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Fast-Food Service Quality And Customer Satisfaction: An Empirical Study In Greece

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ABSTRACT

Fast food franchise restaurants have had a considerable growth as people’s eating habits have been affected by modern lifestyles and new consumer patterns. The present study explores customers’ perceptions of the Greek fast food restaurant service quality and its relationship to customer satisfaction considering specific dimensions of satisfaction and a number of demographic information. In order to achieve the research objective, a questionnaire on customer satisfaction was distributed and answered by 220 fast-food customers. The research findings indicate that quality of food and service are the most important factors influencing satisfaction, whereas pricing policy proved to be a quite problematic factor in assessing customer satisfaction. Managerial implications, study limitations and directions for future research are also discussed.

KEYWORDS

Consumer behaviour, Customer satisfaction, Fast food, Customer services quality

JEL CLASSIFICATION CODES

M1, M31

1. INTRODUCTION

Modern lifestyles, by establishing the model of "quick service", have affected our eating habits and tastes, and have, therefore, made fast food consumption a major consumer food alternative. Nowadays, the fast food industry, also known as Quick Service Restaurants, takes up one of the largest segments of the food industry worldwide. Despite the considerable growth of enterprises-chains-fast food restaurants through innovative marketing strategies, customer satisfaction in fast food restaurants has not been thoroughly researched, in view of the undergoing differentiations in terms of a series of demographic, spatial and cultural features in the respective customer base.

Research has identified various factors, both customer- and situational-specific, which affect overall customer satisfaction (Zeithmal and Binter, 2000). In Greece, fast food consumption, despite the recent socio-economic crisis, which has changed consumers’ lifestyles, had a rapid increase in the last decades. According to a Nielsen survey, 88% of the people in Greece have considerably reduced the frequency of going out, compared with other Europeans, and, owing to incomes shrink, they do not opt for dining out (Charondakis, 2012). The specific food service industry, with a total annual turnover of 2.1 billion, is rated as one of the most significant industries in the Greek market. 27% is controlled by organized chains - Goody's, Everest, McDonald's, Gregory, KFC, Roma Pizza, Venice, Pizza Hut, Pie Pan etc. - whereas the remaining 73% includes thousands of small businesses. It is worth noting, however, that since 2011 the decrease in consumer disposable income, resulting from the economic recession and, subsequently, VAT increase from 8% to 23% have had an adverse effect on restaurant turnovers (www.iefimerida.gr, 2013).

Nowadays, fast food operations of both organized chains and the thousands of small enterprises are encountered with a fierce competition from food specialist retailers and other foodservice channels, which gained ground against fast food by expanding the number of outlets and/or by extending their menus and dropping their prices. Manrai & Manrai (2007) indicate that customer satisfaction, related to the desire to change providers and overall consumer behavior, underscores the ability of an organization to compete effectively in the contemporary environment of global economy. The hard economic circumstances and the fiercely competitive environment in Greece have forced fast food
restaurants to accommodate to new trends and pressures. Re-examining mainly aspects of quality, taste, price, and, overall, the unique experience for customers, fast food chains, in order to retain and possibly increase the number of customers, are rather called to redesign the marketing mix of products and services.

The present research is based on data drawn from “Goody’s” customers’ views about their satisfaction with a number of factors. It is worth noting that “Goody's”, a domestic burger fast food chain for 40 years, with 167 outlets in Greece, has been the leader in chained fast food and the most popular amongst Greeks. The main objective of the research is to explore customers' perceptions of the Greek fast food restaurant service quality and its relationship to customer satisfaction considering specific dimensions of satisfaction and a number of demographic information. In an increasingly competitive and especially forced environment, the research attempts to identify the components of fast food quality that affect customer satisfaction, and provide vital information to enable managers to identify the "whats" and "hows" of service-quality improvement and, thus, re-establish their competitive advantage.

The research is organised as follows: first, it includes an outline of the extant literature concerning quality and satisfaction, with particular emphasis on the relationship of quality and satisfaction in the fast food industry. Next, it provides a discussion of the research methodology as well as the empirical research results. Finally, it concludes by identifying study limitations and proposing future research directions.

2. BACKGROUND LITERATURE

According to Zeithaml et. al. (2009), fast food restaurants are categorised as service enterprises. Previous research has shown that fast food restaurant service quality has a positive impact on customer satisfaction, revisit intention and customer purchasing decision (Law et. Al, 2004; Ying San et. Al, 2013).

2.1 SERVICE QUALITY

Service quality is defined as the overall customers’ perception of the superiority or inferiority of the organization and its services (Bitner et al, 1994), and attitudes reflecting a long-run overall evaluation of the offered services (Taylor & Cronin, 1994). Parasuraman et al (1985) define service quality as the difference between expectations and performance in all dimensions of quality emphasizing that quality evaluations are not derived solely from service outcomes, but they also involve evaluations of the service delivery procedures. According to Chumpitaz and Sweden (2002), the number and nature of service quality dimensions are directly dependent on the researched service.

Fast food restaurant service quality implies customer evaluation on the superiority of the services offered in fast food restaurants (Salami and Ajobo, 2012).

2.2 CUSTOMER SATISFACTION

Customer satisfaction, a construct extensively investigated in the extant literature, bears a number of interpretations, the two most fundamental of which address satisfaction either as a process or outcome (Parker & Mathews, 2001). According to Oliver (1997), satisfaction is perceived as an evaluative response from a consumer’s experience mostly during the post purchase period. Hill & Alexander (2000) argue that customer satisfaction is an ongoing process, which is determined by performance assessment and has clear positive effects on purchasing intentions and the degree of customer loyalty. Giese and Cote (2000) consider that consumer satisfaction is a summary affective response of varying intensity, with a time-specific point of determination and limited duration, focusing directly on aspects of product acquisition and/or consumption.
2.3 THE RELATIONSHIP BETWEEN SATISFACTION AND QUALITY SERVICE IN FAST FOOD RESTAURANTS

According to Rust and Oliver (1994), perceived quality and satisfaction are conceptually differentiated; perceived quality is an encounter-specific construct based on the characteristics of the product/service whereas satisfaction can result from any other dimension. In addition, although perceived quality is - to some extent - business controlled, satisfaction is not. Overall, research has suggested that perceived quality, seen as a pre-consumption experience / antecedent for customer satisfaction, has a direct and positive effect on overall satisfaction (Hume and Mort, 2008).

The number of changes in the food service industry in the last two decades, such as the emergence and dynamic presence of fast food multinational companies and large chains, mostly popular among young consumers, attracted researchers’ attention and concern. Several research efforts were focused on the fast food industry and the relationship between service quality and customer satisfaction in all types of fast food restaurants, as well as on the impact of customer satisfaction on them (e.g. Brady et al., 2001; Gilbert et al., 2004; Kara et al., 1995; Lee and Ulgado, 1997, Qin and Prybutok, 2008).

Research has also focused on the particular features of the fast food industry, which are significantly differentiated in various countries, depending on customer demographic, spatial and culture-specific characteristics. Kara et al. (1995) investigated fast food customers’ perception in the USA and Canada and demonstrated that most significant satisfaction factors for fast food restaurant customers are cleanliness, easy access, food quality and good pricing policy as. Stevens et al (1995) found that the main factor, which is positively and strongly associated with fast food customer satisfaction, is food quality, whereas Andaleeb and Conway’s (2006) demonstrated that customer satisfaction is significantly affected by staff service delivery and, secondly, by food quality and price. In addition, Qin and Prybutok (2008), by investigating the quality of service in relation to the perceived customer satisfaction in China's fast food restaurants, highlighted the balanced relationship of price and product quality as a significant factor in customer satisfaction, whereas Kim et al. (2009) found five major impact dimensions of satisfaction, that is, food quality, service quality, good value for the price, atmosphere, and staff appearance.

3. METHODOLOGY AND RESEARCH OBJECTIVES

The present study aims at investigating fast food customer attitudes and perceptions in terms of the satisfaction derived from fast food restaurant products and services. To explore:

1) the degree of customer satisfaction with food, staff, dining area, relationship of quality - price-quantity and delivery service

2) whether fast food customers’ demographic and behavioral characteristics affect satisfaction,

a qualitative research was conducted on a convenient sample of 220 customers of a "Goody's" fast food outlet in Northern Greece. The subjects were asked to answer a questionnaire, which was completed via personal interviews taken outside the researched chain restaurants in September 2014.

The questionnaire, apart from demographic information, includes questions about the respondents’ frequency of dining in fast food restaurants and their satisfaction with the food, staff, dining area, the relationship of quality-price-quantity, delivery service, as well as overall satisfaction with fast food restaurants and their views about any possible improvements. The questionnaire was assessed by means of test -retest reliability on a sample of 15 subjects in five randomly chosen restaurants. An analysis of the respondents' demographic characteristics is shown in Table 1.
The statistical analysis of data was performed through IBM SPSS and Kolmogorov-Smirnov and Saphiro-Wilk regularity tests of data distribution, Mann-Whitney U non-parametric hypotheses test, non-parametric Kruskal-Wallis H test and non parametric linear correlation coefficient rho of Spearman; the significance level is a = 0.05.

4. ANALYSIS AND RESULTS

To begin with, the survey includes an outline of the subjects’ degree of preference for fast food, the money they spend in fast food restaurants as well as the type of restaurant they prefer for a quick meal. Thus, as regards the frequency of dining in fast food restaurants, it is observed that 33.5% of the subjects rarely eat out whereas 30.3% not frequently. 22.9% of the research participants dine in fast food restaurants several times a month, 7.8% once a week and 5.5% several times a week. In addition, 23.4% of the respondents usually spend up to 5 euro in fast food restaurants, 53.7% from 5-15 euro, 20.6% 15-20 euro and 2.3% over 20 euro. Regarding the type of fast food restaurant they prefer, 31.1% of the respondents usually have meals in souvlakiers, 18.3% in creperies, 28.8% in fast food chain restaurants and 11.0% in fast food restaurants with international cuisine, similarly to those who usually eat a quick meal mostly in bakeries.

The respondents’ overall satisfaction with fast food restaurants does not appear to derive high percentages; the mean score is 3.26 (Stddev. = 0.954). Particularly high scores are demonstrated in relation to the respondents’ overall satisfaction with fast food restaurants and the components requiring improvements (Mean = 3.99, Stddev. = 0.867). The analysis indicates that the major component that has to be improved is the number of working staff (Mean = 1.76, Stddev = 0.915), whereas significant improvements are also required in fast food restaurant pricing policy (Mean = 1.92, Stddev = 0.855), as well as in product quality (Mean = 2.95, Stddev = 0.782). The component which requires improvements to a lesser extent is dining area (Mean = 3.37, Stddev = 0.990).

Subsequently, to check the internal consistency and reliability of the responses in relation to the researched factors, namely «Satisfaction with food (5 variables)», «Satisfaction with staff (5 variables)», «Satisfaction with dining area (5 variables)», «Relationship of quality-price-quantity» and «Satisfaction with delivery service (6 variables)», a-Cronbach coefficient was calculated, which is considered very satisfactory as the factors reliability index is 0.885.
The examination of the factor means related to the respondents’ satisfaction with fast food restaurant services, originally, demonstrated that customer satisfaction with the staff (Mean = 3.91, Stddev = 0.646) and delivery service (Mean = 3.85, Stddev = 1.016) is high. Slightly lower is the score of participants’ satisfaction with the food (Mean = 3.91, Stddev = 0.646), whereas relatively moderate satisfaction is demonstrated as regards the relationship of quality-quantity-price (Mean = 3.34, Stddev = 1.031) and dining area (Mean = 3.23, Stddev = 0.330).

Given that under the Kolmogorov-Smirnov and Shapiro-Wilk tests the assumption of observation normality for all factors is rejected (p-value <0.001), to investigate the impact of demographic characteristics on customer satisfaction, non-parametric methods were employed.

In terms of gender, despite the individual differences of customer satisfaction with service delivery, it was observed that gender did not significantly affect the mean scores of the research factors (p-value> 0.05 in all cases (Table 3).

Table 3. Mann-Whitney U test of factors in terms of gender

<table>
<thead>
<tr>
<th>Satisfaction with food</th>
<th>Satisfaction with staff</th>
<th>Satisfaction with dining area</th>
<th>Relationship of quality-quantity-price</th>
<th>Satisfaction with delivery service</th>
<th>Questionnaire reliability index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mann-Whitney U</td>
<td>p-value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,703,500</td>
<td>0.735</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,195,500</td>
<td>0.189</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,673,000</td>
<td>0.786</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,303,000</td>
<td>0.276</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,453,000</td>
<td>0.299</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,126,000</td>
<td>0.122</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

On the other hand, it was demonstrated that age is statistically significant (Table 4) in relation to customer satisfaction with the staff (p-value = 0.044), dining area (p-value = 0.010), the relationship of quality-price-quantity (p-value = 0.001) and overall satisfaction with fast food restaurants (p-value <0.001).

