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Abstract

Balanced scorecard is without any doubt one of the most usually and at least one of the most practical techniques in strategic management in general and strategic planning in particular. Originally developed by Kaplan and Norton, the balanced scorecard has proved itself quite valuable in business and nongovernmental organizations likewise, it has proven very useful in aligning performance against organizational goals. The paper strives to offer an analysis of the balanced scorecard technique, in terms of the possibilities for its implementation in universities having in mind the benefits and limitations contained within such an approach.

Keywords: balanced scorecard, strategic management university

JEL Classification: L1.

1. Introduction to the balanced scorecard

Balanced Scorecard derives its name from the perceived need of firms to “balance” financial measures that are oftentimes used exclusively in strategy evaluation and control with nonfinancial measures such as product quality and customer service. An effective Balanced Scorecard contains a carefully chosen combination of strategic and financial objectives tailored to the company’s business. (David, 2011, p. 135).

In fact, the Balanced Scorecard arose from the authors perceptions on two major problems in strategy planning and implementation (Lynch, 2006, p. 617):

- **Measurement gap.** Although most companies measure performance ratios, quality and productivity, these are mainly focused on historical figures – for example, “How are we doing, compared with last year?” The two authors discovered that such measures may have little to do with future success. In addition, although such ratios were important, they did not measure other important aspects of future strategy, especially those that were more difficult to quantify. For example, future strategy might stress the importance of customer satisfaction and loyalty, employee commitment and organisational learning, but none of these might be measured.

- **Strategy gap between general plans and managerial actions.** The authors claimed that many companies began major new strategic initiatives but that these often had little impact on the organisation. The reason was that the strategic plans were often not translated into measures that managers and employees could understand and use in their daily work.

Four perspectives are integrated to form the balanced scorecard framework: financial (concerned with growth, profitability, and risk from the shareholders’ perspective), customer (concerned with the amount of value customers perceive was created by the firm’s products), internal business processes (with a focus on the priorities for various business processes that create customer and shareholder satisfaction), and learning and growth (concerned with the firm’s effort to create a climate that supports change, innovation, and growth). Thus, using the balanced scorecard framework allows the firm to understand how it looks to shareholders (financial perspective), how customers view it (customer perspective), the processes it must emphasize to successfully use its competitive advantage (internal perspective), and what it can do to improve its performance in order to grow (learning and growth perspective). (Kaplan and Norton, 1992), fig.1.
Fig. 1. Strategic controls and financial controls in a balanced scorecard framework (Hitt et al, 2007, p. 395)

The Balanced Scorecard framework underlines the following core principles (Elkin, 2007, p. 135):

- No single measure can provide a clear performance target or focus attention on all the critical areas of the business.
- The Balanced Scorecard seeks to minimize the common problem of information overload on business leaders by limiting the number of measures used.
- The approach is a way to clarify, simplify and then operationalize the Mission (Purpose/Values/Behaviors/Strategy) at the top of the organization.

Balanced scorecards combine both qualitative and quantitative measures, acknowledge the expectations of different stakeholders and relate an assessment of performance to choice of strategy. Importantly, performance is linked not only to short-term outputs but also to the way in which processes are managed – for example, the processes of innovation and learning which are crucial to long-term success. (Johnson, 2005, p. 418). A possible form of the balanced scorecard model is presented in figure 2.
The balanced scorecard doesn’t refute the traditional approach to strategic planning. It does, however, caution business leaders to look at strategy and performance as a multidimensional issue. Financial measures, though important, simply cannot tell the whole story. One of the major benefits of the balanced scorecard is that it forces organizations to explicitly consider during strategy formulation those factors that are critical to strategy execution. We cannot stress this point enough. Good strategy is always developed with an eye toward how it will be implemented. Issues within the balanced scorecard such as employee training, corporate culture, organizational learning, and executive leadership are critical to the implementation of any strategy. (Ferell & Hartline, 2011, p.55).

Several advantages are gained by implementing the balanced scorecard (Rothaermel, 2015, p. 145):
- Communicate and link the strategic vision to responsible parties within the organization.
- Translate the vision into measureable operational goals.
- Design and plan business processes.
- Implement feedback and organizational learning in order to modify and adapt strategic goals when indicated.

2. The balanced scorecard in higher education institutions
Examining existing literature, one finds few works exploring application of the BSC to HEIs. Previous studies have addressed the applicability of the BSC to non-profit organisations, thereby highlighting the need for such organisations to utilise the BSC in improving performance effectiveness and enhancing service value to their customers. In general, Schools are regarded as not for profit organizations, although in some cases private schools may be driven by business objectives. Their vision and mission normally focus more on customer satisfaction rather than profitability concerns. (Hosaini and Sofian, 2015, p.4).

In higher education, as in business, there are time-honored tradition relative to the measurement of excellence. Rather than emphasizing primarily financial measures, higher education has historically emphasized academic measures. Motivated, as with business, by issues of external accountability and comparability, measurement in higher education has generally emphasized those academically-related variables that are more easily quantifiable. Familiar examples are student and faculty demographics, enrolment, grade point average, scores on standards tests, class rank, acceptance rates, retention rate, faculty-student ratios, graduation rates, faculty teaching load, counts of faculty publications and grants and statistics on physical and library resources. (Ruben, 1999,p.3).
Brown (2012) introduces the following balanced scorecard map for universities, fig. 3.

The high education institutions should assess in the strategic perspectives of BSC framework, and their strategic positions. The proposed balanced scorecard framework can help universities and other higher education institutions to utilize intangible assets they need for future growth. It should be viewed as a complement rather than a replacement for traditional financial assessment measures. The balanced scorecard technique enables university to link long-term strategic planning to short-term, tactical actions. Its implementation provides a critical linkage between financial and operational measures on customer satisfaction, internal processes and the organization's innovation and improvement activities. (Muhammad Al-Ali, 2012, p. 1490)
3. Conclusions
Although the Balanced Scorecard framework has been widely accepted and implemented by business organizations, and although the authors have provided a very clear framework for not for profit organizations, the fact remains that when it comes to universities in general and those in the Republic of Macedonia in particular, this framework is not presented enough. Although we had made an attempt to analyse the reasons behind the lack of implementation of the balanced scorecard framework in universities in the Republic of Macedonia, the results showed a serious lack of knowledge on this framework and its benefits. But, on the other hand it should be noted that the cases of universities that implement this framework show positive results in aligning their resources and plans for the future as well as improved functionality and work results.

4. References/ Bibliography
THE ROLE OF STAFF TRAINING IN SME’S DEVELOPMENT: CASE BASED STUDY

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Abstract
The aim of this paper is to try to analyze the impact of staff training in the development of SME’s in Macedonia. The main focus is the empirical analysis which is case based and as a sample is taken 60 companies in the whole country. The data are gained through a structured questionnaire where we analyzed issues like the existence of person/department of HR, the frequency of staff training, the motives of conducting training, it is internal based training or they hire external experts, the aim of the training, the effect of training in the employees and how does all this impact’s in the functioning and development of the SME’s in Macedonia. From the result of the survey we conclude that SME’s are starting to acknowledge the importance of HRM in their daily functioning and especially the training of the staff because they can see the results of the training in a very short period of time.

Keywords: staff training, development of SME, HRM,
JEL Classification: M53, O15.

Introduction
The aim of this paper is to analyze the importance of staff or employee training in the overall performance of the small and medium enterprises.
As we know SME’s are very important segment of the economy of each country as they employ a lot of people, more than the big enterprises. They also are a source of innovation and contribute in different aspects of the economy. A significant role in this has the human resources of the enterprises that is the staff or better said its employees.
Proper and adequate management of human resources helps the enterprises in particular small and medium enterprises in achieving their goals. As already known, in a lot of functions are conducted in during the process of managing the human resource management such as recruitment, selection, development and training. All these functions are interrelated and there should be a synergy between them that will result in growth and development of enterprises in general.
Our focus will be in analyzing impact of staff or employee training in the development of small and medium enterprises in Macedonia. Through our structured questionnaire we asked the enterprises about issues such as, do they have HR person or department, do they conduct training, how often the training is conducted, the impact of training in development of the enterprise and development of the staff.
The remaining of the paper is as follow: section II reviews the exciting contemporary literature about training and development, section III describes the methodology and data, section IV presents and analyses the data of the survey, section V gives the conclusions of the paper and section VI is dedicated to references used in this paper.

Literature Review
There are a lot of research that has been done regarding the importance of HRM in functioning and the succession of small and medium enterprises but not a lot deals with the impact and importance of training in this aspects. Even though the staff training has been ignored as an activity that could
help SME’s in creating value and facing the competition, this approach has changed a lot in recent years. Noe (2010) states enterprises that use innovative training practices are likely to achieve better financial performance than their competitors that do not conduct training at all. Another benefit of training for SMEs according to Jones (2004) is that the training helps them to withstand the very latest accounting and information technology systems, management concepts and production techniques.

According to different researchers (Bryan, 2006; Hashim & Ahmad, 2006; Jones, 2004; Cosh, Duncan, & Hughes, 1998; Barry & Milner, 2002; Huang, 20011; Smith & Whittaker, 1999; Betcherman, Leckie, & McMullen, 1997; Marshall, Alderman, Wong, & Thwaites, 1993; Jennings & Banfield, 1993; Collier, Green, Peirson, & Wilkinson, 2004), the impact of training should assess the its effectiveness and their general conclusion is that training facilitates expansion and increased profitability, productivity and competitive advantage. Jones, et al. (2013), emphasize that there is a connection point between satisfaction that SME has in meeting the needs of its employees for training through a range of training methods and level of impact of training on business performance. The conclusion from their research is that the owners-managers of SMEs have been able to distinguish the differences between the impact of individual training methods in business performance. In general, owners-managers noted that the training methods offered benefit and this reflected in their business performance.

Aragon-Sanchez et al. (2003), in their study done in over 457 small and medium enterprises concluded that there is a significant link in the effects of training on business performance in terms of efficiency and profitability.

Methodology and data
In this paper we have used primary and secondary data. Primary data are taken from books, scientific papers, statistical data published in various journals, magazines and other information in the form of reports, articles and the like of the relevant fields. In this paper we have used the structured questionnaire as the primary source of data. The questionnaire was distributed among 85 SME’s and we received answer from 60 of them. The questionnaire was composed of two parts where the first part has been general one and in the second part is composed of questions regarding issues raised in the paper. The results obtained were processed through the SPSS statistical program where why analyzed the results and draw the conclusions.

Discussion of results
The first question of the questionnaire was about the size of the firm or the enterprise that was surveyed. From the total 60 enterprises 6 of them were microenterprise, 20 small enterprises and 34 were medium enterprises. For this classification of the enterprises it was used the Macedonian system on classification of enterprises.

Figure 1 - Enterprise’s size

![Figure 1 - Enterprise’s size](image-url)
The second question was about the fact that how many years they are operating in the market. Most of the enterprises were present in the market more than 15 years, in total 43, the other 15 were present in the market between 7-15 years, and only 2 enterprises were operating only for 3-6 years.

Figure 2 - Years of operating

![Bar Chart](chart1)

Source: Survey results

Third question was about the ownership structure of the enterprise. Most of the enterprises that we part of the survey were enterprises with one owner (61%), 27% of the enterprises were in partnership with another person and only 7% had three owners.

Figure 3 - Ownership structure

![Pie Chart](chart2)

Source: Survey results

The next question of the questionnaire was about where the enterprise trains its staff or employees. And the results was interesting, 70% of the enterprises that were part of the survey confirmed that they are conducting training for its staff and only 30% of them said that they don’t conduct training for its staff.
Figure 4 - Do you conduct training for your staff?

Source: Survey results

Figure 4 - The type of training
But most importantly was the next question that we asked the enterprises. This question was that whether the training is informal (done by colleagues, supervisors or managers) or it is done by specialized company or person. The majority of the companies said that most of the training of their staff it is done informally, that is, it is done either by colleagues, supervisors or the managers. Only 12% of the enterprises had conducted a formal training which was done by a specialized company.

Source: Survey results

The next question was related to the previous question and were we asked the enterprises who they train whether it is newly recruited employee, low skilled or all employees. So, from the previous question we understood that 42 enterprises were conducting informal or formal training for their staff. But when we asked these enterprises who was receiving training, more than half of them (67%) claimed that they conduct informal training only for the newly recruited employees, 21% for the low skilled staff but still was informal training and only 12% were training all of it employees. In fact these were the companies that have done formal training for all of their staff.
The next question that we asked the enterprises that did conduct training for its staff or employees was about the impact of the training (formal or informal) in the performance of the employees. The majority of enterprises (74%) claimed that the training whether be formal or informal has a great impact on employees performance, 21% of them claimed that it has an average impact and only 5% claimed that it had very little impact.

In the last question we asked the enterprises, was about the impact that the training of the employees had on the development of the enterprise. Not surprisingly, most of the enterprises (78%) claimed that the training had a great positive impact on the development of the enterprise, 17% claimed that it had average impact and only 5% claimed that it had a very little impact (Note: the development was measured in terms of increased sales, increased profit, market share, etc).
Lastly we asked the enterprises why they don’t conduct formal training for their staff when they acknowledge the importance and the impact of the formal training. The results were as follow, where most of enterprises claimed that the main reason for not conducting formal training is the financial difficulties that they are facing (68%), 19% fear that after a period of training the employee he might leave the job for a better one, and 13% claimed that there isn’t a company that provides training that can fulfill their needs for training.

**Conclusions**

Based on the analysis and research done in this paper we can say that the small and medium enterprises are beginning to realize the importance of training of their staff and the impact that it has on employees and enterprise’s performance. Even though they acknowledge the importance of formal training there is still a lot to be done because only a fraction of them conducts formal training with is done by a specialized company. Most of the enterprises rely of informal training where the colleagues, supervisors or managers train their staff and mostly their new recruited staff or the low skilled one. The main reason for not conducting a formal training is the financial aspect due to the fact the most of them faces with financial difficulties.
References


Abstract
The lack of financing sources makes often firms to be relied on accounts payable. On the other hand, firms offer to their clients to buy products/services on credit making thus they to be motivated and increase sales. The difference between accounts receivable and accounts payable is known as the net trade credit (hereafter NTC). Thus, it presents the difference between trade credit provided to clients and trade credit obtained from suppliers. Several studies are focused on trade credit and factors that affected it. Factors are examined from the micro and macro perspective. This study also tries to examine determinants of the NTC for a sample for the period 2012-2015. Selected firms are SMEs and operate in the Pollog region. The determinants are selected and examined following previous studies. Dependent variable is the difference between trade receivables and payables, scaled by sales. Firm’s size, profit margin, return on assets (hereafter ROA) and current liabilities to sales are independent variables. Results show that on average there is negative NTC. Moreover, firms with higher total assets and profit margin used less net trade credit, whereas firms with higher ROA used higher NTC. Current liabilities to sales was confirmed not to play a significant role and hence didn’t affected NTC.

Keywords: trade credit, determinants, regression, profitability.
JEL Classification: C50, G10.

1. Introduction
The concept of trade credit is very important in financial management. Trade credit plays an important role in financial performance and indicators. Composition of an “optimal” trade credit is slightly easier to be written then to be achieved in every day’s business life. Complexity of such composition is that trade credit is not an isolated economic and financial issue. There are several factors or determinants that may affect decisions regarding trade credit. In this context managers are facing with further, but not limited issues:
(1) To sell or not on credit?
(2) If yes, how many days to wait for collecting money?
(3) What portion accounts receivable should take to total assets?
(4) When should be expanded the collection period and which are related effects?
(5) Can we find suppliers that allow us to buy on credit and what are limits/conditions?
(6) How much we should sell and buy on credit? Etc.
It is clear that these decisions are enough complex and time by time they should be adjusted in line of outside environment. For example, if clients have possibilities to pay after 60 days at our competitors, why they would buy our product/service and pay after 30 days, assuming other things are similar. In such conditions, there is a need that collection period to be adjusted in conformity of outside business environment. On the other hand, trade credit policy is not static view from crisis and non-crisis times. In a normal business situation is more easy to forecast business activity rather than in crisis effects. For above dilemmas and rest, underlying trade credit theories and practices give explanations. Many researches are performed in line of explaining potentially factors that may affect trade credit decisions. In this study I’m trying to bring also empirical evidence with limitations that the study has.
I provide here preliminary evidence because this study may be a pioneering research for trade credit of SMEs in Macedonia. Probably is expected trade credit to play a role as source of funding for SMEs in Macedonia. The lack of other financing alternatives (except banks loans) makes these businesses to finance business activities using trade credit. In previous study Deari (2015) revealed that non-financial firms listed on Macedonian Stock Exchange sold more than bought on credit. This study provides evidence which argue that SMEs obtained more than provided on credit, i.e. negative net trade credit. But, this result can’t be generalized whether SMEs use more or less trade credit than larger (listed) firms. Thus, this issue remains open for further future contributions and suggestions are welcomed.

2. Literature review

As importance of trade credit grows up, interest of researchers is increases too. There are several studies realized in this topic. Studies are performed in different times and for different samples of firms. Examined factors or determinants less or more are likely to be same. Differences might come from determinants calculations or methodologies used by researchers. For example, Nadiri (1969) has examined the determinants of trade credit in the U.S. total manufacturing sector and considered trade credit as a selling expense. Nadiri (1969) proposed a model for the optimal trade credit policy in function of profit maximization considering hence the price, quality, volume, and selling costs as variables which has to be determined. Furthermore, the author examined the opportunity cost of credit, monetary policy indicators and adjustment process. Fisman and Love (2002) have examined trade credit, financial intermediary development and industry growth for a panel data of 37 industries and 44 countries. The authors revealed that industries that are more dependent on trade credit financing, grow quietly faster in countries with less developed financial intermediaries. Some studies are done in line to examine trade credit and effects from financial crises, or whether trade credit substitute and play role of the bank loan. For example, Ono (2001) has analyzed the determinants of trade credit in Japanese manufacturing firms and among other findings, revealed that trade payables acted as a complement to bank loans. Santos and Silva (2014) examined 11,040 Portuguese industrial firms for the period 2003-2009 and showed that financially constrained firms, especially in times of financial crisis, used commercial credit as an another financing source. Sevim, Ekiyor and Tosyali (2016) examined 1,686 firms from Turkey, Romania, Hungary, Latvia, Lithuania and Bulgaria, and revealed that due to effects from crisis, firms were driven to sell on credit in order not to lose clients. Bellouma (2013) examined 300 exporting Tunisian firms for the period 2005-2011 and detected the substitute effect between trade credit and bank credit. Moreover, Bellouma (2013) found that during the financial crisis firms were relied more on trade credit. Ellingsen, Jacobson and Schedvin (2016) studied 52 million trade credit contracts and provided evidence that clients preferred trade credit over other available financing sources. This paper also tries to study some of determinants-factors that are supposed to affect trade credit. The rest of the paper is organized as follows: data and methodology, discussion of results, conclusions, and references/bibliography.

3. Data and methodology

Data used in this study are extracted from selected firms’ annual reports. Totally 15 SMEs are examined which have be located and operated in the Pollog region. Accounting data are examined for the period 2012-2015 and checked for non-usual observations using Stata program. In this study is performed linear regression with unbalanced panel data and the general form is presented as below:
\[ \text{NTC}_{it} = \alpha + \sum_{k=1}^{4} X_{kit} \beta_{kit} + \epsilon_{it} \]  

(1)

where,

- \( i = 1, 2, 3, \ldots, 15 \)
- \( k = 1, 2, 3, 4 \)
- \( t = 1, 2, 3, 4 \).

Dependent variable (NTC) and independent variables are defined as presented in table 1. Based on consulted previous studies, less or more they are likely to be harmonized in line of variables calculations. For example, Demirgiiu-Kunt and Maksimovic (2001) used receivables turnover (total sales divided by accounts receivable), payables turnover (total costs of goods sold divided by accounts payable), short-term debt to accounts payable as dependent variables. Grave (2011) examined trade receivables divided by total assets, trade payables divided by total assets and trade receivables minus trade payables divided by total assets. Alatalo (2010) examined trade credit provided (trade receivables per sales); trade credit obtained (trade payables per cost of goods sold); and net trade credit (difference between trade receivables and payables divided by sales). Thus, in this study I have measured net trade credit following Alatalo (2010).

Firm’s size as usually is calculated as logarithm of total assets or sales. Thus, in this study following Rubio and Sogorb (2011) I have measured firm’s size as the natural logarithm of total assets. Profit margin and return on assets show how much denars net income is generated from each 100 denars sales, respectively total assets. These two calculations are based on Xhafa (2005). Finally, the ratio of current liabilities divided by sales is calculated following Li (2011).

### Table 1: Definition of variables

<table>
<thead>
<tr>
<th>Description</th>
<th>Abbreviation</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net trade credit (NTC)</td>
<td>trtpsales</td>
<td>((\text{Trade receivables} - \text{Trade payables}) / \text{Sales})</td>
</tr>
<tr>
<td>Firm’s size</td>
<td>logas</td>
<td>Logarithm of total assets</td>
</tr>
<tr>
<td>Profit margin</td>
<td>profsales</td>
<td>Net income / Sales</td>
</tr>
<tr>
<td>Return on assets</td>
<td>ROA</td>
<td>Net income / Total assets</td>
</tr>
<tr>
<td>Current liabilities to sales</td>
<td>curliabsales</td>
<td>Current liabilities / Sales</td>
</tr>
</tbody>
</table>


### 4. Discussion of results

Results presented in table 2 show that on average selected firms have sold less than have purchased on credit. For this reason mean of NTC is negative and the discrepancy between trade receivables and trade payables is getting higher in 2014 as presented in figure 1. In term of time value of money is recommended the firm to purchase more and to sell less on credit, i.e. to have negative net trade credit. Trade payables present a financing source and with no interest. This is reason why firms make efforts to extend payment period. But, on the other hand, selling in credit has opposite effects. While money from debtors is not collected, respectively investments bring no interest.

Moreover, selected firms on average produced negative profit margin, whereas each 100 denars total assets has produced 3 denars net income.

### Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>trtpsales</td>
<td>53</td>
<td>-0.18</td>
<td>0.78</td>
<td>-3.28</td>
<td>3.45</td>
</tr>
<tr>
<td>logas</td>
<td>53</td>
<td>16.34</td>
<td>1.31</td>
<td>14.08</td>
<td>20.34</td>
</tr>
<tr>
<td>profsales</td>
<td>53</td>
<td>-0.08</td>
<td>0.75</td>
<td>-5.28</td>
<td>0.35</td>
</tr>
<tr>
<td>ROA</td>
<td>53</td>
<td>0.03</td>
<td>0.12</td>
<td>-0.41</td>
<td>0.36</td>
</tr>
<tr>
<td>curliabsales</td>
<td>53</td>
<td>1.51</td>
<td>4.17</td>
<td>0.00</td>
<td>29.71</td>
</tr>
</tbody>
</table>

Source: own work.
Before running regression, data were checked for normality and heteroskedasticity using Shapiro-Wilk test, Cameron & Trivedi’s decomposition of IM-test and Breusch-Pagan / Cook-Weisberg test for heteroskedasticity, results of which denoted that data don’t have normality and constant variance. Hence, OLS regression with cluster-robust standards errors is run. According to Wiggins (1999) ... “regress ..., vce (cluster) estimates the model by OLS but uses the linearization/Huber/White/sandwich (robust) estimates of variance (and thus standard errors). These variance estimates are robust in the sense of providing correct coverage rates to much more than panel-level heteroskedasticity. In particular, they are robust for any type of correlation within the observations of each panel/group.”

In table 3 are presented regression results. From selected independent variables just current liabilities to sales is proved to be insignificant determinant. Regression results denoted that there is negative relationship between firm’s size, profit margin, and NTC. In turns this mean that firms with higher total assets and profit margin used less net trade credit. Moreover, firms with higher ROA used higher NTC.

Performed regression is controlled for possible mulitcollinearity using Variance Inflation Factor (VIF). Results of VIF are presented in table 4 and the mean is 5.26, and thus is lower than 10. So, multicollinearity is not concerned issue in this regression model. Moreover, performed regression model is controlled for correctly specification and thus the model specification link test for single-equation models is used. The linktest results denoted that hatsq is not significant (t = 0.22), R2 = 0.6394, F (2, 50) = 44.33 and Prob > F: 0.0000, and hence looks like that there is no specification error in this model.
Table 3: Regression results

|                  | Coef. | Robust Std. Err. | t     | P > |t| | [95% Conf. Interval] |
|------------------|-------|------------------|-------|-----|---|----------------------|
| trtpsales        | -0.18 | 0.06             | -3.15 | 0.01 | -0.30 | -0.06                |
| logas            | -1.28 | 0.54             | -2.40 | 0.03 | -2.43 | -0.13                |
| profsales        | 1.52  | 0.62             | 2.44  | 0.03 | 0.18  | 2.86                 |
| ROA              | -0.11 | 0.10             | -1.15 | 0.27 | -0.31 | 0.09                 |
| currliabsales    | 2.78  | 0.88             | 3.14  | 0.01 | 0.88  | 4.67                 |

(Std. Err. Adjusted for 15 clusters in index)

Source: own work.

Table 4: Variance Inflation Factor (VIF)

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>profsales</td>
<td>9.68</td>
<td>0.103353</td>
</tr>
<tr>
<td>currliabsales</td>
<td>8.87</td>
<td>0.112721</td>
</tr>
<tr>
<td>ROA</td>
<td>1.29</td>
<td>0.774399</td>
</tr>
<tr>
<td>logas</td>
<td>1.22</td>
<td>0.821953</td>
</tr>
</tbody>
</table>

Mean VIF 5.26

Source: own work.

5. Conclusions
This study provided preliminary evidence for panel data of 15 SMEs for the period 2012-2015. Results denoted that selected firms have obtained more than provided trade credit. Thus, on average a negative net trade credit was found.
Firm’s size, profitability and ROA were confirmed to play significant role and thus affected NTC, whereas current liabilities to sales was proved to be insignificant determinant.
This study has own limitations, so is recommended for the next studies to be focused as following:
Increase number of firms in the sample and expand the examined period,
Adding other independent variables,
Examining effects of crisis and business industry, and
Adding macroeconomic factors.

6. References/Bibliography


DEVELOPMENT OF MODERN SUPPLY CHAIN FOR VEGETABLES AND FRUITS IN REPUBLIC OF MACEDONIA

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Abstract
Distribution of fresh vegetables and fruits is a segment of the supply chain for groceries that is constantly evolving and has considerable potential for growth. However, with the opportunities there are many technical requirements and standards of the modern systems of supply of fresh products that must to be met. Retailers and distributors must have advanced equipment to preserve all characteristics of the products throughout entire storage period. The model of distribution center we developed is flexible and able to respond to the situation in the industry in Republic of Macedonia that has yet to reach the level of the modern European markets. The paper is result of several months of work and exploration of current situation in the industry in Republic of Macedonia and the business opportunities of an organized network of trading and supply chain centers for vegetables and fruits, as well explained in literature from countries with longstanding experience. The goal is to offer to the key stakeholders, especially the business community model of distribution center with its facilities that is suitable for them. The paper also aims to help the policy makers to make a better use of potentials in the production and distribution of vegetables and fruits, especially in the light of the leading trends that shape this industry in Europe.

Key Words: Retail trade, Fruits and vegetables supply chains, distribution centers
JEL Classification: Q11, L16, L23, M31

1. Introduction
The process of exploration of the potentials for development of modern supply chain for vegetables and fruits in the segment of groceries in Republic of Macedonia starts with production and market analysis. Next stage is review of the best practices the area of strategic and operational planning of the distribution nodes. The strategic planning of these nodes, known as distribution centers for fruits and vegetables, includes projecting of the turnover, management of incoming and outgoing transport and other smaller, yet critical issues, and ending with the review of the requirements for preservation of the products. The design of distribution centers for fruits and vegetables also involves their macro and micro location, manipulation and accommodation facilities and spatial organization are important parts of the overall strategic planning of these facilities. However, the strategic planning of these centers and their operations is only a phase of the entire planning and management of the entire supply chain of fruits and vegetables and cannot perform effectively if approached as to an isolated effort. The design is vital for maintaining the required quality of the services of the distribution centers. Successful planning is dependent on many variables that must be taken into account and are very difficult to predict in advance (Thompson at al., 2008). Management and engineering aspects are closely intertwined. The efficient engineering planning of these centers and associated facilities is dependent on many assumptions for the volatile factors related to the market environment. Estimates of yield in crops based on expectations of farmers on demand, but also on factors such as diseases, insects and pests and storms, along with possible political crises and various trade embargoes on the traditional routes from field to store, make modeling a very complicated effort. Only one of these external factors can have a strong impact on the outcome of
the planning. Reliance on only one crop, the only one supply route, the single market, no matter how optimal it is, can be very dangerous. The decision is further complicated by the fact that many of these external risk factors can serve as an opportunity for and thus be a source of additional income. However, to avail such opportunities we need to deviate from the optimum engineering plan and to plan extra space or vehicles. Modular and versatile design of the cooling equipment can only partially solve the problem of unnecessary costs of cooling the extra storage just to have this real option to harness the sudden market opportunities when they and if appear.

2. Literature review
Fruits and vegetables sector is perhaps the most profitable venture of all farming activities as it provides ample employment opportunities and scope to raise the income of the farming community. It also has tremendous potential to push the overall agriculture growth (Negi & Anand, 2015). Supply chains of fruits and vegetables are networks of farmers and companies that work together to move products from the field to the nearby warehouses, transfer, in bulk, to the distribution centers and to cooling facilities and warehousing close to the delivery points to the retailers and restaurants (Boyette, Wilsonn & Estes, 2014). Distribution centers are the crucial link in the supply chain of fruits and vegetables. Besides preserving the freshness of products, other equally important operations of sorting are executed there, such as calibration, packaging for shipment and all that, according the strict standards for safety and health and in accordance with the agreed delivery time and deadlines (Thompson & Kader, 2014).

The layout design of distribution center should be considered as a smart decision system that includes the number of customers, demand forecasting, product groups, condition of product conservation, warehousing, transportation management etc. Planning and designing of the supply chain of perishable products with limited shelf life such as fruits and vegetables has many critical decision points at strategic and at the operational level (Demirtas & Tuzkayaa, 2012). The quality of the performance of all business processes during the harvesting, packaging, storage and transport together decide on the shelf life and the possibility of good sales of these products (Thompson & Kader, 2014). The time between the harvesting and the distribution center admittance and between the center and the point of retail sale should be short as much as it is possible (Boyette, Wilsonn & Estes, 2014). For the fruits and vegetables intended to be held in a controlled environment for preserving their freshness (onion, potato, lettuce ...) or control their process of raping (tomatoes, apples, bananas, pineapple ...) the task is even more complicated (Boyette, Wilsonn & Estes, 2014). This is why the distribution centers are dynamic and vibrant business locations and why the well-designed layout of these centers is one of the most important factors for success in their work. The design of a typical supply chain requires solving three sets of problems or tasks: location - allocation, inventory control and routing of vehicles (Demirtas & Tuzkayaa, 2012). The problems and tasks of location - allocation are typical long-term and strategic issues that determine not only where a given facility should be located in the existing network, but also how much capacity it must possess. Since many variables and assumptions are dependent on external factors that are very difficult to forecast, planning is based on stochastic modeling and the use of Monte Carlo simulation to create as much as possible stronger strategic plan. The problems and tasks of control of stocks are medium and short-term and more tactical and mostly are limited by the previous strategic decision on the location (Demirtas & Tuzkayaa, 2012). These stage includes decisions about how much of the individual fruits and vegetables should be available from individual farm and / or regions, and the dynamics and the rhythm of the incoming and outgoing deliveries during the year. This phase of the planning and forecasting of demand per for various crops includes also stochastic modeling and simulation estimates of the yield and the demand that also shows high volatility (Demirtas & Tuzkayaa, 2012). The problems of routing vehicles are daily operational problems mainly related to the optimal schedule of each vehicle in the fleet, based on the tasks, the current location and the destination of the vehicles and the road conditions. At this level, the demand and the resources are given (known)
and methods of optimization are based on linear programming, integer programming and mixed-integer programming (Demirtas & Tuzkayaa, 2012).

Fruits and vegetables require special storage conditions to reduce the loss of quality and consequent loss of commercial value of such goods. Several critical issues need to be properly addressed when planning such a center (Thompson et al. 1996). First, it is the question of layout. It should offer intelligent integration of product handling, storage, packaging and logistics because all these activities add value. At the same time, other costs that are necessary, but do not add value as well as the supporting services, labor, safety, cleanliness, auxiliary materials, accommodation and the like should be kept minimal (Thompson et al. 1996).

However, the design of the facility should meet the expectations of different actors within the supply chain often with conflicting interests. The design of the hall for fruit and vegetables should meet the basic principles of logistics and cooling before addressing architectural aspects. Planning of the design also depends on the nature of the distribution center. In the case of proprietary commercial distribution center, the frequency of incoming and outgoing traffic can be controlled easily (Thompson et al. 1996). In the case of distribution centers that offer rented storage space for farmers or large traders, the logistical issues can be very complicated, involving many vehicles on entrance and exit and many various people must have at least minimum conditions for carrying out their business. However, in both cases, the basic principles of logistics that need to be considered more or less the same. First of all, the center should be appropriate for the purposes of logistical integration of activities that add value, such as handling, storage and packaging. The input-output time of the vehicles should be kept at a minimum. The customers should be able to inspect more products in short period of time. The capital and operational expenditures should be minimized and the opportunities for expansion (modular design) should have priority. In the case of urban centers for fruits and vegetables, the interests of brokers and owners are often confronted. While brokers want low cost of storage and handling of goods and longer exposure and inspection, the owners and managers require a minimum total number of hours of work and presence of the customers in the warehouse and the highest possible prices for the services rendered. In such a case, any model will have several goals and it is impossible to solve it with linear programming. This requires heuristics and data mining algorithms on data from previous year(s) or that of similar facilities, if available (Demirtas & Tuzkayaa, 2012).

Cooling facilities and related operational processes are among the other most important elements of the modern supply and distribution chains of fresh fruits and vegetables. The different types of fruits and vegetables have very different requirements for cooling. Thus, strawberries and broccoli require temperatures close to freezing, while zucchini or tomatoes would suffer such low temperatures. In addition, choosing the method of cooling depends on the design of packaging (boxes, baskets or bags) (Fruits and Vegetables Storage Conditions, 2016).

Rapid cooling after harvesting removes the heat from the freshly picked fruits and vegetables and is essential for maintaining the freshness of many cultures with a short shelf life. Proper cooling after harvesting should reduce enzymatic degradation and respiratory activity (softening), delay or prevent the loss of water and growth of microorganisms (fungi and bacteria) and to reduce the emission and exposure to ethylene gas (Boyette, Wilsonn & Estes, 2014). Generally, harvesting should be done early in the morning or during the night and then the products must be kept in the shade away from direct sunlight. This is because the cooling vehicles are intended for pre-cooled products and they cannot remove heat fast enough. At best, they can maintain the same temperature of the loading. However, the carriers can also contribute to the better cooling and fewer losses during the transport. They should precool their vehicles, load the product in a way that will ensure maximum air circulation, control the temperature in the truck and finally, provide the shortest possible time for transit (Boyette, Wilsonn & Estes, 2014b).

In most cases, the refrigerator units are located in the distribution center. However, whenever possible, it is recommended another building with space for access of different vehicles, parking lot where vehicles can be parked while waiting, and easy exit of the unloaded vehicles to a public road.
The quick and easy access will reduce the time to start cooling (Boyette, Wilson & Estes, 2014b). The suitable space should be provided for equipment for calibration and packaging, for storage of empty containers and for other miscellaneous items. The needs of such areas should be calculated based on the main estimates for the quantity, type of packaging, the size of the trucks for delivery and frequency of arrival and departure. In addition, a good idea is to anticipate future business development and backup space if you want to capitalize on periods of excess demand (Boyette, Wilson & Estes, 2014b).

3. Methodology
This paper presents the results of our almost two years of studying the supporting literature and the extensive qualitative field study of the active distributors in the area of Skopje. We surveyed sources from established countries with advanced networks and supply chains of fruits and vegetables such as the Republic of Turkey and the United States. For the actual development of the model we used the data provided by the National Statistical Office of Republic of Macedonia and the results of our field research of the situation in the industry and the target markets. The calculation of the capacity of the proposed model is done with the INTARCON software. This paper is our small contribution to the Health 2020 Initiative. It is designed to support the ministries and other policy-makers across the EU in provision of health issue into all policies, including the nutrition. An effective implementation of the initiative requires the governments of the EU members and accession countries to engage into partnerships with the whole of society and involving a wide range of stakeholders (Inprofood, 2014).

4. Results of the Study
4.1 Background
Republic of Macedonia is a landlocked country. It covers 25,713 km2 of which 857 are water surface. About half of the territory is arable land. Of the total of 315.863 hectares, 81% are fields and gardens; about 3% are under orchards and 4.5% vineyards. According to the State Statistical Office in agriculture, agricultural enterprises and as members of the rural economies in 2014 engaged were around 442,000 citizens. The size of agricultural holdings is unfavorable. The average size per farm is about 1.85 ha, but about 80% of farming households held less than two hectares, versus the European average of 50 ha. The plots are also small and fragmented. The majority of them is smaller than 0.2 ha. Small farms and the fragmentation of holdings are the two biggest problems of Macedonian agriculture resulting in inefficient use of agricultural land. Additionally, much of the land remains uncultivated. As a result, agriculture combined with hunting, forestry and fishery participate with only 10% of the GDP while engages app. 17.3% of the total employment (Structure of Agricultural Economies, 2014).
Consequently, Republic of Macedonia is net importer of agricultural and processes food including fruits and vegetables. In recent years, state had policy of supporting agriculture, mainly by supplementing the income of rural and rural population (subsidies) and by creating conditions for investment in the agricultural sector with an aim to improve its competitiveness. These measures are beginning to produce effects in higher output, but are criticized for their fragmentation. The Law on the quality of agricultural products and regulations arising from it should make order in the quality of the agricultural products offer. However, the proper control system for continuous monitoring of the quality and the safety of the farm products has yet to be established. The local markets of agricultural and food are liberalized in accordance with the obligations undertaken by the country’s accession to the WTO, CEFTA and the Free Trade Agreement with the EU. Practically, the Country has free trade regime. Exports grow, especially in agricultural and food products, reaching in 2013 504 million euros. Agricultural exports ranges between 14 and 19% of the total exports. The major trade partner is the European Union, with a 50% share in the total exports and imports. Then, follow the CEFTA countries with a share of 36.5% in exports and 24.7% in imports (in 2013). However, in both segments, more than 80% of the overall trading was with just five countries. Seen only through the export and import of fruit and vegetables, the situation with the trade with the
world, expressed in quantities and value is positive. However, according to the average prices it shows that the exports is almost twice cheaper than imports which means that either we export inferior products and import expensive or higher quality fruits and vegetables. Vegetables, with 30% share in the value of the total agricultural production are the most important products and tend to grow further (Agriculture Statistics 2006-2013, 2014).

Table One - Output in tons – vegetables, Republic of Macedonia

<table>
<thead>
<tr>
<th>Output in tons – vegetables</th>
<th>Total per year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Potatoes</td>
<td>200,125</td>
</tr>
<tr>
<td>Onions</td>
<td>47,432</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>168,100</td>
</tr>
<tr>
<td>Paprika</td>
<td>168,150</td>
</tr>
<tr>
<td>Cucumbers</td>
<td>46,635</td>
</tr>
</tbody>
</table>

Source: State Statistical Office Database

Fruits and grapes are the next important group of agricultural products. Fruits production in Republic of Macedonia is a well-developed branch of its farming. According to the climatic conditions the country is suitable for continental as well as for subtropical fruits.

Table Two - Output in tons – fruits and grapes, Republic of Macedonia

<table>
<thead>
<tr>
<th>Output in tons – Fruits and Grapes</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Sweet Cherries</td>
<td>5,701</td>
</tr>
<tr>
<td>Sour Cherries</td>
<td>5,207</td>
</tr>
<tr>
<td>Apricots</td>
<td>2,996</td>
</tr>
<tr>
<td>Apples</td>
<td>121,383</td>
</tr>
<tr>
<td>Pears</td>
<td>7,586</td>
</tr>
<tr>
<td>Plums</td>
<td>38,431</td>
</tr>
<tr>
<td>Peaches</td>
<td>10,211</td>
</tr>
<tr>
<td>Grapes</td>
<td>253,372</td>
</tr>
</tbody>
</table>

Source: State Statistical Office Database

According to the State Statistical Office, the gross value added in agriculture in 2013 amounted to 49,670 million denars or compared to 2012 the nominal growth was 15.9%. Considering the planning regions, in 2012, the Southeast Region with 33.3% topped the list, followed by the Pelagonia region with 20.8%, while the smallest participation of 3.7% had the Northeast region. The Strategy for agriculture expects stable upward trend in production, yields and exports, but only if stable supply systems with the necessary equipment are also established. Orchards by the end of the strategic period are expected to reach 17,000 ha. It is envisaged that the fruit farmers will take into account biological characteristics of the species, substrates and the environmental conditions in the regions (regionalization of production). The Strategy calls for increased intensity of controlled plantations and planting material and better local processing facilities, as well as modern storage facilities and cooling equipment (National Strategy for Agriculture and Rural Development 2014 – 2020, 2014). The data about the average consumption of fresh fruits and vegetables in case of Republic of Macedonia prove the importance and the growth potential of the distribution and supply chain.
According to experts, people in the Country increasingly buy more fresh fruits and vegetables in large supermarkets and green markets. According to the European Information nutritional advice, many European countries are taking organized actions to increase consumption of fresh fruits and vegetables. Here’s how it looks, in their daily consumption of fruit and vegetables per capita in individual European countries (EUFIC Review, 2012).

Figure One: Mean fruit & vegetable intake per country, in grams, per day, excluding juices

![Figure One: Mean fruit & vegetable intake per country, in grams, per day, excluding juices](source: EUFIC Review 01/2012)

Only Poland, Germany, Italy and Austria are over the recommended daily consumption of 400 grams per inhabitant. Recommendations of the World Health Organization have been achieved only with a quarter of children in Europe. The average consumption of vegetables in Europe is estimated at 86 grams per day per capita, and 141 grams of fruits. Combined with fruits and vegetables, the best score per capita have Austria and Portugal, and the worst Iceland and Spain. Northern countries prefer fresh products while Southern European countries preferred more cooked fruits and vegetables. More than a half of European countries are below the recommended 400 grams. We also consume many tropical and citrus fruits and recently exotic fruits, especially in the major supermarkets. Imported tropical fruits are consumed in the country and exported to the neighboring countries, particularly to Republic of Kosovo. The county also grows some tropical fruits like kiwis and persimmons. According to the Customs, we also consume 2.5 kg of frozen fruits per capita, which together gives about 95 kg of fruits per capita annually. Compared with the European score, it turns that we consume fresh vegetables and fruits app. 967 grams per day per capita and that we are in a much better position than the developed countries of Europe. This especially having in mind that many of the homegrown products are not statistically traced. On the other hand, since we cook and prepare our food at home, much of the vegetables and fruits most probably are also consumes prepared.

4.2. Capacity

Cooling capacity is a measure of the installed power and reflects the speed at which a coolant system transfers heat and cold and is expressed as refrigerating-ton. It equals a power needed to turn a ton of water in ice in 24 hours, or 288.000 BTUs, or 82 KWh. On hourly basis, it is 12.000 BTU or 3.5 KW (Boyette, Wilsonn & Estes, 2014b). Although the refrigeration capacity and the capacity of accommodation are different characteristics, they jointly determine the size of the object and decide on the power of the cooling system that needs to be installed. The optimum power is determined by three factors: the weight of the product to be cooled, the time required for proper cooling and the size and characteristics of the warehouse (Boyette, Wilsonn & Estes, 2014b). The next factor is the
time of cooling. Ideally, cooling should take place fast enough to prevent degradation of the product, but not too fast. Cooling faster than is necessary is unduly expensive because the cooling system must be much larger and electricity costs will be higher. The rule of thumb is that to cool twice as fast the energy needed doubles while installed power triples. The third factor is the space (size, isolation) and the organization of the work process. Here the rule is that one-half of the cooling capacity in a typical object is used to compensate for the heat-loss through the floor, walls, ceiling and doors (Boyette, Wilsonn & Estes, 2014b). The decision to sell the products immediately or to store them depends on the availability of space and the market expectations about the movement of the price. It is better to build sufficient storage space upfront than to upgrade later. With the size of the building, the cost per square meter is reduced, and energy efficiency grows. Abundant storage space should not be overlooked, because one of the main benefits of cooling is the market flexibility provided with the storage. On the other hand, the excess (unused) storage space is a waste of energy and money. The formula for determining the required space is 3.2 times gross volume (fruits plus packaging) of goods to be stored, and the volume divided by the height of the ceiling gives the necessary area for the placement of goods (Thompson at al., 2008). The height of the ceiling should be used efficiently. Not more than 18 inches (45 centimeters) should be left free. However, to allow good air circulation no merchandise should be ever being arranged closer than 45 cm to the ceiling (Boyette, Wilsonn & Estes, 2014b).

4.3. Operational Strategy
Sufficient space for accessing and manipulation with the products in the chamber should be allowed. In small and medium chambers, up to 25% of the layout should be dedicated to the carts. Goods should never touch the walls. Space to the wall must be at least 15 centimeters, to ensure good circulation of cool air. In addition, the space should be left in front of the evaporator or the ethylene and microorganisms remover. Doors, ramps to load and additional work areas must be well located to ensure easy flow of goods. Doors and walkways should be at least 1.5 times wider than the width of carts. Plastic curtain is added to reduce the loss of energy when the door must remain open longer period (Fruits and Vegetables Storage Conditions, 2016).

4.4. The Size of the Model
Due to different requirements of individual plants in connection with the ethylene gas, temperature and humidity requirements and the need for fast respond to the market requirements, the model we suggest for retailers in Republic of Macedonia and the Region, should have at least three modules or separate cold chambers. Consequently, at least one chamber can be used in pre-cooling mode of insufficiently chilled products. Calculations show that each of these modules should have a volume of at least 80 cubic meters, enough to accommodate a tractor of new goods plus the current stock of half tractor. We recommend three times 100 cubic meters, since the price rises only 0.5% for each percent of additional capacity. The total thermal load of this model assuming that 90% of the goods will be pre-cooled and that the chambers will be filled 66% was calculated according to the following parameters:

<table>
<thead>
<tr>
<th>Total thermal load</th>
<th>BTU/h</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walls, floor and sealing</td>
<td>18,000</td>
<td>66.5%</td>
</tr>
<tr>
<td>Hot products needs</td>
<td>1,180</td>
<td>4.30%</td>
</tr>
<tr>
<td>Cold products needs</td>
<td>5,470</td>
<td>20.1%</td>
</tr>
<tr>
<td>Service load (10%)</td>
<td>2,450</td>
<td>9.1%</td>
</tr>
<tr>
<td>Total Thermal Load</td>
<td>27,100</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The necessary power should be 2.52*27.000/12.000 or five refrigerating tons. The total installed power of the compressor unit would have to be 21 KW. This model follows also the requirements set
by Thompson, Kader and Sylva (1996), who found that the best storage environment for an individual fruit or vegetable depends on its unique requirements for temperature, relative humidity, and ethylene exposure. Most compatibility charts for mixing products during postharvest handling divide fruits and vegetables into eight groups. In practice it is very difficult to separate products into this many groups—very few wholesale or retail handling facilities, if any, have eight temperature-controlled rooms, so they develop simplified three groups, that we also suggest for the case of our distribution centers.

