives should sign the contract to protect the people and the planet. "We need an ambitious, effective and fair agreement, the agreement founded on pure science", said Ban Ki Moon, the UN Secretary General. He insisted on the gravity of the climate changes as well as on the magnitude of the task: "We are moving in a very dangerous direction. Our planet is warming. It is urgent that we should change our habits", said he. "What we need is an ecological development that will bring benefit to all the communities. We need sustainable energy in order that we improve the quality of life and the climate conditions worldwide. This is the path to the future that we have to follow together".

The "Earth Hour" is considered to be the widest spread global campaign ever launched; it is a voice for the future of the Planet Earth. Millions of people contributed by turning off their lamps for an hour. The cities from Las Vegas to Sydney, from Capetown to Beijing, turned off their lightings for a period of one hour [10]. The campaign included 80 countries and 9,000 cities, among them some in Serbia: Belgrade, Novi Sad, Vršac, Niš, etc. A powerful message was sent to the world that it is possible to prevent global warming by a unanimous campaign, via the Internet. The campaign was conducted in print and electronic media, via direct marketing, e-mail and on the most popular social networking platform, Facebook. By way of networking, in only a month, the campaign attracted more than a million followers.

The documents of the Department of Trade and Industry of the Government of the United Kingdom, as well as the Conclusions at the World Bank's conference on CSR, stress the impact of the government and other organizations in the non-profit sector upon the community and the developmental prospects of the CSR [11] (World Bank/DevComm-SDP, 2003). Mr Stephen Timms, Minister of Energy, electronic business and postal services of the UK defines the CSR as the behaviour of the or-

ganizations in the private sector and their contribution to the sustainable development goals. However, he simultaneously insists that this approach and the values it advocates is also important for the organizations, including e-Government. The socially responsible behaviour is an implicit attribute of the companies' business, but also of the business operations of organizations and institutions. The local and the global communities are the end users, and frequently the initiators of business processes, the advocates of two-way communication, which is a specific feature of e-Government. It is not only the companies that have an impact upon the society; the institutions do too, be they profit or non-profit ones. [12] (Valentino, B., 2008:17). The non-governmental organizations are known for their progressive activities, because they "act locally, and think globally". In the integral system of the society's corporate body [4] made up of all the institutions together, the e-Government may also be incorporated into a virtual mechanism of the state which coordinates the work of the system.

If the examples of successful practice are presented via the concern for the community promoted by the most successful companies in the world, the error that it is only them that do business responsibly may be corrected by the examples of successful practice conducted by the European Union, via its directors and the respective agencies. The biggest contribution in the field of the CSR promotion was made by the European Commission. The European Government did more for the CSR than any other civil society organizations [3] (Mesanović, E., 2005). Many Government agencies on all the levels were formed for the purpose of creating the conditions for the implementation of this concept, however, they did not expressly declared themselves as socially responsible organizations. This is because the state is expected to be responsible to the community, therefore the issue of good will is actually a point at issue only in case the principles of obligation and responsibility are not precisely defined. The socially responsible electronic business creates the social community according to the affinity and not the geography principle, nor the principle of hierarchy. Whether the on-line community is profit-oriented or not is another question.

In addition to the free flow of people, goods, capital, and services, the socially responsible electronic business promotes the fifth type of freedom: the free flow of information and knowledge, i.e., the free access to the information of public importance. The information of public importance include financial statements and the reports on the condition of the environment, all the information the governmental bodies collect as they do their job. In the sense of communications, the free access to the in-

formation of public importance and the public right to know are the basic preconditions for the development of democracy and the overall sustainable development of the society. The electronic business creates a knowledge based society and thus contributes to the sustainable community [13] (Turk, V., 2003). E-Business is said to be socially responsible if it incorporates the concern for the society and ecology into all communication processes in the on-line environment. It is in this way that the reengineering of the relationships between the public sphere participants is made and a new quality is added to their networking. The technology itself does not contribute to the sustainable development; it is rather the method of the technology implementation as well as the method of information exchange between the stakeholders, in this case, the e-media, that do it.

The Internet offers a new potential for creating social capital, social debate and interaction in the public sphere. A socially responsible e-business is a set of value concepts, present in the Internet public sphere. Electronic business includes information exchange and building relationships that will be realized via the e-media within the organization and with its external participants and stakeholders. Having in mind that the socially responsible e-business is primarily a value concept, we here analyse those e-business aspects that contribute to the welfare of a broader social community. A socially responsible electronic business creates a knowledge society, a prosperous information society that communicates, exchanges information and does business transactions via electronic services, thus also showing concern for environmental protection.

The technology itself, as well as the techno-economic justification of information and communication technology implementation are not sufficient, although they are the basic preconditions for creating social capital and social innovations as a new manner of organization and building human relations. The social capital here means a social network and the reciprocity norms related to it [14] (Putnam, R., 2002). In addition to the natural, human, manufacturing and financial types of capital, the social capital makes one of five types of the sustainable development capitals [6] (Alekeson, V. et al., 2003:16). In the absence of social innovations, technology would slip away before we managed to use all its potentials in creating a sustainable society [6] (Alakeson, V. et al., 2003:23).

It should not be forgotten that, in addition to social, the socially responsible electronic business includes the ecological innovation, this in turn including the energy efficiency. To take the advantage of digital technologies needs the business policies and governments that foster

social innovations and are in step with technology innovations in the Internet public sphere [15]. The notion of public sphere was elaborated by the German philosopher Habermas, J. (1969). He defined the public sphere as a virtual and imaginary community which does not necessarily exist in a clearly defined physical space [16]. According to Habermas, J. (1969), the public sphere is a homogenous space of incarnated subjects in a symmetric relation who reach the consensus through an argumented debate and presenting value assumptions [17] (Sitarski, M. et al., 2007: op.cit. 9-17). The so far most important results in satisfying the needs of the research into the socially responsible business on the Internet in Serbia are shown in the findings of the empirical research conducted by the Centre for Research into information technologies (CePIT) of the Belgrade Open School (BOŠ), in the publication titled "The Internet and the Public Sphere in Serbia" (2008). Not one research immanently contains the notions of corporate social responsibility and socially responsible electronic business, however, the CePIT research actually deals with the issues of how much, how and whether the Internet is used in Serbia as a means and the medium for discussions on the topics of overall, public concern; which are the websites that serve as the points of exchange of opinions, which issues the discussions deal with, whether these issues have any impact upon the social life, etc. It is in this way that the importance of the Internet is promoted as a social innovation and the use of the information and communication technologies in the public sphere is favoured over the number of the Internet users. The CePIT research pays special attention to the analysis of the websites of the Serbian state institutions, the institutions of local autonomies, the manner in which the socially useful information is presented, the openness of these institutions in terms of their readiness to interact with the visitors, as well as the issues and discussions going on on the interactive services of these websites, provided they are created and available [17]. The conclusion the CePIT has come to in their research of the Internet and the public sphere in Serbia is that the Internet is today one of the social spaces in which citizens can debate on the issues of general concern or at least help introduce some of the issues they find important into the public discourse. The Internet, however, is not only a social space in which such a debate is conducted; it actively transforms the communication to create a new, authentic public sphere [17] (Sitarski et al., 2008:19). It is in this "new, authentic public sphere" that the potential of the "corporate social integration" is perceived.

A socially responsible electronic business in this context refers to the impact the organization has and the services it provides through the digital technologies to the

general social community, the impact including all the stakeholders. The corporate social responsibility of the e-business could be understood as a specific CSR dimension concerned with ecological, economic and social aspects of transactions, generating, exchange and dissemination of information.

The dissemination of information improves our awareness by using information and communication technologies in e-business, e-government and in the information society. In a sense, the socially responsible electronic business implements the same conceptual framework for comparative understanding as is the case with the CSR in the traditional business environment. Contrary to the traditional model, the model of socially responsible electronic business is more dynamic and more transparent. The difference in the CSR between the electronic and the traditional models is in that the structure of stakeholders is more heterogenous in the socially responsible e-business. Another specific feature of the socially responsible e-business concept is the choice of the communication channel(s). Contrary to the traditional business environment, the communication in the e-business is conducted exclusively via the Web-based technologies and e-services. The **socially responsible electronic business** is the e-business as a function of the corporate social integration which is concerned with the following criteria of impact upon the society:

- a) economic, ecological, cultural and social impact of a company, an organization, an institution and its/their services upon a wider social community and stakeholders with whom the company/organization/institution communicates via information and communication technologies;
- b) economic, ecological, cultural and social impact of a company, an organization, an institution and its/their services upon a wider social community and stakeholders with whom the company/organization/institution exchanges information and services via information and communication technologies;
- c) ecological, cultural and social impact of a company, an organization, an institution and its/their services upon a wider social community and stakeholders with whom the company/organization/institution builds relationships, and whose communication/interaction requires the use of the computer network.

Numerous authors, however, are anxious about the negative impact the digital technology has upon the social capital and business. They oppose the glorification of the Internet role in the creation of sustainable community as they maintain that the Internet hinders

the alternative types of thinking and confines the individuals into specific "echo chambers", groups of individuals that think alike [18] (Susnstein, C.R., 2004). Such arguments that oppose a monolithic way of thinking stem from the fact that virtual communication tends to be as short and as sporadic as possible, thus seemingly hindering the building of powerful social networks and social capital. The information and communication technologies, the e-mail, the mobile telephony and video conferences may estrange individuals from the real world, which may in turn result in a situation that we are neither here nor there [19] (Prusak, L. and Cohen, D., 2001).

Some authors maintain that the debate on the Internet should not be focused upon the technology issues anyway, since the Internet is primarily a social space, not a tool [20] (Poster, M., 1995). The Internet is also regarded as a space suitable for a social innovation [6] (Alakeson et al., 2003:23).

3. Information symmetry and network externality

A holistic approach to electronic business integrates technology, economics, society, and ecology. This approach provides a vision of corporate social integration as one aspect of the social innovation and a new method of building the relationship between the organization and its stakeholders. On the basis of the information symmetry and the network externality it is possible to establish a more effective system of socially responsible electronic business in the field of public policies, including the policy of energy efficiency.

The networking perspective and the building of specific relations of interactions between the organizations, the business, the local community and the region in the Internet public sphere may contribute to establishing a more energy efficient ecological system. The electronic business in the field of energy efficiency yield benefits for everybody: the local, the global communities, the planet Earth. Nevertheless, the social potentials the electronic business provide in the field of energy efficiency in the public sphere are not being exploited to a sufficient extent yet.

The reason for this is that the adoption of electronic business is under a significant impact of technological, organizational, management and ecological factors [21] (Tornazky, L.G. and Fleischer, M., 1990). Electronic business is implemented by the middle management - the executives, and the upper management, officials and managers employed in the economy sector and in public administration; however, they

are not all equally involved in the decision making process when the issue of low energy intensity technologies selection for electronic business arises.

A decisive factor for an efficient and socially responsible electronic business in the e-Government is the **information symmetry**, the theory opposite to that of information asymmetry [22] (Lee, H. et al., 2004:1975-86; Chen et al., 2000:436-43; Lai, F. et al., 2007:728). The starting point of the information asymmetry theory is that the information that is subject of exchange and transaction is not evenly distributed throughout the network of participants [23] (Anthony, W.P. and Gales, L.M., 2002). The situation in the exchange of information in which one participant has an advantage over the others is called the information asymmetry [24] (Stigler, G.J. 1961; Akerlof, G.A. 1970). The information symmetry is important for the e-Government users, in this case, the citizens, since it is they who use public services. The same applies to the customers and consumers in e-commerce.

The **network externality** significantly contributes to the institutionalization of electronic business and the reduction of information asymmetry, by disseminating knowledge and collecting information in the network [25] (Lai, F. et al., 2007:728). The network externality may be positive or negative. We talk of a positive externality when the value of the product or a service grows for a consumer with the rise in the number of consumers of identical products and services [26] (Srinivasan, R. et al., 2004:41-58), as is the case of exponential growth in the number of Internet users throughout the world. We have a negative externality in case the value of products and services declines as regards the total number of the users of these products and services, such as is the case of mobile telephony. A positive network externality is also supported by the famous Metcalfe's Law by which the value of the network is proportional to the square of the number of its users [27] (Metcalfe, B., 1995:53). The difference between the positive and the negative network externalities is in the quality, more precisely, in the method and purpose of the network use.

The electronic business in the field of energy efficiency, together with all its ecological, economic, cultural and social, but also with its integrative aspects, is a suitable research area for both the academics and the practitioners. A socially responsible electronic business is intended for both the professionals and the lay public, primarily for the state government institutions which are obliged to do business with the taxpayers in a responsible way.

The definitions of the e-Government basically cover the field of socially responsible electronic business, although

not all its aspects and interactions. They exceed the management of public policies by the central government, since e-Government does not embrace only the local community, but the global community too. The e-Government includes all individuals that use information and communication technologies and are connected via the Internet, but also all the industry sectors.

4. Social responsibility in e-government

A socially responsible electronic business has a potential to use electronic services intended for citizens to the purpose of managing changes in the public government and thus improve the quality of the services provided by the state administration to a significant extent in comparison with the traditional models of communication "over the counter". The question is whether the relationship of the socially responsible electronic business can by any means be regarded as analogue to the relationship between the corporate social responsibility and the business doing in the traditional environment. As regards the fact that the impact factor of the electronic business upon the global community is by far more powerful, it is necessary that the CSR concept be especially directed towards information society, this being the responsibility of the public institutions, primarily the state administration.

The socially responsible electronic business in e-Government can be observed through the economic, social, political, and ecological aspects of information exchange and transactions resulting from the information and communication technologies implementation in the public administration. The results of the CSR realization in the electronic business can be classed into four categories [28] (Codagnone, C., Wimmer, M.A., 2007:16), as follows:

- e-Government,
- information and communication technologies and sustainable development,
- information society,
- Internet economics.

A specific feature of the research into the socially responsible electronic business is in its interdisciplinary character, hence the need for an integrated approach. Such an approach requires the competencies of the experts from various disciplines resulting into innovations and new solutions. Moreover, it is a challenge to go from one discipline to the research and analysis of the interaction of a variety of aspects and their holistic interactions, which presents e-Government as a socio-technical system [28] (Codagnone, C. and Wimmer, M., 2007:14).

The examples of corporate social responsibility can be found not only in the industry sector, but in the public sector as well, just as the examples of socially responsible electronic business are present in the non-commercial services of e-Government and not only in e-commerce.

The dynamics of the Serbian information society development depends on its capability of identifying the barriers to benefits from the e-Government concept. The e-Government services are pointless if the percentage of citizens using these services is low. The change in the perception, attitudes, convictions, behaviours and the raising awareness of the importance of electronic business can help overcome the obstacles in introducing the socially responsible e-Government in both the end users and the state administration itself. The electronization of the state administration, the e-Government, the implementation of the information society development strategy, as well as the e-business strategy, will in the long run result in the improvement in the relationship between the government and government agencies and the internal and the external stakeholders. This interaction can result into a more intensive exchange of information with the stakeholders, and consequently, into the reduction of the information asymmetry.

The sustainable development strategy of the Republic of Serbia (2008) is implicitly based upon the CSR concepts and the socially responsible business. This is by no means accidental, since the exhaustion of fossil fuels and the climate changes have become a global problem, therefore, all the segments of the global community connected via the Internet need to be activated. The raising of awareness of the importance of energy efficiency, of the importance of a rational use of energy and energy sources, as well as a broader use of renewable energy sources via the information and communication technologies is one possible solution to the problem the global community encounters today. In order that the value system underlying the social responsibility as part of the concept of sustainable development be implemented through socially responsible business in e-Government, it is necessary that all these concepts should be integrated into a unique e-Government development strategy, since the socially responsible electronic business is a source of a great potential of the information society.

Starting from the general criteria of the socially responsible electronic business, and taking into consideration the potentials of the impact of the socially responsible electronic business upon the information society, specific categories have been identified that the electronic business and the e-Government should satisfy. In order that an adequate level of social innovation be achieved

in the fields of electronic business, e-Government and the Internet economy it is necessary to:

- Research into the needs of the public sector for new concepts, frameworks and solutions;
- Place emphasis on the innovative solutions that can be developed within the public sector (for example, database on the energy consumed in public facilities, energy balances of cities and municipalities);
- Highlight the innovative application solutions that allow for the implementation of energy efficient technologies in the public sector (for example, tracking and measuring the savings in public lighting via digital technologies);
- Evaluate and analyse the extent to which the issues of energy efficiency are present at the state administration websites, given the complex factors that mutually affect the objectivity of facts as well as the specific interests in a given context;
- Contribute personally to the international standardization and to integration efforts;
- Perform a knowledge transfer and improve the competencies of the ICT sector in the e-Government field;
- Accept the position of a precursor-pioneer and a promoter of socially innovative solutions in the public sector.

The category is defined as a set of attributes (dimensions) that lead to a holistic understanding of e-Government [28] (Codagnone, C. and Wimmer, M., 2007:185). The mutual interactions of the categories of socially responsible electronic business in e-Government are possible to class into seven new sub-categories (according to Wimmer, M., 2008:16) [29]. Their relations of interaction define the specific criteria of the socially responsible electronic business, and these are:

- the state administration / ICT relations: show the manner in which state institutions use ICT in their work and services, whether the interactions are internal or interinstitutional;
- the state administration / society relations: define the quality of interaction between the state administration and society; this quality is also defined by the public services, the e-participation of citizens, orientation towards the user, the users' expectations that the institutions provide services in a traditional way instead in the on-line environment, etc;
- the state administration / economy relations: define whether and in which way the institutions

achieve their goals, whether they do it efficiently and effectively, whether they provide value for money, whether they take into account the cost/benefit analysis and whether they resort to modernization to reduce their costs;

- the society / ICT relations: define in which way and whether citizens use the ICT in their daily activities, what the problems of social changes are and what their impact upon digital stratification, informatic illiteracy, dependance on the ICT is;
- the state administration / economy / ICT interaction relationship: shows the manner in which institutions improve their efficiency and effectiveness through the ICT implementation; the modernization through the ICT implementation is based upon economic factors; the interactions within institutions and between institutions; the focus today is upon the modernization from the economic point of view;
- the state administration / society / economy interaction: shows the manner in which institutions improve their effectiveness and efficiency in their interactions with their users, through organizational change and modernization; this category focuses, among other things, upon efficiency, as well as upon other areas of interaction with those users that do not use the ICT;
- the state administration /society / ICT / economy relationship: achieves improved effectiveness and efficiency as it implements the social values via the modernization of all interactions with the users in that it implements the ICT extensively.

The electronic business in the field of energy efficiency is the object of all the above listed interactions designed to raise awareness of the importance of energy efficiency issues. Only an efficient interaction results in the citizens' e-participation as an institute of effective government. The socially responsible electronic business is expected to bring a larger number of freedoms to the citizens, and requires a greater transparency and flexibility of the electronic public administration.

5. Prospects of csr concept implementation in electronic business

In the first decade of the new millenium, many issues in the fields of economics, law, ethics, social welfare policy, environmental protection and relations between business and the community have become the subjects of scientific study. The new economy is characterised by significant changes in business doing, but also in the social community. The beginnings of the democratization of the society and of the ownership

transformation in the economy have been in progress alongside the informatization of the society. Almost all the changes in the society are preconditioned by the implementation of innovative technologies that allow for the global connections and the sustainable development.

The supreme legal act, the Constitution of the Republic of Serbia, introduced the institute of free access to information of public importance. The Act on free access to information of public importance (2004) acknowledged the citizens the right to be informed of facts of public importance. This right led to the reduction in information asymmetry, which is further corroborated by the fact that in response to this Act, numerous state institutions became more responsible towards the citizens and their human rights. It is for the first time that citizens have the opportunity to actively participate in the decision making process and to use their own initiative, in case the state is not in a position to help them, exercise their basic human rights through the institute of the Commissioner of Information of Public Importance and Personal Data Protection. The electronic business in e-Government resulted in the standardization and automatization of business processes, as well as in a more proactive approach of the institutions and organizations themselves as regards the right of the public to know/to be informed. The greatest benefit from electronic business is enjoyed by the citizens since now they are in a position to actively participate in almost all the processes of public concern. Such is also the right to the access to the information normally available to the state organs in the administration of public control. The prospects of the development of socially responsible electronic business is in the first place in the improvement of the effectiveness and the efficiency of public on-line services towards the citizens. The side effects of this phenomenon are the decentralization of the public administration system and the deregulation process. This threatens the state apparatus. The objectivity, transparency and anti-discriminatory practices are the qualities provided by the information market, and should be the quality of the global Internet economy. The information and communication technologies themselves, however, do not bring the spread, the productive implementation, the management and the access to information of public importance. The ICT themselves do not bring a more democratic society, either. The manner in which the public use the information and communication technologies to access information, the motivation and the level of proactivity of a wider community drives the society nearer to this goal. It is to be assumed that the liberalization in the field of

communications, social and business networking as a result of a rapid development of the Internet will lead to the creation of the information society that will implement a socially responsible electronic business.

The first decade of the twenty-first century was characterised by two big changes:

- One is - globalization. It came as a result of the interdependence of world economies.
- The other is - technological e-volution, the result of the technological revolution of the 1990s.

Both changes are brought forth by the Internet, in that in Serbia a broader implementation of the Internet marked a complex period of transition, too. All these crucial phenomena had their impact upon the present profile of the information society in Serbia. The implementation of the information and communication technologies and the e-Government as part of public sphere, in the context of free access to information of public importance and the socially responsible electronic business, will certainly contribute to the development of e-democracy, but to the overall better life and a more satisfied citizen as well.

The sustainable development means an integral economic, technological, social and cultural development, adjusted to the needs of environmental protection and improvement. It allows for the present and future generations to satisfy their needs and improve the quality of their living (Wikipedia). The term sustainable development itself is linguistically somewhat inadequate and ambiguous. The question is how it is possible to sustain something that is prone to constant change. The development means change, that is, growth, stagnation, or recession. The time we live in is dynamic. In order that the stagnation and recession be prevented, it is necessary that a balance between the natural systems, natural resources and social and ecological challenges the society, the state and the mankind in general are faced with be established.

Starting from 2005, Europe provides to its citizens the modern, on-line public services including the services of the government, the training, and the health care services. The users have the access to the broadband Internet at rather competitive prices [30]. In its Communication to the European Parliament, the Council of Europe and the European Economic and Social Committee (COM 2005) the Commission of European Communities expressly states that Europe is the pillar of excellence in the field of corporate social responsibility and that the CSR role can be crucial in the sustainable development in raising the innovative European potential and competitiveness.

If the broadband Internet access is ensured and the techno-economic moment is met, with the achievement of a certain level of social cohesion, e-Government may well become the most highly developed form of socially responsible electronic business.

Having in mind the right to the free access to information of public importance, the information as a means and the information as a goal, the e-Government is a social space and a public sphere for generating, storing and using information of public importance, using information and communication technologies. It fosters the citizens' e-participation and strives to improve the efficiency, performance, and transparency of the state administration activities.

The state government collects, processes and offers the information provided in the course of its work, and besides, it generates information necessary in the work and in its decision making process. This information becomes ever more important if used by those it is meant for. The success of e-Government depends upon the proactivity of the citizens as latent decision makers.

The conclusion of the Communication (COM 2006) of the i2010 e-Government Action Plan on fostering the e-Government in Europe says that an effective and innovative public administration is of crucial importance for a global competitiveness of Europe. E-Government is regarded as a key to open the potentials of information and knowledge in the public sector. The socially responsible electronic business is possible to be most broadly understood as a response of organizations and institutions to the concept of sustainable development, but also as the response of e-Government to the demands of sustainable development. If the prefix e- marked a new channel of communication via digital technologies, a specific framework would be established that would exceed the meaning of the notion of the socially responsible business to translate it into the concept of corporate social integrations.

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Management Accounting Statements for the Purpose of Decision Making in Banks

UDC: 657.375.05:336.71 ; 005.52:005.33

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The influence of the environment on bank development resulted in a new trend of banking services development, and this in turn resulted into a range of information necessary for bank management to monitor certain aspects of business, do risk assessment, better market positioning in a competitive environment, but also improve in quality business decision-making. Special attention is paid to defining a quality system of management accounting of a business bank from an experienced professional's point of view, starting with the specifics of management and decision-making in a business bank, whose basic goal is defining the elements of a system of efficient and effective management accounting. It defines the three basic segments of management accounting of a business bank: the Segment of strategic management; the Segment of performances; the Segment of risks management, where for each of the mentioned segments it defines their look, contents and time dynamics of information it is supposed to contain, as well as the level of management structure of the bank requiring the report. It also specifies the purposes of the report, i.e. the types of decisions based on specific reports.

1. Introduction

Banking today is a business undergoing a continual process of change. It cannot be perceived as something special, it is rather something that keeps getting newer and newer every day – it offers new services, performs integration and consolidation into larger and more comprehensive business enterprises that are no longer to be recognized only as banking business operations. It also adopts new technologies that change faster than a majority of us is capable of tracking and is faced with a large number of rules that keep changing, while an increasing number of nations collaborate for the purpose of regulating and controlling banks and other financial institutions in the service of their citizens. It is for these reasons that managing the bank, and especially business decision making, has become highly complicated. In other words, it is necessary that the bank management dispose of quality and up-to-date information, both from the environment and from within the bank business system. (PIS) This can explain why the importance of the so-called Professional Information System, meant to improve the flexibility and efficiency of banking business, is growing. It is also important that the PIS should not be exhausted in providing information that describe only the past and the present of certain business movements and conditions. On the contrary, since the business activities of any organization are oriented towards the future, towards achieving future development goals, the purpose of the PIS is to increasingly support the future business decision making and the future business policies. This actually means that it has to disseminate programme information, plan information, information on

prospective limiting factors, on prospective positive factors, as well as information on possible corrective factors. The result of such management requirements is the emergence of the management accounting segment in organizations, banks included.

2. The management process and the management accounting and reporting system

In the conditions of highly dynamic changes in the business environment the top management level in any business entity encounters important and increasing challenges in the business goals achieving process. The top managers make decisions and initiate activities that cover a rather wide range of operations – from organizing daily operations, to defining and implementing a long-term development strategy. The precondition of a successful organizational performance is the presence of an adequate management accounting and reporting system that provides timely and accurate information necessary for managerial decision making. In this context, every business subject must define and develop a system of management accounting and reporting which will allow for the identification, measurement, analysis and correct interpretation of information and data in order that all projected organizational goals should be achieved. Consequently, the business bank, as a complex organizational form must have a well developed, reliable, and efficient management accounting and reporting system. It is evident that the process of *successful* management means the existence of a strong correlation link between the system that “*generates*“ managerial information and the decision making system. Namely, the precondition for correct managerial decisions making is the establish-

ing of clear, direct and timely information flows towards the top management, as well as towards the middle level and lower level managements. A rather dynamic development of market environment, the increasing complexity of the structure of the products and services delivered to the clients, the *pressure* of regulatory restrictions etc., set additional barriers and challenges in the business bank management process. The characteristics of the environment the banks do business in put the banks into a specific position where a highly sophisticated managerial information is needed in order that the defined business goals should be achieved. It is for these reasons that the management accounting and reporting system is in practice often extended to the fields of: *strategic management*, where the stress is put upon the “provision” of information and data necessary for strategic (long-term) decision making; *performance management*, concerned with the development of business (operational) decision making through performance management within the organization; and the field of *risk management*, where the set goals are achieved through the development of the practices of identifying, measuring, managing and reporting on risk exposures. In this context, the primary objective of the established management accounting and reporting system in a business bank is to provide an adequate support to the top management in the process of:¹

- Strategy formulation;
- Business activities planning and defining;
- Optimal use of scarce resources and efficient business decision making;
- Preserving the bank’s business property.

The management accounting and reporting system established on such bases also assumes a new role and importance of the individuals responsible for creating such reports. According to one definition, the person in charge of accounting reports management (the *management accountant*) “implements his/her professional knowledge and skills to provide and present financial and other reports in such a manner as to give an adequate support to the top management both in policy formulating and in the process of planning and controlling the business operations under way”. Based on this definition, it is evident that their activities are oriented towards the future and the decision making that will affect the bank’s business operations in the period to come, rather than towards the bookkeeping and historical tracking of the generated accounting data. Consistent with other roles in the present organizational scheme of the bank, the role of the individuals in charge of the management

accounting and reporting system functioning is twofold. On one hand, they ensure the information flow towards business functions, whereas on the other, they direct, report and coordinate the operation of the financial (accounting) function. Generally, their activities are related to the planning and forecasting the movements of basic business indicators movements, to the analysis of the variants of the results achieved, to cost control and tracking, etc. In practice, the functions of management and financial accounting and reporting systems usually merge. The essential difference is that the main purpose of management accounting is to supply the top management with adequate information required in the management and decision making processes, while the task of the financial accounting and reporting is primarily to provide and offer financial information to the stakeholders outside the organization (shareholders, creditors, regulatory agencies, tax authorities, etc.). Essentially, financial accounting is part of management accounting and reporting. Namely, the reports made within management accounting may be generated for any period (daily, weekly, monthly, etc.) and are primarily used for monitoring the results achieved and for future movements forecasting (the so-called “*future looking*”). On the other hand, financial reports are usually generated for a strictly defined period of time (for example, one fiscal year). Financial reports are based on historical data and are used by the individuals outside the bank in order that they should make adequate financial decisions.

3. Elements of management accounting and reporting system in the business bank

The very design, structure and complexity of the management accounting and reporting system, the number of participants in the system, and the number of generated reports/analyses are directly preconditioned by the size and complexity of the bank itself (or any other organization, for that matter). More complex and larger business systems are in themselves assumed to have a more highly developed structure of management accounting and reporting characterised by both a larger number of forms of reports and the (hierarchical) lines of reporting (Figure 1).

The general categorization of reports assumes grouping the reports/information into segments of strategic management, the segment of the operative, or performance management as well as the risk management segment (Figure 2). This classification is only conditional, given that the contents of the segments are interrelated and interconditioned, however, it is essentially based on the difference among the end users, the thoroughness of contents and the *provision* rates.