Table 4. Kruskal-Wallis H test of factors in terms of age

<table>
<thead>
<tr>
<th>Satisfaction with food</th>
<th>Satisfaction with staff</th>
<th>Satisfaction with dining area</th>
<th>Relationship of quality-price-quantity</th>
<th>Satisfaction with delivery service</th>
<th>Overall fast food image</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kruskal-Wallis</td>
<td>p-value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,174</td>
<td>0.882</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.772</td>
<td>0.044</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13,198</td>
<td>0.010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19,281</td>
<td>0.001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.572</td>
<td>0.467</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35,255</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is also worth noting that lower-income individuals exhibit higher satisfaction with the food (p-value <0.001), whereas the higher the respondents’ income the higher their satisfaction with the relationship of quality-price-quantity (p-value = 0.048). In addition, lower-income individuals exhibit higher overall satisfaction with fast food restaurants (p-value = 0.049).

As regards dining out frequency (Table 5), it appears that fast food customers who rarely dine out or those who dine out once a week exhibit statistically more significant satisfaction with staff service delivery (p-value <0.001). In addition, it is demonstrated that –paradoxically- the customers who rarely
eat out or those who dine out about once a month exhibit the highest satisfaction with the relationship of quality-price-quantity in fast food restaurants (p-value < 0.001). In contrast, the higher the dining out frequency, the higher the respondents’ overall satisfaction (p-value < 0.001).

Table 5. Kruskal-Wallis H test of factors in terms of dining out frequency

<table>
<thead>
<tr>
<th>Factor</th>
<th>Kruskal-Wallis</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with food</td>
<td>6.772</td>
<td>0.148</td>
</tr>
<tr>
<td>Satisfaction with staff</td>
<td>39.008</td>
<td>0.000</td>
</tr>
<tr>
<td>Satisfaction with dining area</td>
<td>6.097</td>
<td>0.192</td>
</tr>
<tr>
<td>Relationship of quality-price-quantity</td>
<td>27.141</td>
<td>0.000</td>
</tr>
<tr>
<td>Satisfaction with delivery service</td>
<td>9.184</td>
<td>0.057</td>
</tr>
<tr>
<td>Overall fast food image</td>
<td>27.151</td>
<td>0.000</td>
</tr>
</tbody>
</table>

In relation to the amount of money spent on fast food, it is observed that the lower the amount of money spent in fast food restaurants (Table 6), the greater the degree of satisfaction with the dining area (p-value = 0.013). In addition, more satisfied with the relationship of quality-price-quantity are the respondents who usually spend up to 5 euro in fast food restaurants, followed by those who spend much higher amounts (p-value < 0.001). In contrast, customers’ overall satisfaction with fast food restaurants seems to be higher for those who spend 5-50 euro (p-value < 0.001).

Table 6. Kruskal-Wallis H test of factors in terms of amount of money spent

<table>
<thead>
<tr>
<th>Factor</th>
<th>Kruskal-Wallis</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with food</td>
<td>7.769</td>
<td>0.051</td>
</tr>
<tr>
<td>Satisfaction with staff</td>
<td>3.914</td>
<td>0.271</td>
</tr>
<tr>
<td>Satisfaction with dining area</td>
<td>10.757</td>
<td>0.013</td>
</tr>
<tr>
<td>Relationship of quality-price-quantity</td>
<td>35.399</td>
<td>0.000</td>
</tr>
<tr>
<td>Satisfaction with delivery service</td>
<td>2.964</td>
<td>0.397</td>
</tr>
</tbody>
</table>

Examining the relationship of fast food customer satisfaction with the type of restaurants they most frequently prefer, it originally appears that, as regards satisfaction from food, the highest scores were derived by souvlaki-masti customers, followed by customers who prefer creperies (p-value < 0.001), whereas satisfaction with food was lower in fast-food chains and fast food restaurants with international cuisine. In addition, a statistically significant difference is observed in the mean scores of customer satisfaction with the staff (p-value = 0.001); souvlaki-masti, fast food chain and bakery customers exhibit the highest degree of satisfaction. Similarly, the mean scores of satisfaction with the delivery service are as high (p-value < 0.001). Finally, the overall satisfaction of souvlaki-masti and fast food chain customers is obviously higher compared to the rest of the respondents (p-value = 0.019).

In terms of Spearman r correlation coefficient, it is observed (Table 7) that the respondents’ overall satisfaction with fast food restaurants is positively and significantly correlated with the degree of satisfaction with the staff (p = 0.419, p-value < 0.001), dining area (p = 0.386, p-value < 0.001) and the relationship of quality-price-quantity (p = 0.554, p-value < 0.001). The more satisfied the respondents with the three above factors, the higher their overall satisfaction with fast food restaurants, as r coefficient is observed to be positive and statistically significant in all paired correlations.

Table 7. Correlation of overall satisfaction to factors

<table>
<thead>
<tr>
<th>Overall satisfaction</th>
<th>Satisfaction with food</th>
<th>Satisfaction with staff</th>
<th>Satisfaction with dining area</th>
<th>Relationship of quality-price-quantity</th>
<th>Satisfaction with delivery service</th>
</tr>
</thead>
<tbody>
<tr>
<td>p</td>
<td>0.095</td>
<td>0.419**</td>
<td>0.386**</td>
<td>0.554**</td>
<td>0.024</td>
</tr>
<tr>
<td>p-value</td>
<td>0.164</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.727</td>
</tr>
</tbody>
</table>

Finally, the process of correlation of customer satisfaction factors with the delivered services and the customers’ perceptions about the components requiring improvements, indicate (Table 8) that the lower the customer satisfaction with the staff (r = -0.148, p-value = 0.030), dining area (r = -0.304, p-
value <0.001), and the relationship of quality-price-quantity (r = -0.483, p-value <0.001), the more imperative the need for improvements in fast food restaurants.

In addition, as was predictable, overall satisfaction is negatively correlated to and statistically significant with the respondents’ perceptions about the improvements required in fast food restaurants (p = -0.506, p-value <0.001).

Table 8. Correlation of improvements to factors

<table>
<thead>
<tr>
<th>Improvements</th>
<th>Satisfaction with food</th>
<th>Satisfaction with staff</th>
<th>Satisfaction with dining area</th>
<th>Relationship of quality-price-quantity</th>
<th>Satisfaction with delivery service</th>
<th>Overall impression</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>0.057</td>
<td>-0.148</td>
<td>-0.304&lt;sup&gt;**&lt;/sup&gt;</td>
<td>-0.483&lt;sup&gt;**&lt;/sup&gt;</td>
<td>-0.118</td>
<td>-0.506&lt;sup&gt;**&lt;/sup&gt;</td>
</tr>
<tr>
<td>val</td>
<td>0.405</td>
<td>0.030</td>
<td>0.000</td>
<td>0.000</td>
<td>0.085</td>
<td>0.000</td>
</tr>
</tbody>
</table>

5. CONCLUSIONS

Product/service quality and its close relationship with customer satisfaction is given a particular emphasis in modern strategic marketing, as it is generally suggested by academics and practitioners that its impact on competitive advantage and, consequently, on business sustainability and revenue is major. This enhances customer loyalty and new customer attraction, given that satisfied customers’ perceptions affect positive word-of-mouth.

Overall customer satisfaction is perceived as customer- and situational-specific. The present study, in the context of the socio-economic crisis in Greece in the last few years, during which consumers’ lifestyles have changed, attempts to investigate customer satisfaction with food, staff, dining area, relationship of quality-price-quantity and delivery service in a fast food chain restaurant. It also explores whether fast food customers’ demographic and behavioral characteristics in Greece affect their degree of satisfaction.

According to the research results, it was found that in fast food restaurants customer satisfaction is significantly differentiated - in descending order- with staff service delivery, food quality, delivery service, relationship of quality-price-quantity and, finally, dining area. It is suggested that the major reason for dining in a particular fast food restaurant is, first, food quality and, secondly, service delivery; in addition, the participants feel that overall satisfaction with fast food restaurants and the relevant pricing policy must be improved.

It is, thus, ensued that, despite the fact that customers are generally satisfied with fast food services, they suggest that high prices are the main deterrent to dining out, which implies that fast food chain pricing should be reconsidered to enable fast food enterprises to affect customer satisfaction positively and also enhance their competitive advantage.

Since correlation tests demonstrated that both age and income significantly affect customer satisfaction, given that older customers consider the relationship of quality-price-quantity more significant, and high-income ones are less satisfied with the specific factor, a focused redesign of the marketing mix concerning restaurant style, new dishes, and primarily discount prices could be critical to the success of the service industry at issue in contemporary social economic contexts.

To conclude, no generalization of the above findings should be made as the major limitation to the specific research is the relatively small sample, in combination to spatial and geographical constraints, given that the investigation was based on data drawn only from one fast food chain and in only one area. Future research in Greece should involve larger and broad-scale research sampling and, in addition, combine cross-national (cultural) comparative surveys focusing on factors affecting customer satisfaction in different socio-economic environments.
ACKNOWLEDGEMENT

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ABSTRACT

Mental accounting, which is a fundamental part of the behavioral finance theory, goes beyond the constraints of traditional paradigms and contributes to the development of new funding models. It involves people’s tendency to create, depending on their individual characteristics, different mental accounts to which they assign experiences. The present paper attempts a comprehensive discussion of the concept of mental accounting as well as of its emergence and impact on the money market. It also outlines and highlights other cognitive and emotion errors, which are directly related to the specific cognitive function and enhance its occurrence; in addition, it discusses methods of avoiding mental accounting with a view to addressing irrational investment behavior.

KEYWORDS

Irrational behavioral, mental accounting, investment behavior, cognitive bias, emotional bias

JEL CLASSIFICATION CODES

G02, G10, G11.

1. INTRODUCTION

The new financial model of investment behavior has revealed weaknesses and limitations of the hitherto dominant traditional finance model.

Behavioral finance has demonstrated that the market cannot always be effective and investors cannot always be rational.

Financial markets are unpredictable; investors and all those involved in its activities are typically people with biases and cognitive and emotional errors. Their psychological attributes and special traits and personalities motivate irrational thinking and wrong investment policies.

A cognitive error frequently made by people, and, more specifically, by investors, is mental accounting, which is defined as people’s tendency to generate different mental accounts and register events they have experienced in their effort to achieve a better psychological management.

The present paper provides a generalized discussion of the concept of mental accounting, and, in parallel, attempts a more elaborated analysis in the framework of financial activities. In addition, it discusses the cognitive and emotional errors which are directly related to mental accounting and affect its occurrence. Finally, the paper outlines the methods of preventing the specific irrational mental effect with a view to achieving rationality, good investment decisions and the desired returns.

2. AN OVERVIEW OF MENTAL ACCOUNTING

2.1 MENTAL ACCOUNTING

Mental accounting is a fundamental component of Prospect Theory, according to which individuals act in a particular way when they expect that their actions will derive successful and profitable results. It involves people’s tendency to generate, depending on their special traits, different mental accounts, and register events they have experienced.
The concept, which was first introduced by Thaler in 1980, is defined as the set of cognitive operations used by individuals to codify, categorize and evaluate economic activities. Thaler contends that mental accounting is one of the pillars on which the entire financial behavior is based. Similarly, Hirshleifer (2001) argues that mental accounting is a type of narrow framing which "involves keeping track of gains and losses related to decisions in separate mental accounts, and to re-examine each account only intermittently when action-relevant".

People generate mentally different expenses accounts in their budgets for activities, such as entertainment, food, travel and clothing. If too much money is spent on one category this will delay purchase of necessary items in the same category despite the fact that money is still spent on items of other categories (Becher, 2011).

Overall, people employ mental accounts to manage events differently, and their actions are affected by the method of management. For instance, people behave differently when they use credit cards rather than cash; for example, they tend to bet more money on a lottery game when they use a credit card instead of cash.

Mental behavior has disproved the utility theory, according to which all decisions are evaluated on the basis of their expected utility. Psychological attitudes and cognitive thinking generate irrational actions and behaviors, and rational thinking is abandoned. It becomes, therefore, evident that rational thinking is highly significant and it is imperative that it be monitored.

2.2 MENTAL ACCOUNTING AND FINANCIAL MARKETS

The concept of mental accounting in economics was introduced by Thaler (1999), who claims that mental accounting involves all cognitive functions used by individuals and households to organize, evaluate and keep trace of financial activities. He argues that people tend to place recent gains and future assets in separate non-transferable parts. Investors place their assets at different levels of utility, which later affects their investment behavior (Thaler, 1980).

Mental accounting exceeds the limitations of traditional paradigms and contributes to the emergence of new funding models. Investors make different financial decisions in different mental accounts, undermining the rational methodology, according to which all decision making processes are placed in aggregate portfolios. People tend to buy stocks separately without virtually paying attention to whether they are correlated, and neglecting the need for optimizing their investment portfolio (Shams, Kordloie & Dezfuli, 2012).