4.5 Assessment of the financial and non-financial benefits

Based on the current market prices of such equipment, the system if hosted in an existing warehouse would cost no more than 20,000 euros. Only measured by the direct effects (20% difference in the shelf price) the investment will pay off after three years, which is quite acceptable. Besides the direct monetary effects, the high standards of storage does not degrade the quality of the goods which the consumers will recognize it as a greater value for their money and stick with the merchant who offers such quality consistently throughout the year.

5. Conclusions and Recommendations

Aware that most of the targeted industry participants already have sufficient knowledge of the issues and probably have visited some of the modern distribution centers or even have their own facilities of this kind, our main intention with this paper is to point out few important aspects of the modern distribution and trade of such products. Furthermore, we want to advice the creators of the trade policies to help the development of this sort of facilities in public private partnerships. If the Republic of Macedonia wants to remain competitive, then it is indispensable to keep up with the latest standards and the best practices in this field. All participants in the distribution system from the farms to the stores, homes or restaurants should be aware that the system will be as much successful as successful is the weakest participant. Finally, the distributors need jointly to approach the other participants in the system (farmers, transporters and retailers) and, above all, in front to the government and the relevant ministries. They must to show that the investments in such equipment are not luxury, but requirement for the development of this industry in the Country. This will help them in their joint quest for subsidies and tax incentives for the purchase of new and replacement of old, energy inefficient equipment. The entire potentials of the subsidies in the agriculture cannot be utilized without high standards in distribution and the financial effect of the export of fresh fruits and vegetables will lag behind.

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SUPPLY CHAIN AGILITY AND CUSTOMER LOYALTY: AN EMPIRICAL INVESTIGATION AMONG ALBANIAN COMPANIES

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Abstract
Uncertainty and turbulence is the every-day reality for most of the companies. Fierce competition from domestic and foreign competitors has pressed companies to pursue supply chain agility in a systematic manner. Agility is the capacity to rapidly adopt in responses to unexpected and unpredicted changes in competition, events, market opportunities, and customer requirements. Supply chain agility is supposed to enable firms to build sustainable competitive advantage through synchronization of supply with demand. Another benefit of agility is the ability of companies to better serve to final customers, thus increasing their satisfaction and loyalty.

This study aims to empirically investigate the supply chain agility – customer loyalty among Albanian retail companies, using a hierarchical linear modeling approach. The data were collected during autumn 2015 from retail companies as well as from their customers. Drawing from existing literature, agility is conceptualized as comprised of five dimensions: alertness, accessibility, decisiveness, swiftness and flexibility. The model proposed analyzes the direct positive impact that supply chain agility has on customer loyalty.

The insights provided by this study help managers to better understand the impact that their supply chain strategies and tactics have on the loyalty of their customers and overall performance. This paper also contributes in the supply chain agility literature and research by offering new perspectives and contexts.

Keywords: Supply chain agility, customer loyalty, performance.

Introduction
One of the main concerns that companies have today is improving and maintaining competitive capabilities, as well as the development of abilities to survive and succeed in their dynamic environment. More and over companies understand that their performance and success largely depend on the flexibility and performance of the supply chain they are part of (Dyer and Singh, 1998).

The increasing dynamic environment, technological shifts and continuously changing customer preferences have fostered the need for a greater flexibility. Supply chain flexibility refers to the extent at which supply chain links are able to adapt to changing business conditions. Flexible supply chains adapt their design to match the structural shifts in markets and adjust supply network according to modified strategies, products, and technologies (Charles et al., 2010). Actually, firms are in the processes of becoming more interconnected and interdependent than ever. The growth of supply chains, while enhancing profitability, customer responsiveness and the ability to deliver value to the customer, at the same time has increased the interconnections and interdependencies among firms. The global marketplace has become very volatile with customers demanding lower prices,
faster delivery, higher quality and increasing variety (Christopher, 2000; Narasimhan and Das, 1999; Power and Sohal, 2003; Vokurka and Lummus, 2000).

In order to be more responsive towards this ever increasing complexity, turbulence, uncertainty, and demand for value, firms must increase the level of agility into the supply chains where they participate. Incorporating agility into supply chains make the interconnected and interdependent firms achieve higher levels of competitiveness and enables them to better position themselves towards competitors. Agility itself is an emerging management concept that focuses on responsiveness to dynamic and turbulent markets and customer demand (van Hoek et al., 2001). Supply chain agility has been identified as a strategic factor and agility of the supply chain may impact the survivability of the firm (Prater et al., 2001; Vastag et al., 1994). “Agility is a vital ability in the revolutionary turning of the business environment into a turbulent place of competition and struggle for success” (Sharifi and Zhang, 1999).

Agility has been linked to competitive strategy (Goldman et al., 1994), but few studies relate supply chain agility to firm’s performance or other market-related indicators such as customer satisfaction or customer loyalty. This study aims to explore the antecedents of supply chain agility and to investigate the relationship between supply chain agility and end-customer loyalty. The antecedents of supply chain agility are adapted from relevant existing literature, employing the multidisciplinary approach used by Gligor et. al. (2013), who use cognitive dimensions and physical dimensions in their conceptualization of supply chain agility. Customer loyalty is conceptualized based on two well-known dimensions: behavioral loyalty and attitude-based loyalty. The model proposed hypothesizes a direct and positive effect of supply chain agility on customer-loyalty. This study aims to bridge the gap that exist in supply chain studies which link companies-side indicators to customer-side indicators. The aim of the supply chain as a whole is to operate seamlessly and optimize its overall indicators, as well as to better serve to the end-customer (Stank et al., 2001).

Theoretical framework and development of hypothesis
Supply chain agility
Sharifi and Zhang (1999) define agility as “…the ability to cope with unexpected challenges, to survive unprecedented threats of business environment, and to take advantage of changes as opportunities”. Agility is the successful exploration of competitive bases (speed, flexibility, innovation pro-activeness, quality and profitability) through the integration of reconfigurable resources and best practices in a knowledge-rich environment to provide customer-driven products and services in a fast changing market environment (Yao and Carlson, 2003).

In many ways agility, as defined by Yusuf et al. (1999), is very similar to the manufacturing capabilities literature from the early 1990s. In this stream of research, manufacturing capabilities were defined as quality, cost, dependability, and flexibility. Agility merges the four distinctive competencies of cost, quality, dependability and flexibility identified by the manufacturing capabilities literature (DeMeyer et al., 1989; Ferdows and DeMeyer, 1990).

Swafford (2003) uses a conceptual framework where flexibility with product development, procurement/sourcing, manufacturing, and distribution/logistics, impact value chain agility, and ultimately performance. For each of the antecedents, the authors consider flexibility as derived from two dimensions: range and adaptability. The authors use latent variables and measured items for the range and flexibility constructs of the value chain flexibility components.

Several authors have indicated the impact that supply chain agility has on firm’s performance (Cerri, 2012; Yang and Liu, 2012). Their findings confirm the importance of enterprise agility for contemporary firms in today’s dynamic business environment. By reinforcing enterprise agility, firms could react better to unpredictable changes.

Agility is the ability to produce a broad range of low cost, high quality products with short lead times in varying lot sized built to individualized customer specifications (Narasimhan and Das, 1999). Agility is the comprehensive response to the challenges posed by a business environment dominated by change and uncertainty (Goldman et al., 1995; Jackson and Johansson, 2003). Agility in
manufacturing involves being able to respond quickly and effectively to the current configuration of market demand and also to be proactive in developing and retaining markets in the face of extensive competitive forces (Bessant et al., 2001).

The agility concepts can be implemented also in such fields like selling and sales force (Chonko and Jones, 2005) or humanitarian activities (Charles et al., 2010).

Agility might be defined as the ability of an organization to respond rapidly to changes in demand, both in terms of volume and variety (Christopher, 2000). Agility is the ability to successfully market low-cost, high quality products with short lead times and in varying volumes that provide enhanced value to customers through customization (Fliedner and Vokurka, 1997).

One of the keys to success in today’s markets is customer responsiveness. Agility is all about creating that responsiveness and mastering the uncertainty (van Hoek et al., 2001). Agility is the ability of an enterprise to adapt to unpredicted changes in the external environment (Backhouse and Burns, 1999).

There is also evidence in the literature regarding the application of agility to concepts within supply chain management (Christopher, 2000; van Hoek, 2001; van Hoek et al., 2001). Christopher (2000) and van Hoek et. al. (2001) believe that the appropriate framework for supply chain agility consists of market/customer sensitivity, process integration, network integration and virtual integration. Market sensitivity is the ability of an organization to respond to real demand. Through initiatives such as efficient consumer response (ECR), postponement and IT/IS technologies such as point-of-sale (POS) data, companies can now respond to actual market demand versus being forecast driven (Christopher, 2000; van Hoek et al., 2001).

Process integration relates to mastering change not only internally but across the entire supply chain (van Hoek et al., 2001). This entails fully leveraging shared information through collaboration between buyers and suppliers, joint product development and common systems (Christopher, 2000). The ability to leverage the strengths and competencies of supply chain partners is at the heart of network integration (Christopher, 2000). There is a realization that competition can now be framed as supply chain versus supply chain as opposed to company versus company (Chandrashekar, 1999; Christopher, 2000; Mentzer et al., 2001). Firms must now cooperate to compete (van Hoek et al., 2001).

Virtual integration relates to the use of information technology to share data throughout the supply chain so that the supply chain becomes information-based rather than inventory-based (Christopher, 2000; van Hoek et al., 2001).

Customer loyalty
The construction of loyalty has been in the focus of many studies carried by academics of marketing areas during the last 80 years (Rundle-Thiele, 2005), while research on brand loyalty date back to 1920 (Copeland, 1923). Most part of researchers attributes the credit for creating the concept of brand loyalty to Copeland, who categorized consumer attitudes towards the brand into three types: knowledge, preference and persistence (Copeland, 1923). He proposed the idea that brand preference and brand insistence were benefits that marketers involved in the sale of purchase of everyday goods gained.

Behavior based loyalty
Most part of the first studies on loyalty is based on a behavioral approach, considering loyalty as a synonym of repeat purchase. Research papers based on behavioral loyalty generally rely on data obtained either from actual consumer purchasing behavior (reflected for instance by scanner data at the points of sale) or by the customer’s own statements on their purchasing behavior (Jacoby and Chestnut, 1978). The most common measurements used for behavior-based loyalty include: the average purchase order (Jacoby and Kyner, 1973); premium price (Keller, 1993); the proportion of a brand purchases compared to total purchases of the same product category (Newmann and Werbel, 1973); and probability of purchase (Sheth, 1968).
**Attitude based loyalty**

Guest (1944) was the first researcher who measured the brand loyalty considering it as an attitude. In his study, he used a single question relating to brand preference, asking participants to choose the brand that they liked most, among a group of brand names. This approach was followed by a number of researchers, who conceptualized loyalty as an attitude, preference, or purchase intention, i.e. considering it as a function of psychological processes. Reichheld (2003) has argued that loyalty can be conveniently and effectively assessed using only one variable – “willingness to recommend to others” (as can be through positive word-of-mouth opinions).

Figure 1. The conceptual model of the study

Figure 1 presents the conceptual model of the study.

The actual body of research lack studies that relate supply chain agility with constructs such as customer satisfaction, or customer loyalty: researchers have been more interested in studying the effect of SCA on firms performance or other general indicators. Based on SCA literature and customer loyalty literature, the main hypothesis of this study is that SCA directly and positively impacts customer loyalty.

**Research design and data analysis**

The measurement scales used in this research were adapted from scales developed in previous studies on supply chain agility and loyalty. Specifically, SCA antecedents scales was adapted from Gligor et al. (2013) and Gligor (2013) who use a multidisciplinary approach in measuring SCA construct. Drawing from the foundations of social and life science theory, they argue that SCA is comprised of five dimensions: alertness, accessibility, decisiveness, swiftness, and flexibility. SCA measurement scale was adapted from Blome et al. (2013), Swafford (2003) and Swafford et al. (2006). The measurement scale used for loyalty construct were adapted from the studies of Chen and Cheng (2012); Davis-Sramsek et al. (2008) and Cerri (2013), combining items for both attitude-based loyalty and behaviour-based loyalty. Table 1 presents the items used to measure each of the study’s constructs. A seven point Likert scale was used for all the items of the measurement instrument, where 1 = Totally disagree and 7 = Totally agree.
Table 1. Items used to measure the constructs of the study

<table>
<thead>
<tr>
<th>Construct/Item</th>
<th>Alertness</th>
<th>Accessibility</th>
<th>Decisiveness</th>
<th>Swiftness</th>
<th>Flexibility</th>
<th>Supply chain agility</th>
<th>Customer loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Our firm can promptly identify opportunities in its environment.</td>
<td>We always receive the information we demand from our suppliers.</td>
<td>We can make definite decisions to address opportunities in our environment.</td>
<td>We can swiftly deal with threats in our environment.</td>
<td>When needed, we can adjust our supply chain operations to the extent necessary to</td>
<td>We are able to adapt our services and/or products sufficiently fast to new customer</td>
<td>I have closer relationship with this retailer than other retailers in my area.</td>
</tr>
<tr>
<td></td>
<td>My organization can rapidly sense threats in its environment.</td>
<td>We always obtain the information we request from our customers.</td>
<td>My organization can make firm decisions to respond to threats in its environment.</td>
<td>My firm can quickly respond to changes in the business environment.</td>
<td>My firm can increase its short-term capacity as needed.</td>
<td>requirements.</td>
<td>I will continue to buy to this retailer in the foreseen future.</td>
</tr>
<tr>
<td></td>
<td>We can quickly detect changes in our environment.</td>
<td></td>
<td>My company can make resolute decisions to deal with changes in its environment.</td>
<td>We can rapidly address opportunities in our environment</td>
<td>We can adjust the specifications of orders as requested by our customers</td>
<td>We are able to react sufficiently fast to new market developments.</td>
<td>I encourage my friend to buy products from this retailer</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>We are able to react to significant increases and decreases in demand as fast as required by the</td>
<td>I am not changing the retailer chain where I regularly purchase products even if my friends</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>market.</td>
<td>recommend me another one.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>We are always able to adjust our product portfolio as fast as required by the market.</td>
<td>I am willing to put in more efforts to purchase products from this retailer than other retailers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>We are able to react adequately fast to supply-side changes (e.g. compensate for</td>
<td>Even if other retailers make special offers or other promotions, I’m not going to change my</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>spontaneous supplier outages, delivery failures, market shortages, etc.)</td>
<td>retailer.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ability to rapidly reduce order-to-delivery cycle time</td>
<td>I have purchased more from this retailer’s products over the last several years than other</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ability of supply chain to adjust to suppliers’ delivery schedules.</td>
<td>retailers’ products</td>
</tr>
</tbody>
</table>

The conceptual framework of this research includes both organizational and customer-related variables. Thus, two separated structured questionnaires were designed, one for retail stores managers and one for customers. The data were collected during October – November 2015 period. 185 retail stores managers were contacted and only 113 agreed to participate in the study, achieving a response rate of 61% for this category of respondents. Then, 4 customers were interviewed from each of the stores of cooperating managers, obtaining 452 filled questionnaires from this category of respondents. Nine customers’ questionnaires were dropped out due to irregular pattern of responses, resulting in a final sample of 113 managers’ questionnaires and 443 customers’ questionnaires.

The first step in data analysis was conducting Confirmatory factor analysis (CFA) in order to assess the unidimensionality, convergent and discriminant validity of the constructs. Table 2 presents the CFA results. As it can be seen, all the measures resulted internally consistent, as reflected by construct reliability, which was assessed using Composite Reliability and Cronbach alpha.
Table 2. Confirmatory Factor Analysis results

<table>
<thead>
<tr>
<th>Constructs</th>
<th>CFI</th>
<th>TLI</th>
<th>RMSEA</th>
<th>AVE</th>
<th>Composite Reliability</th>
<th>Cronbach α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alertness</td>
<td>0.95</td>
<td>0.95</td>
<td>0.071</td>
<td>0.80</td>
<td>0.87</td>
<td>0.993</td>
</tr>
<tr>
<td>Accessibility</td>
<td>0.94</td>
<td>0.93</td>
<td>0.114</td>
<td>0.76</td>
<td>0.79</td>
<td>0.924</td>
</tr>
<tr>
<td>Decisiveness</td>
<td>0.91</td>
<td>0.96</td>
<td>0.034</td>
<td>0.73</td>
<td>0.81</td>
<td>0.951</td>
</tr>
<tr>
<td>Swiftness</td>
<td>0.90</td>
<td>0.92</td>
<td>0.121</td>
<td>0.79</td>
<td>0.77</td>
<td>0.914</td>
</tr>
<tr>
<td>Flexibility</td>
<td>0.97</td>
<td>0.91</td>
<td>0.044</td>
<td>0.77</td>
<td>0.92</td>
<td></td>
</tr>
<tr>
<td>Supply Chain Agility</td>
<td>0.93</td>
<td>0.93</td>
<td>0.031</td>
<td>0.82</td>
<td>0.90</td>
<td>0.916</td>
</tr>
</tbody>
</table>

All the other indicators were within the suggested thresholds, suggesting that the constructs resulted unidimensional, respective indicators demonstrated high convergent validity, and discriminant validity of all scales was adequate.

The next step was the testing of the validity of conceptual framework, combining data gathered from both store managers and customers. A suitable technique for this kind of analysis is hierarchical linear modelling, where the data collected from managers and customers had to be combined together. The data taken from supplier-companies are nested with the data taken from client-companies, so the first step was the analysis of the null model, where Loyalty served as predicted variable and there were no predictors at level one or level two (Radenbush and Bryk, 2002).

The analysis of the null model showed that the intercept term varied across groups, indicating that customers data are indeed nested with each store managers data, thus the hierarchical linear modelling approach for analysis is reasonable appropriate. Then the amount of variation between the groups of observations had to be assessed to conclude that is was large enough. The ICC (intra-class correlation coefficient) indicator usually serves as an indicator of this variation, since it measures the degree of similarity within the same cluster. ICC is calculated using this formula (Radenbush and Bryk, 2002):

\[
ICC = \frac{\sigma^2B}{\sigma^2B + \sigma^2W}
\]

Where: \( \sigma^2B \): between-class correlation; \( \sigma^2W \): within-class correlation

The resulting ICC value showed that approximately 39.4% of predicted variable (organizational commitment) could be explained by the predictor of level 2.

The proposed hierarchical linear model of this study is:

\[
Loyalty_{ij} = \gamma_{00} + \gamma_{01} \times SCA_j + u_{0j} + r_{ij}
\]

Where: \( \gamma_{00} \): the grand mean of the dependent variable; \( u_{0j} \): store managers effect; \( r_{ij} \): effect not accounted for by store managers.

Data analysis showed that Loyalty is significantly and positively influenced by SCA (\( \gamma = 0.439 \); Standard Error 0.119; \( p<0.005 \)), confirming the main hypothesis of the study.

Conclusions and managerial implications

Supply chain agility requires willingness by supply chain partners to create structures, framework and appropriate practices that encourage inter-organizational behavior. Marketers must place a greater emphasis on maintaining and enhancing continuous customer/provider relationships, aiming to facilitate the progressive involvement of partner companies. In order to have a successful relationship where both parties are winners, partners should determine the rules of the game and engage in managerial level since in the early stages of the relationship. Of course that these actions directly affect commitment between business partners engaged in a partnership. The company may increase the expenditures in one area of activities and reduce costs elsewhere, resulting in total benefits by reducing total costs and reaching positive synergistic effects. By coordinating processes of marketing and sales functions, procurement, manufacturing, assembling, and distribution of products or services, the company manages to possess a core competency, which turns into a strong competitive advantage. Companies actively encourage the implementation of best practices, reduce their formal organizational structures or actively engage in the standardization of supply chain
operations, in order to improve their performance and achieve internal integration, and finally influencing organizational commitment.

Since the SCA has an overall positive impact on firm’s performance and on the levels of customer service, naturally a customer who has experienced a very good service or that is satisfied with the firm’s performance will be more inclined to trust it and become loyal. By achieving satisfactory levels of agility, a retailing increases the ability to reduce costs, improve quality, responsiveness, flexibility, and enhance product innovations. All these make its consumers to buy more at the company (reflecting behavioral loyalty) and have a positive attitude towards her (attitude-based loyalty).

In addition, recognizing the impact of SCA on customer loyalty, the company will be able to become aware of its importance and adopt the best practices for achieving high levels of agility. Managers will understand that today companies can be successful only if they could achieve the coordination and cooperation at a high level among all participating partners in a supply chain, as well as being enough agile to adopt to environment.

This study has several managerial implications. First, managers should recognize the importance of the five distinct areas of supply chain agility: alertness, accessibility, decisiveness, swiftness and flexibility, in achieving a seamless flow of products and information across the supply chain. Second, managers should be aware of the concept of agility and understand the facets of supply chain agility.

Being agile means to rapidly respond to changes in competitive environment and rapidly responding to customer requests. Third, managers should understand the concept of flexibility and the ways to achieve flexibility in different areas of supply chain. Fourth, it should become clear the direct impact that supply chain agility has on firm’s performance and loyalty, improving both financial and market indicators of performance. The entire supply chain should function like parts of a human organism, aiming towards beating competition and creating value not only for end customers but for every participant in the supply chain.

As competition has shifted from companies to supply chains, companies should carefully develop flexibility in sourcing, manufacturing, delivering and planning to meet the requirements of environments, customers, and stakeholders. The operation of supply chain is becoming more complicated and more challenging for managers. Managers should adopt a holistic supply chain view to manage their supply chain and to achieve better company performance.

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HEALTH TOURISM IN THERMAL WATERS IN PESHKOPI, ALBANIA - STATISTICAL AND ECONOMIC ANALYSIS

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Abstract
Health tourism in thermal waters is one of the types of tourism in Albania. Attending these type of tourism, not only heals/cures some diseases of visitors/tourists, but also contributes to the economic development of the communities located near the thermal water resources. The purpose of the study is the identification of the comparative advantages of health tourism in the thermal waters, the Thermal Baths Peshkopi in Dibra, Albania. To realize this study we provided information by hotel businesses, owners of hostels and Balnear State Enterprise, which operate in the service of visitors/tourists who frequent health tourism thermal waters. The study showed: (i) The ratio Albanian tourists (domestic) and foreign tourists is 2:3; (ii) Time attendance is 10-15 nights of staying; (iii) The cost of person in hotels, including accommodation, three meals, transport and entrance fees in spa tourism center are on average € 12, while these costs in the hostels of the residents are on average € 8; (iv) The number of hotels to accommodate visitors/tourists is over 10 with over 900 beds in total; (v) The number of hostels that offer family tourism is about 111 with the average number of beds 8-10/house with over 1 000 beds; (vi) Total revenue from health tourism, for hotels and hostels for 2015 were € 132 000, while the 10-year period (2006-2015) is € 1 004 102.

Keywords: visitor/tourist, health tourism, thermal waters, income, hostels, cost, advantages.

1. Introduction
Thermal waters are used for healing/curative effects since antiquity. In Albania there are several sources of thermal waters1, which are: Bilaj in Fush-Krujë; Elbasan Thermal Baths; Bënja in Përmet; Vernomeros, Postenan in Leskovik; and Thermal Baths in Peshkopi, in Dibër. Since the study is aimed at the development of health tourism in thermal waters in Dibër should be also mentioned thermal springs in Kosovrast and Banjsht in Macedonia2. The thermal springs in Kosovrast and Banjsht are part of ethnographic Dibër which does not comply with current administrative boundaries (Frashëri 2012:11).

Attendance of health tourism in the thermal waters of visitors, not only healing/cure various diseases, but enables the recognition of historical and geographical tourism of the city, as one of the most interesting regions of Albania (Murrja, Meço & Tomorri 2016). Development of tourism in the thermal waters in Peshkopi, Dibër increases the income of, the hotel business, the owners of hostels,

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1 http://www.hoteliriturizemalbania.al/2012/05/burimet-e-ujerave-termale-kurative-ne.html
2 Defining the borders of Albania by the Conference of Ambassadors in London in 1913, left out a part of the territory of Dibër once the administrative part of the former Yugoslav today Republic of Macedonia.
to agricultural businesses, the farmers, the budget of the Balnear State Enterprise and the municipal budget.

In Albania, before ’90 the last century, health tourism thermal waters was owned by the state and offered primarily as medical service. In the early 90s the Albanian society moved from the centralized socialist economy to a free market economy. These political and economic changes enabled, not only private enterprise investment in construction of hotels, but residents in the adoption/adaptation of their homes in hostels, in view of the health tourism.

Where are the Thermal Baths of Peshkopia?

Balnear complex healing/curative of the thermal waters in Peshkopi is administrated by the Balnear State Enterprise, which is subordinate to the Municipality of Dibër. This complex is located about 2 (two) kilometers east of the city, to the right of the stream flow of Bellova, down the ridge to Deshatit. There are two sulphurous springs with temperatures from 35 to 43.5 °C with a flow of 14 liters/sec, derived from formations of gypsum Korab Mount and potassium sulfate content. Thermal Baths in Peshkopi are the rarest in the world for their healing power.

The study area

The study included: (i) tourism hotel service and family tourism on Llixha neighborhood in the city of Peshkopi; (ii) Albanian visitors and foreign tourists; (iii) Visitors/diary tourists from districts Dibër, Burrel and Bulqizë; (iv) Balnear State Enterprise.

The purpose of the study

The purpose of the study is to inform visitors/tourists of thermal waters: (i) the value of rare healing/curative; (ii) the minimum cost of accommodation/food and transportation; (iii) the value of specific historical, geographic, gastronomic tourism etc.; (iv) the quality of service, hospitality, generosity and communication. Also, through the SWOT analysis we will evaluate the strengths, weaknesses, opportunities and threats of health tourism in Thermal Baths of Peshkopia.

Objectives of the study

Objectives of the study for the period of 10 years (2006-2015) are: (i) statistical analysis of the number of domestic tourists and foreign tourists; (ii) statistical analysis of the geographical distribution of domestic tourists and foreign tourists; (iii) statistical analysis of the number of tourists/visitors in years; (iv) statistical analysis of the number of beds in hotels and hostels; (v) statistical analysis of revenue for hotel businesses and owners of hostels over the years and for the period 2006-2015; (vi) assessment by visitors/tourists perception the hospitality, service, accommodation, food, communication, etc.; (vii) cost of daily analysis per person; (viii) valuation by SWOT analysis.

2. Literature review

The oldest archaeological facts and historical for thermal baths in Dibër points to the existence of two ancient pools nearby Banjisht Hotel. They were reconstructed in 1797 and have been restored recently by an entrepreneur named Capa, who is the only shareholder since acquisition or privatization in 2004 (http://bdcapa.com/historia/). Even thermal therapy in Peshkopi Thermal Baths is very early, but organized tourist attendance dates too late.

Based on the number of thermal springs, health tourism is one of the forms and types of tourism potentials, not only in Dibër, but also in Albania. And even if this country is rich in thermal water resources, health tourism thermal studies have been lacking. Therefore “thermal health tourism” is a new terminology, but in fact has begun to sensitize not only the tourism people attending, but also researchers tourist economy. Sensitization of tourists to attend health tourism thermal waters was due to the healing powers/curative thermal waters, while the interest of researchers aims,
measuring the impact of tourism in the economic development of the communities near these sources.

In statistical terms, the people attending health tourism thermal waters are called guests. All travelers who are involved in tourism are visitors. The term "visitor" represents the basic concept for the entire system of tourism statistics. The term "visitor" for statistical purposes and in accordance with the format of tourism classified in two categories: "tourists (visitors with overnights)" and "day visitors". Tourist is called a visitor, who spends at least one night in a hotel or guest house in the country that he visits, while daily visitor is a person who does not pass the night in a hotel or guesthouse in the country that he visits (INSTAT, Albania). Tourism comprises the activities of persons traveling to and staying in different places from the place of their usual residence for a period not longer than one calendar year (INSTAT, Albania) and the purpose of this trip is the passage of time free for tourism types different, for business, for official state services for sports and other activities. Also, in statistical terms, the adopted home for health tourism will call hostels.

3. Methodology
The study involves visitors with staying nights, day-trippers, business hotels, hostels, which operate in the service of health tourism. To assess the hospitality, accommodations, food, service, information, etc. Used sample with 140 visitors/tourists, who were interviewed at random in 5 hotels and 7 hostels. Interviews of visitors/tourists included in this sample were conducted in "peak" attendance for 15 days from 15 September to 1 October 2015, where the total number of tourists in 2000. To measure the reliability of the sample size is used the following formula:

\[ t = \frac{x - \mu}{S / \sqrt{n}} \]

from where
\[ \mu \] - Overall data populating
\[ X \] - Average selection (11.67)
\[ t \] - The confidence level \((1-\alpha) = 0.95\) and \(\alpha = 0.05\) security, where \(Z\alpha\) value = 1.96
\[ S \] - Variance of choice (2.47)
\[ n \] - sample size (140)

To calculate the variance of selection are using the:

\[ S^2 = \frac{\sum_{i=1}^{m} (x_i - \bar{x})^2}{n-1} \]

from where \[ S = \sqrt{S^2} \].

\(x_i\)-the number of tourists interviewed from any hotel or hostels.
<table>
<thead>
<tr>
<th>No.</th>
<th>Unit</th>
<th>xi</th>
<th>$\bar{x}$</th>
<th>$(x_i - \bar{x})$</th>
<th>$(x_i - \bar{x})^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hotel no. 1</td>
<td>33</td>
<td>11,67</td>
<td>21,33</td>
<td>455</td>
</tr>
<tr>
<td>2</td>
<td>Hotel no. 2</td>
<td>15</td>
<td>11,67</td>
<td>3,33</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>Hotel no. 3</td>
<td>18</td>
<td>11,67</td>
<td>6,33</td>
<td>40</td>
</tr>
<tr>
<td>4</td>
<td>Hotel no. 4</td>
<td>16</td>
<td>11,67</td>
<td>4,33</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>Hotel no. 5</td>
<td>18</td>
<td>11,67</td>
<td>6,33</td>
<td>40</td>
</tr>
<tr>
<td>6</td>
<td>Hostels no. 1</td>
<td>4</td>
<td>11,67</td>
<td>-7,67</td>
<td>59</td>
</tr>
<tr>
<td>7</td>
<td>Hostels no. 2</td>
<td>7</td>
<td>11,67</td>
<td>-4,67</td>
<td>22</td>
</tr>
<tr>
<td>8</td>
<td>Hostels no. 3</td>
<td>2</td>
<td>11,67</td>
<td>-9,67</td>
<td>94</td>
</tr>
<tr>
<td>9</td>
<td>Hostels no. 4</td>
<td>9</td>
<td>11,67</td>
<td>-2,67</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>Hostels no. 5</td>
<td>6</td>
<td>11,67</td>
<td>-5,67</td>
<td>32</td>
</tr>
<tr>
<td>11</td>
<td>Hostels no. 6</td>
<td>4</td>
<td>11,67</td>
<td>-7,67</td>
<td>59</td>
</tr>
<tr>
<td>12</td>
<td>Hostels no. 7</td>
<td>8</td>
<td>11,67</td>
<td>-3,67</td>
<td>13</td>
</tr>
<tr>
<td>No. of units = 12</td>
<td>n=140</td>
<td>$\bar{x}$ =140/12</td>
<td>$\sum (x_i - \bar{x})^2$ =851</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Then, $S_2 = 851/139 = 6.12$ and $S = \sqrt{6.12} = 2.47$.

By choosing the confidence level $(1-\alpha) = 0.95$ we have, in which variance with tourist distribution $t(n-1)$ degrees of freedom, is that the value $t(n-1; 0.05)$ completes the condition that the integral of $f(t, n-1)$ between $t(n-1; 0.05)$ and $t(n-1; 0.05)$ is 0.95. In our study we have $0.95 = \text{Probability} [11,67 - 0.95(2.47/11.83)] \leq \mu \leq [11,67 + 0.95(2.47/11.83)]$. So we $11.47 \leq \mu \leq 11.67$.

Besides sample of 140 visitors/tourists were interviewed 5 hotels administrator, 7 hostels owners and 4 Balnear state enterprise employees. To tourists mostly of questions are about the hospitality, accommodation, food, service, information, etc. And to administrators and business owners of guesthouses dominate questions about the pleasure of tourists, the number of tourists who do not return, and why, the cost for staying, interest of visitors/tourists to recognize the historical and geographical tourism Dibër etc. And finally, to employees most of questions where like: What is the period most frequented of the year in other words "peak", the average number of visitors per day during this period, the number of daily visitors, fees or charges on 20 position in the center minuata in the bathroom of spa tourism, medical services etc.

4. Discussion of Data
Accommodation of the tourists are hotels and hostels in the Llixha neighborhood in Peshkopi. The number of hotels to accommodate visitors/tourists is over 10 with over 900 beds in total, while the number of hostels is about 111 with an average number of beds 8-10 and total number of beds in the 1000. For easier understanding, interpreting statistical data is used circular diagram in percentage and histogram in absolute value (Giorne & Salvemini 2003: 91-92).
Number of albanian visitors/tourists is 40%, while of foreign tourists is 60% .The ratio is 2 to 3 domestic tourists.
Domestic visitors Albanian coming mainly from Shkodra, Tirana, Durrësi, while foreigners from Kosova and Macedonia.

Distribution of domestic tourists and foreign tourists (Kosova and Macedonia)

From Figure 2, we conclude that the geographic distribution of visitors/foreign tourists is: Kosova and Macedonia by 30%, while domestic tourists are: Shkodra 20%, Tirana 10%, Durrësi 5% and other domestic 5%.

Hospitality, service, accommodation, food etc., according visitors/tourists perception

From Figure 3, we conclude that the hospitality appreciated by 98% of tourists with "Very Good" 0% "Average" and 2% "Good", while the accommodation, food and service valued by 92% of tourists with "Very Good" 6% with "Average" and 2% "Good". The percentage of tourists who values with "Good", coincides with the number of visitors who do not return, this has been noticed by interviews with managers and owners of hotels and guesthouses.

The number of tourists/visitors by year for the period 2006-2015.

From Figure 4, we conclude that the hospitality appreciated by 98% of tourists with "Very Good" 0% "Average" and 2% "Good", while the accommodation, food and service valued by 92% of tourists with "Very Good" 6% with "Average" and 2% "Good". The percentage of tourists who values with "Good", coincides with the number of visitors who do not return, this has been noticed by interviews with managers and owners of hotels and guesthouses.

The number of tourists/visitors by year for the period 2006-2015.
Figure 4 indicates that the number of visitors/tourists is growing. Increasing the number of visitors/tourists comes from increasing the number of hotels and guesthouses. (See Figure 5).

Number of beds in hotels and hostels

Figure 4 - The number of visitors/tourists in years 2006-2015

![Graph showing the number of visitors/tourists from 2006 to 2015.]

Total revenues (hotels and hostels) in years 2006-2015

Figure 6 - Income appropriations for 2006-2015

![Graph showing the total revenues from 2006 to 2015.]

From Figure 6, we conclude that the income from thermal waters tourism is growing. Income in 2015, compared to 2006 almost doubled, while total income for 2006-2015 is € 1,004,102.

4.1 Estimates by the SWOT analysis

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Thermal waters are a rarity in the world of the healing power;</td>
<td>1) Garbage management;</td>
</tr>
<tr>
<td>2) Nights of staying in minimum cost;</td>
<td>2) Lack of information online;</td>
</tr>
<tr>
<td>3) Hospitable and generous community;</td>
<td>3) Lack tourist guide;</td>
</tr>
<tr>
<td>4) Quiet and safe area;</td>
<td>4) Lack of elite tourism for VIP persons;</td>
</tr>
<tr>
<td>5) Very beautiful nature;</td>
<td>5) Lack of shops that sell souvenirs;</td>
</tr>
<tr>
<td>6) Comfortable accommodation in hotels and hostels;</td>
<td>6) Lack of small museums to tell the story of the area;</td>
</tr>
<tr>
<td>7) Purity and traditional cooking;</td>
<td>7) Lack of restoration of the museum of national hero Gjergj Kastriot Skanderbeg Çidhën Dibër;</td>
</tr>
<tr>
<td>8) Culture communication;</td>
<td>8) Lack of paved roads to facilitate the movement of tourists in the whole area of Dibër.</td>
</tr>
<tr>
<td>9) BIO products;</td>
<td></td>
</tr>
<tr>
<td>10) Variety of nature monuments;</td>
<td></td>
</tr>
<tr>
<td>11) Healthy climate;</td>
<td></td>
</tr>
<tr>
<td>12) Figures of national history3.</td>
<td></td>
</tr>
</tbody>
</table>

And our national hero, Gjergj Kastriot Skanderbeg (Sinë, Dibër) and his contemporaries Mojsi Golem; The President of the League of Prizren, Ilyas Pasha Dibra (Killoçcišt, Dibër); The vice/prime minister of the Government of Ismail Qemali, Nikoll Kacori (Region-Lurë, Dibër); The King Zog (Burgajet, Mat, Dibër); The
Opportunities
1) Greater interest by the Municipality of Dibër in the creation of modern facilities in Balnear Centre and building capacity for tourist reception;
2) The biggest interest of the government, development agencies and donors to invest in northeast Shqipëisë;
3) Promotion and interest by the Ministry of Tourism about health tourism in thermal waters in Albania;
4) The advantageous geographical position due to its proximity to Kosovo and Macedonia;
5) Construction of apartments for VIP persons;
6) Bio product development.

Threats
1) Natural disasters such as fires and floods;
2) Damaging natural and pristine places.

5. Conclusions
Health tourism in the thermal waters at Peshkopi has affected the growth of revenue: (a) in hotel businesses and families who provide services in the tourism function; (b) the budget of the State Enterprise and the Peshkopi municipality budget; (c) the agricultural businesses and farmers from selling their produce. Also, the development of tourism has brought (a) increasing employment and self-employment in Llixha neighborhood and its surrounding villages and (b) increasing prosperity in this community.

The number of tourists every year has increased. This growth has attracted the attention of business leaders and residents investing in the construction of hotels and houses in the adoption of modern accommodation conditions.

98% of tourists appreciate the hospitality "Very good", 2% "Good" but accommodation, food and service is valued by 92% with "Very good", 6% with "Average" and 2% "Good". The percentage of tourists who appreciates the "Good", coincides with the number of visitors who do not return, this has been noticed by interviews with managers and owners of hotels and guesthouses.

Missing:
Road infrastructure to enable geography recognition of Dibër;
Museums to recognize the history of Dibër;
Apartments for VIP persons, to enable the development of elite tourism, according to international standardized assessments;
Medium-term strategic development programs and Long-Term local government and central government.

6. Recommendations
Through this study, we recommend:
Greater interest in promoting and increasing investment in health tourism in the thermal waters:
The central government through the Line Ministries;
Local government through the Municipality of Dibër;
Domestic and foreign donors.
Creating a database of national and local institutions for the number of tourists attending Peshkopi Thermal Baths.
More interest on business evaluation for construction of hotels under international stars evaluation, to enable attendance of VIP persons.
Increased investment by central and local government to improve the road infrastructure, historical, geographic.
Improving infrastructure in Balnear complex.

birthplace of the great poet and writer Migjeni; The great writer Haki Stërmilli (Great Dibër); The President's socialist system Haxhi Leshi (Great Dibër) and why can be debated because of the system (Murrja 2008).
Reference


Osmani Myslim, Statistikë 2004.
Abstract
The concept of social entrepreneurship and its role in creating public value within public organizations is one of the most important study approaches in public management in recent years. Thus, the paper examines the main characteristics of social entrepreneurship in theory within the context of entrepreneurship and public sector entrepreneurship during the process of producing and delivering values. As other types of values (economic, environmental and public), the social entrepreneurship is inevitable part of the overall system of creating values across different sectors (private, citizen and public). The conclusions are that the application of different business models in different organizational settings including public organizations depends on the types of values that it aims to create and to deliver to the general public. As public organizations are becoming more and more socially responsible, the role of social entrepreneurship business models in creating public values is becoming increasingly important.

Key words: values, social entrepreneurship, public sector entrepreneurship, business models

1. Introduction
Public sector organizations play a very important role for the overall political, institutional, economic, cultural and social development in the society. Public challenges they face are permanently growing in order to satisfy the public interest and more important of what they are called today: to produce public value in the eyes of the citizens they serve and exist for. Considering that, in the last 50 years a growing body of books, research articles and practical experiences expressed by theorists and practitioners of public sector entrepreneurship ask for more entrepreneurially oriented public sector employees and public sector organizations. However, the empirical research is still very young and very limited. The core of a public service and the public value chain in public sector organizations in a sense of design still remains not enough explored. The research gap is evident from the perspective of public entrepreneurship definitions and applying the various business approaches, methods and models in public organizations. Thus, that creates negative implications on the efficient and effective work of the public managers regarding public needs and public interest. In a contemporary management science there are many arguments that social entrepreneurship and public sector entrepreneurship are interrelated and there is a great need for analyzing and integrating the concepts of business models and social entrepreneurship in public organizations. First, social entrepreneurship can not exist in the rapidly growing business environments without applying business models, and second, delivering “social values” is not feasible without everyday interactions with the public sector, private sector, and citizens. In those interactions, social enterprises must use different business models depending on circumstances. The social values are very close to public values and business models must be adapted and used in order
to address the growing social needs in a society. The proposed research in this article is structured with the purpose to address two complementary components by using bottom-up approach: First, social values, social capital and social entrepreneurship; and Second, public value and public entrepreneurship. The following sections of the paper deal in more detail with each of the above-mentioned concepts in order to incorporate “what is missing” and to give a small contribution in order to “close the research gap” in public sector research.

2. Social values and social capital
Social values represent a very important aspect of the living culture in the society. We constantly use them as criteria in order to assess our behaviour during interactions with other people, in choosing or deciding between alternative courses of action or in measuring our feelings (anger, pain, pleasure etc.). In other words, the social values are the general guidelines for conduct while at the same time securing or facilitating the social control in a society. Together with norms and institutions, they can explain or can map the social processes in a society (PreserveArticles 2012). On other hand, most definitions of social capital in the literature are oriented towards the explanation of social relations and possible benefits that can come up from those relations in a society. However, as many other concepts, it seems that is very hard to give a unique definition to the specific nature of social capital (Social Capital Research 2016).

2.1. Definitions, forms and measurements
As noted above, social values are one of the bases of promoting the overall culture in a society by promoting the stability of the so-called social order. They are part of the larger system of values in the society and must be defined and analyzed within that system. Generally speaking, on values can be looked as a “measure of goodness or desirability”. Values are represents of social behaving within the social structure and are result of social interactions in society. Values and norms are very much related but not same. While values are more general, norms are very specific. Values are the common source in defining norms and can serve many general functions in a society. Social values considerably differ between different societies and cultures. They are even different for every single person. Consequently, it is impossible to judge which social values are preferred by some people or cultures and why they are accepted by them. History, location etc., all have a strong influence on accepting or not the types of social values. For example, producing ajvar in Macedonia is regarded as one of the highest social values while that is not true for French, Chinese or other cultures worldwide. As a result, social values are of relative nature and they strongly depend on history or location. In general, there are five types of social values i.e. dominant, traditional, emerging, oppositional and alternative. Each of them has similarities as well as certain differences (AshwoodCollegeMedia n.d.). On other hand, social values are a “larger concept which includes social capital as well as the subjective aspects of the well-being of citizens” (WebFinance 2016). Very similar to defining social values, in the literature there are many definitions of social capital that are complementary or contradicting. However, one of the best definitions is provided by Baker. According him the social capital is “a resource that actors derive from specific social structures and then use to pursue their interests and it is created by changes in the relationship among actors” (Baker 1990, p. 619). The social capital can be classified from two perspectives: a) From a network perspective social capital can be classified as either bonding or bridging with a third type suggested as linking; and b) From a social structure perspective can be classified as structural, cognitive and relational social capital (Social Capital Research 2016). Measuring social values and social capital proved as one of most difficult tasks. Many metrics were innovated during the last 40 years in order to address the interests of various actors within the social sectors in a society. However, those metrics proved as not very useful in practice. First, besides the fact that most metrics treat value as objective and can be easily identified through analysis, the modern economists say that the value is not a fact in objective sense. The second reason is that...
decision-makers make “confusion” between three different business roles i.e. “accounting to external stakeholders, managing internal operations, and assessing societal impact” (Stanford University 2016). However, many studies try to measure social capital by asking the question: “do you trust the others?” Other uses criteria such as participation in various social organizations etc. Besides, there is a general agreement that measuring social capital is not an easy challenge considering the fact that it includes many subjective aspects during the development process.

3. Social entrepreneurship: definitions, concepts and developments
Social entrepreneurship is a relatively new phenomenon, but the idea and practice date long time ago. Today, as a result of globalization, social entrepreneurship gain importance and becomes more current. Attention of the public attracted Muhammad Yunus, founder of Grameen Bank microfinance and winner of the Nobel Prize in 2006, Jeffrey Skoll of eBay, who founded the Skoll Foundation, which supports social entrepreneurship, Jeroo Billimoria, which launched Childline, the first attempt by India care and getting support for street children, as police protection, health care by simply calling the phone number. The popularity of the term is due to the efforts of these and other brilliant people with their extraordinary ideas for new products and/or services which contributed to dramatically improve the lives of millions of people worldwide. According Nicholls (2006, p. 2), social entrepreneurship has emerged as a global phenomenon led by a new mode of pragmatic, innovative and social activists with vision, seeking social change and social impact through combination of tools from business practice, social work and charity to bring about lasting social change. In developed countries the first forms of social entrepreneurship first appeared in North America (USA and Canada), and then G. Britain in the late 70s and early 80s and than in Europe. In the United States credit for the beginnings of the development of social entrepreneurship are attributable to Bill Drayton who founded the foundation Ashoka. The purpose of this foundation was to create a platform for fundamental support of social entrepreneurs. Later began to establish other foundations to encourage social entrepreneurship, as Skoll, Schwab, Acumen Fund and others. Despite growing interest and popularity of social entrepreneurship there is no clear definition in this domain. This task according Shaker et al. (2009) becomes complicated due to the numerous manifestations of social entrepreneurship and breadth of the scientific area that deals with this phenomenon. The term itself combines two ambiguous words that mean different things to different people. There are a number of definitions of social entrepreneurship and that is proof of the growing interest in this phenomenon. For example, according to Leadbeater (2001, pp. 10-13), social entrepreneurship is defined as: “application of entrepreneurial behavior for social purposes or using generated profit from market activities for the benefits of specific marginalized groups”. Mair and Marti (2006, p. 2) defined as: “process of identifying opportunities for economic activities that will enable a solution to social issues. This process involves a combination of innovation and resources in new ways that ultimately stimulate social change and leads to generating social values”. The analysis of some of the abovementioned scientific and practical approaches to define social entrepreneurship indicates the basic features that relate to social goals and social impact as the application of entrepreneurial management, creativity and innovative solutions in solving social problems. Therefore, the best is to understand social entrepreneurship as dynamic and multidimensional construct that varies between different intersections or between public, private and voluntary sector. Social entrepreneurs working in the public, private and voluntary sector are in profit, non-profit or hybrid organizational forms (or a combination of all three) in a direction to distribute social values and implement changes.