¹ Bhimani, A. (2006) *Contemporary Issues in Management Accounting*, Oxford University Press: Oxford.

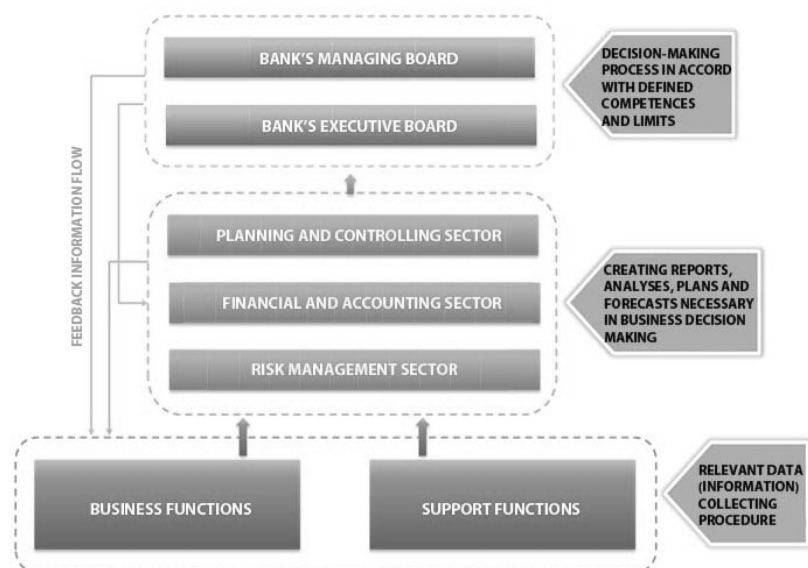


Figure 1: Basic factors of the management accounting and reporting system and the information flow²

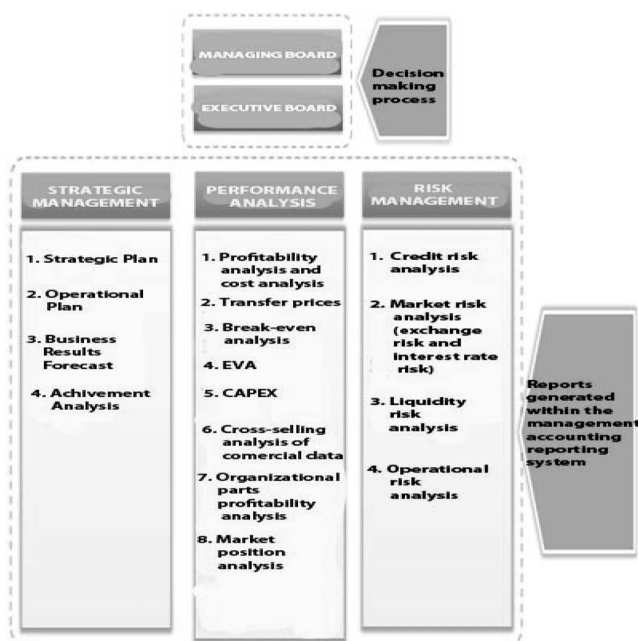


Figure 2: Review of basic reports generated in the management accounting and reporting system³

4. The strategic management segment

The entire flow, from creating to communicating/presenting the documents classed within this category is connected to the strategic management and decision making. Involved in the creation process are all the basic and subsidiary bank functions (with the coordination of the planning and reporting functions), whereas the created documents are exclusively meant for the top management level. Simultaneously, as the

strategic development of the bank is directly related to the parent bank developmental plans, in the procedure of generating these documents there is a direct interaction between the subsidiary bank and the parent group (Figure 3).

When dealing with complex international financial organizations, the management accounting and reporting system is normally based on a standardized

² Žarkić-Joksimović N. "Upravljanje finansijama", FON, Beograd, 2008.

³ Žarkić-Joksimović N. "Upravljanje finansijama", FON, Beograd, 2008.

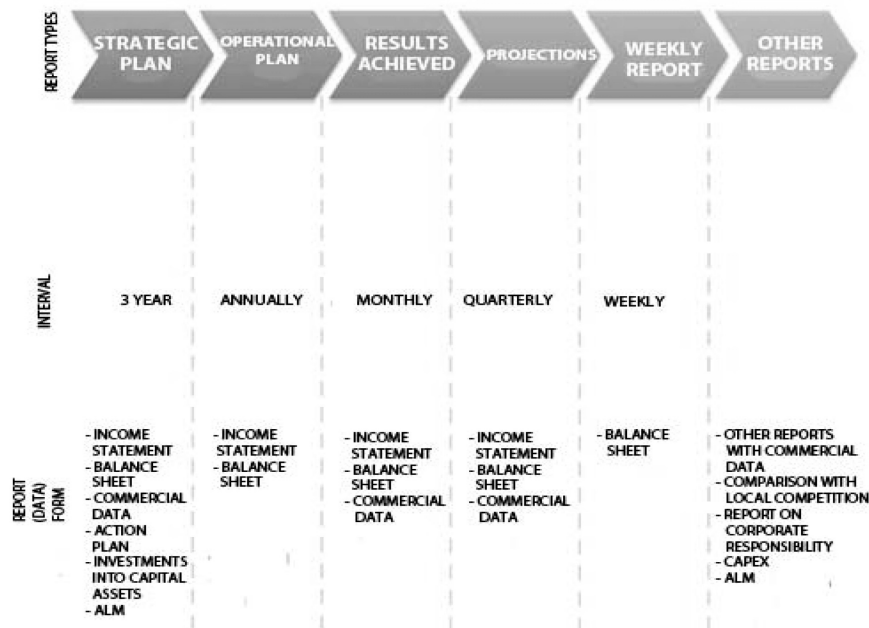


Figure 3: Reporting flow of subsidiary company towards parent banking group⁴

methodology that allows for creating unified forms that will in turn make the comparison of presented information possible. The standard methodology implementation assumes:⁵

- standardized database forming and maintenance;
- standardized reports creating and submitting;
- implementing international accounting standards in reporting;
- reporting in local currency; and
- using the English language as the language of communication.

Strategic planning is a process of the development strategy defining as well as the decision making process as regards the available resources allocation, in order that the adopted strategy should be implemented. In a sense, strategic planning defines the direction the organization should follow. It is of essential importance for any organization that it define answers to three strategic questions: *where the company is now, which is the direction it should follow, and which are the ways to accomplish it.* The document that is to contain the answers to these questions is the strategic plan. The strategic plan usually covers a period of three years. On the basis of the strategic plan the so-called operational plan is devised; this covers a shorter period of time (most often a year) and is more detailed to a considerable extent.

⁴ Arnold A., Hope B. "Accounting for Management Decision", Prentice Hall, London, 1990.

⁵ Davis, S. and Albright, T. (2004) An investigation of the effect of Balanced Scorecard implementation on financial performance, *Management Accounting Research*, 15, pp. 135-153.

The last decade has witnessed significant changes in the business bank budgeting process. In the previous period, the budget preparation used to be a regulatory obligation, where the banks attempted to estimate their costs and income in the following year. Such an approach was promptly changed, as the market environment became considerably more dynamic, better organized and more competitive. Accordingly, in order that they succeed, banks have to constantly improve their capabilities of correctly predicting the future business operations, as well as of correctly estimating the required resources. In other words, in order to remain profitable, banks can no longer *afford* any discrepancies between the anticipated income and the anticipated costs.

Consequently, the tools implemented in the process itself (the reporting system, in the first place) have become more integrated and more detailed, alongside the growing importance of the budgeting process. The quality of being more detailed, however, does not assume a situation in which the reports containing a large scope of information are submitted to the top management. A more detailed reporting is required from the business functions/segments that generate larger costs and incomes for the bank. It is for this reason that the key indicators for performance measuring (key performance indicators - KPIs, Figure 4) have lately been introduced into the reporting process. The primary goal is to give support to the management in order that it should be constantly focused upon the basic generators of income growth and costs in the bank.

Basic year	Plan vs Basic year				Plan	P-year 2 vs year 1			Plan Year 3 vs year 2		
	Year 1	abs.	%	Year 2		abs.	%	Year 3	abs.	%	
16,789	19,569	2,780	17%	Net operational margin	21,688	2,119	13%	24,898	3,154	13%	
7,065	7,956	891	13%	Total operational expenses	8,455	499	11%	9,544	1,002	11%	
9,724	11,613	1,889	19%	Net operational profit	13,233	1,620	2%	15,354	2,152	2%	
4,200	5,900	1,700	40%	Expenses of reserving for credit risk	6,899	999	23%	7,159	-651	-8%	
403	120	-283	-70%	Other expenses of reserving	200	80	67%	200	0	0%	
5,121	5,593	472	9%	Net pre tax profit	6,134	541	-87%	7,995	2,804	11%	
-516	-402	114	-22%	Profit tax	-579	-177	44%	-860	-280	48%	
4,605	5,191	586	13%	Net profit after tax	5,555	364	-43%	7,135	2,523	59%	
5.9%	5.7%	-0.3%	-4%	Interest margin	5.3%	-0.4%	-6%	5.1%	-0.2%	-5%	
42.1%	40.7%	-1.4%	-3%	Cost/income	39.0%	23.5%	82%	38.3%	31.8%	81%	
2,055	2,031	-24		Total number of employees	2,069	38		2,100	31		
170	182	12		Total number of branch offices	192	10		210	18		

Figure 4: Review of key performance indicators⁶

Regardless of the reporting model adopted, it is general practice that a majority of business banks today budget all their balance sheet accounts at various levels of detail. The concept is such that the top management is now presented basic data, so that it should be able to focus more upon the most important business indicators. If necessary, the details underlying the aggregate data are given at request. In this way, the top management level in the bank is in a position to pay more attention to the analysis of the key indicators and take adequate steps. Simultaneously, it is of ut-

most importance for the management that all the presented data be accurate and clearly formulated, so that the risk of wrong management decision making should be minimized.

Strategic and operative plan

When the bank does business within a financial group, the strategic plan creating process is initiated by the parent bank and it is carried out through a sequence of interactions (Figure 5).

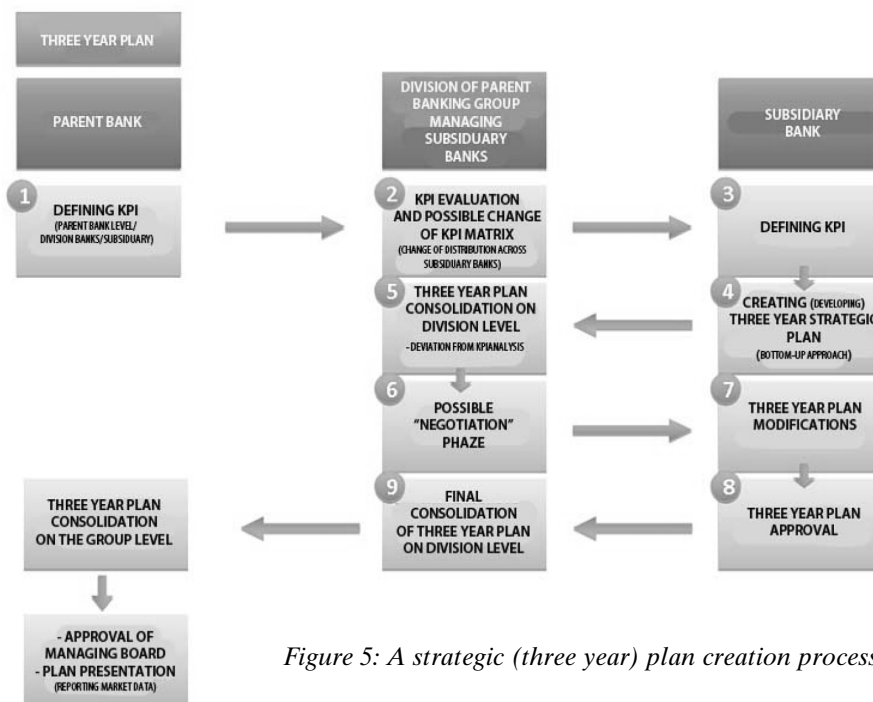


Figure 5: A strategic (three year) plan creation process⁷

⁶ Hopper, T., Northcott, D. and Scapens, D. (eds) (2007), *Issues in Management Accounting*, 3rd edition, FT/Prentice Hall: Harlow.

⁷ Arnold A., Hope B. "Accounting for Management Decision", Prentice Hall, London, 1990.

The strategic plan is essentially a formalized report containing a set of business objectives to be achieved, as well as the execution plan. The strategic plan may be *focused* upon internal and external users. Externally oriented strategic plans are predominantly oriented towards the goals important for all the so-called external *stakeholders*, above all the (prospective) investors and clients. On the other hand, internally oriented strategic plans include the so-called meta-goals, the achievement of which assumes the achievement of the so-called external goals. To this category belong the new product

and service development, the IT systems development, financial and organizational restructuring, etc. the strategic plan format itself depends on the context of its implementation. It is not (un)usual that organizations use a number of forms of strategic plan presentation. Structurally, the strategic plan is composed of two parts – one is qualitative and the other is quantitative. The qualitative part contains the macroeconomic scenario analyses, the SWOT analysis, the company's mission, the strategic guidelines as well as the action plan to ensure that the the plans defined are achieved (Figure 6).

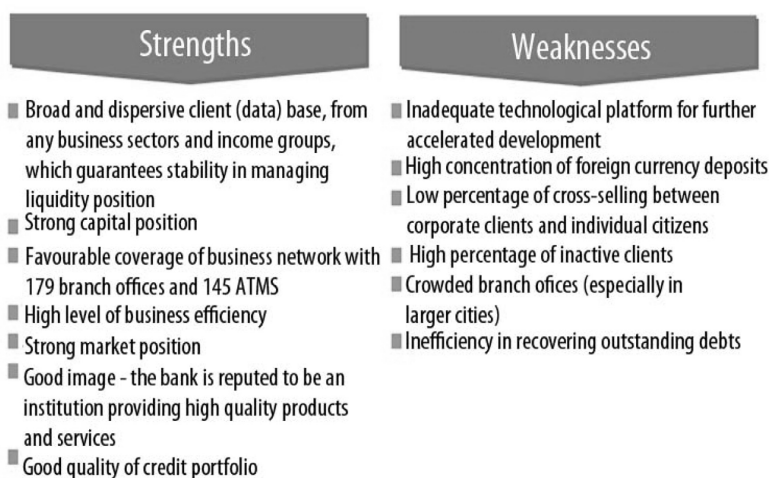
Serbia: Macroeconomic scenario

	Unit	Note	2005	2006	2007	2008	2009E	2010E	2011E
Real GDP y/y	%	(1)	6.0	5.7	7.5	5.7	1.0	2.0	3.5
Nominal GDP	RSD, bn	(1)	1,750.0	2,042.0	2,338.8	2,773.8	3,023.5	3,265.4	3,526.6
Per capita GDP	RSD, th	(1)	235	275	315	376	411	445	482
Inflation y/y (average)	%		17.3	12.7	6.8	12.9	8.0	6.0	4.5
EUR/RSD (average)	RSD per Euro		83.72	84.19	79.67	81.46	94.00	93.65	92.73
EUR/RSD (end of period)	RSD per Euro		85.16	79.17	78.44	89.70	94.00	93.30	92.15
Interest rate on currency market (aver.)	%	(2)	n.a.	19.62	10.49	14.60	15.38	12.75	12.25
Interest rate on currency market	%	(2)	n.a.	15.30	9.57	17.75	13.00	12.50	12.00
Interest rate on credits	%		n.a.	16.90	12.50	17.80	18.10	16.00	15.60
Interest rate on deposits	%		n.a.	5.12	4.39	6.80	7.42	4.80	4.30
Bank credits y/y	% RSD	(3)	53.9	17.26	40.17	40.00	6.75	8.00	10.00
Bank deposits y/y	% RSD	(4)	46.5	38.58	50.95	11.00	9.00	8.80	9.60
Bank credits	RSD, bn		487.4	594.3	815.0	1,141.0	1,218.0	1,315.5	1,447.0
Bank deposits	RSD, bn		398.1	555.6	816.2	906.0	987.5	1,074.4	1,177.6

Figure 6: Abstract of the strategic plan qualitative part^s
 (a) Basic macroeconomic indicators

(b) SWOT analysis

SWOT analysis



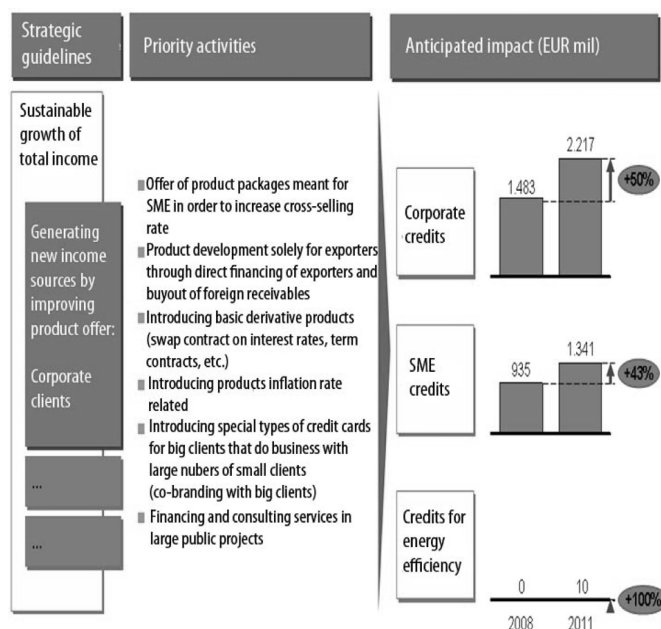
^s Davis, S. and Albright, T. (2004) An investigation of the effect of Balanced Scorecard implementation on financial performance, *Management Accounting Research*, 15, pp. 135-153.

SWOT analysis

Opportunities	Threats
<ul style="list-style-type: none"> ■ Still insufficient market penetration (low level of credit/GDP ratio compared to other countries in the region) ■ "Taking over" a number of dissatisfied clients of other banks, using a high quality level of the bank's product and services ■ Making use of the parent bank brand advantages ■ Development of investment banking product and integration into the offer to corporate clients ■ Opportunities for further improvement of business efficiency ■ Trained junior staff ■ Improving offer through innovative and more modern products 	<ul style="list-style-type: none"> ■ Spread of crisis to nationaleconomy (recession) threatens the opportunities for further growth: <ul style="list-style-type: none"> □ Slows down the growth of total amounts of credits and deposits (high volatility in interest rate margins) □ Unpredictability of inflation and foreign currency rate trends ■ Additional regulatory constraints that may limit growth ■ Pressure upon prices due to competition ■ Decline in credit portfolio quality (especially in certain foreign currency credits due to the decline in the national currency value)

(c) Abstract from action plan

Action plan



The quantitative part consists of financial projections of the balance sheet and income statement positions, as well as of the projections of a set of selected financial reports (Figure 7). More precisely, the qualitative plan displays several-year (most frequently three year) projections:⁹

- the balance sheet position, followed by the comments on anticipated trends;
- the income statement position, with a special account on the trends of net operational

income, operational costs, operational income and the expenses for reserving;

- basic performance indicators, including:

a) Profitability indicators

ROA – returns on total assets

ROE – returns on bank equity

b) Interest rate margins indicators

Interestbearing assets/total assets

Average interest rate on interest bearing assets

Average interest rate on interest bearing liabilities (sources of financing)

⁹ Major, M. (2007) Activity based costing and management: a critical review, in Hopper, T., Northcott, D. and Scapens, R. (eds) Issues in Management Accounting, 3rd edition, FT Prentice Hall: Harlow.

c) Capital adequacy indicators

Total capital/total assets
Capital assets/total assets

d) Growth trend indicators

Total assets growth rate
Interest bearing assets growth rate
Loan growth rate
Deposit growth rate

e) Liquidity indicators

Total loans/deposits
Total loans/deposits+capital

The capital, where it is necessary that in all the projection years the criterion of minimum capital level stipulated by law is satisfied. In case the projections show that it is necessary that more capital be raised, possible modalities of equity investment/rise of capital adequacy indicators can be listed.

6. Conclusion

Contrary to many other business operations, the banking business operations require not only the technical knowledge but also the expertise, and not one *or* the other. People gain confidence in the bank they do business with and rely on its honesty, reliability and stability.

The managers providing banking services never stop learning, since their job requires that they get and show new knowledge daily, and the clients and owners expect the manager to be "beyond average", regardless of how fast the environment changes.

It is obvious that the globalization processes pervading the world economy have brought significant changes into the banking business. Banks have grown to be more and more similar to financial supermarkets offering a comprehensive service, from classic business operations, to investment banking, to insurance, to transactions with securities. Besides, new jobs and new technological solutions make it a necessity for the banks to adapt continually, search for new models and tools.

In order to perform this new role of the bank in a complex environment, the bank, among other things, has to have a well developed management accounting and reporting system as a significant decision making support.

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Production Strategy and competitiveness of the Date industry in the United Arab Emirates

UDC: 005.21:[338.45:634.613(536.2)

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This exploratory research will provide an overview of strategic management in the "Date industry" in the United Arab Emirates. This research provides an overview of strategic management. A practical understanding of the strategic-management process is introduced. In addition, the research initiates discussion of the mission and goals of the strategic management in the Date industry.

Strengths, Weaknesses, Opportunities and Threats, the SWOT analysis will be undertaken and strategies will be proposed that should keep the management going with success.

In this paper the basic activities and terms in strategic management are defined. The benefits of strategic management to the company are presented. Important relationships between business and strategic management are discussed.

The research initiates the discussion on the issues such as: global considerations, and the strategic implications of the natural environment.

The research findings show that the new role of the management in implementing effective strategy(s), is through the integration and provision the guidelines for other employees in the company. These roles must become the thought leaders in their discipline and actively pursued across all the departments and among employees. There is a need for training programs for the employees in order that the customer services, satisfaction and communication with customers should be improved and achieved effectively and efficiently.

1. Introduction

In its broadest sense, strategy is the means by which an individual or and organization achieve their objectives. This definition refers to the plans, policies, and principles that guide and unify a number of specific activities (Smith, 2005). Common to the different definitions of business strategy is the notion that strategy is focused on achieving certain goals, that the critical actions that make up a strategy involve allocation of resources, and that strategy implies some consistency, integration, or cohesiveness (Harris and Blair, 2006).

Enterprises in a particular sector or industry need business strategies to give them direction and purpose, to deploy resources in the most effective and efficient manner, and to coordinate the decisions made by different individuals (Wheelen and Hunger, 2006).

Important aspects of strategy formulation include developing a business mission, performing an external audit, conducting an internal audit, generating alternative strategies, and choosing among alternative strategies (Borgonovo, 2006). Performing an external audit is generally most time consuming. Effective management relies much more on control mechanisms that are personal and proactive. When such issues are identified, the old policy of top-down interference must be replaced by the policy driven by the organization level support (Yip, 2004).

The firm's strategy represents a model or a policy for harvesting profits from its business. In business literature a policy is preliminary to a strategy, and it is only concerned with the viability of the basic business concepts. In any case the firm still needs a strategy that will allow it to survive against competitors that implement the same business model or policy (Bieber, et al, 2002).

Maximizing responsiveness and adaptability requires that strategic planning process typically combine both top-down and bottom-up strategy making top management set guidelines in the form of mission statements, business principles, and performance targets while the individual business units take the lead in formulating strategic plans (Grant,2003).

Strategy is concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment. For Grant (2008), the firm needs to identify the profit opportunities in its external environment. An increased emphasis on the role of resources and capabilities as the basis for strategy formulating is the result of two factors. Firstly, as firms' industry environment has become more unstable, the internal resources and capabilities, rather than external market focus, are viewed as a more secure basis for strategy formulating. Secondly, it has become increasingly apparent that it is the competitive advantage rather than industry attractiveness that is the primary source of superior profitability (Grant, 2008).

The first section of the research consists of the introduction on the strategic-management techniques, followed by a brief history of the selected company. The second section deals with the mission, goals, and strategies used by the management. Attention is also paid to the Management Implementation of Strategy.

Special attention is paid to developing a successful strategy. The management new strategy is mentioned before the conclusion section.

2. Al-Ain Date Factory

The strategic goal of the “Al- Ain Date Factory” management is to produce and market superior quality of Date that meets or exceeds international standards. The “Date Factory” is a publicly owned Enterprise in Al-Ain, United Arab Emirates, established 13 years ago, in 1996, within the Food Industry sector. The number of employees is 153; out of these, 53 individuals are engaged in the management.

The management implements a comprehensive approach which establishes quality controls at all levels of date production and processing. Since it is not merely a date processing plant, it stands alone, far ahead of all other Emirates date companies with its unique approach to date production and its commitment to quality.

The United Arab Emirates is one of the largest producers of dates in the world. People in the Emirates are among the largest consumers of this product, and many are connoisseurs. The United Arab Emirates is rich in many types, shapes and colors of dates that are not known nor found anywhere else. In order to be properly appreciated in new and sophisticated markets, it is important that the Emirates’ dates be well cared for, well handled and beautifully packaged.

In the discussion the heads of departments in the company claimed that in the “United Arab Emirates”, small (fewer than 59 employees) and medium sized (60-199 employees) enterprises - According to the Chamber of Commerce and Industry Classification - to date have not lived up to their potential for a number of reasons.

3. Mission of the “Date Factory”

The mission is a statement of purpose; what the organization seeks to achieve in the long term, but like the vision, the mission does not provide a distinct statement of strategy but offers guidelines to the overall direction in which the strategy will take the organization (Pfeffer and Sutton, 2006). In our case the mission of

the management is to fulfill customer needs and desires by producing high quality dates and management is committed to achieving this goal. So a clear mission statement is the most important strategic-management tool.

4. Goals of the “Date Factory”

Goals are an aspiration view of what the organization will be like in the future. Goals in general are the anticipated image of the company if it succeeds in implementing its potentials and all the human potential (Moeran, 2005) to achieve it. The management strategic goals, like most announcements in the business, can be found on the websites managed by the Government through the “Chamber of Commerce and Industry” but tend to be too idealized to offer a clear guidance to the respective industry.

In general, the goals of the management are to keep customers happy, to sell the product while it is fresh, and to create value in everything the management does. Reaching agreement on formal vision and mission statements can greatly facilitate the process of reaching agreement on the organization’s strategies, objectives, and policies. Organizational success depends on a reasonable agreement on these issues.

5. The Strategy of the “Date Factory”

In the case of the startup enterprise, strategy is usually written down in the business plan that was prepared to raise capital. In the case of the established companies, the management strategy is communicated in a number of ways, such as the vision, the mission, through business model, or in terms of a strategic plan, which has been the case in undertaking this research (Nickerson and Zenger, 2004).

The best approach to a strategy is via the analysis of both the external and the internal factors. This strategy is fitted to the commoditizing date market, where there are few advantages from global spread. In other cases, many similar companies have failed to align their strategies to their internal resources and capacities (Nerkar and Roberts, 2004).

Fundamental to this view, a strategy set by Date Factory’s management is achieved through the link between the firm and its external environment. The present management strategy is consistent with its external environment, and with its internal environment - its goals and values, resources and capabilities, its structure and system. The management strategy is concerned with the failure of similar enterprises caused by lack of consis-

cy with either the internal or external environment.

The marketing manager expressed his concern that the main problem of the future strategy was its growth – orientation, which emphasized superior performance. This is, however, a problem with nationwide effects. A critical issue for the Date industry in the coming years will be whether it disposes of enough resources (natural or technological) to continue to compete head-to head with other local private companies in the market for a better and higher quality production.

Developing the date sector is critical to the management in our research because much of the slow-down in employment and non-oil growth has stemmed from the decline over time in the government’s ability, simply through its own expenditures, to stimulate this sector output and expenditures, whereas the keys to revitalize this sector in the economy are in general through diversification, modernization, and increased competitiveness across the whole spectrum of private and public enterprises in this industry.

This sector is still the second after the oil-sector to dominate the economy in general and the manufacturing sector in particular. This phenomenon can be characterized as a single-track development strategy, with a focus on the modern export-oriented segment of the economy. The other aim is serving the society in terms of jobs creation. Therefore, the diversification strategy is still relatively modest and is adopted with a strong concentration upon improving the quality and the quantity of date (Chamber of Commerce, 2008).

Since the oil/gas/hydrocarbon sectors are largely capital intensive, they are not a dynamic source of jobs, at least of the magnitude that is currently required. A stronger diversification is needed and should proceed based on the exploitation of comparative advantages such as location and natural resources. Here, the company as a medium-sized enterprise that was often neglected or overlooked in the past, can play an important role in solving, partly, the unemployment problems in the province (Al- Ain and Abu Dhabi).

In the United Arab Emirate’s case, the medium-sized enterprises such as our company have the potential to play a variety of important roles: (a) selling their own products, usually finished goods, (b) acting as either subcontractors for or (c) suppliers of raw materials (or semi-products) for larger multinational or local enterprises. There are several great potentialities in creating a large number of jobs at relatively low costs.

6. Management Implementation of Strategy

Although the implementation of the business strategy may seem the most obvious of tasks for the management, it is by no means the easiest. The first challenge for the strategic management stems from the multiplicity and diversity of constituents whose demands and pressure compete for the manager’s attention (Grant, 2008). Being part of the local industry and involved in international marketing seems to earn a special status among many national organizations and be subject to a different and a more intense type of pressure than that put on other local companies.

In this respect the Government (as the owner of the company) should not be suspicious of the management’s motives but should support the management efforts fully, and customers should understand the way the management operate, and therefore fully appreciate the significance of these demands and pressures.

In the business literature, strategy implementation is often considered to be the most difficult stage in strategic management because it requires discipline, sacrifice, commitment, and hard work from all employees and managers. It is always more difficult to do something than to say you’re going to do it (Rosenkopf and Almeida, 2003).

In addition, the management’s strategic implementation task is complicated by the management’s expectation that managers take the broad company’s goals and strategies and translate them into specific actions that are responsive to the needs of the working environment.