A number of investors separate their portfolios in two parts, one comprising fixed investment securities and another which is purely speculative in order to prevent the negative returns likely to derive from speculative investments, which could have a negative impact on their aggregate portfolios. Thus, investors spend time and money on separate portfolios despite the fact their net assets are nonetheless affected (Phung, 2008). Mental accounting can be employed to explain why investors are likely to address to the reference price of a security or not. When a security is purchased, a mental account is created for the particular security and the reference price (calculating gains -losses) is the purchase price. When the specific security is sold at a lower price than the price of purchase, the account is closed with losses and a new one is opened when new securities are purchased (Alexakis and Xanthakis, 2008). Mental accounting helps check on expenditure, savings and investment decisions.

Investors segregate return of capital and capital in different sections in their minds. Stocks, bonds, derivatives are segregated in different mental accounts from dividends, capital gains and interest rates. The former are placed in capital accounts and the latter in revenue ones. When investors feel tempted to spend money and lack self-control they tend to use revenue accounts (Prakaz A., 2013), which, compared to capital accounts- selling stocks or bonds, they feel are more comfortable to use (Statman, 2010). Mental accounts prevent people from invading capital accounts and allow them to "plunge" into revenue accounts to ensure a better life (Shefrin, 2001).

Mental accounting leads investors to irrationality and non-rational investment choices. As it affects thinking about expenditures and about how to save money for the future, as well as about how to treat losses and gains, it is extremely significant in the context of financial markets. Its impact on everyday economy is enormous (Charupat & Deaves, 2003).

3. COGNITIVE AND EMOTIONAL ERRORS ASSOCIATED WITH MENTAL ACCOUNTING
3.1 DIFFERENT MENTAL ACCOUNTS

People tend to segregate money (or debt) in separate accounts (mental or real) based on various subjective criteria, such as purpose or source of money (Pohl, 2013). In addition, they tend to differentiate the way they spend and invest money and how they manage losses and gains. Gains are segregated, whereas losses are integrated and covered up. People carry different operating mechanisms in their minds. The money invested in children’s future education is placed in accounts which remain untouched even in cases when, for example, a car has to be bought; instead of spending bank account money, most people will choose to make a loan and pay interest.

In the context of the stock market, investors segregate investments and do not check on them as a whole. Winners are separated from losses; thus, they tend to perceive portfolios as piecemeal rather than aggregate, and as a result, they make wrong investment decisions and choices. Rational thinking is ignored, and aggregate utility is overridden. Investors do not derive the maximum total utility of aggregate investments. By segregating portfolios they try to derive utility from winners whereas they irrationally ride losers too long.

Potential financial gains and losses should be weighted against investment decisions and be jointly assessed (Zhou, Pham, 2004).

3.2 THE SUNK COST EFFECT

Economists and psychologists have long been interested in the effect of sunk costs in consumer choices and organizational behavior (Thaler, 1999). According to Festinger (1957), the sunk cost effect is associated with the theory of cognitive dissonance. Thaler (1980) elaborated on the sunk cost effect and demonstrated a relationship with mental accounting, which was also highlighted by Nosfinger (2001).

The sunk cost effect indicates people’s tendency to exhibit changes in behavior, and in particular, their future actions, always considering prior costs. Since sunk costs are irreversible they should not play any role in rational decision making. However, in many cases it has been involved in seemingly irrational decisions (Ho, Phg, Reza, 2014). According to the traditional finance theory, people’s decisions remain unaffected by prior costs and costs that have been lost. The new theory of behavior demonstrated that prior costs and, generally, prior procedures affect decision making.

In the framework of financial investments, the sunk cost effect demonstrates people’s tendency to continue to invest in ineffective securities and take risks. It describes investors’ reluctance to avoid wrong choices which they insist on making in the hope of future gains.

Investing procedures are almost always intertwined with costs and past activities. The fear of failure or loss deconstructs rational thinking and rational choices. Investing on the same items for a long time, spending extra time and money on purchasing the same securities to reduce initial costs and missing new investment opportunities prevent investors from their initial objective, namely, gains. Share repurchase increases portfolio risks (Mangot, 2007). The concept and objective of portfolio restructuring is manipulated by the emotional approach.

3.3 THE HOUSE MONEY EFFECT

Mental accounting is subject to many logical fallacies and cognitive biases, one of which is the inconsistent framing of the value of money, which implies that the value of money depends on its source. This is called the "house money effect", which is associated with the casino phrase "playing with the house money". The house money effect is generally consistent with Prospect theory as prior outcomes largely affect individuals’ behavior. People have to choose how to frame gains and losses and how these choices affect their future behavior (Liu, Tsai, Wang and Zhu, 2006).

The effect was introduced by Thaler & Johnson (1990), who perceived people’s propensity to higher risk-taking after successful investment activities. Risk is affected by prior gains and losses. Successful investors feel that gains do not belong to them and their subsequent investment decisions are rather reckless and speculative. In addition, prior losses make them wiser and more conservative, and as a result, they tend to take lower or no risks.

Frino, Grand and Johnstone (2008) demonstrated that the house money effect significantly affects the investment behavior of stock market practitioners. Decisions are made in terms of gains and losses
with respect to a reference point (Mattos and Garcia, 2009). Prior losses may cause risk aversion, whereas prior gains may induce higher risk-taking.

In effect, the house money effect causes people and investors to deviate from rational behavioral patterns and, thus, either derive lower gains or are financially ruined.

3.4 HEDONIC FRAMING

Thaler’s (1980) research on mental accounting and Prospect theory produced the concept of hedonic framing. Mental accounting has an impact on decision making and the consequences of investment decisions are called hedonic framing (Thaler, 1980).

Hedonic framing indicates people’s tendency to prefer small single gains every day rather than an equivalent big gain only once. Happiness is not perceived as a whole, it is equivalent to ten moments of happiness. Because the value function is concave in gains, a higher total value results when we decompose a large gain into two (or more) smaller ones. Segregate gains in more than one time give rise to the erroneous thinking of maximizing utility (Phung, 2011). On the contrary, loss is experienced whenever the value of investments is reduced; it is more painful when it is treated in parts rather than as a whole, on one single occasion. In other words, one unpleasant moment is preferable to 10 separate ones. Stock market practitioners seem to have discovered the principle that losses are less painful when combined rather than when they are experienced separately (Frank and Parker, 2010). Aggregate losses are believed to produce less negative utility (Phung, 2012).

People with self-control problems often employ hedonic framing to help address such problems. They prefer segregating gains and losses as, thereby, when success takes longer (segregating gains), it enhances their confidence, and reduces guilt syndromes (segregating losses). Hedonic framing affects individuals’ attitude towards organizing investments. They segregate gains from losses in different accounts in order to achieve a better psychological management.

An additional perspective in relation to hedonic framing is associated with discounts and bundles, in case of no utilitarian consumption. Thus, a discount is framed as savings rather than a better price since it provides a justification on purchasing certain items of cross-category bundles, and reduces guilt, which is not common when purchasing utilitarian items (Khan & Dhar, 2010). Hedonic framing affects human behavior as it aims at maximizing pleasure and preventing painful feelings caused by a loss. The specific behavior is likely to help maintaining short-term mental balance, which is, however, not achieved during an investment decision making process.

4. MENTAL ACCOUNTING PREVENTION

4.1 AWARENESS OF HUMAN NATURE

We are human beings with personalities composed of our culture, feelings, psychology, and the environment. We are human beings prone to cognitive and emotional errors.

The image of invulnerable, infallible, rational individuals, promoted by the traditional finance theory is false and leads to wrong conclusions and choices. The image of loyal subjects and robots is associated only with science fiction films.

Reality, and, in particular, the harsh reality of financial markets results in distorting the ideal rational behavior. Financial markets are characterized by uncertainty, constant subversions, and unpredictability. Markets are not fully effective, neither can they be effective for too long. Investment problems generate a peculiar behavior in investors. Fear, resentment, and insecurity direct people’s minds to strange paths.

Should people become aware of their weaknesses, biases and errors, they can improve themselves. Perception and acceptance of weaknesses and irrational actions can reveal rationality and effectiveness. Self-awareness implies awareness of one’s own actions.

4.2 AN OVERVIEW OF THE NEW FINANCIAL BEHAVIORAL MODEL
It is required that financial behavior be implemented as an investment strategic tool. Awareness of the new financial paradigm can prevent irrationality. The study and knowledge of psychological, emotional and mental implications generate rational investment decisions. Awareness of heuristics, of cognitive and emotional errors and also of biases prevents their occurrence and, therefore, irrationality. Awareness and endorsement of mental operations (for example, making different accounts) enables successful management. The study and awareness of psychological, emotional and mental implications, as well as the presentation and analysis of the new investment behavioral model is essential to all investors and employees involved in the financial sector. Understanding the particular behavior, which is likely to be exhibited during the investment decision making processes is fundamental to making proper-correct decisions.

4.3 AWARENESS OF THE CONCEPT OF MONEY

One euro is one euro. Although money is earned from various sources it should not be segregated in different accounts; its utility does not change depending on source. Money earned from a bonus or a lottery, despite the fact it is non-expected money, should be invested rather than promptly spent. On the other hand, money must always be disposable and exchangeable; it must not linger in bank accounts (to be used e.g. for children’s education).

People should spend bank account money instead of making high interest consumer loans.

Mental functions result in contradictory, irrational behavior, which violates the fundamental principle of the conventional policy advocating that one US dollar is always one US dollar (Lehrer, 2011). Should this simple financial principle be understood, it eliminates the irrationality of mental accounting.

4.4 AGGREGATE PORTFOLIOS

Investment portfolios should be aggregate; no gain and loss segregation should be made. Calculations should be combined and outcomes integrated. Investors should no longer segregate their portfolios in fixed investment securities and speculative parts. Speculative portfolio parts negatively affect aggregate portfolios.

Investments, which add to one’s own net assets, reflect one’s own decisions. Investment segregation is irrational; what really matters is aggregate net assets.

5. CONCLUSION

People’s tendency to categorize situations and processes in different mental accounts, in order to achieve a better psychological management, is called mental accounting. The significance of mental accounting and its impact on behavior, and, more specifically, on investment processes is great. Irrationality deriving from mental games has a negative impact on people’s behavior and investment decisions. By jointly studying other biases and cognitive errors which affect and enhance mental accounting, people can have a more thorough insight into one of the main reasons of irrationality.

People’s risk-taking attitudes, their tendency to exhibit specific behaviors depending on how successful prior procedures were, the preference to segregate gains and integrate loss are associated with the generation and enhancement of mental accounting, which is prevented by studying behavioral errors.

Investment errors that cause biases, psychological-emotional errors as well as errors of the mind are prevented by studying and applying the new dominant theory of behavioral finance. Rationality is restored and maintained as long as human weaknesses and personality differences are identified. In addition, irrationality can be prevented by becoming aware of the meaning, utility and exchangeability of money. Portfolios should be treated as aggregate net assets. The discussion of mental accounting in terms of human behavior and its impact on the stock market enables realizing the significance of behavioral finance and establishing it as a dominant financial paradigm.

Research in the impact of mental accounting on people who work and invest in financial sectors will be a fundamental tool to address irrational investment behavior and restore rationality. Mental accounting causes investors’ irrationality and non-rational investment decision making. As it affects
how investors perceive expenditure and future savings, as well as gains and losses, its significance in financial markets is huge and its impact on the financial activities of everyday life is enormous (Charupat & Deaves, 2003).

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To Laugh Or To Cry When A Competitor Dies? Failure Of The Fourth Biggest Bank In Bulgaria

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ABSTRACT

The article analyzes measures taken by the Bulgarian central bank and governmental authorities in response to the occurrence of a problematic situation arose with depleted liquidity of the Corporate Commercial Bank AD (CCB) in June 2014. Building on the perception of duties completed in one of the banks placed under conservatorship, this study aims to identify the factors that appear to influence different approaches to policies into the banking sector. The empirical analysis was performed in Bulgaria over the period 2004–2014. The results show that profitability was replaced by market power as the main determinant of bank strategic actions during the crisis. Only top two banks were able to sustain the absolute numbers of their profit, this make them contribute from 71% to 63% of the entire profit in the system from 2012 till 2014. Further discussion addresses different policies implemented by banks under local use and control, compared to banks having roots in continental Europe and Greek banks present on the Bulgarian market. During period of six years before the crisis, market power and bank profit were more correlated, compared to the last four years from the studied period. The pronounced role of the global financial turmoil causes sharp decrease in bank-to-bank money placements and exacerbation of the problem of affiliated non-banking businesses linked to banks under local use and control. The findings reveal substantial time lag between global and local periods of crisis. Financial problems related to the fourth biggest bank in Bulgaria are mostly due to immature political culture, missing internal control, weak supervision performed by the central bank and lacking coherence among governmental authorities, including public prosecution. This should offer one more challenge to European supra-national institutions to enhance integrity, to build cohesive and unified bank supervision, to support financial stability and values of shared destiny for our common good.