3.1. Social Entrepreneurship and Entrepreneurship
The idea of entrepreneurship exists more than hundred years. When the term entrepreneur is mentioned is associated with individuals who create new businesses. Regardless of whether new internet businesses are started, build steel mill, or simply open shop, entrepreneurs often are considered as driving force of innovation and the development of modern economies. There is no
single definition for entrepreneurship. Although the French economists introduced the term entrepreneur approximately 200 years ago, the term has evolved over the years. These changes created a strong tradition that reflects the strengths that are inherent for the development of the entrepreneurial spirit (Dees 2012). Literally, it means someone who undertakes an important task or project. The term is also associated with individuals whose ventures stimulate economic development by finding new and better ways of doing things. By summarizing different thoughts about what makes someone to be an entrepreneur, it would be good to give the following definition borrowed by Leadbeater (2001, pp. 10-13), and that is: "entrepreneurs are innovative, oriented toward features, capable, resourceful and agents of change that create value." Never satisfied with status quo, entrepreneurs are strong drivers of economic development (Dees 2012). In addition, according Leadbeater (2001, pp. 10-13), in terms of social, entrepreneurs are studied from different aspects, such as:

Their result is social: they promote health and welfare;
Their basics are forms of social capital- relationships, networks, trust and cooperation that allow access to physical and financial capital;
Organizations that they establish are social, in the sense that they are owned by shareholders and making profit is not their main goal. These organizations are social in the sense that they are part of civil society, not the state; and
Social entrepreneurs often are entrepreneurs who serve the community, trying to regenerate the site, property or the neighborhood in which they are located.
In short, social entrepreneurs are innovative because they develop new services and new organizations. They are also characterized by professionalism and dynamism which is commonly seen in small, fast-growing businesses. Social innovations are important because of the need to innovate with new answers and new ways for a new social and economic reality.

4. Public entrepreneurship and public value within public management approaches
There is much debate among scholars and practitioners in their analysis of the concepts of existence and further development of entrepreneurship in public sector organizations to the concepts of public sector entrepreneurship as “impossible mission”. The supporter’s arguments are that public values can be achieved if there is a “room” for creativity by the public managers during their decision making process on employing available public resources in satisfying the general and specific public needs. The other “side” or the opponents argue that public organizations are not the same as private sector organizations in terms of promoting democratic values, basic responsibilities and enhancing the organizational over the personal goals (Gomez 2011). Drucker (1985, p. 177) points out that every single public service institution must be entrepreneurial and innovative as much as any business and much more than that. Comparing to private sector research on entrepreneurship, the literature is very poor with explanation about the factors of public sector entrepreneurial development (Rainey 2009). According Hornsby et al. (Hornsby et al. 2002) there are many internal organizational variables that can influence public sector entrepreneurial activity on the middle management level. Other authors, such as Miller (1983, p. 770) points to the fact that innovativeness and risk-taking organizational variables are one of the most important factors in explaining the scope of public sector entrepreneurial activities. In addition, there are some studies about the applicability of entrepreneurial activities in public sector settings, such as the study of Morris et al. (2008, pp. 105-106) where the argumentation is that public entrepreneurship is not adequate in all situations but most certain in some public sector organizational environments, such as educational organizations, social services, local water enterprises etc. The concepts, such as “opportunities, innovations, maximization, change, adaptation, risk-taking” etc. are most frequent and common to almost all definitions of public sector entrepreneurship. Besides the fact that public managers do not agree on a common definition of what public value is, one of the most recognizable definition is the following: “the process of adding value to the public sector through the exercising of managerial authority- all the time” (Coats & Passmore 2008). On other hand, the great importance of value
capture, value creation and value delivery in public organizations during the process of public entrepreneurial development must not be neglected. In other words, one of the great goals of public sector organizations during their process of development is to permanently deliver public value in the eyes of the citizens. As Moore (1995, p. 28) points out: “the aim of managerial work in the public sector is to create public value just as the aim of managerial work in the private sector is to create private value”. In addition, according Moore (1995, p. 24), every public manager is active within the environment that is characterized by three features i.e. called as “The Strategic Triangle”:

Figure 1. The Strategic Triangle


The relationships presented above demonstrate the so-called public value chain. It serves as a map of the overall organizational process of production (inputs, projects, partners, outputs, final satisfaction and outcomes). At every single point, the public value can be measured thus identifying the problems and eliminating them in order to improve the organizational performances.

Figure 2. Public Value Delivering Process and Measurement

Table 1. Different Approaches to Public Management

<table>
<thead>
<tr>
<th></th>
<th>Traditional public management</th>
<th>New public management</th>
<th>Public value management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key objectives</strong></td>
<td>Politically provided inputs; services monitored through bureaucratic oversight.</td>
<td>Managing in a way that ensures economy and responsiveness to consumers.</td>
<td>The overarching goal is achieving public value.</td>
</tr>
<tr>
<td><strong>Role of managers</strong></td>
<td>Rules and appropriate procedures are followed.</td>
<td>Achieving performance targets.</td>
<td>Steering networks of deliberation and delivery and maintain the overall capacity of the system.</td>
</tr>
<tr>
<td><strong>Definition of public interest</strong></td>
<td>Little in the way of public input.</td>
<td>Aggregation of individual preferences supported by evidence about customer choice.</td>
<td>Individual and public preferences over inputs and opportunity costs.</td>
</tr>
<tr>
<td><strong>Approach to public service ethos</strong></td>
<td>Public sector has monopoly on service ethos.</td>
<td>Skeptical of public sector ethos.</td>
<td>No one sector has a monopoly on service ethos.</td>
</tr>
<tr>
<td><strong>Preferred system for service delivery</strong></td>
<td>Hierarchical department or self-regulating profession.</td>
<td>Private sector or tightly defined arms-length public agency.</td>
<td>Menu of alternatives selected pragmatically.</td>
</tr>
<tr>
<td><strong>Contribution of the democratic process</strong></td>
<td>Delivers accountability.</td>
<td>Delivers objectives.</td>
<td>Delivers dialogue.</td>
</tr>
</tbody>
</table>


4.1. Social entrepreneurship and entrepreneurship in the public sector

In crisis economic times, the quality of public services declines and appears problems such as poverty, hunger, unemployment, crime, migration, inadequate health services, pollution and so on. To ensure a better future and to improve the quality of life there is a need for an innovative approach of action for use of all available resources in order to create new values. Scientists and practitioners have suggested that public sector organizations should become entrepreneurially oriented in order to respond to the challenges they face. Social entrepreneurship is an opportunity to fill the void by providing originality and focus on customers, where private companies are good at it and avoiding the "one size for all" approaches that is characteristic of public services provided by government, designed under strict rules to respond to the convenience and political influence of the government bureaucracy (Hunter 2009). On the other hand, public sector organizations are becoming more active, showing entrepreneurial orientation. This entrepreneurial orientation of public sector enables the development of the concept "public entrepreneurship". Public is manifested in numerous activities, such as changing the institutional environment and rules, management of public resources which is innovation in the public interest (Ostrom 2005). Consequently, public entrepreneurship has many common elements with entrepreneurship and social entrepreneurship such as: innovation, proactiveness, risk taking and so on, but also it includes the creation of value or "value for citizens."

4.2. Boundaries of social entrepreneurship: Shades of Gray

There are two primary forms of socially valuable activities that should be distinguished from social entrepreneurship. The first type refers to the social service provision (Martin & Osberg 2007). In this case, the brave and committed individuals identify unstable equilibrium, for example, AIDS orphans...
in Africa and create a program for school children where they will be cared for and educated. The new school will help them and some of them will be enabled to get rid of poverty and transform their lives. Those types of social services do not exceed their limited frame i.e. their impact remains limited, the area of operation of the service also remains on the local population and their scope is determined by the available resources. These ventures are inherently vulnerable, which means interruption or loss of service for the population that they serve. There are millions of organizations in the world designed for noble aims and good example in carrying but, they should not be confused with social entrepreneurship. There is an opportunity to reformulate school in school for orphans with AIDS as a social entrepreneurship. But, the school is required a plan, for building network of schools and provide the basis for ongoing support of existing schools. The result would be a new stable equilibrium, whereupon even one of the schools will be closed, there is a large system that will enable AIDS orphans to gain an education. Difference between those two ventures- social entrepreneurship and social service provider does not lay in entrepreneurial context or in personal characteristics of founders, but rather in the results. The second type of social venture is social activism (Martin & Osberg 2007). In this case, the motivator of the activity is identical- unstable equilibrium. Identical are the characteristics of individuals dealing with this social venture. They are inspirational, creative, courageous and strong. The one that is different is nature of actor’s action orientation. Instead of taking direct actions, as social entrepreneurs do, social activists are trying to create changes through indirect actions, through affecting others- government, NGO, consumers, employees and others to take actions. Social activists may, but have not to create ventures and/or organizations to achieve the changes they seek. Successful activism can lead to significant improvements of existing systems and can even results in a new equilibrium. Considering the definition of social entrepreneurship and differences between social entrepreneurship and social services provider or social activism, many social actors incorporate strategies associated with these pure forms or create hybrid models (See Table 2 below).

Table 2. Pure forms of social engagements

<table>
<thead>
<tr>
<th>Direct Action nature</th>
<th>Providing social service</th>
<th>Social entrepreneurship</th>
<th>Social activism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect</td>
<td>Maintained and improved</td>
<td>Created and sustainable</td>
<td>Result</td>
</tr>
</tbody>
</table>


In the Table 2 above there are three definitions in their pure form. The successful social entrepreneur takes direct action and generates new and sustainable equilibrium. Social activist have influence on others for generating new sustainable equilibrium and the one that provides social services take direct action to improve results in the current equilibrium. It is important to make a difference between those two types of social ventures in their pure forms, but, in practice there are probably more hybrid models than pure forms. For example, Yunus applies social activism to
accelerate and increase the impact of Grameen Bank, a classic example of social entrepreneurship. By using a sequential hybrid - social entrepreneurship followed by social activism, Yunus transforms micro crediting in global force of change. Providing social service with social activism applied to the tactical level can produce results equivalent to social entrepreneurship. For example, social service provider leading school for poor students creates great results for that small group of students. If the organization uses those results to create social activist movement which leads campaign for government support for the wide application of similar programs, the social activist service provider can produce changes in equilibrium and have the same effect as the social entrepreneur.

4.3. Value driven business model frameworks
According this approach, the many definitions of the business model concept, components and frameworks are driven by value. Value is central and common concept conveyed through organizational goals that are seeking to capture, create and deliver value. As it spans boundaries of firms, industries and even sectors, the business model is a very important unit that can be used in assessing both, value creation and organizational effectiveness. Early empirical research done by Amit and Zott (2001, p. 503) and other scholars asserted that the main purpose of the business model concept is based on and made relevant by value creation. Thus, according Osterwalder and Pigneur (2005, p.22) the value proposition means an “aggregation of benefits in the form of products or services offered by a firm to its customers”. As mentioned earlier, value is a central theme of analysis in a number of interpretations and notions of the business model concept. In comparing public and private sector objectives as they relate to value creation, Moore (1995, p. 28) suggests: “the aim of managerial work in the public sector is to create public value just as the aim of managerial work in the private sector is to create private value”. Figure 3 below illustrates four perspectives on value across the private, citizen and public sectors: economic, social, environmental and public value.

Figure 3. Perspectives of value across sectors


5. Conclusion
By using bottom-up approach, the research in this article started with the general characteristics of the social values and social capital before entering in the research field of public value, public
entrepreneurship and social entrepreneurship. At that point, the research was strongly directed towards explanation of the very important link between public entrepreneurship and social entrepreneurship and the boundaries or the “Shades of Gray” of the social entrepreneurship within public sector entrepreneurship. The further explanation of business models in the literature is a necessary part in order to “catch” important points of their application in the context of social environments and the business models that social entrepreneurs use to deliver the expected results in public sector organizations. For many of the social entrepreneurship related concepts there are no single definitions and most of them are defined very differently by many authors from different research aspects. Besides the fact that many social entrepreneurship concepts are abstract in nature and are very difficult to be measured, they represent the future of developing entrepreneurship in public sector organizations. In other words, the successful application of business models in social entrepreneurship is one of the key challenges for a successful application and integration of innovative business models in public sector entrepreneurship nowadays.

References


THE PROFILE OF THE ETHNIC ALBANIAN ENTREPRENEURS IN MACEDONIA: AN EXPLORATORY RESEARCH

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Abstract
The purpose of this paper is to provide a framework of the characteristics of Albanian entrepreneurs and their enterprises in the Republic of Macedonia. According to State Statistical Office of the Republic of Macedonia (2005), based on the data from the last census of population, households and dwellings in 2002, the Republic of Macedonia had 2,022,547 inhabitants of whom Albanians were 509,083 (25.2%). Since Albanians represent the greatest minority in the Republic of Macedonia, we were interested to analyze businesses that are operated and managed by them. We conducted empirical research of 89 businesses, owned by Albanians in the Republic of Macedonia. We analyzed the motives for starting and managing one’s own business, problems of these businesses, success factors, forms of organization, sources of financing, ethics and social responsibility of Albanian entrepreneurs, and characteristics, etc.

Keywords: entrepreneurship; ethnic entrepreneurship; models of ethnic entrepreneurship, Albanians, Macedonia.

JEL Classification: L26

Introduction
Entrepreneurship arouses particular interest among researchers in the field of business and economics and state policymakers. This interest is more than expected given that entrepreneurial creativity, the ability to bring innovations to the market and the willingness to face risk are changing the world (Fiti, Markovska & Bateman, 2007). Millions of people every day, everywhere around the world open their businesses, which provide existence for themselves and their families, open new jobs and actively participate in the overall economic development of their countries (OECD, 2011). With the growth and positioning of these ethnic groups in western societies, ethnic entrepreneurship is increasingly arousing interest for socio-economic studies. The origin of ethnic entrepreneurship can be found from 1880’s in the U.S., where the foreign born have been overrepresented in small businesses (Barret et al., 1996). Ethnic group represents a segment of society whose members are thought to have common origine and culture and take part in joint activities, in which the origins and culture are an important part of them (Yinger, 1985).

The aim of this paper is to analyze the profile of ethnic Albanian entrepreneurs in the Republic of Macedonia, with regards to the motives for starting and managing one’s own business, problems of these businesses, success factors, forms of organization, sources of financing, ethics and social responsibility of Albanian entrepreneurs, and characteristics, etc.

The paper is structured as follows: the introduction part is followed with section two that covers the literature review on ethnic entrepreneurship, followed by section three, where are described the
methodology and data; section four presents the findings from the survey; the paper ends with the conclusions.

Literature review
In recent decades, in many cities in the industrialized world, especially in metropolitan areas, there was a large influx of people from different socio-cultural or ethnic origins (Dana 2007; Dana and Morris, 2011, 2007; Levent et al. 2003; Wong 1998; Waldinger et al. 2006; DeHart 2010). Recent years there has been a great orientation of ethnic groups in self-employment. These movements recognized by many authors as ethnic entrepreneurship. Ethnic entrepreneurship is a process of identifying opportunities in the market, undertaking innovative, unsafe and dangerous activities by individuals who are not members of the majority population in a given country, to ensure prosperity for themselves, family and whole society.

Characteristics of ethnic entrepreneurship can be summarized as follows (Levent et al. 2003; Fiti & Ramadani 2013; Dana and Morris, 2011, 2007):

Characteristics of ethnic enterprises
The majority of ethnic enterprises operate in the services sector,
The majority of ethnic enterprises are small and relatively new,
The majority of ethnic enterprises are family owned businesses,
In general, these enterprises are set up with small start-up capital and generate small income,
Ethnic enterprises have a higher rate of failure.

Characteristics of ethnic entrepreneurs
Most of ethnic entrepreneurs are with lower levels of education,
Most of ethnic entrepreneurs start their businesses for economic reasons, such as generating additional revenues,
Ethnic entrepreneurs have specific management methods (based on their culture) and specific structure of enterprises,
Ethnic entrepreneurs have not too much entrepreneurial/management experience,
Ethnic entrepreneurs tend to use informal sources of support of their businesses, like personal networks and those of their communities.

Importance of ethnic businesses
Provide revitalization/development of local economies,
Create new work places,
Provide economic and cultural diversity - provide 'socio-cultural and ethnic' products,
Reduce the unemployment,
Solve the problematic situation related to the employment of ethnic youth,
Reduce the social exclusion,
Increase the living standards of ethnic groups, which can often be among the most disadvantaged groups in society.

Problems and barriers of ethnic businesses
Administrative (less experienced in obtaining information about relevant administrative regulations),
Access to financial resources (lack of capital and credits, lack of knowledge and lack of financial and managerial know-how)
Ethnic-based barriers (social and cultural values, language, lack of adequate education, lack of management skills)
Access to business networks (excluding from 'non-ethnic' informal business networks, restrictions on access to formal business networks).

The research in ethnic entrepreneurship can be found in the works of Weber (1930), Sombart (1914) and Simmel (1950). The ethnic business usually starts when an entrepreneur will start to serve other members of the ethnic community and satisfies their specific ethnic needs (Greene and Owen, 2004).
Ethnic businesses are distinguished by their high rate of failure. From businesses that fail every year, over 50% are five-year-old businesses (Ramadani, 213). At the beginning of his business, the entrepreneur should take different decisions. He should examine the relationship between risk and profit. In small enterprises, we have a lack of effective management, because all of the works are managed by one person who has no relevant knowledge to various situations that occur in the environment in which it operates. Also, there is a lack of capital - an incurable disease of small businesses. The function of the entire enterprise is based on the founders' capital, and opportunities for obtaining loans for small businesses are difficult, this why the entrepreneur loses pace with competitors and fails. These weaknesses are considered as issues that influence negatively in small businesses and make them more risky compared to large ones, which creates additional problems associated with attracting, obtaining funds for their further development. Financing is one of the most important areas for the promotion of small business development.

Ethnic enterprises represent an important part of modern “multicolor” countries, and they tend to be enterprises local to these countries (Masurel, Nijkamp, Tastan, & Vindigni, 2002). Waldinger, et al. (1990) defined ethnic entrepreneurship as “a set of connections and regular patterns of interaction among people sharing a common national background or migration experiences”. This definition emphasizes the ethnic component rather than entrepreneurship (Greene, 1997). According to Valdez (2008), ethnic entrepreneurship is business ownership among immigrants, ethnic-group members, or both. The traditional approach to ethnic entrepreneurship focuses on the specific characteristics of a given ethnic group.

Markets with low economies of scale, such as taxi-industry, can offer good opportunities for ethnic businesses. Other opportunities for ethnic businesses are markets that are not covered or completely abandoned by the locals, due to insufficient rates of return or poor working conditions (Volery 2007). Also, should be considered the legal and institutional frames of the host country, which can be 'pro' or 'against' ethnic businesses.

**Research Methodology**

In this paper we used a survey research with entrepreneurs from Albanian ethnicity in Macedonia. The study sought to assess the general values held by these entrepreneurs and any values affecting the running of their businesses. The survey was conducted in total with 89 businesses, where we measured different aspects such as: motives for starting a business, factors influencing the success of small businesses, problems that these entrepreneurs face, the form of their business, the sources of financing, the ethical and social responsibility, factors that affect the owners of these businesses, reasons for innovation, the risk that they face and strategies for risk management. Through the result obtained from the structured questionnaire we will analysis separately each of the data’s for the different aspects mentioned above.

**Findings**

**Motives for starting a business**

Often the question is what prompted some people to deal with business. The answers that we can get are diverse. Our research about that, what are the motives or reasons that some people are determined to deal with own business, says that most of them are motivated by the opportunity to be independent and to have personal business. This response we received in 38.42% of surveyed cases.
Other motives of Albanian entrepreneurs are related to: the ability to earn more money (50 responses, 24.63%), family business heritage (26 responses, 12.81%), the desire to be entrepreneurs (23 responses, 11.33%), use of any profitable opportunities in the market (22 responses, 10.84%), and inability to found a good job with high salary (4 replies, 1.97%).

4.2. Factors influencing the success of small businesses
The success or failure of small businesses depends on many factors. They can be affected by internal and external factors. In Table 1 are presented some of the main factors that directly or indirectly affect the success of Albanians’ small business.

Table 1 - Factors influencing the success of small businesses

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>No. of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners motive</td>
<td>52</td>
<td>13.27</td>
</tr>
<tr>
<td>Business addiction</td>
<td>66</td>
<td>16.84</td>
</tr>
<tr>
<td>Owners managerial experience</td>
<td>28</td>
<td>7.14</td>
</tr>
<tr>
<td>Price of enterprise product</td>
<td>24</td>
<td>6.12</td>
</tr>
<tr>
<td>Organisation of the work</td>
<td>57</td>
<td>14.54</td>
</tr>
<tr>
<td>The relationship with the clients, employees and supplier</td>
<td>75</td>
<td>19.13</td>
</tr>
<tr>
<td>Following the trends</td>
<td>39</td>
<td>9.95</td>
</tr>
<tr>
<td>Location of your business</td>
<td>32</td>
<td>8.16</td>
</tr>
<tr>
<td>Qualified and professional staff</td>
<td>16</td>
<td>4.08</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>0.77</td>
</tr>
<tr>
<td>Market size</td>
<td>53</td>
<td>24.09</td>
</tr>
<tr>
<td>Economic conditions</td>
<td>80</td>
<td>36.36</td>
</tr>
<tr>
<td>Political conditions</td>
<td>23</td>
<td>10.45</td>
</tr>
<tr>
<td>Government policies</td>
<td>21</td>
<td>9.55</td>
</tr>
<tr>
<td>The aproach toward external source of financing</td>
<td>13</td>
<td>5.91</td>
</tr>
<tr>
<td>The approach toward comprehensive technologies</td>
<td>18</td>
<td>8.18</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>5.45</td>
</tr>
</tbody>
</table>
4.3. **Problems that Albanian entrepreneur face**

Since the opening of business Albanian entrepreneurs face many problems, which affect the success of their business. Problems can be of different types, depending on the size of the business. Data from the survey of 89 enterprises in our country say that Albanian entrepreneurs during their work face these problems: declining sales level, dealing with unfair competition, lack of funds, delay in payment of goods sold, lack of adequate human resources, legal regulation of business and other problems (Table 2).

As it can be seen from the empirical results, about 30% of Albanian entrepreneurs think that dealing with unfair competition is one of the major problems they deal. Then they ranked the delay in payment of goods sold by 22%, decrease in the level of sales 19%, lack of funds with 29% and so on.

<table>
<thead>
<tr>
<th>Problems</th>
<th>No. of responses</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining sales level</td>
<td>43</td>
<td>18.94</td>
</tr>
<tr>
<td>Dealing with unfair competition</td>
<td>68</td>
<td>29.96</td>
</tr>
<tr>
<td>Lack of funds</td>
<td>29</td>
<td>12.78</td>
</tr>
<tr>
<td>Delay in payment of sold goods</td>
<td>49</td>
<td>21.59</td>
</tr>
<tr>
<td>Lack of adequate human resources</td>
<td>8</td>
<td>3.52</td>
</tr>
<tr>
<td>Legal regulation of business and other problems</td>
<td>23</td>
<td>10.13</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>3.08</td>
</tr>
<tr>
<td>Total</td>
<td>227</td>
<td>100.00</td>
</tr>
</tbody>
</table>

4.4. **Forms of business organization**

From the research realized in our country (Figure 2), sole proprietorship dominates as form of Albanians’ business organization, where from 89 surveyed enterprises, 74% were organized as sole proprietorship, 20% as partnerships and 6% in other forms. We have not encountered any Albanian business organized as corporation.

![Forms of small business organization](image)

4.5. **Financing sources of ethnic Albanian businesses**

As regards to small businesses which their commercial activity practice in our country, from our research clearly is observed that the Albanian entrepreneurs use these funding sources: individual savings (50.80% of surveyed), credits from commercial banks (22.99%), help offered from relatives-members of family and friends (20.32%), informal sources/money lenders (3.74%), and foreign and governmental funds for development of small businesses (Figure 3).

Our research shows that the Albanian entrepreneurs, during application for credit they encountered a lot of difficulties (table in the top). Among them, most important are: the high rate of interest...
(60.55% of surveyed), hard criteria for credit (18.35%), distrust of banks in small business (12.84%), excessive bureaucracy of banks (5.50%) and inability for assuring credits with mortgages (2.75%). As well, from this research is observed that 43.70% of businesses, during their activity, have applied for credit, 33.6% never had applied for credits and 22.70% have had not need for credit.

Figure 3 - Funding resources

4.6. Ethics and social responsibility

Through this research, we were interested to know that how much Albanian entrepreneurs are ethic and socially responsible. The results, regarding that in which fields and what forms Albanian entrepreneurs show their social responsibility, are present in Table 3. From the data in the table it can be seen that Albanian entrepreneurs which act in our country, show their social responsibility paying regularly and in right ways the employees (85 answers), paying regularly the taxes (83 answers), offering qualitative products for consumers (79 answers), following by offer of products with competitive prices, giving donations for any artistic-cultural and sport activity, help offered in building school, sport and religion objects, contribute in ecological issues, providing training for knowledge development, abilities and skills of employees, help offered to nongovernmental associations and enabling employment of individuals with disabilities.

Table 3 - Social responsibility issues

<table>
<thead>
<tr>
<th>Social responsibility issues</th>
<th>Nr. of responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer qualitative products</td>
<td>79</td>
<td>18.85</td>
</tr>
<tr>
<td>Offer products with competitive prices</td>
<td>55</td>
<td>13.13</td>
</tr>
<tr>
<td>Pay employees regularly and right</td>
<td>85</td>
<td>20.29</td>
</tr>
<tr>
<td>Provide to employees paid training and specialization</td>
<td>15</td>
<td>3.58</td>
</tr>
<tr>
<td>Pay taxes regularly</td>
<td>83</td>
<td>19.81</td>
</tr>
<tr>
<td>Give donations in any cultural-artistic and sport activity</td>
<td>33</td>
<td>7.88</td>
</tr>
<tr>
<td>Help any nongovernmental organization</td>
<td>12</td>
<td>2.86</td>
</tr>
<tr>
<td>Help in building of school, sport and religion objects</td>
<td>26</td>
<td>6.21</td>
</tr>
<tr>
<td>Contribute in ecological issues</td>
<td>16</td>
<td>3.82</td>
</tr>
<tr>
<td>Employ individuals with disabilities</td>
<td>9</td>
<td>2.15</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>1.43</td>
</tr>
<tr>
<td>Total</td>
<td>419</td>
<td>100.00</td>
</tr>
</tbody>
</table>

To the ethic behaviour of Albanian entrepreneurs affect more factors. From our research we have found that in the ethic behaviour affect these factors: norms and social pressures, morality and religion beliefs, expectations for additional benefits, gaining publicity in society, fear of punishment from state institutions and other factors (Table 4).
4.7. Factors that affect in the ethics of small business owners

The empirical data show that nearly half of answers, or 61 answers from total 124, morality and religion beliefs are accounted as essential factor in the ethical behaviour of Albanian entrepreneurs. Then, as an influential factor are accounted norms and social pressures (16.94%), expectations for additional benefits (12.90%), gaining publicity in society (12.10%), fear of punishment from state institutions (2.42%) and other factors (6.45%).

Table 4 - Factors that affect in the ethics of small business owners

<table>
<thead>
<tr>
<th>Ethics and factors that affect in it</th>
<th>Nr. of responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norms and social pressure</td>
<td>21</td>
<td>16.94</td>
</tr>
<tr>
<td>Morality and religion beliefs</td>
<td>61</td>
<td>49.19</td>
</tr>
<tr>
<td>Expectations for additional benefits</td>
<td>16</td>
<td>12.90</td>
</tr>
<tr>
<td>Gaining publicity in society</td>
<td>15</td>
<td>12.10</td>
</tr>
<tr>
<td>Fear of punishment from state institutions and other factors</td>
<td>3</td>
<td>2.42</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>6.45</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>100.00</td>
</tr>
</tbody>
</table>

4.8. Reasons for being innovative businesses

As mentioned earlier, one of the main features of entrepreneurship is innovation (Ramadani and Schneider, 2013; Ramadani and Gerguri, 2011, Ramadani et al., 2013b). To understand what are the main reasons that ethnic entrepreneurs have attempted to or have done an innovation in their work the empirical data from our studies will be used. They are shown in Figure 4.

Figure 4 - Reasons for small businesses to be innovative

Source: Ramadani and Gerguri, 2011

Figure 4 shows that improving the quality of products and services offered to customers is one of the main reasons why Albanian entrepreneurs have attempted or have been innovative, as confirmed by 27% of the respondents. Furthermore, following the creation of better work conditions with 18% of the respondents, maintaining existing position in the market with 17%, involvement in new markets by 13%, creating flexibility at work by 9%, improving the environment (ecological reasons) 5% and lastly diversification of product range with 2%.

4.9. Risks and ethnic entrepreneur’s businesses

The risks that may be faced by an ethnic entrepreneur are different. In the literature for small business have been identified several types of risks. From the Table 5 can be noticed that the majority of risks faced by Albanian entrepreneurs is theft by unknown people with 19.27 % followed by fire 14.06%, than war with 13.03 and inflation with 11.46. However, at the end of the spectrum,
the last risks that Albanian entrepreneurs have faced are floods with 1.04% and reduced value of real estate with 3.13%.

### Table 5 - Ranking of the risks that Albanian entrepreneurs face

<table>
<thead>
<tr>
<th>Types of risks</th>
<th>Ranking</th>
<th>No. of responses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>2</td>
<td>27</td>
<td>14.06</td>
</tr>
<tr>
<td>Death of the main person</td>
<td>8</td>
<td>11</td>
<td>5.73</td>
</tr>
<tr>
<td>Bankruptcy of a significant customer</td>
<td>5</td>
<td>20</td>
<td>10.42</td>
</tr>
<tr>
<td>Theft by unknown people</td>
<td>1</td>
<td>37</td>
<td>19.27</td>
</tr>
<tr>
<td>Theft from the employees</td>
<td>6</td>
<td>18</td>
<td>9.38</td>
</tr>
<tr>
<td>Road accidents</td>
<td>7</td>
<td>15</td>
<td>7.81</td>
</tr>
<tr>
<td>Reduced value of real estate</td>
<td>10</td>
<td>6</td>
<td>3.13</td>
</tr>
<tr>
<td>Floods</td>
<td>11</td>
<td>2</td>
<td>1.04</td>
</tr>
<tr>
<td>Earthquakes</td>
<td>9</td>
<td>9</td>
<td>4.69</td>
</tr>
<tr>
<td>Inflation</td>
<td>4</td>
<td>22</td>
<td>11.46</td>
</tr>
<tr>
<td>War (conflict)</td>
<td>3</td>
<td>25</td>
<td>13.02</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>192</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors’ research

### 4.10. Strategies for risk management

Table 6 represents the main strategies that Albanian entrepreneurs use in order to manage risk. The majority of the respondents, respectively 38% use the transfer strategy as a strategy to manage any kind of a risk, followed by reduction and anticipation (33%, respectively 20%). On the other hand, avoidance with 9% is the last used risk management strategy.

### Table 6 - Strategies for risk management

<table>
<thead>
<tr>
<th>Strategy</th>
<th>No. of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avoidance (seeking mortgage from clients as a guarantee for goods with pending purchases purchased with anticipation, training of staff to the risk avoidance, etc.)</td>
<td>8</td>
<td>8.99</td>
</tr>
<tr>
<td>Reduction (identification for fire alarms, theft, etc.)</td>
<td>29</td>
<td>32.58</td>
</tr>
<tr>
<td>Anticipation (putting a sum of cash aside to cover eventual loses)</td>
<td>18</td>
<td>20.23</td>
</tr>
<tr>
<td>Transfer (insurance at any insurance company)</td>
<td>34</td>
<td>38.20</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors’ research

### 5. Conclusions

In this paper, we analyzed the motives of starting and managing own businesses, problems of these businesses, factors that influence in the success of these businesses, forms of organization, financing sources, ethic and social responsibility of Albanian entrepreneurs, and characteristics etc. Our research is precisely about identifying what are the motives or reasons that some people are determined to deal with the small business, and that most of them are motivated with the opportunity to be independent and to have personal business. This response we received in 38.42% of surveyed cases. Since the opening of business, Albanian entrepreneurs face many problems, which affect the success of their business. Problems can be of different types, depending on the size of the business. Data from the survey of 89 enterprises in our country say that Albanian ethnic entrepreneurs during their work face these problems: declining sales level, dealing with unfair competition, lack of funds, delay in payment of goods sold, lack of adequate human resources, legal regulation of business and other problems. As regards to small businesses which their commercial activity practice in our country, from our research clearly is observed that Albanian entrepreneurs
use these funding sources: individual savings (50.80% of surveyed), credits from commercial banks (22.99%), help offered from relatives-members of family and friends (20.32%), informal sources/money lenders (3.74%), and foreign and governmental funds for development of small businesses. From this research it was concluded that sole proprietorship dominates as a form of Albanians’ business organization, where 74% were organized as sole proprietorship, 20% as partnerships and 6% in other form. We have not encountered any Albanian business organized as corporation.

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THE IMPACT OF BANKING INNOVATIONS IN EFFICIENCY OF THE BANKING SECTOR IN KOSOVA

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Abstract
This paper examines banking innovation payment products and services and its effects in the banking industry in Kosovo. The development of information technologies have influenced and are going to influence all of the banking industry in future. Banking sector has adopted the modern technology in function of offering better products and services for clients as well as contributing to the reduction of the costs associated with the management of information and processes and increasing efficiency. The paper shows great impact of innovation on performance of banking sector in Kosovo. The findings of the study gives a contribution in analyzing effects of the innovation in bank efficiency and performance, and leads to conclusion that investments in innovative products and services of banking sector, has positive impact in banking industry and will continue further to increase in future, since banking sector has to react in global changing environment and increasing competition, in order to increase performance of sector through fulfillment of client needs. The working methodology used in this paper is based on the review of latest secondary data of Central Bank of Kosovo-CBK.

Keywords: Innovation, efficiency, information technology, digitalization, banking sector.
JEL Classification: G21, O31

1. Introduction
There are different changes that strongly influences banking sector nowadays. Technological change, digitalization and increase of global competition are the main forces that are making pressure in banking sector and forcing it to find new and better ways to cope with changes and increase their ability to create value.

Financial institutions can manage changing environment through the innovation process in order to enhance organizational effectiveness that is a main challenge for these organizations today and in future. The good father of innovation studies is known Joseph Schumpeter. In “Theory of economic development “and further work, he described development as historical process of structural changes, substantially driven by innovation. He divides innovation into four dimensions: invention, innovation, diffusion and imitation. (Sledzik K.) . His theory of innovation is very actually nowadays especially after global economy has suffered for global economic and credit crises. Schumpeter argument was simple: Entrepreneurs will seek to use technological innovation – a new product/service or a new process by making it – to get strategic advantage. (Tidd J., Bessant J., Pavitt. K, 2005).

Managing the process of innovation is specific for every organization. So there is no clear way, which can be used in each organization. The way or pattern depends on link between structure, processes and organizational culture, possibility and characteristics of technological innovations, competition condition and market where organization operates. There are many reasons why innovation is important and it can be used in: improvement of existing products, finding new markets, decrease of working costs, increase products volume, increase production flexibility, compliance with standards, reduction of material costs and acceleration of replacements of existing products. (Zeqiri I., 2011)

Innovation is the process by which banks use their skills and resources to develop new goods and services or to develop new production and operating systems, so that they can better respond to the needs of their customers, as well as increase the efficiency and performance of banking sector, through different approaches such as: launching new products or services; redesigning existing...
products; applying new methods of development; entering in new markets and redesigning pattern structure.

Innovative or technology-based products give opportunities to have low cost advantages and increase bank profitability. Studies have shown that there is high customer demand – economy of scale for new innovative banking products, so it will return investment in short time. In other hand, the expected results are not seen in developing countries because low infrastructure investments could not help much and customers yet prefers traditional branch-office banking. Technological developments based on remote banking can determine substantial changes in the nature of banking competition for two main reasons: First, on the demand side, customers nowadays have the possibility of easily to access and obtain information on banking products and services offered by banks, and hence making comparisons. Second, on the supply side, the barriers to entry into retail market are lower since a large branch network is no longer necessary to reach a “critical mass” of customers. (ECB.,1999).

The new innovative banking products and services offered nowadays in Kosova, such as: E-banking, Mobile banking, ATM, POS, Debit and Credit Cards, Kos Giro, Direct Debit, brings significant advantages to bank customers in delivery of products and services. One benefit of innovative products is also that almost all new products are 24 hours to 7 days with lower cost banking operations. So, consequently dependency to classical branches gradually is decline. Banks are encouraged to take electronic – based services for customers which are increasing every day. Thus, facing with big and fast changes in environment, banking sector in Kosovo even new, tend to be proactive in designing and developing new processes, products and services in order to face with new challenges in business environment and finding new strategic ways for positive business.

2. Literature review

There are many studies about the implications of banking innovation in efficiency of banking sector in different countries.

Many authors in developed countries suggest that innovations in banking have impact in increasing efficiency of banking sector that will be measured through ROA (Return on Assets). Authors argue that investments in innovative products and services, may require also high level of technological development within country, as well as economy of scale – large number of clients within institutions that is going to undertake innovation in banking and education of clients with new innovative products and processes. Recent studies of authors show that electronic banking applications have affected banking performance, increasing profitability of bank in the USA and in European countries (Sullivan J.R.2000, De Young 2001, Hasan 2002, Pigni 2002, Kagan 2005, Arnaboldi and Clayes 2008, Cincireti 2009).


In developing countries, the lack of electronic banking infrastructure hampers impact of expected cost-effectiveness and profitability. It is not seen strong effects of electronic banking activities on
the profitability because of inadequate information technology infrastructure of the branch and limited ATM network. (Akhisar I., Tunay K.B, Tunay N., 2015). Al-Samadi an Al-Wabal (2011) have determined that impact of negative performance of electronic banking operation in Jordan, because customers still depend on traditional distribution channels. Khwarish and Al-Sadi (2011), Hosein (2013) and Gutu’s 92014) studies show that high infrastructure investments-cost of internet banking despite of lack of sufficient number of customers affects the profitability cost of internet banks negatively. Studies have shown that customers in these countries still demand or use broadly traditional based banking services. (Akhisar I., Tunay K.B, Tunay N., 2015).

It is observed that large scale private banks with high level of deposits are more likely to increase investments in internet banking, which accelerate the competition in this field too. So, positive impact of internet banking on bank performance is high. The cost of a transaction at the branch can be reduced by 40 to 80 %, when the same transaction is performed at Web site or ATM. The internet and other electronic banking services costs reduce average operational costs and overhead physical expenses suffering by the banks (De Young., 2001). Banks using electronic banking services is classified as “innovative”, and their distribution channels more than their costs are below the average of sector. (Pigna., 2002). However, appropriate education level of the customers including the functionality of the bank’s web site are basic factors that contribute to the success of internet banking services. The customers that have high level of education demand internet banking services too much according to the ordinary bank customers (Sullivan. J R, 2000).

Use of electronic services by customers also affects the cost and revenue structure of banks. Many banks didn’t increase profitability in the sector, in cases when banks used similar electronic-based services and didn’t take into account the sales capacity mutually. In contrast, when banks provide complementary banking services, then operational expenses will reduce and revenues increases (Dubois et al.2011, Brush et al.2012).

3. Analysis of innovative banking products and services in Kosova

In order to determine the impact of innovative products on bank performance in Kosova, we have to analyze the innovative banking products and services of the banks in Kosovo. Banks is Kosova, are very proactive in undertaking initiatives to further develop and adapt new technologies, therefore to redesign existing products or services, entering in new markets, increase sales capacities, lowering cost of transactions, and increasing profitability of sector. During the last five years, according to data presented from commercial banks through CBK, we can see that the use of innovative banking payment instruments is increased very rapidly.

3.1. E - Banking account

The product of E-banking in Kosova is relatively new and number of e-banking users is increasing every year. Actually, banking sector have small number of e-banking service users, comparing to number of bank clients. Compared with total number of bank accounts in Kosova which is 1.96 million, the number of e-banking accounts in Kosova is still low and by Sep.2016 there were only 226.316 e-banking accounts. Number of e banking accounts in 2012 was 97089 and in 2016 increased in 226316 or by 133 %. Number of e-banking transactions in 2012 was 625 thousands, while in Sep.2016 this number has increased in 2.084 thousands or increased by 333 %. The value of e-banking transactions increased also from 1.5 billion to 4.68 billion in Sep.2016, or it increases for 312 %. Around 80.33 % of all e-banking accounts are those of individual accounts while 19.67 % are e-banking business accounts. The development of e-banking product will contribute to reduce cash payments, which is one of the goals of financial institutions in Kosova. Conducting transactions through e-banking is highly efficient and secure form of transactions because customers save time and do transactions at any time and from different locations.
Table 1: Number and volume of E-banking transactions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of E -Banking account</td>
<td>97,089</td>
<td>131,385</td>
<td>157,761</td>
<td>187,297</td>
<td>226,316</td>
<td>133.1%</td>
</tr>
<tr>
<td>Num.of E-Banking trans. (thous)</td>
<td>625</td>
<td>1,056</td>
<td>1,579</td>
<td>2,311</td>
<td>2,084</td>
<td>333.4%</td>
</tr>
<tr>
<td>Value of E-Banking trans. (in bill)</td>
<td>1.5</td>
<td>2.67</td>
<td>4.22</td>
<td>5.75</td>
<td>4.68</td>
<td>312.0%</td>
</tr>
</tbody>
</table>

Source: CBK, Analysis on the use of payment instruments, (2016), pg.14

3.2. ATM Terminals

The development of ATM network which started in the first phase of banking technological transformation, which lead to significant capacity reductions, lately has developed additional functions. The range of services available through multi-purpose ATMs is constantly increasing, while the traditionally focus has been of money withdrawal function. Actually most of the ATMs installed in Kosovo offers the withdrawal function (535) and only 115 ATMs offer the possibility of cash deposit, while 89 offer also Kos Giro Payment function.

Table 2: Number of ATM terminals

<table>
<thead>
<tr>
<th>ATM terminals according functions</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Q 3 2016</th>
<th>Change 2012/Q3 ’16</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATM, from which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. ATM with cash withdraw function</td>
<td>483</td>
<td>496</td>
<td>498</td>
<td>540</td>
<td>535</td>
<td>10.76%</td>
</tr>
<tr>
<td>2. ATM with Kos Giro pay.function</td>
<td>73</td>
<td>70</td>
<td>50</td>
<td>97</td>
<td>89</td>
<td>21.92%</td>
</tr>
<tr>
<td>3. ATM with cash deposit function</td>
<td>1</td>
<td>8</td>
<td>13</td>
<td>78</td>
<td>115</td>
<td></td>
</tr>
</tbody>
</table>

Source: CBK, 2016, pg.15

New functions of ATM such as deposit function, payment function and other multifunctional functions will indicate in many aspects of banking industry, especially in increasing the efficiency of doing business, saving time of transactions, have impact on cost saving function, and increase profitability. So, changing environment will drive banks towards new innovation and multi task functions of ATM, which in Kosovo is still in early phase of development and is foreseen to further develop in future.

3.3. POS (Point-of-Sale) Terminals

The primary electronic means that represent day to day purchases of retail goods and services are POS terminals, which replace cash transactions using debit and credit cards, at EFTPOS terminals. The diffusion of POS terminals depends on the availability of POS (EFTPOS) terminals as well as the possession and development of debit and credit cards.

According to the data POS terminals are very widespread in Kosova. The use of EFTPOS terminals for card payments (debit and credit) represents the most important substitute for cash payments. Number of POS terminals is increasing every year, and this business can further develop in the future. In Q3 2016, number of POS terminals reached at 9973, which compared with 2012 represents an increase of 16.07 %.

Table 3: Number of POS terminals

<table>
<thead>
<tr>
<th>Terminals by Function</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Q 3 2016</th>
<th>Change 2012/Q3’16</th>
</tr>
</thead>
<tbody>
<tr>
<td>POS terminals</td>
<td>8719</td>
<td>9071</td>
<td>9349</td>
<td>9705</td>
<td>9973</td>
<td>16.07%</td>
</tr>
<tr>
<td>POS term with cash withdraw function</td>
<td>220</td>
<td>215</td>
<td>220</td>
<td>180</td>
<td>168</td>
<td>-23.63%</td>
</tr>
<tr>
<td>EFTPOS terminals</td>
<td>8499</td>
<td>8856</td>
<td>9179</td>
<td>9525</td>
<td>9805</td>
<td>15.37%</td>
</tr>
</tbody>
</table>

Source: CBK, 2016.
3.4. Debit and Credit Cards
The development of innovative technologies and processes has impact in cards development as payment instruments. Number of cards users in Kosova is increasing every year. In Q3 2016, there were 837747 active debit cards, while the active number of credit cards in same period were 150625 credit cards. Total cards were 988579. These cards can be used in 535 ATMs and 9973 POS terminals (Q3 2016). Cards, except using in ATM and POS can be used also for internet transaction payments that are increasing every day.
Number and volume of transactions with cards is one of the businesses that are increasing every year. Having in mind that interest income from different products (such as Loans, OVD and Credit lines has fall), banks are oriented in development of card business, trying to increase number and volume of transactions, and applying different prices or commissions for card transactions, in order to increase non interest income, respectively their profit.

Table 4: Cards number; number of card transaction and volume of card transactions

<table>
<thead>
<tr>
<th>Cards</th>
<th>Q3 2015</th>
<th>Q4 2015</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Change Q315/ Q316</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of Cards (Deb+Cred)</td>
<td>838.619</td>
<td>862.580</td>
<td>907.185</td>
<td>954.268</td>
<td>988.579</td>
<td>17.88 %</td>
</tr>
<tr>
<td>No. of Card trans.</td>
<td>4.109.146</td>
<td>4.478.556</td>
<td>4.414.326</td>
<td>4.958.040</td>
<td>5.098.526</td>
<td>24.08 %</td>
</tr>
<tr>
<td>Volume of Card tran.</td>
<td>484331455</td>
<td>528535306</td>
<td>507362616</td>
<td>625831678</td>
<td>730094774</td>
<td>50.74 %</td>
</tr>
</tbody>
</table>

Source: CBK, 2016.