The six steps defined by Robbins and Coulter (2005), are regarded as the means by which the strategic process is accomplished. Distinguishing between the external and the internal environment of the firm is common to most approaches to the strategy analysis. The best known and most widely used of these approaches is the SWOT framework, which classifies the various influences on a firm’s strategy into four categories: Strengths, Weaknesses, Opportunities, and Threats.

The first two categories, strengths and weaknesses, are related to the internal environment, while the other two categories, opportunities and threats, are related to the external environment. The SWOT analysis can be especially useful when trying to decide whether or not to embark on a certain strategy by determining if the pros outweigh the cons (Santos and Eisenhardt, 2005).

The aim of the SWOT analysis involves specifying the objective of the management as well as identifying the

internal and external factors that may be favorable or unfavorable to achieving goals. Strengths, in the SWOT analysis, are a company's capabilities and resources that allow it to engage in activities to generate economic value and perhaps competitive advantage. In our case the company's strengths may be in its ability to create unique products and derive a high-level customer satisfaction. The company's weaknesses are caused by the lack of resources or capabilities, which can prevent it from generating economic value or gaining a competitive advantage to enact the company's strategy (Dane and Pratt, 2007).

For the company in our case, there are many examples of organizational weaknesses. For example, the management has a large, bureaucratic structure that limits its ability to compete with other similar companies. Another weakness of the present management is that the company has higher labor costs than a competitor who can achieve similar performance at a lower labor cost, and the absence from the different retail markets.

Opportunities provide the organization with a chance to improve its performance and its competitive advantage. The convenient opportunities for the management as a strategy may arise when products and services can be offered at different times and in different locations. For instance, the increased use of the Internet has offered numerous opportunities for companies to expand their product sales (Aaker, 2004).

Threats can include an individual, group, or organization outside the company that aim to reduce the level of the company's performance. The company's management faces threats in its environment. The main threat for the present management may come from new products or services from other companies whose aim is to minimize our company's competitive advantage.

Which is better, a two-way distinction between internal and external influences or the four-way SWOT taxonomy? The answer is that if the SWOT is sensible or worth while, the internal factors should be regarded as strengths and weaknesses while the external factors should be viewed as opportunities and threats. In practice, such distinctions are difficult. According to Robbins and Coulter, each firm is constrained by the resources and capabilities it has available (Robbins, and Coulter, 2005).

Pressured from without and constrained from within, the strategic management needs keen administrative sense to plot the correct behavior in which they can operate. The action decided upon must be sensitive

enough to respect the limits of the diverse local constituencies, as well as pragmatic enough to achieve the expected strategy outcome, and creative enough to balance the diverse internal and external demands of constraints. As if this were not enough, the task is made even more difficult by the fact that the management does not act solely as the implementor of company's strategy. Therefore it is important that the management is required also to play a key role in the strategy formulation (Ottesen and Gronhaug, 2002).

Thus, the strategic management will often reflect some decisions against which it is lobbied hard. Governmental or Ministerial intervention in the decision making process is an important aspect to consider. Once the final decision is taken, however, management must be able to convince the authority to implement it with commitment and enthusiasm.

Extensive surveys carried out by the Council of Al-Ain Chambers of Commerce and Industry through the years 2006-2007 defined that the main concerns of businessmen are:

1. *Lack of credit/finance/capital:* The effective cost of capital is often quite high because regular lending institutions have a hard time evaluating new businesses, especially those production areas with which they are not familiar. Most similar Enterprises in Emirates are not satisfied with the existing banks/financial institutions. They find loan procedures to be very complicated.

2. *Access to technology:* On the other hand, the digital divide is a significant problem for many medium-sized enterprises in The United Arab Emirates. Improving access to technological networks of international standards can be very expensive and beyond the reach for many of them including the "Date Factory".

In a survey of 60 existing enterprises in the Eastern Province of the United Arab Emirates by "Chamber of Commerce and Industry Council, (CCIC)", in the year 2005, over 75 percent of the enterprises reported problems in marketing. While, in The UAE, many of these obstacles are more perceived than actual, they have had the effect to stifle the growth of enterprises. Bureaucratic hindrances still prevail, while some progress has been made in cutting bureaucratic red tape, as late as 2007.

3. *Limited information on possible markets and clients:* Many managers/operators in Emirates have little experience in exporting to foreign markets. Similarly, they have difficulty identifying and attracting foreign in-

vestors. As a result, their firms are often under-sized and cannot expand in line with growing markets.

These problems are additionally made complex by the fact that, because of their lack of access to credit, Emirates' enterprises are usually the most vulnerable in times of economic recession. The resulting business failures often add to the severity of the recession. This problem will only be further complicated as the economy moves to a freer price system with the country's ascension to the WTO in 2005.

After a long discussion with the management, the conclusion is that the strategic policy faces three important challenges in guiding the delegating of responsibilities and differentiating Date Factory's tasks. The first is setting the strategic direction for the company by identifying its mission and its business objectives. The second is building the differentiated enterprise, not only by designing the diverse roles and distributing the assignments but also by making the managers of departments responsible for granting them the legitimacy and power to do so. The final challenge is in directing the process to ensure that several roles are coordinated and that the delegated responsibilities are controlled.

7. Leveraging "Date Factory" Performance

Although aligning the management's resources, capabilities, and commitment to achieve common long-term objectives is vital, the top management must also achieve results in the short term to remain viable among other similar competitors and credible with the community and stakeholders. The top management role is to provide the controls, and coordination to leverage resources and capabilities to their highest level of performance (Hopp et.al, 2004).

In doing so, and in order to be properly appreciated in new and sophisticated markets, date must be well cared for, well handled and beautifully packaged, and attract the choosy consumer. To accomplish this, the strategic management uses a new approach. The management focuses first on better farming and cultural practices in the growing of dates. The management implements new and better methods in date handling and processing, managing to preserve the natural freshness of the fruit and maintain consistent quality. In short, the management as a strategy developed an integrated approach that includes quality controls at both the farming and processing levels, as well as appropriate product packaging. Figure (1) is a framework between the company's environment and its Strategy.

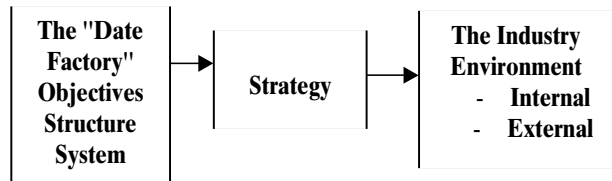


Figure (1): Framework between Company Environment and Strategy

The purpose of this renewal strategy for the management is to stabilize operations, utilization of resources and capabilities to improve the level of competition in the market.

In an environment of uncertainty and change, a clear sense of direction is essential in the pursuit of objectives. As Michael Porter has emphasized, strategy is not about doing things better – this is the concern of operational effectiveness - strategy is about doing things differently, hence the essence of strategy is making choices (Porter, 1996). Strategic choices can be expressed by two basic questions:

- What to compete?
- How to compete?

Neither intuition nor analysis alone is sufficient for making good strategic decisions. Intuition, based on one's past experiences, judgment, and "gut" feelings, does not include the use of analytical strategic-management concepts that have been developed and successfully tested in the business world (Demeter, 2003).

To ignore these techniques that are based on historical learning is like trying to reinvent the wheel. However, no analytical tools can capture all aspects of a given organization's culture and situation. Nor can analytical tools assimilate all the subjective information that must be considered in strategic management, such as personalities, emotions, values, beliefs, customs, and ethical factors (Yang, et.al, 2003). Thus, it is very important to integrate intuition and analysis into strategic management.

8. Building a Successful Strategy

Elementary for the company to develop a successful strategy is to make it simple and understandable to its employees (probably by allowing some managers to participate and shaping its future policy and strategy, and setting long-term goals, the profound understanding of the competitive environment as there are many local producers and foreign products from abroad particularly from other Gulf States like the Saudi Arabia and Oman.

To achieve success the company tried to utilise its resources - this is called the objective appraisal of re-

sources. These three elements contribute to the fourth element of success (i.e., effective implementation). In general, these are the four elements for this company to implement the strategy successfully and to achieve its objectives. Figure (2), shows the elements of a successful strategy for an enterprise.

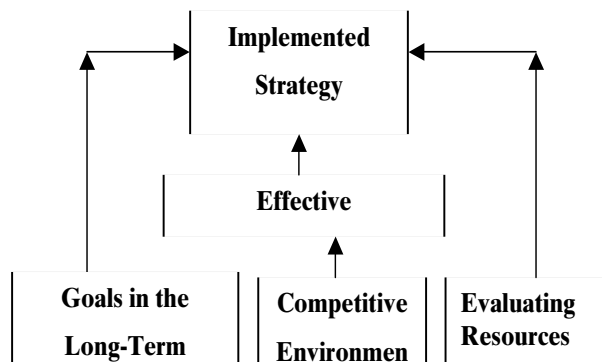


Figure (2): Elements of success for a Strategy

One of the Mangers said that, unfortunately, the government policy towards the medium-sized enterprises has not been as extensive or as effective as it should and could be.

The Marketing Manager in the factory noticed that “despite the importance of such enterprises in the economy, these are unable to benefit from the incentives provided by the government and, due to their small or medium size”; commercial banks view them as high risk borrowers and refrain from funding their needs. The areas of special emphasis should include:

1. Training/human resource development
2. Funding for research and development
3. Addressing weaknesses in transportation and infrastructure
4. Encouragement and creation of alternative financial sources
5. Improving knowledge of the legal environment for these enterprises.

In the above discussion, the issue of management reliance on control mechanisms is mentioned in the introduction section of this case study. The management group ensures that their particular responsibilities are understood in relation to the overall goal and that strategic and operational priorities are clearly identified and agreed upon. They demand standards and use frequent informal visits to discuss operations and identify new problems or opportunities quickly.

The undertaking of a major new infrastructure expansion program should, by reducing production costs, provide a very significant stimulus to the private sector in-

vestment. To assure that this incentive is not neutralized by insufficient consumer demand, the Saudi authorities should seriously consider establishing a “Dual Track” development model focused on achieving a more balanced economy (Stanley, 2003).

The management of the company, in its efforts as a strategy promoter, can ensure a renewal of thoughts and policies by defining the company’s mission and value statements so that they provide some stretch and maneuverability for effective managers, and also legitimize new initiatives. More than this, those at the top levels must monitor closely the process of dynamic imbalance they create and strongly support some of the more entrepreneurial experimentation or imaginative challenges to the status quo that emerge from such a situation.

What emerges from the above discussion is that strategy making is not someone’s abstract analysis for devising the optimal strategy for the firm. Strategy making is part of an ongoing management process. The reason that strategic management has displaced the terms long-term planning and corporate planning is partly to disassociate strategy from planning, but also to emphasize that strategy making is a central component of what managers do.

Viewing strategy making as part of the management process helps us see that strategy plays multiple roles within organizations. Some chief executive officers, strategists, and organizations have been successful, to date, without using strategic-management concepts and techniques. However, success today is no guarantee for success tomorrow (Harris and Kimberley, 2003).

The business world is becoming global in scope; technology is changing the nature of competition in all industries. Strategic management enables organizations to recognize and adapt to change more readily; successfully adapting to change is the key to survival and prosperity. There is no good alternative approach to strategic management. Strategists can best assure that strategies formulated will be effectively implemented by involving as many managers as possible in the strategy formulation process. Also, it is important to communicate effectively why changes are needed (Dudley, 2000).

9. The Management New Strategy:

Based upon the company’s mission, and the discussions with managers in the company, the assessment of strengths and weaknesses is part of organizational analysis, and aimed at suggesting management strategies in the future.

The primary focus of the field of strategic management is to figure out how companies can create value for shareholders and achieve strong financial performance (Hoegl and Gemuenden, 2001). Each of the following three views of strategy provides a different answer to the question – how can companies acquire and leverage competitive advantage and sustain that advantage over time?

- A Corporate strategy-based view – degree of competitiveness in an industry determines firm performance. According to this perspective, a local firm's success in other country industry, or success in competing local or foreign firms or enterprises depends on the unique attributes of the industry – its knowledge-intensive nature and non-location based boundaries.

From different strategies available the most important ones probably are the following:

1- Quality: The new strategies for the management to follow require a commitment to quality that would support its products and its goodwill in the local markets and abroad. The application of modern techniques in irrigation, fertilization, pollination, fruit covering, thinning, harvest, and transportation enable the farms to provide the processing plant with the highest quality possible of fresh product.

2- Production and labor: highly trained labor carry on the production operation to provide the market with fine packages of fresh dates. These two strategies are to determine what the "Factory" should be in or wants to be in.

- A Business Strategy-based view – firm-specific differences in capabilities create performance differences among firms. For example, successful date industry firms tend to have capabilities that are valuable, unique and hard for rivals to imitate or match. In this respect the following two strategies may be suitable to the company in the long-run, to open new markets abroad, and therefore increase its market share.

3- Management roles and thinking in constantly questioning, challenging, stirring up, and changing things in a way that forces adaptation and learning.

4- Going International in the future through opening foreign markets, and diversifying the product portfolio. The aim of such a strategy is to protect the company share of the bulk in the specific industry, but concentrate on branded sale for growth. The aims of the above two strategies are to enhance the management competition in its businesses.

- A Functional Strategy-based view – institutional forces, such as economic reforms and government policy, contribute to differences in the firm performance. For example, the pro-market reforms in a county may open the door for similar companies to win foreign mar-

kets. Examples of two strategies to follow by the management are:

5- Meet customer short-haul needs at competitive price and cost. The notion of fostering strategic adaptation through establishing a few broad principles and directives to guide decentralized decision making is consistent with the tenets of complexity theory (Gadiesh and Gilbert, 2001).

6- Placing greater emphasis on research and development. The purpose of these two strategies is to enhance the previous two strategies (i.e., business strategies-based view).

The author concludes that all three perspectives provide an insight into the forces that determine the firm performance. The complexity of local competition leads managers all over the world to struggle to find the best ways to achieve successful performance. Generalizations based on stereotypes might lead to false conclusions – such as the Western assumption that Asian managers are willing to sacrifice short-term profits for long-term market gains.

10. Summary

In general, any enterprise needs a strong unifying sense of direction and this is the case with the strategic management in this research. But that need is particularly strong in an organization in which tasks are differentiated and responsibilities delegated. Without these, the decentralized management process in the company will quickly degenerate into strategic anarchy.

In this research the level of analysis is shifted down to the executive's management levels. Rather than think in terms of the changing nature of business environment or conflicting strategic imperatives facing the management strategy, highlighted is the examination of the new roles of the management and managers. The management's new roles in setting an effective strategy(s), are through the integration and provision of directions for other employees in the company. These roles involve familiar tasks as well as several new ones< they must become thought leaders in their discipline and be active across the different departments and among employees.

The training programs for the employees are needed to improve customer services and satisfaction as well as to improve communication with customers effectively and efficiently.

These new thoughts and strategic responsibilities require managers to rethink many of their traditional assumptions about the nature of their work. This is ultimately the biggest challenge facing the management in a new era of effective and efficient performance. Such

new thinking needs skills and a sense of perspective needed to operate in the local and the multifunctional environments.

The management appears aware of many of the issues confronting its enterprise and is beginning to respond with effective programs. A major advantage of pursuing a strategy favouring this enterprise is that its development would most likely provide a much better balance in incomes.

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Implementation of the Concession Mechanism for Infrastructure Development

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The development of infrastructure is one of the key indicators of the entity's economic development potential, whether the entity is corporation, industry, national or supranational economy. As the third world countries accelerate development, and as the basic infrastructure in developed countries gets older, the gap between existing and needed infrastructure will grow. Consequently, the necessity for the review of infrastructure development emerges, as well as the need to create new and renew old methods, models, approaches and techniques for the realization and financing of infrastructure projects. This paper presents the concession as a mechanism of public-private partnership for the management of systematic infrastructure development. Particular emphasis is put on the multidimensional role of the government and on potentials of infrastructure development to change its attributes from incremental and inert to radical and rapid.

1. Introduction

The growth in infrastructure, according to the traditional understanding of the needs for infrastructure, should be at least equal to that of the gross domestic product of the national economy. Due to numerous factors, however, the modern trends change this paradigm. The needs for new infrastructure are under the impact of an accelerated depreciation of infrastructure facilities in the developed countries, as well as the increase in the number of population and the urbanization process in the countries of the so-called "third world". Additionally, creating the global supply chains and networks and other globalization effects only makes the needs for infrastructure more complex.

Regardless of the influence of individual factors, the private initiative in financing infrastructure projects gains in popularity due to its market characteristics, especially as regards efficiency and effectiveness. The traditional manner of financing in the infrastructure sector is rather unlikely to be entirely replaced by financing from private sources, however, it is to be expected that there will be at least some positive incremental changes in this field. The most popular and theoretically best founded approach in practice is obviously the one relying on the implementation of concession mechanisms and BOT arrangements in financing infrastructure needs.

2. Economic justification of investing into infrastructure

The level to which infrastructure is developed, however pretentious and ambiguous it may seem, is the most reliable indicator of an economy's development. Numerous authors used indicators such as elasticity of investments and implicit revenue rate to calculate the productivity of investing into infrastructure and their findings were surprising. The initial studies [2] on the productivity of the

American non-military infrastructure capital in the late eighties and the early nineties of the last century show that the returns rate of the investments into infrastructure amounted to around 60%. Further empirical studies [7] of transportation and telecommunication infrastructure in the developing countries show that the returns rate is slightly over 60%, whereas the return to investments into transport infrastructure in the OECD countries and the developing countries, according to [4], reached extreme values of 95%.

Contrary to the initial studies in the eighties and the early nineties, which overrate the consequences of investing into infrastructure upon the economic growth, more recent analyses show more modest estimates of the effects of this impact. The reason for this is the implementation of more substantial tools, a larger number of quality data, refined models and substantial methodological approaches. The direction and the intensity may not be as they seemed to have been in the previous years, however, a positive impact of infrastructure upon the development is evident. Hence a significant rise in private investments into infrastructure in the new millennium. The amount of investments in the first six years, according to the World Bank data, is doubled in comparison with the last decade of the twentieth century. Merna and Njiry [18] especially stress the perspectives and the importance of the investments into infrastructure in the developing countries, pointing that in absolute figures they amount to USD 200 billion annually, a relative 4% of the national output, that is, 40-60% of overall public investments.

An important conclusion of these studies is that the infrastructure projects financing differs from other public investments and expenditure to a considerable extent. As a rule, certain empirical studies show a negative correlation between public spending and the GDP growth and the productivity [16]. This is explained by the fact

that public spending has no impact upon the public sector efficiency, and is funded from distorsive taxes that have a negative effect upon the scope of private investments, through the systems of reducing the total return on investments.

Public funds and the credit capacity of the countries are insufficient to satisfy a growing need for infrastructure [25], especially in case of the EU member countries and the candidates for accession into the Union that are under the additional pressure of the Maastricht Treaty. Accordingly, there is a need that the private initiative should be more fully involved in the financing and execution of infrastructure projects. A large number of both practitioners and academics maintain that it is only the partnership between the public and private sectors (PPP) that can be sustainable in the long run [20]. Private initiative is no novelty in the developed countries; in Great Britain it is used to a large extent [26].

The private share in the overall investments into infrastructure in the end of the last millenium varied from the low 9% and 13% in Germany and France, to the extremely high 47% and 71% in the U.S.A. and Great Britain, respectively [21]. The practical verification of the positive effects of the infrastructure systems privatization effect phenomenon resulted into a sort of overrating its importance for the economic efficiency, on the basis the social expenditure remains unchanged. It is not, however, likely that the private financial initiative will entirely replace the traditional way of financing infrastructure projects from public sources. It is more likely that it will more or less serve to diminish the gap between the needs for infrastructure and the potentials of individual national economies in meeting these needs.

Regardless of the above mentioned, the most important aspects and trends of the modern policy and strategy of infrastructure development are related to the privatization and private investment concepts. The commitment to the idea of state intervention and the resulting changes in the political attitude towards private capital as a useful ally in the infrastructure sector arose in the early 1980's, the trend expanding soon after and getting new shapes and forms.

In the execution of infrastructure projects the private initiative is most often present in the form of the basic mechanisms of public-private partnerships, namely, concessions and BOT arrangements, and the quality of these mechanisms can be improved by hybrid financing instruments and execution [22] [6]. The hybrid models actually allow for either the incremental multistage selection of private partners or joining a number of smaller jobs into a whole. The goals are most frequently to

achieve the economy of scope in a more adequate way, that is, to avoid rival relations and acrimony which sometimes characterises the conventional models of project execution. Instead, they ensure that all parties collaborate to the benefit of the infrastructural project.

3. Concessions and bot arrangements

The European Commission [8] differentiates between two forms of public-private partnership: contractual and institutional. In the former, by far more frequently present in practice, the collaboration between the public and the private sectors is characterised exclusively by the contract elements, hence these are most often concessions. The latter includes a joint establishment of a new legal entity for the purpose of infrastructure project execution. It is rather rare in practice, since its inherent characteristic is the potential to ensure a monopolized role to the private partner.

The concession includes various types of contracts by which the public authorities delegate the rights to the national or foreign economic entity to perform a certain activity under specific legal conditions. To be more concrete, according to the Concession Law (ZOK) of the Republic of Serbia of 2003 (whose introductory regulations are equal to those in the 1997 law), concession is defined as the right to exploit a natural resource or a public property, or the right to perform an activity of general concern, which the competent state body (conceder) transfers to a national or foreign entity (concession holder), under strictly stipulated conditions and for an appropriate compensation [27]. The demand for concession contracts is the result of insufficient accumulation in some national economies. Such economies are not in a position to autonomously initiate and determine the dynamics of their development. The shortage of state funds, however, is not the only reason for the implementation of the concessionary forms of investments.

The concession contract stipulates the transfer of a public property, right, activity or a facility for the purpose of satisfying the public concern, rather than create a business community. Contrary to the above mentioned, the BOT arrangement focuses upon the provision of financial means and determining the model of risk distribution. According to [14], a BOT project can be described as a "project based on approving of a concession by the concedent (usually a public or state agency) to a consortium or a concession holder (usually from the private sector) whose responsibility will be to "build" (which includes financing, design, project implementation management, etc.), "operate" (including the management and operating and doing business using the facilities and plants, maintenance, service provision, collecting payments in order to cover the financial and investment ex-

penses, etc.), and “transfer“ the facility or plant in the operative state and without additional costs to the concedent at the end of the concession period.“

Generally, the BOT system means a specific form of concession by which the construction of a facility, a plant or a workshop is transferred, by means of project financing on the build – operate – transfer system. Here the contract includes the construction and financing of a complete facility, plant or workshop, its exploitation and its transfer into the ownership of the domicile public authorities in a contracted term whose upper limit is generally determined by law. On the expiry of the contracted period, the private sector entity transfers the facility to the body in charge or a new private entity selected by a public bid. The period of the concession or a BOT arrangement is in the function of the risk the private party takes. According to [8], the lower the risk taken and the lower the financial returns to the project, the shorter the concession period.

Basically, there are three parties in the implementation of concession and BOT arrangements: (1) investors, who provide financial means, build and operate the infrastructure facility; (2) the government of the host country who provide guarantees; and (3) the third party (commercial banks, multilateral exim banks, suppliers, etc.) [5].

4. Conceder’s role in concession contract implementation

Through its institutions and organizations, the state plays the key role in the concession and public-private partnerships management and development, regardless of the level of the authority delegated to the private sector. The main reason, evidently, is a high socio-economic value of infrastructure projects. Poor project funding, management and development inevitably result into their failure. The concessions and BOT models require an active collaboration and support from the concedent, a stable political and economic climate, a defined and stable legal environment, a convertible currency, as well as other conditions the investors expect anyway.

The state and quasi-state bodies create the legislative and overall conceptual framework for the development of the concession as an element of the partnership between the public and the private sectors. Chronologically viewed, as a public-private partnership approach, the concession is not a static concept, but rather an evolving one. From the rudimentary partnership characterized by a high level of informality, the concessions and public-private partnerships have evolved into a contractual and institutionalized relationship between the public and the private sectors including a wide range of models [13]. Hence a further theo-

retical and practical establishment of the concession process and the development of specific models to execute infrastructure projects is anticipated.

Even though the intervention potentials and responsibilities in the execution of infrastructure projects are manifold and complex, it is of paramount importance that they should be systematized. In principle, the state has to:

- 1) Define and create a general environment for the development of public-private partnership,
- 2) Be actively involved in the selection of the private agent, and
- 3) Monitor the execution of infrastructure projects directly or indirectly.

4.1. Creating an adequate investment and regulatory environment

The investment environment can be defined as a system of macrosocial, political, legal and economic institutions that shape and define the limits of the behaviour of micro subjects in the social, political and economic exchanges, i.e., to whom an investor (either public or private) can apply to protect his rights [17]. According to [15], it is necessary that a well defined, however not too bureaucratic, legal and administrative business environment be created. The initiative and the willingness of the private sector to participate in the projects of public concern largely depends upon the complexity of the social, economic, legal, ecological, and other conditions. The aim of creating a favourable operative environment is in diminishing the risk which is impossible to control from the point of view of the project executors. In certain cases it is necessary that we should go further from the general socio-economic conditions, namely, create additional guarantees to the private sector, most often in the form of the minimum guaranteed price or tax reliefs for a certain period of time.

The willingness of the private sector to develop infrastructure projects also depends on the legal and regulatory framework in which the project is operationalized [14]. In accordance with the study [19], the most advanced and the richest economies tend to create similar institutional solutions that include a transparent legal system with the norms created in representative democratic institutions which are universally adopted and interpreted by an independent court and display an unbiased and efficient approach in applying public legal norms. The building of the institutions of the system, as much as a phrase it may seem, is not just a simple role, but a precondition for a public and private sectors to cooperate. This is especially evident in long-term and capital-intensive projects. The execution of infrastructure projects should not be a political idea of the current gov-

ernment structure; there must be a clear legal and administrative framework for the execution of projects in order that the risk be equally distributed and the chances be reduced for destructive and corruptive behaviour of the agents.

4.2. Creating proper institutions for the concession holder selection

The sensitivity of the role the state plays in creating public bodies to select the private partners is reflected in the need for a quality institutional framework for creating and conducting a tender, as well as defining the selection criteria and the methods of concession holder selection. The concession holder that distinguished himself in a cost or quality terms is acceptable, and in the optimum case he is favoured by each and every criteria compared to other concession holders taken into consideration.

On the basis of some empirical studies, Kumaraswamy and Zhang [14] have found that the tender costs in the BOT model are by far larger compared to the traditional projects. Namely, in the BOT models, the costs amount to 0.48-0.62% of the value of the entire project, whereas in the traditional models this value ranges between 0.18 and 0.32%. Accordingly, the tender procedure for the BOT models requires that the protocols be established to select the contractor who will in turn ensure an optimal efficiency of the project.

The authorised bodies in charge of conducting the tender procedure must be autonomous in their work. In absolute values, this autonomy has to do with the relationships with all the prospective participants in the tender process, however the debate is still open as to whether this autonomy is necessary as regards the political power in the country. The majority of the countries, however, have adopted the model in which the regulatory bodies are highly autonomous as regards the political establishment.

The more concrete measures that ensure the autonomy of regulatory bodies refer to an a priori defined term of mandate of the members that is generally longer than that of the political structures; to a detailed definition of the processes in the working bodies and the terms of appointment of the members of the body; to restrictive regulations that define the circumstances in which the members of regulatory bodies can be suspended; as well as to a clear system of financing. Kerf et al. [11] further claim that it is important to establish a regulatory body financing mechanism.

Generally, the regulatory framework in the European countries, according to [8], defines three key procedures in a tender type selection:

- The open procedure, where any interested party may take part in the tender procedure,
- The restricted procedure, where any interested party may take part in the pre-tender qualifications. If the party qualifies, they can submit their tender,
- The negotiation tender procedure, similar to the restricted procedure, but allowing for an opportunity of post-tender negotiations on contractual specifications.

The completion of the plans and the selection of the optimum project solution are normally followed by the projects going public and the invitation to the parties interested in providing the works to take part in the tender. In accordance with the EU legislation, a Request for Proposals is sent, containing all types of contracts and the criteria to be used in the selection of the winner in a tender. Actually, a method of concession holder selection is defined, and the criteria in these selection methods are rather diversified. In extreme cases, the criteria are the price on one hand, and the quality of the service on the other, however, the combination of these two criteria seems to be most common.

The tender committee, convened by the employer, decides upon the optimum offer according to all preferred criteria. When the criterion is only the price, the procedure of the concession holder selection is simple and includes only the acceptance of the offer quoting the lowest price. More innovative methods in concession holder selection, however, also include the quality based criteria.

4.3. Active participation of public bodies in the project life cycle phases

Contrary to the previous roles, whose importance was universal in character, the activation during all the life cycle phases becomes important only in certain projects characterised by high social and economic values. Consequently, the responsibility for project execution does not lie only on the private consortium, but the responsibility of the public sector is also implied.

A characteristic example of the responsibility of the state is the case of the Metronet Rail company of Great Britain. This London public-private partnership that managed the underground railways ended in administrative failure, hence the public authorities had to come forward and give £2 million to save the company from bankruptcy. The company was then retaken into public ownership [10].

The commonest solution is to establish an interdisciplinary team that will continually monitor and control the development of the project and the quality of the serv-

ices provided. Thus in each phase of the project life cycle the safety and quality measures will be ensured.

This role is important because it allows for the project performance to be assessed, which provides an information feedback and the communication of the completed existing programme or project with the future decisions on the projects and programmes, as well as the economic development strategy. Depending on the type and size of the infrastructure, the role of the state may include a set of activities related to expropriation of land, issuing guarantees, payment of infrastructure services, but also a large number of other activities throughout the project life cycle.

5. Concession holder's role in the concession contract implementation

The project company established for the purpose of engaging investments into the infrastructure project, on the basis of the contract on establishing the economic entity, is called the concession holder. According to [5], this company includes the sponsors, and these are usually construction companies and financial institutions, organized in the form of a consortium that is in charge of the project execution and expects to gain certain commercial benefits from such a project.