KEYWORDS
banks, competition, crisis, financial regulation, political risks

JEL CLASSIFICATION CODES
G01 G20 O57

1. INTRODUCTION

The analysis of correlations between profitability and the market power has been regular topic in the academic studies on banking. Davis (1985) and Davis (2004) revealed that profit objectives were one of the main characteristics forming an excellent bank. According to Davis, bank excellence did not depend on organizational structure, managerial style and business-environmental factors, such as regulatory constraints, market structure and local competition.Davis noted that open culture, strong shared values among the managerial staff, customer-driven orientation, willingness to innovate, matrix-based management information system and strong credit process are the key elements to distinguish excellent banks. In contrary to Davis the market power hypothesis provides arguments that environmental factors and especially the high level of market concentration facilitates banks making profit by setting higher prices to customers. Most of the banks use to operate in oligopolistic markets historically matured in all economically developed countries. Prior the world financial crisis of 2007/2008 deregulations, technological developments and globalization have been constantly increasing competition in the banking sector. Davis (2004) admits difficulties to predict success or failure of a bank. This raises the question on what are the optimal transformation strategies for banks to consider. Europe progresses towards establishment of a Single Supervisory Mechanism, standardized stress tests, unified rules on managerial practices and remunerations and it is important to study consequences this trend brings to banks. The article offers Bulgarian viewpoint over these European dynamics by exhibiting particular banks’ strategies to adapt to uncertain economics and regulations. Empirical evidence suggests that regulatory actions taken in resolution of bank failures may vary significantly between territories and cultures. When faced with individual bank failures bank
supervisors and governmental authorities enforce a private-sector resolution. During systemic bank failures, it was almost certain, that liquidity support based on blanked government guarantees should be granted. However, the literature has not yet investigated determinants of the role of a central bank and governmental activities having none bailout policy on place.

This article analyzes correlation between market power and profit generated by banks under local use and control, compared to banks having roots in continental Europe and Greek banks present on the Bulgarian market for ten years period between 2004 and 2014. Special attention is given to the measures taken by the Bulgarian National Bank (BNB, the central bank) and governmental authorities in response to the occurrence of a problematic situation arose with depleted liquidity of the Corporate Commercial Bank AD (CCB) in June 2014. The uniqueness of the research is examining bank industry dynamics prior, during and after a conservatorship period lasting for six months! Probably it is the longest conservatorship period in the modern banking history of EU. The importance of such a research corresponds to the last issued European Commission staff working document, Country Report Bulgaria 2015. It is all about enhanced level of competences experts must have in purpose to understand, discuss and timely prepare reasonable advices when aiming prevention and correction of country local imbalances.

2. FORMATION OF THE BULGARIAN BANKING SYSTEM

Transition to a free market-driven society needs independent financial system. The easiest way to achieve free banking during post-communist reforms in Bulgaria was to transform most of the central bank branches into independent commercial banks. Such a transitional period with legislative and regulatory insufficiencies has private entrepreneurs eager to enter in banking business. Bulgarian First Private Bank was established in July 1990, setting the trend, which raised 82 banks in 1991. Subsequently Banks and Lending Act was enforced at the end of March 1992.

The reverse trend started with the financial crisis in 1996/1997 when central bank ceased operations of 18 banks. Upon refining balance sheets of these banks to determine liquidation values of the assets, central bank revoked 16 licenses, when two banks were re-opened having entirely new ownership structures. Bulgarian parliament adopted respective Bank Insolvency Act for the first time in 2002. The last bank license had been granted in 2003, and one small bank declared bankrupt in 2004.

Bank Consolidation Company commenced privatization of approximately 70 state-owned banks in 1992. Bulgarian Foreign Trade Bank, established in 1964, was the biggest commercial bank in the country with own offices in London, Frankfurt and Vienna and subsidiaries in Munich and Lebanon. Bulgar-Sov-Invest was established as an investment company jointly owned by the Bulgarian Foreign Trade Bank and the Soviet "Vnesheconombank" in 1988 subsequently transformed in the Corporate Commercial Bank in 1994. A consortium between UniCredit and Allianz privatized 98% of the Bulgarian Foreign Trade Bank for around USD 350 million on May 10, 2000. Upon merge with two other banks in 2007, currently it is the biggest bank in Bulgaria with 17.4 market share as for the year-end 2014.

Bulgarian State Savings Bank was established with a special law in 1967. It was purely retail bank, until October 2003, when it was acquired by OTP Group for EUR 311 million. Currently this is the second biggest bank in the country with market share exceeding 11.7% (year-end 2014). Privatization of DSK Bank was The End for bank privatization process.

Raiffeisen Bank was the first foreign bank established its local subsidiary in 1993. Currently it is the sixth biggest bank with 7% market share (year-end 2014). On March 11, 1999 Bulgarian government created Bulgarian Encouragement Bank, currently Bulgarian Development Bank as a financial institution 99.9%-owned by the Bulgarian state and 0.1% owned by DSK Bank.

Explained formation of the Bulgarian banking system provide sufficient evidences that the government authorities and the central bank had particularly no determinative sanctions on banks for a period of approximately ten years: between the end of privatization on October 1, 2003 and conservatorship imposed on the Corporate Commercial Bank on June 20, 2014. This is the reason this article provides banking industry data on every even year starting with year-end 2004 till year-end 2014. The utmost dynamic during 2014, motivates adding data for 2013 as well.

3. A TROUBLE EXPLODED SUDDENLY


Bulgaria had one of the best performing housing market in the world for few years around 2006. The global financial crisis accelerated market fluctuations; this way caused deterioration of the real estate market. Neither governmental regulations nor private initiatives addressed the meltdown of assets. When foreign banks gradually implemented disinvestment strategies, local banks increasingly insert into conglomerate structures in purpose to grab assets and business opportunities.

Many analysts considered Bulgaria provides very attractive conditions for doing business. The introduction of a currency board in July 1997 was followed by automatic fixing of the exchange rate of BGN 1.95583 to one euro subsequent to 1 January 2002. Bulgarian central bank discontinued direct lending to the budget, refinancing of commercial banks and open market operations. The currency board regulations mandated the central bank to continually maintain domestic base money strictly equivalent to the level of foreign reserves. Bulgarian taxation neared Cyprus, having corporate tax reduced to 15% in 2006 and further to 10% in 2007. Personal income tax rate came to a 10% flat rate, effective from January 1st, 2008. Having all these favorable conditions it was reasonable to expect the boom and growth would be back. This motivated the strong appetite of the local banks to tap any opportunity and to acquire any strategic asset from their retreated counterparts.

A trouble with the fourth biggest bank in the country exploded suddenly! It started with comments in the media, announced by CCB’s executive director, that there is a tension between leaders in the bank, announced on June 13, 2014. The tension has escalated with publications in the media on June 18, 2014 that the Deputy Governor of the central bank, in charge of Banks’ Supervision, is being investigated by the public prosecution and is on leave "until the conclusion of the proceedings". Charges have been pressed against him under the Criminal code for criminal abuse of power as related to default loans in a “big bank”. The panic started and people run to this “big bank” to withdraw their deposits! June 20, 2014 at 11.40 a.m., the Bulgarian National Bank received a written notice from the management of the Corporate Commercial Bank that bank’s liquidity had been depleted and the bank had suspended making payments and conducting all types of banking transactions. On these grounds the Corporate Commercial Bank has been placed under conservatorship and the same measure applied to its subsidiary the Commercial Bank Victoria. Although central bank declared that the liquidity shortage in the CCB’s group is an isolated case and is not connected with the rest of the banking system, depositors withdraw Euro 400 million in cash just on Friday, June 27, 2014 from another, even “bigger” bank. Then, the European Union gave Bulgarian government to provide BGN 3.3 billion (EUR 1.67 billion) in state aid for banks, so within one weekend the tensions have been overcome. The central bank proudly announced that the banking sector has returned to its normal functioning, when the Prime Minister announced government’s resignation as of August 6, 2014.

4. RESEARCH METHOD

First and foremost we positioned studied phenomenon in the context of the developments of a banking industry viewed from the risks of judiciary, prosecution and/or political interventions.

This article employ research methodology approximating the one initially introduced by Stiroh and all (2003) when analyzing deregulation effects on banks’ strategy. First it describes chronologically the CCB’s case. Then it explores banks’ strategic choices in four segments. Correlations between bank profitability and subsequent change in market share helps to interpret the causal factor, indicative for the studied competitive forces.

Official press-releases issued by the central bank, governmental authorities and publications in the business media, when related to the development of Bulgarian banking industry and/or to the Corporate Commercial Bank have been analyzed and codded. All codded events, plus actual actions related to prosecution and legislation has been chronologically listed. Rumors and opinions that cannot be traced in legal documents and/or official press releases have been excluded from the list. Chronological map of events helps to understand causes and effects in others’ banks responses to CCB’s case. This article keeps neutral position. It avoids to accuse and/or to judge. Still ongoing role of the public prosecution and the court needs a separate study.

The empirical analysis was performed on Bulgarian banks over the period 2004–20014. It separates banks in four groups to better understand influences of their home country into their strategic action into the host country. The core discussion unveils different policies implemented by banks linked to local use and control, compared to banks having roots in continental Europe and Greek banks present on the Bulgarian market. Special attention is given to the top two market leaders. Information related to CCB’s case, banks’ ownership and numerical data are derived from publicly available reports in Bulgarian National Bank (the central bank) and processed by the author. This article uses values of banks’ total assets as a measure to derive market share and to assess market power, when profit
actually means net result as reported on respective year-end. Possible transfer of domestic loans from a bank to another, outside the country has not been considered as materially important.

5. BOOM AND BUST OF A BANK

Conservatorship is a legal concept, where two guardians appointed by the central bank replace both management and supervisory boards and undertake management of a bank in troubles. The maximum period for conservatorship is limited to six months. Syndics (trustees appointed by the court) replace conservators in case of bankruptcy or liquidation. Executive directors replace conservators when bank turns back to business.

5.1 Prior conservatorship

It could be a coincidence, but development of the Corporate Commercial Bank echoes formation of economic and banking elite. The majority of the leaders in the top ten banks in Bulgaria remain on executive management positions in banks since 2000, excluding United Bulgarian Bank were top management stays sound and stable since 1990. Table 1 exhibits CCB’s chronology of growth.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>Corporate Commercial Bank AD (CCB) was founded as a joint venture between the Bulgarian Foreign Trade Bank and the Soviet Vneshekonombank</td>
</tr>
<tr>
<td>2000</td>
<td>Group of investors, including Mr. Tsvetan Vassilev as shareholder, acquired the Bank and starts massive restructuring and reorganization</td>
</tr>
<tr>
<td>2001 / 2005</td>
<td>CCB becomes major service provider to the state-owned Sport TOTO, Bulgarian Railways, National Electric Company and its subsidiaries. Bank becomes preferential partner to several municipalities like Bourgas, Sozopol, Doupnitzha. Bank acquired Universiada the first big covered multi-functional hall in Sofia</td>
</tr>
<tr>
<td>2006</td>
<td>CCB is an exclusive provider of funding to Dunarit, Terem-G, Electronica - big manufacturers of aviation, artillery, engineer ammunitions and equipment</td>
</tr>
<tr>
<td>2007, June 18</td>
<td>IPO – CCB shares publicly traded on the Bulgarian Stock Exchange and almost immediately included in calculating SOFIX and BG40 indexes</td>
</tr>
<tr>
<td>2008, Oct. 29</td>
<td>First-time rated by Moody’s Investors Services initial rating Ba3/Stable D-</td>
</tr>
<tr>
<td>2009</td>
<td>The State General Reserve Fund (SGRV) of the Sultanate of Oman acquires 30% of the Bank’s existing shares</td>
</tr>
<tr>
<td>2010</td>
<td>CCB involved in ownership transformations and funding provided to Petrol AD</td>
</tr>
<tr>
<td>2011</td>
<td>CCB is major provider of funding to Litex Motors, local assembler of Great Wall</td>
</tr>
<tr>
<td>2011, Nov. 4</td>
<td>CCB involved in ownership transformation and funding to Bulgartabak Holding - the biggest tobacco processing and manufacturing group in Bulgaria</td>
</tr>
<tr>
<td>2012, Mar. 13</td>
<td>BCRA – Credit Rating Agency initial rating BBB-/stable / A-3</td>
</tr>
<tr>
<td>2012, Mar. 28</td>
<td>CCB provides additional funding to Rubin AD glass factory to acquire Srpska Fabrika Stakla in Paraćin, Serbia for EUR 35 million</td>
</tr>
<tr>
<td>2013, Feb. 14</td>
<td>CCB involved in acquisition of K &amp; K Electronics, Technomarket and Domko - one of the biggest retail groups for home appliances and electronics in Bulgaria</td>
</tr>
<tr>
<td>2013, April 16</td>
<td>VTB Capital part of VTB Bank, Russia acquires 9.9% of the capital of CCB</td>
</tr>
<tr>
<td>2013, April 16</td>
<td>Moody’s Investors Services rating changed to B1/Stable E+</td>
</tr>
<tr>
<td>2013, May 27</td>
<td>BCRA – Credit Rating Agency rating BB+/stable / B</td>
</tr>
<tr>
<td>2013, July 9</td>
<td>CCB involved in acquisition of Bulgarian Telecommunication Company AD and VIVA Telecom Bulgaria AD - the biggest telecommunication group in Bulgaria</td>
</tr>
<tr>
<td>2013, Sept. 11</td>
<td>Moody’s Investors Services rating changed to B2/Negative E+</td>
</tr>
<tr>
<td>2014, May 26</td>
<td>BCRA – Credit Rating Agency confirms rating BB+/stable / B</td>
</tr>
<tr>
<td>2014, June 12</td>
<td>CCB acquires 100% in Credit Agricole Bulgaria EAD</td>
</tr>
</tbody>
</table>