3.5. KOS Giro
Kos Giro is a special payment system through payment account instead of using cash as payment instrument. It is very useful payment instrument for regular small periodic payments, including payment of taxes, and different payment utilities. Kos Giro is another form on individual credit transfer. The usage of Kos Giro has shown a steady increase since its introduction.

Table 5: Number and value of KOS Giro

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of trans.</td>
<td>496.197</td>
<td>543.338</td>
<td>692.281</td>
<td>1.013.620</td>
<td>1.349.316</td>
<td>271.9 %</td>
</tr>
<tr>
<td>Value of trans.</td>
<td>871.170.119</td>
<td>892.130.913</td>
<td>899.986.956</td>
<td>949.316.256</td>
<td>1048.213.712</td>
<td>20.32 %</td>
</tr>
</tbody>
</table>


3.6. Direct Debit Scheme
One of the newest forms for making certain interbank payments is the direct debit, which is under CBK operation and supervision. Direct Debit is new scheme of interbank payments that has a significant increase during last year. In we compare figures of Q3 2016 with the same period of previous year (2015), we will see that there was an increase of around 87.87 %. While the value of these transactions through direct debit scheme for this quarter has decreased by about 45,29 %.

Table 6: Number and value of interbank Direct Debit transactions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of transactions</td>
<td>7321</td>
<td>10304</td>
<td>13115</td>
<td>14582</td>
<td>15562</td>
<td>112.5 %</td>
</tr>
</tbody>
</table>

4. The impact of innovative products on bank profitability in Kosovo

Measuring the impact of banking innovations in banking performance profitability is not an easy task, since it includes many processes, products, services, different prices and methods to be analyzed. Moreover, it includes investments undertaken by banks, cost and incomes generated by sector. Another issue is that it is difficult to take data from all banks in Kosovo, about income and expenses of products and services. Then sales capacities or customer preferences and adaption about products as well as high competitiveness within sector should be considered too.

But, the effects of innovative banking products on performance of banking sector can be measured by analyzing fees and provisions that new payment products and services can generate on bank income statement. According to data from CBK, using the innovative payment banking products has slightly positive effects of non-interest income of banking sector (charges from payment products and services, different fees and commissions, that’s banks earns in monthly basis), thus contribute to increase of total income of banking sector. Incomes from Fee and commission in 2016 were 47.1 million euro, and comparing with previous year 2015, that were 44.5 million euro, it is increase about 5.8%.

While the non-interest expenditures during last five years have decreased significantly. Main contribution in reducing non interest expenditures comes from strong reducing of Loan loss provisions. Fee and commissions expenses have slight increase during last year, they increase in 12.0 million euro in 2015, thus comparing with last year (2014), that were 11.1 million euro, there is increase of 8.1%.

Table 7: Bank income statement – income and expenditure.

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit</th>
<th>1.Income 1.1.Interest income 1.2. Non-interest incomes</th>
<th>2.Exp. 2.1. Interest expen. 2.2. Non-interest expenditures</th>
<th>Fees and comm</th>
<th>Other oper inc</th>
<th>LoanLoss Provis</th>
<th>2.3. Gen. adm exp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>18.6</td>
<td>247.1</td>
<td>199.2</td>
<td>44.9</td>
<td>2.4</td>
<td>228.6</td>
<td>63.1</td>
</tr>
<tr>
<td>2013</td>
<td>25.9</td>
<td>249.0</td>
<td>196.2</td>
<td>45.6</td>
<td>3.9</td>
<td>233.0</td>
<td>63.8</td>
</tr>
<tr>
<td>2014</td>
<td>60.0</td>
<td>244.2</td>
<td>193.5</td>
<td>44.5</td>
<td>3.3</td>
<td>184.2</td>
<td>44.0</td>
</tr>
<tr>
<td>2015</td>
<td>94.7</td>
<td>238.2</td>
<td>186.0</td>
<td>47.1</td>
<td>4.0</td>
<td>143.5</td>
<td>22.6</td>
</tr>
</tbody>
</table>

Source: CBK, Monthly Bulletin Statistics, 2016 and Kosovo Banking Association, Banking Periodic,

Since all banks in Kosovo have accepted innovative payment banking products, and knowing that innovative payment products generate non-interest income such as fees and commissions, thus results show positive impact of banking innovation products on bank performance in Kosovo.
5. Discussions of results

Based on analysis of innovative banking payment products and services in Kosovo, we saw a positive development trend of banking products and services. Even the development of innovative products is increasing every day, for almost all products or services still is possibility for further development in future, especially for e-banking and mobile banking transactions.

Number of E-banking accounts is increased by 133% in 2016, comparing with year 2012, while number and value of transactions has increased over 300% within last four years (2012-2016). E-Banking product and mobile banking offers to clients, cheap, effective and fast transaction in every time and every place (24 hours/ 7 days). New potential product that is in initial phase of development is Mobile banking.

Number of ATM has reached 535 with cash withdrawal task, while 115 ATM or 21.5% of them are multifunction ATM which offer both cash and deposit function.

POS terminals active number in 2016 was 9973 or 16% higher than in year 2012 with 8719 ATM. There is still potential to increase number of POS terminals as well as number of sales partners too. POS terminals create possibility to increase banks income (fees and charges) because many clients will make POS payments using different cards (debit and mainly credit cards), as well as charging merchants for financing their sales.

Cards business is another product that is developed during last year. Total number of cards by the end of 2016 was around 1 million cards; 840,000 were debit cards and 150,000 credit cards. Number of cards in 2016 is higher for 17.9% comparing with previous year, or 2015. Number and volume of cards transaction is increased for 24% respectively for 50% in 2016 comparing with year 2015. Another banking products and services such as Kos Giro and Direct Debit has show great development too, but there is still space for developing these products.

Based on analysis of innovative payment banking products and services in Kosovo, such as: E-banking, ATM, POS, Cards (Debit and Credit), Kos Giro, and Direct Debit, we see that these payment instruments have created positive results, respectively total fee and commissions generated by these products is increased every year, by the end of 2015, non interest income generated from payment instruments reached 47.1 million, or there were higher for 2.6 million euro than in 2014 (44.5 million), or higher 5.84%. While in other hand non-interest expenses in 2015 reached 12 million euro, or there were higher than in 2014 (11.1) for 0.9 million euro.

This paper has its limitations since not all complex banking innovations, products and processes are included in analysis and calculations. Other factors such as loan interest income and expenses, loan loss provisions, staff expenses, administration and other expenses, are not incorporated in this analysis. Another issue that could be interesting for future investigations is to analyze the impact of each product differently in profitability of banking sector and impact of each product or service in overall performance of banking sector.
6. Conclusions and recommendations

Digitalization of banking products and services will bring revolutionary changes in banking industry. Development of innovative products and services in Kosovo, such as: E-banking, M-banking, ATM, POS, Credit and Debit Cards, Kos Giro, Direc Debit, shows that all 10 commercial banks operating in Kosovo have applied the best internal practices for their ongoing digital processes in order to improve banking services, offering easy-access, low cost products and 24 hours access to many services. But, actual development of innovative banking products in Kosovo is still in early stages, and considerable expansion is anticipated in future.

Actually, banks in Kosovo involved in digitalization process offer for clients mobile banking services through mobile applications and text banking, and many other innovative products and services, which are increasing or changing within a short period of time. Based on study presented about impact of banking innovations in performance of banking sector, it is clear that while using innovative and digital products and services, it is necessary to further increase sales volume of new innovative products and services, resigning existing products based on new request, and develop new products in order to stay with new developments within this sector, thus increase effectiveness of sector and better perform client needs and requests.

Applying innovative products in banking system in Kosovo, respectively increase number of different products such as internet banking and mobile banking, then multitask ATMs and other products, will contribute in increasing bank efficiency, thus increase profitability of sector. As well as increase number of different multitasks and innovative products and services that offer different functions, will contribute in increasing non-interest income from clients, and will offer better and faster solutions for businesses and clients.

Taking in considerations new digital and technological trends, banks are under strong pressure of competition to further and fast develop their products, services and processes, in order to keep customer base, increase number of customers, increase number of products to clients, keep stable presence in market respectively increasing market share.

In short to medium term, Kosovo banks should focus major efforts in making standardized mass products more efficient, whereas in the long term, the target will be to develop more complex products and services for innovation in banking. In the future, innovative banking products (online PC banking and Internet banking) may become increasingly important part of banks overall strategy.

An important aspect to further develop and increase the use of innovative and digital banking services in Kosovo is focusing in education of clients to help them better and faster understand functioning of all digital and innovative banking products, services and processes.

It is clear that banks have to stay prepared for future developments, and in order to target the customers and markets they should be inventive and very creative actors, thus cope with high and strong competition, with aim to increase efficiency of sector and better fulfill customer needs.
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ORGANIZATIONAL STRUCTURE IN FAMILY-OWNED COMPANIES: EVIDENCE FROM FAMILY-OWNED COMPANIES IN KOSOVA

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Abstract
Many researchers have studied the importance of organizational structure and its impact on the effectiveness, innovation, profitability and performance of different companies. Because of its importance the main objective of this research is to analyze and identify the prevailing type of organizational structure in family-owned companies in Kosovo since this type of companies play very important role in Kosovo economy. Besides organizational structure this study will also define the extent of centralization/decentralization of authority in those companies, owners’ attitude toward non-family managers and their plans for business succession to future family generations.

The finding of this research will help family-owned companies understand the importance of organizational structure. Companies can also benefit from this study by potentially putting into practice some of the points discussed in this research in order to create more effective organizational structures that can help them being more professional, competitive and more adaptive toward the different environmental changes and more prepared for the succession of the business to the future family generations.

This study is conducted by collecting primary quantitative data by surveying ten family-owned companies in Kosovo by self-administrative questionnaire.

Key words: organizational structure, family-owned business, non-family managers, business succession

JEL Classification: L22, G32

Introduction
Organizational structure is vital for every organization. Even if only two people work in a company they need to be organized and have specific roles and responsibilities. This also applies to family-owned companies.

Family-owned companies, especially small and medium sized are the base of the global economy, and represent the majority of all the businesses in the world (Heck & Trent, 1999).

Family-owned businesses are the oldest type of commercial activity. The oldest known family business is a Japanese construction company Kongo Gumi that was founded in 578 AD and it is still operating by the 40th generation (Hutcheson, 2007). Some of the largest companies in the world like Wal-Mart, BMW, Volkswagen, Fiat, and Samsung Electronics are also family-owned businesses. These family-owned businesses have survived multiple generations. But, not all the family-owned companies have the same fate, many of family-owned companies hardly survive beyond the first few years, only one-third of family firms continue beyond the first generation, and fewer make it to the third generation or beyond (Beckhard & Gibb Dyer, 1983).

According to Riinnvest Institute for development Research (2015) 85% of the all business in Kosovo are family-owned business. This high percentage shows that the contribution of this type of companies is very significant for economy in Kosovo. Due to their specific nature those businesses in Kosovo are facing different challenges that prevent them to attract and keep qualitative human capital as well as guarantee them long term sustainability. The other issue is that those companies are relatively new and are still in the first or beginning of second generation of ownership, and knowing the fact that most of the family-owned companies worldwide hardly make it to survive to the third generation of successors, those companies should put in place appropriate organizational structures that can help them continue their business successfully.
Many scholars have tried to describe family-owned businesses, and have focused primarily on distinguishing family-owned businesses from other businesses (Chua, Chrisman, & Sharma, 1999; Handler, 1989; Litz, 1995). However, none of these definitions has gained general approval (Sharma, 2004). The majority of definitions seem to focus on the essential role of family in terms of establishing the management and control methods that are being used in the business (Chua, Chrisman & Sharma, 1999; Habbershon, Williams, & MacMillan, 2003).

Despite numerous researches on the subject of family companies and their organizational structure worldwide, there is a little or no information about the organizational structure of family-owned companies in Kosovo.

This study will enrich the information regarding the subject by answering those research questions:

- What is the dominant organizational structure in family-owned companies in Kosovo?
- What is the extent of centralization/decentralization in family-owned companies in Kosovo?
- Do family-owned companies in Kosovo hire professional managers to manage their business or they keep everything under their control? and
- Do they have plans for the future for transferring the companies into the next family generations?

The findings of this study will potentially ignite curiosity in other researchers and scholars and as a result the knowledge base of this sector will be increased, on the other hand, the family-owned companies will also benefit from this research by potentially putting into practice some of the points discussed in this study in order to create more effective organizational structure that can help them being more professional, competitive, more adaptive towards the changes in the different environmental changes and more prepared for the succession of the business to the future family generations.

**Literature review**

**Organizational Structure Definition**

Many authors and scholars have shared different opinions and definitions on organizational structure. But they all agree that the organizational structure is a relationship of roles, responsibilities, authority and communication that are designed to achieve organizations tasks and its objectives.

The term organizational structure refers to the formal configuration between individuals and groups regarding the distribution of tasks, responsibilities and authority within the organization (Galbraith, 1974).

The organizational structure may also be defined as the anatomy of the company that provides a base for the organization functions (Dalton, Todor, Spendolini, Fielding, & Porter, 1980). According to Snow and Hrebiniak (1980) the organization is a set of two or more people that work together in achieving a specific goal or set of goals. Martinelli (2001) defined the organization as set of interacted elements, structured levels and units of decision making. Lunenburg (2012) at the other side, concluded that organizations exist to realize goals which are further broken down into tasks as the jobs, jobs are then grouped into departments which are then linked to form the organizational structure.

One of the most well known researchers in the field of organizational structure Max Weber famous German sociologist has specified some characteristics of bureaucratic structure. In his theory know also as Weber’s theory of bureaucracy he focused on dividing the organization into hierarchies so the organization can be able to establish strong lines of authority and control (Mahmood, Basharat, & Bashir, 2012). Weber’s bureaucracy was based on six main principles (1) fixed and official jurisdictional areas, (2) a firmly ordered hierarchy of super and subordination, (3) management that is based on written records, (4) systematic and expert training, (5) official activity that takes priority over other activities and (6) management of a given organization follows stable, knowable rules (Mansfield ,1973).

Despite the criticism, the Weber’s theory is still practiced (Ziarab & Muhammad, 2012). Written policies, paper work, penalizing and reward systems, employees and managers’ training are part of
almost every organization in the world (Pindur, Rogers, & Kim, 1995). Therefore, this theory has big role in history of management theories (Horner, 1997). Mintzberg (1979, 1983) has introduced the five structural configurations: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form and adhocracy. The structure of the original classifications is still very relevant, however the names have been adapted to better represent the actuality (Steiger, Hammou, & Galib, 2014). Therefore, in this study organizational types will be identified as a simple, functional, divisional and matrix structure. Simple structure can be defined as no structure, since it has a little or no support staff, and has a very small hierarchy and it’s a structure where all the decisions are in a hand of the CEO (Mintzberg, 1983). Functional structure is designed in a way that groups together people that share same expertise and use same resources, while in the divisional structure functions are grouped together according to the markets, products or customers (Jones, 2007). Matrix on the other hand can be considered as a combination of the functional and divisional structures (Steiger, Hammou, & Galib, 2014).

Pugh’s et al. (1968) “Dimensions of Organization structure” was a fundamental article that has changed the way of seeing an organization. He described six different dimensions of organizational structure; specialization, standardization, formalization, centralization, configuration and traditionalism.

Hierarchy and Span of Control
According to Ghiselli and Siegel (1972) major difference between tall and flat organization is that in tall structures one supervisor manages few people and the chain of command is large, whereas in flat organization many people are managed by one supervisor on few levels of hierarchy. Which means that the managers in the flat organization structure have more individual responsibility than managers in tall organizational structure; this is because help, support and direction from a supervisor within a flatter structure are limited (Ghiselli & Siegel, 1972). Senior and Swailes (2010) define the concept of span of control as the number of people reporting to one manager. Therefore, in a flat organization span of control includes supervision of a larger number of people. Bloisi et al. (2007) suggest that in order to maintain flexibility without becoming much hierarchical especially in larger organizations is to widen the span of control.

According to Henricks (2005), the most important thing for an organization is to make sure not to have too many or too few managers, since in flat organizations decisions may not be made or are possible to be made by employees who lack experience and do not possess the adequate knowledge. Furthermore, Leavitt (2005) points out the danger of having a small number of hierarchical levels because it can result in losing of control.

Decentralization or Centralization
The main question in many organizations is to what extent the decision making power should be centralized or decentralized. Many authors have defined centralization as concentration of authority at the top of the company while decentralization can be defined as the distribution of authority on the lower level of an organization. Nevertheless, this is not a new concept. Pugh et al. (1968) refers to centralization as the extent to which the power is placed in the top of the organization determines how bureaucratic an organization is. Connor (1992) found that the larger the organization is and the more specialized the personnel is, it enables less centralization.

Family-owned business
Family-owned businesses vary from other businesses in terms of ownership, management, social philosophies, their approach to leadership and even relationships (Collins & O'Regan, 2011; Miller & Le Breton-Miller, 2005). One of the main issue that defines those companies from others is the involvement of the family.
Many authors agree that it is difficult to define a family-owned business. Handler (1989) has given a broad definition of the family business, based on the literature that was available at that time as an organization where all decisions and plans related to the leadership successions are made by the family member who is in charge of management or board. Broadly speaking, a business that is owned and managed by one or more family members can be described as family business (Handler, 1989; Hollander and Elman, 1988). Davis and Tagiuri (1982) have also given a definition on family business. They describe the family-owned companies as companies where one or more family members direct the company through management roles, right of ownership and relationship ties. Additionally, Gallo (1994) stated that family-owned businesses are in essence very similar all over the world due to their issues, problems and interests.

Data and methodology
This research is conducted using primary and secondary data. Primary data were collected by surveying ten family-owned companies which were selected based on the number of employees. The surveyed companies are operating in city of Ferizaj and Pristina. The survey was conducted online through self structured questionnaire. Some of the respondents after receiving the questionnaire were contacted personally for additional clarification.

The questionnaire was designed using Google Forms and was consisted of 31 questions regarding general information about the interviewer, the structure of the company, managers, employees, hierarchy and questions about the succession of the business to the next generation. The owners of the companies received the hyperlink that redirected them to the questionnaire. They were assured that their anonymity and confidentiality will be respected and that no data that could uncover their identity in any form will be used.

Discussion of results
In order to answer the research questions, author assumed that the respondents are not aware of the type of organizational structure their company has, so the questions were very specific and well structured in order to collect the necessary information that enabled the author to determine the organizational structure of those companies.

The first five questions were general question about age, gender, education, years spent in family business and the role of the respondent in family business.

Half of the respondents were in the age range of forty to fifty years, the other half is younger than forty years, and they were all males. Their educational background varies since four of the respondents have only secondary school education, five hold a bachelor degree while only one has a master degree. They all declared themselves as owners of the company, some of them holding a specific role in company as chairman of the board, member of board, CEO and manager. Regarding the duration of their contribution to the company, results show that the four of the owners are still young in the business by contributing less than ten years, four others have spent between ten and twenty years in the company, while only two have contributed more than twenty years in the company.

In order to answer the research question about the dominant form of organizational structure in family-owned companies in Kosovo, the respondents answered a set of questions that were structured in a manner that allowed the author to identify the organizational structure of the surveyed companies. The questions were about specifying number of employees, number of managers, number of departments in their companies, number of average employees supervised by one manager, number of hierarchical levels in the company, their policies and procedures and forms of communicating through the company.

Based on the analysis of the results it can be concluded that the dominant structure in Kosovo family-owned companies is a functional structure since the grouping of people is based on their expertise and same resources that they use. In 90% of the cases the structure can be determined as a flat structure characterized by a small number of hierarchical levels and many employees managed
by one supervisor with a short chain of command. Figure 1 shows the sample of organizational design of most of the surveyed family businesses in Kosova. Only one surveyed company had a tall structure with five hierarchical levels and a large chain of command.

Figure 1: The sample of organizational structure in family-owned companies in Kosova

Source: Author

Since the prevailing type of organizational structure based on the research results is defined as functional structure the study was expanded on studying also the extent of centralization/decentralization in those family-owned companies in Kosova. In order to define the level of centralization the respondents were asked to answer questions about decision making in their companies. In all the cases strategic decisions are made by the board and the owner of the company. Eight respondents declared their companies as centralized since all the decision making authority is concentrated at the top of the company and lower level managers are allowed to make only simple decisions about day to day activities. The situation is different in two cases who delegate the authority of decision making to lower managerial levels. In eight family-owned companies the communication through hierarchy is formal based on their written policies and procedures, while in two companies the communication is informal.

The result in the field of determining the extent of centralization/decentralization suggests that most of the owners of family-owned companies in Kosova tend to make the decisions by themselves or in coordination with family members without consulting or delegating the decision making authority to lower level managers. Since concentration of authority in most of the cases is concentrated and reserved for the top of the company it clearly indicates a high level of centralization in family-owned companies in Kosova. Results shows also that those companies have relatively high degree of formalization since in most cases the communication through hierarchical levels is formal and based on written policies and procedures.

The family-owned companies in Kosova seems to be relatively reserved about engaging non-family members in executive positions. Results show that in most of cases family-owned companies in Kosova do not prefer to hire professional executive managers to manage their business. Only three surveyed companies have non-family members appointed as executive directors. Even though most of the surveyed companies save the top executive position for family members, in 80% of the cases they do not hesitate to hire non-family members for lower managerial levels. When asked about the reason for not hiring non-family executive managers the answers were divided in two groups, ones claiming that are unable to find an adequate person for managing their business, and others claiming that they have family members that are capable for managing their business. Even though those companies employ family members in different managerial positions they do not hesitate to admit that family members in company need to further advance professionally. Therefore, most of them engage external experts in different fields like finance, marketing, human resources or other external services as needed.

The study shows that in most cases family-owned companies are not willing to let go the authority onto non-family members. Their attitude is not in favor of non-family members in executive
positions. However, according to results they seem to be quite open toward non-family members for lower positions in companies.

Knowing the importance of the family-owned business in Kosova economy, it was in the interest of this study to also research the plans for the future of those companies for transferring the business to the next family generations. Given that only one third of the family businesses worldwide make it to the second generation the study investigated the current generation of the surveyed companies. Six out of ten companies where first generation companies while others are second generation. All respondents were sure that the family will continue the business tradition in future. Regarding the transition from generation to generation four respondents admitted that they engage the young family members in the business in order to teach them, while others said that they successors are still too young. Study aimed to reveal if any of the owners already have a plan for the succession of the company to the next generation in case their successors would have other interests and would not take over the family business. The result showed that none of the respondents had any plans for the future since they all think that it is too early to think about the transition of the business to the next family generation.

It can be clearly seen from the results of this research that family-owned businesses are still relatively young since most of them belong to the first business generation. The other fact is that none of the owners have a precise plan for the future of their companies regarding transition to the next family generation, even that they all were sure that the business will be continued by the next family generation none of them have any plans if things turn out to be different.

Conclusions
Analyzing the relevant literature on organizational structure and design it can be concluded that there is no best universal organizational structure that fits all companies. Companies should be flexible by adopting their structures to the changeable business conditions.

Taking into consideration that organizational structure is a phenomenon that keeps changing based on the business circumstances, the companies should be able to plan ahead and to continuously adapt their organizational structure in order to succeed.

The main objective of this research was to identify the dominant organizational structure in family-owned companies in Kosova. Besides, the research will also designed to answer questions about extent of centralization/decentralization of authority in those companies, their attitude toward non-family managers and their plans for business succession to the future family generation.

The results of this empirical research showed that the dominant organizational structure in family-owned companies in Kosova is functional structure. From the perspective of the size of the sampled companies and in terms of environment in which those companies operate, functional organizational structure is considered suitable choice for those companies. In case of growth and expansion of their businesses they should take into consideration to adapt their organizational structures to new changes.

The study also showed that the family-owned companies in Kosova can be determined as a centralized companies with a relatively high degree of formalization, since all the important decision are reserved for the top of the company. The other characteristics is that in most cases the executive positions are reserved for the family members whereas they don’t hesitate to give lower managerial positions to non-family members even if in most cases those lower lever managers are not allowed to make any important decisions without consulting the owners.

Even though respondents were informed that only less than 30 % of the family-owned companies worldwide survive the transition of the business to the second generation, none of them had any plans for the succession of the business to the next family generation because they feel it is too early to think about that.

It is considered that any business that intents to grow and continue needs an executive manager that matches the organization, strategy and business culture (Gallo, 1991). Therefore, in order for the family-owned business in Kosova to be more professional, competitive, more adaptive towards the
different environmental changes and more prepared for the succession of the business to the future family generations they need to consider in hiring more professionals in executive positions, because studies showed that bigger and older companies tend to have more non-family executive managers (Bhattacharya & Ravikumar, 2004), which can be explained by the lack of family members that are adequately qualified or by lack of family members that are willing to take over the business (Chua et All 2003).

As every research, this research also has its limitations. The study was limited only on family-owned companies in Kosova and was conducted with the small sample. Therefore in order to produce more reliable results it is suggested to expand the research by investigating larger sample of respondents or investigating other dimensions of family-owned business in Kosova.

References
FISCAL AND ECONOMIC INCENTIVES FOR FOREIGN INVESTORS AT TECHNOLOGICAL INDUSTRIAL DEVELOPMENT ZONES IN MACEDONIA, EMPIRIC ANALYSIS OF TIDZ SKOPJE 1

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Abstract  
The purpose of the paper is to measure the real effect of fiscal and economic incentives on financial and economic performance of foreign investors, which have invested in technological industrial development zones in Macedonia. The analysis, exceptionally focuses on foreign companies who have invested at TIDZ Skopje 1, as the most developed zone in Macedonia. The analysis covers the 2010-2015 period, a relevant period in terms of providing competent assessment in terms of comparative advantages for foreign investors in relation to domestic investors. Fiscal and economic incentives, in terms of non-payment of profit tax, personal income tax, property tax and making concession without compensation of construction land for a period more than a decade, creates comparative advantages for foreign businesses in relation to domestic business. This fiscal and economic advantage will be measured in terms of financial and economic performance of the companies through economic and financial indicators, as: liquidity, solvency, profitability, return on assets and return on equity in relation to domestic companies within the same business activities. Authors’ findings are consistent with findings of local and regional researchers with reference to foreign investments and fiscal and economic incentives for foreign investors. The paper has its weaknesses identified with inability of comparison of the performance of foreign companies in TIDZ Skopje 1 with companies in other zones in Macedonia and West Balkan region due to the lack of public data.

Key words: Foreign investment, fiscal incentives, fiscal policy, technological industrial development zones (TIDZ)  
JEL Classification: E22, E62, F23, H32

Introduction  
The Republic of Macedonia as part of Western Balkans countries in transition, after the independence in 1991 until today has managed an economic and political transition facing a lot of challenges and asymmetric trends in the economic sector. In the first decade of the transition process the country has faced negative macroeconomic indicators as low economic growth, high levels of unemployment, low levels of domestic and foreign investments, increasing budget deficit with inadequate budgetary structure and unsatisfactory privatization of the social-public capital followed by the closing of manufacturing and service companies. After two decades of implementation of intensive economic policies the countries of the Western Balkan between them and Macedonia have achieved macroeconomic stabilization but the results in reforming the economy, reforming the public sector and the public institutions are in insufficient level and continue to remain challenges for these countries in the future (Osmani,2016). In fact, the asymmetric development during the previous system and the low levels of economic growth in the
first decade of the transition followed by increasing levels of unemployment, poverty, the large informal sector and fiscal evasion were the main obstacles in implementing deep institutional reforms and establishing a functional market economy in the Western Balkan’s (Osmani& Mazllami, 2014).

A number of countries that successfully passed the transition process in their first decade, applied a model for attracting foreign direct investments through a number of fiscal and non-fiscal incentives as a manner for gradual reduction of unemployment rates coupled with the economic growth and development in economic sectors that represents comparative advantages for the country and also in parallel increasing their exports.

Delays and poor quality of structural reforms still remain as the major obstacles in attracting foreign investment although as serious progress was made in terms of creating a more favourable environment business largely of formal nature (Osmani, 2016). During the period 2006-2015 fourteen free economic zones are funded for foreign investors, despite the fact that until 2015 just three of these zones have been active. The purpose of the paper is to analyse the active companies in TIDZ Skopje 1 because this zone is most developed one with more active companies comparing to other zones, measuring their economic and financial performance for the 2010-2015 period as a consequence of large fiscal and economic incentives and facilities that are enjoyed by foreign companies.

Considering that so far, the companies in TIDZ Skopje 1 are foreign, this paper will measure the comparative advantages satisfied by foreign companies in relation to national companies. Due to the little amount of information published about the benefits and fiscal incentives for these companies, the authors of the paper through the internal data of the companies as financial reports provided from Central Register of Macedonia have made efforts to argue the main purpose of the study. Within Technological Industrial Development Zones (TIDZ) are analysed the following companies: Johnson Matthey, Visteon, Prodis, Kemet and Vitek.

Literature review
The issue of fiscal and economic incentives for foreign investors in Macedonia, so far, has been the subject of small research because the model of free zones has been developed in the last decade in Macedonia and Western Balkan countries. At international level researches are done by multiple authors and also from relevant international institutions regarding foreign investments. Regarding the aspect of fiscal incentives and other economic facilities for foreign investors within free economic zones the following international and national researches are published:

Magnus Blomstrom “The Economics of International Investment Incentives”, Stockholm (2002),
Foreign Investment Advisory Service “Special economic zones: Performance, lessons learned and implications for zone development” (2008),
Karajkov, Despotovski, Suncevska “Incentives for FDI and the unequal treatment of domestic investors in Macedonia: Causes and consequences” Skopje (2016),
The centre for economic analysis “Benefits and costs from foreign investors in TIDZ: Case: Macedonia for the period of 2007-2014”, Skopje (2016),
The association of young analysts and researchers “The impact of government subsidies for FDI, in relation to their effect on economic growth”, Skopje (2016),
One of the most logical explanation about the incentives and advantages for the companies who invest in foreign markets was made by Hymer (1960). According to him the domestic companies have advantages in relation to the foreign ones in the domestic market due to the better knowledge of the local environment. Therefore, in order for foreign companies to be competitive with the domestic ones, the government offers them a range of fiscal and other incentives by compensating them for the disadvantages they face from the investment in foreign environment. However, according to Blomstorm (2000), the empirical findings have shown that the incentives for attracting foreign investors have little impact for FDI attraction in different countries.
In the same line in the case of Macedonia is the prof. Osmani (2016), despite the fact that on the basis of the indicator, Doing Business, in the period 2010-2015 Macedonia is listed as a leader in the West Balkans, this country has realized the lowest level of foreign direct investment in volume and quality compared to the West Balkans and EU countries. Researches that are done by local authors and institutions as Karajkov, Despotovski, Suncevska (2016), the CEA (2016) and AYAR (2016) showed that despite the Legislation is evident, there is lack of transparency from the government authorities in regard to the effect of increase of FDI due to the fiscal incentives and economic benefits for foreign companies offered by Macedonia, incentives which are not provided for domestic businesses.

Researching methodology
In the procedure of writing and of realization of this papers’ purpose or in determination of the level of fiscal and economic incentives for foreign investors as a comparative advantage in relation to domestic investors, several researching statistical and financial techniques are used for a reasonable period. The analysis, which covers the 2010-2015 period, has analysed the active foreign companies in Technological industrial development zone Skopje 1 as following: Johnson Matthey, Visteon, Prodis, Kemet and Vitek. Through statistical data from the official financial reports of the companies and through descriptive methods, the authors verify comparative analysis from the financial data of the companies, measure the fiscal and economic incentives as a relevant benefit for foreign investors and measure the economic and financial performance of the companies as comparative advantages in relation to domestic companies which are manifested with high levels of profitability, liquidity and intensive risk diminishing. The research is based on the data secured from financial reports provided from Central State Register, relevant and important data due to their unavailability to the public and researchers due to the lack of transparency from the government authorities.

The notion of Technological industrial development zones
There are different definitions and categories regarding the free zones. According to an OECD paper there are four categories of free zones: a) Free trade zones, b) Export development zones c) Special economic zones, d) Industrial zones. According to the Law for TIDZ (SV.RM.2008), these zones are defined as: part of the territory of Macedonia, as a part of custom area, separated from the other part of custom area, divided and market area in special way, where are performed economic activities according the conditions prescribed in the law and in which the investors enjoy a range of tax and custom duty exemptions and other incentives. The founder of the zone (in the case of Macedonia) is the government. As a founder of TIDZ can be a legal entity which performs the activity of the zone founder in accordance with the Law for public-private partnership OF Republic of Macedonia (SV.RM.2008).

During the first decade of the transition process of Macedonia has existed passive policy for attracting foreign investments. In 2006 after the change of the government the new right-wing oriented party warned that this passive policy for attracting foreign investment would be changed to ambitious policy of promoting FDI. (CEA, 2016). As a main goal for the aforementioned zones, their establishment was attracting more foreign capital, through FDI to affect economic growth, to reduce the levels on unemployment, to increase the exports level, to develop modern technologies and their apply in national economy. As a consequence of this policy, for attracting larger number of foreign investors, the model of Free Economic Zones was created. By 2015, fifteen zones are founded reducing the unemployment levels, especially in the regions were are located these zones.

5. The incentives and benefits for investor companies in TIDZ
To attract as many number of foreign investors as possible, the government through The Law for Technological industrial development zones, offers a range of advantages and incentives in fiscal and economic terms for the investors who would invest within the zones.
5.1. The fiscal incentives

Each Western Balkan country offers a range of economic and fiscal incentives to attract foreign investments in their countries. In Albania, according to the Legislation, the investors in Zones of technology and development are exempted to pay 50% of the profit tax for a period of five years. The investors who invest in these zones, in a period of three years after the beginning with activity, 20% of annual capital expenses are recognized as deductible expenses regardless the values of depreciation. The supply of Albanian goods and services, which are destined to be settled in the zones, is excluded from VAT payment. The investors in Albania are also excluded from paying property tax to the local government where the zones are situated.

In Serbia, the investors are exempted from VAT payment for imported goods in the zones. VAT exemptions benefit investors also for: circulation of goods and services in the zone, circulation of goods between the companies of two free zones, energy spent. There are also other tax incentives which aren’t detailed in the law. Besides VAT exemptions, the investors in the zones in Serbia are released from custom duties and other import fees for the goods which are destined for construction activities including the raw materials, the construction materials. Fiscal incentives, the investors in Serbia benefit also in form of local tax exemptions.

As a main fiscal incentives, of the investors of TIDZ in Macedonia, the investors benefit according to the actual laws: a) Profit tax exemptions for a period of ten years b) Personal income tax exemption for a period of ten years c) VAT exemptions for the flow of the goods and services in the zone, excluding the flow destined for final consumption d) excise exemptions e) local tax exemptions (the tax for regulation of construction land).

Considering the fiscal incentives for foreign investors within the TIDZ, the main question is whether these kinds of fiscal incentives are reasonable, taking into consideration the costs that they cause for the local and central budget. As seen above, from the comparative analysis with Albania and Serbia, Macedonia offers a larger range of investment incentives comparing to the other two countries.

5.2. Other economic incentives and benefits

Beside the incentives in the form of fiscal exemptions as taxes and custom duties, the investors in TIDZ benefit other forms of incentives based on positive laws of Republic of Macedonia:

The government rents for a ninety-nine years period the land within the TIDZ
Payment free access in gas pipeline network, water pipeline and sewerage network
Grants for building construction for the companies in a maximum value of 500.000 euros

<table>
<thead>
<tr>
<th>Grant values (EURO)</th>
<th>For the value of productive investment from: (EURO)</th>
<th>The number of jobs created</th>
</tr>
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<tbody>
<tr>
<td>100.000</td>
<td>1 to 2 million</td>
<td>20</td>
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<tr>
<td>200.000</td>
<td>2 to 5 million</td>
<td>40</td>
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<tr>
<td>300.000</td>
<td>5 to 10 million</td>
<td>60</td>
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<tr>
<td>400.000</td>
<td>10 to 15 million</td>
<td>80</td>
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<tr>
<td>500.000</td>
<td>+ 15 million</td>
<td>+ 100</td>
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Source: The Law for Technological industrial development zones (TIDZ) (Author’s own calculation)

State aid, in the form of subsidies for attracting foreign investors in the zones- this kind of aid is given from government institutions with decision from Commission for Protection of Competition. The height of state aid may go up to 50% of the reasonable costs of investment for big companies, 60% of the reasonable costs of investment for medium enterprises and 70% of the reasonable costs of investment for small enterprises. This kind of state aid includes all the forms of fiscal incentives mentioned in the previous part plus other kinds of subsidies for workers training. This kind of aid presents regional aid. The value of the aid must be published from Commission for Protection of
Competition. However, until now this institution, has shown the value of state aid in the form of xxx by hiding the state aid values given to the investors.

6. The discrimination and unequal treatment of domestic investors to foreign investors regarding the incentives they benefit

A large academic, economic and government debate which takes place about incentives that the government offers to the investors in TIDZ deals with the fact that the foreign companies are favoured in relation to the domestic ones. The current business practice argues the discrimination of domestic investors. In a representative survey, done by The Association of young analysts and researchers, the majority of opinion thinks that the incentives that the government offers to foreign investors are reasonable, although a large number of the opinion don’t think the same. Among others, about the question if the domestic investors should be equally treated, 85% of the opinion responded that the domestic investors should be equally treated in relation to foreign investors (AYAR, 2016)

It’s a fact that even in other countries there exists a though competition for attracting foreign investments, but Macedonia offers a range of large fiscal and economic incentives for foreign investors, causing large expenses for their attraction, in the back of local firms and taxpayers. According to AYAR (2016), three arguments exist which are part of the discrimination of local firms regarding the aspect of incentives which the Macedonian government offers. The first argument is that the main incentives which foreign investors satisfy within the zones or out of them, domestic investors don’t satisfy them. Beside foreign companies in TIDZ, a similar kind of incentives has benefited three foreign companies which haven’t invested in TIDZ.

It’s about companies who operate in Industrial zones, as Draxlmeier in IZ Telot, Kromberg & Schubert in IZ Zaben and Marquardt in IZ Karlaslari. The second argument, related to the first one has to do with the fact that the volume of incentives and benefits for foreign investors, have been paid by local investors. Regardless that they pay taxes and contributes, the government with these money helps just the foreign companies, releasing them from fiscal duties. According to the third argument, the inequality appears as implication of the fact that the Macedonian government spends a lot of financial assets to attract foreign investors, paying high attention to them.

7. Technological industrial development zones in Macedonia- Basic data

According to the Law for TIDZ, within the aforementioned zones the following activities can be performed:

a) manufacturing and service activities,
b) scientific and researching activities,
c) placement or storage of goods,
d) banking and other financial activities,
e) insurance activities and other.

The TIDZ establishment in all parts of the country will increase the chance not only for employment in general, but also will help the regions where now exists specialized working force in specific sectors.
Table 2: The investor companies in TIDZ in Macedonia

<table>
<thead>
<tr>
<th>Company</th>
<th>Origin</th>
<th>Current employees</th>
<th>Maximal number of employees</th>
<th>Zone</th>
<th>Investment value EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARC</td>
<td>USA</td>
<td>Construction</td>
<td>400</td>
<td>Skopje 1</td>
<td>15.000.000</td>
</tr>
<tr>
<td>Diatec</td>
<td>Italy</td>
<td>30 +</td>
<td>200</td>
<td>Skopje 1</td>
<td>10.000.000</td>
</tr>
<tr>
<td>Johnson Matthey</td>
<td>United Kingdom</td>
<td>610+</td>
<td>650+</td>
<td>Skopje 1</td>
<td>145.000.000</td>
</tr>
<tr>
<td>Kemet</td>
<td>USA</td>
<td>240+</td>
<td>500</td>
<td>Skopje 1</td>
<td>30.000.000</td>
</tr>
<tr>
<td>Prodis</td>
<td>Russia</td>
<td>70 *</td>
<td>160</td>
<td>Skopje 1</td>
<td>10.000.000</td>
</tr>
<tr>
<td>Vitek</td>
<td>Italy</td>
<td>50</td>
<td>150</td>
<td>Skopje 1</td>
<td>20.000.000</td>
</tr>
<tr>
<td>Visteon</td>
<td>USA</td>
<td>280</td>
<td>500</td>
<td>Skopje 1</td>
<td>30.000.000</td>
</tr>
<tr>
<td>GES</td>
<td>Germany</td>
<td>Construction</td>
<td>200</td>
<td>Skopje</td>
<td>N.A</td>
</tr>
<tr>
<td>Condevo</td>
<td>Italy</td>
<td>Construction</td>
<td>250</td>
<td>Stip</td>
<td>40.000.000</td>
</tr>
<tr>
<td>Johnson Controls</td>
<td>USA</td>
<td>1700</td>
<td>1700/1500</td>
<td>Stip/Strumica</td>
<td>2 x 18.000.000</td>
</tr>
<tr>
<td>Technical Textiles</td>
<td>Germany</td>
<td>100+</td>
<td>1000</td>
<td>Shtrip</td>
<td>12.000.000</td>
</tr>
<tr>
<td>Gentherm</td>
<td>USA</td>
<td>300+</td>
<td>2000</td>
<td>Prilep</td>
<td>NA</td>
</tr>
<tr>
<td>Accomplast</td>
<td>Germany</td>
<td>Construction</td>
<td>250</td>
<td>Prilep</td>
<td>NA</td>
</tr>
<tr>
<td>Van Hool</td>
<td>Belgium</td>
<td>800</td>
<td>1200</td>
<td>Shkupi 2</td>
<td>40.000.000</td>
</tr>
<tr>
<td>Lear</td>
<td>USA</td>
<td>Construction</td>
<td>2500</td>
<td>Tetove</td>
<td>15.000.000</td>
</tr>
<tr>
<td>ODW Elektrik</td>
<td>Germany</td>
<td>Construction</td>
<td>1000</td>
<td>Struga</td>
<td>15.000.000</td>
</tr>
<tr>
<td>Kostal</td>
<td>Germany</td>
<td>Construction</td>
<td>1000</td>
<td>Struga</td>
<td>NA</td>
</tr>
<tr>
<td>KSS</td>
<td>USA</td>
<td>150+</td>
<td>1000</td>
<td>Kërçova</td>
<td>15.000.000</td>
</tr>
<tr>
<td>Delphi</td>
<td>USA</td>
<td>construction</td>
<td>500</td>
<td>Skopje 1</td>
<td>15.000.000</td>
</tr>
<tr>
<td>GJITHSEJ</td>
<td>4330+</td>
<td>16660+</td>
<td></td>
<td></td>
<td>458.000.000</td>
</tr>
</tbody>
</table>

Source: Directorate for Technological industrial development zones (TIDZ) (Author’s own calculation)

The Directorate for TIDZ represents the institution that is responsible for establishment, development and care of the zones. This institution was founded by the Republic of Macedonia government. The country options for borrowing from the other countries have been limited, therefore due to this is required intensive commitment of foreign capital, in general through FDI, joint investment, concessions. For this purpose, the Agency for Foreign Investments and Export Promotion was founded in Republic of Macedonia (2009). According to the Law for AFIEPRM establishment, the agency is founded for the increase foreign investment flows and export promotion, encouraging economic growth and development. According to the same law, the shortened name of the agency for international circulation in Invest Macedonia.

In total in all the zones are invested around 458 million euros, while as biggest investor is Johnson Matthey with investment of 145 million euros. Higher valued investments have made too famous international companies as Van Hool, Condevo and Johnson Controls. As to the origin, most of them are American, German and Italian companies as following: seven American, five German and three Italian. The rest of the companies are from Belgium, Russia and United Kingdom.

8. TIDZ Skopje 1 - Basic data
In TIDZ Skopje 1, the dominating companies operate in automotive industry. Most of them are well known companies in the global market for producing automotive components and then their products are exported in the countries where is developed the heavy industry. From the data secured from Directorate for TIDZ, currently all companies who operate in these zones have employed around 4.430 workers. The largest number of jobs has opened Johnson Controls with around 1700 workers, followed by Van Hool with 800 and Johnson Matthey above 650 workers. Considering that the companies of the zone Skopje 1, are objective of analytical study in the paper, regarding their financial performances through the paper will be revealed the exact number of
workers. Considering the projections about the employments in the future, their number may exceed above 16.600 (in all zones), although the time will show if these predictions will be accurate. The number of investors is above twenty, however most of them are in the phase of construction of their factories. The total value of investments goes above 458 million euros. However, due to the lack of data, in details will be analyzed the companies of TIDZ Skopje 1 as a zone with the most active companies.

9. Financial and economic analysis of companies in TIDZ Skopje 1
The TIDZ Skopje 1 is the most developed zone considering the largest number of investors which operate in the zone. The total surface of the zone is 140 Ha, while within the zone are built the factories of eight investors (according to the data provided from Directorate for TIDZ). The zone is situated in Bunardzik which belong to Ilinden municipality in the east of Skopje and only 1 km away from the main airport in the country. The zone is state-owned while the type of the land is a land for construction. By 2015 the zone had five active companies. The first investment was done in 2007 by Johnson Controls (later the company factory was sold to Visteon). The total investment of these 5 companies is above 235 million euro, while the number of employees may go up to 1.960.

Table 3: Basic data for TIDZ Skopje 1

<table>
<thead>
<tr>
<th>TIDZ Skopje 1</th>
<th>Surface</th>
<th>Number of companies</th>
<th>Region</th>
<th>Municipality</th>
<th>Ownership</th>
<th>Property type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>140 Ha</td>
<td>8 *</td>
<td>Skopje</td>
<td>Ilinden</td>
<td>State-owned</td>
<td>Construction land</td>
</tr>
</tbody>
</table>

Source: Directorate for TIDZ (Author’s own calculation)

Beside the profit which in the main goal of every enterprise, in the interest of foreign companies which have invested in Macedonia is to operate with other positive financial ratios due to the large number of incentives they benefit from the Macedonian government. To reveal what levels of return from the assets and the capital they have earned, we’ll analyze the Return on Assets (ROA) and Return on Equity (ROE) ratios. These ratios provide a clear overview of companies’ profitability.