The aim of setting up this company is to participate in the public bidding, therefore it is established as early as the preliminary phases of the project execution. The purpose of the company is to raise financial means and other resources necessary to execute the project. Usually an economic company is established which is directly capitalized by the sponsors' funds and has narrow and time-limited goals. The science on project financing terms this consortium a special purpose entity.

The investors into large and capital intensive projects, as are infrastructure projects, require that the special purpose entity is formed in order that the credit risk should be restricted to specific projects, that specific goals of designing, construction, management and maintenance of infrastructure facilities are fulfilled as well as that infrastructure services should be provided. It is in this sense that the isolation of project risks creates the environment in which there is no danger of other risks emerging from the business activities the investor cannot envisage [3]. However, the special purpose entities may be established to more undesirable goals, such as avoiding tax payments and concealing the sponsors' transactions. According to [12], the attention of professional and academic public is especially focused upon the abuse of the special purpose entities after the failure of the Enron power corporation bankruptcy in 2002. An improper use of the entity and a fraudulent accounting

reports, accompanied by an inadequate audit performed by the then auditing giant Arthur Andersen, conditioned the changes in the concept of special purpose entity reporting.

According to [8], the key principle of public-private partnership is that risk should be allocated to a partner who can manage this risk in the best way. Actually, one of the most important principles of project financing as a modality of financing individual business enterprises is in the advantages this approach has in comparison with direct financing because the risk can be more easily and simply anticipated and allocated to certain participants in the business operations. An effective allocation of risk has a direct financial effect upon the project, which results in lower overall project costs and in an increased so-called value for money in comparison with the traditional method of financing and execution. The aim is not to transfer the risk to the private partner, but to distribute it equally so that the overall costs be minimized. The project financing is specific in terms of risk distribution, since the risk to be taken by the concession holder, the conceder or a third party (such as insuring company) is defined in the course of negotiations.

The risk allocation in the infrastructure projects financing is not an abstract phenomenon. Usually, the risks taken by the public or by the private sector are defined imperatively, by law or by contract, agreed upon by both the concession holder and the conceder. For example, the risk of land expropriation completion is the risk taken by the public sector. On the other hand, the risk of material provision, construction and maintenance of infrastructure facilities is by a rule taken by the private partner.

The guidelines proposed for the risk allocation further in the text are not obligatory nor are they universally applicable; they rather describe a generic model of the concession contract. Different concession contracts may assume different systems of risk allocation, therefore, the situational approach in risk allocation is the best one. We will, however, describe some general directives for an optimum risk distribution.

Risk is most commonly defined for different phases of the project [28], such as the risk of infrastructure design, the selection of the contractor(s), the construction of the infrastructure facility, or provision of infrastructure service, facility management, etc.

The selection of the contractor(s) is of great importance for an efficient execution of the infrastructure project. The basic criteria in the selection of the contractor are the pre-project experience in the relevant field, significant references, and the reputation on the market. If the project is executed abroad, it is necessary that the con-

tractors know the local market and maintain good contacts with local manufacturers/suppliers. Even though a certain form of insurance is included when the contract is being closed, the damage in case the project fails may be outstanding. In some cases, the contractor may be the project sponsor itself. Then we deal with the conflict of interests and the risk of making inadequate contracts. In case there are flaws in the tender specification, the consequences of such errors are by a rule taken by the public sector. The errors in designing infrastructure systems are assigned to the contractor and it is these errors that cause an erosion in the returns on investments.

In the construction phase, the key deviations that may emerge in the project implementation are related to the hypertrophy of costs, disregard of the anticipated time limit for the completion of the project, and the disparity between the project effects and the criteria set in the designing phase. A similar classification according to the construction phases is used by Abdou [1], who classifies the risk as regards the financial, the time and the design aspects.

The cost exceeding risk analysis deals with the most important cost items in the project budget, the manner in which the costs are controlled, and the possibility that they can be exceeded. If the budget is exceeded due to the inefficient practices in the construction or the departure from the planned costs, the logics of concession mechanism states that such increased costs are to be suffered by the private contracting party, since the consortium is in charge of control of such expenses. Possible disparities in the input buying prices, or costs, which the consortium deems uncontrollable, do not always have a clearly defined party that will bear them. Such excess costs are usually suffered by the project company, although specific clauses may be included to define in more detail which inputs are key inputs in the production and thus the risk of higher prices of these inputs can be distributed more evenly. As regards all the activities of the state that affect the project in a specific way, such as delays in licence issuing and work approvals provision, they are the responsibility of the conceder, i.e., the public authorities themselves. The cost control in the project construction is requested by the financiers, who have to approve of any rise in the key costs, even in case when there is sufficient capital to complete the project. The project company is entitled a certain freedom to manage minor variations of costs falling into main categories, the more so if the total project costs are not fixed, but are of fluctuating character.

According to [22], the empirical evidence show that the mechanism of public-private partnership and the concession itself have great advantages compared to the traditional methods of infrastructure construction in cases of

construction within the planned time. For example, the UK National Audit Office reported in 2003 that 76% of audited public-private partnership projects were completed and available to use within the time period stipulated in the contracts. On the contrary, only 30% of traditionally financed and realized infrastructure projects were completed by the deadlines stated in the contract [24]. The causes of delays in project construction and the postponing of project completion may be due to the contractor's or the supplier's failing to fulfil their obligations, to the factors pertaining to force majeure or to the third party factors. The deviation from the planned time of construction should be treated as the failure of the concession holder in case it results from an inefficient practice of construction or weaknesses in the manufacturers' coordination. On the other hand, in case the delays are the consequence of the so-called force majeure, the time penalty should be transferred to the insurance company, on condition the project is insured. The risk of the force majeure refers to the impacts of factors in the domain of the force majeure, such as strikes, floods, fires and other natural catastrophes or technical failures that may result in the reduction of capacity or may stop the project functioning temporarily or permanently. The project is also exposed to risk from the force majeure during both the construction period and the period of operation.

In case the project fails to satisfy the criteria set in the tender documentation, e.g., in case of the unsatisfactory quality of infrastructure services or defects in infrastructure facilities, the liquidation damages will be the liability of the concession holder. The risk of poor performance means that the project (due to poor design and inadequate technology) does not perform as expected. Such risk and consequently increased costs will have a significant impact upon the returns on investments, i.e., upon the profitability of the project itself.

6. Conclusion

Creating an adequate business environment for the development of partnership between the public and the private sectors becomes imperative for the growth and development of national economies. This need is especially evident in the developing countries. The roles of the state in creating regulatory and investment encouraging elements of the business environment for the inflow of private capital in the infrastructure projects realization are manifold and complex. They range from highly general, such as the regard for the principles of the state based on the rule of law, to the specific demand for efficient institutions for the selection of concession holders. Of primary importance for the functional concession mechanism is that the risk be optimally allocated among the conceder, the concession holder, and other contracting parties. The principle to be followed is

that the responsibility and the consequential risk should be assigned to the party that can manage the given specific risk in the best possible manner. It is in this way that the total costs of financing and execution of the infrastructure project are minimized and all the interested parties are given opportunity to maximize their returns on investments, in purely financial, but also in broader socio-economic contexts.

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The Application of Integral Approach in Local Development Planning

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The changed living conditions and current issues of concern call for a different approach in problem solving from the point of view of both local administration and citizens. Strategic planning is the means to overcome the on-going challenges arising from the existing problems as well as to create a way ahead in the development of the Trebinje municipality. The methodology of participatory planning was used in designing of the development Strategy of Trebinje municipality. This methodology was developed and recommended by the World Bank. The Strategy consists of three goals identified as the most important ones for further development of Trebinje but also of the entire eastern Herzegovina region which heavily relies on this town.

Key elements have been defined for monitoring and evaluation of the implementation of the Strategy with the following indicators: the number of enterprises; employment rate; local economy income; profitability and productivity; demographic rejuvenation. The Strategy is concerned with the operational plan of implementation and strategic indicators. Also, the roles and responsibilities have been defined of the numerous institutional actors in the implementation, financing, monitoring and evaluation of the realization of the Strategy.

1. Introduction

Planning is a systematic process conducted for the purpose of determining the needs and working in a best possible way in order to satisfy the need within a strategic framework that allows for us to identify the priorities and to define operational principles. Planning entails thinking about the future, in order that, in view of this future, we should do something today [3].

Why is it necessary to plan the development? Because in doing this we:

- clearly establish what is necessary to be done in order that our development goals be achieved;
- determine the priorities in the decision-making process;
- allocate the possibly scarce resources upon the activities that will bring us most benefit;
- keep planning in contact with the context – global, national and regional;
- provide the means to communicate with others;
- provide a coherent/appropriate guide for implementation on a daily basis.

Planning is possible on the strategic level, on the level of the activities, as well as on the operational level; planning can be conducted for the organization, for the local autonomy, for the programme or for the project. Two major types of planning are: strategic planning and action planning. The strategy is actually the end result of strategic planning [4]. Strategic planning or strategic framework development is always related to a wider image. The Trebinje municipality uses it to:

- analyse the situation or the context in which it operates (social, political, economic, ecological), so that it can
- understand the context and is able to formulate the vision of its own development,
- identify a problem or problems within the situations

the municipality deems itself capable of coping with,

- select its operational goals,
- manage its resources (finances, human resources, time) in a rational way,
- formulate its vision statement based on the problem(s) analysis and identification,
- analyse its strengths and weaknesses in dealing with a specific problem,
- identify opportunities and threats in the environment that may affect its operations,
- determine the priorities of its operations,
- review the strategic options in achieving goals and select the most appropriate ones,
- structure and organize itself in an adequate manner.

2. Methodology of development strategy creation

The sustainable growth strategy creation methodology for the Trebinje municipality is based on the principles of the sustainable planning of the local community development, as well as on the best examples from practice. It is based on a number of principles, and these are: the phase planning process, in which the public, the private, and the non-governmental sectors take part as partners, the focus upon critical issues, the selection of clear priorities in operations and an elaborate implementation plan.

To create the Development Strategy of the Trebinje municipality the methodology of participatory planning was used, developed and recommended by the World Bank, including the following phases [4]:

- phase 1: activity organization;
- phase 2: current standing analysis, the PEST and SWOT analyses;
- phase 3: definition of the vision, the strategic and operational plans;
- phase 4: measure and project identification;
- phase 5: preparation for the strategy implementation.

Since it was worked out in a complex and uncertain environment and projected for a long-term period, the strategy is complex and comprehensive, with varied and highly elaborated contents and flexibly integrated components of economic, social, and infrastructural development. It is unique, because it is, both as a whole and in details, adjusted to a specific spirit, culture and identity of Trebinje.

3. Abstract from the socio-economic analysis

Due to climate conditions and abundant precipitation, the region of the Trebinje municipality ranks among richest in water in both the Balkans and Europe. The geographical position and the relief of the Trebinje municipality caused the specific climate characteristics suitable for farming, but also for people to live there.

Geographical position and natural features:

- area: 904km²;
- climate: mediterranean and continental-highland;
- estimated population:33,120;
- population density: 37inhabitants/km²;

Economic situation

Evident is a substantial improvement in the ratio between the number of firms and the number of inhabitants, from 1:60 in 2004 to 1:42 in 2007, which is mainly the result of the growth in the number of entrepreneurial businesses. The income in the energy and the manufacturing industry sectors are characterised by serious oscillations. The sectors displaying the growth in income and employment (construction, commerce, farming and food industry) cannot absorb the evident fall in the previously leading sectors (electric power supply and manufacturing industry), nor can they absorb the shocks, such as the surplus of workforce, that are to be expected. It is only the construction industry that shows a more reliable potential for short-term employment, however, only after certain organized retraining of workforce. On the other hand, the construction industry does not show a long-term development potential. Apart from electrical energy, **the most important export products** are machine-building industry tools and ready-made garments industry.

As regards investments, the most important are the investments into the grape growing and wine production. Two large investments are announced that could change the economic structure of Trebinje substantially: the construction of the Trebinje resort tourist complex and the building of the airport at Zubci. As regards the physical infrastructure for the development of small and medium-size enterprises, two projects stand out: the Industry zone of Volujac and the Business Incubator establishment.

Trebinje is rich in **tourist potential**. In addition to a convenient geo-traffic position and a highly favourable climate, a luxurious and well-preserved nature, the cultural and historical monuments, religious buildings, traditional cultural manifestations ... are further preconditions for the development of tourism. On the basis of

such preconditions it is possible to develop the religious tourism, as well as sports and recreational, mountain, excursional, hunting and fishing, rural, cultural and historical, transit and manifestation types of tourism. On the other hand, there are indications that a lot of people pass through Trebinje, but a small number of them stop there. The problem is partly in a poor tourist infrastructure and organization, poor accommodation capacities, inferior tourist signallization. The major part of the natural and historical heritage of Trebinje has remained unexploited so far; hence it is a big challenge and opportunity for cultural and tourist entrepreneurs.

Business Environment Conditions

The poll among the companies and entrepreneurial businesses carried out in May 2008 revealed the following facts about the business environment:

- *the most serious problems in business development are grey economy and criminal, followed by financial problems (for joint stock companies it is the access to loans, followed by ensuring a steady market/quality buyers and high taxes; for entrepreneurs, criminal is a major problem, and then the access to loans, high taxes and corruption);*
- *seventy-five percent of the companies claim that Trebinje makes a satisfactory, a good or a very good place to do business in; 60% of firms would recommend the Trebinje municipality to the others, as an adequate locality to set up a firm;*
- *as many as two thirds of the companies do not make use of the services for the business development; the services that they lack most are the introduction of the quality system and standards, then the management and the human resource management, then marketing ...*
- *only 7% firms plan to move their business (in total or only partly) out of the Trebinje municipality, as many as 84% owners/managers from the sample do not belong to any expert or business associations, 45% companies have some sort of cooperation with local firms from the same sector (business development, borrowing equipment, marketing);*
- *the companies are generally satisfied with the quality of the municipality administration services (61% entrepreneurs have so far not complained about the work of municipal bodies or staff);*
- *the costs of renting premises and documents legalization are rated as appropriate; the entrepreneurs maintain that all the other costs could be lower.*

Agriculture

The farmland makes up slightly less than 10% of the total municipal area, whereas pastures cover approximately 40% of the area. The greenhouses are used to a significantly lower extent compared to western Herzegovina. Only 7 – 8 ha of the land is covered by greenhouses. A specific problem in the development of fruit and vegetable growing industries is the lack of take over and manufacturing capacities, so large quantities of the pro-

duce does not reach customers or manufacturers. The farming and food industry, however, records growing exports. The major export products are fish, etheric oils, wine, sour cherry and medicinal herbs.

Ecology

The environmental protection measures are of utmost importance for the Trebinje region, not only from the point of view of the life and health protection, but also because the unpolluted environment is a precondition of the development of Trebinje economy, especially in the field of farming and food industry and tourism. The key ecological issues of Trebinje are regional in nature, hence finding solutions to them entails a coordinated action of all the agents responsible for the region of eastern Herzegovina. The major sources of water pollution are the TA (Thermal Power Plant) Gacko, the faecal drainage system of Bileća and Lastva, waste waters from the Trebinje Tools Factory, but also numerous illegal dumping sites, whose waste come into the ground waters and thus threaten the watershed of the river Trebišnjica. The major air polluters are the thermal energy facilities and the mines for surface extraction of coal, the coal separations and the automobile exhausts. The building of a regional sanitary dumping site is one of the most important ecological priorities, in addition to the city dumping site rehabilitation.

Area and Infrastructure

The results of the poll conducted among the citizens in May 2007 show that they are most satisfied with electrical power supply, but highly dissatisfied by road maintenance, the water supply and the sewage system.

- *The three major problems in Trebinje related to road infrastructure and traffic communications with the surrounding regions are soon to be solved. The RS Government allocated an amount of 7 million KM (convertible marks) for the completion of one portion of works on the building of the southern city transport line whose major stretch runs through the city area, hence the execution of this project is expected to begin soon. The works on the completion of the road from Trebinje to Herceg Novi are under way. The beginning of the construction of the Gacko – Foča road is planned for this year, as well as the solution to the Čemerno saddle (the works have already commenced).*
- *The execution of the power supply system development and reconstruction project is to begin soon.*
- *The problem of technical water has not been worked out yet, which is a serious problem, especially in farming and wine production, where water has a significant share in the overall costs.*
- *The waste water purification network covers only a limited number of urban settlements, while the secondary sewage system does not exist in a largest part of the municipality area.*
- *According to the local communities' representatives' estimates, there is a regular electrical power*

supply in all the households in 12 local communities, in 95% households in 2 local communities, and in 90% households in 4 local communities. On the other hand, the production of the Trebišnjica Hydroelectric Power Plant amounts to one-fourth of the total annual output of electrical energy in the Republic of Srpska. An average of one-sixth of the electrical energy produced in this plant is used in the region of eastern Herzegovina, and one-twelfth on the area of the Trebinje municipality.

- *As regards fixed telephony, all the households in six local communities are covered with this network, half of these being urban, and half being rural local communities. In urban local communities, 90-100% households are supplied by fixed/cord telephones, while in the local community Zasad, which is partly suburban and partly urban, the fixed telephony coverage amounts to 60%.*

Social Infrastructure

Three faculties, departments of the Eastern Sarajevo University and one private faculty operate on the territory of this municipality.

Trebinje is a **city of culture**. The cultural heritage is the core part of a unique identity of this city. The cultural tradition of Trebinje is primarily based on institutions, manifestations and promoters and advocates of culture. Among the institutions, worth mentioning are the Museum of Herzegovina, the National Library of Trebinje, the Centre for information and Culture and the Youth Centre, whereas the most important manifestations are the Poetry evenings of Dučić, the Dučić Day and the Trebinje Summer Festival, entailing a host of varied and high quality cultural events. Trebinje is also a **regional health care centre** and plays an important role in the medical treatment and health care of the entire eastern Herzegovina population. The citizens' needs for health care services grow in proportion to the ageing of the Trebinje population, the structure of the services required constantly changing. The two most important health care institutions are the General Hospital in Trebinje and the Health Care Centre.

Trebinje spends **substantial financial resources on social welfare and pursues a responsible social policy** concerning endangered categories of citizens. Institutionally, the social security in the Trebinje region is carried out through the Social Welfare Centre. The Centre has a highly developed system of basic and extended rights in the social welfare field. The other aspects of social welfare are organized through the work of various non-governmental organizations and other forms of organizations of citizens, whose fields of activity are related to satisfying certain social needs.

The demands for the community intervention in the social welfare field rise in proportion to the increase of the share of the elderly, the disabled persons, the children

and young people with special needs, and other socially endangered categories. Estimates show that the demand for social welfare (and consequently the expenses for that purpose) will grow in the period to come, primarily due to an increasingly unfavourable demographic age distribution in Trebinje. The **Municipal Civil Protection Staff** guides and controls the activities of civil protection and performs other activities in the field of protection and rescue. There are two fire brigades, the Territorial Fire Brigade of Trebinje and the Fire Association of Lastva, the civil protection units, and a special unit of Mountaing Rescue Unit. The lack of staff, poor and obsolete equipment prove to be a growing and an increasingly evident problem, as the fires in the summer months are more and more frequent and larger in scope. Since the fires usually spread from the neighbourhood, there is a growing need for a regional, cross border cooperation and coordination in this field.

Sports are well developed and organized through the activities of the numerous popular team sports clubs, such as football, basketball, judo, carate, handball, athletics and swimming. The city has 34 sports clubs, associations and societies with a total of 2,648 members. Evident is an intensive **development of the civil sector** that can contribute significantly to the development and promotion of Trebinje in a wider region. About fifty non-governmental organizations cater for almost all the segments of social life: from advocating the children's, the youth and the women's interests, to the rights of the retired persons, refugees and displaced persons, to getting together the individuals who need aid of some kind or another, etc; from taking care about the natural and cultural and artistic heritage to modern dances, trainings, arts, sustainable and economic development. The NGO activities, however, are not coordinated enough, therefore it is necessary that they be better coordinated in this sector.

4. Swot analysis

This chapter summarizes the crucial, strategic strenghts of Trebinje on which a development strategy can be built, the most evident weaknesses that have to be diminished or neutralised, the opportunities to be strategically taken and the threats that should be evaded or minimized in strategy building and implementation. Methodologically, the SWOT analysis (the analysis of strenghts, weaknesses, opportunities and threats) is a specific bridge between the present condition, identified in the socio-economic analysis, and a future position, projected in a strategic plan. The resource forces should by a rule be a corner stone of the strategy, since their prospects to succeed in the local development of the municipality are most promising [2]. Here we present only the most important strenghts, weaknesses, opportunities and threats, synthesised from the previous findings in the analysis.

Strenghts:

- The city at the junction of three borders, close to ports, airports and well-known tourist destina-

tions; known for its natural and geographical properties, one of the most attractive healthy life and holiday sites in Southeastern Europe;

- Managing and production centre of the energy supply sector, a strategically most important sector of the RS and B&H;
- Fast, effective, and dynamic development of wine production industry;
- Mild Mediterranean climate, and every inch of arable land could be irrigated;
- Unique cultural heritage and tradition;
- Responsible and efficient social welfare.

Weaknesses:

- Remote from major administrative and economic centres, still difficult freight and passenger transport to Dubrovnik and Ploče;
- Demographic ageing, all the working-age population move to the city, young people leave the area, those who succeed do not come back;
- Human resources are not prepared for the challenges of the new economy, the project approach and entrepreneurship;
- The existing economy structure is not sustainable in either a middle term or a long-term period; an insufficiently developed private sector cannot carry the burden of employment until a new economy structure has been created; unfavourable entrepreneurial and investment climate;
- Sustaining and promoting the cultural heritage are too dependent on an ever more scarce budgetary and sponsorship funds;
- A system of lasting capital programming and budgeting is not established.

Opportunities:

- Promotion of natural, religious and cultural heritage, especially as part of regional, cross-border tourist offer;
- Attracting strategic investors in tourism and farming and food industry;
- Large infrastructure (construction) projects in immediate vicinity;
- A proactive project approach to the RS Development Fund budget (especially to economic and social component);
- A proactive project approach to pre-accession funds (IPA) of the European Union (especially to the cross-border cooperation component – CBC);
- Focused and creative engagement of intellectual, political and economic capital of the diaspora for the promotion and development of Trebinje.

Threats:

- The probability of a substantial decline in jobs, even in short term, in the leading economy sectors (manufacturing industry and energy supply);
- Lack of adjustment and interrelation (somewhere even the absence) of public policies, funds and institutions (among the EU, the OHR, the state, the entities and the local level) that should accelerate

and facilitate structural reforms in both the economy and the society;

- Uncontrolled increasing demand for building land may result in losing the highest quality farming land;
- Water and air pollution by the Thermal power plant and the Gacko mine may seriously endanger the Trebinje orientation towards the development of farming and food industry and tourism;
- An increasing number of the socially threatened, an increasing pressure upon social funds, an ever higher demand for health care services, ... due to an unfavourable age structure of the population;
- Uncontrolled intensive housing and business premises construction may result in an irreparable harm to natural, cultural and architectural heritage of Trebinje.

5. Development vision

Methodologically, the development vision is the ideal an entity seeks to achieve in its development. Metaphorically, it is a “dream that can come true, one that shows how the agents representing the entity would like the entity to look like in the future“. By its contents and style, a good vision should be effective in expressing a unique identity and the specific advantages of the place, on one hand, and, in accordance with them, to outline the desired future in an inspiring and challenging way, on the other. It is especially important that the vision contents be agreed upon unanimously in the community. When formulated, the development vision is a sort of social, but also a personal obligation for all those who can and should contribute to its realization.

6. From strategic goals to projects

The strategic goals stem from key problems and challenges identified in the course of economic and social analysis, on one hand, and the set development vision, on the other. Actually, they are the first elaboration of the vision, defining the foci upon which efforts, energy and scarce resources we have at disposal, should be concentrated. For each of these foci, the strategic goal defines the most important goal we seek to achieve by the end of the development cycle stipulated in the strategy. In the second phase of elaboration, each strategic goal is further elaborated into a number of operational goals. Operational goals are measurable and temporary defined aims that are to be achieved on each of the strategic directions, some sort of interim times that are to be achieved. Well defined operational goals can later serve to measure the advances in the strategy implementation.

In the third step, specific support measures, programmes and projects are elaborated, to be implemented for the purpose of achieving operational goals, and through them, the strategic goals. In addition to the connection with the goals, expected results and major activ-

ities are defined for the support measures and projects, the estimate of costs is given together with the modalities and prospective sources of financing, a time orientation is defined as regards the duration and the period of execution, as well as the roles and responsibilities of the various agents in their execution. In addition to some typical support measures and the projects implemented in the situations of local economic and social development, it is important that the strategic document should include the support measures and projects recognized and proposed by local agents.

Such an approach is fully implemented in the preparation of this development strategy, in an effort to achieve an effective combination of certain standard instruments of local development, created in the developed, industrialized European countries, on one hand, and the specific measures and projects with highlighted local characteristics, on the other.

7. Major suggestions in strategy implementation

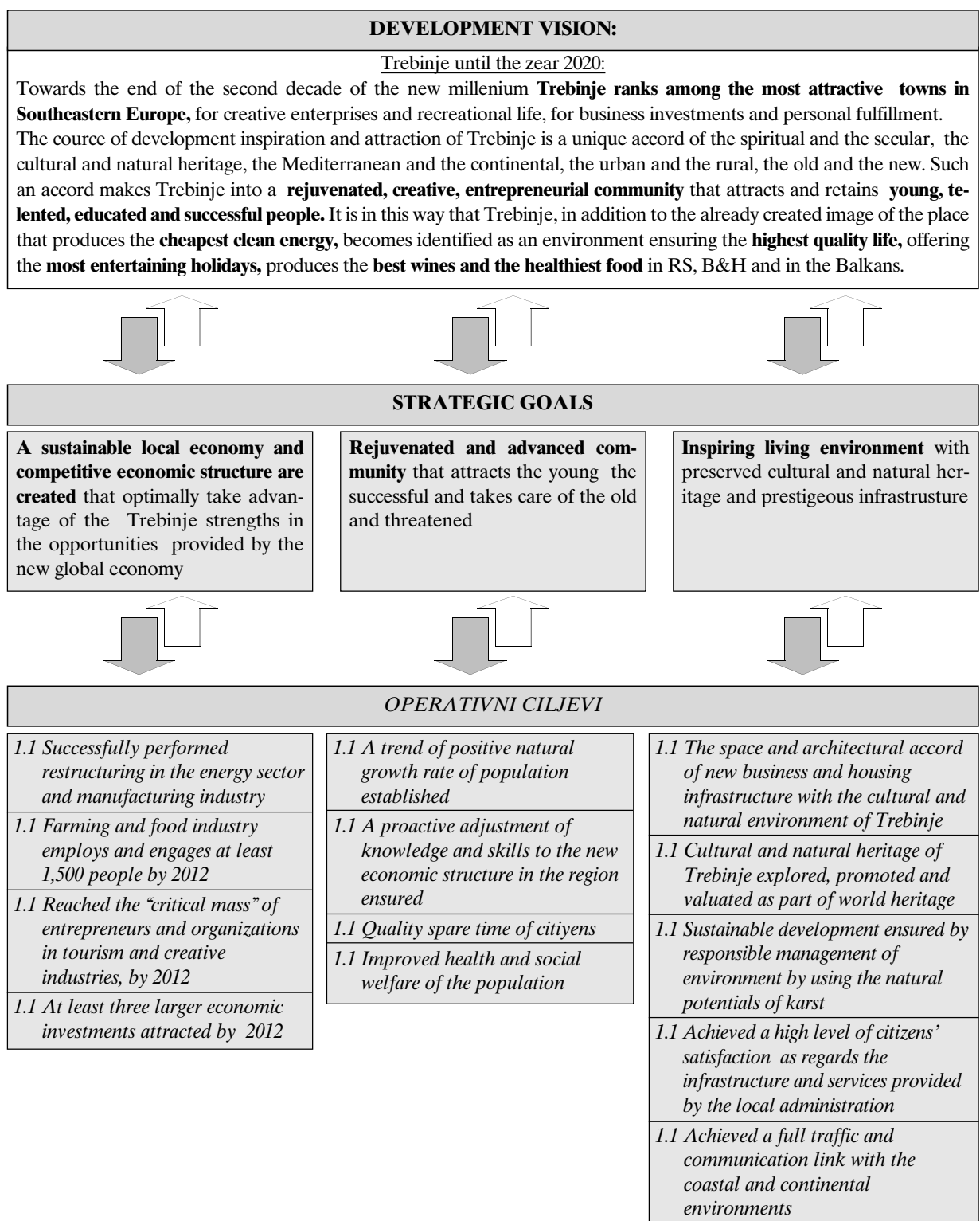
The first suggestion refers to setting up a special development office as part of the municipality mayor office, immediately upon the strategy adoption. The basic reason (mission) for setting up the office is to ensure an efficient implementation and update the development strategy. It is of great importance that all the agents understand that this office is not meant to implement any individual project (each project will have its own implementors, appointed on the basis of the nature of their work, selected following an appropriate procedure), but to control the execution of the strategy as a whole, on a daily basis. The second important suggestion is to make use of the partnership between the public and the private sectors in the implementation of the projects that require larger funds (which the municipal budget usually lacks), where the private sector finds the investment profitable in a certain period of time and where both parties are interested in an efficient implementation. In contracting such arrangements special attention should be paid to an appropriate risk share between the parties. The third suggestion deals with the timely earmarking of a portion of funds planned in the municipal budget, generally when drafting the budget for the oncoming year. Recommended also is to conduct an analysis of the credit standing of the municipality and a multi-year financing programme, at least for a three-year period.