This article avoids discussions related to what caused a CCB’s crisis to occur. The uniqueness of the case most likely originates from unusual relations between Mr. Tsvetan Vassilev, Chairman of the Supervisory Board of the bank and Mr. Delyan Peevski, somehow related to the State Agency “National Security”. A number of city rumors suggest link between several newspapers, TV7 Group and bank activities. Gossips link the bank with political party Bulgaria Without Censorship. The party ran for the first time in the May 2014 European Parliament election, earning one seat and joined the soft eurosceptic group of European Conservatives and Reformists. Recent judicial proceeding on the involvements of the judge Roumiana Chenalova from the Sofia City Court implies strong correlations between litigation resolutions signed by her and activities undertaken by the Corporate Commercial
Bank, Mr. Tsvetan Vassilev, Mr. Delyan Peevski, some other bossy personalities and companies related to them. Although it needs criminological research to be undertaken, most of the bankers in Bulgaria know the stories and accordingly adjust banks’ policies!

5.2 During conservatorship

Conservatorship period is a very important period to determine whether bank can return back to business or it moves to insolvency. Probably broken bank-to-customer relations and extreme market fluctuations are among the main factors to have bankruptcy as the only occurrence after conservatorship. However troubles with the CCB are the first case when a systemic-like bank enters into difficulties.

A phenomenon to recall the past was activities related to cessions and netting. Back to the crisis with bankruptcy of the First Private Bank in 1996, several credit customers succeed to buy deposits from bank depositors. Usually it is done in secrecy at a very high discount (usually 50%). Then credit customers applied conservators or syndics to confirm re-payment of their loan via netting with previously acquired deposits. Although legally correct these operations may twist substantially the real value of remaining assets pool bank has for collection. Table 2 presents main activities during conservatorship period.

Conservators’ report stated the need for significant future impairments amounts to EUR 2.1 billion (out of EUR 3.3 billion in Total Assets), placing the bank into position of negative equity. Despite high public interest on methodology used to re-evaluate bank assets, the only public information was that the methodology was based on IFRS and ECB best practices.

Table 2. Guardians, Politicians and Regulators in Protecting Financial Stability

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014, June 20</td>
<td>Management of CCB advises in written the Bulgarian National Bank (BNB) that bank’s liquidity had been depleted and the bank had suspended making payments. BNB places CCB under conservatorship for the period of 3 months.</td>
</tr>
<tr>
<td>2014, June 22</td>
<td>BNB places Crédit Agricole Bulgaria EAD (CAB) under conservatorship for the period of 3 months. BNB orders Deloitte Audit, Ernst &amp; Young and AFA to audit both CCB and CAB.</td>
</tr>
<tr>
<td>2014, July 1</td>
<td>BNB instructs conservators to reduce rates on deposits in both CCB and CAB to the average levels of interest rates in Bulgarian banking system</td>
</tr>
<tr>
<td>2014, July 11</td>
<td>BNB announces the results of the review of CAB confirm it is a well-managed bank. The results of the audit of CCB shows significant parts of credit files for a loan portfolio of BGN 3.5 billion, out of the total BGN 5.4 billion loan portfolio, are missing, most probably destroyed during the days before the conservatorship was placed, a very large connectedness between borrowers and the majority shareholder of the bank. A cash amount equivalent to BGN 205 687 223 (aprx. EUR 105M), was drawn by a third person, and against a receipt delivered to Mr. Tsvetan Vassilev on June 19, 2014.</td>
</tr>
<tr>
<td>2014, July 12</td>
<td>Prosecution initiated on June 18, 2014 extended to several members of CCB’s management and supervisory boards, head of cash operations and chief accountant.</td>
</tr>
<tr>
<td>2014, July 15</td>
<td>Political “Good” bank / “Bad” bank debate proven unsuccessful</td>
</tr>
<tr>
<td>2014, Aug. 6</td>
<td>Bulgarian President dissolves parliament and calls elections for October 5th</td>
</tr>
<tr>
<td>2014, Aug. 8</td>
<td>Rebranding of Credit Agricole Bulgaria into Commercial Bank Victoria</td>
</tr>
<tr>
<td>2014, Aug. 11</td>
<td>BNB and BMF correspondence with Mr. Jonathan Faull, Director General of Directorate General Internal Market and Services of the EU Commission</td>
</tr>
<tr>
<td>2014, Sept. 15</td>
<td>Conservatorship period extended</td>
</tr>
<tr>
<td>2014, Oct. 22</td>
<td>BNB has correspondence with EBA as related to deposit insurance</td>
</tr>
<tr>
<td>2014, Oct. 29</td>
<td>Joseph Daul and European People’s Party facilitated formation of a centre-right government headed by Boiko Borissov (the only PM with second mandate)</td>
</tr>
<tr>
<td>2014, Nov. 6</td>
<td>BNB has revokes CCB’s banking license and petitioned the court to open bankruptcy proceedings for CCB.</td>
</tr>
<tr>
<td>2014, Nov. 26</td>
<td>Bulgarian Parliaments adopts State Budget Law for 2015 adding special clauses to allow funding to be provided to the Deposit Insurance Fund (BDIF) and Ministry of Finance (BMF) to acquire deposits done by governmental organizations into CCB , this way BMF executes indirect funding to public and government entities</td>
</tr>
<tr>
<td>2014, Dec. 4</td>
<td>Bulgarian Deposit Insurance Fund (BDIF) receives funding from BMF of approximately EUR 860 million and commences full payment of insured deposits at the total amount of EUR 1.8 billion via nine banks</td>
</tr>
<tr>
<td>2014, Dec. 10</td>
<td>Bulgarian Parliament adopts the law, so UniCredit Bank, Societe Generale, HSBC and CITI Bank to provide loans to BDIF, subsequently BDIF to repay its debt to the BMF</td>
</tr>
<tr>
<td>2014, Dec. 12</td>
<td>Commercial Bank Victoria (CBV) continues banking operations upon completion of the sale of loan portfolios to three banks, at the following rates from respective asset class:</td>
</tr>
</tbody>
</table>
Central bank revoked CCB’s banking license and petitioned the court to open bankruptcy proceedings, as it found that the significant portion of the capital increase, especially in period October 2011 till March 2014 was financed through loans originating from the bank itself. Although national regulation did not prohibit such a method, EU Regulation 575/2013 in force as of 2014 explicitly forbids this practice.

5.3 After conservatorship

Providing current developments of the case, the resolution issued by the Sofia City Court in confirming central bank’s decision to revoke bank license as of November 6, 2014 could be an indicator for better correlation between governmental institutions. Surprisingly the central bank announced it will appeal insolvency date to be set as of September 30, 2014. When comparing with the most similar (in terms of public interest and local bank rank) insolvency case in First Private Bank, BNB appointed conservators for the bank on May 17, 1996, but respective Court’s resolution for insolvency was issued on December 23, 1997!

Table 3 Corporate Commercial Bank Brought to an Interim Endpoint

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014, Dec. 22</td>
<td>BNB appointed new Management Board to replace conservators in CBV; Court procedures for choosing syndics in CCB proven to be extremely slow.</td>
</tr>
<tr>
<td>2015, Jan. 6</td>
<td>Fine art painting and jewelry moved from Big Bank premises to a museum.</td>
</tr>
<tr>
<td>2015, Feb. 25</td>
<td>Bulgarian Parliament adopts law of dealership with CITI Group, HSBC, Societe Generale and UniCredit Bank at the amount of EUR 8 billion.</td>
</tr>
<tr>
<td>2015, Jan. 21</td>
<td>Bulgarian Parliament releases Deputy Governor Bank Supervision.</td>
</tr>
<tr>
<td>2015, March 16</td>
<td>Conservators initiated bankruptcy procedures to 24 of the key debtors.</td>
</tr>
<tr>
<td>2015, March 22</td>
<td>Bulgarian Parliament adopts amendments to the Bank Insolvency Act in purpose to create position and define function of the interim syndics.</td>
</tr>
<tr>
<td>2015, March 25</td>
<td>Two interim syndics are appointed in CCB and introduced to the bank employees by the Minister of Finance and a high rang prosecutor.</td>
</tr>
<tr>
<td>2015, Apr. 03</td>
<td>Interim syndics continues with bankruptcy procedures to key debtors, undertake collection of loans, re-assessment on cessions and netting requests.</td>
</tr>
<tr>
<td>2015, Apr. 7</td>
<td>Prosecution initiated on June 18, 2014 extended to former Deputy Governor Bank Supervisions, principal external auditors and head of internal control.</td>
</tr>
<tr>
<td>2015, Apr. 21</td>
<td>The Interim Commission in Parliament announces that the Annual Report of the State Security had not been presented to the Parliament as at that time it contained recommendations related to the financial stability.</td>
</tr>
<tr>
<td>2015, Apr. 22</td>
<td>Sofia City Court confirms CCB’s insolvency date is November 6, 2014. All transactions, cessions, nettings, mortgages, pledges and release of mortgages or pledges executed by the bank prior that date are legal and binding, but all such operation after this date are null. Interim syndics converted to syndics.</td>
</tr>
</tbody>
</table>

Surprisingly or not, Commission for Disclosures spotted one of the syndics recently appointed in CCB, among 8 out of 26 bank syndics as linked with the State Security before 1989. Probably this is one more reason Bulgaria to be the EU country with lowest and still diminishing perception of judicial independence (European Commission 2015 EU Justice Scoreboard).

6. MAXIMIZING PROFIT OR POWER

Competition is the fundament of market economics. As business organizations fight for profit, the competitive paradigm determines winners and losers. Strong performers should gain market share from under-performer.

Foreign bank intention to penetrate Bulgarian market lasted until end of 2007 when UniCredit Bulbank merged with Biochim bank and Hebros bank. The same year KBC Group acquired 75% from the local Economic and Investments Bank for approximately EUR 295 million. Bank Leumi Le-Israel Ltd decision to exit Bulgaria in July 2009 became a symbol that the trend has reversed and gradually several foreign banks commenced implementing their exit strategies. Israel's biggest bank expanded in Romania and Bulgaria in 2006 to make up from regulatory limits on domestic growth, plus to utilize the large number of Israeli businesses active in the local markets. However deteriorating real estate
market, lack of political vision and local market imperfections, make bank to change its strategy. Soon after that MKB Group, Allied Irish Bank, Crédit Agricole, NLB dd. and Tokushukai announced their divestment programs. The only buyers were Bulgarian banking, financial or entrepreneurial groups.

The dynamics in the relationship between bank ownership and market share are presented in Table 4. Crisis period is determined to 2012/2014 as negative results reported in two segments (Table 5) and highest levels of correlations between net results and total assets for these periods (Table 7). Furthermore, due to extraordinary situation in CCB, 2014 is the year of shock.

Decelerated economic growth in home country leads to decelerating loan supply in the host country. This is confirmed by the decline in both market share and profit of Greek banks and banks from continental Europe during the period 2012 – 2014. It seems ownership does not influence performance only at the level of top two market leaders.

Table 6 exhibits that the Bulgarian banks has lowest net profit margin compared to the foreign banks. One interpretation is that any of the local banks are not the only endeavor of their owners. Most likely other priorities stipulated by the owners blunted competitive forces in their banks and weakened the link between performance and growth.

Table 7. Correlation between Net Results (NR) and Total Assets (TA) for selected periods (when over 0.5)
Results from Table 7 imply that the financial statements of banks in Bulgaria echo the global financial crisis with three years delay (around 2010)! It is to prove that Bulgaria stays distant from global financial markets. Some researchers report that the bigger is the power of the foreign banks, the more severe crisis it will produce into the host country, in comparison with countries that had a smaller presence of foreign banks (Cull and Martínez-Peria 2007). Also Stiglitz (2002) are questioning the role of foreign banks as providers of financial stability for smaller economies. This is exactly part of the political debate in Bulgaria, as country should decide to join the Single Supervisory Mechanism or to stay aside and gain benefits only by hosting European banks, subject to this level of supervision. Whatever decision would be taken, country needs primarily to enhance banks’ internal control mechanisms, prudent supervision and the maturity of the political class.