Table 4: Return on assets (ROA) ratios

<table>
<thead>
<tr>
<th>Company</th>
<th>Average ROA 2010-2015</th>
<th>ROA maximum</th>
<th>ROA minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson Matthey</td>
<td>9,68</td>
<td>15,4</td>
<td>0,4</td>
</tr>
<tr>
<td>Visteon</td>
<td>0,66</td>
<td>13,1</td>
<td>(11,42)</td>
</tr>
<tr>
<td>Prodis</td>
<td>(22,96)</td>
<td>(4,76)</td>
<td>(52,5)</td>
</tr>
<tr>
<td>Kemet</td>
<td>1,51</td>
<td>6,52</td>
<td>(3,74)</td>
</tr>
<tr>
<td>Vitek</td>
<td>0,82</td>
<td>1,94</td>
<td>(4,86)</td>
</tr>
<tr>
<td>TIDZ Skopje 1</td>
<td>8,57</td>
<td>15,4</td>
<td>(52,5)</td>
</tr>
</tbody>
</table>

(Author’s own calculation)

According to the results from the table 4 for the period 2010-2015, ideal return from assets has achieved only Johnson Matthey. That means that this company has achieved 9.7 % profit from the assets she has. Considering that a ROA ratio above 5% is ideal, none of the other companies has achieved ideal return if we consider average ROA for the 2010-2015 period. However, taken individually for one year beside Johnson Matthey, Visteon has achieved a maximal return on assets from 13.1% while Kemet 6.5%.
Table 5: Return on equity (ROE) ratios

<table>
<thead>
<tr>
<th>Company</th>
<th>Average ROE 2010-2015</th>
<th>ROE maximum</th>
<th>ROE minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson Matthey</td>
<td>14.68</td>
<td>21.93</td>
<td>1.47</td>
</tr>
<tr>
<td>Visteon</td>
<td>2.08</td>
<td>29.04</td>
<td>(33.45)</td>
</tr>
<tr>
<td>Prodis</td>
<td>(183.85)</td>
<td>(30.23)</td>
<td>(315)</td>
</tr>
<tr>
<td>Kemet</td>
<td>1.77</td>
<td>8.54</td>
<td>(4.22)</td>
</tr>
<tr>
<td>Vitek</td>
<td>89.45</td>
<td>100.35</td>
<td>(208)</td>
</tr>
<tr>
<td>ZONA SHKUPI 1</td>
<td>13.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Financial reports of the companies (Author’s own calculation)

Similar to ROA ratios, higher percentage of Return on equity (ROE) has achieved Johnson Matthey, as ideal ratio of 14.7%, where the maximum ratio has been 21.9 (for a year). Visteon, on the other hand has had significant fluctuations where the maximum ROE has been 29% and the minimal ROE - 33, 4 as a consequence of net losses in the last years. The high ratio of ROE for Vitek is due to the extremely low level of capital the company has.

9.1. The participation of TIDZ Skopje 1 exports in the national export

One of the main goal of TIDZ establishment was the increase of exports level from the companies within the zones considering that 100% of the final goods produced in the zones must be exported. Based on the data from official financial reports and the data from The National Bank of Macedonia we will measure the contribution of exports of the companies in TIDZ Skopje 1 to the general national export in Macedonia.

According to the chart 1, there is a permanent increase of exports from the five active companies in TIDZ Skopje 1. In 2015, 31.5% of the total national export was exported by the companies which operate in Skopje 1 zone. From 2010 when only Johnson Matthey and Visteon (then Johnson Controls) were active companies in the zone until 2015 there is a significant growth of the exports from these companies. This means that the exports from companies in TIDZ Skopje 1 have significant effect in the growth of the level of national export.

However, in this value of 31.5%, 90% is exported by Johnson Matthey and around 9% by Visteon, that means until now the other companies have only a symbolic impact in the level of national export. Beside the companies in TIDZ Skopje 1, around 5% impact on the national export have had Van Hool which operate in TIDZ Skopje 2 and Johnson Controls in TIDZ Stip.

![Chart 1: The export level of companies in TIDZ Skopje 1 and the national export](image)

Source: Income statements of the companies, Directorate for TIDZ and National Bank of RM (NBRM)

To review the impact of the exports by active companies in TIDZ Skopje 1 to the national export, an example will be performed through econometric model. Using the regression analysis through the software model STATA 12, is calculated the relation between the variables. As a dependent variable is taken the national export or in the model presented as ln (total), while as independent variable is the export from companies in the TIDZ Skopje 1 or in the model presented as ln (zona). Through the calculations from the software, the following result was obtained:

$$\ln(\text{total}) = 6.73 + 0.21\ln(\text{zona})$$
The outcome can be interpreted as follows: If the exports from the companies in TIDZ Skopje 1 are zero, then the national export will increase for 6.7%. While, if the exports from the companies in TIDZ Skopje 1 will increase for 1% then the national export will grow averagely 0.21%.

The value of F-Test showed 76.04 that shows the significance of the model surpassing the referent values. T-test as well as other significance indicator for both variables showed a value larger than 0.95 which means that the variables are significant. However, to have a more accurate model, data is required for more years. Anyhow, through the model is showed just an overview of the exports from companies in Skopje 1 zone to the export in the national level until 2015.

9.2. Employment trend analysis
Among other goals, the FDI attraction in TIDZ will affect the decrease of the high levels of unemployment in Macedonia. Is this part will be analyzed the employment trend of the five companies in TIDZ Skopje 1

By 2015, in the active companies in TIDZ Skopje 1 are employed 1187 workers (no data for Prodis for 2015, because the company stopped the production process from March, 2015). More jobs have been created by Johnson Matthey which by 2015 has created 613 jobs. Visteon, the maximum number of voters reached in 2013, meanwhile after that year the employment in that company is decreasing, due to the fact that the company announced their departure after the expiry of ten years in the zone.
A rising trend of job creating has Kemet, which in the period of five years has created 243 jobs. However, according to their announcements the five companies could open maximum around 2,000 jobs. But considering that by 2015 only 1190 workers are employed and also Visteon announced their departure from the county meanwhile Prodis has stopped the production process, then will be difficult to be achieved these predictions.

9.3. The level of benefit for the investors due to non-payment of profit tax and personal income tax and grant received for building construction
As the two reasons that often are discussed about the fact why the foreign investors invest in Macedonia are: the low workforce and the fiscal and economic incentives that the government offers to foreign investors. Based in the data provided from the Central Register, in this part will show how much the foreign investors benefit due to the non-payment of fiscal duties as profit tax and personal income tax, and the grants received for building construction as well. These kind of benefits are cost for the budget of Macedonia.

The fiscal incentives as profit tax and personal income tax exemptions are opportunity cost for the budget in the value of financial assets that would receive the budget if the investors would have paid the personal tax and profit tax. On the other hand, the government also offers to the investors, grants for building construction in a value of maximum 500,000 euros according to the criteria in the Law for TIDZ.
If the companies in TIDZ Skopje 1 for the period 2010-2015 would have paid the profit tax, the budget would receive 25.4 million euros. By adding the grants for building construction the total cost for these three kind of incentives given to the investors in TIDZ Skopje 1 is 27.8 million euros. In this high value evidently has affected the gross profit of Johnson Matthey, a company that has achieved incredibly high profits. In this sample are not included the cost caused by giving incentives for investors within the zones as VAT exemptions, local taxes, custom duties, subsidies and the other costs for the government due to the lack of data. If these incentives were included the cost caused by all incentives would be even greater than it’s showed through the example.

Table 6: The level of benefit for investors due to the non-payment of profit tax, personal tax and grants received

<table>
<thead>
<tr>
<th>The company 2010-2015</th>
<th>The financial benefit due to the non-payment of profit tax</th>
<th>The financial benefit due to the non-payment of personal income taxes</th>
<th>Received Grants for building construction</th>
<th>= The total of financial benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson Matthey</td>
<td>22,823,765</td>
<td>1,099,869</td>
<td>500,000</td>
<td>24,423,634</td>
</tr>
<tr>
<td>Visteon</td>
<td>586,644</td>
<td>526,944</td>
<td>500,000</td>
<td>1,613,588</td>
</tr>
<tr>
<td>Prodis</td>
<td>0</td>
<td>50,800</td>
<td>400,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Kemet</td>
<td>11,031</td>
<td>239,768</td>
<td>500,000</td>
<td>750,799</td>
</tr>
<tr>
<td>Vitek</td>
<td>26,715</td>
<td>32,118</td>
<td>500,000</td>
<td>558,833</td>
</tr>
<tr>
<td>TOTAL</td>
<td>23,448,155</td>
<td>1,949,499</td>
<td>2,400,000</td>
<td>27,797,644</td>
</tr>
</tbody>
</table>

Source: Financial reports of the companies, Directorate for TIDZ and criteria for enterprise classification according to European Commission (Author’s own calculation)

If the companies in TIDZ Skopje 1 for the period 2010-2015 would have paid the profit tax, the budget would receive 25.4 million euros. By adding the grants for building construction the total cost for these three kind of incentives given to the investors in TIDZ Skopje 1 is 27.8 million euros. In this high value evidently has affected the gross profit of Johnson Matthey, a company that has achieved incredibly high profits. In this example are not included the cost caused by giving incentives for investors within the zones as VAT exemptions, local taxes, custom duties, subsidies and the other costs for the government due to the lack of data. If these incentives were included the cost caused by all incentives would be even greater than it’s showed through the example.

Is reasonable a foreign company to invest in Macedonia. Through another example using the concept of relevant information will be justified the comparative advantages caused by investing in Macedonia from the foreign companies. In the following example we will use the financial data of Johnson Matthey due to the fact that this company hasn’t paid any cent for profit tax and personal income tax for the 2010-2015 period.

Table 7: The benefits as a consequence of investment inside the zone

<table>
<thead>
<tr>
<th>Description</th>
<th>Investment inside the zone</th>
<th>Investment outside the zone</th>
<th>The relevant difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>3,800,065.966</td>
<td>3,800,065.966</td>
<td>0</td>
</tr>
<tr>
<td>Total expenses</td>
<td>3,571,823.313</td>
<td>3,572,923.182</td>
<td>1,099,869 (Personal tax)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>228,242,653</td>
<td>227,142,784</td>
<td>1,099,869</td>
</tr>
<tr>
<td>Profit tax</td>
<td>0</td>
<td>22,714.278</td>
<td>22,714.278</td>
</tr>
<tr>
<td>Net profit</td>
<td>228,242,653</td>
<td>204,428.506</td>
<td>23,814.147</td>
</tr>
</tbody>
</table>

Source: Financial reports of the companies (Author’s own calculation)

Johnson Matthey has avoided a cost of 23.8 million euros from the investment within the zone or better said if this company would be domestic and would operate in normal market conditions, the net profit would have been lower for 23.8 euros. This example shows the advantages that the
foreign companies have from investing in TIDZ. If in the example are included the other fiscal and economic incentives that the investors within the zones benefit, then the relevant differences will be even greater. This sample reflects the fact that the foreign investors have huge advantages by investing in Macedonia in these zones.

Conclusions and recommendations

The fiscal, economic and financial benefits that the actual Law offers to Foreign investors and positive business climate according to ‘Doing Business’ indicator as well, make Macedonia attractive investment country for foreign investment within the countries in Western Balkan.

The fiscal and economic incentives for FDI in Macedonia are as following: profit tax exemption, personal income tax exemption, VAT exemptions, local tax exemptions, land renting for a period more than a decade, subsidies,

Financial benefits for foreign investment depending from the level of investment and the number of employees wasn’t possible to be calculated accurately due to the lack of public data from government institutions and foreign investors as well,

The fiscal and economic incentives in the case of FDI-s in TIDZ Skopje 1 have affected a financial benefit larger than 27.8 million euros which means a fiscal cost for the state budget and local government,

The fiscal and economic incentives in the case of FDI-s in the zone Skopje 1 for the period of 2010-2015 have impacted positively in the profitability of the companies, have increased the exports of the zone in 30% of the national level and have had limited impact in the increase of employment in TIDZ Skopje 1,

Due to the lack of public local and regional data, it was impossible to compare the financial, fiscal and economic data of the Skopje 1 zone with the other zones in Macedonia and in the region as well, The range fiscal and economic incentives for FDI have created unequal investment environment for the local investors, affecting non-investment to domestic business,

Despite the fact of the range fiscal and economic incentives and facilities which the government offers to foreign investors, Macedonia continues to have lower levels of FDI, making one of the countries with lowest FDI per capita in Western Balkans (alongside Bosnia and Kosovo),

The fact that despite the attractive government policies in favor of FDI, the levels of FDI in Macedonia are the lowest in Western Balkan imposes the need of independent professional expertise from the relevant international institutions in the function of increasing transparency, elimination of investment barriers and creating equal conditions of investment for the domestic and foreign investors.

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DOES FISCAL POLICY MATTER FOR ECONOMIC GROWTH IN REPUBLIC OF MACEDONIA?

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Abstract
The main objective of this paper is to investigate the effects of fiscal policy, thus types of public expenditures and revenues classified according to Barro and Sala-i-Martin model on a small open economy, by predicting fiscal dynamic effects on real GDP in Republic of Macedonia. Dealing with contradictory evidence on existing empirical literature, this paper employs a SVAR model including Impulse Response Function, regarding the assessment of the dynamic effects of both sizes of fiscal policy on economic growth of Republic of Macedonia, utilizing quarterly data covering time period 2000 – 2015. Furthermore, following a developed recursion approach of Choleski decomposition on our SVAR model, the results suggest for positive effects of the productive expenditures on economic growth and do not hold for distortionary revenues in the Republic of Macedonia. Finally, findings regarding the effects of Barro and Sala-i-Martin order of fiscal variables engaged in the recursive approach of SVAR model, for first time employed for the case of Republic of Macedonia, indicate the most important novelty and contribution of this paper.

Keywords: Fiscal policy, Granger causality test, SVAR, Impulse Response Function.
JEL classification: E62, H20, H50, H60.

Introduction
The impact of fiscal policy on economic growth in transition countries has shown to have controversial results thus the main aim of this paper is to investigate the effects of fiscal policy on economic growth in Macedonia, as well as to give further recommendation for its policymakers for the future plans and policies. Although many recent studies support the Keynesian theory and endogenous growth, claiming economic growth to be significantly affected by the level and nature of government expenditures and taxes in short run and long run, evidence is contradictory regarding the aspect of variety between space and time.

Concerned about the importance of fiscal policy as an important economic policy, it can be considered as a complementary instrument for achieving macroeconomic stability. Based on empirical evidence growth effect of fiscal policy resulted to be temporary (Howitt, 2000; Dalgaard and Kreiner, 2003), therefore this paper tries to investigate the strength and importance of the effect of fiscal policy on economic growth in Republic of Macedonia, by conducting a SVAR model and Impulse response function, by using quarterly time series for time period 2000 - 2015.

In addition, the following structured is expressed in this paper: first section is dedicated to the existing previous studies and papers investigating the effects of fiscal policy on economic growth. The following section covers the methodology specification and its results, while the third section provides the conclusions and recommendations.

Literature review
The endogenous growth model covering the feature of public policy (Mendoza et al., 1997; Barro and Sala-i-Martin, 2004) suggest that fiscal policy is a determinant for both level of output as well as for the rate of economic growth. Further, Barro (1990) suggests that productive public expenditures
can lead to sustained per capita growth in the long, affecting positively the marginal product of private capital and enhancing long run growth rate as an endogenous variable.

This paper has been employed three main identification approaches: the recursive approach introduced by Sims (1980) and applied to study the effects of fiscal shocks by Fatas and Mihov (2001); structural VAR approach proposed by Blanchard and Perotti (2002) and extended in Perotti (2005, 2007); sign -restrictions approach developed by Uhlig (2005). In their paper, Blanchard and Perotti (2002) applied SVAR methodology, by investigating the effects of fiscal policy on growth, suggesting that taxation has negative effects on output and consumption, while public expenditures generate positive effects on these variables. Moreover, Fatas and Mihov (2002) investigated the discretionary fiscal policy for 20 OECD countries, where results were indicating positive effects of fiscal policy on economic activity on these countries, by using SVAR approach.

Further, this paper involves two main approaches in the model: first approach represents the introduction of the recursive approach applied during the testing of effects of fiscal shocks by Fatas and Mihov (2001); the second approach includes the SVAR model of Blanchard and Perotti (2002). Finally, evidence shows that SVAR model it is not used so far for investigating the effects of types of public expenditures and revenues on economic growth in Republic of Macedonia, as a small open economy. Having into consideration this fact, this paper represents the most important novelty and contribution in this sphere.

Data and methodology

Last two decades let us know that VAR model represents a leading methodology for fiscal regime effects investigation in open and closed economies. (see Bernanke et al. (2003); Fatas and Mihov (2003)). The fame of VAR methodology it is achieved based on the minimal restrictions on effects of fiscal policy on economic activity and the dynamic stimulation responses of identified shocks (Stock and Watson, 2001). On the other side, Structural Autoregressive (SVAR) methodology is a dynamic system of equations, giving explanations for the current level of every variable based on the existing past movements of its own and all included variables as well (Fetai, 2008).

Finally, our paper uses a SVAR model for investigating the dynamic effects of fiscal policy on economic activity in Republic of Macedonia for the time period 2000 – 2015, where in particular we analyze the effects of productive and unproductive expenditures on real GDP and the effects of distortionary and non-distortionary revenues in real GDP. Indeed, SVAR model deals with the normalization of coefficients of the dependent variable (Stock and Watson, 2001).

Moreover, employing the recursive approach of Choleski decomposition in our model, we set the following five - dimensional matrix:

\[
x_t = \begin{bmatrix} RGD \n PEx \n NPEx \n DRev \n NRev \end{bmatrix}, \quad B_0 = \begin{bmatrix} 1 & 0 & 0 & 0 & 0 \\
\beta_{21} & 1 & 0 & 0 & 0 \\
\beta_{31} & \beta_{32} & 1 & 0 & 0 \\
\beta_{41} & \beta_{42} & \beta_{43} & 1 & 0 \\
\beta_{51} & \beta_{52} & \beta_{53} & \beta_{54} & 1 \end{bmatrix}
\]

This empirical analysis investigates the automatic shock responses of the fiscal systems, through the employment of quarterly data, collected from published reports of Ministry of Finance and Central Bank of Republic of Macedonia for the specified time period 2000 – 2015. In addition, five variables were included in the SVAR model:

- Real GDP growth rate (depended variable)
- Productive Expenditures as % of GDP,
- Unproductive Expenditures as % of GDP,
- Distortionary Public Revenues as % of GDP, and
- Non-distortionary revenues as % of GDP.
Discussion of results
The following section represent the results of the above prescribed analysis based on the testing for the causality by using Granger causality test and investigating the effects of productive and unproductive expenditures as well as distortive and non-distortive revenues on real GDP in Macedonia by utilizing quarterly time series data for the time span 2000 – 2015.

Granger Causality test
For finding the causal relationship between the above mention variables, Granger Causality test was accomplished, therefore we check whether lags of one variable at the equation of other variable can cause the later variable (Granger, 1969). Based on the lags selection criteria, results proved the existence of one lag and by using F-test, we investigated whether one variable Granger causes the other variable, where we determine if we accept or reject the null hypothesis.

Table1. Granger causality test results

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<th>Independent variables (lags)</th>
<th>Dependent variables (equation)</th>
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<td></td>
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<td>(0.893)</td>
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</table>

Note: F–statistics with p-valess in parenthesis, 5% level significance in bold.
Source: author’s calculations.

The results from table 1, imply that null hypothesis is accepted for real GDP, thus RGDP does not granger cause productive expenditures, unproductive expenditures, distortionary revenues and non-distortionary revenues.
Moreover, null hypothesis for Productive expenditures is rejected at 5% level of significance for unproductive expenditures, thus implies that productive expenditures granger causes unproductive expenditures, while it is accepted for the rest of the variables, implying that productive expenditures do not granger cause RGDP, distortionary and non-distortionary revenues in RM.

The null hypothesis for Unproductive expenditures is rejected at 5% level of significance for productive expenditures, thus implies that unproductive expenditures granger causes productive expenditures, and it is accepted for the rest of the variables RGDP, distortionary and non-distortionary revenues.

The null hypothesis for Distortionary revenues is rejected at 5% level of significance for RGDP and unproductive expenditures, thus implies that distortionary revenues granger cause RDGP and unproductive expenditures.

The null hypothesis for Non-distortionary revenues is rejected at 5% level of significance for RGDP, unproductive expenditures and distortionary revenues, thus implies that non-distortionary revenues granger cause RDGP, unproductive expenditures and distortionary revenues.

Effects of public expenditures in Real GDP: Impulse Response Function
In this section we show the results of the response function of fiscal shocks of public expenditures as productive and unproductive as shown in the Figure1 and Figure2. In the Figure1, during a shock in productive expenditures, at vertical axis is shown the response of real GDP, whereas the horizontal axis represents the quarterly periods. Moreover, results imply that a shock of one percent of
productive public expenditures, have a significant effect on real GDP. Moreover, this obvious positive effect is seen during the first two quarters and it turns insignificant after 2 years. The peak impact occurs in the second quarter after the shock with a multiplier of 0.13.

Figure 1. Dynamic effects of productive expenditures in real GDP.

Moreover, results imply that a shock of one percent of unproductive public expenditures does not have a significant effect on real GDP. Yet, this effect is only weak during the first quarter and it turns to be negative after 1 year, thus four quarters. Findings are in line with the findings of Barro (1990) and Bleany et al. (2001), thus we accept the hypothesis that productive expenditures have positive and significant effects on Real GDP in Republic of Macedonia.

Figure 2. Dynamic effects of unproductive expenditures in real GDP.

Moreover, evidence for an insignificant shock of unproductive expenditures is present throughout the whole horizon. The peak impact occurs in the first quarter after the shock with a multiplier of 0.14. The GDP response turns slightly negative after 1 year, results that corresponds to those of Barro, 1990 and Bleany et al. 2001, implying that unproductive expenditures do not have significant effect on Real GDP.

Effects of public revenues in Real GDP: Impulse Response Function

In this section we show the results of the response function of fiscal shocks distortionary, non-distortionary revenues shown in Figure 3, displaying the endogenous responses of real GDP following an increase of distortionary tax. Moreover, during a shock in distortionary revenues, at vertical axis is shown the response of real GDP, whereas the horizontal axis represents the quarterly periods. Results imply that a shock of one percent of distortionary revenues has negative effect on real GDP. Moreover, negative effect is seen during the whole horizon, with the attempt of becoming neutral,
where the peak negative impact occurs in the second quarter after the shock with a multiplier of -0.03. Results correspond to findings of Barro and Sala-i-Martin (2004) and Bleany et al. (2008), thus accepting the hypothesis that decreasing distortionary revenues will increase Real GDP.

Figure 3. Dynamic effects of distortionary revenues in real GDP.

Source: author’s calculations.

In this section we show the results of the response function of fiscal shocks of non-distortionary revenues expressed in Figure 4. During a shock in non-distortionary revenues, at vertical axis is shown the response of real GDP, whereas the horizontal axis represents the quarterly periods. Moreover, results imply that a shock of one percent of non-distortionary revenues, does not have a significant effect on real GDP.

Figure 4. Dynamic effects of non-distortionary revenues in real GDP.

Source: author’s calculations.

Moreover, positive effect is only weak during the first 3 months and it turns negative from the third until nine quarter and attempting to become positive-increasing trend again. The peak impact occurs during the first quarter after the shock with a multiplier of 0.022. Results show positive effects of non-distortionary revenues in real GDP in Macedonia during short-run, following with negative and insignificant effect after 2 quarters. Such results are also seen at Blanchard and Perotti (2002), Fatas and Mihov (2003), Claus et al. (2006) showing negative effects of distortionary revenues on real GDP.

Conclusions
The main objective of the paper was to analyze the effects of fiscal policy on real GDP in Republic of Macedonia covering the time span 2000-2015, through utilization of quarterly data. For investigating such effects, public expenditure and revenue were divided based on Barro and Sala–I–Martin model, finally by utilizing Granger Causality test and SVAR model. Moreover, it is crucial to indicate that in transition countries, with short spans of data and their questionable quality, the character of the empirical results is rather to be indicative than definite.

In addition, the results of this paper are as follows: Granger Causality test results indicate that Real GDP does not granger cause productive expenditures, unproductive expenditures, distortionary and
non-distortionary revenues, while there exists a bidirectional causality between productive expenditures and unproductive expenditures and between distortionary revenues and non-distortionary revenues. Moreover, a unidirectional causality is running from distortionary revenues to Real GDP and from non-distortionary revenues to Real GDP. Finally, SVAR model results suggest that productive expenditures have positive and unproductive expenditures have weak and insignificant effect on Real GDP, while the effects of distortionary and non-distortionary revenues in RGDP is mixed, indicating negative and insignificant effects and positive on RGDP. Such findings reveal that and public expenditures and public revenues are effective tool for generating fluctuations in real GDP, emphasizing non-distortionary tax as more effective tool for generating fluctuations in real GDP compared to distortionary tax (proportional tax).

References
THE EFFECT OF REDUCING CORRUPTION ON ECONOMIC GROWTH IN THE REPUBLIC OF MACEDONIA

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Abstract
Throughout time till now, corruption has become one of the most widespread phenomenon in any society. It is a complex nature which could be defined as global disease while every country is facing this phenomenon. Considering that Macedonia is not a well-developed country from the economic point of view, characterized by high level of corruption, high unemployment rate, low economic growth, low attraction of foreign investments etc, the main goal of this study is to assess the impact of corruption on economic growth.

Republic of Macedonia from 2006 to 2014 has witnessed improvement in terms of Corruption Perception Index measured by Transparency International, which from the position 105 has risen to the 64th position, but on the same time this is not a satisfying position because the country is still ranged in a high corrupted countries group. Using the multiple regression model (OLS) we will try to determine the effect of reduction of the Corruption Perception Index (CPI) in economic growth in the economy of Macedonia.

Keywords: corruption perceptions index, economic growth, GDP, FDI.
JEL classification Codes: D73, F43, O43.

Introduction
Corruption as a phenomenon has taken a large scale, not only in countries that are in transition but also in developed countries. Bribery and corruption are recognized as the greatest evil of any society, therefore the scales of the devastating effects that corruption brings are globally very large. Corruption always extends its metastasis in all areas of life; political, economic, social and others, while becoming a major obstacle for the economy, risking the functioning of democracy (Bushi, 2015). The development and economic growth present the main goals of every nation where the economic progress in the same time expresses the well-being of a country. While the fight against corruption represents a challenge to outdo it trying to avoid its consequences, one of the main challenges for the country leaders is how to achieve economic growth, improving better living standards of people by enabling them to consume more goods and services.

Living in a country like Macedonia, we often are facing with the word “corruption” and the amount of its presence in this country. The aim of this paper is to show the impact of reducing corruption on economic growth, with special emphasis in Macedonia, for the period of nine years from 2006 to 2014. Given that the consequences of corruption are numerous, it is important to find the indicator that can reduce it, and one of them is human development index.
Literature review
Since the past up until today, corruption has become one of the most widespread phenomena in a society. It is a complex nature which could be defined as global disease while every country is facing this phenomenon. It appears in every sphere of life, including: education, science, health, economy, justice, etc., appearing as a normal phenomenon for the completion of any goals. On the other hand, looking at the long term, the price of corruption is very high for all participants in corruption. Recently, the dimensions of corruption are widespread, making it a real threat to the normal functioning democratic state and market economy. To reduce such risks, it is necessary to facilitate productive cooperation and awareness of highest hierarchy people and the society in general. According to Shera, (2012) many people misunderstand the term corruption. Some give a closely sense equating the term with bribe and others every action of life associate with corruption. Both attitudes are wrong. So the right definition of corruption would be as follows: Corruption is the deviation from responsibility, law, rule, or ethical standards of an official or public institution in favor of the beneficiaries of such behavior, which is influenced by a reward, promise, preferential treatment, offered, given, required or accepted. Hence the term corruption is not just a term that includes bribes but also includes other forms. According to a general definition from Transparency International “corruption is the abuse of entrusted power for private gain”.

Seeing that corruption is an unavoidable phenomenon, lately many authors and researchers have intensified their empirical research on corruption and how it affects in many areas, especially in economic growth. There are a lot of econometric models which prove that corruption has a negative impact on economic growth and in the same time it lowers the value of the country because corruption ranks the country among the most corrupt countries of the world.

According to Kadiu and Calişkan, (2015) Corruption has a negative impact on economic growth, because of its negative effects on property rights enforcement, leading to barriers to conducting business, having innovation and technology transfer. Another negative effect of corruption is directly due to benefaction, which reduces the effectiveness of official election and lowers the economic growth. The author Nwankwo (2014) in his study for the impact of corruption on growth in Nigerian economy using co-integration test, granger causality test and ordinary least square (OLS) method achieved the empirical results that there is a long run relationship between the level of corruption and economic growth in Nigeria and the impact of corruption on economic growth in Nigeria is negative. Obayelu (2007) in his study “Effects of Corruption and Economic Reforms on Economic Growth and Development: Lessons from Nigeria “ found a negative correlation between levels of corruption and economic growth thereby making it difficult for Nigeria to develop fast. The more corrupt a country is, the slower economic growth rate is. Corruption is a stigma that destroys the reputation of affected country. It lowers investment thereby lowering economic growth of the country. According to Farida (2007) who in his paper assumes that corruption reduces a country’s standard of living as measured by the real GDP per worker. He argues that corruption deters economic growth, reduces the productivity of capital and decreases the effect of government expenditure on growth. Using a neoclassical model for Lebanon, he finds empirical support indicating that corruption increases inefficiencies and reduces economic growth. Mauro (1995) finds that corruption lowers private investment, thereby reducing economic growth, even in subsamples of countries in which bureaucratic regulations are very cumbersome. The negative relation between corruption and investment, as well as growth, is significant, both in a statistical and in an economic sense.

Corruption Perception Index is studied by Transparency International (at world level). This index takes values from 0 to 1 or from 0 to 100, where the value 0 indicates that the country is totally corrupt and value 1 or 100 indicates that the country is totally clear. From the table, we see moving trends of CPI how it has moved during the years 2006 - 2014 where we see that Slovenia has had greater development in comparison with other countries. Comparing Macedonia with other countries, Macedonia has had improvements in terms of CPI, which from the position 105 has...
reached at the 64th position, but again this is not very a satisfying position because it is still ranged in the group of highly corrupted countries.

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Source: Transparency International Report

Economic growth is the safest way to lifting countries out of poverty and increases their standard of living. As long as a country's economy grows, the income of its citizens may also rise. Long-term economic growth rate is essential for the living standards. A high level of income (a benefit of economic growth) enables people better to fulfill their material needs. High levels of income (a benefit of economic growth) enables people to better fulfill their material needs. In recent years, the number of countries that have managed to accelerate the growth has decreased, while many countries have been able to sustain a high growth rate. (Balcerowicz, Rzońca, 2015).

Table No 2 shows economic growth of Western Balkan countries in real terms, where we can see clearly the changes from year to year for the analyzed period from 2006 to 2014. All countries have had almost the same rate of economic growth where it is noticed that in 2009 as a result of economic crisis has had impact also on the Western Balkan countries. Regarding economic growth, Macedonia does not differ much from those countries, although it is one of the countries with the lowest GDP.

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**Human Development Index and its impact on economic growth**

People are the real wealth of a nation. With these words the 1990 Human Development Report (HDR) began a forceful case for a new approach to thinking about development. That the objective of development should be to create an enabling environment for people to enjoy long, healthy and creative lives may appear self-evident today. But that has not always been the case. A central objective of the HDR for the past 20 years has been to emphasize that development is primarily and fundamentally about people (HDR, 2010). The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

Peyton and Belasen (2011) in their study examined the factors that influence corruption perceptions in 127 developing countries and 32 developed countries using 2SLS approach. Specifically, the results obtained from the regression models used in this study suggest that the factors which comprise the Economic Freedom and Human Development indices can be significant predictors of corruption.
perceptions in cross-country studies. Moreover, the study suggests that several of these factors affect corruption perceptions in developing countries differently from their developed counterparts. Hysa (2011) in her study identifies the relationship between corruption level and human development. A regression analysis and a comparison of the degree of this relationship are performed for each Western Balkan county during years 2002-2010. The main result of this study is that the relationship between corruption and human development is found to be strong in Former Yugoslav Republic of Macedonia, Serbia, Montenegro and Albania. Croatia shows a weak relationship whereas the relationship in Bosnia and Herzegovina’s case is meaningless.

According to Human Development in Asia (1999) the basic message is clear: the lower the level of human development in a country, the less likely will its people and government be able to combat corruption or improve governance. This is because well-educated and knowledgeable people are more capable of combating corruption at all levels—whether personal, regional, or national. Unfortunately, the prospects of combating corruption through a vibrant and aware civil society and a highly educated and competent government are somewhat bleak at present. In fact, as the last two Reports on Human Development in South Asia clearly demonstrate, the region has emerged as the poorest, the most malnourished, the least gender-sensitive, and the most illiterate in the world. South Asia now has 395 million illiterate adults and over 45 million children not attending primary school. It is little wonder that the region has become caught in a vicious cycle of low human development and high corruption.

The Western Balkan countries are characterized by a series of obstacles in economic, politics and social aspects. A country’s progress is measured by different components but the most important one is the economic growth which in the Western Balkans is not very satisfactory. In these last years, instead of economic growth, the economic development is found to be a better index since it includes not only the quantitative issue (income level) but also the qualitative one (health and education level) (Hysa, 2011).

In the below table is presented HDI in Western Balkan countries and how it has moved in the period of years 2006-2014.

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<td>0.73</td>
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</tbody>
</table>

Source: United Nations Development Programme and Knoema

The values of HDI are found in the interval from 0 as the lowest level to 1 as the maximum level and from all 188 countries that are evaluated by UNDP, Slovenia is in the best place compared with other Western Balkan countries, which is ranked in 25th position in a group with very high human development. The value of Human Development Index in Republic of Macedonia for 2014 is 0.75 that positions the country in the 84th place belonging to the high human development countries group. Between the period of 2006 to 2014, HDI value has changed from 0.71 to 0.75 values.

Analyzing CPI and HDI, we note that these two indices have a connection among each other. As high as CPI is, as lower as HDI is and the opposite because higher levels of HDI will be a fight against corruption.
Data and methodology
In this paper we used secondary data because they were more adequate for this study. The analyzed period is from 2006 to 2014 for Republic of Macedonia. The data were collected mainly by the World Bank, Knoema, Transparency International, Human Development and the Heritage Foundation. In this research will be used multiple regression or OLS model to earn certain hypotheses. This regression will be done by the program Stata 12.

<table>
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<th>Variables/Years</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
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<td>5.4</td>
<td>-0.4</td>
<td>3.3</td>
<td>2.3</td>
<td>-0.5</td>
<td>2.8</td>
<td>3.4</td>
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<td>3.3</td>
<td>3.6</td>
<td>3.8</td>
<td>4.1</td>
<td>3.3</td>
<td>4.3</td>
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<tr>
<td>Economic Freedom Index</td>
<td>59.26</td>
<td>60.6</td>
<td>61.1</td>
<td>61.2</td>
<td>65.7</td>
<td>66</td>
<td>68.5</td>
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<tr>
<td>Corruption freedom</td>
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<td>27</td>
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<td>36</td>
<td>38</td>
<td>41</td>
<td>39</td>
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<tr>
<td>Import</td>
<td>54.7</td>
<td>61.9</td>
<td>68.2</td>
<td>54.3</td>
<td>58</td>
<td>66</td>
<td>66.8</td>
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<tr>
<td>Inflation</td>
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<td>2.3</td>
<td>8.3</td>
<td>-0.8</td>
<td>1.6</td>
<td>3.9</td>
<td>3.3</td>
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<td>Poverty</td>
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<td>28.7</td>
<td>21.1</td>
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<td>30.4</td>
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<td>69.1</td>
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<td>Current Account Balance</td>
<td>-0.4</td>
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<td>-6.8</td>
<td>-2</td>
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<tr>
<td>Health Index</td>
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<tr>
<td>GNI</td>
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<td>0.711</td>
<td>0.710</td>
<td>0.714</td>
<td>0.717</td>
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</tbody>
</table>


In this research will be tested two hypotheses as a below:
H1: "Reducing corruption affects economic growth in R.M"
H2: "Increasing the level of human development index (HDI) affects the reduction of corruption in R.M"

Using the multiple regression model (OLS) we will try to determine the relationship between the corruption phenomena in economic growth (Model-1) and the impact of Human Development Index in CPI (Model-2).

Model-1
\[ GDP = \beta_0 + \beta_1(CPI) + \beta_2(EFI\text{Index}) + \beta_3(IMP) + \beta(Freedom\ from\ corruption) + \varepsilon \]

Model-2
\[ CP = \beta_0 + \beta_1(HDI) + \beta_2(UNP) + \beta_3(INF) + \beta(POV) + \beta(GOV.Spending) \\
+ \beta(CURR.ACC.BALANCE) + \beta(EFI\text{Index}) + \varepsilon \]

Discussion of results
The used data in this regression model are GDP growth as dependent variable and CPI, economic freedom index, import and freedom from corruption are independent variables. The analyzed data are for the period of nine years from 2006 to 2014. In the model are included variables that are in the same category such as economic freedom index and freedom from corruption because of high significance, and some macroeconomic variables such as unemployment, exports, inflation etc are removed from the model because of high correlation don’t express exactly the phenomena.
Table 5. Results of regression of Model-1

| Variable   | Coef. | Std. Err. | t     | P>|t| | 95% Conf. Interval |
|------------|-------|-----------|-------|------|---------------------|
| cpiindex   | -2.057771 | 0.6276105 | -3.21 | 0.001 | -3.356864 - 1.249081 |
| erindex    | 1.994960 | 0.2733376 | 7.21  | 0.002 | 1.220102 2.77026 |
| import     | -1.361207 | 0.1674973 | -2.02 | 0.011 | -2.428511 0.705991 |
| corfreedom | -1.915794 | 0.1800725 | -7.29 | 0.002 | -3.221146 - 1.229921 |
| _cons      | -63.37143 | 8.743855  | -7.25 | 0.002 | -87.64826 - 39.0946 |

From the results of regression we see that R Square or determination coefficient is 0.9375 which means that independent variables explain the dependent variable 93.76%.

For evaluating the Model-1, the significance level is 0.01 or 1%, 5% or 0.05 and 0.1 or 10%. If F Critical < F Observed, and since the sig < alpha then we can conclude that our model is statistically significant, exactly 0.0011 < 0.01.

From the results by the program STATA 12, we create the below equation:

\[
\text{GDP growth (\%) = -63.376 – 2.067(CPI) + 1.985(EFIndex) -0.136(IMP) – 1.316(CorFreedom)}
\]

Through this model we will explain the importance of constant and of each variable that we have incorporated in model. From the table we see that the constant equation has negative value of -63.376 and as a result, there is no logical explanation if variables would be zero.

If corruption perception index will rise by 1 point, while the economic freedom index, freedom from corruption and import remain unchanged then the real economic growth rate will decrease by 2.067 percentage points.

If economic freedom index will rise by 1 point, while the CPI, freedom from corruption and import remain unchanged then the real economic growth rate will increase by 1.98 percentage points.

If for any reason the import will increase by 1% while other variables remain unchanged, growth rate will decrease by 0.96 percentage points.

If Freedom from Corruption increases by 1 point while the dependent variables remain unchanged for a certain period, it would cause real drop rate of growth by 1.316%.

In the following part we will see which of these variables is important and which not in a significance level of 0.01, 0.05 and 0.1. From the table 5 we can conclude as follow:

P-value of CPI is 0.040 < 0.05 (alpha) and the t value is 3.01, so it is important or explanatory variable in a significance level of 5%.

P-value of Economic Freedom Index is 0.002 < 0.01 (alpha) and the t value is 7.21 so it is important or explanatory variable in a significance level of 1%.

P-value of Import is 0.114 > 0.1 and t value is 2.01, so it is not important or explanatory variable in a significance level of 10%.

P-value of Freedom of Corruption 0.002 < 0.01 and t value is -7.25, so it is important or explanatory variable in a significance level of 1%.

From the results that we achieved by multiple regression to the Model-1, we found that this model has high significance and all variables except Import are explanatory for the model, so we can conclude that “Reducing corruption affects economic growth in R.M”, we accept H1.
The data used for the second regression model are corruption perception index as the dependent variable and independent variables are such as unemployment, inflation, poverty, government spending, current account balance and economic freedom index. Data were analyzed for the period of nine years from 2006 to 2014.

We removed the determinants of Human Development Index such as education index, health index and gross national income because of high correlation we couldn’t examine the in particular the impact of each index on corruption. Below we present the regression results done by the program STATA 12.

Table 6. Results of regression of Model-2

| Variable          | Coef.  | Std. Err. | t    | P>|t|  | [95% Conf. Interval] |
|-------------------|--------|-----------|------|-----|-----------------------------|
| hdi               | -26.56 | 0.4402    | -7.71| 0.082| -30.028057 - 17.205867     |
| unemployment      | 0.1407 | 0.1375    | 1.02 | 0.156| -0.1329 - 0.423510         |
| inflation         | -1.17  | 0.1104    | -15.94| 0.040| -1.380607 - 0.038799       |
| efi               | 0.1665 | 0.0051    | 32.10| 0.020| 0.1006137 - 0.232469       |
| poverty           | 0.0275 | 0.0200    | 1.38 | 0.097| -0.020897 - 0.216288       |
| govspending       | 0.305  | 0.0159    | 19.85| 0.098| 0.209905 - 0.432752        |
| currentaccountbalance | -2.42 | 0.0921    | -26.32| 0.024| -3.384972 - -1.237779     |
| cons              | -11.79 | 2.5577    | -4.63| 0.014| -18.603847 - 4.913979     |

From the results of regression we see that R Square or determination coefficient is 0.9995 which means that independent variables explain the dependent variable 99.95%.

For evaluating the Model-2, the significance level is 0.01 or 1%, 5% or 0.05 and 0.1 or 10%. If F critical < F observed, and since the sig < alpha, exactly 0.0099 < 0.01, we can say that the model is statistically important.

From the results by the program Stata 12, we create the below equation:

\[
\text{CPI} = -11.79 - 26.56(\text{HDI}) + 0.04(\text{UNP}) - 0.17(\text{INF}) + 0.09(\text{POV}) \\
+ 0.30(\text{GOV. Spending}) - 0.24(\text{CURR. ACC. BALANCE}) + 0.16(\text{EFIndex})
\]

Through this model we will explain the importance of the constant and of each variable that we have incorporated in model. From the table we see that the constant equation has negative value of -11.79 and as a result, there is no logical explanation if variables would be zero.

If Human Development Index will rise by 1 point, while the Unemployment, Inflation, Poverty, Government Spending, Current Account Balance and Economic Freedom Index remain unchanged for a certain period, then the Corruption Perception Index will decrease by 26.56 point.

If Unemployment will rise by 1 percentage point, while other variables remain unchanged for a certain period, CPI will increase by 0.04 point.

If Inflation will rise by 1 percentage point, while other variables remain unchanged for a certain period, CPI will decrease by 0.17 point.

If Poverty will rise by 1 percentage point, while other variables remain unchanged for a certain period, CPI will increase by 0.09 point.

If Government Spending will rise by 1 point while other variables remain unchanged for a certain period, CPI will increase by 0.3 point.
If Current Account Balance will rise by 1 point while other variables remain unchanged for a certain period, CPI will decrease by 0.24 point. If Economic Freedom Index will rise by 1 point while other variables remain unchanged for a certain period, CPI will increase by 0.16 point. 

Below we will see which of these variables is important and which at a significance level of 0.01, 0.05 and 0.1. From the table 5 we can conclude as follow:

- P-value of the Human Development Index is 0.082 < 0.1 (alpha) and t value is -7.71, so it is important variable or explanatory variable in a significance level of 10%.
- P-value of the Unemployment is 0.186 > 0.1 (alpha) and t value is 3.33, so it is not important variable or explanatory variable in a significance level of 10%.
- P-value of the Inflation is 0.040 < 0.05 (alpha) and t value is -15.94, so it is important or explanatory variable in a significance level of 5%.
- P-value of the Poverty is 0.0670 < 0.1 (alpha) and t value is 9.53, so it is important or explanatory variable in a significance level of 10%.
- P-value of the Government Spending is 0.032 < 0.05 (alpha) and t value is 19.85, so it is important or explanatory variable in a significance level of 5%.
- P-value of Current Account Balance is 0.024 < 0.05 (alpha) and t value is -26.32, so it is important variable or explanatory variable in a significance level of 5%.
- P-value of the Economic Freedom Index is 0.020 < 0.05 (alpha) and t value is 32.10, so it is important or explanatory variable in a significance level of 5%.

From the results that we achieved by multiple regression to the Model-1, we found that this model has high significance and all variables except Import are explanatory for the model, so we can conclude that "Reducing corruption affects economic growth in R.M", we accept H1.

**Conclusion**

Corruption today represents one of the biggest debates of economists and also of the leaders of the anti-corruption agencies where their aim is to reduce the level of corruption and at the same time to reach the awareness of people that corruption has destructive effects for the country and for an entire society. It is important to be found the factors that affect the reduction of corruption and one of them is the Human Development Index which in itself contains education index, health index and gross national income. Higher values of this index means more developed society.

From the regression results we achieved our expectations in confirmation of hypotheses that corruption has a negative impact on economic growth and human development index is one of the indicators that affect the reduction of corruption. From all this we understand that to have greater economic growth need to increase the level of HDI and in the same time will decrease corruption because a country with low level of corruption increases opportunities to attract foreign investments and this will affect the reduction of unemployment and will have other benefits. It is important to achieve people awareness starting from the top leaders of the state and to the citizens that a country with low corruption has higher benefits than a country with high corruption.
References
CONSUMPTION AS FACTOR OF ECONOMIC GROWTH – COMPARATIVE ANALYSES OF MACEDONIA AND SLOVENIA

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Abstract
The aim of this study is to analyze consumption as a whole and its impact on the economic growth. It is common practice to do analysis on the general level of the growth of the economy, or the state of the transition economies (TEs), or analyzing enterprises, and many other different kinds of economic analysis, specific consumption such as energy consumption, but analysis of consumption as a whole and its impact on the nation’s economic growth has not been done yet.
The analysis is going to be focused on comparative analyses on Macedonian and Slovenian economic growth, with high relevance on the investigation of consumption. Taking into consideration all the facts about Macedonian history and its ups and downs through the years a comparison between the two republics, Macedonia and Slovenia, will be carried out since they were two republics breaking up from the same Socialist country and gaining independence at the same time yet being so diverse economically.
The analysis is going to reveal the impact and at what length does consumption, being the largest factor of the GDP formula, have at these two country’s economic growth. The data used for the Macedonian analysis is questionnaire based data, as primary data. Considering the comparative analysis, we will make use of the secondary data from the statistical biro of Macedonia and Slovenia.