8. Strategy implementation monitoring and evaluation

In order to manage the strategy implementation, as well as the project implementation, we have to be in a position to measure the extent to which the defined goals and results are achieved in a defined space of time, for which we apply objectively verifiable indicators. The objectively verifiable indicators defined on the strategy level allow for a clear insight into the ex-

tent to which the strategic and operational goals are achieved in a defined space of time (insight into the changes of the elements of the socio-economic analysis), while the indicators defined for each of the projects let us monitor the project implementation from the aspect of the extent to which the defined general and specific goals and the expected results of each of

the projects are accomplished. This allows us to precisely understand the impact of the project upon the achievement of strategic and operational goals. Similarly, we are in a position to timely identify the possible deviations and take corrective actions. The development office will monitor the defined indicators and thus control the achievement of goals, col-



lecting and analysing the data necessary for their verification within the strategy updating activity, as well as within the project monitoring and evaluation.

Further in the text, the authors define the major indicators for monitoring and evaluating the implementation and performance of the Development strategy of the Trebinje municipality in the 2009 – 2017 period. The key economy indicators (number of economic entities, employment, income of local economy, productivity and profitability) as well as the most important social indicator of the demographic rejuvenation of the community are identified. The position of the indicators is defined for the period from 2007 (basic year), to 2012 (the middle year between the short- and long-term periods and 2017 (the final year of the set strategic period). The estimates are given along the scale where the lower limit represents a kind of pessimistic scenario, and the upper limit represents the optimistic one. Both scenarios mean a serious engagement of resources and agents planned in the strategy.

Number of Firms Indicator

In order that the goals of the Development strategy of the Trebinje municipality be achieved, it is necessary that the number of firms grow at least by 20 to 30 newly set up firms annually in the period of the strategy implementation.

2007.	2012.	2017.
296	360-420	460-560

In the first place, we remember that such a growth was actually recorded in the Trebinje municipality region in the 2004-2006 period. New 20-30 firms a year means that approximately one new firm will be started per 1000 inhabitants. For comparison purposes, in the Istra district, 3-4 new firms are established per 1000 inhabitants. Therefore this is a real and attainable goal.

Employment Indicator

The local economy of the Trebinje municipality enters a substantial restructuring in the oncoming period.

2007.	2012.	2017.
9.796	10.500-11.000	12.000-13.000

Given that large privatized companies suffer significant losses, the trend of downsizing is expected to continue in the period of their restructuring, until 2012. According to the dynamics so far, this amounts to 4% or 200 employees annually. After 2012 and upon the completion of the restructuring of this section of the Trebinje economy, a growth in employment rate is expected. On the other hand, if the Strategy is correctly implemented, more jobs are expected to be created in the private sector, now in the full swing of restructuring (until 2012) at a dynamic

rate of 10% (200-300 new jobs per year), followed by a more temperate rate of 5% in a later period (approximately 200 new jobs annually, from 2012 till 2017).

Local Economy Income Indicator

As said above, the Trebinje municipality enters a substantial restructuring in the field of local economy, which will have a significant impact upon the overall income of the local economy.

2007.	2012.	2017.
333 miliona €	375-400 mil. €	0.55-0.66 mlrd €

In the already mentioned large privatized companies a decline in income is anticipated. It started in 2006 at an annual rate of about 3-4%. After 2012, a rise in income is expected in this sector. In the private company sector the income is expected to rise by the annual 10-15%, in accordance with the trend so far and with the average incomes achieved in other regions important for our comparison (in the Istra district the average amounts to 15%).

Profitability and Productivity Indicator

The dynamics of the local economy restructuring can best be seen by tracking the changes in productivity and profitability. The profit achieved is the profitability indicator, however, in the absence of detailed information on the basis of which the productivity can be calculated, our indicator of both will be the profit achieved per employee. A more favourable scenario predicts that losses should be eliminated in 2009 at the latest, while a less favourable one predicts that to be achieved in 2010.

2007.	2012.	2017.
- 345 € per employee	250-375 € per employee	oko 1.000-1.500 € per employee

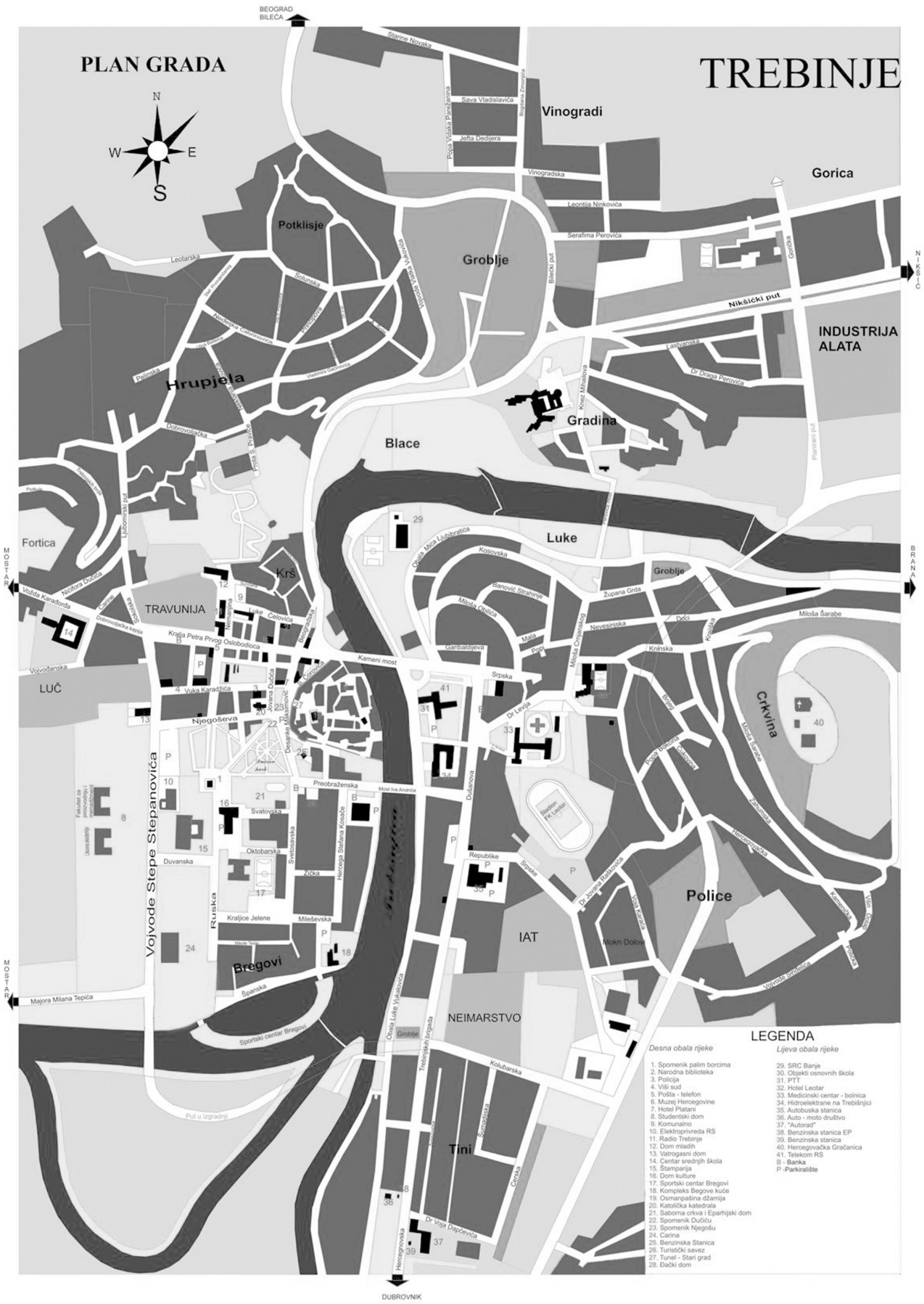
Following the period of substantial restructuring and loss elimination, a growth in profits is expected, amounting to Km 2,000-3000 per employee, in 2017 (for example, for comparison purposes, the average profits earned in the Bijeljina municipality in 2006 amounted to KM 1,200 per employee).

Demographic Rejuvenation Indicator

Approximately 320 people die in Trebinje every year, and, due to the ageing population, there is a tendency that the rate of deaths increases.

today	2012.	2017.
280 newborn babies*	330 newborn babies	380 newborn babies
	10-15 young educated married couples	10-15 young educated married couples

*average for 2005; 2006 and 2007



The plan is to have 330 new born babies in 2012, and 380 babies in 2017 (the number of babies born at Trebinje in 1999). Given that 150 weddings are held at Trebinje every year, it is necessary that, for a start, 20-30 young couples be stimulated to start a family thereby getting 15-20 additional new born babies immediately in the first year. Since the depopulation is one of the most serious strategic challenges for Trebinje, this measure should be observed to the extent when each new married couple is "covered" by a package of measures that help them start a family.

Another useful measure to rejuvenate and improve the community would be to attract at least 10-15 educated young married couples from other regions every year, to settle at Trebinje. Thus the number of inhabitants will grow at a rate of 20-30 educated young people every year, and the newcomers are expected to have children. These two measures are closely connected and influence each other.

An appropriate data base for secondary data, created in the course of the socio-economic analysis, may significantly help in data processing and in monitoring the position of indicators. The base is broadly set and allows for defining and monitoring other indicators if need arises.

The activities of monitoring and evaluating the priority projects should be defined within the project of establishing and starting the development office, since monitoring and evaluating will be an important part of activities of the office. Within the scope of that priority project, the monitoring and evaluation systems should be elaborated in detail by the end of the first half of 2009, together with the indicators and their target values for the strategy and the priority projects.

9. Conclusion

A good strategy is based on advantages, not on weaknesses, it is "a game on your own grounds", competing in what you are better than the others. There is no strategy based on certain facts, since every strategy is concerned with the future. We have the facts about the past at our disposal, and we estimate the variants of the future mainly on the basis of what was going on in the past and what suggests some regularity in the events in the present. The most important qualitative changes in the world economy (transition towards the "knowledge economy" and the "experience economy", to clean and reusable energy resources, to sustainability as a key principle of economic, social and ecological development,...) are identified as well as the opportunities that in such a context Trebinje can take advantage of, to more advantage than any other communities in the neighbourhood. Hence, the basic strategic solutions are based on reasonable estimates.

An integrated approach to planning was applied in order that the nature of the Trebinje identity should define its development perspective. It is at this point that the synergy effects between economy, ecology and social responsibility of Trebinje are best employed. The strategy, in the first place, means the concentration of available resources on solving the problems that bear the greatest development potential. It has to be focused upon the most important strategic challenges, otherwise it will result in dissolving the ever scarce resources without achieving any real strategic effects.

In such a context, the key challenges the new strategy should focus on include [4]:

- transforming the comparative location and resource strengths which Trebinje undoubtedly has at disposal, into competitive advantages of a new Trebinje economy;
- establishing a sustainable economy structure that will make use of the Trebinje competitive advantages in that it will support the human resources development, entrepreneurship and small and medium-sized enterprises;
- restructuring the energy sector and manufacturing industry;
- strategic management of the area and infrastructure that will ensure a coordinated spread of the city, the protection of cultural and natural heritage, the development of business zones and the protection of high quality soil;
- changing the negative demographic trends and ensuring a steady demographic rejuvenation;
- strategic adjustment of education, culture and sports to the opportunities and demands of the new economy;
- readiness to respond to the expected, increasingly evident health care and social demands of the citizens.

The detailed plan of monitoring and evaluation of the strategy implementation, with operational indicators is scheduled to be worked out within the development office establishment and setting into action, which is the first priority upon the adoption of the document.

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E-Employment and Human Resource Management

UDC: 004.738.5:331.5 ; 005.96

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This paper deals with electronic employment. Possibilities of e-recruitment and the use of online social networking websites and business-oriented social sites in employment, are analyzed and presented. The model of e-employment, also shown in this paper, is an attempt to find new, more efficient ways in the search for, selection and recruitment of human resources using information technologies and communication networks. The model of e-employment is based on the concepts of e-business and human resource management methods. The proposed model is adapted to conditions of employment in Serbia.

1. Introduction

Human potentials are resources whose knowledge, skills, competencies and experience, along with the implementation of new technologies and permanent training, are capable of responding to market changes and enhancing the organizational performance in achieving organizational objectives.

The use of the Internet in human resources recruitment in the developed countries is dominant, with a tendency to replace traditional methods.

The job announcements and the profiles of job seekers are much more easily and promptly accessible on virtual job markets or on-line social networking websites.

For the purpose of adjusting to frequent changes, the job market requires that the unemployed as well as the employed seeking to find a better job, develop skills and competencies additional to the qualifications they already have.

Tracking the job market trends is easier with the employed who have the required competencies. Their participation in defining the business strategy, in addition to their capability of planning new business models and business processes transformations, is a precondition that the organization can survive and a contribution to its development.

3. E-employment

E-employment includes collecting and exchange of standardized electronic messages between the employer, the job seekers and the employment and social security organizations in job offering and announcing, in applying, selection, recruitment of candidates and registering the employee with the employment agencies and social security, based on the regulations for its implementation.¹

The environment in which the human resource management operates is constantly changing, the changes being evident in the character of work and employ-

ment, in education and knowledge innovation, in economic restructuring, demographic differences and the life style.

All the organizational sectors as well as the organization as a whole have to adapt to the global structural changes and the requirements of the period.²

The development of information technologies and communication networking websites has had an impact upon the organizational functioning and business operations. E-global labour market, free of any geographical constraints, enhances the human resources competitiveness and mobility.

The labour market web-sites contribute to the speed and quality of mediating in employment. It is in them that databases on vacancies and CVs of job seekers are generated. There are many other services websites offer, such as:

- Searching through job listings by key words, job categories and location;
- guidelines and suggestions in writing professional biographies, with an opportunity of free entry into the CV database;
- counselling on career planning and development;
- getting information on scheduling various kinds of education and training;
- career fairs and other useful information.

The sites announcing job offers abroad also display information on work licences, accommodation, social security etc.

The broad band Internet, the ADSL and a modern communication software allow for an increased number of computer equipment users to start their own businesses or do their business from home (eWorking).

Job seekers, users of the Internet are well acquainted with how its use may contribute that employment be more efficient.

As to the EMPLOYERS, the use of the Internet in recruiting new staff helps:

- organize distance working and collaboration with employees at geographically dispersed locations;
- announce vacancies to a large audience;
- get a larger number of candidates qualified for the job, promptly and easily;
- use adequate software to achieve quality employment.

As regards the JOB SEEKERS, the use of the Internet helps them:

- screen the e-job market with the job offers at specialized employment websites and on-line social networking websites;
- compose and promote their professional biographies;
- contact the employer directly, as promptly as possible;
- autonomously work from home, (eWorking).

The Internet provides numerous employment opportunities through varied forms and types of work, for people of different qualifications, disabled persons and persons with special needs. Several are listed below:

- jobs that are done working from home, eWorking;
- jobs in virtual organizations and teams;
- webmaster, professional web designer jobs and other jobs.³

3.1 On-line job offers

In the employment segment the Internet helps the employers announce job offers in a less expensive way, with no time or geographical limitations.

In order that the job list browsing be made easier, some websites offer automated solutions.

Jobs are announced at specialized employment websites and portals, on-line social networking websites, labour market websites, the National Employment Office website, employment agencies, employers' websites, websites of thriving national and foreign companies, the Resources Management Service, youth and students cooperatives, e-media, on-line daily and weekly press, professional journals, etc.

The practice in Serbia has so far shown that the number of e-placed job offers is increasing daily.

3.2 E-professional biography

A faster and easier way to find a new job is to have a good professional biography.

The professional biography can become an e-biography on condition it is:

- published on the Internet – Web version (HTML), ASCII format version, version for electronic processing;
- sent by e-mail;
- sent written on paper, scanned and stored into the computer system.

The employment websites and on-line social networking websites often offer suggestions on how to write an e-professional biography.

It is important that the applicants for the vacancies send the data from their professional biography in the format required by the employer.

Nowadays companies largely rely on electronic professional biographies, e-CV in Europe, and e-Resumes in the U.S.A.

In the developed countries, the presentation of prospective candidates can be performed by video CV (vCV) or by an on-line video Resume (on-line vResume).

3.2 On-line social networking websites in e-employment

The Internet ensures the individuals the freedom to express themselves through writing, through image or sound; the freedom to be informed, to communicate and collaborate with others.

The social networking websites allow for social interactions among people and their networking. They are a novelty on the Internet.

The network users enjoy the opportunity to introduce themselves, often their profile, social connections and other additional services. These services are mostly free of charge. The on-line networking websites are now used by hundreds of millions of people.

The use of the social networking websites services within a company or among companies is a potential greatly affecting the business world and business operations. These networks grow into an important means of connecting and communication between those in search for jobs and the employers in need of new employees. Within social networking websites the interests and/or activities are shared. The majority of them provide varied ways of user interactions, such as e-mail messages or chat services. In order that you use the network, it is important that your Internet connection be as fast as possible, and sometimes that you have devices such as web cameras or headphones at disposal.

The best known social networking websites are *facebook*, *myspace*, *twitter*, *fixter*, *LinkedIn*. Each has its specific features.

Facebook is a global social networking website. It was established in 2004. The website is free, and its users are companies that advertize their products or individuals promoting their profiles.

According to the latest data, the network is used by 350 million active users, 35 million updating their status daily, whereas 65 million access the network by way of their mobile phones. The network includes 700,000 active companies. Facebook is presently considered to have no real competition.

Registered network users can obtain more information on virtual workplaces on the following links:

- <http://www.eworkplace-mn.com>,
- <http://twitter.com/eWorkPlaceMN>,
- <http://www.linkedin.com/in/eworkplacemn>.

LinkedIn is a business-oriented social networking website. It is the world's largest and most powerful professional network.

LinkedIn makes it possible for its users to:

- manage publicly available information;
- search for business partners and clients;
- create projects and collaborate in their execution;
- gather information and share databases in problem solving;
- search for the best talents for the organization;
- gain new knowledge;
- distribute job announcements, etc.

Only the 18 years old and older can register on the network. The registered users, business associates, graduate students and experts are allowed to maintain a list of contacts realized, to search for people and knowledge in order that they could accomplish their professional goals, with the possibility of controlling their personal profile on the network. The professionals join the network and the experts of similar interests, affiliations, experience and objectives. The network enables them to expand the list with persons not registered on it.

The LinkedIn offers professional services in recruitment, in job announcement and in their search by the key word, by the country or by the post code. The advanced search allows for finding jobs according to a number of defined criteria, e-g., the number of jobs, starting from the last one, together with the list of employers.

The network enables the job seekers to create their profiles, or introduce themselves to the employers, through mutually shared networking websites. The profile should be presented in such a way that it summarizes the previous professional and educational achievements of the network users. The network also allows for the references obtained from the previous employers, clients, colleagues. These references may often help people get or perform jobs.

The networking website makes it possible for the organizations to improve their brand and expand their influence.

Since December 2009, LinkedIn has obtained more than 55 million registered users worldwide, representing 170 "industries" in more than 200 countries and territories.

4. Implementation of the E-employment concept

An important precondition for the implementation of new technologies in management are the human resources and human resource management. Facing the challenges of technology development and market requires that the managers be qualified to promptly adjust the work processes and the organizational functioning to the changed conditions of business.⁴

A long experience in the human resource management, and in the research into the employment issues at home and abroad, motivated the author of this paper to adapt the activities and the entire process of employment with an active implementation of information technologies and communication networking websites to the individuals in search for jobs.

The paper describes the proposed model of e-employment and the activities undertaken in the model.

The e-employment model is conducted through the following activities:

- the employer states the need for human resources;
- the source for recruiting human resources is defined;
- e-announcement of vacancies follows;
- e-applications from the potential job candidates are collected;
- on-line selection of potential candidates is conducted;
- selection of candidates follows;
- the newly-employed starts to work;
- e-insurance application for the employee is filed.

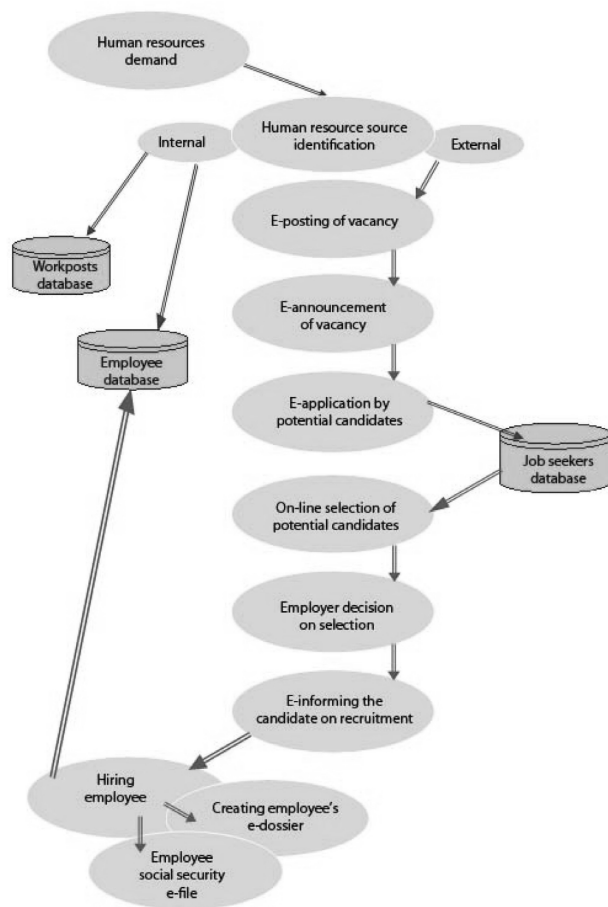


Figure 1. The chart of the e-employment model⁵.

4.1 E-employment model activities

The employment process is preceded by the estimation of the needs for the human resources in the organization or certain organizational units, for given periods of time.

An individual can get employed when certain economic conditions and needs in an organization are identified. The conditions defined for a job are given objectively and are in accordance with the work process requirements in the organization.

Identifying the need for human resources may be preconditioned by: the change in the organizational activity, the implementation of new technology, the development of new products and services, the increase in the organizational competencies by a better positioning on the market, the employee leaving the organization of his own free will, the case of death of the employe, or for other reasons.

The vacancy can be filled up temporarily or permanently, depending on the type and the duration of the given activities.

In forming the proposal for the fill up, it is necessary that the following questions be answered:

- Which are the competencies (qualifications and capabilities) that the candidate must have to be perform certain jobs?
- Which is the way of filling up the vacancy?

The sources from which the human resources are recruited. The organization can recruit the human resources from the pool of unemployed people or the employed (within or outside the organization) who are in search for a better job.

The employer first tries to fill up the vacancy by analysing the competencies of the people already employed in the organization. He states whether there are any employees within the organization that are qualified and able to perform the given jobs, or whether there are any employees who can be motivated, guided or further developed and thus retained in the organization for a longer period of time.

The advantages of repositioning employees are the following: the employee's satisfaction for being able to foster the development of his own career; the satisfaction of the employer that he managed to recruit a worker in a shorter time and at lower costs.

When the employer, however, comes to a conclusion that he cannot find a competent employee in the organization, he decides to recruit candidates and selects an appropriate economical method of recruiting human resources from *external sources*.

E-posting of vacancies is performed by the employer, on the National Employment Office Website. On the basis of e-post on the vacancy, the data on the workpost are identified as well as the required qualifications and abilities, and other conditions of the workpost, and entered into the vacant workpost records.

E-announcement of a vacancy is provided by the National Employment Office or the employment agency. The employer may also announce the vacancy on his own website, on the specialized employment websites, on on-line social networks, etc.

The purpose of e-announcement of job offers is to inform a wider audience in a faster and less expensive way. In order to attract as many job seekers as possible, the announcement designers generally use the AIDA model (acronyme from the English words: Attention, Interest, Desire, Action).

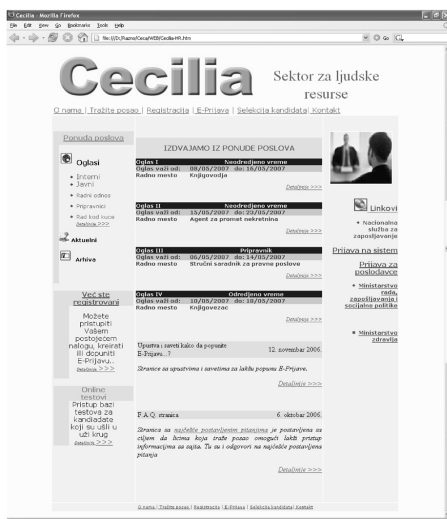


Figure 2. The employer's e-offer of jobs website

E-applications from potential candidates. The potential candidates apply for the vacancy if they find the job offered and the conditions of work satisfactory, or if they need a job urgently.

To gather the data on the job seekers, a Questionnaire on the candidate is created in the form of *e-application for the job* – an electronic professional biography, the computer program for the potential job candidates on-line application.

The e-form can be filled by the potential candidates who answer the announcement, but also those interested in working in that organization.

The human resource managers use the on-line social networks and professional-social websites to access databases on the job seekers. On finding the appropriate candidate, they introduce them to the jobs offered and the conditions required for the job. The candidates interested enough to apply are given instructions how to fill in the e-application for the job.

The E-application for the job gives an opportunity to every citizen to present their competencies in a systematic, chronological and flexible manner. It consists of obligatory and optional questions and includes the following categories of presentation:

- *Personal data:* name, surname, age, gender, home address, telephone number, e-mail address, etc;
- *Work experience:* the employment history, the name and industry the employer is engaged in, the workpost title, core activities and responsibilities;
- *Education and professional improvement:* the education-improvement period, the name of educational institution, field of expertise, occupation, title, average mark/achievement, state examination, etc;

- *Skills, proficiency/knowledge and competencies:* knowledge of foreign languages, data on additional knowledge and qualifications the individual has, with an emphasis upon the social, organizational, computer, technical, artistic and other skills, knowledge and competencies;
- *Additional information:* references etc.;
- *Enclosures:* transferring electronic data (personal documentation, references)⁶

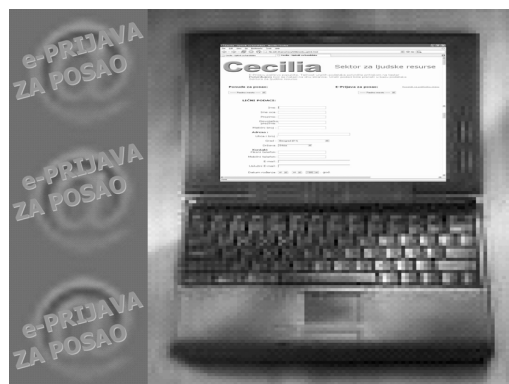


Figure 3. On-line job application website

In accordance with the business ethics code, the information on the candidates may be used solely for the purpose of their employment.⁷

In comparison to the CV or resumes submission, sending in individual applications and biographies, the advantage of the e-application is that it allows for an easier, faster gathering, sorting out and processing of data, avoiding dealings with the unnecessary information, a more efficient selection of potential candidates, flexibility, the possibility that new data can be added or additional attachments sent in electronic form (personal documents, references, certificates, and the like).

The online communication with the applicants is conducted by e-mail, VoIP, Skype program or cell-phone.

All the applicants are informed on the positions of their applications in each of the e-employment phases.

The online selection of candidates. The selection becomes ever more important, due to the increased offer, the competent candidates on the labour market and the costs of the selection methods.

The employer undertakes the selection among the candidates in order that he should make the objective choice among the candidates in the conditions of promoting equal opportunities.

The human resource managers still hold a key role in the selection process. Their role may be either direct or indirect. They may advise the line managers in that they



suggest the most efficient selection methods, train the line managers in selecting, most often in conducting interviews. The consultants and specialists may also be engaged in the selection process.

The criteria according to which the candidates are shortlisted must be clearly stated, in order that credible decisions in the selection process should be made.

The selection criteria are generally presented in the form of specification, i.e., the description of the individual that is an ideal candidate.

Lewis (1985) stresses three selection criteria:

- Organizational criteria;
- Department or functional criteria; and
- Individual workpost criteria.⁸

The most often quoted selection criteria are the following: education, type and level of qualification, work experience, character traits, skills and specific knowledge.

On the basis of the data in the online job application provided by the candidates and the set criteria, an *e-list*

of potential candidates is generated. The shortlisted potential candidates on the e-list are given instructions for the online selection.

The selection is discontinued for the potential candidates that fail to obtain required results in one of the ensuing phases of selection and the reasons are stated for such a decision.

In order that the online selection of potential candidates be performed correctly, it is important that both the employer and the potential candidates have appropriate modern communication devices.

In case the employer has no possibility to conduct the online selection process, he can order this activity, as a service, to be conducted by the employment offices or by organizations specialized in the professional selection of candidates at the request of the employer.

Most frequently, the employers use tests to determine whether the candidate meets the requirements stated in the announcement. It is important that the tests be conducted and interpreted by competent experts.

The tests used in the employment process are classed as: intelligence tests, proficiency tests, aptitude tests, special competency tests, training ability tests, achievement tests, personality tests, etc.⁹

The tests the employers use most are the following:

Online proficiency tests – the candidates with work experience are often submitted to proficiency tests to see whether their knowledge meets the requirements of the workpost.

The selection process may be facilitated and made faster if the candidates have certificates on the proficiency tests, such as the *ECDL* (European Computer Driving Licence) – an international certificate of the knowledge of computer programs, the *EBCL* (European Business Competence Licence) – an internationally recognized certificate in the area of business skills and management and the *TOEIC*® - the Test of English for International Communication – the knowledge of English for the business purposes, for those whose mother tongue is not English.

The online aptitude tests measure the individual's potential for development in both a general and specific senses. These can be classed into two categories: the tests that measure general mental capabilities or general intelligence and those that measure specific abilities and potentials.

The online personality tests – the application of personality tests in the selection of candidates triggered a dispute on how important the personality itself is for the

success in a job or organization and the resistance to someone's personality being measured at all. The personality tests are most often used for managerial, professional jobs and jobs that require university education.

In 2001, the APA's Board of Scientific Affairs and the Board of Professional Affairs established a measurement unit to inform psychologists on the situation in the Internet testing.

The *advantages* of the Internet implementation in testing are the following: it is less expensive and more economical, there is no need for printing or duplicating materials, questions can be easily changed, results are obtained faster and a much easier way.