7. CONCLUSION

The uniqueness of the Bulgarian market environment, political risks and regulatory constraints are illustrated by provided chronology in formation, growth and deficiencies as related to the Corporate Commercial Bank. We strongly believe in Bulgarian National Bank profound statement that the case with Corporate Commercial Bank is an insulated case and Bulgarian banking system remains sound and stable. This was the main reason to analyze reactions other banks have on shock in 2014. Still unanswered question is whether the regulated banking industry offers more stable business playground than other industries. Globalization provides banks with more opportunities to enter or exit particular market, not only by following customers and wealth-skimming, but also exploiting regulatory arbitrage. Potentially biggest banks could have more power to exercise regulatory capture. Strategic choices executed by the top two market leaders need further attention, as it seems they are the real winners out of the crisis. Hopefully CCB crisis will attract more attention and support from supranational institutions in Europe to assist local regulator.

Banks usually devote vast resources to ensure compliance with all regulations and yet repeatedly they are sanctioned for not doing enough. Notwithstanding the serious regulatory efforts for supervising banks on the European level, little considered thought has been given to the quality of local bank supervision. Possibility a central bank to adopt disruptive strategy rather than bailout a bank are sometimes less obvious. From a central bank point of view, getting the balance right in executing the power, but still sharing the responsibility to protect stability is neither easy nor uncontroversial. The article seeks to address this deficit in a practical and informed manner in comparing responses given by different market players to profit versus market power. The findings reveal that problems in the bank industry are mostly due to immature political culture, missing internal control, weak supervision performed by the central bank and lacking coherence among governmental authorities, including public prosecution. Studied phenomenon could further enhance understanding on variations in legal system and practices, in purpose to enhance European identity, to build cohesive and unified bank supervision, so to support prosperity, stability and values of shared destiny for our common good.

REFERENCES
Promotion Policies Microfinance Growth And Development Of Agriculture In Albania (Case Albanian Savings And Credit Union)

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²South East European University/Albania, s.qirici@seeu.edu.mk

ABSTRACT
Orientation towards the market economy and economic policy development and growth within the country's macroeconomic stability remains a key factor for ensuring economic and social emancipation of our country. The Albanian economy, as an economy of a developing country characterized by a positive trend upward despite the restraining effects caused by the global crisis. Macroeconomic indicators are demonstrating consistency; the financial system is healthy and economic activity making progress. At the same time, the diversification of the local economy to respond to the demands of the free market, increasing competition and the dynamics of development, as well as untapped potential in agriculture necessitates the strengthening of relations and cooperation structures for financing sustainable development country.

Experience has shown that microfinance (MFI) has been a powerful tool for the development of small and medium enterprises (SMEs) to agribusiness, playing an ever more crucial in improving the living conditions and welfare of the population, especially in rural areas, the creation of new work by contributing to the economic development of the country.

Agribusiness is an integral part of the national economy and requires continued financial support. On the other hand, micro-credit institutions through their branches as complementary parts of the system are the best choice, faster and long-term agribusiness. The rapid growth of this sector is expected to continue as a result of increased funding needs, especially in rural areas.

This research will study the role of microfinance sector to increase opportunities for entrepreneurs to increase their investments in innovative activities in promoting new methods of production and to increase their productive capacity.

This research will study the role of microfinance sector to increase opportunities for entrepreneurs to increase their investments in innovative activities in promoting new methods of production and to increase their productive capacity by bringing a case fairly present the operates in our country more than 20 years and is a leader in providing financial products in rural areas, Albanian Savings and Credit Union.

The findings of this research thanks will show that:
a) Involvement of SMEs in microfinance brings increased level of profitability of SMEs.
b) Microfinance plays a significant role in the future development of SMEs in Albania.
c) Increase the commitment and capacity of MFIs to support SME development allows for the improvement of policies to stimulate agribusiness, as the legal framework and to create a better investment climate, as well as contribution major interest groups that influence and are influenced by the Albanian agribusiness.

KEYWORDS
SMEs, MFIs, Credits, Agribusiness, Funding Sources

JEL CLASSIFICATION CODES
M46

1. INTRODUCTION

Agriculture is considered as the backbone of developing countries and has great potential in supporting the development, growth and poverty reduction (Zeller, 2003). Despite the fundamental contribution in the development of agriculture for developing countries, remains an underdeveloped sector and people living in rural areas are generally poor. For this reason, agricultural development requires full attention to the support of micro-enterprises in Albania.
Agribusiness is an integral part of the national economy and requires continued financial support. On the other hand, micro-credit institutions through their branches as complementary parts of the system are the best choice, faster and long-term agribusiness. The rapid growth of this sector is expected to continue as a result of increased funding needs, especially in rural areas.

Microfinance has its origins in the early 1980s, where governments and international donors felt and believed that the poor, farmers, seeking low-interest loans as a way to increase production to meet the vital needs of the family, on the other governments saw as a catalyst and a factor for increasing productivity in the economy. Since 1980 microfinance as a field (science) has increased steadily and fast.

Private donors, governments have supported and actively support and encourage the activities of microfinance as a foundation for a much broader scope, and financial sustainability. In general, microfinance services can help people with low incomes to reduce risk, improve management, increase productivity, have higher profitability of investments, increase income through self-employment and improve quality of their life and subordinates.

Financial services usually include savings, credit, and in some cases, payment services and insurance. In addition to financial intermediation, many microfinance institutions provide social services like formations intermediate groups, self-esteem development and training among members of a group management skills.

Farmers and rural entrepreneurs to develop their activities need financial support for the purchase of inputs, equipment and investment for their farms.

Increased mechanization of agriculture, demand for equipment, inputs and investments for agricultural and livestock farms, requires the provision of financial services in rural areas.

Farmers and rural enterprises often do not have sufficient access to long-term loans to finance their production activities due to the seasonal nature of agricultural production, ownership problems and difficulties in providing collateral, ownership of farms and small surface fragmented, are some of the reasons that have generated a tightening of banks and other financial institutions associated with agricultural lending.

Development of agricultural sector in terms of market economy requires a financial support for the realization of investments.

In this context extremely challenging for microfinance organizations, ASC Union, as a leading financial institution in rural areas had the objective to increase the quality of the management of its existing portfolio by strengthening and further improve credit assessment and for the support and agricultural development in Albania.

The essence of this paper is to contribute to the theoretical and practical literature to strengthen relations microfinance sector entrepreneurs and small and medium enterprises (SMEs) as well as adjusting the financing condition to the requirements of the private sector and agriculture in Albania.

The findings of this research thanks will show that:

~ Involvement of SMEs in microfinance brings increased level of profitability of SMEs.

~ Microfinance plays a significant role in the future development of SMEs in Albania.

~ Increase the commitment and capacity of MFIs to support SME development allows for the improvement of policies to stimulate agribusiness, as the legal framework and to create a better investment climate, as well as contribution major interest groups that influence and are influenced by the Albanian agribusiness.

2. CRITICAL REVIEW OF LITERATURE

Despite the contribution of agriculture to the economic development of the country and creating potential opportunities of new job growth in exports, the sector remains limited and low access to financial markets.

Empirical evidence shows that growing sector of SMEs and their development dynamism can strongly contribute to the achievement of a wide range of development goals, such as those of: achieving income distribution and poverty reduction (DFID, 2000); Employment creation (Daniels and Ngwira, 1993); Savings Mobilization (Beck, 2005); and production of goods and services that meet the basic needs of the individual (Cook and Nixson, 2000).

Regardless, the largest contribution to growth and economic development, growth and development of SMEs in developing countries is hampered by access to finance, poor managerial skills, and lack of training opportunities and high cost of inputs (Cook and Nixson, 2000).
Further studies conducted in this field suggest that 'glitch' in liquidity and low access is finance for SMEs constitute the biggest obstacle for them (Green, 2002). SMEs have limited access to financial services offered by formal financial institutions to meet their needs for liquidity and investments (Kessy and Temu, 2009).

However, the generation of self-employment in SMEs, requires investment in working capital, and low levels of income such capital accumulation can be difficult. In such circumstances, the loan can help the poor to accumulate capital and investment in employment generating activities (Hossain, 1988). Microfinance enables customers to protect, diversify and increase their incomes by reducing their vulnerability to shocks to income and consumption (Robinson, 2002).

According Grade (1984), loans enable individuals or enterprises enjoy the benefit of economies of scale and new technology. Availability of credit to small businesses and families with low incomes would could increase their economic power and eventually break the vicious circle "of low income - low savings - low investment - low income" (Yunus, 1984).

The banking system shows no interest in SME financing, as required amounts of them are very small and insignificant by commercial banks. Commercial banks are considered as catalysts for economic development of the country through mobilization and profitability by providing large amounts of loans that they offer. In this respect, they consider as dangerous and nonprofit funding to rural households and businesses, excluding from their target group.

In a study done by Chijoriga and Cassimon (1999) revealed that, to borrow from MFIs involves high transaction costs due to procedures and long bureaucratic for loan review and decision. The study also noted that asymmetric information between borrower and lender is very high and this led to the establishment of rules to tighten the monitoring and supervision of borrowers from MFIs.

Despite higher transaction costs, SMEs are using funding sources MFIs to further promote and increase their activity in the country, so it is important to analyze the influence and impact of microfinance to SMEs with cost MFIs real. Therefore, this study aims to investigate the impact of microfinance services in the growth of SMEs in Albania, as well as to identify the benefits of microcredit, and to assess the share of costs arising from the obligation of the loan compared to the contribution of MFIs first in Albania in view of improving family welfare SMEs.

According Alemayehu (2010), considered microfinance institutions offering financial services to clients with low income or solidarity lending groups including consumers and the self-employed, who traditionally lack access to services offered by banking institutions. Microfinance also known as microcredit, small loans are considered as provided for poor families to promote self-employment and income generation (Fazl, Hasan & Abed, 2006).

Yacob (2007) believes that microfinance is the financing of loans, savings, and other basic financial services to the poor. According to the Grameen Foundation, microfinance is often called "bank for the poor".

2.1 The history of the development of microfinance

Microcredit and microfinance are relatively new terms in the field of economic development, mentioned for the first time in 1970, according to Robinson (2001) and Otero (1999). From 1950 to 1970, providing financial services from donors or governments was mainly in the form of subsidies to rural credit programs. These often resulted in major failures of financial loss and an inability to come to rural poor households (Robinson, 2001).

Robinson says that 1980 represents a turning point in the history of microfinance, where MFIs such as Grameen Bank and BRI1 began to show that they can provide small loans and savings offer premium services at a large scale by taking the ongoing subsidies, marking the first time ensuring profitability scale (Robinson, 2001).

1990 classified as years brought "accelerate the growth of the number of newly created microfinance institutions and a growing emphasis to increase the level of coverage" (Robinson, 2001, p.54).

Dichter (1999, p.12) refers to 1990 as the "decade of microfinance". Microfinance now been transformed into an industry by Robinson (2001).

Along with increased microcredit institutions, was deemed necessary that in addition to providing credit delivery to the poor (micro) be offered and other financial services such as savings and pensions when it became clear that the poor had a request for providing these complementary services (MIX2, 2005).

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1 Raykat Bank Indonesia
2 Microfinance Information eXchange
The importance of microfinance in development is strengthened with the launch of the Microcredit Summit in 1997. The Summit aims to reach 175 million poorest families across the globe, especially the women of those families, with credit for financial and business services other self-employed until the end of 2015\(^3\) (Microcredit Summit, 2005). Finally, the UN declared 2005 as the International Year of Microcredit.

3. MICROFINANCE IN ALBANIA

Microfinance is the most important strategy to fight poverty and to develop small and medium enterprises in Albania.

Microcredit in the past 30 years has played a significant role in the economic, social and political situation in the world. He is regarded as an alternative solution to the problems of economic, social, cultural, affecting countries in transition, developing countries and not only.

This is happening in our country in the last 2 decades. But microcredit is just one of the services that microfinance institutions offer their clients. Poor people and excluded from access to common services banks, as deemed inappropriate and lack collateral can use microloans through loans to small amounts as a means to gain access to financial services.

So based on the idea that microfinance lending system is open to all. Most of the population excluded from financial services, working in the informal market and live in a survival economy level, and to a loan no matter how small to allow them to self-employed entrepreneurs can increase their standard of living and ensuring profits.

In many poor countries, self-employment in the informal sector occupies more than 50% of the workforce and access to microcredit enables vulnerable people, building a profitable business through a small private company.

Microfinance in Albania offered by microfinance institutions and savings and loan. The most important of them are: Albanian Union of Savings and Credit (including related companies), Society of Financial First Development (FAF-sh.a), NOA-sh.a, (former Albanian Partner in Micro), the Fund Besa, VisionFund Albania LLC, JEHOJA Union and the services offered by commercial banks, ProCredit Bank Albania.