Keywords: Consumption, Economic Growth, Transition Economies (TEs)
JEL Classification: E29, O40, P20

Introduction
A national economy is a wide merger of individuals, businesses and government spending or investment. Governments typically pay close attention to economic factors to measure the strength of an economy. Consumers represent a major factor in the economy, according to state statistical office of Macedonia, consumption accounted for approximately 84.41 percent of GDP in 2015. While some indicators are considered more meaningful than others, one finds itself among the most looked at figures and seems to spark the most argument: consumer spending. Spending is an important role of consumers. Free market economies rely on consumer demand to gauge the allocation and distribution of economic resources. Consumer spending is the result of many factors, including monetary or fiscal policy, inflation, purchasing power and supply of goods.
Consumer spending is an important economic factor because it usually coincides with the overall consumer confidence in a nation’s economy. High consumer confidence indicators usually relate to higher levels of consumer spending in the economic market. The high confidence especially affects consumer preference to make major purchases and to also use credit to make certain purchases.
The types of consumer spending that are found in the economic market are: Necessities, which represent food, shelter and clothing people need to maintain certain quality of life; non-durable goods, which last less than three years, i.e. gasoline, paper products etc.; durable goods, represent cars, houses; and luxury items are jewelry and other items that are not necessary for a day to day living standards lifestyle. Major changes in the last two types of consumer spending, durable goods and luxury goods can be an important economic indicator. When these two increase that means that the consumers have more money to spend, i.e. higher income.
Before we analyze how consumer spending and the economy are linked, let’s have a look how growth occurs in the economy. The definition of growth is an increase in the capacity of the economy to produce goods and services. Several factors are responsible for influencing economic
growth, they are, investment, innovation, increased specialization, increased input. One measurement to determine how much economy is growing is by measuring the GDP. GDP is the total value of all goods and services produced by a country, regardless of whether it was actually made in another country.

Consumption being the largest factor in the equation of GDP, needs to be given a lot of thought and analysis. As far as Macedonia is concerned this factor has not been given the attention that it is needed. It is common practice to do analysis on the general level of the growth of the economy, or the state of the transition economies (TEs), or analyzing enterprises, and many other different kinds of economic analysis, specific consumption such as energy consumption, but analysis of consumption as a whole and its impact on the nation’s economic growth has not been done yet.

The aim of the study will be focused on comparative analyses on Macedonian and Slovenian economic growth, with high relevance on the investigation of consumption. Taking into consideration all the facts about Macedonian history and its ups and downs through the years a comparison between the two republics, Macedonia and Slovenia, will be carried out since they were two republics breaking up from the same Socialist country and gaining independence at the same time yet being so diverse economically.

After the break up in 1991 Macedonia was one of the least developed republics economically. As if that was not enough the republic of Macedonia suffered economic challenges posed by both the transition from socialist economy to a market economy and a difficult regional situation. When Macedonia was part of Yugoslavia, its economy was controlled by the state, which effectively owned most enterprises. After independence the country had to make the transition from a modified socialist economy to a free-market economy. The break up also deprived Macedonia from a protected market and large transfer payment from central Yugoslav government. The economy of the country was mostly damaged by the embargo imposed by Greece in February 1994 in a disagreement about the country's name, flag and constitution.

In 1991 Macedonia’s gross domestic product (GDP) per capita was about one-third compared to Slovenia’s, which was the richest of the republics. GDP, which measures the value of goods and services produced in a country, fell by more than 30 percent from 1991 to 1995 in Macedonia. The first economic growth came about in 1996, which could have come about because Greece lifted its trade blockade in 1995.

Other crises that have affected the trade-dependent economy of Macedonia were the war in Bosnia and Herzegovina, the international sanctions imposed on Serbia and the 1999 crises in the neighboring Kosovo.

The next down fall of the country’s economy came about from the Macedonian civil war in 2001, because this decreased international demand for Macedonian products, and it canceled contracts in the iron, textile and steel industries. Growth only just recovered in 2002 to 0.9 percent, and subsequently averaged to 4 percent per year during 2003-06. *(factbook Macedonia)

Unemployment has been a dominant problem in Macedonia. In 1995 the unemployment rate was 33 percent and kept rising to 40 percent by 1998. Currently Macedonia has an unemployment rate of 24.3 percent. *(Macedonian State statistical office)

Macedonia has maintained macroeconomic stability with low inflation, but it has lagged the region in attracting foreign investment, and job growth has been anemic. Macedonia has an extensive gray market, estimated to be more than 20 percent of GDP, which falls outside official statistics.

Slovenia on the other hand has been doing pretty well since the break up from Yugoslavia. It has had a constant growth with its peak in 2007 at 6.9 percent but then it was hit badly in the 2009 in the economic crises at -7.8 percent then another downfall in the 2012-2013 and since then it has started growing constantly at a 3.1 percent. Slovenia has had an unemployment rate of 6 percent in 2006 and it lowest in 2008 at 4 percent, the highest unemployment rate has been in 2013 at 11 percent and in 2016 has a unemployment rate of 7.3 percent. *(Slovenian state statistical office)

Some questions that need to be kept in mind while carrying out the study are:
What happened to Macedonian economic growth after 1991? What are the consequences in the economic sense after the Macedonian Independence? What is the impact of consumption as a macroeconomic factor of growth in the case of Macedonia? Does Macedonian economy depend much on this factor and what is the perspective in this sense? What is the structure, trend and quality of consumption in case of Macedonia compared with other transition countries? What are the relations between consumption and others macroeconomic factors in case of Macedonia?

All these questions will be analyzed and attempted to be answered in this writing while trying to prove the hypothesis: has consumption had any effect in the economic growth in Macedonia, since the facts are known that GDP has grown since 2002 by a mere 4 percent per year, and also a sub hypothesis to prove that consumption has had not much effect, in terms of growth, in the Macedonian GDP.

Literature review

First of all we need to define what we mean by consumer spending. Consumer spending is what households buy to fulfill everyday needs. This private consumption includes goods and services. Every one of us is a consumer. The things that we buy everyday create the demand that keeps companies profitable and hiring new workers.

Nearly two-thirds of consumption includes services like real estate and healthcare. Other services include financial services (such as banking, investments, and insurance), cable and internet services, and even services from non-profits.

The remaining one-third of our spending is on goods. These include so-called durable goods, such as washing machines, automobiles, and furniture, as well as non-durable goods, such gasoline, groceries, and clothing.

There are several factors that affect consumption. Some of them are stated below:

Income: income is the most important factor that determines a population’s propensity to consume. As income rises or falls, consumption spending also rises and falls. If wages rise faster than prices, then real income will increase and this leads to a higher level of real purchasing power

Distribution of Income: There is a great inequality in the distribution of income. This widespread of inequality of income lowers the overall propensity to consume, as the rich have already fulfilled most of their basic needs. A more equal distribution of wealth will rise the propensity to consume.

Changes in Expectations: Expectations regarding future events affect the population’s propensity to consume. Individuals may rush to purchase goods and services in excess of current needs if they expect war, natural catastrophes, or any fear of a shortage on account of any other reason. Therefor the amount of consumption as a ratio of current income will rise and consumption function will shift upwards, without any rise in income. Under this also fall the expectations of a rise in income or even a loss of a job.

Fiscal Policy: the fiscal policy of the Government relating to taxation, expenditure and public debt, and the changes therein have significant effects on the consumption function. A government’s progressive tax system brings about more equal distribution of income, in so doing it shifts the consumption function upwards, as more equal distribution of wealth increases the propensity to consume, on the other hand a regressive tax structure will reduce total consumption in the economy.

Changes in the rate of interest: If interest rate go up, people will tend to consume less and save more in order to have higher gains from lending on higher rates of interest. This may effect only purchases on durable goods that are purchased on credit loans, as Keynes stated that interest rates do not change individual’s propensity to consume, rather make it more expensive for individuals to borrow. Keynes also stated that interest rates are determined by people’s money demand, or liquidity preferences.

Demographic factors: even at a certain level of income the expenditure of consumers may differ widely form one household to another. The variations in expenditure are due to demographic factors, which consist of factors such as: the size of the family, place of residence, occupation of
family members, stage in the family “life cycle”, etc. Larger families tend to spend more than smaller ones. Families with children at college have a different pattern of expenditure than families with younger children. Demographic changes like age, gender composition of the families happen over a long period of time, and may therefore be ignored in the short run.

Wealth and stock of money (savings): Total wealth of consumers has been thought to have great effect on consumer spending. A consumption functions with wealth assets as one of the important influences has been proposed by E. Modigliani, the life cycle hypothesis. This hypothesis suggests that individuals plan their consumption and savings over their life cycle. They plan to even out their consumption over their entire life so doing by accumulating wealth when they earn and dis-saving when they retire.

Consumer confidence: regardless of their current financial status, consumers are more likely to purchase greater amounts of consumer goods when they feel confident about both the condition of the economy and about their personal financial future. If a person does not have enough confidence he/she is less likely to go ahead with major purchases such as a new car.

Household debt: this includes auto and school loans, as well as credit cards debts

Consumer spending is the single most important driving force of the economy. Let’s suppose for a minute what would happen if everyone boycotted everything. Businesses would eventually go bankrupt and lay off workers. The government would then have no one to tax. The only thing left would be exports, assuming other countries kept up their consumer spending. Borrowing would keep the government and factories open. In fact, these other factors of economic production are nowhere nearly as important as consumers spending. Even a small downturn in consumer spending can damage the economy. As consumption drops off, economic growth slows, which will lead to a drop in prices, which creates deflation. If slow consumer spending continues, the economy can go into a recession. However, too much of a good thing can be harmful, too. When consumer demand is greater than businesses’ capacity to provide the goods and services, prices can increase. If this goes on, it can create inflation. If consumers expect ever-increasing prices, they will spend more now. That further increases demand and business raise their prices. It becomes a self-fulfilling prophecy that is very difficult to stop.

Many factors affect the ability of people to spend and this has a large effect on the economic cycle. John Maynard Keynes was one of the major figures in the history of economics who developed a theory of consumption that depended mainly on disposable income. Disposable income is income after direct taxes and welfare benefits. The concept is used to develop the notion of a government spending multiplier. Its simplest form is the linear consumption function used frequently in simple Keynesian models:

\[ C = a + b \times Y_d \]

where \( a \) is the autonomous consumption that is independent of disposable income; in other words, consumption when income is zero. The term \( b \times Y_d \) is the induced consumption that is influenced by the economy's income level. The parameter \( b \) is known as the marginal propensity to consume, i.e. the increase in consumption due to an incremental increase in disposable income. Geometrically, \( b \) is the slope of the consumption function. One of the key assumptions of Keynesian economics is that this parameter is positive but smaller than one, i.e. \( b \in (0,1) \).

Keynes also took note of the tendency for the marginal propensity to consume to decrease as income increases. If this assumption is to be used, it would result in a nonlinear consumption function with a diminishing slope. Further theories on the shape of the consumption function include James Duesenberry’s (1949) relative consumption expenditure, Modigliani and Richard Brumberg’s (1954) life-cycle hypothesis, and Milton Friedman’s (1957) permanent income hypothesis.

Some new theoretical works are based, following Duesenberry’s one, on behavioral economics and suggest that a number of behavioral principles can be taken as microeconomic foundations for a behaviorally-based aggregate consumption function.
The decision of how much to consume is a decision about spending money now as opposed to keeping it to finance future consumption, for some specific purpose, or for some general unspecified eventuality in the future. The appropriate basis for a theory of consumption, as it is stated by Deaton in his book Understanding consumption, is therefore the theory of intertemporal choice, which formalizes the trade-offs between present and future consumption. The simpler version is the one found in the elementary books where consumers, living in the two period world of complete certainty, choses how much to spend today ad how much to spend tomorrow.

In the early 1950's Franco Modigliani and his student Richard Brumberg developed the theory based on observing people that they make consumption decisions based both on resources available to them over their lifetime, and on their current life stage. They stated that the working people save up for their post retirement lives and alter their consumption patterns according to their needs at different stages of their lives, independently of their income at each age.

While this theory was based on individual examination, it also provided an important prediction for the economy as a whole. It predicts that the aggregate saving of a country is dependent on the rate of growth of national income, not its level. Also the stock of wealth in an economy is related to the length of retirement span. Modigliani noted that one of the most important motives for putting money aside was the need to provide for retirement.

Carroll and Summers state that due to myopia and liquidity constrains, consumers do not base their consumption on the basis of the present value of expected future income, instead current income exerts a larger influence on the consumption than many modern theories imply. On the other hand Mankiw and Campbell state that current income is a more important determinant of consumer spending than the permanent income hypothesis suggests.

The permanent income hypothesis mentioned by Milton Friedman in 1957 where he states that the total amount spent on consumption is on average the same fraction of permanent income, regardless of the size of permanent income. The size of the fraction depends on variables such as occupation, ratio of wealth to income, family size, interest rates and so on.

Having mentioned a couple of theories above, after gathering all the data and carrying out the needed analysis, we will have to see where Macedonia best fits in.

Data and methodology/Analyses

Taking into consideration all the facts about Macedonian history and its ups and downs through the years a comparison between the two republics, Macedonia and Slovenia, will be carried out since they were two republics breaking up from the same Socialist country and gaining independence at the same time yet being so diverse economically. The analysis is going to be focused on Macedonian and Slovenian economic growth and the factor that is going to be analyzed at more depth is consumption. What effect and at what length does consumption, being the largest factor of the GDP formula, have at these two country’s economic growth. These kinds of analysis will be carried out all throughout the paper with statistical data gathered from the different sources and illustrated by graphs and tables.

In order to analyze consumption there are several variables that we have to have a closer look at. Starting with the main one being the level of employment. The more people there are receiving a steady income and expecting to continue receiving one, the more people there are who are in a position to make to unrestricted spending purchases, so we have to follow the monthly unemployment indicators. The other is the level of income of the population because that shows how much money there is to spend. If level of income is steadily rising, consumers generally have more money to spend, and vice versa. We will also have to look at consumer behavior (here could go in the ethnical aspect to determine the consumer behavior); standard of living which is interlinked with the income; demographics, loans/credits; remittance.

As mentioned before, in order to see if a country is doing well or not one has to look at its GDP, which measures two things at once:

Total income of everyone in the economy
Total expenditure on the economy’s output of goods and services
The GDP formula being:
\[ Y = C + I + G + NX \]
Where: 
Y = GDP
C = Consumption
I = Investment
G = Government Purchases
NX = Net Exports

Since consumption is part of the calculation of the GDP, (which measures the economic growth), I will have to see to what extent it affects the growth of the country’s economy. In order to look at the consumption, I would have to see what goods and services are taken into the consumption basket. From Adam Smith and onwards, much of the economic discussions have assumed that everything we value about the functioning of the economy is to be found in the final demand for goods and services. The belief that the consumer satisfaction is the ultimate economic goal and that the economy is fundamentally ruled by consumer desires.

In Macedonia the value of the consumer basket of a four-member household as of December 2016 is calculated to be 580 USD (32,102 MKD at retail price). Consumer basket of food and beverages being at 240 USD (13,174 MKD), payment of Utilities, equipment and home maintenance is 190 USD (10,454 MKD), transportation 42 USD (2,339 MKD), and least is health 12 USD (678 MKD), and culture 19 USD (1,070 MKD). *(Federation of Trade Union of Macedonia)

It would have been very easy to measure consumption if consumers were to buy the same fixed set of goods at a constant rate. But goods and services change over time and consumers tend to run to the new products that come to the market. Much of the consumption growth depends on the introduction of the new goods and services in the market and the improvement of the quality of the existing ones.

The other factors that have to be looked at are consumer price index, which as of April 2017 increased by 0.1 percent at monthly level and 0.3 percent at annual level. Inflation rates, which increased by 1 percent in April 2017 following a 0.6 percent rise in the previous month. This was the highest inflation rate since December 2013 as prices rose at a faster pace for restaurants and hotels, furniture and household equipment, whereas fell for food and non-alcoholic beverages. Inflation rate in Macedonia averaged 18.81 percent from 2006 until 2017, reaching an all-time high of 9.90 percent in June of 2008 and a record low of -2.10 percent in December 2009. *(Tradingeconomies.com)

The other factors that need great attention are real GDP, nominal GDP and GDP deflators. In the latest reports, Macedonia’s GDP expanded 2.4 percent YoY in Dec 2016. Macedonia’s Nominal GDP reached 2.8 USD billion in Dec 2016. Its GDP deflator (implicit price deflator) increased 7.5 percent in Dec 2016. Macedonia’s GDP Per Capita reached 4,852.9 USD in Dec 2015. Its Gross Savings Rate was measured at 20.2 percent in December 2016.

In order for all of these analysis to be carried out I have prepared a questioner that is in the process of distribution to all the main cities of Macedonia, which are from the 8 statistical regions, Skopje region is Skopje, Polog Region is Tetovo, Southwestern Region Is Struga, Pelagonia Region is Bitola, Vardar Region is Veles, Southeastern Region is Gevgelija, Eastern Region is Shtip and from Northeastern Region is Kumanovo. The Sample number that need to be carried out if 384 answered results, of that meaning that I need to alt lest distribute 1000 questioners in order to get at least 384 answered questionnaires. This is done based on 5 percent margin of error and 95 percent confidence level.

As for Slovenia I have to rely on the data from the statistical office of Slovenia.
Discussion of results
For the time being the data is being gathered. The process of distributing the questionnaires has started. Due to the current political situation, it is going at a slower pace as foreseen, but it is in process.

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ECONOMIC INTEGRATION AND EUROPEANIZATION OF THE WESTERN BALKANS

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Abstract
The EU enlargement has played an important role for economic, political and social transformation and convergence with the European Union. This provided a new perspective for the Western Balkans countries in post-transition period for stabilizing the region and opening new economic prospects within the European market. However, in the recent years, after the global economic crisis, the pace of European integration and convergence are slowed down. In addition, the analysis shows that the progress in implementing the political criteria is even slower and followed by higher challenges compared to the fulfillment of economic convergence criteria and the Acquis. The suggestion is to accelerate the process of EU integration, through an increase of the credibility of the reform process by taking into consideration the political economy implications and introducing creative mechanism and initiatives for more transparent and inclusive process of EU integration, as well as, promoting initiatives for enhancing regional cooperation, financial support and more investments in the Western Balkans. This implies more attention for Europeanization and its role in moving forward pro-European reform policies and support.

Keywords: Europeanization, European integration, Economic integration, Western Balkans
JEL Codes: E61, F02, F15, F5

Introduction
The pacification policy for the European continent, through the establishment of the European Union and its continuous enlargement, is a unique process and a historic possibility for the further peaceful integration of the continent and the expansion of stability and prosperity within Europe (Nobel Prize, 2012). European Union since its establishment has continuously promote cooperation and solidarity policies in the name of peace and prosperity by establishing mechanisms of economic integration, political and security (European Commission, 2016).

The process of European integration has been followed with several challenges, including the economic, political and security challenges in the last years. The developments in the immediate neighborhood of the EU, in North Africa and the Near East, and particularly in Syria and Levant, as well as the developments around Ukraine and the related differences between the United States and the European Union on one side, and the Russian Federation, on the other, serve as reminders that peace is not a constant and that daily hard work is required to preserve the balance of peace. Also, during the past several years the EU functioned in a situation of acute economic crisis, which at times had developed dramatic proportions.

From an economic, political or security aspect, all the stated challenges require a proactive attitude and decisiveness, and they can be used as signals concerning the need for internal reforms and consolidation of the EU along all lines, as well as a foundation to build a coherent and consistent attitude towards more deepened integration (political, economic and monetary union) and further accelerated enlargement towards South-East Europe, namely, Western Balkans and Turkey. The new composition of the European Parliament and the European Commission will have to immediately confront all the challenges inside and outside of Europe - the recovery after the economic crisis, the issue of security (especially relations with Russia in the Ukraine), the crisis of migrants (refugees), terrorism, but also political challenges as the Euroscepticism and national political populism (European Union, 2016 and Szołucha, 2010).

Recently, adding to the above, the Brexit and its implications for the future of the European Union. Mainly as reasons are listed the discontent among citizens from the establishment as well as
numerous challenges that the European Union is facing in the last decade, such as the economic crisis, the debt crisis (Greece, Spain, Italy) and partly the lack of efficiency with fiscal policy within the eurozone, then security risks (Ukrainian crisis and relations with Russia), immigration policy, the refugee crisis (mainly due to the war in Syria) and terrorism. These caused an increase of the euroscepticism within the Member States of the European Union, and also coming to a greater expression of populism in a part of national political leaders.

The region of the Western Balkans in the last fifteen years managed to be safe and stable. Namely, the region transformed from an importer to an exporter of peace. It became a provider to a global peace through NATO security and peace missions. This process notes some positive shifts whereby Croatia became the twenty-eighth Member-State in 2013; Macedonia fulfilled the conditions to start negotiations in 2009; Montenegro since 2012 and Serbia since 2013, after a successful dialogue with Kosovo it also started accession negotiations; in 2014 Albania received candidate status with the possibility to start negotiations; Turkey, slowly but surely makes progress in negotiations; Kosovo closes negotiations for the conclusion of the Stabilisation and Association Agreement, and recently, Bosnia and Herzegovina has found a window of opportunity for continuation of the process through the United Kingdom and German initiative (European Commission, 2015a & 2015b).

In the circumstances described above about the challenges of the European Union, highlighting in this case the growth of Euroscepticism in some of its member countries, directly influenced the process of enlargement of the European Union. This becomes even more complex when we consider the other challenges facing the Western Balkan countries, the complex system of government in Bosnia and Herzegovina, sensitive relations between Kosovo and Serbia, as well as the name issue of Macedonia (European Commission, 2015b). Therefore, the question is how to make lasting peace in this region, which will provide a healthy ground for the development of the region. In compliance with this, our focus in this research is on economic integration and Europeanization of the Western Balkans.

Convergence and economic integration

*Copenhagen convergence criteria*

The long-lasting process of European integration of the Western Balkans affects the reform agenda as well. Looking from that point of view the fulfillment of the political criteria and economic criteria, as well as the approximation with the European ‘Acquis’, there is evidence that countries from the region has shown better results in terms of economic criteria than political criteria and the performance is related to the pace and credibility of the EU integration process. In order to gain a comparative overview about the level of the readiness and the dynamics of the progress of the Western Balkan countries towards the integration process, in a preliminary analysis we illustrate the analytical model: "integration space-time" (Figure 1). With a dose of reservation, but because of a comparative analysis, these models are based only on simple quantification of estimates given in the progress reports of the individual countries from the region (European Commission, 2016b). The assumption, because of methodological purposes, does not consider the qualitative aspects of the integration process, neither the specifics of individual countries.

Within the "integration time-space", one can see the level of readiness (vertical axis) and progress, i.e. the dynamics of the integration process (horizontal axis) of candidates and aspirant countries to EU integration. Namely, diagram weaker performance is the bottom left corner (1, 1), while the best performance is in the upper right corner (5, 5). Looking at "time-space integration", the first impression is that most countries have good performance in addition to economic criteria, while weaker in terms of political criteria. In fulfillment of the political criteria, the countries are roughly at satisfactory level of readiness (2) and moderate dynamics (3), while can be noticed the negative effects of the political crisis in Macedonia. As regards the economic criteria, Macedonia records slower progress on pair with Kosovo, while better progress have Serbia, Albania, Montenegro and Bosnia and Herzegovina. However, in terms of readiness, Macedonia is in a better position. In terms of progress in the ability to meet obligations (acquis) of the EU membership, there are ahead Serbia
and Montenegro that corresponds with formal opening of accession negotiations with the European Union, and thus have more remarkable progress compared to other countries (we note that this can be considered as an argument that the official opening of negotiations helps to accelerate the European integration process). Regarding the level of readiness in terms of meeting the acquis, Macedonia is in a position relatively more favorable, followed by Serbia and Montenegro, while Albania, Kosovo and Bosnia and Herzegovina, it can be said that due to the inclusion later in the integration processes have the lower level of readiness. In such case, we may count that as argument in favor of the endogeneity of the European integration process which needs to be further tested more formally.

Figure 1. Copenhagen convergence criteria

Catching-up, growth and convergence

European integration process for the Western Balkans has also another challenge, the convergence challenge in terms of living standards of that of EU member states. The main reason behind this prosperity gap lies in the failure over the years of Western Balkans countries to be competitive, meaning that they lack the appropriate factors and institutions needed for high levels of long-term productivity (Sanfey et al, 2016). European integration has proven to be a long and complex process of harmonization with the existing economic performance achievements of the EU Member States (DGEP, 2015; European Commission, 2015a & 2015b). If we compare living standards in the member states of EU and NATO with that of the Western Balkan countries we will notice a big difference. In 2010 the average level of GDP per capita in Southeast Europe stands at the level of 36.4% of GDP per capita of the EU. The average unemployment rate in the Eurozone is 8-9%, while in the Western Balkans is around 23% (Regional Cooperation Council, 2013; Eurostat). These figures clearly indicate the big difference in living standards between the Western Balkans and the EU. As presented below over the last decade there has been a moderate trend of convergence comparing 2005, 2010 and 2015 respectively for each country (Figure 2). The average Western Balkans GDP per capita in PPS compared to EU28 average is moving upwards from 27.6%, 33.2% and 34.6%, respectively for 2005, 2010 and 2015.
The EU has been the largest export market for the region for some time, and continues to absorb about 60 percent of Western Balkan exports, with the notable exception of Montenegro. Yet trade among the Western Balkan countries themselves has become more important as well since 2000 (IMF, 2015). Although the region of the Western Balkans may be considered as open with 94% of GDP, yet it is below the EU-11 (New Member States) with trade openness of 137% of their GDP (Figure 3). This process is required to continue as the economic integration increases and creates new markets thus more potential for higher economic growth in the future.

Investments increase remains a challenge that mainly reflected through FDI per capita which is still below the average of the New Member States (EU-11) and the EU (Figure 4).
South East Europe 2020

Similar evidence of improved competitiveness of the Western Balkan economies we can find from the global competitiveness index (WEF, 2016). The targets for 2020 are set in the SEE 2020 Strategy as explained in the next section of this research. According to the World Bank projections, Western Balkans will reach the EU average in a period of 20 years, if there is a growth of 6% annually, meaning a rapid acceleration (doubled growth) compared to the average economic growth of the past decade (World Bank, 2014 and 2017). The vital requirement for catching up with the rest of the European Union is a boost of investment in the region. The Western Balkans have a number of attractive features for investors. The long-term EU perspective is a major plus and a unique quality of the region compared with other emerging markets, as it helps to anchor market-oriented reforms and European standards. Strong macroeconomic stability, strategic geographic location, diverse economies, favourable tax regimes and low unit labour costs, combined with a relatively well-educated population, are common attributes throughout the region (Sanfey et al., 2016).

All countries in the Western Balkan expressed their strategic goal and linked their political and economic interests with EU membership. In the next period, one can expect that the EU will raise the level of priority in the enlargement process and make significant engagements and investments to complete the initial process in relation to the Western Balkans (such as the Berlin process, Connectivity Agenda, Western Balkans 6, RCC, CEFTA, etc.). According to the last Enlargement Strategy, prepared by the European Commission and adopted by the European Council, there are three major strategic benefits of enlargement, that fully deserves further investment and full consideration by all member states - enlargement makes Europe a safer place, it helps to improve the quality of people’s lives and it makes us more prosperous (European Commission, 2015).

Guided by this strategy, the Regional Cooperation Council in coordination with the Western Balkan countries and the European Commission prepared a strategy called ‘South East Europe 2020 - Jobs and Prosperity in European Perspective’ focused on five pillars of growth: smart, sustainable, integrated and inclusive growth and governance for growth. The main objective is through an accelerated economic growth to increase the living standards of Southeastern European countries from the current level of 36% to 44% of the EU average in 2020, according to GDP per capita; next goal is to double the foreign trade of the countries of the region and to reduce the trade deficit. This would affect the opening of about one million new jobs in the region. According to this Strategy (RCC, 2015): (1) Smart growth – the objective is to ensure a 32% increase in average labor productivity via an 18% increase in the number of highly qualified persons in the workforce. This cannot be achieved without quality education, research & development, scientific innovation, digital
society and a quality and merit-based cultural promotion and creative sectors. (2) Integrated growth – the objective is to increase intra-regional trade cooperation and exchange by 2.4 times, and increase overall foreign direct investment (FDI) inflows to the region by 2.6 times. This will be done via the promotion of free trade, a competitive economic environment, and integration into the global economy. (3) Sustainable growth – will ensure a constant growth of new businesses by 12% per annum, and increase exports from the region by 2.4 times. This will be tangible via investment and reforms in the field of energy, transport, environmental protection, etc. (4) Inclusive growth – should increase the overall employment rate from 39.5% to 44.4% through the promotion of active measures and social policies in the labor market and increase the quality of healthcare services. (5) Governance for growth – will ensure effective public services, uncompromised fight against corruption and the rule of law.

**European development funds and structural reforms**

In order to support sustainable development and reforms for European integration process, EU offers a set of financial assistance for Western Balkans and Turkey, through the Instrument for Pre-accession Assistance. Namely, IPA 2014-2020 amounts 11.7 Billion EUR for bilateral country support in the following areas: Democracy and governance, rule of law or growth and competitiveness; Sector approach and structural reforms; and Sector budget support. IPA 2014-2020, provides additional financial assistance of 2.9 Billion EUR through Multi-country Programs, through the following channels: Horizontal support; Regional structures and networks; Regional investment support; and Territorial cooperation.

Western Balkan countries are eligible also to apply for Union Programs, designed for Member states, Candidates and Potential Candidates with a total amount of 960 Billion EUR for the period 2014-2020, such as: Horizon 2020, COSME, Erasmus+, etc.

**Europeanization and policy recommendations**

**Post-crisis enlargement vs euroscepticism**

We may say that, European integration remains the best alternative for the Western Balkans (DGEP, 2015; Sanfey et al. 2016), which is also present in the rhetoric of political leaders in the region supported by the majority of population regardless of the downturn trend (according to Eurobarometer survey). There has to be a delivery in a certain dynamics in order to keep the support from people. Namely, the European integration process should be more intensive and faster in order to maintain the credibility (European Commission, 2015a).

The European Union makes efforts to overcome the crisis and create new perspective for development, with decisions which introduced changes in the direction and coordination of the European economies, as well as mechanisms to control public finances and borrowing excess (European Union, 2016). In order to successfully confront the challenges of the economic and financial crisis, the EU has developed the strategy "Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth", which has set itself the task of achieving the following objectives: 75% of the population aged 20-64 years should be employed; at least 40% of young people should have higher education (university); 3% of GDP need to invest in research and development (R & D); the number of poor should be reduced by 25% (European Commission, 2010). Also approved Investment Plan of Europe which aims to generate 315 billion Euros of investments in 2018 (European Commission, 2014).

Taking into consideration the context of several challenges to the European Union and the implication on the enlargement process, the next steps to be undertaken by the European Union we may list as the following:

First, the European Union should show unity and solidarity between the Member States and should not create room for uncertainty because it will directly affect the credibility of the EU. In this regard, clear messages were the last European Council summit in late June 2016 confirming the
determination to deal with the new situation and defining the strategy for confronting the economic, political and security challenges.

Second, prepare for a credible and fair process of negotiations between the EU and the UK in the event of activation of Article 50 of the Lisbon Treaty for a European Union for exit of a Member State. Scenarios may be based on the example of Switzerland to have free access to the common European market in certain sectors and industries or the Norwegian example through a membership in EFTA (European Free Trade Association).

Third, reforms to be followed for strengthening EU institutions, namely stronger banking union within the euro zone, higher flexibility and harmonization of fiscal policy within the euro zone, as well as appropriate policies about the freedom of movement for goods and services, labor, capital and knowledge within the European Single Market.

Fourth, increased democratic accountability of the EU institutions and strengthening the communication with citizens on the EU policymaking. This is particularly evident lately through immigration policy, as well as dealing with the refugee crisis that shows a lack of consensus in the approach by the EU Member States, and at the same time it influenced the increase of social insecurity among citizens in some Member States.

Fifth, consistent implementation of the 'Europe 2020: Strategy for smart, sustainable and inclusive growth" adopted in 2010 by the European Union as a strategy for recovery after the economic crisis. Similar effects to be achieved in support of economic growth in the EU and the current implementation of the three-year investment plan of the EU, adopted in 2014, which aims to generate approximately 315 billion investment in the next three years in the EU.

Sixth, foreign security policy to focus on strengthening cooperation with NATO in order to handle the challenges and to provide peace globally, as well as increased financial supports in less developed countries and regions through development programs, which in addition will affect the reducing the influx of refugees and immigrants into the EU.

Seventh, continuing the policy of enlargement of the European Union, from the perspective Western Balkans will mean more stable, more advanced democracy and economically more developed region, which would actually be an advantage for the European Union in this period with global economic and security challenges. The latest refugee crisis has shown that the region de facto is part of Europe, and therefore part of the problems and solutions within the European Union.

Finally, the European Union should continue to fulfill its goal of creating a union that will live in prosperity and peace through the promotion of European values of unity, solidarity, transparency, inclusiveness, accountability, democracy, rule of law, human rights and freedom, peace and prosperity.

**New enlargement initiatives**

Providing the Western Balkans with more prospects in positioning vis-à-vis global, geopolitical and economic developments, in times with global challenges, the chance might be the focus on the European reform agenda, as well as launching a new cycle of investments for sustainable economic growth. In addition to this, relevant are the regional initiatives that should increase cooperation and integration of the region, such as: the Berlin process (Berlin, Vienna, Paris, Rome); Connectivity Agenda for the Western Balkans under the auspices of the European Commission; Western Balkans 6; Regional Cooperation Council and similar initiatives. Within these initiatives is promoted regional cooperation in order to increase the infrastructure connectivity, which will contribute to improving the competitiveness and economic growth of the region, in compliance with the implementation of a common development strategy "Southeastern Europe 2020: Jobs and prosperity in European perspective". Further, it is promoted strengthening of democratic capacities through involvement of civil society and youth in policy- and decision making. Basic human rights and good governance, are the priorities addressed in the Enlargement Strategy of the European Commission for the Western Balkans. These are norms relating to civil concept of the state under which the individual or the citizen has the central role, and the state serves them to ensure security, freedom, justice and
provide prosperity and welfare. In fact, integration into the European Union and NATO, involves installing these values in society.

**Political economy of enlargement**

The EU enlargement as a peace building process has been a successful project. The challenge is how to move forward with this success in the post-crisis period during the times of new economic, technologic, demographic and security challenges in changing geopolitical context? How to speed up the process of European integration of the Western Balkans and increase the credibility of this process? Conversely, delays with the European integration may harm the credibility of the Western Balkans as a future partner in the European family.

Taking this into consideration, for further research we may suggest the following framework for the European integration reinforcement (Figure 5):

**Figure 5. Reinforcing the European integration**

![Diagram](image)

Source: Author’s illustration

Actually the enlargement faces the challenges of the rising euroscepticism in some of the European Union countries, slowdown of the integration reforms process and economic convergence gap of the Western Balkans relative to the European Union living standard. The prospects for the Western Balkans will be based on catching-up through faster economic growth which can be achieved through further trade integration and higher investments, as well as, sound structural reforms and increased competitiveness of the economy. However, the way forward will depend on the credibility of the policymaking and trade-offs of the short-term national political and long-term economic interests, hence possible time-inconsistency problem in policy making, also in the way forward it implies the need for a political economy view on the overall process of European integration.

**Conclusions**

Based on the overall history of the European Union since its foundation, one can conclude that the EU enlargement process is one of the most successful geo-political and economic policies on global level, which was crucial for the establishment of the world largest economy and promoting peace, whilst in the past and nowadays, the process was exposed to a range of internal and external challenges that require pro-active policies.

Although, there has been certain progress, still work needs to be done, a re-energizing the EU reform agenda is needed. Further engagement is required on the following areas: Rule of law and independence of judiciary; Fight against corruption and organized crime; Media and freedom of
expression; Political dialogue and functioning democratic institutions; Inter-ethnic relations; Electoral code; Economic reforms for functioning market economy; and Good neighborly relations.

The enlargement process towards South-East Europe and Western Balkans has been ongoing for quite long period of time and it can be evaluated as successful process which is still in progress and needs to be reinforced and accelerated. Slovenia (2004) and Croatia (2013) which are already EU member-states, serve as good examples that the integration is also reality for the countries in our region. However, until all countries in the region are there, one cannot consider it as completely successful.

EU and the Western Balkans have the challenge to find the way to overcome the bilateral open issues among some countries of the region (Serbia and Kosovo are positive example), i.e. open bilateral issues between an EU member-state and a candidate country, whereby the EU external policy mechanisms are still powerless (example of Macedonia and Greece). The ability to solve such complex matters would protect the credibility of European integration.

Under such complex conditions, the continuation of the process and its dynamics would require continuous additional efforts. It will be important considering introduction of mechanisms and channels to address the complexity and specificities of the bilateral issues of the aspirant countries. In addition, increasing the transparency and comparability of the integration reform process, it is announced from the European Commission that a new methodology of Progress Reports will be introduced, which will contribute to constructive competition and raise the accountability of political leaders in the Western Balkans. This is expected to help more effective implementation of reforms with respect to recommendations. Also, useful considerations may be on the implementation and extension of the Stabilisation and Association Agreement, as well as enhancing the scope of the National program for adoption of the acquis communautaire.

Hence, the recommendation will be focus on the European reform agenda and boosting investments to ensure the Western Balkans have better prospects for positioning during the period of global geopolitical and economic developments. To this should be added the regional initiatives to increase cooperation and integration of the region, such as: the Berlin process, which this year in July was held in Paris; Connectivity Agenda for the Western Balkans under the auspices of the European Commission; Western Balkans 6; Regional Cooperation Council and similar initiatives. These initiatives promote cooperation in order to increase the infrastructure connectivity, which will contribute to improving the competitiveness and economic growth of the region, also the implementation of a common development strategy "Southeastern Europe 2020: Jobs and prosperity in European perspective". In addition, the initiatives promote strengthening of democratic capacities through involvement of civil society and youth in policymaking. Basic human rights and good governance are among the priorities addressed in the Enlargement Strategy of the European Commission for the Western Balkans.

Finally, following the above conclusions and policy recommendations we may suggest an economic model for faster economic growth, primarily based on the increase of investments and generation of new jobs (in the private sector), through the increase of competitiveness and improvement of infrastructure and business climate. We need transparent and responsible public finance management to support and foster investments and to affirm social and territorial cohesion while promoting balanced regional development. Foreign investments will surely increase exports and economic productivity. However, this requires knowledge and new technology. The economic development model based on a competitive and integrated economy, including equal opportunities for all, would help the Western Balkans to join European Union as soon as possible!
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COMPARATIVE ANALYSIS AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KOSOVO

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Abstract
Kosovo’s economy was characterized by increased economic activity, registering an annual growth of 3.4 percent. Economic growth in the past six years is estimated to be generated mainly by increased domestic demand, namely by increased consumption and investment. Kosovo’s financial sector continues to be characterized by high sustainability. Key indicators of the stability of the financial sector, such as liquidity and capitalization, as well as the quality of the loan portfolio remained at a satisfactory level, while the level of expansion of credit activity across the sector has recorded slight slowdown. Owned banks continue to dominate the banking sector in Kosovo, where a total of ten licensed banks operating in the country, eight of them are foreign owned banks. The risks which the banking sector is exposed remain at a low level, especially in recent years. Furthermore, exposure to credit risk and solvency has since fallen as a result of the fall in non-performing loans and accelerated credit growth, and the banking capital increased as a result of increased profitability. Comparative analysis of the financial performance of commercial banks in Kosovo for the period 2010-2015 will be implemented through data based on reports of financial stability. Reports whereby performance evaluation carried commercial banks are divided into five groups: liquidity ratios, activity ratios, profitability, leverage effect reports and coverage ratios. These reports can be interpreted from two viewpoint, they can be calculated for a period of the year to perceived trends (time series analysis or reception) and for some enterprises of the industry (intra-sectoral analysis).

Keywords: commercial banks, financial analysis, performance, financial statements, financial reports.

Introduction
The banking sector plays a very important role in supporting the activities of financial markets and has a great influence on the success of an economy. Kosovo's banking system consists of commercial banks with foreign and common private capital and the common local private capital. In the past ten years, commercial banks are faced with a number of problems. Characteristic was the low level of their mediation and limited relationships with customers (businesses and individuals). Central Bank of the Republic of Kosovo is the country's leading financial institution, which it works in accordance with the laws in force, for Central Bank of the Republic of Kosovo, approved by the parliament of Kosovo. Second-tier banks are commercial banks, which execute the policies and services of the financial system.
In developing countries such as Kosovo, which is still going through a transition phase, commercial banks play a fundamental role in financial development. However the development of the banking system and improvement of its performance is closely related to economic growth and development of the country. The best performance of commercial banks is the basis for product innovation, diversification and efficiency of banks (Hempell, 2002). Financial performance is the process of measuring the results of policy and organizational operations in terms of monetary value. These results are reflected in profitability, liquidity and the leverage of the firm respectively commercial banks obtained in the study. Assessment of the financial performance of banks has traditionally
been based on the analysis of financial reports such as: liquidity ratios, activity ratios, profitability ratios, leverage ratios and coverage ratios.

The aim of the research is to evaluate the financial performance of commercial banks in Kosovo comparing banks through analysis of indicators based on the division and their importance. Comparative analysis of the financial performance of commercial banks in Kosovo for the period 2010-2015 will be implemented through data based on reports of financial stability.

Overview of the Economy of Kosovo

Kosovo’s economy was characterized by the growth of economic activity during the first half of 2015. According to the assessments of KAS, the first quarter was characterized by annual growth of 0.2 per cent, while in the second quarter of the country’s economy sped the pace of growth, recording an annual increase of 3.4 per cent. Economic growth in the first six months of 2015 is estimated to be generated mainly by domestic demand growth, namely by increased consumption and investment, while net exports continued to contribute negatively to economic growth.

In the first six months of 2015, the economy of Kosovo was characterized by declining prices. The inflation rate, expressed by the consumer price index (Consumer Price Index: CPI) in the first half of 2015 was -0.4 per cent. The main contribution to the decrease in prices had the category of transport prices which affected by 1.7 pp, then the category of furniture and clothing which negatively affected by 1.2 pp, as well as healthcare and education, which contributed negatively by 0.4 respectively 0.2pp. On the other hand, food and soft drinks contributed positively by 3.4 percentage point and the energy by 1.8 percentage point.4 Due to the high dependence of the economy on imports, as well as relatively high participation of tradable goods and services in the consumer basket, price movements in international markets continue to be the main determinant of price movement in the country. Import price index recorded an annual decline in average of 0.4 per cent in the first half of 2015, while production prices increased by 3.9 per cent. Due to the high dependence of the economy on imports, as well as relatively high participation of tradable goods and services in the consumer basket, price movements in international markets continue to be the main determinant of price movement in the country.

Fiscal sector was characterized by the growth of revenues and expenditures versus the prior year. Primary budget revenues till June 2015 reached a gross value of 661.2 million euros. If the 15.0 million euro subtracted the VAT returns and other taxes by the Tax Administration of Kosovo and Kosovo Customs, then the primary budgetary revenues mark the net value of 646.1 million euro, which represents an annual increase of 7.2 per cent. On the other hand, the value of total budget expenditures amounted to approximately 667.2 million euros which represents an annual increase of 5.8 per cent. In the first six months of 2015, current government expenditure reached a value of 544.4 million euros, an increase compared to the same period of the previous year of 11.6 per cent. The financial system is characterized by the expansion of activity and a high level of sustainability in all sectors of its ingredients. The role of the banking sector in financing economic activity in the country was reinforced during 2015. Acceleration of growth of lending activity during this period, driven by supply as well as demand, supported a further increase in consumption and private investment in the country.

CBK projections for 2016 suggest that the economy of Kosovo will have a higher growth compared to 2015. This increase as in 2015 is expected to be generated by domestic demand, while net exports provided to continue to have negative contribution growth of GDP. Consumption, as the main component of domestic demand, it is expected that during 2016 also have major contribution to economic growth. Investments, unlike in 2015, is expected to be characterized by considerable increase of public investment. Also, reduction of interest rates on loans and the facilitation of standards for approving loans by banks are expected to have a significant impact in promoting private sector investment.

4 Calculating the contribution of components of the ICK in level of inflation, except the price movements based on the weight of certain components you have in the ICK.
The Performance of the Financial System in Kosovo

Kosovo’s financial system during 2015 was characterized by further expansion of activity, although of slower pace. The value of total assets of the system in June 2015 amounted to 4.73 billion euros, which corresponds to an annual increase of 9.5 per cent. This growth is attributed to significantly expand the activity of commercial banks and pension funds. The structure of the financial system is still dominated by banking and pension sector, which in 2015 represented 69.1 per cent respectively 25.0 per cent of the total assets of the system (Figure 15). Consequently, the slowdown of the growth of total financial system assets mainly reflects slower growth of these two sectors. During this period, the pension sector scored the highest rate of annual growth in assets of 18.1 per cent, followed by the banking sector which was characterized by annual growth of 6.9 per cent. The third component to the size of assets is the insurance sector, which in June 2015 has increased the participation in total financial system assets at 3.2 per cent.

The structure of the financial system

The structure of the financial system is also expanded in terms of the number of financial institutions operating in the country. Until June 2015, in the local market have been added two insurance companies established with domestic capital. Also, the number of financial auxiliaries has reached 43 of the 41 they were in June 2014. While the number of commercial banks, microfinance institutions and pension funds remained unchanged. From a total of 88 financial institutions licensed to operate in the country, most of them consisting of microfinance institutions and financial auxiliaries, the number of which together reached to 61 in the June 2015.

Table 1: The number of financial institutions

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>11</td>
<td>11</td>
<td>13</td>
<td>13</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Pension Funds</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Financial Auxiliaries</td>
<td>29</td>
<td>32</td>
<td>39</td>
<td>40</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>17</td>
<td>17</td>
<td>19</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Total:</td>
<td>67</td>
<td>70</td>
<td>81</td>
<td>82</td>
<td>84</td>
<td>88</td>
</tr>
</tbody>
</table>

Source: CBK (2015)

The structure of the banking system

Kosovo financial system continues to grow steadily. In June 2016, the value of total assets reached to 5.1 billion euros, an annual increase of 7.3 per cent. The increase was mainly due to the expansion of the activity of the banking sector and the positive performance of the pension funds. Microfinance and insurance sector contributed to the growth of total assets of the system, but in a lower level. The financial auxiliaries sector continues to have a low weight in the context of financial system in the country. The structure of the financial system in Kosovo continues to be dominated by the banking sector (figure 28). The largest second sector is pension funds, which are continuing to increase participation in the context of total assets of the system. The participation of other sectors in total financial system assets continues to be approximate with previous years.

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5 The number of financial institutions represents the number of institutions that are licensed to operate in Kosovo market.
The Importance of Analysis of Financial Reports

Financial reporting is one of the key elements of financial analysis for financial leadership. It serves not only the institution but also other agents such as informing the public about the progress of the institution, the government and its mechanisms, through which government agencies monitor the situation of the institution and its development direction. Also, financial reporting is important also for current and potential investors, because it represents a strong base of information and decision making for guidance and continuous development of the enterprise. Financial reporting has an important role in the banking financial institutions in Kosovo and in other countries that have statutory financial reporting, while as an activity supervised by the Central Bank of Kosovo. To reduce risk and uncertainty deployment managers conditions have increased the use of financial indicators, and this had decreased to a large extent the uncertainty, because financial indicators enable obtaining different information and assessing the situation of the bank in time and certain periods.