There are, however, certain *problems* concerning the Internet-conducted testing, such as ensuring the safety and professional interpretation of results, the prevention of copyright abuse, copyright retention.¹⁰

The online interview. On the completion of testing, the on-line interview is conducted. It is used in order that the potential candidates should obtain more comprehensive information on available jobs and the conditions for getting these jobs, while the employers can get the information that may be useful in deciding on the candidate selection.

In addition to voice and live image, the employer and the job seekers can communicate via the web camera, *video-conference* or *Skype-program*.

The employer creates and sends the candidates a DVD-video with instructions as to how to conduct the interview, stating the terms (day and time) the interview is due.

The *online interview* can be conducted at several levels. The first interview is usually conducted by the human resource manager, the second is carried out by the selection committee, if established, and the last is conducted by the employer himself. The questions depend on the level of the interviews as well as on the type of job.

Certain websites bring suggestions for interview conducting. Some websites, such as LinkedIn, bring video-interview simulations.

The candidate for the job is proposed upon the completion of the on-line selection among the potential job candidates. The team that conducted the selection process submits the list of shortlisted candidates with explanations, in an electronic form.

The candidate selection statement. Prior to issuing the statement on the selection of the candidate, the employer may decide to conduct an interview, which is very im-

portant having in mind his responsibility in the selection of candidates.

In selecting the candidate, the candidate's interest in doing certain jobs as well as the interests of the organization should be taken into consideration.

E-notification on the candidate selection. It is important that all the applicants be sent a feedback information on the results of the competition. The candidates that applied are notified by e-mail, with the exception of those candidates that are presented to the employer. They are informed on the final decision via the cell-phone, the Internet phone (VoIP) or Skype.

The data on the potential candidates that are not accepted, but have shown good results in the selection process, as well as on those that are not short-listed, may remain stored in the database of job seekers, to be contacted later if need be, and on condition they agreed to that.

The candidate is admitted to employment. On receiving the candidate selection statement, the e-Work contract draft is prepared. The e-Work contract is e-mailed to the candidate. Simultaneously, the candidate is informed on the date and place of signing the contract. On closing the work contract, the human resource manager informs the candidate on the time he is expected to come to the firm and the person that will admit him to employment.

By being **admitted to employment**, the candidate actually starts to work. On the candidate's beginning to work, the human resource manager creates an e-Dossier for the newly-employed, opens an e-mail for him, ensures that he has an access to documentation, files, applications and e-mail.¹¹

Employee e-filing. In order that the employee exercise his labour relations rights, the human resource manager fills in the forms (e-file of taking up or discontinuing employment, health insurance e-file, social security e-file) and sends them to respective organizations, the National Employment Office (NSZ), the Pension and Disable persons Insurance Fund (PIO) and the registry office of health-care insurance.

These organizations register the rights of the new employee and transfer the qualified documents to the employer, who in turn stores them into the employee's e-Dossier.

4.2 The advantages of the model of e-employment implementation in the human resource management

The proposed model of e-employment is a new organizational model that makes use of the information and communication technologies in the employment segment. It connects the employment subjects in a dynam-

ic way. The advantages of the e-employment model are numerous:

- The e-employment process is automated, the entire documentation is centralized, in electronic form;
- The paper forms and documents are replaced by HTML documents;
- E-announcement of vacancies is cheaper;
- E-application of potential candidates;
- E-filing of potential candidates and job seeking persons;
- Analysis of a large number of e-applications for jobs;
- Faster and easier identification of the most eligible potential candidates for selection purposes;
- Identifying and recruiting the most eligible experts;
- E-notification of potential candidates on their status;
- Implementation of the Internet service in the on-line selection among potential candidates;
- On-line communication between the employer and the potential candidates, persons seeking the job, the National Employment Office and the employee insurance companies;
- Improving communication and cooperation among the employment subjects on the job market;
- The employment subjects are in a position to network and use the necessary databases and the documents needed for the purpose of an effective conducting of the process;
- Flexibility of the model, its adjustment and development to suit the users' needs;
- Efficient and higher quality employment.¹²

5. Conclusion

The globalization of the job market and the implementation of new technologies in business doing have a paramount impact upon the human, labour and creativity potential treatment, as well as upon the character of management.

The e-employment model is a new concept of employment and work engagement. The model implements modern scientific and professional knowledge in the field of human resource management, information and communication technologies, standards applied in the developed countries and the national regulations in the employment segment.

The implementation of the e-employment model means changes in the organization of work, the technology and methodology applied by the employer, the employment office and the employee insurance companies. It can be performed through the implementation of modern information and communication technologies, application

and exchange of standardized documents in electronic form, the use of electronic signature and through the use of cryptograph protection mechanisms.

E-employment fosters the efficiency, the effectiveness and the innovativeness of the employment process. The results obtained show that the implementation of e-employment provides an insight into all the phases of the employment process, improves the quality of the process and reduces the costs to a considerable extent.

The implementation of the proposed model of e-employment is to ensure to the employment promoters a higher quality, faster, less expensive and safer process, minimizing the effort and errors.

One on-line category related to the employment opportunity and career development counsel is expected to expand fastest in the future. In the future, the e-employment will be inevitable, from the companies, to the virtual workposts, to the work from home.

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Determination of the Time and Quality Frame of the Business Negotiation Process and its Internal Structure

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What does it mean to negotiate in the world of business, anyway? Is this essentially the same conceptual framework or is it entirely something else? Both theory and practice maintain that it is absolutely the same relationship between two or more parties looking to reach agreement on a set of issues, who have a deep understanding of the similarities and differences of their own interests led by the desire to be mutually defeated or fulfilled. What is different is the subject matter of negotiation which is defined by the specific field it belongs to. The main motive is by and large the profit that leads to a privileged social status, but also to alienation. However, there are other motives. Old clothes, paper, iron can also be a subject matter of business negotiations to companies that negotiate with the suppliers of these goods. It seems that in cases like these profit is not the primary motive. Nevertheless, the elements of negotiation to reach divergent interests are present in each case. Even in the most simple case of a pauper who rings at your doorbell offering to clean out the trash for a minimal compensation you can find the the same elements of negotiation that are present in negotiations used by large corporations in large transactions. The parties involved in the negotiations, their interests, demands, positions, the negotiation climate, the social rank of the negotiating parties are all factors that determine the particulars of the negotiation process. Let us not forget that even the local businessman ensures better placement of his goods/products/services by ‘knocking at the door’ of the more powerful entrepreneur to gain a broader market representation.

1. Introduction

Speaking about (business) negotiations, we actually speak about an imminent relation between co-workers, partners, customers of goods and services in different enterprises, organizations, companies. That is to say we speak about a type of communication which can be applied very successfully, can be planned, guided and practiced. Here, the same as the business communication, the issue is the business traffic of information which is exchanged, to only one purpose - setting a mutual agreement. The everyday contacts with employees, customers, suppliers, authorities, competition, transporters, most frequently gain the shape of formal or informal transaction, negotiation, which as a form of communication is of crucial importance in the business world.

The crucial moment on which the successful negotiation depends is the determination of the factors-determiners; the characteristics which mean a lot and which guide us towards the cooperation and successful deal are the true challenge set up in front of this scientific research work. This work is an attempt to establish a certain order in the variety of chaotic experiential knowledge and unfinished scientific elementary explorations and assumptions; and also to open a field for further research into the problem of negotiation in Macedonia.

2. Structure of the work

This work is divided on two parts (theoretic and researching). In the first, theoretic part, the attitudes of many well known authors are elaborated about psychology, sociology, communicology, whose suggestions could be connected correctly and entirely to the contemporary conception, understanding and perceptions of some issues of negotiation. The second, researching part contains a presentation, analysis and interpretation of the results of the conducted polls and actual records (of real-time negotiation situations) obtained in several towns in Macedonia (Bitola, Kumanovo, Strumica, Veles, Skopje, Tetovo, Demir Hisar, Krushevo, Kavadarci and Shtip) performed by 130 business respondents, who act in the condition of transformation of the overall relations and restructuring of the capital.

5. Issue and object of the research

The issue of the research is focused on the issue of influence of the situation factors over the quality of the negotiation process. Such determination of the problem, emphasizes the predominantly explorative character of this work. (How do the situation factors exercise their influence? Which are the main characteristics of these relations?) Thus, considering the current scientific knowledge regarding the nature of the so-called “situation factors” it was necessary that they be specified

through several levels and sub-problems which are treated by this research: 1) *Problem of classification nature*, actually whether or not the determination variables of the negotiation process could be established that are “strong” enough on their own to have an impact in all the situations of the negotiation and to be separated from the others? 2.) *Problem of exploration nature*, actually what is the interaction between the situation and other factors in the real-time negotiation situations? and, 3.) *Problem of descriptive nature*, related to the profile of the average negotiator in Macedonia, regarding the determined aspects of negotiations.

The objective of the research is to review the mutual dependence between internal psychical personal factors (trustiness, collaboration, level of frustration tolerance, possessed potency) and external variables (kind and character of the activity), which are treated as possible determinants of the preferable mode of behavior due to the fact that in their mutual interaction they have their strong impact upon the quality of negotiation from the aspect of the climate, approach and time of negotiation.

4. Relevance and scientific justification of the research

Today, there is a huge amount of material, experiences, models, patterns, rules and acts about the negotiation worldwide. (William, M.:1955; Pruitt, G.D :1981; Micik, P. : 1988; Plenkovic, P.: 1991; Tudor, G. :1992; Ninberg, H.: 1993; Gnjato, V.: 2003; Mandic, T.:2003; Lax A.D and Sebenius K.J. : 2003; Harvey, B: 2008) Many schools were popularized; many methods and approaches were offered as the best ones. Many seminars, courses and trainings were organized allocated for various structures of individuals as well as groups who were trained for such activities. Numerous handbooks, brochures, books were published as a groundwork for additional systematization in the direction of theoretical and scientific comprehending of the problem. At the same time, the literature does not offer exactly the precise data and time frames, but it is also said that in the western countries “since earlier times” there are certain forms of organized training and qualification of the businessmen, who gain their knowledge about business communication and negotiation through the intensive courses. Anyway, the beginning was set in the year of 1924, when the author Mary Parker Hayward wrote about the so called “integrative negotiation”.

In the Balkans (former Yugoslavia), what is considered to be a successful and the very first attempt of theoretical and practical application of the issue of business negotiation, is the work of Predrag Michic “*How to guide the business conversation*” published in 1980. In Macedonia, this issue was vividly initiated after the in-

dependence was proclaimed in 1991, actually after the implementation of the parliamentary democracy and the market economy. However, the former academic treatment of the negotiations, as an issue of a scientific interest is not satisfactory. It is worth mentioning that the number of published titles about this issue in comparison to those in the neighboring countries is negligibly small. Namely, only a few books about the business negotiations were published in Macedonia, most of which were the translations. Only the work of Arsovska T. (1995) “*How to perform successful business conversation*” presents a humble initial attempt, which could only partially be called “originally author work”.

On the contrary, the facts about the global connection, the existence of huge data banks, limitless time and space opportunities speak about the fact that the business world penetrates deeply into all spheres of business existence thus emanating its resources of influence. Thus, the awareness that the successful business functioning is one of the key factors for the enhancement of the overall relation of the social and business life, is the great fact that must be accepted. In that context, the negotiations truly may be only a small cause in those relations, but a very essential one. Their dynamics, development, and achieved results will have a great influence on the subsequent endeavor in any business sector.

That is the reason why all our efforts are devoted to the establishment of the scientific research goals of negotiations (such as examination and amendment of the knowledge about determination of the negotiations, examination of the approaching methods and enrichment of the research instruments, finding practical solutions and instructions needed for business practice and negotiation trainings) seem to be quite actual and justified. Those efforts and attempts offered many answers about some very important issues in this sphere (such as the average time frame of the negotiations in Republic of Macedonia, the quantity of theoretical knowledge about the negotiation mastered by businessmen, the awareness of the importance of this issue, the attitude on research of this issue, the average profile of the negotiators in Macedonia, etc.).

5. Research hypothetical frame

The general postulate is set affirmatively saying that: There are certain external (environmental) and internal (personal) factors, that possess equal level of prognostic and determination power over the quality of a negotiation process, in any conditions and situations of negotiations. Comprehension and understanding these factors results in improvement of the quality of negotiations thus reducing the time of negotiations. In essence, the kind and the character of the branch of the organization on behalf of which the negotiations are

conducted, the level of management, as well as the elements of the latent maturity of negotiators, are the key determinants of that process. This postulate is achieved through three additional and eight individual hypotheses which directly lead to the current indicators.

6. Method approach

In the course of exploration of the problem of our research, we primarily start by the theoretical analysis of the knowledge of this issue, offered by the scientists and performed by two different approaches. Namely, in the domain of negotiations following explorations are evident: 1.) Explorations generated by analysis of profiles, conclusions and acts of previously distinguished managers, systematized personal experiences and 2.) Classical experiments, psycho-metrical and other tests in the aim of evaluating the relations between established variables. The first approach is distinctive for various profiles of practitioners (solicitors, lawyers, engineers) who have systematized their negotiation knowledge and personal experiences thus offering them as original models, manners and schools. The other approach is notable in the work of sociologists, sociology psychologists, management theorists who performed direct exploration of negotiations, or indirectly have made their conclusions based on the investigations of other problems and aspects of negotiations (Deutsch and Krauss; Chertkoff & Conley; Baron; Hofstade and Crozier).

The research is based on the analytical-descriptive methodology, whose goal is to select the relevant perceptions about the interpersonal relations, present in the negotiation process, and by the application of the adequate statistical procedures and conclusions will answer the questions of the research. Also, during the determination of the interaction between the different kinds of variables (like personal touch, environment elements, and interaction conditions) the most applicable proceeding is the immediate exploration of the events recorded during the real-time negotiations. It means that the classical analytical descriptive exploration is enriched by the case study.

All in all, the exploration primarily gains an operative character, as regards the time it is allocated in, to the immediate research of the actual, real, transitional period of living and acting.

The implemented techniques of exploration are the following: a scale poll questionnaire, evaluation technique and especially the technique of systematic observation set as case study. The poll questionnaire evaluated the essential basic indicators and facts about interpersonal characteristics of the individuals relevant for this research. The grading of the examinee answers (given in

the questionnaire form) was performed by the evaluation scale, and was described from extremely satisfying to unsatisfying regarding the knowledge about some distinctive elements of the negotiation process and their relation to it. In the end, the case study enables us (on the basis of certain positions) to perform impartial observation, confirmation and description of various specific and relevant information that occurred in a concrete negotiation process - a specific situation. Worth mentioning are the appropriately organized individual meetings with interested individuals, as well as a seminar where the following methods were performed: a method of teaching, a presentation technique, playing games, a video projection etc.

7. Conclusive anticipations

This research is conducted in order to identify and to classify the relevant determinants of negotiation, with a special accent put on the so called environment (situation) factors. At that point, (contrary to the anticipations that speak about it as an "intangible phenomena of the twilight zone") the research starts with an attitude that the negotiations are a widespread social presence, noted in many kinds of social relations, and they may and should be explored. The fact that a huge number of theoretical concepts were separated did not contribute to the foundation of some eclectic theory of negotiations, on the contrary, it serves as a background to our own approach to the treatment of this problem.

The general hypothesis about the influence of the inter-psychical and environment factors over the negotiation process is not yet confirmed (the three particular hypothesis are only partially confirmed), the only confirmed influence is that of the degree of frustration tolerance over the negotiation time (which belongs to the group of the inter-psychical variables) and the influence of the type of ownership and branch of activities over the dependent collaboration and formality (which belongs to the external-environment variables). What is this due to? Reasons are found in the confirmations and notes of the representatives of so called "social revolution". Namely, the negotiations, as a social situation, mostly depend of the interaction between the particular personal contacts of the negotiators and the external situation conditions, which create the so-called "negotiation context" (particular and unique for each new situation). There is a great probability that exactly those anticipations contribute that phenomenon should be declared as "intangible". Generally, we think that the solution to this problem is offered by the above mentioned anticipations (like the theory of the games, concepts of correlation). Thus, if the determinants (a degree of frustration, type of ownership and branch, and probably others) which are "strong" enough to influence any negotiation situations are to be separated,

then the third group of interaction determinants could be best understood and explained by the abovementioned theoretical concepts. Actually, this is the essential concept of the authors who deal with the situation determination of the interactive context of dyads (E. Bern; C. Stayner; T. Mandic).

The variables, which appear to be important determinants of the negotiation process, are the first to indicate the ownership. Its influence upon the quality of negotiation is statistically confirmed regarding the aspects of: basic attitude (collaboration-competition), ($X^2 = 8.7 > 5.99 * 0.05 / \text{s.s. } 2$), basic approach (formal-informal). ($X^2 = 7.62 > 5.99 * 0.05 / \text{s.s. } 2$). All in all, we can with certainty declare that the: Private company owners are more cooperative and they prefer formal approach. ($t = 2.98 > 2.57 * 0.01$) This information probably emerges from the essential needs for survival and development of the company which is "on its own". This speaks about the expected and justified choice (when the private company owner claims that they are always responsive to cooperation, treaty, understanding, making compromises which guarantee survival and development). His manner of proactive cooperation, as a personal feature, is more necessary to him than to those who work in a public sector, who, as regards the type of ownership of the capital, are less motivated to force observance to the principles of "cooperation" to a maximum. As a matter of fact, this is confirmed by the comments of those who worked in a "civil service" before they started their own private businesses. Equation with their own business is very common among all respondents included in the research from the private sector, which is not the case with those from the public sector. On the other hand, the tendencies of ultimate exchange between the personal and social interests of the company most commonly are declared in public and commented among those respondents who work in "civil service" but have their own private businesses.

Similarly, the private company owners prefer the formal approach (which can be noted at the undersigning of the documents, asking for verification, confirmation, facts, accurate data, arguments etc) which provide them an appropriate protection and which guarantee trustworthiness in the actual activity and in decision making. The principle of "short reckonings make long friends" is normally more preferable when it comes to the negotiations of common interests, although probably there is also a space for the "private" interests, contrary to the fact that many issues are left as "open questions" (which means undefined stipulations).

The type of work (operation) is a variable which has a strong impact upon the negotiations. But contrary to the type of ownership, the type of working operative has an immediate influence upon the time of negotia-

tions, however, it does not have any influence upon the basic attitude and the approach. Namely, the estimated values show that the attitude and the approach during the negotiation among traders as well as among service providers is very similar, but they have different "time duration". ($t = 2.69 > 2.57 * 0.01$) The explanation of this involves two probable reasons: 1) the "longer time of negotiation" probably. Neither they nor the level of originality in their experience and skill gained by their everyday practice to haggle, bargain, shopping, sales and 2) the different types of goods (items of trade) impose the different times for negotiation because many questions are to be answered about their quality, price, conditions stipulations of payment, stipulations of refusal of goods, servicing and guaranties, transport etc. Service providers on the average spend less time in negotiations (1 hour on the average) because they have fewer issues to negotiate about and the price is already determined and it is not varying so often because it does not depend on the market.

When we speak about personal variables, of only significance is the level of tolerance of frustration which has immediate impact upon the negotiation time. There are no statistical data of exclusive importance about other conjectural relations that will point out their connection. Thus, the cooperation ($X^2 = 3.97 < 12.59 / \text{s.s. } 6$) and the confidence ($X^2 = 2.26 < 9.49 / \text{s.s. } 4$) as features of latent maturity in their exclusiveness do not have any kind of impact and influence upon the negotiation. Neither they neither the level of their legitimate power. ($X^2 = 4.24 < 5.99 / \text{s.s. } 2$) But this stands quite on the contrary relating to the above mentioned researches. Why is that so? The reason is very simple, namely, the power presents the functional relation between the carrier of the power and the dependent on the power. Actually, the essence of this relation is the equilibrium, but there is not enough "power" to produce action in any type of negotiations (the respondents are very aware of - "it depends who I negotiate with and about what"). So the power could be observed only as a personal variable which has different impacts in different situations. In fact, this is quite amenable to the defining of the power as a function, correlation of power on the one hand and the dependence on that power on the other hand (Blau).

Similar is the relationship between the cooperation and the confidence. Namely, the cooperation and the confidence - as personal features (observed separately) show no influence upon the quality of negotiation. The influence of those personal features rise and decline depending on the specificity of situations. How to describe this obvious contradiction?! The explanation emerges from the essence of the interaction of communication relations and their complexity (Rogers; Bern, Janakov; Beshka; Mandic). Thus, the quality of communication

depends of the perception of the partner, but also depends on the accord of the initiator. This means that in a very sensitive sphere of social interaction, as the negotiations are, our cooperation and confidence could always be perceived and accepted differently by the partner, which again proves that "it depends on to whom, when and how" But this is not the case with the level of tolerance of frustration. It is well known that it has no influence upon the basic attitude (cooperation-competition) ($X^2 = 7.67 < 9.49 / \text{s.s. } 4$) nor over the basic approach (formal-informal), ($X^2 = 7.46 < 9.49 / \text{s.s. } 4$), but it does certainly have influence upon the negotiation time in every situation of the negotiations ($X^2 = 7.4 > 5.99 * 0.05 / \text{s.s. } 2$), which as a data is explained by the essential characteristics of this issue and its physiological pose regarding the reactions and manifestations (gestures) which emerge from the frustrations.

The question is: Could the distinctive situations of negotiations be determined so that they could be defined as representative types? The case study allows for this. According to the distinctive interaction characteristics those cases were grouped into several groups as follows: 1) negotiations with an unknown partner, 2) negotiations with a well known partner with lost credibility 3) negotiations with a well known partner with good cooperation. The first one we called initiative, the second one culminative and the last we called negotiable (This division is made after the Blau theory). The last group was entitled as "negotiable" regarding his considerations that "the negotiation is possible even in the conditions of power absence, which does not mean weakness, but means that the relation is constructed over other postulates". And probably this is the confidence, which according to the author, but also to the practice is confirmed to be a most favourable tool for bringing up some new solutions. Many authors suggest some new models in which the main stress is put on the issue of re-formulation of the positions of observing of the negotiation process as a problem that urges a mutual creative solution, actually that needs the answer to the question of how to...?! So, that is the key moment and key step in successful negotiations. That is the moment when both sides are brought into a so called "situation of alert" (through a variety of "culmination situations" in which the power is the strongest tool) when they start to search for the most acceptable solution.

From the above mentioned, in a context of the methodology goal of the research, it turns out that the theoretical models in which the moment of "re-formulation" is accended, as a separate step, seems to be more acceptable and superior (Rayder, Koleman, Mandic). Talking about the approach of observing, analyzing and exploration of the negotiations, the most impressive is the approach represented by the transaction analysis. Here

we notice a maximum simplifying of the understanding about the mutual relations between two or more individuals caught in the act of negotiating. The analysis of the transactions which "come one after another" during the time of negotiation, amended by the knowledge about the "games" which occur in the business world, offers a different kind of opportunity for a scientific treatment of this problem.

This certainly does not mean psychologizing the business operation, but yet it calls for acceptance of the obvious facts that, when we speak about analyzing the external manifestations, in no circumstance is it allowed to neglect their connection to the elements which create the "man as a whole". That is the reason why we are closely related to those authors who especially emphasize the science about mankind (Cicourel), rather than those who classified this problem as an "intangible phenomenon", that anyone can "juggle" with. The fact about existence of a lot more schools, branches, seminars, trainings for negotiators, compared to the number of relevant scientific research of this sphere speaks about the inadequate approach to the observing of this problem.

We do hope that the previous statements about the distinctive character and interdisciplinary feature of the phenomenon of negotiations will reach those who in R. Macedonia have the intention to legally protect the exclusiveness to practice this skill (negotiation-meditation in judicature). They should understand and accept the essential differences between the above mentioned approaches. Namely, practicing activities that should stand for the act of negotiation, and meditation, are open to everyone, but the exclusiveness of their scientific treatment belongs to the science about the man, whose superior behavior regarding his acts and tools were elaborated several times in this research.

The profile of the average negotiator in Macedonia points out that the differences between various negotiators, coming from various hierarchy levels, different types of ownerships and business operation have no statistical significance and mainly they remain neutral. Only several concessions toward extremes were noticed considering the issue of need of training and emotional attitude toward negotiations. All in all, the average Macedonian negotiator prefers individual negotiations, where the decision sphere is accepted as an exclusive act and business secret. He does not accept too much risk, nor does he take any immediate steps during the negotiations. He has only a modest knowledge about this process, but he is not always aware of that. In fact he appreciates this activity as a key one and he is always ready to edify himself. According to him, the key determinants of the negotiation are the partner and the problem of negotiation.

Dimensions Variables	Extreme 1		Neutrality		Extreme 2		
	1	2	3	4	5	6	7
Basic approach			3.18		3.04		
Waz of persuasion			4.03		4.41		
Level of risk			4.01		4.08		
Stzle preference			4.19		4.56		
Training needs						5.48	
Emotional attitude to the negotiating			4.08		5.51		5.28

Tab.1 The profile of the average negotiator in Macedonia

Regarding the above mentioned variables only the issue of the decision making risk is seriously elaborated (Stoner, Kogan & Wallach, Miller, Moscovici & Zavalloni, De Goulleu). From the entire theoretical argument (regarding the various aspects of risking issue) the following conclusions are of great importance: 1) the level of risk taking is in correlation to the value system and the culture of the individuals who make decisions; 2) the risk is greater when the decision is made by a group. That attitude could represent the base for status determination of the average Macedonian negotiator, regarding his relation to the negotiators from various social milieus.

Unfortunately, we do not know anything about the results of similar serious pieces of research conducted in this country, besides, perhaps, the research into the motives for achieving the goal (Lazarevic, Havelka; T. Nikolovski), which are highlighted as important determinants for setting and achieving the goals. The above mentioned authors noticed an unsatisfactory low level of existence of such a motive in this country, which could probably be connected to the influence of some characteristics of the previous social system (anti-entrepreneurship, contract economy, phobia of the private ownership, tendency of averaging, lack of initiative), as well as to the influence of some traditional values. Observing several popular sayings such as "Do not distinguish yourself", "Golden mean", "Measure twice cut just once", "A humble head suffers no sword" indicate that our value system always forced the "modesty and balance" which makes us different from the societies in which the competition and risks are systematically enforced (even in the education process). Probably, the new social system that is promoted, in which the individuality, free competition, team work and entrepreneurship are part of the instrumental values will contribute to change of awareness and their greater acceptance.

In the end, we can conclude that the majority of the set goals of this scientific work were achieved. Emphasizing of the influence of situational factors as key determinants of different social relations is quite justified, although when we speak about negotiations, the key factors of influence should be searched for among the interaction between the situational factors and some personal features of behavior.

It is worth mentioning that as a special contribution to this science work we emphasize: 1) Detection of several so-called "strong" determinants of negotiation; 2) Establishment and constitution of the three types of negotiation situations and 3) Preparation of the new instrument "The Protocol of recording the negotiation process".

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Management Consulting for SMEE Sector from Client Perspective

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The paper analyzes the views of the owners and managers of small and medium-sized enterprises on management consulting in the transitional circumstances in Serbia. The management consulting service can be defined as successful only if the client is satisfied with the results and the manner in which the consultant is engaged, however, in order that the consultant be able to deliver the service in a satisfactory manner, he must have certain skills. The reasons for hiring consultants in the SMEE sector the consultants- competences, and the performance indicators of the management consulting service, represent the guidelines for consultants to achieve the best possible effects in consulting services.

1. Introduction

It is for more than the last twenty years the last century that the world economy recorded an increased growth in the consulting industry. Driven by the constant growth in demand, the margins grew to be inordinately high and the consulting firms were in a position to employ the best experts in the so-called war for talents [11].

The beginning of this century saw the changes in this area. The growth of the consulting industry was halted; it recorded stagnation and even negative results (Figure 1). The old rules of the game did not hold any longer [21]. Simultaneously, the customers have become ever more sophisticated and more demanding, aware of their importance, and therefore more powerful. This led to profit rates being reduced and even threatened the survival of the consulting firms on the market; however, the consulting sector proved to be flexible enough and managed to overcome the crisis.

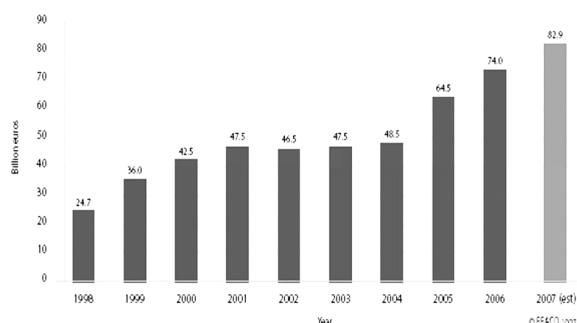


Figure 1. The size of the European management consulting market, 1998-2007 [27]

In the economic environment in this country, the services of the management consulting have been taken into serious consideration only in the few past years. The extremely changing business environment, the

globalization effects, an increasing competition on the market, etc., actually press the firms to change constantly and improve their business operations. In such a situation it is necessary that each segment of business be raised to as high a competence level as possible, this being the matter of the firm survival. This actually means that the firms have to do business even beyond the boundaries of their own knowledge and time available. It is beyond these boundaries that they require external aid from the individuals and firms commanding a high level of professional knowledge and skills in respective business fields. Such aid to the firms is provided, among other things, by the consulting agencies and independent consultants.

The amount of intellectual capital in the consulting firms is of great importance for their business doing. Besides, these firms usually possess large databases, highly sophisticated software and advanced telecommunication technology, which, together with the employees, makes a combination of highly desirable but scarce resources to even the largest companies in some other fields of work. At the same time, the fact is that consultants, as professionals whose work is exclusively based on knowledge, are not really willing to share their "know-how" with competition [25]. All these make the services of the top management consulting firms highly expensive and hardly affordable to a vast majority of the potential consulting services users. The gap is filled by small specialized consulting firms or individuals.

In understanding any management consulting process, it is important that the role of the client in the process be clearly defined [23, p.202]. Regardless of the evident growth in the demand for the management consulting services, the practice shows that there are certain grounds for the clients' dissatisfaction [8], the problems

the client wishes to solve when they decide upon using the consulting services [20]. These problems can be classed into two categories [6, p.16], namely:

- The problem to ascertain the quality of the service provider/deliverer (consultant) prior to purchasing the very service, and
- The validation of the quality of the service upon its execution.