Table 1: Types of microfinance institutions operating in Albania

<table>
<thead>
<tr>
<th>Type</th>
<th>Institutions</th>
<th>Number</th>
<th>Active number of customers</th>
<th>Deposits</th>
<th>Active portfolio</th>
<th>The rate of registration and supervision</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ASC UNION</td>
<td>2 Union (120 SCA)</td>
<td>14,000</td>
<td>3 million USD</td>
<td>10 million USD</td>
<td>High</td>
</tr>
<tr>
<td>2</td>
<td>FAF sh.a.</td>
<td>1</td>
<td>4,000</td>
<td>NA</td>
<td>4 million USD</td>
<td>High</td>
</tr>
<tr>
<td>3</td>
<td>BESA</td>
<td>2</td>
<td>7,000</td>
<td>NA</td>
<td>24 million USD</td>
<td>Low</td>
</tr>
<tr>
<td>4</td>
<td>Foundation</td>
<td>&quot;Towards the future&quot;</td>
<td>2</td>
<td>1,500</td>
<td>NA</td>
<td>2 million USD</td>
</tr>
<tr>
<td>IMF TOTAL</td>
<td></td>
<td>7</td>
<td>26,500</td>
<td>3 million USD</td>
<td>40 million USD</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>ProCredit Bank</td>
<td>1</td>
<td>8,000</td>
<td>NA</td>
<td>10 million USD</td>
<td>Secondary</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>8</td>
<td>34,500</td>
<td>NA</td>
<td>50 million USD</td>
<td></td>
</tr>
</tbody>
</table>

Nowadays, some microfinance institutions provide financial services in the sector of small and medium enterprises in order to meet different customers' needs and current potential.

The growing interest in microfinance institutions in the disbursement of loans to medium could lead to a direct collision with commercial banks and this will lead to the reduction of bank clients. Microfinance institutions offer a range of services, including loans, with significant variations in terms and loan amounts.

Throughout the 90s was formally established an association of microfinance institutions with the name "Albanian Association of Microfinance" (AMA) which had the support of the Soros Foundation. Society had functions of lobbying, organizing roundtables and events. Today's challenge for the association is working to establish a credit bureau for microfinance institutions can thus allow data sharing clients and implement the changes needed for a better adaptation of the development of microfinance in Albania.

\(^3\) The original objective was to reach 100 million by 2005, but members of the Microcredit Summit Latin American / Caribbean in April 2005, these objectives are changed (Microcredit Summit, 2005).
In general, most institutions still rely heavily on international donors and access to social and commercial investment is underdeveloped. Although microcredit entities have played a significant role in expanding credit to sectors of the economy that have received less services, the scope of their activity is still very small and products and services offered are still limited. Microcredit entities are concentrated in trade, services and agriculture; however, the limited scope of their operations still leaves without completing an application, theoretically great, credit to agriculture.

Most of their activities remained focused on trade, which accounts for 45% of their total portfolio of loans. Thus, in farming activities accounted for only a small part of the total loan portfolio of microcredit entities. This volume of loans is almost equal to that offered by commercial banks is still far less than the potential demand for credit in the countryside, taking into account the importance of agricultural activities in GDP in Albania.

In Albania, the number of people who have access to microcredit is smaller compared to other countries of the region. However, the industry focus on larger scale to the poor. Microfinance loans are relatively small (when measured as a percentage of GDP per capita), compared with those of other countries in the region. In general, this measure usually means that, in Albania, the expansion of microfinance operations is deeper and the center of attention are borrowers with lower incomes.

Rural areas in Albania constitute about 80% of the territory and about 53% of the population lives and works in these areas mainly in the agricultural sector, accounting for almost 20% of GDP. Public policies of the government in recent years have been reducing poverty and promoting development in rural areas.

In these areas there is a lack of financial services:
- As a result of great poverty;
- Customers of these areas are considered very riskier;
- Property law in Albania is not clearly defined and that makes many farmers could not prove ownership of their land.

Precisely in these areas play an important role in financial unions which have started their activities since 1992 with the support of donors like USAID, UNPD, World Bank etc. Financial unions that operate in the country financial consist of two unions and relevant networks of savings and credit societies: the Union of Savings and Credit (ASCUNION) and echo Union, where the Union of Savings and Credit has the largest share activity to develop these subjects (about 98% of total assets). Unions are responsible for the monitoring and support of the activity of the network of SCAs.

These subjects cover especially rural areas and around cities and meet the needs of a large clientele by concentrating their services in countries where commercial banks are largely missing. Microfinance institutions and savings and credit societies are successful institutions and are considered to have a significant impact on social and financial strata which they serve.

In particular, in rural areas has been proven that these financial institutions have helped farmers to overcome the emergency phase and, subsequently, have encouraged the development, creating some of the first financial structures in villages, as well as making it possible for villages to manage credit and other development projects.

The main investments have been improvements in physical infrastructure, roads, schools, hospitals and waterworks and sewer. Savings and credit unions raise funds from their members with a very low interest rate but most of their capital and global finances passing financed by donors provide these funds as loans to other members. Personal property as collateral serve as livestock production, greenhouses, etc. receivable. Microcredit is the main financial product that these unions offer their members as farmers or small and medium enterprises.

As we can see from the chart uses the largest loans are in the sectors of agriculture, livestock building greenhouses and services. Investments made by financial Unions have had a positive impact on the Albanian economy causing production to grow by 70%, livestock production by 21% and 10% harvest.

In Albania remains much more to do because it is a country that has a negative trade balance and most of the goods imported. It is the duty of the Albanian government to implement legislation so that the product be more competitive domestic and affect the growth of exports.

To improve access to microcredit for micro-credit, diversification beyond focusing only on banks as a source of credit. This includes solving policy problems in the area of securities and capital controls.

4. MICROFINANCE INSTITUTION- Albanian Savings and Credit Union (ASCUNION)
As a cooperative type institution operating in microfinance, ASC Union has contributed significantly to poverty alleviation in rural areas. Also, it supports and self-development of microenterprise initiative and spirit to these residents. To achieve this, the Union has been working and working hard to credit the economic activities in the countryside, to increase investment in savings deposits, as well as to improve the banking culture in areas where it operates. He is backed up and supported financially and technically by foreign institutions and domestic partners like the World Bank, the Government of Albania, Credit Mutuel - France, Rabobank HOLLAND, Spanish Government, Fides, Switzerland, etc.

World Bank Project to reduce poverty in rural areas became the driver of the birth of microfinance in our country. It was the early ‘90s, when the pilot project began to be applied in some areas of the country. Cash loans were given in Gjinar, mountainous area in Elbasan. A loan of those years was for each farmer 50 to 100 USD. For the time talked a lot, and today is rather modest. With that money bought a cow, two sheep, perhaps in number, why not also some vine roots.

Customers first recall that those loans less in value gave a great opportunity. Began so and remain loyal to that market relations. This was the only way and the best for the financing of farmers living in rural areas. But years brought gradual development and the residents of these areas of increased demand for loans of this type. The project took expansion geographically, from which arose and developed the Rural Credit Funds (FKF), that harbinger of Savings and Credit, which operate in the country today.

It worked as a real bank even though there was no bank in rural areas. And, year after year, savings credit in rural areas became necessary support to farmers.

In the early 2000s, the structures of microfinance for rural areas began to take a different view. Credit savings with their increased financial activity became part of the Albanian Savings and Credit Union. It belongs to 2002, which marks the beginning of the Savings and Credit Unions in our country.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank Pilot Project</td>
<td>Rural Development Fund</td>
<td>Albanian Development Fund</td>
<td>Rural Credit Fund</td>
<td>Albanian Savings and Credit Union</td>
</tr>
<tr>
<td>Structure</td>
<td>Field-Branches</td>
<td>Legal support</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For the contribution of this institution in rural microfinance and its impact on social and economic terms, it is valued and prestigious international institutions. An assessment is made of the global platform MIX Microfinance, the Union has classified the 20 best institutions for the years 2008 and 2007. As for 2009, is the platform MIX ASC Union was honored with the Silver Award for Transparency and reporting social Indicators.

Union SCA Group Profile: Union Group SCA is an institution that has its beginnings in 1992. The Union is a voluntary union of Savings and Credit Associations, which provide cohesion and solidarity at the national level. Local SCA members and their clients are the basis of the activity of the group.

Being in the heart of the village, SCAs are committed to meeting the needs of residents of rural financial services. Control over the management of SCA performed through 40.432 members, who choose boards during the Annual General Assemblies. About 850 volunteers chosen represent members being engaged together with the staff of the Union of responsibly managing the SCA. By focusing on a broad target group living in rural areas, GROUP SCA Union has as its members and clients farmers, artisans, merchants, etc., who have equal rights in decision-making institution.


Financial cooperatives created and administered by their own members who belong to the rural community in a specific geographic area and who aspire to promote activities and improve their livelihoods.

Union Group SCA is strongly supported Savings and Credit Societies, which are financial cooperative type structures operating in the heart of the village. Model underlying Union Group SCA stay trust, solidarity, transparency and volunteering. Social pressure to exercise Savings and Credit
Society members to other members provide security and guarantee the performance of financial services offered by the Savings and Credit Societies.

Union Group - SCA has in its structure 40.432 members, who elect and be elected to the governing structures of the SCA and the Union. Members of Savings and Credit Associations makers themselves. The General Assembly is the highest decision making body, which selects and other governing bodies periodically.

<table>
<thead>
<tr>
<th>Indicators of social impact</th>
<th>31.12.2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage of rural area</td>
<td>36.40%</td>
</tr>
<tr>
<td>Rural clients</td>
<td>97%</td>
</tr>
<tr>
<td>Average disbursed loan</td>
<td>2370 Euro</td>
</tr>
<tr>
<td>Average disbursed loan / GDP per capita</td>
<td>85.40%</td>
</tr>
<tr>
<td>Female members</td>
<td>16.50%</td>
</tr>
<tr>
<td>Women entrepreneurs funded</td>
<td>15%</td>
</tr>
<tr>
<td>Females deposit</td>
<td>28.30%</td>
</tr>
<tr>
<td>Solidarity loans</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Areas and our customers:** Albanian Savings and Credit Union works in 17 districts: Tirana, Durres, Elbasan, Pekin, Gramsh, Lushnje, Fier, Berat, Vlora, Saranda, shines, Shkodra, Malesia Kingdom, Kuçovë, Pogradec.

From a total of 1,454 villages have these districts, Albanian Savings and Credit Union works at 1,100 or 74% of them. In 2014, ASC Union turns out to be 40.432 16.852 members and clients active in SCA Network.

Mission Union-SCA GROUP is to provide financial services to members of the SCA, residents of rural areas, in order to promote productive activities, improving living standards and continuous development of rural area.
ASC Union credit applies a methodology based on group and individual. At the core of our methodology is lending through savings and credit society. So, for an individual to apply or get a loan...
should become or be a member of a group of licensed and specifically, a member of a Joint Savings and Loans. So, our methodology is based on the principles of operation of Financial Cooperative.

Figure 4: Graph the progress of key parameters

Figure 5: Graph of network performance of SCAs for several financial ratios

Figure 6: Growth of deposit portfolio 2011-2013

<table>
<thead>
<tr>
<th>Deposits in the network</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of active deposit</td>
<td>2,237</td>
<td>2,278</td>
<td>2,748</td>
</tr>
<tr>
<td>All deposits portfolio</td>
<td>1,267,710,370</td>
<td>1,381,280,781</td>
<td>1,857,272,670</td>
</tr>
</tbody>
</table>

5. CONCLUSIONS
Microfinance plays a significant role in the future development of SMEs in Albania. ASC Union marks the existence of the only microfinance institution in Albania built to support financially the poor especially in rural areas.

Increase of credit to agriculture and agro-industrial sector through building a strong network of MFIs in the country.

Support with complementary funding for the development of SMEs in Albania, as well as identifying priority sectors to provide new impulses for agribusiness development.

Government interventions in recent years have led to increased progress of lending to the poor. Although the Albanian government has adopted new laws and regulations, many indicators show that has yet to be done in terms of investor protection and implementation of a system that works.

The role of microfinance and microfinance institutions in Albania is very important for implementation by the government of a legal infrastructure to support and assist access to credit. Although recent years have been successful for many financial institutions to micro, there are still improvements remain to be made in the coming years so that the Albanian economy have good growth sustainable in the future.

Improvements need to be made primarily in terms of law enforcement and the establishment of a strong administration, because the legal system in Albania remains weak. This has led to more corruption, lack of transparency and loss of faith in the possibilities that the country offers.

Regulations must be stronger to protect the rights of clients microcredit institutions.