Even though there are problems of implementation of analysis of reports, it remains an appropriate tool for analyzing the financial conditions of the enterprise. You certainly do not need to do the analysis, because you have difficulties in implementation or interpretation. Used together with other means of financial analysis, analysis of financial statements and reports can give a clear indication of the work of the enterprise and its direction. The analysis may be a warning sign of things to come, and as such may indicate that action must be taken now to correct a small problem before it becomes a major source of financial problems.

Indicators of financial reporting used to assess the situation and the financial performance of commercial banks are numerous, but among the most important and those indicators that we will use in our calculations will be: liquidity ratios, activity ratios, reports profitability ratios, leverage ratios and coverage ratios.

Comparative Analysis of Financial Indicators of the Commercial Banks in Kosovo

Analysis of the financial statements through reports can be a very useful tool for financial executives, investors and creditors, who can use this kind of analysis to ascertain how the enterprise is working over time and in relation to its competitors. Reports will tend to show trends, such as a deterioration of the profitability of the enterprise.

Comparative analysis of financial indicators for the commercial banks in Kosovo will be realized taking as samples seven (7) of the largest commercial banks in Kosovo, they are: Pro Credit Bank, TEB Bank, NLB Bank, Raiffeisen Bank, Bank for Business, National Commercial Bank and Economic Bank. The data which we have used to tabulate the results and comparison of financial indicators we

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have taken into financial reports separately for each commercial bank and in the reports of stability of the Central Bank of the Republic of Kosovo.

**Liquidity Ratios**

Liquidity ratios indicate whether the organization can withstand its current liabilities. Liquidity ratios express the organization's ability in order to cope its obligations when they repayment period comes. If an organization is liquid, it will be able to repay its obligations on time. Likuiditeti eshte lehtesia me te cilen aktivitet mund te konvertohen ne para (cash) pa humbje. If an enterprise is liquid, it will be able to meet its obligations. So, liquidity ratios are useful not only for short-term creditors of the enterprise, who are concerned that payments should be made, but also for enterprise executives, who have to make the payments.

There are two forms of measuring the liquidity ratio:

- Current ratio and
- Quick ratio – acid proof.

Current ratio shows how well you can pay current liabilities, which must be paid within a year. Below we will see the results of the report of the current liquidity ratio for seven largest commercial banks in Kosovo, and this report is analyzed for 4 (four) years from 2012 till 2015.

**Table 2: Liquidity ratios (current ratio)**

<table>
<thead>
<tr>
<th>LIQUIDITY RATIOS</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>THE NAME OF THE BANK</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pro Credit Bank</td>
<td>1.11</td>
<td>1.10</td>
<td>1.11</td>
<td>1.12</td>
</tr>
<tr>
<td>Reiffeisen Bank</td>
<td>1.10</td>
<td>1.16</td>
<td>1.11</td>
<td>1.11</td>
</tr>
<tr>
<td>Teb Bank</td>
<td>1.07</td>
<td>1.07</td>
<td>1.10</td>
<td>1.12</td>
</tr>
<tr>
<td>NLB Bank</td>
<td>0.89</td>
<td>0.84</td>
<td>1.37</td>
<td>1.05</td>
</tr>
<tr>
<td>Business Bank</td>
<td>1.10</td>
<td>1.07</td>
<td>1.08</td>
<td>1.08</td>
</tr>
<tr>
<td>Economic Bank</td>
<td>1.08</td>
<td>1.07</td>
<td>1.08</td>
<td>1.10</td>
</tr>
<tr>
<td>National Commercial Bank</td>
<td>1.07</td>
<td>1.09</td>
<td>1.09</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors

From the results of the current report shows that the highest ratio have had the Raiffeisen Bank, Pro Credit Bank and Teb Bank. For example the Raiffeisen Bank which has current ratio of 1.16 showing that for every euro of which the company must pay within a year, there are 1.16 € in an asset, which is money (cash) or converted into money (cash) during the year. For most industries are desirable to have more current assets than the short-term liabilities. Sometimes it is desirable to have at least 2€ in current assets for every euro in current liabilities (current ratio at least 2 : 1).

**Debt Ratios**

The degree to which a company uses debt financing or financial lever has three important implications:

- By providing funds through debt, shareholders retain control of the company without increasing their investments.
- If the company earns more from investments financed with borrowed funds rather than they pay interest when the returns for shareholders increase or "are increasingly influenced by the lever” the lever effect is positive but also increases their risks.
Creditors see its own equity or funds given by the owners to obtain a safety margin, therefore, the higher the ratio of the financing provided by shareholders the less risk creditors face. The ratio of total liabilities to total assets is called ratio of debt or sometimes called the total debt ratio. This report measures the part of the funds expressed as a percentage that are included between short-term liabilities and long-term debt. Creditors prefer low debt ratios because the lower the level of the ratio is, the greater is the margin of safety against losses that creditors may incur in the event of liquidation. Shareholders wish on the other hand to have a higher lever because according to Du Pont model their return multiplies.

Table 3: The Debt Ratio

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Credit Bank</td>
<td>88.5%</td>
<td>89.4%</td>
<td>88.4%</td>
<td>87.6%</td>
</tr>
<tr>
<td></td>
<td>Reiffeisen Bank</td>
<td>90.3%</td>
<td>85.5%</td>
<td>89.3%</td>
<td>89.7%</td>
</tr>
<tr>
<td></td>
<td>Teb Bank</td>
<td>92.8%</td>
<td>92.9%</td>
<td>90.3%</td>
<td>87.0%</td>
</tr>
<tr>
<td></td>
<td>NLB Bank</td>
<td>89.8%</td>
<td>90.1%</td>
<td>88.9%</td>
<td>87.1%</td>
</tr>
<tr>
<td></td>
<td>Business Bank</td>
<td>89.5%</td>
<td>93.3%</td>
<td>92.2%</td>
<td>91.8%</td>
</tr>
<tr>
<td></td>
<td>Economic Bank</td>
<td>92.5%</td>
<td>92.7%</td>
<td>92.3%</td>
<td>95.7%</td>
</tr>
<tr>
<td></td>
<td>National Commercial Bank</td>
<td>93.0%</td>
<td>91.6%</td>
<td>91.3%</td>
<td>90.6%</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors

This report shows the extent of long-term debt to finance the assets of the company. The smaller the proportion of the total assets that creditors are financing, the greater the impairment of assets is, which can not be located without compromising the position of creditors. Debt ratios provide an index (indicator) of financial risk. Enterprises that have high ratios of leverage effects are considered risky, because it is located less mitigation measure to protect creditors, if the value of assets deteriorates. For example, the ratio of debt to the National Commercial Bank is 93%, it shows that the value of assets may fall to 7% (100% - 93%) before equity be destroyed leaving only sufficient assets to pay off debt.

Profitability Ratios

Profitability or effectiveness ratios measure the combined effects of liquidity, management of tools and debt in the results of the company. Profitability ratios express exactly what the organization earns on its sales on assets or capital. The reports are:

- Gross marginal profit;
- Marginal net profit;
- Basic profit report;
- Return on total assets (ROA), and
- Return on equity (ROE)

The profitability of the five reports we analyzed ROA ratio or the return on total assets, the report which indicates the possibility of returns from investments in total assets. Also, this report was developed for seven leading commercial banks which operate in Kosovo for the period 2012 - 2015.

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Table 4: Profitability Ratios (ROA)

<table>
<thead>
<tr>
<th>PROFITABILITY RATIOS</th>
<th>The Name of the Bank</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return of Assets (ROA) = ( \frac{\text{Net Profit}}{\text{Total Assets}} )</td>
<td>Pro Credit Bank</td>
<td>2.35%</td>
<td>2.06%</td>
<td>1.82%</td>
<td>2.30%</td>
</tr>
<tr>
<td></td>
<td>Reiffeisen Bank</td>
<td>1.63%</td>
<td>1.53%</td>
<td>1.71%</td>
<td>0.60%</td>
</tr>
<tr>
<td></td>
<td>Teb Bank</td>
<td>1.42%</td>
<td>1.01%</td>
<td>2.68%</td>
<td>4.35%</td>
</tr>
<tr>
<td></td>
<td>NLB Bank</td>
<td>1.06%</td>
<td>0.70%</td>
<td>1.16%</td>
<td>1.76%</td>
</tr>
<tr>
<td></td>
<td>Business Bank</td>
<td>1.23%</td>
<td>0.03%</td>
<td>1.31%</td>
<td>1.49%</td>
</tr>
<tr>
<td></td>
<td>Economic Bank</td>
<td>-1.88%</td>
<td>0.69%</td>
<td>0.54%</td>
<td>2.01%</td>
</tr>
<tr>
<td></td>
<td>National Commercial Bank</td>
<td>2.19%</td>
<td>1.46%</td>
<td>1.59%</td>
<td>1.75%</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors

From the results the ratio of profitability respectively ROA gives us, worth mentioning TEB Bank - where the terms of the profitability indicators at the end of 2015, Teb Bank generated return on equity (ROE) with profitability of 51.1% compared with 36.2% in 2014, while return on assets or (ROA) stood at 4.4% compared with 2.7% in the previous year, and it that shows that the Teb Bank has earned 4.4 € for each euro invested in assets in 2015 and € 2.7 for each euro invested in assets in 2017 which is a very high level.

Conclusion and Recommendations

Considering that the banking sector plays an important role in supporting the activities of financial markets and has a great influence on the success of an economy. Financial performance is the process of measuring the results of the policy and organizational operations in terms of monetary value and these results are reflected in profitability, liquidity and leverage of the firm respectively commercial banks obtained in the study. Assessment of the financial performance of banks has traditionally been based on the analysis of financial reports that we have analyzed and presented as significant results. Financial Comparative Analyse that have developed through ratios can be a very useful tool for financial executives, investors and creditors, who can use this kind of analysis to ascertain how the bank is working over time and in relation to its competitors. Comparative analysis of financial indicators for the commercial banks in Kosovo are realized taking as samples seven (7) of the largest commercial banks in Kosovo.

From the results of the current report shows that the highest ratio have had the Raiffeisen Bank, Pro Credit Bank and Teb Bank. For example the Raiffeisen Bank which has current ratio of 1.16 showing that for every euro of which the company must pay within a year, there are 1.16 € in an asset, which is money (cash) or converted into money (cash) during the year. Raportet e borxhit japin nje tregues të rrrezikut financiar. Debt ratios provide an index(indicator) of financial risk. Enterprises that have high ratios of leverage effects are considered risky, because it is located less mitigation measure to protect creditors, if the value of assets deteriorates. For example, the ratio of debt to the National Commercial Bank is 93%, it shows that the value of assets may fall to 7% (100% - 93%) before equity be destroyed leaving only sufficient assets to pay off debt. From the results the ratio of profitability respectively ROA gives us, worth mentioning TEB Bank - where the terms of the profitability indicators at the end of 2015, Teb Bank generated return on equity (ROE) with profitability of 51.1% compared with 36.2% in 2014, while return on assets or (ROA) stood at 4.4% compared with 2.7% in the previous year, and it that shows that the Teb Bank has earned 4.4 € for each euro invested in assets in 2015 and € 2.7 for each euro invested in assets in 2017 which is a very high level.
The recommendations issued are based 100% on the results of research in order to be as realistic and understandable in the case of fulfillment or performance. (1) Establishing policies for the stimulation of commercial banks with financial benefits those who have real need for funds. (2) Simplify the bureaucratic procedures. (3) Reducing administrative costs. Organizing campaigns to inform businesses for regional and international financial markets. (4) Preparation of the banking legislature by CBK, aiming to facilitate and mitigation criteria credit for small and medium companies that want to use the various forms of credit, deadlines for returning the loan should be extended so that bank loans help business development and not become an obstacle to its development. (5) Commercial banks that support SMEs activity in Kosovo should implement selective policies and simpler procedures during the selection of enterprises and projects that they will support, in order to motivate SMEs for a permanent cooperation with them, and that this such cooperation provides better economic and financial effects.

The Bibliography
Julia Prats, Marc Sosna, S. Ramakrishna Velamuri “Managing in Different Growth Contexts”
Central Bank of Kosovo.www.bqk-kos.org
Abstract
The process of gradual administrative and political decentralization in Macedonia started in 1996 with the adoption of the Law of Local Self-Government, but the real financial decentralization process started in the end of 2004 with the adoption of a new Law of Local Self-Government and territorial division and introduction of a transparent and predictable intergovernmental transfer system. Basically, a key issue in the design of fiscal decentralization is the financing of new competency of municipality. Because of the advantages of taxation at the central level and spending at the decentralized level during the transition period Macedonia has often ended up with vertical and horizontal fiscal imbalances. In most of the fiscal years the decentralization of expenditures was not accompanied by equivalent revenue-raising responsibilities and the taxable base was unevenly distributed within the country territory. The purpose of this paper is to study and critically analyze the fiscal decentralization reform in Macedonia, outlining the key achievements and basic weaknesses of the local taxation and the intergovernmental fiscal relation, also highlighting the major challenges facing future fiscal decentralization in Macedonia.

Keywords: fiscal decentralization, taxation, expenditures, intergovernmental, transfer

JEL Classification: C50, G10.

1. Introduction
The decentralization goal is that the local government should have the competencies/y for financing, to fulfill the needs of citizens on local level. In principle, this means that in order to secure a general fiscal autonomy, it is needed that the local government to have the right to set and change the norms/laws and tax bases. This right at some point is given to the municipalities based on the laws that have been proved by the Government, which traditionally provide income for municipalities, namely: Law on Financing of Local Self-Government Units, Law on Property Tax, Municipal Tax Law and Administrative Tax Law. The main law for municipality finance is the law on property tax which incorporates: the property tax, the inheritance and gifts tax and the tax on real estate circulation. But the main question is the way managing with these new competencies delegated to the local administration, do the municipalities have the capacity to deal with managing the revenue from taxes and fund the new duties that they received.

2. Fiscal Decentralization (the chronological development)
The Republic of Macedonia after its independence, after 1991 it was one of the most centralized countries in Europe, almost in all aspects (the participation of revenues on local government in PBV, the participation of revenues on local power of public consumption; Administrative capacities for the administration of local taxes). Regarding the development of fiscal decentralization in RM, we can highlight 4 periods: The 1st period from 1990-1996 - During this period there was no special law for municipality financing, but that was regulated with many rules and laws and regulations, the financial goods transfer came through the central government budget and ministries, which in that case the dividing principal of financial goods was rightfully politicized and subjectified. The 2nd period from 1996-2005 – in this period the Law on local self-government was approved, it included the special dispositions, which regulated the financial sources of municipalities on the country.
The 3rd period has started from the 1st July of 2005. During 2004 was approved the Law on financing the units of local self-government, which was applied from 1st of June of 2005, in the so called the 1st phase of fiscal decentralization. On 2005 were also approved other laws which regulated the financial system of local self-Government units, regulating on systematic ways the source of financing and the competent authorities for the financial system of local self-government. On this law it was foreseen the transfer of the employee from The Financial ministry to the department of public incomes, which were working in the administration of municipality taxes and administrative taxes. Besides the transfer of the employee, it was included the transfer of moveable things and estates which were necessary for the duties of the transferred employee.

The 4th period in accordance with the Law of local self-government financing units, it was applied from the 1st September 2007. RM government according to the recommendations of the commission for pursuit and evaluation of local self-government units and The Ministry of Finance, and according to the criteria, was given a list of 42 units of local self-government, which can be part of the second period of fiscal decentralization. Until today all the municipalities have successfully passed the 2nd phase of fiscal decentralization.

Based on what has been mentioned above, the fiscal decentralization officially started on 1st of July 2005; when a set of laws were applied. The Finance law has foreseen an approach in ways how to give the local self-government units bigger financial responsibilities, namely:

The gradual submission of responsibilities depending on the capacity of the municipalities to receive such responsibilities.

Fair and adequate provision of financial means for fulfilling continuously the transferred competence

The reduction of financial means on state budget. Because the municipality financing is transferred to the municipalities, and they finance their competencies with their revenues.

Central power has set the deadlines/terms on which the municipalities on the country must build their intern capacities.

The first phase of fiscal decentralization started when municipalities got the right to administrate the sources of their incomings (local taxes, compensations, donations, self-contributions), transfers from the state budget (education grants, social, cultural protection, protection from fire, the incomes from VAT, and personal incoming taxes) and the income from loans.

In the first phase the government transferred the incomes from the central budget to municipalities, according to this – the government approved criteria for distributing the incomes generated from the VAT, and capital grants dedicated from the block grants. The ministry of finance notified the municipalities for the dedicated budget of local self-government units, which were obligated to draft a plan for paying the unpaid debts towards the contractors and creditors.

On January 2007, the government created a commission to evaluate if the municipalities have successfully fulfilled their requirements to enter in the second phase of fiscal decentralization, based on that on July 2007, 42 units of local self-governments successfully entered in the second phase of fiscal decentralization. Until July 2011, only 6 municipalities remained in the first phase because they faced difficulties on paying their debts hence on 2012 they entered in the second phase of decentralization.

To improve the finance environment on the local level, special legal acts were brought, which were changed gradually. The development of financing the local self-government system is supervised by the commission of the pursue of the development of the municipality financing system, which is leaded by the representatives of the Ministry of Finance and member of the Ministry of local self-government, the Ministry of Education and Science, the Ministry of labor and Social Politic and the municipality union. This commission has a role on negotiation and proposing the legal changes for the government, which are necessary for overcoming the procedural shortcomings.

3. The financing of municipalities

The process of financing the municipalities is based on the law for financing the local self-government units (which has been approved on August 2004 but it has been changed 4 times till
now) with this law the municipalities won the right to determine the percentage of the taxes, and local taxes; also the main source of the municipality income. According to this law the municipalities get financed by:

- Their own resources
- Grants from the central power
- Financial means from the state budget (Streets fund, water fund, the fund of less development areas)
- Loans

### 3.1 Revenues from the municipality resources

Municipalities are responsible for collecting these incomes. This group includes: local taxes, the income from properties, donations, fines and self-contributions. 3% of the income from the personal revenues taxes from their citizens belongs to the municipalities, and the rest goes to the state budget, besides this, the 100% of the income that comes from the personal revenue taxes of citizens which work in craftsmanship goes to the municipality. Each municipality spends these revenues in order to fulfill its needs.

### 3.2 Revenues from self-contribution

To satisfy the citizens, the municipality can apply the self-contribution through the referendum. With the decision of the Municipality council is regulated the destinations, subject and time for which the self-contribution applies, the total amount of the collected funds, self-contributors, people who are free from the self-contribution, the amount of the self-contribution (base and scale), the calculation method, conducting the supervision of citizens on the use of the funds and other issues.

### 3.3 The revenues from the state budget (Streets fund, water fund, the fund of less development areas)

The revenues that generate from the state budget and the fund budgets consist of:

- The incomes from VAT
- Dedicated Grants
- Block Grants
- Capital Grants and
- Grants for delegated competences

The income that generate from the VAT, they are divided to the municipalities from the state budget as a monthly transfer.

Dedicated grants are grants which fund a specific activity and can’t be used for something else. Capital grants are grants which fund municipal investment capital projects. Block grants fund competencies in certain areas defined by law, for example in education, social protection (child protection and elderly care), culture and health. Grants for delegated competences represent transfers from the state budget to the municipality, and are used to finance a competency that was initially central government but later transferred to the municipality.

Each year, at the end of March, the relevant ministries and funds announce the criteria, procedures and conditions for the allocation of dedicated and capital grants. This information is important to municipalities because it enables them to calculate the amount of income they will receive in the next year’s budget.

In 2009, was made an important change in the finance law. The government approved a gradual increase in the share of VAT revenues allocated to municipalities, from 3% to 4.5%. This was done despite the demand of the municipalities. Submitted by AULSG hat the percentage of VAT transferred to them should increase to at least 6%, which began to happen in 2015. These revenues
are allocated to the municipalities according to the methodology proposed by the Minister of Finance and approved by the government. The municipalities receive a fixed amount from VAT revenues, as well as a variable amount. This is calculated on the basis of previously defined criteria, determined by the number of residents of the municipality, the number of settlements, and the size of its territory.

The revenues that come from the VAT are not dedicated; therefore the municipalities decide how to use them in the best way possible, regarding the local priorities. Relevant ministries such as the Ministry of Local Self-Government, Transport and Communications, Education and Science, Agriculture, Forestry and Water Management, transfer to municipalities the grants dedicated to the financing of certain projects. The respective ministers propose to the Ministry of Finance the criteria for the allocation of grants dedicated to each municipality. As mentioned above, municipalities that have been transferred to the second phase of decentralization receive block grants for financing education, child protection and elderly care, culture and health. In order to ensure the transparency of the allocation of funds to the local level, the government has adopted a clear criteria based on the formula for allocating block grants. In addition, the government approves an annual plan for financing investment projects. Based on this program the respective ministries distribute capital grants to the municipalities.

The increase in the fiscal authority of municipalities has required the introduction of a system for overseeing and controlling their work. According to the Law on Public Internal Financial Control, large municipalities with an average annual budget of over MKD 3 million, as foreseen by the Law, are obliged to form internal units with at least two employees. Based on the annual program, these units carry out independent reviews and provide valuable information for the improvement of the work of municipal bodies. Small budgeted municipalities form joint administrative units for internal revision through inter-municipal co-operation. In addition to audits and audits, The State Audit Office (ESHHR) conducts periodic reviews in selected municipalities in accordance with international standards for revision. The ESR auditor team gives recommendations to mayors and municipal administrations on how to improve their operational processes. Also, ESHHR proposes legal changes to the government so that the fiscal framework becomes more efficient.

3.4 Loans

The municipality may be liable to debt in the country and in the outside world under the terms set forth by law for financing local self-government units. The Municipality may be liable to debt at home and abroad only with the prior consent of the Government of the Republic of Macedonia, confirmed on the basis of the opinion of the Ministry of Finance. The Municipality submits the loan agreement and the amortization plan to the Ministry of Finance within 10 days from the date of its signing, and through issuance of securities, in accordance with the law.

The municipality, when securing the debt, may not impose a pledge on the property, which serves to carry out activities of public interest as defined by law.

The municipality may be liable for short-term loans, which will be paid within 12 months from the date of the conclusion of the debt-settlement agreement. During short-term debt, the total debt of the municipality created on the basis of short-term debt and short-term borrowing from the Central Budget of the Republic of Macedonia during the fiscal year may not exceed 30% of the revenues of the Total realized operating-flow budget of the municipality in the previous fiscal year.

The Municipality may be liable for long-term debt for:
- financing the capital projects and capital investments, refinancing of debts owed on the basis of debt collection, obligations on the basis of state-activated guarantees,
- Obligations on the basis of loans received and
- Protection and elimination of consequences caused by natural disasters and ecological disasters.

The municipal council allows long-term debt, only after a public debate held in advance in the municipality. The subject of public debate is the description of the project and the conditions for its funding. The municipality may be indebted or give guarantees after the decision has been approved.
in advance by the municipal council. The council's decision is valid only if the agreement for debt owed or the granting of the guarantee during the fiscal year in which it was approved.

During long-term debt relief, the total annual debt payments (principal, interest and other expenses) made on the basis of long-term debt and long-term borrowing from the Central Budget of the Republic of Macedonia cannot exceed 30% of the total revenue of the operational-flow budget of the municipality in the previous fiscal year.

The total amount of the indefensible long-term debt of the municipality, including all the guarantees provided, cannot exceed the amount of the total operating income of the municipality in the previous year.

Assets secured by long-term debt are used for the purpose for which they are approved...

4. The most important areas for the decentralization process in the Republic of Macedonia

4.1 Fiscal Decentralization

Within the frameworks of this chapter has been done and have started many projects foreseen and progress has been achieved:
- There has been an increase in total realized revenues of about 12% compared to other years
- There has been an increase in the share of realized municipal revenues in the BVP for approximately 1%
- Increased the percentage of value added tax revenues from 3.7% to 4% in 2011 and 6% in 2015
- Property tax revenues increased by more than 6% from 2011.

4.2 Providing better local services

Within this chapter of the program, more than half of the activities envisaged in the program have been realized or have been started to work with the activities that are part of the program, and some of them have been removed from the plan because of the regulations with other laws. Progress has been achieved on:
- The functioning of councils in the area of adopting decisions related to the provision of municipal services takes place without more serious challenges.
- A large number of municipalities have adopted decisions for the establishment of inter-municipal cooperation looking for a more efficient and economical performance of municipal competencies.
- Initiating procedures for the establishment of regional waste management bodies, through the unification of municipalities and the establishment of inter-municipal cooperation.
- A large number of new school facilities funded by the Government have been built through the Ministry of Education and Science.

4.3 Development of administrative capacity of AULSG

Within this chapter of the program, most of the foreseen projects have been implemented and the more progress has been achieved in:
- The ministries have been providing trainings for employees in the municipal administration in the area of: financial management and control, internal audit, fiscal transfers, fiscal performance of local self-government etc.
- The BNjVI provides trainings for the employees of the municipal administration and for the elected persons.

4.4 Local democratic practice and the participation of citizens in the Decision-Making process at the Local Level

Within this chapter, a large number of activities have been completed or have been started, and significant progress has been achieved in:
- The citizens interest in different aspects of the work of ULSG and in particular for the decisions adopted by the ULSG council has increased.
• The number of citizen initiatives addressed to municipal councils through which they propose to approve a given act or to resolve a certain issue within the competence of the council has increased.
• A large number of municipalities organize gatherings with citizens, through urban and local communities.

5. The most important challenges for the decentralization process in RM
The main challenges in the fiscal decentralization process are:
Inadequate financing of the cultural activities in the municipalities which do not have cultural institutions
The unbalanced amount of block donations for primary and middle education system, with growing life expenses and planned inflation scale.
Irregular and uncompleted collection of the municipality taxes for the road lightening from EVN.
Increasing the municipalities incomings through the accordance of the half means achieved while changing the farm land into industrial land.
Not respecting the deadlines for paying the VAT by the country
The main challenges for giving good services to the citizens are:
Most of municipalities face the problems while executing their competences in the following areas: education, social protection, health insurance, municipality activities and in the field of environment protection and nature.
Few municipalities try to unite financing means in order to fulfill their competences in efficiency and economically way.
Just a small number of municipalities have created a local developing council which consists from representatives of all departments.
We have a small number of kindergartens which includes all the needs for the care of children, etc.
The main challenges while developing the capacities of the ULSG are:
The absence of qualified professionals, especially in the rural municipalities
Over-employment in some municipalities
Low capacity in the public administration and the employees chosen to apply effective politics for supporting the industrial and innovative clusters; the support of entrepreneurs, competition and innovation, etc.
The main challenges of the local democratic practical part and the participation of the citizens in the process of decentralization are:
Most of the municipalities didn’t created commissions for equal opportunities
The unpleasant level of mechanisms used for direct participation of citizens in the process of decision-making’s for important matters, etc.

6. Conclusions and recommendations
Municipalities in cooperation with competent authorities, should take concrete steps for creating cultural buildings, to use block donations for culture more often, taking into consideration the unpleasant level of using these means.
Harmonizing the share of block donations for primary and middle education with the increase of the life expenses and the planned inflation scale in collaboration with the Ministry of Education and AULSG.
Municipalities through the AULSG should organize trainings for the municipality administration, to prepare more professional and competitive projects, in order to use more funds for developing, which are given to the municipalities.
Municipalities should use their legal rights for inter-local collaboration, in order to make cooperative projects and policies in more efficient and economic way.
7. Literature

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Abstract
The research discusses the importance of the culture as a social-economical development and business factor in the scope of European integration. Based on the generalization of various cultural models, the conceptual-systemic model of culture is represented. Also, the culture as a concept of informal institute is introduced. The quantitative characteristics of culture have been used to investigate the ratio of these indices for Georgia compared with the same indicators of the EU and various world states. Depending on the informal nature of the culture institute, it is noted that the long-term mechanism of culture transformation should be considered together with the institutionalization process as a whole. Within the problem of the institutionalization it is of great importance to ensure the regular ratio of formal and informal institutes in the development of the country’s social-economical institutional structure. The directions of long-term transformation of cultural values have been identified. In this respect, the necessity for improvement of trainings for decision-making structure officials and prospective business managers and formation of their business culture has been highlighted. It has been indicated that activities for the systemic change of cultural values should be reflected in the country’s long-term social-economical development strategy.

Keywords: culture, informal institute, cultural property
JEL Classification: D72, D74, D78, D79

Introduction
In modern conditions, it is extremely important for Georgia, on the one hand, due to the country's European orientation, to carry out a systematic analysis of the EU business environment to ensure the full application of the new social-economical development potential and the country’s effective integration into the Euro-Atlantic structures. On the other hand, the requirements of globalization call for an adequate and systemic understanding of global business environment and the effective use of its capabilities, identification of any possible short and long term challenges, and if necessary, taking appropriate preventive measures (Bedianashvili, 2015; Bedianashvili, 2016a; ).

Global business environment has a complex structure (Harrison, 2014). In its composition, due to the systematic approach positions, several important components affecting business can be identified: political, economic and legal institutes, socio-cultural, socio-demographic, natural-climatic, scientific-technical and technological factors, as well as social issues and factors. Due to the systemic conceptual positions of Georgia’s (as well as any other country wishing to join the EU) effective and complex social and economic development, logically, the business environment should be considered in the global and European Union context bearing the significant differences between them in mind. It should be taken into account that globalization and European integration processes do not exclude local and other mezoregionul integration processes, but develop critical analysis thereof and where appropriate, make Georgia’s involvement in these processes in any extent more urgent (stimulating and facilitating of international communications of business structures by the state, also, and if necessary, formation and operation of appropriate institutional mechanisms).
Literature review

Generally, the country’s social-economical development, particularly business processes is largely influenced by the significance and the role of socio-cultural factors (for the research of different aspects of cultural phenomenon, see, for example, the scientific papers (Bedianashvili, 2014b; Bedianashvili, 2015; Bedianashvili, 2016b; Hofstede, 1980; International business socio-cultural environment, 2011; Triandis,1994; Шварц, 2008; Инглхарт, Вельцель, 2011; Hall, Hall, 1990; Тромпенаарс, Хампден-Тернер, 2004; Jamagidze, Papachashvili, Shaburishvili, Sikharulidze, 2011; Тромпенаарс, Хампден-Тернер, 2004; Ясин, 2008).

Under the current conditions of globalization, we believe, the appropriate development of the culture as an important factor and its effective implementation at different levels is the challenge the modern society faces. Indeed, the well-known phrase, “Culture is important” for any country’s social-economical development (Культура имеет значение.Каким образом ценности способствуют общественному прогрессу, 2002) casts no doubt. Also it is known that the culture plays an important role in international and local business (Barry, Tomalin, 2013; Gladwin, Terpstra, 1978; Luthans, Jonathan, 2012).

In reviewing the culture theories, George Murdoch’s approach, the famous American scientist (Murdock, 1965), should be highlighted. Based on the interdisciplinary research, the author proposed seven fundamental features of culture. Obviously, fundamental and universal features play an important role in the adequate understanding of the culture concept and in tackling a variety of cross-cultural issues. The features are as follows: 1. Culture is transferred through instructions (which means that culture is neither given to a person by birth, nor biologically, though the principles of teaching are generally similar in various cultures); 2. Culture is assimilated through upbringing; 3. Culture is social; 4. Culture is ideational (culture constituent group traditions in most cases are represented by ideal norms or patterns); 5. Culture provides satisfaction (culture necessarily satisfies the basic biological and secondary needs emerged on the basis thereof); 6. Culture is adaptive (it adapts to the environment, in addition, G. Murdock identifies geographic, socio-cultural, biological and psychological environment of adaptation); 7. Culture is integrative (elements of each culture tend to form a mutually integrated whole, which means that the culture is not strictly a balanced and integrated system).

Some interesting and well known assumptions on the concept of culture should be outlined. For instance, Geert Hofstede, the famous Dutch scholar, defines the culture as the brain’s collective mental programming, the part of our preliminary definition of the world, which is common to our nation, region, or other members of the group (Hofstede & Hofstede, 2005). In essence, the author discusses the culture through the prism of values and norms as a combination thereof and also as Shalom Schwartz, the well-known researcher, says, culture is the foundation of people’s beliefs, rules, practices, symbols, norms and values dominant in the society. He points out, the culture is a latent hypothetical variable that we can measure by means of its specific manifestation and in this respect (the author specifies) culture is not localized in an individual’s mind and actions. It (culture) is more outside of an individual and is connected to the pressure that the individual is experiencing because he is living in a definite social system (Шварц, 2008).

Data and methodology/Analyses

As for the culture and value modeling and quantitative measurement thereof, one of the first and recognized approaches in the world developed by Geert Hofstede is of special importance (http://geert-hofstede.com). The Hofstede model identifies quantitatively measurable individual units of the culture, which in combination represent the community values. The latest version of the model offers the following six units and the indices: Power distance (PDI) shows people’s willingness to accept the power hierarchical structure in the community and institutions and the unequal distribution thereof; Individualism vs. Collectivism (IDV), represents people’s (public’s favored characteristic tendencies) choice in the format (the interest priorities of respective groups) of independence and activity under mutual dependence; Uncertainty Avoidance (UAI) shows tolerance
level of an individual and the society as a whole to unknown (indefinite) situations; Masculinity vs. Femininity (MAS), is the evaluation of individuals and society as a whole in terms of the features, such as determination, putting ahead business interests, strictness and concentration on success; Long-term orientation vs. Short-term orientation (LTO), indicates the extent how much oriented people and the society are at long-term strategic pragmatic future compared to short-term traditional (operational) orientation; Indulgence (IND), marks the level of self-control and tolerance. The lower the index, the greater the impact of traditions and norms limiting the society’s and people’s behavior and vice versa. The greater value of this indicator points to a comparatively higher level of personal impulsive behavior.

The heterogeneity of cultural values not only in the world, but also within Europe and the European Union gives rise to a natural question, what the cultural values are like in Georgia and what are the desired position of these options taking into account the future European integration and globalization processes. Let us look at the developed countries from various regions of the world with clearly different business cultures (US, Germany and Japan) and Georgia based on the recent version of the cultural dimensions model (Hofstede & Hofstede, 2005) proposed by G. Hofstede. (For Georgia the indicators have been evaluated expertly based on the survey of the final fourth year students of Ivane Javakhishvili Tbilisi State University, Faculty of Business and Economics International Business module "EU Business Environment" and "Cross-Cultural Relationships in International Business" carried out during the lectures and seminars of the above disciplines). It has been revealed that as of the current situation ("As is") in Georgia the long-term orientation (pragmatism) is significantly low (compared with Germany and Japan) as well as the level of individualism (close to Japan though), and as for power distance, while it is slightly different from the Japan’s indicator, Georgia is significantly far (much higher) from German and US levels. As to the desired position for Georgia ("As should be"), the same expert evaluation has identified the changes that are needed to be implemented for the transformation of cultural values. For our country this means really urgent strengthening of pragmatism, decrease of power distance and development of individualism features. The comparative analysis with respect to the cultural values of the European countries has revealed that the desired situation for Georgia is very close to the same indicator of Switzerland (figure 1).

It is known that the qualitative indicators of the culture and the values change slowly, sometimes in the period equal to the generational replacement, which gives it a long-term nature (Bedianashvili, 2014b).

Culture in its essence is an informal institute (North, 1994; Bedianashvili, 2014b; Тамбоцев, 2014) and naturally, its (culture) long term transformation mechanism should to be reviewed within the entire process of institutionalization. In turn, among the institutionalization issues it is most important to provide the systemic ratio of formal and informal institutes in order to ensure the effective functioning of the country’s social-economical system and the development of the main structural components of the dynamics complexity (Bedianashvili, 1995).
Figure 1: Hofstede’s Cultural dimensions for Georgia (evaluation "As is" and "As should be"), Germany, Japan, the United States and Switzerland

Discussion of results
Studies have shown a huge role of informal institutes in the economic development of the country. Namely, it has been found that the high level of formal institute development with the lower level of informal institutes corresponds to the decrease of per capita gross domestic product (GDP), while in the countries with higher level of informal institute development and low level of formal institutes – per capita GDP value (Williamson, 2009) is higher. Among the indicators of informal institutes used in this study, trust and respect should be noted, which have been reflected, for example, in the World Values Survey (WVS) project files (http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp).

As is known, this project explores the culture in terms of two categories: 1) Traditional / Secular-Rational Values and 2) Survival / Expression Values. The works are carried out in five-year intervals. They explore the link between the economic and technological development of countries and the values and motivations of societies. So far, seven cycles (waves) of work have been provided. They include developed and developing countries.

It should be noted that according to the latest seventh cycle surveys, "Survival" values in Georgia have improved and visibly shifted towards the "Self-expression" values (although the values remain between -1 and -0.5, that is, still in "Survival" value zone as in all other post-communist countries). At the same time, there has been no change to the direction of "Rational" value in Georgia, on the contrary, the importance of "Traditional" values have slightly strengthened.

Conclusions
For the provision of appropriate conditions for our country's rapid social-economic development in the modern globalization in respect of value transformation, we should take into account the fact identified through the empirical observations that the high speed development in the respective countries is preceded first of all, by the change of the cultural characteristics such as decrease of power distance, increase of individualism level and strengthening of long-term orientation (pragmatism) (Ball 2001; Аузан, и др. 2011). In addition, the gradual strengthening of the above rational and self-expression values is also crucial.

We believe that along with other matters, training of decision-makers involved in the state management structures and prospective business managers and the process of formation their business culture should be significantly improved. Certainly, this refers not only to the higher education system, but also the whole cycle complex involved in the formation of the human’s culture - the family, pre-school education and the school as well. In addition, it should be noted that,
as mentioned above, the relevant time period is approximately the same as the generational change. Definitely, actions for steady systemic change of cultural values should be reflected in the country’s long-term social-economical development strategy.

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Abstract
This article is devoted to the problems of lost benefits estimates. The problem of lost benefits assessment may occur at the company level, a sector of the national economy, region or government. Lost benefits may be caused by various factors. This is why it is difficult to develop a single methodology of estimate. An estimate methodology of lost benefits is developed in this article.

A new problem is how to estimate lost benefits due to military conflict. International judicial practice regarding reimbursement of lost benefits as a result of military conflicts is absent. There are techniques which estimate the actual loss from the destruction of infrastructure and private property. An estimated lost benefit methodology due to military conflict is developed in this article. It was approved at the government level to assess the benefits lost as a result of the Crimea annexation by Russia.

Key words: Lost benefit, estimate methodology, forecast
JEL Classification: C13, E17

1. Introduction
The need to evaluate lost benefits can occur at different levels of economic activity – from the enterprise to the state. Lost benefits can be caused by different factors, which is why it is difficult to develop a universal method of lost benefits estimate. In Ukraine, the need for a modified methodology to assess lost benefits is important due to the annexation of Crimea, or rather, the economic losses that this annexation caused. An annexation of territory, as in any violation of property rights, leads to a loss of control over assets. Loss of resource (assets) control means it becomes impossible to use commercial operations or to receive economic benefit (income) from their use.

An evaluation of lost benefits makes possible not only a calculation of how much the state has lost from annexation, but also provides grounds for a lawsuit before the International Court of Justice for substantiated claims. The aim of this article is to develop a methodology of lost benefit estimate.

2. Theoretical and Methodological Background
Western economists study this problem from different points of view. Many articles are devoted to lost benefit problems due to pension schemes. These ideas are developed in the articles of Papke (1999), and Kenneth (2000). Burtless and Gordon (2011) discussed the aftereffects of government unemployment programs and possible lost benefits to the government and society because of government expenditure growth. Schmieder, von Wachter, and Bender (2012) estimated the effects of extended unemployment insurance over the business cycle. Maag (2011) studied the lost benefits problem from the point of view of taxation. After the global financial crisis in 2008 economists were interested in the lost benefits due to the crisis (Berger, 2013). Many economists have been concerned about lost benefits which were caused by harm to ecosystems (de Grott, 2012; Kaul, 2013; Amman, 2012). However, there are few studies about the lost benefit estimate due to
violations of property rights, including expropriation of property and annexation of territories. This became an issue after the occurrence of Russian aggression in Crimea and in the Donbass. Methodology of lost benefits estimate is complex to develop. Economists have put forward different ideas about lost benefits estimate using cost-benefit analysis (Krupnick, Ostro and Bull; 2005) or statistical analysis with missing data (Little and Rubin, 1978; Roth, 1994). Also, behavioral approaches (McFadden, 1974) and multifactorial analysis (Kimand and Curry, 1977) can be used to estimate lost benefits.

3. Efficiency Estimation Procedure
3.1. Calculation forecasting revenues for a period of deprivation of the right of free use and disposal of property
Lost benefits are comprised of missing net profits from economic agents (individual, enterprise, local community, state) due to the deprivation of the right of free use and disposal of property located in the occupied territory of Crimea during the period of annexation. Since financial results are formed as the difference between revenues and expenditures, the developed method of calculating profits is based on calculating the estimated amount of income (hereinafter - Income) and forecast of costs (hereinafter - Expenses) for the period of deprivation of the right of free use and disposal of property. The source of information for calculating these losses is the income statement (statement of comprehensive income) for the period 2008 to 2013. Business revenue accounting data is presented in the statement of income and divided into the following groups:
1. Revenue
2. Other operating income.
3. Return on equity.
4. Other financial income.
5. Other income.
In order to calculate the projected revenues for the period of deprivation of the right of free use and disposal of property on the basis of income statements (the statement of comprehensive income) a dynamic range has been formed:
1) Tables 1 and 2 deal with income determinations.
During the calculation period, the form of statement of financial performance (statement of comprehensive income) was changed several times. Links to different code lines of statement of comprehensive income in Table 2 are explained by changes in the reporting forms.

Table 1: Revenue Dynamic Range

<table>
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Source: constructed by authors
Table 2: Data from the Financial Reports about Total Income

<table>
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<th>Year</th>
<th>Revenue</th>
<th>Other operating income</th>
<th>Return on equity</th>
<th>Other financial income</th>
<th>Other income</th>
<th>Income from changes in value of assets that are measured at fair value</th>
<th>Income from the use of funds released from taxation</th>
<th>Other comprehensive income before tax</th>
<th>The income to calculate the &quot;lost economic benefits&quot; (col. 3 + col. 4 + col. 5 + col. 6 + col. 7 + col. 8 + col. 9 + col. 10)</th>
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<td>LC 110</td>
<td>LC 120</td>
<td>LC 130</td>
<td>x</td>
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<tr>
<td>4</td>
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<td>5</td>
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<td>LC 060</td>
<td>LC 110</td>
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<td>x</td>
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<td>LC 2123</td>
<td>LC 2450</td>
<td></td>
</tr>
</tbody>
</table>

CC – line code from the financial report

Source: constructed by authors

3.2. Predictive calculation of the cost for the period of deprivation of the right of free use and disposal of property

Recognized expenses are divided in the income statement (the statement of comprehensive income) into the following groups:

a) cost of sales (works, services);
b) administrative costs;
c) marketing costs;
g) other operating expenses;
d) financial costs;
e) the cost of equity;
g) other expenses;
h) income tax.

For the purpose of calculating the amount of lost benefits, income tax expenses are considered as reduced net profit, which is considered lost profits.

Tables 3 and 4 deal with cost determinations.

Table 3: Spending Dynamic Range

<table>
<thead>
<tr>
<th>t</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>1</td>
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<td>2</td>
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<td>Column. 13 table 4</td>
</tr>
<tr>
<td>6</td>
<td>Column. 13 table 4</td>
</tr>
</tbody>
</table>

Source: constructed by authors

To calculate a forecast of revenue and projected figure for 2014 costs based on the time series formed in Tables 1 - 4, it was necessary to develop these mathematical and statistical trend models:
- Linear trend model: \( Y = a_0 + a_1 x \)
- Logarithmic trend model: \( Y = a_0 \ln(x) + a_1 \)
- Polynomial trend model: \( Y = a_0 x^2 + a_1 x + a_2 \)
- Power trend model: \( Y = a_0 x^{a_1} \)
- Exponential trend model: \( Y = a_0 e^{a_1 x} \)

(where \( Y \) is the projected rate of Income/Expenditure in 2014, \( a_0 \) and \( a_1 \) - settlement options model, \( x = t \) is the period of time: for the forecast index for 2014-2017).

The criterion of mathematical-statistical trend models for calculating predictive indicators of income and the forecast index costs for 2014 is the coefficient of reliability \( (R^2) \). It indicates the presence of a correlation with the model, i.e. whether there is a difference between the actual, and estimates the value \( Y \). The value of the coefficient varies from 0 to 1. If it is 1, there is a full correlation with the model. There is no difference between the actual and the estimates of the values of \( Y \). If the factor is equal to 0, then the regression equation is unsuccessful for the prediction of \( Y \) values.

The coefficient of reliability of approximation \( (R^2) \) is versatile and can be used for any form of correlation. The Fisher criterion is used to get grades, by which it can be argued that the probability of 95\% \((1-(a) \times 100\% \) elected mathematical-statistical model (regression equation) is a statistically reliable trend.

For a calculation of the lost economic benefits index the amount of the predicted income is adjusted/reduced by the amount of the predicted costs as follows (1):

\[
\text{Lost economic benefits in 2014} = \text{predicted income} - \text{predicted costs} \quad (1)
\]

The resulting amount of lost benefits is determined by the prices of the base period, which are taken as a basis of calculation (inflation is not excluded).

The amount of lost benefits affects the time factor, since the amount of lost benefits could be used productively, for example, as investment which yielded additional income to its owner. Therefore, a methodology for calculating the future value of money was used for the purpose of calculating the value of future lost benefits. The influence of time on lost economic benefits is based on the fact that the value of money changes over time with regard to the influence of money markets.

The amount of losses associated with the deprivation of the right of free use and disposal of the property is calculated to 2014, adjusted to the present rate of value of money over time.

This methodology is proved using the example of indicators from financial statements of the state enterprise “Sanatorium Gurzufsky”. The calculation results confirm their validity and the applicability of the methodology in practice.

The regression equation for the income trend is as follows:

\[
Y = 35.6 x + 5.4116
\]

The coefficient of reliability is 0.7884.

The regression equation for costs trend is as follows:

\[
Y = 44.1 x + 3.4116
\]

The coefficient of reliability is 0.8114.

The predicted amount of lost benefits for “Sanatorium Gurzufsky” in 2014 is 3,902,100 UAH.
Table 4: Data from the Financial Reports about Costs

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
<th>Cost of sales</th>
<th>Administrative costs</th>
<th>Marketing costs</th>
<th>Financi al costs</th>
<th>Costs of equity</th>
<th>Other costs</th>
<th>Corporate income tax</th>
<th>Expenses from changes in value of assets that are measured at fair value</th>
<th>Corporat e income tax related to other total income</th>
<th>The costs to calculate the &quot;lost economic benefits&quot; (col. 3+ col. 4+ col. 5+ col. 6+ col. 7+ col. 8+ col. 9+ col. 10+ col. 11+ col. 12)</th>
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<td>LC 090</td>
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<td>LC 150</td>
<td>LC 160</td>
<td>LC 180</td>
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<td>x</td>
</tr>
<tr>
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<td>LC 070</td>
<td>LC 080</td>
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<td>LC 2300</td>
<td>LC 2181</td>
<td>LC 2455</td>
</tr>
</tbody>
</table>

Source: constructed by authors

4. Conclusions

The basis of the calculations is the lost economic benefits in the form of missing profit of the economic agent (individual, company, territorial communities, government, society) for the period of restriction of access to assets, calculated as the difference between the forecast amounts of income and expenses for a specified period. Methodology is intended for determination of the amount of lost economic benefits related to the violation of the rights of free use and disposal of property that is located on the territory of Autonomous Republic of Crimea.