It is necessary that both these relations be satisfied in order that the management consulting arrangement should be fully effective and assessed as successful.

2. Objectives and methodology

The above quoted problems trigger a question of to what extent the clients understand what management consulting is about and what their views of such a type of service are. It is for this reason that the objective of this research is to find out the reasons that drive the client to hire consultants as well as which strategic competencies contribute to the management consulting high performance. In addition, the aim of this research is to identify the elements the clients regard as the indicators of an efficient management consulting.

The research included the review of literature, followed by non-standardized as well as semi-standardized interviews with the small and medium-sized enterprise owners and managers, but also with the consultants. Thus the matrix of reasons for hiring consultants, of strategic competencies and of management consulting performance indicators was worked out. One of the advantages of such a method of research is the opportunity of generating both qualitative and quantitative data. The advantage of qualitative research is in that the complex as well as detailed phenomena in the management consulting process may be observed and understood in a holistic way.

The disadvantage of this methodology, however, is a possible subjective or biased or insincere answer the respondent or a client may give; or the sample may be insufficiently representative, due to the fact that the data on the actually delivered services of this kind to small and medium-sized enterprises and entrepreneurs (SMEE) is not available or not in order.

3. Clients' view of management consulting

The appreciation of management consulting has grown significantly in the last decade, due to, among other, the books and papers on the topic [10; 17; 4; 5; 19; 7]. In the economy of this country, it has especially been fostered by the state, more precisely, by the Small and Medium-sized Enterprise Development

Agency, which created a network of regional consulting agencies for the purpose of enhancing the setting up and improving the work of the small business sector in the country.

In the provision of the management consulting (MC) services, the relations between the consultant as a service provider and the client as a service beneficiary may be twofold (Figure 2), namely:

- Direct – direct communication prior to, during and after the service is provided, and
- Indirect – the service itself, in the way it is delivered and absorbed, in its quality, value, intelligibility, satisfaction, etc., is a type of specific communication between the client and the consultant.

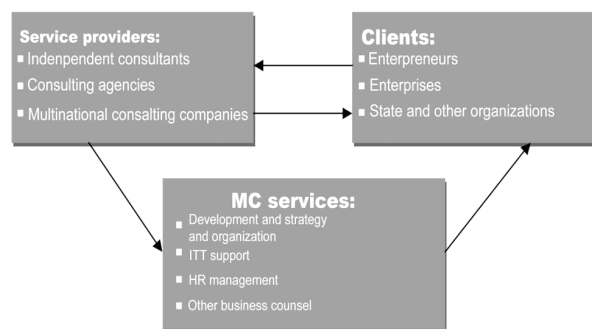


Figure 2. Direct and indirect client-consultant relationship

The customer (user) purchasing the consulting service was to a large extent been “taken for granted“ in the past, often a victim of powerful and convincing management consultants. Such an image of a consulting client was seriously criticized in literature [26; 9]. The commercial climate, however, has become much more difficult and demanding for consulting experts. The main reason for this seems to be the fact that in their work with the consultants, the clients gain more and more managerial knowledge and experience, they become more demanding, while the generally sceptical attitude to the consultants is increasingly present in the business world today.

It is for these reasons that this research is oriented to the client, i.e., to his understanding and views of the management consulting activities. A starting point of the analysis is the need and wish to answer some of the following questions [3, p.186]:

- How and on which basis do the clients “purchase“ management consulting (MC) services?
- How do they organize to accept “management advice“ from external experts?
- How do the firms and their managers benefit from these services?

- How do clients in their organizations perceive the consultants and which are the consequences (often negative) of such perceptions?
- How is the need for external management consulting services received among the managers in firms?
- How can we understand (potentially differently) the implementation of MC among managers in different contexts?
- Which are the consequences of consulting implementation in the client firm and how did such results come?
- In which way and under which circumstances can consultants help their clients through “learning and knowledge development“?
- How do the forms of consultant-client relations develop over time?
- Which are the characteristics of “successful tasking“ for the consultants?
- Which are the capabilities the consultants must have in order that they convince the client that they are able to provide a quality service and in order that they really deliver such a service?
- How do the clients estimate and value the consulting engagement performance?

3.1. What precedes consulting engagement

The activities preceding the consulting engagement are of great importance for an efficient execution of the project the consultant is engaged in. Among other things, they include: the recognition of the need for a consulting service, the description of the consulting project task, goals included, the decision on what kind of service and what type of consultant are required, recruiting an appropriate and qualified consultant, closing a contract with the consultant or the agency/company.

Prior to hiring a consultant, the client has to provide instructions clearly defining what he needs. These instructions are actually the job or task description, containing precise and up to the point instructions on what the consultant is expected to do for the client, as well as a sort of guidelines specifying the scope and the purpose of the job under consideration. The aims of the task description are the following:

- To enable the consultant to clearly and fully understand the task he is assigned.
- To explain what the consultant is expected to do.
- To explain the importance and the complexity of the job.
- To define the obligations of both the consultant and the client and specify the manner in which the project or process will be managed.

- To prevent any ambiguity about what is to be achieved in the end.

The job description is a basis for closing a contract with the consultant. The clearer and more straightforward the task description, the better for both the client and the consultant. Only if the task description is clear enough is it possible to monitor the operations and undertake corrective actions in case the work does not proceed as planned. We must, however, also bear in mind that the task description cannot anticipate every possible situation. For example, certain unpredicted and unavoidable circumstances may have a negative impact upon the work results or the deadlines. The usual questions the task description has to answer are the following:

- Why is a certain service necessary?
- Which are the expected results?
- Which goals are necessary to achieve?
- Which methods should be implemented in the work?
- Which skills are required?
- Who has to be included?
- Which period of time is required to achieve the goals?
- Is there a deadline by which the task has to be accomplished?
- Can the products of the process be quantified?
- How shall we know that the task will be accomplished in a satisfactory way?
- In which way will information be gathered in the course of the task accomplishment?
- What will the costs be?

The task description for the consultant can be written in numerous ways. The following lists only the general instructions with general points:

- Description of the situation – general information on the project or task context. Here the reasons for which the task or the project are important are stated and an insight into broader activities whose part the project/task is is given.
- Purpose – the task or project goal is explicitly stated, as well as the reasons for which external aid is necessary.
- Task or project goals – all individual goals and tasks are specified here. How clearly the goals and the tasks are defined will depend on how well the problem is analysed and which level of expertise is required.
- Project or task description – here the task is broadly described. Data is given on the client or the project or task beneficiaries, as well as the explanations as to what/whom it will affect and the location where the task will be accomplished.

- **Timeline** – it is important that the date of the beginning and the date of the completion of the project or task be clearly stated. This is also necessary because of the budgeting (overall duration, amount of costs, number of employees), both for the client and for the consultant. Finally, it is important for the purposes of monitoring during the process.
- **Liability** – in order that the management and control be efficient, it is necessary to specify who will be responsible and for what during the project or task execution. It is in this way that responsibility is fostered and confusion is prevented as to the roles and responsibilities of the consultant and the team leader in the organization.
- **Communication** – it is important that the communication channels and who the team leaders of both parties are be clearly stated in the task description.
- **Authority levels** – here the authority for each level of decision-making in the organization is assigned, so that the consultant can turn to right people to clarify certain issues.
- **Qualification and experience required** – it is important that the knowledge and experience required to accomplish the task be clearly defined. The consultants' competences include the skills (technical as well as those related to certain behaviours), knowledge, and attitudes. The more accurately the required competences are described, the easier it will be to the consultants to evaluate themselves before they accept the task.
- **Relevant policies** – it is often necessary that the consultant be given an insight into the internal policies and procedures, but also into the external ones, important for the project or task execution. In this way the consultants are given an opportunity to prepare better.
- **Project or task execution framework** – the description of the expected project or task realization. This includes a list of the most important tasks the consultant is expected to accomplish. It is on the basis of these, as well as on the basis of the description of other important elements of the project, that the consultants can suggest the way they will work and the methods and techniques they will use.
- **Expected outcomes** – focusing upon what the management consulting process should result in, the results (consulting products). It is important that the products be formulated in such a way that they can be recognized and measured objectively. It is also important that the expected level of the result or product quality is stipulated. Here the most important indicators are also stated [18, pp. 31,32].
- **Reporting plan and mechanisms** – in this part various types of reports required on different levels of

the task or project execution are stated. In case of a simple task, only one, final report will be required. More complicated and longer-term projects may require reporting in intervals. It is important that the form and type of the expected reports (written, oral, or both), the intervals and to whom they should be submitted be stipulated, too.

- **Cost-budget** – in the majority of cases, the organization-client will allocate a certain sum for the job being done by the consultant. In the task description, however, this is rarely stated, because the consultants are expected to behave up to the market laws and offer the best possible quality for the price offered.

3.2. Strategy and strategic competencies

The comprehension of both broader and immediate environment, combined with organizational competence, allows for the formulation of a strategy that will fill the gaps and improve organizational performance [14]. The strategy is a set of rules and decisions guiding the organizational behaviour and is really intangible and abstract in concept, providing no direct or concrete results as to the organizational performance [1, p.31].

Greiner and Metzger [12, p.7] defined management consulting as "... contracted and delivered consulting service to organizations by specially trained and qualified people, who objectively and autonomously help the client organization identify the problems of management, analyse them, and who propose adequate solutions and also help implement the solutions." According to the definition, business consulting requires specific competencies and an appropriate level of knowledge which will enable the consultants to help their clients identify and solve management problems in their organizations.

The core business competencies are the skills the organizations have, those that help them conduct their business operations [14, p.126]. The majority of organizations have numerous core competences.

Some of these competencies are more important than the others. According to the same authors, such business competencies which are on a higher level compared to the core competences, are called strategic capabilities/competencies and are characterised by three specific features:

- They present the value for the customer,
- They are superior to those of the competition, and
- They are difficult to immitate or replicate.

A unique combination of strategic competencies, not easy to immitate, can be titled the key or core compe-

tencies [15]. Hence it can be concluded that the core competence is not just the summ of individual competencies, but a combination of complementary skills and a knowledge base built in a group or a team and resulting into a competency to perform one or a number of key processes on a high level standard [13]. The relationship among the competence, strategic competence and key competencies can be presented as on Figure 3.

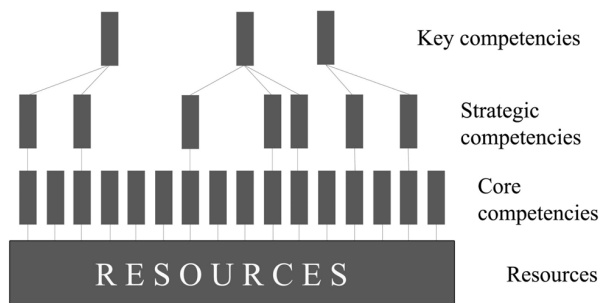


Figure 3. Relationships among core, strategic and key organizational competencies

By identifying its strategic and core competencies, by their adjustment to the environment and by their including into its strategy, the organization improves its performance and acquires a long-term sustainable competitive advantage.

Simon and Kumar [24, p. 366] analysed the works of eight academics in order to find out the common characteristics of the consulting all the authors quote in their works, which the clients mutually take to be strategic competencies driving the management consulting success. Each author uses his own terminology, however, some mutual characteristics of the consulting they pointed to are easy to identify. The list made within their study included any strategic competencies mentioned in three or more works (Table 1).

3.3. Management consulting performance measuring

In case the consultant offers inadequate counsel, the consequences the client experiences may vary, from the decreasing growth rate, to the crisis situation

Competence	No. of quotes in literature	Authors quoting competence
Client-consultant communication	7	Bobrow(1998), Bowers and Degler(1999), Czerniawska(1999), Ford(1979), Hegyi-Gioia(1999), Popovich(1995), Riley(1999)
Client collaboration and inclusion	6	Bowers and Degler(1999), Czerniawska(1999), Dowling(1993), Hegyi-Gioia(1999), Popovich(1995), Riley(1999)
Core competencies breadth	5	Bowers and Degler(1999), Czerniawska(1999), Dowling(1993), Ford(1979), Popovich(1995)
Technical knowledge	5	Bowers and Degler(1999), Czerniawska(1999), Dowling(1993), Ford(1979), Popovich(1995)
Problem definition (identification)	4	Bobrow(1998), Bowers and Degler(1999), Ford(1979), Hegyi-Gioia(1999)
Integrity and honesty	4	Bobrow(1998), Bowers and Degler(1999), Hegyi-Gioia(1999), Ford(1979)
Ability to understand the client	3	Bobrow(1998), Bowers and Degler(1999), Riley(1999)
Marketing	3	Bobrow(1998), Bowers and Degler(1999), Czerniawska(1999)
Setting reasonable expectations	3	Bobrow(1998), Ford(1979), Hegyi-Gioia(1999)

Table 1. Strategic competencies, from the clients' point of view, leading to the management consulting outstanding performance – academic literature analysis

emergence, to the bankruptcy of the organization. Many unfavourable consequences of an ineffective consulting can be prevented if adequate steps are undertaken in the previous, but also in the current evaluation of the consulting engagement effects.

The need for measuring the management consulting impacts upon organizational performance led to a

complete change in the management consulting understanding. The activity-based consulting is replaced by the result-based consulting, as is presented in Table 2 [22]. The consulting interventions are connected with the firm's specific business needs, where consulting is viewed as a measurable variable that ought to have a certain impact upon the firm's performance. In case the results of the consultant engage-

Activity-based consulting	Result-based consulting
The need for consulting intervention is not defined	Intervention is related to specific business needs
Performance is not estimated	Effective performance estimate
No specific or measurable goals	Specific and measurable goals are defined
No efforts are made to prepare the participants in the consulting process to achieve results	Results/expectations are communicated to stakeholders /participants
No efforts are made to ensure the implementation supportive working environment	Business environment is prepared to support implementation
No efforts are made to establish partnerships with key managers	Partnership with key managers and clients is established
No result measuring or cost-benefit analysis are conducted	Results are measured and cost-benefit analysis is conducted
Planning an reporting on consulting intervention is focused on inputs	Planning an reporting on consulting intervention is focused on outputs

Table 2. Consultant paradigms based on activities and results

ment are not known, the most direct consequence for the firm is that the firm's precious assets are being spent without any chance of control.

4. Research findings analysis

The majority of clients interviewed come from larger cities (Belgrade, Novi Sad, Niš, Kragujevac, Subotica, ...). In general, they all have certain attitudes on the consulting engagement, regardless of the fact that they do not currently engage any consultants. Some clients have already had some serious experiences in consulting engagement, with different outcomes.

The industries in which the clients do business vary from commerce, to manufacture, to construction works, to tourism and hospitality industry, etc.

The areas of business for which they did or would hire a consultant also range broadly, from information technologies, to financial and taxation consulting, marketing, to strategic consulting, training and development, organizational change, etc.

The findings of this research have shown that clients hire consultants for various reasons, but also that they encounter a lot of ambiguities and uncertainty in this respect. In conclusion, however, it can be said that common to all of them is that they expect that the result of consulting engagement (and cost) be tangible. The mutual attitude of (prospective) clients is that the consultant should focus upon the client's needs.

4.1. Reasons for consulting engagement

As a result of the research conducted, a set of main reasons for consulting engagement was identified. According to the importance the clients attach to cer-

tain reasons for consulting engagement, seven commonest reasons are identified:

1. The need to solve the problem promptly;
2. The need for new, modern solutions;
3. The need for additional help or resources;
4. The need for an independent and objective advice;
5. Achieving or sustaining competitiveness;
6. Insufficient staff to execute a certain project;
7. Insufficient in-house expertise.

Two reasons dominate the all the others, the need for prompt solutions and the need for modern solutions. It is also indicative that the clients lack the in-house expertise least. Is it really so or the clients still do not recognize the role and the importance of expertise in the field of management, is a rather interesting issue to be researched into in the future.

The reasons stated, generally speaking, point to the fact that, when they decide to engage a consultant, the clients demand something they are not capable of doing themselves in their own firms. To a certain extent they are then dependent and exposed. Hence the consultants should deal with their clients with the sense of strong ethical responsibility:

- They should consider the client's interests as a priority;
- They must provide a real benefit to the client;
- They must not abuse the client's trust.

Summing all the reasons for which the clients hire consultants, the already defined mutual demand for consultants can only be confirmed, the one that Bergholz [2, pp. 29-33] formulated on behalf of all clients: "Help me, or show me how to improve the business operations of my firm. I know you have the knowledge I do not. I cannot ask you directly, but you can find ade-

quate solutions, without diminishing my feeling of self-respect. Your feed-back information and advice may be useful. I count on you to be able to find effective ways to deliver them to me...”

4.2. Consultants’ strategic competencies – clients’ standpoint

The literature review (Table 1) shows some consultants’ strategic competences identified by the clients. The research, however, was conducted in 2000, on the sample of 500 top firms in Australia. The findings nevertheless served as a starting point for this research. In the business circumstances in the transition countries, such as these in Serbia, and on the sample of small and medium-sized enterprises, or entrepreneurs, the findings are somewhat different and biased.

Twelve strategic competencies have been identified as a final result of the research and analysis, that the clients, i.e., the owners and the managers of small and medium-sized firms identified as important for the consulting success. These competences are:

1. Innovativeness and creativity
2. Integrity and honesty
3. Rationality
4. Efficient problem solving
5. Expertise
6. Ability to identify problem/opportunity
7. Client-consultant communication
8. Quality of service
9. Objectivity
10. Value adding to client organization
11. Knowledge of business environment
12. Consultant’s own success

Three strategic competencies identified as most important are innovativeness, honesty and rationality. This is fully in line with the client’s need and wish to get prompt and modern solutions, which are actually the main reasons for which he purchases consulting services.

Simultaneously, although it is not crucially important for the client, the need is stressed that the consultant has to be able to solve his/her own problems, that is, to make himself successful. Clients simply do not trust the consultant who has not proved to be an expert on his own case.

4.3. Consulting performance indicators – clients’ standpoint

In practice, the client who decides to use professional business consultants’ services can learn whether the consultant is capable of doing what he is expected to do in an easy and simple way. He can do it in that he hires

consultant(s) for small projects, which mean not so much work and not so high costs. If satisfied with the results, he can continue and extend the collaboration. Consulting, therefore, is no charade. You can cheat only once. There are various factors on the basis of which the clients can decide whether the consulting service is successful, be it a “pilot” project, or a small, or a larger management consulting engagement. According to clients, the major indicators of management consulting performance are the following: timely service provision and achievement of set goals. The indicator considered by the clients to be least important is the implementation of the proposed solutions. More precisely, the importance of this indicator increases with an increase in the number of employees. The management consulting performance indicators mostly quoted by the (prospective) clients from the SMEE sector are as follows:

1. Timely provision of services
2. Achieving the set goals
3. Client’s satisfaction
4. Achieving measurable financial results
5. Employee behaviour in the client organization
6. Implementation of the proposed solutions

We see that both financial and non-financial performance indicators are listed. This is in accord with the literature [16] which suggests a balanced measuring of results, not only financial measurements. Hence each individual strategic competency is put into a relation to each of the performance indicators. The result is that the majority of strategic competencies affect both financial and non-financial indicators.

Management consulting	Performance indicators:					
	Timely service delivery	Achieving agreed goals	Client satisfaction	Achieving measurable financial results	Employees behaviour in client organization	Implementation of proposed solutions
Strategic competencies:						
Innovativeness and creativity			•		•	•
Integrity and honesty		•	•		•	•
Rationality	•	•		•		
Efficient problem solving		•		•		
Expertise	•	•		•		
Ability to identify problem/opportunity	•	•	•	•		
Client/consultant communication			•		•	
Quality of service		•		•		•
Objectivity		•	•	•		
Value adding to client organization value adding		•		•	•	
Knowledge of business environment	•	•				
Consultants own success			•		•	

5. Conclusion

Evidently, the users of management consulting services in Serbia are concentrated in larger cities and come from various industries. Also, the range of fields for which they decide upon consulting engagement is broad. The number of prospective clients is much larger; they do have certain needs, however, they have not decided upon hiring consultants, mainly because this type of services seems too mystified to them. The management consulting services are not available to a sufficient degree in less developed regions, which hinders the development of small, mainly manufacturing firms and entrepreneurs in these parts.

This research has shown that consultants should command multidisciplinary skills, be competent, creative and have excellent character traits. A successful management consulting must operationalize and implement as many strategic competencies as possible. In the long run, through the consulting service delivered, these competences affect at least one, and usually more performance indicators. In practice, on making the decision to engage a consulting expert, the client's assumptions and demands become expectations. Hence it is of great importance that the consultants should be capable of understanding the client correctly and fulfilling his expectations as accurately as possible.

The smaller the client's firm, the greater entrepreneurial spirit and management style; therefore, it can be taken for certain that the owners and managers of small and medium-sized enterprises are entrepreneurs. They are energetic and they make decisions fast, hence they attach most importance to the need for concrete and prompt solutions. Aware of fast changes in the business environment, they expect the solutions offered to be modern and creative. Hence such clients prefer the consultants that are fast, accurate, innovative, rational, honest and experts.

Time is a key factor and also a consulting service performance indicator. For the client, the timely service provision, together with achievement of set goals, tops the list of the management consulting performance criteria.

There is yet another important point. The clients do not want consultants who did not prove successful on a personal plane. They could be said to consider failure to be contagious. It is for this reason that the clients consider the consultant image, status and references highly important. The only exemption are the key consultants. As a complex and subtle process going on between the consultant and the client, manage-

ment consulting is based on mutual correctness and usefulness and is a result of mutual trust. The clients may decide to engage more than consultant, for different parts of the project each; however, they wish to build long-term relationships with one, and only sometimes with several key consultants. The consultants are necessary for the clients, in that they help them get a comprehensive view of their business, they remain with the client for a longer period of time and take part of responsibility for the client's business operations. Here, their position is similar to that of a general practitioner, who remains indispensable, regardless of people increasingly using the services of specialists to get cured. The role of key consultants is such that they offer advice in all kinds of situations and help their client make the right decision. Such counselling need not be too expensive. It demands maturity, anticipation and empathy from the consultant, rather than complex administrative procedures.

Nowadays, there is a difference between the approach the consultant takes in measuring his performance and that of the clients' measuring the same performance. This does not mean that consultants evaluate incorrectly, only that they should take more care of what the clients demand and expect from the services they purchased. At the same time, the greater the choice among the alternative consulting services providers, the more considerate the consultants will become towards the client and the more reasonable their fees, and the more knowledgeable the clients as to what they can and what they should expect for the price they paid. Since the ratio of market power moves from the consultants towards their clients, it is important that both parties redefine their roles and approaches. For the consultants, it is a strategic task and the matter of survival.

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High Technology as a Source of Competitive Advantages

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All economies generate or exploit new technology and knowledge, but some are more intense in this process than others. High technologies are very important for this study, as they provide firms with competitive advantage by changing the key success components. High technology economies are the primary source for generating money in contrast to the economies dependent upon resources, labor and capital, which have been dominant during the last century. The significance of certain countries that have made a great technological impact, which was made possible due to their continual investments in science and technology and R&D were also shown in the study. The OECD acknowledges four groups technologies as competitive advantages in the field of advanced technology (low, medium-low, medium-high and high technology), in respect to their R&D intensity.

1. Introduction

Technology is the basic source of competitive advantage in the twenty-first century. This is best seen in high technology firms. Science provides new solutions, resulting into the automation of the production and labour processes, organizational flexibility, creation of modern systems, specialization and a new approach to the product and service quality.

In order that all these be achieved, the crucial problem for the firm is that of the access to new technologies. In the developed economies it is relying to their own research and development activity; the developing economies, however, will do best to follow the path of those that have already accomplished this goal.

The analysis of competitive dynamics strongly relies upon five technologically interrelated characteristics. Firstly, technological opportunities refer to the potential of innovations among the value chains of the firms within one industry. Secondly, the competitive dynamics differs in the degree of appropriation of benefits resulting from the innovational activity. Thirdly, the liability resources demand that the competitive dynamics changes be successful. The knowledge based economies that require fundamental research, may demand larger resource liabilities than industries based on technologies, including additional research and development. Fourthly, major rivals generally range from institutional management to the market. Finally, varied competitive dynamics requires an equally varied speed of execution [10].

2. Technological changes

The changes in the economy structure are continuous. A new technology which is a result of innovation, results in turn into the emergence of new firms and new industries. Tracking the product or the firm's life cycle allows for tracking the structural changes in the national and international economies.

The impact of technological change upon the changes in economy is significant. Its effect is especially evident in the growth and development of firms and of each individual industry. Technological changes also contribute to the strategic change in economy. They challenge the firm's present competitive advantage, but also create a new one, stronger than the present advantage.

Technology is a process, technique or methodology – materialized in the product design or in manufacture or service providing processes – that transforms the inputs of labour, capital, information, material and energies into the outputs of a greater value [3].

Technology refers to the processes in which the organization transforms the labour, capital, materials and information into products and services [3].

Technological changes have an important role in the competitive dynamics. The outcomes of the changes are several. Firstly, it is new products and processes. Secondly, it is the change in the value chain and in the firm's constellation value. The changes also change the nature of rivalry among firms.

Technological changes result in the conditions in which many products and services cease to be competitive, therefore the firms undergoing such a process can resort to only two options: cut on expenses or implement technological change that will help create new products or services. In a dynamic economy this is a permanent process and serves as an unbiased estimate of the scope of the technological change [10].

In case of major technological changes it is not easy to recognize which benefits can be anticipated, not only for the prospective buyers of new products or services, but also for the innovating firm itself. Nevertheless, the firm has to implement technological change, otherwise it

may be caught in delay, and the consequences may be the lost time, delays in new investments and instability in its competitive position on the market.

The effects of technological change are not the same in every one industry. In certain industries the change is viewed as an opportunity to improve the strategic position on the market, however, it may prove to be a threat for some of them. In any case, regardless of the above stated, technological change is one of the promoters of competition. It is by the technological change exploitation that the leading firms on the market have acquired such a position.

Technological changes not only reduce the costs of business operations, which was the original goal, but also make the firm capable of changing its market orientation. In some cases, new technologies even lead to opening new markets [10].

The task of the firm management is to analyse the critical factors and then to rely upon those they intend to use to improve the firm's competitive position. The world economy knows the firms that build their competitive position on their wealth in raw materials and cheap labour. There are, however, firms that build such a position even though they are not rich in raw materials and their labour force is expensive.

Technological innovations are regarded as the earliest implementation of science and technology in a new direction and with commercial success [3]. The statistical definition of the technological innovation, as stated by the Eurostat [10], includes the development of the products and processes and a restricted amount of organizational innovative activities such as marketing and training of those directly involved in the implementation of new products, services and processes.

In order that it be commercially successful, the innovation has to be perceived as a new value for the customer. Here technological innovation alone is not sufficient; it is often followed by a new business model. What is important is that a new market is created, either through a technological innovation, or by a business model, or through the combination of the two.

Innovators or innovating firms are firms that have introduced new or improved products or services, or new or improved processes onto the market. The firms may be innovatively active without introducing innovation onto the market (innovation may be commercially uneconomical or the innovation project has not been completed yet). We must bear in mind that

innovation is new to the firm introducing it regardless of whether it is new to the competition – at home or abroad (Radman et al., 2003). What is crucial here is whether the firm achieves economic effect, that is, whether it commercializes the innovation.

One of the key promoters of economic growth is the diffusion or spread of innovation throughout an economy. The spread of innovation is not a simple process achieved only by market automation. It is a complex process which includes, in addition to the market as a key mechanism, numerous non-market elements, such as a developed support system to R&D and the cooperation both among the firms and between the firms and the infrastructure organization.

Productivity may not improve automatically with the country investing into the R&D and innovation. Technology and technological changes are not automatically translated into productivity and consequently into competitiveness. For example, the diffusion of information technologies (IT) does not automatically improve productivity, if its implementation is not directed towards the key agents in the business process, that is, towards those aspects of the business process that create value for the customer. Productivity can also be a result of downsizing and need not necessarily be related to the new technologies implementation [10].

3. Characteristics of high technologies

High technologies are implemented by the firms whose products or services include advanced and innovative technologies. Common to these firms is that they rely on advanced scientific and technological studies and generally spend much on research and development. One criterion of a country acquiring competitive advantage is that it has achieved a high level of large scale and sustainable exports in the high technology sector.

As a support to new techno-economic paradigm (TEP), *high technologies* are the ultimate product of an increased and specifically structured investment into scientific research, an intensive interactive relation between science and economy, but also of an overall development of scientific and research complex and innovative activity.

The ways in which high technologies can be more precisely defined and classified are various. The following classification is based on the properties that high technologies have in the effects they generate in an overall and complex impact upon the economic and social system on the global level [3].

The high technology properties are [3]:

- high and increasing capital, educational, scientific and information intensity;
- low and declining energy and resource intensity;
- low and declining, and in certain cases (clean technologies) no harmful effects upon natural and social environment;
- high capital-earning capacity;
- low vulnerability to crises and marginal effects of crises in the environment;
- the shortness of life cycle of the products, goods and services as well as of technological systems and processes;
- high income elasticity of demand;
- high and increasing flexibility of reproductive systems and processes;
- high educational needs, especially for highly qualified workforce and creative work;
- a major importance of state intervention in all the phases of creating, development and implementation of high technologies and their products;
- low import demands and creating a low or temporary import dependence, primarily within international or global systems.

Common to the firms whose products or services are characterised by innovative technologies is that they rely on advanced scientific and research studies and are generally known for their high expenses in research and development (Keeble, Wilkinson, 2000). The high technology sectors are those of aircraft industry, computers, software and similar services, electronics, semi-conductors, pharmaceutical industry, scientific instruments and electrical machinery (OECD, 1990). The notions *technology products* and *products of advanced technology* are also used to denote high technology products.