Developed methodology is the simple and cost effective way of assessing the lost economic benefits economic agents caused by deprivation of the right of free use and disposal of property that is located on the occupied territory of the Crimea. Source of information for the calculations are only financial statements which should be filled by all enterprises and organizations irrespective of form of ownership. The financial statements for a number of periods prior to the deprivation of the right of free use and disposal of property, enough to build the most accurate forecast of revenues and expenses were used for the calculation. For the purpose of calculating the amount of lost economic benefits for the period after the year 2014 is proposed to use the method of calculating the future value of money using the discount rate of National Bank of Ukraine. The proposed methodology approach is universal and can be applied in other cases when the need arises to calculate lost benefits caused by restriction of access to assets.

References


THE IMPACT OF MODERN INFORMATION SYSTEMS IN THE MANAGEMENT OF NON-GOVERNMENTAL ORGANIZATIONS IN REPUBLIC OF MACEDONIA

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Abstract
Non-governmental organizations represent key entities within any democratic society. The work and output of the same is crucial to the global development as well as local communities. Research in the topic of non-governmental organizations and technology has concluded that the utilization of modern information systems by these organizations has presented a tremendous advantage in making these organizations more efficient, effective, and productive. This paper investigates the patterns of utilization of modern information systems among this type of organizations in Republic of Macedonia. On the same time, this paper identifies key platforms and key operations where these systems have played a crucial role in the work and output of the non-governmental organizations in Republic of Macedonia.

Keywords: Information Systems, NGOs, MIS, Macedonia.

1. Introduction

The foundations of modern democratic societies are based within three main pillars: the public sector or governments, the private or business sector and the non-governmental or civil society sector. The non-governmental sector plays a crucial role in shaping the policies and well-being of any developed or developing democratic society. According to (Demnet, 2004) there were around 6000 civil society organization registered in the Republic of Macedonia. The number of these organizations has tremendously grown in the last 13 years as well, and is estimated to have tripled. In the same time, technology has presented an enormous shift in the management of all organizations, including the civil society organizations. As the technological infrastructure including the Internet has grown in Macedonia and the region, the access to modern information systems provide many opportunities for more effective and efficient management of organizations, especially the ones in the non-governmental sector cost remains a key issue. The utilization of all the advantages offered of modern information systems among non-governmental organizations in Macedonia is a matter of question.

This study aims to identify the usage of information systems among non-governmental organizations in Macedonia. The first part of the paper presents the theoretical framework of the support of information systems to all organizations with a focus on the non-governmental organizations. It identifies the key processes where information systems assist or reengineer the management of non-governmental organizations. In the second part, the research provides statistical evidence based on a conducted survey with a pool of non-governmental organizations in Republic of Macedonia, on the usage and impact of information systems in the management of their organizations. Finally, the research paper identifies the potential impact of modern information systems in the sustainable growth and development of the non-governmental organizations in Macedonia.
2. Theoretical Review

The role of the non-governmental sector has become crucial in the economic and social development of any society. Compared to the governmental organizations, the level of bureaucracy in non-governmental organizations is lower. As they are closer to people than governmental organizations, they always aim to utilize the most convenient ways to communicate with the people. On the same time the development of technology has shifted the work of any organization towards a more dynamic environment. In this regards, the usage of Information Systems and Technologies between NGOs raises as the technological infrastructure develops and the ownership and utilization of such becomes more affordable and impactful.

Information Systems and Technologies support non-governmental organizations in various ways such as: increasing productivity, increasing effectiveness through more collaboration and extend services to new communities in need. Therefore, the leaders of NGOs should deeply understand the importance of the information technologies and integrate them as crucial parts or tools in the organization’s mission. (Warkentin, 2001) There are many studies that have discussed, examined and analyzed the role of Information Systems and Technologies in the non-governmental organizations, analyzing advantages and disadvantages as well as the application.

In the chronological matter, NGOs have fallen behind corporations in implementing Information Technologies. Most of the NGOs adopt the tradition methods by using computing machines only for word processing, spreadsheet, accounting applications and managing a patchwork of old and new elements that often do not work well together. While Information Systems provide great advantages to NGOs, compared to the business sector, it is more challenging for the non-governmental organizations to implement such technologies because of the lack of budget to invest, lack of sustainable capital for IS and IT investments, an inability to pay technical staff salaries and inability to build the needed technical skills. Therefore, when it comes to utilizing Modern Information Systems for their organization, NGOs usually attract individual donations, governmental grants, fundraising events or platforms or contributions from other NGOs.

According to the 2016 Global Online NGO Technology Report (2016) conducted by NonProfitTechForGood trends in the global use of Information Technologies are as follow: 92% of NGOs worldwide have a website, 75% of NGOs accept online donations and use online crowdfunding platforms. 95% of NGOs have a social media page (mostly Facebook), 78% of NGOs agree that social media is effective for fundraising.

The above-mentioned analyses lead to the development of the theoretical framework that encompasses the following elements:

- NGOs fall behind in adoption of Modern Information Systems compared to other sectors.
- NGOs can utilize Modern Information Systems to increase their productivity, effectiveness and increase the quality of their services as well as encourage more effective collaboration.

Now that the theoretical framework laid out the foundations of the usage of ICT among NGO’s, the following section investigates the utilization of Information Systems and Technologies among NGOs in Macedonia.

3. Methodology

For this reason, a questionnaire was conducted with thirty non-governmental organizations in Macedonia. The questionnaire consisted of six questions. The first question was dedicated to determine whether organizations utilize any kind of information system. The second question was dedicated to determining whether the organization has an organization-level wide information system. The third question was dedicated to determining the key application of the modern information systems among organizations, determining the key operations where modern information systems play a crucial role helping the organizations be more productive, effective and
efficient. The fourth and fifth questions were aimed to determine the level of perception on the impact of modern information systems in productivity increase of the individual and organizational level within NGOs in Macedonia. Finally, the last question was an open end question aimed to identify key tools that non governmental organizations in Macedonia use to increase their effectiveness, efficiency and productivity.

This investigation and analysis of the questionnaire led to interesting findings and patterns of the utilization of modern information systems among non-governmental organizations in Macedonia. These results along with further discussions are provided in the results section below.

3. Results

According to this survey, 90% of the surveyed NGOs have utilized any Modern Information System for their everyday operations and needs (Figure 1), but only 20% of them posses an ERP system that supports their organizational functions (Figure 2).

On a scale from 1 to 10, 25% of survey participants responded that information systems and technologies have increased their own productivity within the organization on the level of ten, 50% on the level of eight, 12.5% on the level of seven, and 12.5% on the level of six. This trend did not reflect the same when analyzing the increase on the overall productivity of the organization. In this question, 25% responded on the level of ten, 25% on the level of nine, 37.5% on the eighth level and 12.5% on the seventh level.
The survey was also aimed to identify the core tools and online platforms used by NGOs in Macedonia. In this regards, the most commonly used platform include the Google Drive, Google Docs, Dropbox, LetsFundIt, SAP Project Management tools, Podio, Amazon Cloud Services, Slack, Odoo ERP, LI Platform, Skype, oVoo, Asana Collaboration and all kinds of e-mailing services.

The last part of the survey was aimed to identify the key operations where Modern Information Systems support non-governmental organizations in Macedonia. The results of this section are depicted in Figure 3.

Figure 8: Operations where Modern Information Systems impact NGOs in Macedonia

- Project Planning (80%)
- Project Management (80%)
- HR Management (60%)
- Management of Organizational Resources (50%)
- Communication with Internal Entities (70%)
- Communication with External Entities (70%)
- Procurement (40%)
- Generation of Project Ideas (40%)
- Project Evaluation (60%)
- Sharing Internal Documents and Information (80%)
- Researching (50%)
- Recruitment (40%)
- Promotion of Activities and Projects (60%)

The findings of this research lead to the identification of a set of trends on the usage of modern information systems among non-governmental organizations in Republic of Macedonia. Firstly, it is recognizable that the majority of NGOs in Macedonia have taken advantage of any kind of modern information system, even though because of financial difficulties they have not been able to utilize any organizational-wide system such as an ERP. Secondly, from these findings we can easily identify that modern information system along with technological developments have greatly increased the performance of individuals within NGOs in Macedonia, as well as the organizations themselves. Thirdly, referring to the results depicted on Figure 3, NGOs in Macedonia have mostly utilized modern information systems for project planning, project management and information sharing internally and externally. In the same time, such systems have been least utilized for recruitment, brainstorming and procurement.
4. Conclusion

This study reflects that non-governmental organizations in Macedonia align with the global trends of usage of modern information systems and technologies by NGOs. On the same time, it is recognizable that the budget spending and ability to utilize various large-scale modern information system platforms and contemporary technologies remains unavailable for non-governmental organizations in Macedonia. This study has investigated the extent to which non-governmental organizations in Republic of Macedonia have utilized modern information systems and concludes that modern information systems have supported individuals and organizations in the non-governmental sector in Macedonia to be more productive, effective, and efficient. Furthermore, this study has identified the key platforms utilized by NGOs in Macedonia as well as the key operations in which these platforms have assisted the work of non-governmental organizations in Macedonia. Further study in this topic is encouraged that would measure more criteria as well as include more entities leading to more accurate results and identification of new patterns. As more development in modern information systems occur, the importance of further recurrent research in this topic is crucial.

References


Abstract
Given the increasing importance of applying the competence in the field of management and the essential role it has today competence based management, the importance of research in this field has taken the right place in the professional associations in the field. Therefore, major global enterprises, consider competence based management as one of the main pillars in the success of implementation of projects. The complexity and depth of knowledge about products and services, has marked a significant increase not only in the value of knowledge and expertise but also the repertoire of behaviors and actions. In this way, competence in each area will be important in every aspect. The labor market is being transformed into a market of competence. This means that competence based management will play even more and more essential role in the entire spectrum of personal management within organizations.

The competence based management in Kosovo has a very slight applicability, so this study aims to give a modest contribution to the beginning of this type of management. In preparing this paper have been used different primary and secondary data.

This study is based on the extraordinary study that has been made by the association IPMA, where they have made a detailed analysis of all competences, creating a new version that describes all the manager’s competences of different level. They have also managed to add two additional competences in the respective domains, thus reaching a detailed description of the three main pillars of competence based management: function, domain and competence level.

Key words: competence, function, domain, management.
JEL Classification: M10

Introduction
The diversity and increasing complexity of services and products, as well as social irregular structure of the society in which we live, presents even greater need to study the set of behaviors and actions that managers should implement during the program and project management in an organization. Also, every day more and more is necessary to create a clear concept of intervention and clear definition of the responsibilities of each manager in various functional levels. Today’s practice in the organizations in programs and projects management has shown that clarity in the intervention and competence is not very clear on the daily work. This probably happens, in one site, due to lack of knowledge and skills of managers for their function or because of the desire to extend their powers beyond their function in, in another situation.

Management of projects and programs
Project management is the application of knowledge, skills, tools and techniques to project activities to meet the project requirements (PMI, 2008). Today, at the dawn of the twenty-first century, the knowledge and understanding of project management has matured and organizations recognize the importance of project management for business development (Varajão et al., 2013). Project management standards are increasingly been regarded as an important building block in modern
organizations. They are expected to help harmonize divergent terminology and different understandings of processes and methods (Ahlemann, Teuteberg, and Vogelsang, 2009). The gradual introduction of result oriented management techniques and project management process has helped many managers and development agencies to adopt a more systematic approach to all aspects of program and project management.

Many institutions and agencies in developed and developing countries now use various practical techniques. Parts of competence is the program management based on activity (PMBA-Program Management by Activities) (Fontaine, 2004), which peaked in mid-70-s and 80-s when donor organizations involved in infrastructure and industrial development projects (Osborne and Gaebler, 1993).

It is now clear that as project managers leaving the project at the time of its completion, while executives face its outcomes (positive or negative) in long-term context, then we can say that they operate on different grounds time (Shenhar et. al., 1997). Employing a poorly prepared project manager, without the necessary knowledge and experience, is something that could jeopardize the success of the project (Pinto and Slevin 1987; Müller and Turner 2007).

| Table 1: Studies of personal characteristics of project managers |
| Researcher                 | Personal characteristics of project managers |
| Archibald (1976)           | Flexibility and adaptability; Propensity for self-initiative and leadership; Aggressiveness; Self-confidence; Persuasive-ness; Verbal expression; Ambitiousness; Activeness; Rashness; Effectiveness in communication and integration; Wide range of personal interests; Balance; Enthusiasm; Spontaneity; Imagination; Ability to balance technical solutions within the given cost, time and human factors; Organization and self-discipline; Generalist rather than specialist; Ability and willingness to plan and control; Ability to grasp problems; Readiness to make decisions; Balancing the use of time |
| Stuckenbruck (1976)        | Multidisciplinary orientation; Focus on global issues; Efficiency in decision making and problem solving Has knowledge of management; Analytical judgment; Creativity; Charismatic communicator; Motivator; Flexible; Appropriate temperament that quick, quiet, real, quick thinking, etc. as needed |
| Kirkpatrick & Locke (1991) | Instigator and ambitious; Desire to lead and influence others; Sincerity and integrity; Self-confident; Intelligent; Has technical knowledge |
| Turner (1999)              | Problem solving ability; Focused on results; Energy and initiative; Presumption; Perspective; Communicative; Ability to negotiate |
| Houze (2000)               | Having vision and a clear picture of the future; Goal oriented; Clear intention to achieve goals; Self-control/ Self-discipline; Ability to communicate; Energetic; Persistence; Positive attitude |
| Kerzner (2001)             | Realistically faces problems; Assessment of risk; Sincerity and integrity; Understanding problems in a team; Knowledge of the technology in a project; Business management competences; Management with principles; Communicativeness; Alertness and speed; Versatility; Energy and resilience; Ability to make decisions |
| Goleman et al., (2002)     | Self-awareness; Self-management; Social awareness; Relationship management |
| Peters (2007)              | Sincerity; Competence; Forward thinking; Inspiration; Intelligence; Honesty; Openness; Courage; Directness; Imagination |
| Charan (2008)              | |
Ambitiousness; Instigation and persistence; Self-confidence; Psychological openness; Sense of reality and insatiable hunger for knowledge
Rainer (2009)
Loyalty; Joy; Ethical; Self-awareness; Invention; Love; Rigor Source: Fazel et al., 2011

3. Competencies – key definitions
As more organizations adopt project management as a modus operandi to deliver work packages, and the demand for project managers grows, there is an increasing interest in the personal skills of project managers and in standards for development and assessment of project management competence (Fisher, 2010). Individual competency is commonly defined as a cluster of related factual knowledge, skills, experiences, attitudes, and value judgments directly related to one’s job (Parry, 1998 cited by Herling & Provo, 2000). From this perspective, it can be assumed that individual or employee competence correlates with performance on the job, that it can be measured against well-accepted standards and that it can be improved with training and practice (Herling & Provo, 2000).

A lot of researchers have investigated the relationship between the style of management and the type of project, not recognizing the important influence of the personality of the project manager on the execution and success of the project (Crawford et al., 2004; Shenhar & Dvir, 1997; Shenhar, 2001). Although researchers have previously dealt with the significance of technical knowledge and styles of management, newer research focuses on defining the relationship between competences, personality and project success (Fazel et al., 2011). One of the first studies to link project success and the personality of the project manager were carried out by Crawford (Crawford, 2007).

While competence has to do with the basis of general characteristics of a person with skills and appropriate behavior, the concept of competence is still not entirely clear. Is it the knowledge, skills, attitudes or ability in performing a task or some sort of combination of all these. Competence is defined as something one does well. It sounds simple. But there is much discussion and confusion about the concept of competence. Is the skills, expertise, behavior, capacity or knowledge? (IPMA-NL, 2010). However, despite the fact of the popularity of competences and competence based management (CBM), there is a difficulty in finding an unequivocal definition of the concept. (Delamare Le Deist & Winterton, 2005) and there is such confusion and debate concerning the concept of ‘competence’ that it is impossible to identify or impute a coherent theory or to arrive at a definition capable of accommodating and reconciling all the different ways that the term is used. Competence was defined as a particular combination of knowledge, skill and personal characteristics (Boyatzis, 1982; Crawford & Turner, 2003). According to Šiugždinienė (2006), the competency approaches were expected to help to identify the skills, knowledge, behaviors and capabilities needed to meet current and future personnel selection needs and to help eliminate the gap between the competences required by a project, job role, or enterprise strategy etc. and those available.

Therefore, current studies have been able to define more clearly the domains of action and set of competencies to managers at various levels and functions, clearly defining the behavior and actions of each of them.

3.1. IPMA competence baseline and ICB version 3
In this regard it is also IPMA association’s contribution to the ICB model (IPMA competence baseline) version 3. This association (IPMA) has used a unique version for review of competencies. Version called ICB version 3 which with NCB version created a new model for competence analyzing. To help candidates measure and develop themselves and to help assess the competence of a candidate, ICB version 3 has shared competencies in their sets. Sets are mainly dimensions that together describe a function which is more or less independent. Based on this version, professional project management is broken down into 46 competence elements that cover the following: technical competences for project management (20 elements); behavioral competences of project
Each set contains elements of competencies covering the most important aspects of competence in a given set (IPMA, 2006):
The set of technical competencies - describes the fundamental elements in a process of competence management. This set covers the project management content and these competencies are sometimes referred to as the basic elements of this management. ICB has defined 20 technical competence elements;
The set of behavioral competencies - describes elements of personal competence in project management. This set covers attitudes and project manager skills. ICB describes 15 elements of behavior competence;
The set of contextual competence - describes the elements of project management competence in relation to the content of the project. This range covers the project manager’s competence in managing relations within the line management organization and ability to function in an organization focused on the project. ICB contains 11 contextual competence elements.
IPMA is among other competence standards, regulations and codices regarded as complete and fully suitable for project management (Bartoška et al., 2012).

Figure 1: The IPMA standard competence “eye”

Source: Caupin et al., 2006

The IPMA standard is a natural support and tool for project-based learning or that it will become a successful tool and support in the course of time (Rios et al. 2010). It is important to note that the performance of a project manager will depend intrinsically on whether she/he can implement the managerial practices effectively and efficiently (Chen and Lee 2007).
In this way, competence in each area will become important in every aspect. Competence management is not only desirable but also possible. The labor market is being transformed into market of competencies. This means that the competence-based management will play more and more an essential role in the whole spectrum of personal management within organizations (Perspectives Project - IPMA, 2010).

3.2. GITP Competence Mode and competence levels and functions of IPMA-NL
Also, IPMA – NL has developed a study (Competence profiles, Certification levels and Functions in the project management field - Based on ICB version 3, 2010). In fact, this paper is based on the model GITP Competence Model. The technique used by GITP is based on the intervention method in nine major categories and in the same way is built list of competence which has 10 domains. Each domain has defined competencies.
Compared with the model GITP Competence Model, IPMA- NL model, which derives from the basic model GITP, contains new combinations of competence for which research and experience show
that has been a necessary as additional to the profession of project management, e.g. "International orientation" and "negotiations", or cases in which the names have to be changed as "quality orientation" and "result orientation". Compared with GITP model, greater attention by the IPMA model is dedicated competencies in the field of affective-emotional, as ex. "Restraining". Also, the powers in a duty are elaborated in deeper level in three functional levels. At the third level, IPMA has come in to behavior competencies; behavior which makes to achieve their goal and that can be observed directly. Competence profiles are described in various levels of management, where the level of project manager or program director meets functional level 3. Competence profiles by levels according to IPMA - NL:
Classification based in following levels:
D: Project Management Associate
C1: Results-oriented Project Manager
C2: Process-oriented Project Manager
B1: Result-oriented Senior Project Manager
B2: Program Manager
A: Project or Program Director

Specifically, IPMA - NL has added three competencies of the aforementioned areas and replaced at least one set of competencies from a domain that differs from the GITP’s study. This study is based on descriptions of competencies did by IPMA –NL, based on ICB version 3, 2010.

Table. 2. IPMA – NL (Competence profiles, Certification levels and Functions in the project management field – Based on ICB version 3)

<table>
<thead>
<tr>
<th>Venture</th>
<th>Organize</th>
<th>Perform</th>
<th>Analyze</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boldness</td>
<td>Planning</td>
<td>Result orientation</td>
<td>Creativity</td>
</tr>
<tr>
<td>Initiative</td>
<td>Organization</td>
<td>Attention to detail</td>
<td>Problem analysis</td>
</tr>
<tr>
<td>Independence</td>
<td>Progress control</td>
<td>Persistence</td>
<td>Learning orientation</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Awareness of organizational context</td>
<td>Quality orientation</td>
<td>Conceptual thinking</td>
</tr>
</tbody>
</table>

Influence | Manage | Relate | Transform |
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>Decisiveness</td>
<td>Service orientation</td>
<td>Awareness of the external environment</td>
</tr>
<tr>
<td>Presentation</td>
<td>Delegation</td>
<td>Listening</td>
<td>Assessment</td>
</tr>
<tr>
<td>Persuasiveness</td>
<td>Leadership (individual)</td>
<td>Co-operation</td>
<td>Vision development</td>
</tr>
<tr>
<td>Sociability</td>
<td>Leadership (group)</td>
<td>Empathy</td>
<td>Intercultural orientation</td>
</tr>
<tr>
<td>Contracting</td>
<td>Vision propagation</td>
<td>Negotiation</td>
<td></td>
</tr>
<tr>
<td>Coaching</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Create Confidence | Show resilience |
<table>
<thead>
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</tr>
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<tbody>
<tr>
<td>Integrity</td>
<td>Adaptability</td>
</tr>
<tr>
<td>Loyalty</td>
<td>Self-control</td>
</tr>
<tr>
<td>Reliability</td>
<td>Stress tolerance</td>
</tr>
<tr>
<td></td>
<td>Flexibility</td>
</tr>
</tbody>
</table>

Source: ICB version 3

Implementation of the competencies by the program manager or project director (functional level A) in enterprises in Kosovo, based on the description of IPMA – NL (ICB version 3)
Competencies of project managers in enterprises in Kosovo are still not clearly defined. Reasons and uncertainties that characterize all modern enterprises that will be discussed next are shown in Kosovo, as well. But the centralized organizational structure of enterprises, lack of confidence in the expertise, knowledge and capacity of managers, vague concepts of intervention and competence and differences in the perception of the budget, are specification of the Kosovar enterprises. However, this study has to do with analyzing the situation in Kosovo, regarding project management
in general and elements of professional competence in particular. Therefore, it is an additional research in an attempt to assess the perception of Kosovar companies for project management. The survey was conducted based on interviews that were done with several prestigious companies in Kosovo.

They are chosen 105 companies of different categories, such as private companies, NGOs and government institutions, in order to establish a clear and comprehensive overview of this research which has given us a more accurate picture of assessing the situation regarding project management in Kosovo.

So is created the idea of how and how much the professional competence is considered; how much these competencies are applicable in project management; what they know and how these companies are familiar with the notion of "Management by Competence".

They have been noticed quite interesting and encouraging results from one hand, when it comes to considering the importance of professional competence, certification, etc. But there are disappointing response about their knowledge about the driving of competencies and their categorization or standards of management etc. Considering that Kosovo businesses are very little or not at all familiar with the concept of competencies and their descriptions according IPMA –NL, association it has been impossible a research with division in functional levels according to the association. Therefore, the interview is done and results are issued only to a functional level A. This is because almost all the surveyed enterprises is clearly observed that most of the responsibilities for managing projects and programs are gathered in a functional level A, its mean to the director of program or project manager. According to their statements during interviews, this is due to lack of sufficient expertise of the staff or lack of trust from directors or project managers. Also, due to the lack of sufficient knowledge by enterprises in Kosovo, in conjunction with the detailed description of the competencies according to IPMA, this research is only focused on the analysis of the competence profile at the functional level A and analyzed only with selected 12 competencies, with 55 functions descriptions in total. So, without defined levels (reason: failure to distinguish clearly the domains of competence mapped through three functional levels in managing of programs and projects; e.g. functional level of Program Director has been taken a competencies from Project Manager). They are taken at least one competence from a domain

Chosen competencies for research:

Entrepreneurship
Sociability
Contracting
Awareness of organizational context
Vision development
Reliability
Persistence
Negotiation
Conceptual thinking
Vision development
Flexibility
Quality Orientation

Table 3: Interviewed enterprises by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prishtinë</td>
<td>30</td>
</tr>
<tr>
<td>Prizren</td>
<td>20</td>
</tr>
<tr>
<td>Pejë</td>
<td>20</td>
</tr>
<tr>
<td>Gjilan</td>
<td>20</td>
</tr>
<tr>
<td>Mitrovicë</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Survey results
Figure 2: Interviewed enterprises by region

Source: Survey results

Table 4: Competence profiles – researched in companies in Kosovo

<table>
<thead>
<tr>
<th>Competence profiles (Function level A)</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Entrepreneurship – Spot and actively influence business opportunities and dare to take well – considering risks (Creating potential possibilities for business)</td>
<td>46</td>
<td>43.81</td>
</tr>
<tr>
<td>2. Sociability – Make and maintain contacts with others for the benefit of work easily and effectively, join all kinds of company easily (Influence strongly through a network of contacts)</td>
<td>39</td>
<td>37.10</td>
</tr>
<tr>
<td>3. Contracting – Work systematically on actual closure of contracts in commercially favorable situations, always being focused on the closure of binding agreements (Obtain permanent co-operation as an organization)</td>
<td>51</td>
<td>48.60</td>
</tr>
<tr>
<td>4. Awareness of organizational context – Show understanding of how organization works; when taking action, take into account the consequences for the own organization and/or the clients organization (Handle organizational changes effectively)</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>5. Vision propagation – Present the direction in which the organization is heading and the goals aimed for in an appealing way and create support for it (Propagate a vision of the organization and the environment externally)</td>
<td>48</td>
<td>45.70</td>
</tr>
<tr>
<td>6. Reliability – Stick to agreements and accept their consequences. When failing to fulfill the agreement, take the consequences at one’s own expense and take away adverse consequences for other wherever possible. (Reliability in commitments and positions)</td>
<td>31</td>
<td>29.50</td>
</tr>
<tr>
<td>7. Persistence – Hold to the chosen approach or opinion until the intended goal has been reached (Be tenacious in strategic plan)</td>
<td>55</td>
<td>52.40</td>
</tr>
<tr>
<td>8. Quality orientation – Set high standards for the quality of one’s own and other’s work; continuously strive for improvements. (Organize quality)</td>
<td>42</td>
<td>40</td>
</tr>
<tr>
<td>9. Negotiation – Act in the interest of the own unit or organization in direct contacts with discussion partners in such a way that favorable results for the own unit or organization are achieved while retaining mutual respect. (Negotiate strategic position as a project organization)</td>
<td>44</td>
<td>41.90</td>
</tr>
<tr>
<td>10. Conceptual thinking – Provide broader or better understanding of problems or situations by putting them in a broader context or establishing connections with other information. (Put problems in broader context)</td>
<td>36</td>
<td>34.30</td>
</tr>
<tr>
<td>11. Vision development – Broadly outline the direction in which the organization and its environment are heading; formulate long-term policy goals. (Develop a vision at a level exceeding the project organization)</td>
<td>38</td>
<td>36.2</td>
</tr>
<tr>
<td>12. Flexibility – When problems or opportunities occur, change one’s own style of behavior to reach an intended goal (Flexibility for own role)</td>
<td>44</td>
<td>41.90</td>
</tr>
</tbody>
</table>

Source: Survey results
From this research it can be concluded that Kosovo's enterprises fail to grasp enough, the concept of competence management and specifically the theory of intervention and competence. From the table 4 frequency represents the number of enterprises responded positively to the implementation of powers. The table clearly shows that enterprises in Kosovo has a very low applicability of intervention theory and the classification of competencies under a certain standard and even less according to their description in the table above. Only one of the described competencies has applicability in a little bit more than 50% of enterprises, while others do not even apply in their half. The lowest level in the applicability of Reliability, also explains why project managers and program directors have concentrated most of the competencies in their function. Lack of Reliability comes to reasons mentioned above. Also, with similar reasons can be explained the low answer in Conceptual Thinking and Vision Development competencies. An interesting finding is much more positive response in the Contracting competence. This is because managers and project directors in Kosovo this competence are considering more technical than conceptual competence.

This does not mean that these competencies are totally unimportant. The results of this study only indicate that those competencies are not related to the core tasks of competencies and much less with the functional levels in an organization.

**Conclusions**
Project managers of Kosovar companies have slightly knowledge about the elements of professional competence, and often confuse them with other obligations and responsibilities of a project manager.

Competencies should be specified in the indicators that make them measurable, and therefore must achieve the connection between the competences of management consultants. Enterprises who are applying management competence throughout functional levels will achieve positive results in project management. Therefore, Kosovo companies should increase their knowledge of the concept of competence management, creating functional connection with project managers and executives throughout the duration of the project implementation. They must have known domains and competencies defined for project managers. For this, they should give special attention to
professional training of managers in Kosovo, particularly in the theory of intervention and competence.

References
Hoekstra, H.A. e.a., Management van competenties, 2003, Van Gorcum


Project Perspectives - The annual publication of International Project Management Association. 2010.


Abstracts
The wide interest, application and membership of the Kingdom of Bahrain in Gulf Cooperation Council enable to study the economic effects in general terms.
In the study it is going to be analyzed the economic cooperation of the Kingdom of Bahrain after membership in Gulf Cooperation Council. It will discuss whether economic cooperation between Bahrain and Gulf Cooperation Council members increased or decreased from its membership. This article provides a comprehensive and contemporary comparative analysis of the economic performance, the economic structure and the trade relations between Bahrain and Gulf Cooperation Council countries, allowing us to detect basic trends and developments. It will be compared the economic performance of the Kingdom of Bahrain and other Gulf Cooperation Council members, looking at aggregate figures from integration in Gulf Cooperation Council such as Foreign Trade, Foreign Direct Investment, Gross Domestic Product and its structure, level of unemployment and employment and inflation. The research is going to be done in descriptive method of the available data. Kingdom of Bahrain increased the economic growth, decreased the unemployment rate, controlled the inflation and increased the foreign direct investments.

Keywords: Gulf Cooperation Council, Foreign Trade, Foreign Direct Investment, Gross Domestic Product,
JEL Classification: F15, E23

Introduction
Integration, especially economic integration has always attracted worldwide attention. Despite many kinds of integration, the most important one in terms of economic development it is known the economic integration, which usually begins with the unification of trade between at least two different countries, with partial or complete abolition of customs tariffs on trade set out in each country. This initial integration leads towards decreasing the prices for distributors and consumers, and the aim is to increase the trade between integrated countries.
Apart of many integrations globally, in the Middle East Region, or the Asian continent one of the most famous is the Gulf Cooperation Council or shortly called GCC, that is not just economic but also political alliance and the members are: Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman. The organization is established in Riyadh, Saudi Arabia, in May 1981. GCC’s main purpose is to achieve between its member countries unity based on their common objectives and their similar political and cultural identities, as well as religious such as Islamic faith. Every year the presidency is rotating to each member country.
One of the most important articles of the GCC charter is that the organization is established to create better relations between the member countries and to increase the cooperation between the citizens itself. It is important to mention that the decision making body of the GCC is the Supreme Council that meets once a year and it is leaded by the heads of each country member. All decision from this council are adopted unanimously. Another important body is Ministerial council that is headed by the foreign ministers or in some cases officials of the governments. Their meetings are every three months with the purpose of implementing the decisions brought by the Supreme Council and also if there is a need to propose new policies. As regard of administration, it has the Secretariat-General, that observes the implementation of the policies and organizes the meetings (britannica.com, 2015).
In this context the GCC is of great importance for the world economy and the economies of the countries affiliated to it. We are witnessing a period in which the question of its survival and expansion is extremely important theme, especially for countries that have long work on membership, known as a tough accession process that requires the fulfillment of all standards and convergence with GCC levels of development.

Although there are many effects of the integration of these countries into GCC, this study highlights the importance and effects into economies of the member states, such as in international trade, actually non-oil trade with other GCC members and total trade with the rest of the world, inflation rate, unemployment level, foreign direct investment (FDI) and GDP and its structure.

The study therefore it may provide important information for multinational companies, helping them to make decision in terms of their investments in this region, government sector, as of whether to increase the cooperation between member states of GCC and have more relevant data as of what is the output of this economic integration, public sector who are widely interested to know more about the integration itself in terms of economic perspective. The study also can be used as a material for education at schools or universities, especially for the international studies programs.

The paper therefore undertakes a brief evaluation of each country separately and a thorough study for Kingdom of Bahrain on the macroeconomic performance from the period of integration in GCC. This study specifically aims to provide answers to the following questions:
- Is there improvement in terms of macroeconomic performances of GCC members and especially to the Kingdom of Bahrain?
- Did the GCC achieve its main objectives such as economic growth, increase in FDI, decrease in unemployment, increase in foreign trade, stable inflation rate?
- Did the integration into GCC brought towards increase of economic cooperation between member states, and especially what are the effects of economic integration of Kingdom of Bahrain towards GCC.

The objectives for this study are: to assess briefly the macroeconomic performance of GCC members; to analyze the development of the Kingdom of Bahrain within the GCC; and lastly to make a complete analysis of the economy of the Kingdom of Bahrain from the entry into force of the Agreement with the GCC to date, with a comparative approach to compare its characteristics with the characteristics of the markets/economies of neighboring countries, to analyze future prospects and challenges of economic development from the GCC membership. The contents of the research are regarding the foreign trade of the Kingdom of Bahrain, real GDP and GDP per capita, foreign direct investments, unemployment rate and inflation rate.

There is significant relationship between the improvement of macroeconomic performance of the Kingdom of Bahrain, such as economic growth, increase in FDI, decrease in unemployment rate, increase in foreign trade, stable inflation rate and its integration into GCC organization.

The relevant issues are complex and are treated for the first time. The paper is expected to be an important asset not only in theory but also in practical aspect. Thus justifying the efforts for a more rapid development, that is very important for the Kingdom of Bahrain. The importance extends to all entities in the country, i.e. policy makers and citizens, business (whether public or private) and the NGO sector.

We believe that the study will make a significant contribution in raising the awareness of all stakeholders in this process. The paper may be useful for the academic community, for the decision makers’ of appropriate policies, for educational institutions, employees at state agencies, citizens, businesses and useful literature for the generations that will choose to study this issue.

The main point of this study is to analyze the macroeconomic variables in detail for the Kingdom of Bahrain. The idea is to better understand the effect in macroeconomic performance of the Kingdom of Bahrain within integration in GCC. Mainly the period of the study is 10 to 15 years; it depends from the accessibility of the data.
Therefore, the researcher is going to use the secondary data, from the relevant well known national and international resources, about the economic growth, FDI, unemployment rate, foreign trade, inflation rate for the Kingdom of Bahrain.

**Literature review**

So far there are is not much research done about the economic effects that happened within the national level of the Kingdom of Bahrain from its integration in GCC. At our research we used a modern approach, based on new scientific knowledge, and of course consulting the most updated and relevant literature in this area.

GCC countries as a group have very strong participation in global goods flows, capital, and labor, and the coming works are about increasing knowledge-intensive flows (James M. & Susan L., 2014). Raphael Ananthakrishnan, and Rral (2010) analyzed the financial integration of the GCC equity markets. They conclude that the GCC is more integrated compared to other organizations coming from emerging economies, but still there remain many problems to be solved such as functionality and liquidity, information processing, and this brings to higher arbitrage opportunities and more persistent compared to advanced economies.

As of the GCC countries the most traded product is oil, therefore they are very depended on oil, as such their economies are dependent on oil prices, and also they didn’t benefit from globalization or became integrated into global supply chains (Nasser H. S., 2014). There is a very small trade between GCC members, even though lately there is a little increase, for about 30 percent annually. GCC is much more integrated with the rest of the world than with MENA countries because of the role of oil and gas as a main trading product (Shamshad A. & Mustapha R., 2010).

To move ahead with the integration agenda, the GCC needs to strengthen the organizational structure of the GCC Secretariat, and boost its autonomy and resources. Reforms should focus on allowing more flexibility in the decision-making process and better enforcement of decisions, together with stronger arbitration and monitoring mechanisms (The World Bank, 2010).

Because the oil prices are fluctuating quit a lot in the last years, the increase in intra-trade in GCC, investment and also development could help the countries to be less dependent on oil prices. There are many reasons why these countries should deeper integrate, such as the common history and values, economic development is mainly based on oil and also the importance of expatriate labor (Seetharaman R., 2014).

As of the intensification of the competition of the global economy, GCC countries should further be integrated. The long time agreement for creating a monetary union should be done as soon as possible. In the meanwhile, GCC countries should adopt policies that would open the door for creating complementary and not competing economies, especially in sectors such as transportation and energy that give possibility for further integration. These would create larger benefit for all member countries of GCC (James Mc., 2013).

GCC countries already signed a memorandum of understanding (MoU) for adopting a common laws and regulations for stock markets. This MoU is another way of deeper economic integration. This will help the GCC Securities Commissions to exchange information, protect investors, increase training and expertise and also to treat the citizens equally, as about economic issues such as to trade companies’ shares and establish new ones (Times News Service, 2015).

Broader and deeper economic integration can synergize economies by facilitating the movement of goods, capital and labor. In the GCC region, however, despite favorable official proclamations, this potential is still largely unexploited. Easing licensing restrictions and market entry for domestic, regional and foreign firms is necessary to promote competition and increase efficiency in order to harmonize and facilitate real economic integration between the GCC economies. Border controls need to be relaxed as it takes numerous days for trucks carrying goods to cross them (Hassan H., 2015).
Data and methodology
In order to do the research for the above mentioned topic we have applied several quantitative (based on the use of descriptive models) and qualitative methods of analysis, synthesis and comparison. The paper largely relies on empirical research on the impact to the economy of Kingdom of Bahrain, from its integration in GCC. For the purposes of analysis, the data about current trends in the economy of Kingdom of Bahrain are also used, from different related resources, especially from main World economic institutions such as World Bank, Ministry of Industry and Commerce of Kingdom of Bahrain and United Nations Conference on Trade and Development (UNCTAD) and Bahraini governmental institutions.

Discussion of results
Similarities due to common historical, political and cultural background form a base for better understanding of development processes (Horska, 2014). The paper contributes to the evaluation of economic effects of the accession of the Kingdom of Bahrain to the GCC. The membership in GCC integration significantly affected the development of the country.

Economic effects in the foreign trade of the Kingdom of Bahrain from GCC membership
Membership in GCC organization of the Kingdom of Bahrain had a major impact on growth of foreign trade. Figure 1 shows the foreign trade of the Kingdom of Bahrain with the rest of the world. The foreign trade means export of products and services and import of products and services. The largest foreign trade partners of the Kingdom of Bahrain are mainly from GCC. In 2014, major export partners of Bahraini goods were members of the GCC with 56.5%, and that: Saudi Arabia 26.4, UAE 17.2%, Qatar 6.3%, Oman 4.2% and Kuwait 2.3%. Main non-oil exported products in 2014 are: agglomerated iron ores and concentrates (8.7%), ferrous products from the direct reduction of iron ore (4.6%).

On the other hand, in 2014, mostly was not imported from GCC members, because they actually take part only with 19% from total import: UAE 8.4%, Saudi Arabia 7.3%, Oman 1.6%, Kuwait 1% and Qatar only 0.75%. The main foreign trade partners for the Kingdom of Bahrain was China 12.8%, and in 2014 was imported mostly Cars machinery and transport equipment (10%) [16].

Exports of goods from 2000 to 2014, was constantly rising, except in 2009, when the crisis started in the world, and it effected the exports of the Kingdom of Bahrain by drop in 26%. Bahrain registered the highest export value of its goods and services in its history in 2013, 24 billion US dollars. Export growth of goods and services in 2014 compared to year 2000 was increased by 236 percent. As exports of goods was growing for these 14 years, also imports was growing, except in 2009 when it decreased by about 70%. Highest value of imports of goods and services, Kingdom of Bahrain has registered in 2008, 16 billion USD. A characteristic for foreign trade of Kingdom of Bahrain for this entire period, in fact from 2000 to 2014, is that it was in surplus, and the record reached in 2014, with 9.1 billion USD (The World Bank, 2015).
The main trading partners of the Kingdom of Bahrain are the GCC members. Figure 2 shows the import, export and re-export of products and services of the Kingdom of Bahrain with other members of GCC for the period 2006 until 2012. The highest growth of exports is for the year 2008, by 371%. The same year is also highest for imports and re-exports, that is 177% and 312%. The highest trade volume between GCC countries is year 2012, with 5.6 billion USD (Ministry of Industry and Commerce of Kingdom of Bahrain, 2016).

Figure 3 shows that FDI in the Kingdom of Bahrain reached the highest growth in 2011, by 400% comparing to 2010, but in terms of the value of investment in 2006 by 2.9 billion USD. The value of FDI of Bahraini companies that have invested in other countries was highest in 2007, 1.7 billion USD, and the lowest in 2009, actually negative 1.8 billion USD.

Foreign direct investments, GDP and their structure at the Kingdom of Bahrain

Kingdom of Bahrain, similar to other GCC members survived rapid economic growth during their transition period. As in other countries that became members in GCC, also at the Kingdom of Bahrain, economic development was achieved during the last decade. Membership in various regional and international organizations and a potential candidate in the Organization for Economic Cooperation and Development-OECD, heavily affected on the continuity of increasing foreign direct investments (FDI) and to the growth of real GDP. Bahrain joined the Istanbul Cooperation Initiative (ICI) since its inception in 2005 (Ministry of Foreign Affairs, Kingdom of Bahrain. 2016), and other important organizations such as League of Arab States, Organization of Islamic Conference, etc. FDI played a major role in the growth of GDP and the standard of living. Figure 3 shows that FDI in the Kingdom of Bahrain reached the highest growth in 2011, by 400% comparing to 2010, but in terms of the value of investment in 2006 by 2.9 billion USD. The value of FDI of Bahraini companies that have invested in other countries was highest in 2007, 1.7 billion USD, and the lowest in 2009, actually negative 1.8 billion USD.
Real GDP was 9 billion USD in 2000, and increased by three and a half times more in 2014, 34 billion USD, where also the highest value of GDP was achieved. GDP per capita grew by about 2 times, from 13562 USD in 2000 to 25174 USD in 2014. This shows that also the standard of living of the citizens has increased.

FDI in the Kingdom of Bahrain, as a percentage of GDP were low, and reached the top in 2006, 16%. The highest percentage of FDI as a share of GDP to Bahraini companies in other countries was reached in 2007, 8 percent (UNCTAD, 2016).

Based on the above data on FDI, we can distinguish three periods for the last fourteen years. The first period was 2000-2005, when FDI was in constant growth to some degree, but relatively low level of less than 1 billion USD. The tightening of strengths between GCC countries afterwards was a great incentive for potential investors to realize their investments in the country. After 2005, foreign direct investments in the country have increased steadily, reaching more or less 3 billion USD in 2006 and 2008. From the financial crisis in Europe and worldwide the third period 2009-2014, the foreign direct investments dropped sharply to 257 million USD in 2009 and with constant growth to about 1 billion USD in 2014. In 2014 the FDI was at similar level as in 2013. However there are a number of structural drivers which give cause for a more optimistic long-term outlook in the region, including connectivity, increasing economic integration, and the demographic dynamic (tradearabia.com, 2016).

The advantages of investing in the Kingdom of Bahrain are access to every market in Middle East quickly and efficiently, either by road, air or sea. It is the most liberal business environment in its region, without any taxation to the private companies, very few indirect taxes for private companies and individuals, as well as free repatriation of the capital. It tracks record as a modern international business economy. Low costs such as for rents, offices and industrial land compared to the regional...
countries. The workforce is the most educated and skilled in the region. The last advantage is supportive visa policies that put Kingdom of Bahrain at the group of countries with the most flexible visa policies in the region (bahrainedb.com, 2016).

**Level of unemployment in the Kingdom of Bahrain**

Unemployment is elsewhere recognized as a bad thing. The unemployment rate measures the percentage of employable people in a country’s workforce who are over the age of 16 and who have either lost their jobs or have unsuccessfully sought jobs in the last month and are still actively seeking work (investinganswers.com, 2016).

The unemployment rate in Bahrain increased to 3.9 percent in 2014 compared to 3.7 percent in 2013. Unemployment Rate in Bahrain averaged 4.13 percent from 2000 until 2014, reaching an all time high of 5.6 percent in 2007 and a record low of 3.6 percent in 2010. Unemployment Rate in Bahrain is reported by the World Bank, and actually it is one of the lowest in the region and worldwide.

**Figure 5 Unemployment rate in the Kingdom of Bahrain, by gender from 2000 to 2014 (in percent)**

Figure 5 shows that Kingdom of Bahrain has higher level of unemployment compared to Qatar and Kuwait, similar rate with United Arab Emirates, and lower level compared to Saudi Arabia and Oman. The average unemployment rate in the Kingdom of Bahrain for the period 2000-2014 was 4 percent (the World Bank, 2016).

**Figure 6 Unemployment rate in the Kingdom of Bahrain and other GCC countries from 2000 to 2014 (in percent)**

**Inflation rate in the Kingdom of Bahrain**

Kingdom of Bahrain faced with the average rate of CPI that varied from lowest deflation by 1.2 in 2001, comparing to the prices of the same period of the last year, and was actually the highest
deflation rate recorded for the period 2000 to 2015, to the highest rate of inflation 3.5 percent recorded in 2008. In 2015 inflation rate dropped to 1.8 percent.

Figure 6 Unemployment rate in the Kingdom of Bahrain and other GCC countries from 2000 to 2014 (in percent)

Conclusions
The dynamic economic development of the GCC member countries including the Kingdom of Bahrain without any doubt has been one the highest in the world level.

The challenges in terms of economic sense from integration of the Kingdom of Bahrain in GCC led to drastic growth of exports of goods and services from 2000 to 2012 by two and half times, with small decrease in 2009. Foreign direct investments in the Kingdom of Bahrain reached the highest growth in 2011, by four times more comparing to 2010, but in terms of the value of investment in 2006 by 2.9 billion USD. Real GDP was 9 billion USD in 2000, and increased by three and a half times more in 2014, 34 billion USD. GDP per capita grew by about 2 times, from 13562 USD in 2000 to 25174 USD in 2014.

Unemployment rate didn’t change much, as the average rate during the analyzed period was four percent, and actually it is one of the lowest in the region and worldwide. It is higher compared to Qatar and Kuwait, similar rate with UAE, and lower level compared to Saudi Arabia and Oman.

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