The high technology sector contributes to a rapid growth and development of production and services by increasing the general efficiency of work and capital. The research conducted in the last decade of the twentieth century has shown that the growth rate in the fifty most advanced countries (as regards R&D intensity, the number of scientists and engineers) was three times as high compared to the rest of the world in the 1986-1994 period (OECD, 1999). High technologies provide competitive advantage to firms by changing the key success factors. In some cases, small firms with limited experience have managed to get over the shortages imposed by dominant competitors through technology innovations. In the majority of the OECD countries, the commerce in the industrial sector is characterised by an increased presence of high technology products.

General trends are clear, however, substantial differences among countries still remain. The USA, Great Britain, the Netherlands, Japan, Finland, and Ireland are the leading countries in the knowledge based economy, measured by their share in the high technology exports. Similarly, the exports of high technologies in the developing countries are concentrated in a small number of countries, mostly in South Korea, Malaysia, the Philippines, Singapore and Thailand (WB, 2001). A large number of other developed or developing countries lag in many important fields including investments into innovations and the increase in the highly qualified workforce (OECD, 2001; Mani, 2000).

The exports of high technologies of the developed and the developing countries are generally similar in terms of product specialisation and technology sophistication. The available data on the high technology exports (1997) show that both groups of countries increasingly specialize in the manufacturing and exports of components and parts in electrical products and office equipment.

The developed countries tend to achieve a greater variety in the exports structure, whereas a large number of developing countries have yet to develop technology competences (WB, 2001). Even among the top five countries – high technology exporters – it is only South Korea and Taiwan that can boast of significant national technology competences. This means that multinational companies get the maximum from the exports of high technologies from these countries.

The country's market competitiveness of technology advantages is achieved when in new products and processes it can give an important estimate of economic productivity of its scientific and technology systems. For example, many Asian countries have become significant suppliers of high technology products on the world market. Such an achievement is an indicator of the orientation towards the development of high technologies through building up the necessary scientific and technology resources (WB, 2001).

The customer sophistication has an important role in the increase of a country's exports of high technology products. The results show that there is a positive ratio between the customer sophistication and the high technology products exports, since in this way the companies are forced to introduce advanced technologies in order that they remain competitive (Seyoum, Belay, 2005).

4. The oecd classification into four groups of technologies on the basis of the r&d intensity level

The firms with a higher level of technology intensity have more opportunities for innovations, for capturing new markets, for a more productive implementation of available resources and paying larger rewards to the people working for them. The high technology industries expand in international trade and it is their dynamics that helps them improve efficiency in other sectors [2]. To analyse the impact of technology upon the economic efficiency, it is important that branches of economy and industries that are more technology-intensive be identified, by the criteria allowing for creating specific adjusted classifications. The classification is designed for the needs of the OECD and in collaboration with the Eurostat and is made for the purpose of offering a more appropriate tool for the international trade analysis. Since no data was available for the services, the two proposed classifications dealt with only manufacturing industries [2].

The method the OECD applied in the classification of sectors and products according to the technology level was based on the classification made in the USA and later applied in all the OECD countries. It was the first time that the countries were ranked and compared in the high technology field.

In the second phase, in 1984, the OECD developed a new classification, using the sample of eleven countries. The classification was based on the direct R&D intensity (the quotient of the R&D costs and the flow of the materialized technology by the output unity in 22 sectors of manufacturing industry) thereby a list was created classifying the economies into three categories, adopted by both the OECD countries and many others and used widely [2]:

1. *high technologies*
2. *medium technologies*
3. *low technologies*.

The advantage of the classification was in that it provided a simple and suitable forms for international comparisons; however, there were limitations too, mainly due to the lack of sufficiently qualified data on sectors. Ten years after the first list was drafted a need arose for taking certain improvements into consideration [2]. Consequently, the OECD prepared two new lists: one for the sectorial approach, and the other for the production approach. The data used in creating the sector list is based on the *International Standard Industrial Classification – ISIC*. The new classification covered only the preradiivačka industry for which the OECD prepared long and relatively complete series. In the sector approach, however, it was

necessary that services be included, with an appropriate accessibility of data, since services increasingly moved from usage towards manufacturing. The production approach was developed as an annex to sector one and provided a more appropriate system for the international trade analysis. It was based upon the *Standard International Trade Classification – SITC*.

Under the assumption that for a certain type of investments and for all groups of products the scope of R&D costs incurred in the production remained constant, the input-output coefficients were multiplied by a direct R&D intensity.

These indicators were calculated for the 1973-1992 period, however the final classification was designed for the 1980's and 1990's data, using all three indicators: the economies classed into a higher category display a higher R&D intensity for all the indicators compared to the lower category economies (one exemption being petroleum).

Four groups of manufacturing industries are recognized as a result [2]:

1. *high technologies*
2. *medium-high technologies*
3. *medium-low technologies*
4. *low technologies*

The evolution going on within that frame is possible to witness on the example of the most highly developed OECD countries in the modern world economy.

5. International trade vs technology intensity

The economic activities of high technologies are more oriented towards international trade compared to less technology-intensive economic activities. Although they make up only 25% of the total OECD trade in the product manufacture, their share increases faster than average in the production.

In the 1996-2005 period, the pharmaceutical industry recorded the highest growth rate in the industrial trade in the OECD. Other high technology industries, scientific instruments, aircraft manufacture, radio, TV and communication also recorded a high growth rate (Graph 1). Among the high technology industries, a relatively slow growth was recorded only in office equipment and in computers [7].

High and medium-high R&D-intensive industries made up more than two thirds of the total industrial exports of the OECD countries in 2005. Differences among the countries are substantial. The share of the high and medium-high technology economic activities ranges be-

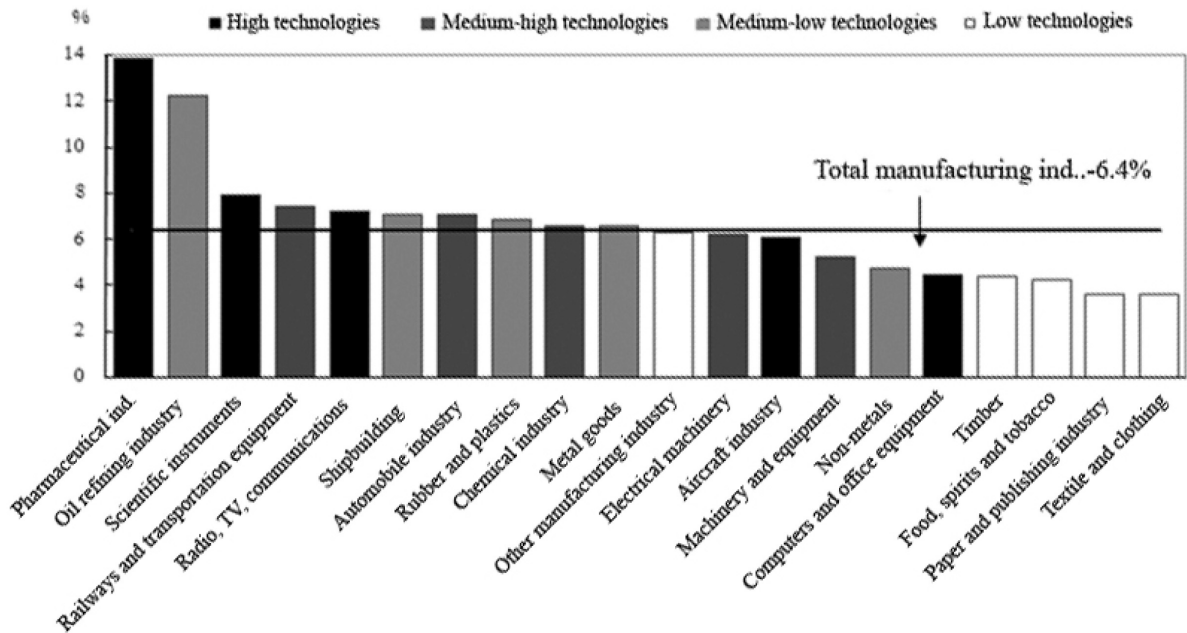
tween more than 80% in Japan and Ireland to less than 10% in Russia.

High technology economic activity amounts to over 50% industrial exports in Ireland and over 30% exports in Switzerland, Korea, the USA, Great Britain and the Netherlands [7]. In Japan and in Germany, the exports of economic activities of medium-high technologies include machinery and equipment, motor vehicles, chemicals, etc.

Technology-intensive exports and high technology exports are responsible for a majority of growth in trade in the last decade of the twentieth century. Japan is the only country in which the total industrial exports increased at a higher rate compared to the exports of high technologies in the 1994-2003 period. Technology exports

record higher growth in Iceland, Turkey and in East European countries, although the orientation of a majority of these countries, Hungary and the Czech Republic exempt, was primarily towards exporting low and medium-low technologies. With nearly 17% of the total technology exports from the OECD, Germany had the largest share of the technology market in 2003, followed by the USA.

The estimate of the countries in terms of technology intensity strengths and weaknesses must not be directed only to exports, but must also define the role of imports, since exports can largely depend on the imports in the same economy. The indicators of the comparative advantages revealed (*Revealed Comparative Advantage – RCA*) allow for a better understanding of a country's specialization profile.



Graph 1. Growth of industry on the basis of economic and technology intensity, OECD (1996-2005).

This indicator shows that only a small number of the OECD countries specialized in high technology development. In 2003, the trade surplus in these industries amounted to over 6.5% of total production in Switzerland, 5.5% in Ireland and approximately 4.5% in the USA. The trade surplus in medium-high industries amounted to over 15% of the total output in Japan and over 7% in Germany.

The competitive advantage of Japan in the share of high technologies plummeted during the 1990s, at the same time rising in Ireland. The advantages of the Czech Republic, Finland, Hungary, Poland, Turkey and New Zealand declined to a great extent. The medium-high R&D-intensive industries have under-

gone substantial changes, resulting in improving the competitive advantages of many countries [6].

6. New high technology exporters

In the last decade of the twentieth century a number of countries have made considerable advances in the field of technology and distinguished themselves in the development of technology as a result of their large and long-term investments into science and technology (S&T), and into education and R&D. Their achievement, however, may depend on other factors too, such as the political stability, access to capital and the infrastructure capable of supporting the technology progress.

In 1987, the Georgia Tech Technology Policy and the Assessment Center (TPAC) created the high technology indicators (*High Tech Indicators – HTI*).

Starting from 1990, the analysis was conducted on a three-year basis. The 2003 analysis was carried out on the sample of 33 countries.

There is a number of leading indicators important for the countries that wish to use their potentials to grow into important exporters of high technologies. The HTI are based on the model identifying four *input indicators*:

- *National orientation (NO)* – the evidence that the country undertakes steps to become technologically competitive, which is shown by the country's explicit or implicit strategies that involve cooperation between the public and the private sectors.
- *Socio-economic infrastructure (SE)* – social and economic institutions supporting and sustaining physical, human, organizational, and economic resources important for a modern, technology based country. The indicators include the presence of dynamic capital markets, the growth in foreign investments and the state investments into education.
- *Technology infrastructure (TI)* – social and economic institutions directly contributing to the country's capacity to develop, manufacture and place new technology. The indicators show the presence of the systems for intellectual property protection, the scope in which the R&D activities are oriented towards implementation in economy, competitiveness in high technology development and the capacity to develop qualified scientists and engineers.
- *Production capacity (PC)* – physical and human resources dedicated to creating industrial products and efficiency in using these resources. The indicators include the current level of high technology development, the labour force quality and productivity, including the presence of professionals and the innovative management practice.

The HTI are based on the model identifying *three output indicators* as well [9]:

- Technological position in industry and capacity of high technology products exporting (TS),
- Technological importance in the export mix (TE),
- Rate of technology changes (RTC).

7. HTI indicators analysis

On the basis of this group of indicators, Israel and China were assessed to be top two countries among 15 countries that were assessed (Argentina, Brasil, China, the Czech Republic, Germany, Hungary, India, Indonesia, Israel, Iceland, Japan, Malaysia, Mexico, the Philippines,

Poland, Thailand, the USA, and Venezuela) in 2005. Both countries were presented as future leaders in the exports of technology products on the world markets. Israel achieved the top position in the orientation based on strong government and cultural support in the promotion of manufacturing technology and occupies the top position in the socio-economic infrastructure field due to a large number of qualified scientists and engineers, highly reputed economic entrepreneurship and its contribution to scientific knowledge. Israel occupied the second and the third positions in the two remaining indicators.

The total rating of China in 2005 is lower compared to Israel, however with a notable rise in the total ratings in the last two years. China improved in the fields of all four indicators and made substantial improvements in three: national orientation, technological infrastructure and manufacturing capacities. The number of population has helped raise the ratings of a certain number of indicator components. This shows the impact of the effects of scope upon the advantages of developing countries, in terms of large domestic demand for high-technology products and the capacity to train a large number of scientists and engineers.

The rankings of Iceland and Israel were lower compared to China, in the same period. The Czech Republic and Malaysia achieved high total ratings, due to high ratings for national orientation and production capacity. Although their total ratings are still not high, some countries are already setting the basis for the production and exports of high-technology products in the near future. Thailand, Mexico and Argentina showed advances in each assessment in the 2003-2005 period. The rating of Thailand in 2005 was higher due to the increase in electronics production. The general rating of Mexico was higher in 2003, on the basis of higher expert assessment of the national orientation and technological infrastructure, as well as a higher statistical ratings of students' enrollment into high schools and universities. The 2005 ratings for Mexico were steady in all the three indicators, with the rank in production capacity rising. Argentina recorded a gradual but steady rise in the majority of indicators in 2003 and 2005.

These indicators offer a systematic method for comparing the future technological capacity for a larger group of countries than it would be possible using other indicators. The results show that the groups of countries competing on the high technology markets can extend in the future. The result also reflect significant differences among a number of new and transitional economies [9].

Figure 1 shows the production capacities of high technologies in 2005 and the projection in the following 15 years. Five groups of countries are presented on the scale from 10 to 50, where 10 presents the countries in which there is basically no production, whereas 50 presents the countries with considerable industrial activity with the products of technology advantages on the inter-

national market. Great Britain, Switzerland, Sweden, the uSA, Germany, and Australia show productive capacities exceeding the anticipated future production capacities. The anticipated rise in the production capacity of Asia and South America is highest. These measures contribute to getting a broader insight of the global technological competitiveness.

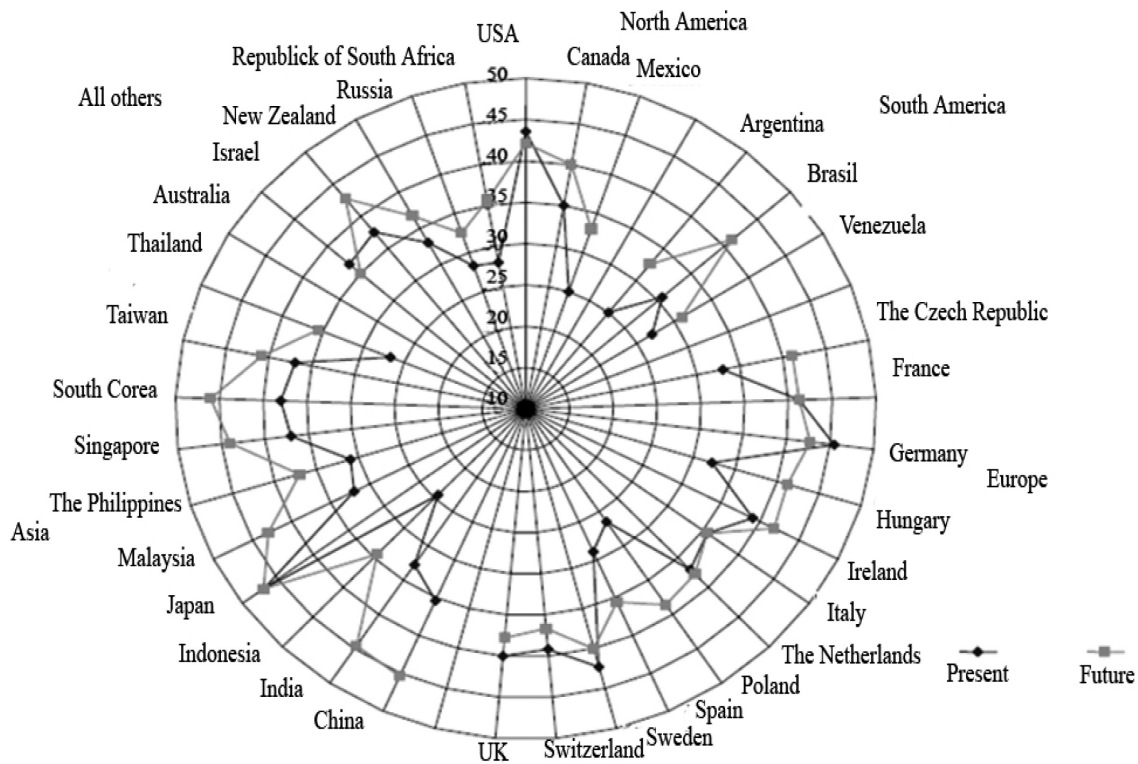


Figure 1. Present vs Future (15 years): high technology production capacity in 2005.

8. Forms of cooperation in the field of high technologies

Faced with new forms of competition, many companies invest their assets and expert knowledge to develop new products, reach the economy of scope and the access to new technologies and markets. One of the major factors that prevent many firms from developing their technology, and consequently their strategic goals is the lack of means. The field of research and development demands substantial financial means and a critical number of human resources. The costs of acquiring and improving the necessary professional and technical skills as well as of specialized equipment acquisition increase continuously. Even in case of largest corporations, the leadership in certain market segments they have traditionally dominated is not sustainable any longer, as they do not dispose of enough technological capacities to adapt to fast changes in market demand.

Strategic alliances are a combination of joint ventures and licencing agreements, joint research and development activities, agreements on long-term supplying closed between companies from different countries. They may be made within one industry (intra-industrial) or among different industries (inter-industrial). They are formed for a limited period in which the ownership in the organization does not change. It is a relationship between the firms in achieving strategic goals, which creates value for the customer and profitability for the partners. Strategic alliances are a specific form of joint firms, that is, informal or formal arrangements between two or more companies with a mutual goal [11]. They are the result of the growth in global competition, the growth in needs for investments into new technologies, and the rise in risks. In terms of their complexity, alliances may be ranked between the customer-seller business arrangements and full acquisitions. A significant advantage of alliances is their flexibility, i.e., their capacity to adjust to environmental changes.

Strategic alliances function as a complex and interrelated innovation system, reaching by far further into business than the traditional implementation of technology through imitation. Their strategy is to develop the innovation process on the basis of modern technology. "In recent years, competence and knowledge have increasingly been the focus of successful firms as a tool to improve competitive advantage. The learning process and the manner in which it is conducted are closely linked to the connections and relations, that is, to networks. A more intensive joining the networks and their interrelation enhances the learning process and is directly reflected upon the firm's business performance. Firms acquire knowledge and learn in various ways. The network assisted learning process itself is primarily affected by the characteristics of the learners themselves (their competences, ambition sharing) and types of realtions" [11].

Strategic alliances are designed for the purpose of improving or dramatically changing the position due to the development of new technologies, new products and new markets. The alliances' goals are generally manifold. For example, the goal of an alliance may be the access to technology, acquiring a larger critical mass and risk sharing in the future technology development. The elementary reasons for forming strategic alliances are as follows [11]:

- better access to capital;
- larger technical critical mass;
- risk and responsibility sharing;
- better relationships with strategic partners;
- benefits from technology transfer;
- reduced costs for research and development;
- implementation of distributive skills;
- access to marketing strengths;
- access to technology;
- standardization;
- usage of side products;
- training in management.

There are three basic types of strategic alliances [4]:

- corporate cooperation;
- joint technological development;
- outsourcing.

Corporate cooperation includes the relationship between large and small companies. Large companies provide the capital and all the relevant market information that contribute to creating innovative products and services, whereas for small companies this cooperation means an access to the real world of technological development and allows for the technology flow from external sources.

Joint technological development involves two or three firms that join together for a defined period of time for the purpose of conducting a research project, the benefit of which is important for each of them. These can be R&D projects, team work, exchange of technology knowledge or joint ventures. Some firms contribute their technological or market knowledge, others contribute their managerial and operational knowledge and skills.

Outsourcing creates direct and indirect opportunities for the access to the business partner's knowledge and skills, technologies, competencies, strategic orientation [4].

Strategic alliances can achieve a sustainable competitive advantage on condition the cooperation involves the learning transfer. They provide the framework that helps such partnerships develop a cooperative environment in which learning is made possible for the purpose of achieving a long-term success. Highlighting the importance of learning helps develop individual and organizational understanding, thus providing the future success of strategic alliances.

9. Conclusion

The experiences in the development in the last decade of the twentieth century show that the more physical-capital and cheap-workforce based products and services the country had in its exports, the poorer it became. On the other hand, the countries that raised their living standard actually achieved that prosperity by exporting the higher-level developed products and services, placing them to highly demanding customers, and simultaneously acquiring higher prices for their products.

The technological aspect in the global world is by far a greater challenge to small and developing countries compared to the developed ones. The accessibility of modern technology solutions and their availability under favourable conditions may contribute to narrowing the gap as regards a substantial technology lag of certain countries behind the developed world. Here we should add further investments into science, into education and into research and development. The knowledge-based economy, guaranteeing a sustainable economic development, must be a priority goal in achieving competitive advantages.

Globalization, as well as increasingly present innovations in the field of technology have significantly changed the rules of business operations on the world

markets and introduced novelty in the business orientation of the firm. The struggle to capture the market share is becoming more aggressive and more dynamic, making survival possible only for the firms that built a high level of flexibility and innovativeness into their business environment.

The paper points out that, in view of dynamic interaction, the production factors determining the competitive advantages in certain fields of business (technology achievement level, ownership of capital, appropriate qualification structure of staff, infrastructure, information technologies) are the crucial characteristics of the states' competitive advantages.

The development of high technologies of broad range and their implementation in the process of reproduction is one of the key answers to the economic and social mechanisms of the world economy. Modern times make it clear that advanced factors based on knowledge and on developed infrastructure, on high technologies and innovations, are the bases of economic development.

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Book review



Research Methods in Business Studies

P. Ghuari, K. Gronhaug, Research Methods in Business Studies, Prentice Hall, 2010

According to the authors' introductory notes, the book is intended primarily for the students at the MBA programmes, master studies and for research-oriented undergraduate students. It is also recommended to the students at doctoral studies, and to those engaged in research in the field of modern management and business doing.

This book is especially valuable in the preparation of theses and final versions in various types of business studies, when the results of the studies conducted by the students are expected, in view of concrete issues and problems.

The three basic sections of the book offer a comprehensive insight into the basic research methods and techniques, accompanied by numerous examples, notes on extended literature on the concrete field and by problem solving activities. The first section deals with the general importance and challenges of the research into the domain of business studies, the second conducts the reader through the research process,

whereas the final section is concerned with the analysis, implementation and report writing.

In the first section, a specific nature of the research task and process in the domain of business studies is elaborated in detail. The authors highlight the basic differences between the research and concrete problem solving in practice, relying on the "common sense". They infer that there should be no significant differences, as in solving practical problems the managers should be knowledgeable and skilfull in evaluating the consequences of the decisions they make. In other words, the managerial decision making and problem solving, is performed systematically, it results in a better decision making and better results compared to the decisions based exclusively on intuition and personal preferences. This implies that research processes, methods and procedures are necessary in order that we should achieve the academic goals of disseminating theoretical knowledge, but also that we gain precious

support in solving the ever present problems in practice. The researchers in the domains of business studies, therefore, pursue various objectives and orientations, from objective general issue and problem solving to solving a specific problem of a concrete company.

Ethical issues in the research area are a specific aspect related to ethics and moral principles affecting the manner in which a researcher or research teams conduct the research activities, especially as regards “the situations and activities which may result in a real or potential harm of any kind and for any one“. It is a moral obligation and a responsibility of the researchers to work out the solutions to the problems honestly, frankly, accurately and precisely. One of the most sensitive issues in this domain is the relationship between the researcher and the subject of research in business studies. The authors quote eight areas of the researcher-subject relationships that may cause ethical problems: preserving the anonymity of the subject; exposing the subject to emotional stress; asking the subject the questions that may be in collision with his/her own interests; using special equipment and techniques, such as recording the interview, video recording or using equipment harmful to health; including the subjects into the research without their consent; cheating and lying; using force to gather information; preventing the subjects from exercising their rights. A conclusion is drawn that ethical issues merit attention already in the initial phases of the research process.

The research process starts from the activity of identifying the research topic and task to the research problem shaping and structuring, to the determining of the research approach, the strategy of information gathering in an adequate manner, the development of the possibility of measuring and data gathering and analysis. It starts from the analysis of the role of theory in business studies, the stress being on the research process and the explanation of the basic concepts of theory, model and knowledge. A special chapter is devoted to the research problem, because the authors believe that the majority of students encounter difficulties in formulating the research problem and they do not make a difference between the research problem and the research topic. The first step of the research process is the research topic that refers to the phenomenon or topic to be explored, e.g., how firms organize their activities, how research and development are conducted in a business system, or how firms enter export markets. The authors insist that the research topic is not the same as the research problem, since the topic is usually much broader and more generalized compared to the research problem which can, for example, be which organization structure is most efficient or whether the firms relying on the bureaucratic organizational type are less innovative compared to the firms organized in an “organic“ manner.

The research design is an overall plan of connecting the set research problem with the relevant and practically applicable empirical research. This is a plan or a framework for data gathering and analysis by which the research type is defined – exploratory, descriptive or causal. The research methods in this book refer to the data gathering techniques.

Important measuring problems refer to the operationalization of research hypotheses and data. The measuring of an empirical research is a difficult task since the quality of information largely depends on the procedures used in data gathering and analysis. The basic truth is stressed in the “garbage in, garbage out“ postulate which highlights a high level of interrelation of all research activities in the data gathering and analysis phase with the concrete conclusions as research results. A special part is devoted to measuring in qualitative research, as well as to various types of data sources and to identifying the right type of data for particular research. The advantages and disadvantages of primary and secondary data gathering are analysed.

Research in the business studies relies heavily on data gathering and the authors, Pervez Ghauri and Kjell Gronkaug offer an elaborate explanation of this phase of research, in the first place explaining the difference between qualitative and quantitative data gathering methods, illustrated by the analysis of situations respective to one or the other type. Explained are the basic methods of business research such as polls, interviews and focus groups. The authors continue to explain the sampling and the basic activities in preparing the data analysis, describing the role of statistics in the data analysis and presentation. The data analysis is presented by qualitative and quantitative analysis methods, and also presented are the widespread techniques of statistical analysis. Special attention is paid to the case study as a method and methods of its use are explained with an additional emphasis that in case of complex situations of cross-cultural research, additional caution is required in setting the research problem, data gathering and selection of methods for their analysis.

Finally, the report writing, composing the project report comprising all the results of the research is a very important research phase in which one should be concise, consistent and convincing, showing the necessary evidence and arguments supporting the conclusions inferred. The report structure is analysed part by part with appropriate examples and instructions for the use of notes and bibliography related to different types of reports, such as theses, oral presentations or written reports prepared for publication.

Dr Maja Levi Jakšić

Manual for Authors

TITLE OF PAPER IN ENGLISH (two lines at the most)

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¹*Faculty of Organizational Sciences in Belgrade*
²*Faculty of Economics in Belgrade*

Abstract - *These are instructions for preparing papers that will be included in the journal. Your papers should be prepared according to the instructions.*

1. INTRODUCTION

Papers have to be written in English. Original papers should be typed one sided A4 format (210x297mm). Use margin 2,5 upper, 2 cm lower, left and right.

Maximal length of paper is 8 pages including tables, text, pictures, literature and other appendices. Pages are numbered with graphite pencil in upper right corner.

Send two copies of the paper (original + one copy) and diskette in format MS Word 6.0.

If the last page of text is not filled up, the columns on the last page should be even, of the same length.

2. SUBTITLE (SIMULATION MODEL) (example: SIMULATION MODEL)

In the middle of the first page, after one empty line, insert English title of the paper. Use font Times Roman Bold 14 pt.

The name of authors and the names of their institutions in font Times Roman 10 pt. should be centered as in the model given at the beginning of this instruction..

Other parts type in two columns 0,5 cm in between. Paper is typed normal space and double space between paragraphs. Font Roman 10 pt is recommended. Beginning of the paragraph is typed at the very beginning of the columns.

The title of the paper and names of authors are followed by short abstract in Italic. All subtitles are typed in Bold, capital letters same sized as in the previous text (not smaller than 10 pt).

3. SUBTITLE (example: COMPARATIVE ANALYSES)

$$\sigma^2(r_p) = E\left(\sum_{i=1}^n [r_{p,i} - E(r_p)]^2\right) \quad (12)$$

All equations type in one column, numerated at the right side, as illustrated.

4. CONCLUSION

All figures, tables or graphic presentations are adapted to the width of one column. If necessary, when the figures do not fit in one column, use the width of the page, and then continue as previously, in two columns. See the figure below.

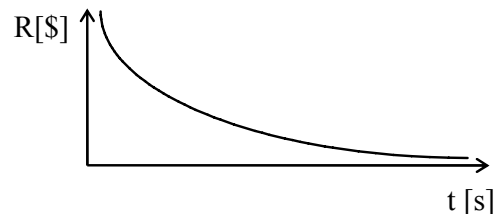


Figure 1. Graphic presentation of results

REFERENCES

Only the literature related to the problems and main ideas presented in paper should be including and ordinal numbers of the references type in angular brackets.

Literature in text has to be quoted in angular brackets to the order of their quotation. For example in [5] it is shown that. The example of literature is shown below.

- [1] Banks, J. and S.J. Carson., Discete - Event System Simulation Prentice - Hall, New - Jersey, 1984.
- [2] Bodily, S., "Speadsheet Modeling as a Stepping Stone", Interfaces, vol. 16, No.5, pp 34-52 1986.
- [3] Protic D., Simulation of work on Airport Belgrade. Proceedings of work, SINFF-N, page 75 -81. Zlatibor 19