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Corporate Governance in the Black Sea Region: Trends and Developments

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ABSTRACT
Corporate Governance has been a major concern and a focal point of attention for practitioners, academics, and policy makers around world during the last two decades. The recent financial crisis, has rekindled the discussion on the importance of corporate governance, as a way of preventing risky behaviours from corporations, banks, and financial institutions, around the world, and especially the European Union and the Eastern Europe.

The aim of this paper is to present the current developments and status of the corporate governance’s legal and institutional framework in the countries of the Black Sea region. Research on international corporate governance systems, and comparative analysis of national frameworks, provide more insights and understanding to the specifics of corporate governance across countries and helps identify the ways in which it affects the conduct of international business and investment, and the challenges needed to be faced within the near future, especially in times of financial and economic distress and uncertainty. These issues become more important for emerging economies and economies in transition as sound corporate governance frameworks are considered to be a source of multiple benefits both for corporations and the economy at large, by enhancing transparency and attracting investors.

The countries of the Black Sea Region that will be examined are Armenia, Azerbaijan, Bulgaria, Georgia, Moldavia, Romania, Russia, Turkey and Ukraine, along with Albania, Greece and Serbia. A literature review of the research on the corporate governance framework of each country is conducted, with two-fold purpose. The first is to examine the effect corporate governance mechanisms and systems have on the performance of firms across the countries of the region, and to assess the effectiveness they have based on the specific characteristics of each country. The second one is to examine the hypothesis of convergence between corporate governance systems in the global economy, but now in a regional level. The importance of reporting corporate governance indices and disclosure will also be demonstrated. The paper concludes by identifying issues that should be investigated in further detail.

KEYWORDS
Corporate Governance, Convergence, Legal Systems, Black Sea Region.

JEL CLASSIFICATION CODES
G32, G34, G38

1. INTRODUCTION
Corporate governance during the last 20 years has moved from being a research issue for academics to an applied field of practice for policy makers and practitioners around the world. The economic and financial globalization is magnifying the classical agency problem introduced by Jensen and Meckling (1976), as allocation of capital has become more complex and investment choices have been multiplied and amplified with the opening up and liberalization of financial and real markets. The financial crises of the late 90s’ in Russia, Asia, Brazil, and especially the one in East Asia and South Korea in 1997, made clear to everyone that the operation and the governance of the corporate sector affects not only countries’ economies but also national and regional economies.

The recent financial crisis has made that even more obvious, as deficiencies in corporate governance in the financial sector endangered not the regional but the global financial stability. Research has pointed out furthermore the importance of corporate governance for firms and its impact to national economies and growth especially during times of crises. While weak corporate governance
has worsened stock market decline during the 1997 East Asian crisis (Johnson et al., 2000), during the recent financial crisis, firms that had better corporate governance mechanisms managed to attain higher rates of return (Cornett et al., 2009). This positive impact is also present to countries and national economies. De Nicoletto et al. (2008) reports the positive impact, improvements in corporate governance quality have on macroeconomic variables that reflect real economic activity such as GDP growth, productivity growth, and the ratio of investment to GDP, as better corporate governance can add value by improving firm performance, through more efficient management, better asset allocation, better labour policies, and other efficiency improvements.

Kirkpatrick (2009) identified failures and weaknesses in corporate governance arrangements as a crucial factor that should be attributed for the crisis of the global financial system in 2007 and 2008. Corporate governance failures at major financial institutions in the US and banks in Europe, contributed not only to a global financial and corporate turmoil but also to triggering subsequent countries recessions, the aftermath of whom is still present especially for Greece.

These results have reasonably drawn attention on the issue by the corporate world and policymakers as the potential macroeconomic, distributional and long-term consequences of a strong corporate governance system have been acknowledged, and became a central point of discussion and planning. As expected a large and continually growing body of research has over the last two decades examined and documented the importance of legal, cultural, and institutional foundations of the corporate governance framework of countries and the effect it has on the quality of the corporate governance and economic development. However, evidence for these links between law and economics, highlighting the roles of legal foundations and well-defined property rights have been provided mainly for developed western countries with properly functioning market economies. Emerging markets has been in the epicentre of research on this field only recently. The importance of Corporate Governance has been even more important for transition economies (Peters et al., 2011), like the ones of the Black Sea Region, as these countries did not have long established financial institution infrastructures to face agency problems related with the financing and management of corporations (McGee, 2009).

The purpose of this paper is to examine and review the literature concerning the legal and institutional framework of corporate governance and its mechanisms and the effect it has on corporations, in the Black Sea Region. The countries that will be examined are Armenia, Azerbaijan, Bulgaria, Georgia, Moldavia, Romania, Russia, Turkey and Ukraine, along with Albania, Greece and Serbia.

The rest of the paper is structured as follows. In the section to come a review on the definitions of corporate governance is offered and the way it benefits corporations and economies. In the third section the legal and institutional framework situation in the Black Sea Region is analysed, followed by the examination of major corporate governance mechanisms for corporations. In the fifth section the convergence hypothesis of the corporate governance systems across the world and the Black Sea Region is assessed, and finally the paper concludes with proposals for further research.

2. DEFINITION AND IMPORTANCE OF CORPORATE GOVERNANCE

Defining corporate governance can be a daunting task considering the continuously changing environment that corporations and organizations face. Sir Adrian Cadbury, head of the Committee on the Financial Aspects of Corporate Governance in the United Kingdom defined corporate governance as “the system by which companies are directed and controlled” (Cadbury Committee, 1992).

The above definition is mostly oriented in the internal organization of a company, and dealing with the separation of ownership and control. The focus however of corporate governance should be the external provision of finance, and how outside investors protect themselves against expropriation by the insiders. Shleifer and Vishny in their seminal 1997 review give probably the most accepted definition of Corporate Governance:

“Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment”

This definition can be expanded to define corporate governance as being concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between all possible corporate claimholders (Claessens and Yurtoglu, 2013).
Zingales (1998) broadens the above definition describing corporate governance system as “the complex set of constraints that shape the ex post bargaining over the quasi rents generated by the firm”, including all stakeholders, that can be creditors, other corporations, financial markets, institutions, employees, society, and special interests groups. Relationships with stakeholders are very important as they are input factors without which the firm cannot operate.

Claessens and Yurtoglu, (2013) identified 5 different ways that corporate governance affects both firms’ performance and counties’ economies in general.

1. Through increased access to external financing by firms, leading to greater investment, higher growth, and greater employment creation.
2. By lowering the cost of capital and increasing firm value, making therefore firms more attractive to investors, enhancing financial performance, and consequently leading to growth and more employment.
3. By achieving better operational performance through better allocation of resources and better management.
4. By avoiding severe financial crises and decreasing volatility through enhanced risk management.
5. By forging better relationships with all stakeholders of the firm, in conjunction with the growing interest in corporate social responsibility.

Given the importance of the improvements Corporate Governance can bring to corporations, organizations and countries, it has received considerable attention form institutions and legal authorities across the world, with an increasing number of texts, studies, research and guidelines to be added every year in continuously growing literature. However the most influential text that is used as the standard for measuring the quality of corporate governance mechanisms and framework is the OECD Principles on Corporate Governance (OECD, 2004) that identifies six categories of actions that should be considered:

I. Ensuring the Basis for an Effective Corporate Governance Framework
II. The Rights of Shareholders and Key Ownership Functions
III. The Equitable Treatment of Shareholders
IV. The Role of Stakeholders in Corporate Governance
V. Disclosure and Transparency
VI. The Responsibilities of the Board

These principles have served as a basis for a continuing dialogue and evolution of corporate governance framework for both OECD and non OECD countries (Jesover and Kirkpatrick, 2005; McGee, 2009), but also as a framework of evaluating and comparing corporate governance systems across different countries. In the following section the application of these principles in the Black Sea Region countries is examined.

3. LEGAL AND INSTITUTIONAL FRAMEWORKS IN THE BLACK SEA REGION

Due to its geostrategic position, and the continuous conflicts, and especially the last one between Ukraine and Russia, the Black Sea region has not as yet found its way to stability and economic prosperity. The region is characterized by lack of economic development, lack of social cohesion, of security and of stability, hindering this way economic and trade cooperation (Alexandridis and Antoniadis, 2013). Notwithstanding the tensions risen between the countries of the region investments and business cooperation has been developed. Studying the corporate governance framework of the countries of the region could help promote and encourage the strengthening of existing ties. Table 1 reports the main macroeconomic and financial data for the countries of the region. The low levels of Foreign Direct Investment inflow and also of stock and financial markets development, must be noted.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per Capita (2010-2013)</th>
<th>GDP Growth (%GDP)</th>
<th>Trade (%GDP)</th>
<th>FDI inflows</th>
<th>Market Capitalization</th>
<th>Listed Companies</th>
<th>Stock Traded</th>
<th>Stock Traded</th>
</tr>
</thead>
</table>

Table 1. Macroeconomics and Financial indicators of the Black Sea Region Countries (2010-2013)
Which are the institutional dimensions that matter for corporate governance and financial markets development in general? Cross country analysis of corporate governance frameworks, includes the investigation of whether the framework extends to rules that are mostly applied to or to institutions. La Porta et al. (1998, 1999, 2000) with their influential research defined an analytical and concise framework for comparative research on corporate governance by introducing an integrated approach to law and legal institutions as well as financial institutions and markets. The development of a country’s corporation and financial markets, relates to these institutional characteristics and these characteristics can directly and indirectly affect the growth and the prosperity of organizations and of the economy in general. This is true for both periods of growth and periods of recession. During the 1997 East Asian crisis, Johnshon et al. (2000) using country-level data, found out that weak legal institutions for corporate governance were key factors in aggravating the stock market declines.

That is a serious issue as emerging markets and transitional economies tend to display weaker measures of corporate governance, protection of property rights of investors and minority shareholders (Peters et al. 2011). Beck et al. (2000) documented how the quality of a country’s legal system not only influences its financial development but also the direct effect it has on its economic and corporate growth. Improvement in corporate governance may help a country with high level of corruption to partially deal with the negative impacts of corruption in attracting capital, creating a momentum for further improvement in both corporate governance and the governance of the public sector (Wu, 2005) Chen et al. (2011) found that firm-level corporate governance significantly lowers the cost of equity capital in 17 emerging markets.

The following Tables provide data and evidence on the strength of the legal systems in the region. The less powerful enforcement mechanisms which predictably exist in emerging economies can explain the weak enforcement of Corporate Governance codes and the low level of protection of the rights of creditors and shareholders. The legal system are classified by its origin to Common Law (British) or Civil Law (French, German, or Scandinavian). Almost all countries of the region have implemented the Civil Law legal system and the most specifically its French or German variation.

The World Bank has published a series of reports on corporate governance as part of its project on the Reports on the Observance of Standards and Codes (ROSC). The main components that constitute the characteristics of the legal framework and the principles of corporate governance are summarised in Table 2. These corporate governance principles in its ROSC are benchmarked against the OECD’s Principles of Corporate Governance (OECD 2004) and are summarized by McGee (2009) with Romania achieving the higher score to overall corporate governance performance compared to the rest (for all columns 10 is the highest and best value that can be achieved). As far as Russia and Turkey are concerned no data were provided. Romania and Bulgaria score higher in all categories of legal rights protection as expected due to their participation in the EU, while Azerbaijan has the lowest scores in every category.

Table 2. Strength of minority investor protection in the Black Sea Region Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Legal System Origin</th>
<th>Rights of Shareholders</th>
<th>Equitable Treatment of shareholders</th>
<th>Role of stakeholders</th>
<th>Disclosure and transparency</th>
<th>Responsibility of the board</th>
<th>Overall Corporate Governance index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>French-German</td>
<td>5.00</td>
<td>5.34</td>
<td>5.50</td>
<td>4.50</td>
<td>4.34</td>
<td>4.86</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Civil</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>
The governance of state-owned enterprises often involves European legislative directives (Law 3693/2008, 3884/2010) to specify the composition of the Board of Directors and the participation of non-executive directors. Further legislative acts have been introduced in Greece (Law 3016/2002) and along with its amendments, constitute the basis for mandatory legislation concerning corporate governance. This improvement has also been a result of the ongoing financial and economic globalisation, as it is also obvious that firms in emerging markets such as the countries of the Black Sea Region have improved their corporate governance quality over time, in that countries that improved their creditor rights saw an increase in financial development (Djankov et al., 2008). In Table 3, the strength of the minority investor protection for 2014 as measured by World Bank and the Doing Business Organisation.

<table>
<thead>
<tr>
<th>Country</th>
<th>Disclosure</th>
<th>Directors</th>
<th>Ease of shareholders suits</th>
<th>Conflicts of interests regulation</th>
<th>Shareholders Rights</th>
<th>Strength of Governance Structures</th>
<th>Corporate Transparency</th>
<th>Shareholder Governance</th>
<th>Strength of minority investor protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>5.0</td>
<td>6.0</td>
<td>8.0</td>
<td>6.3</td>
<td>10.5</td>
<td>3.0</td>
<td>3.5</td>
<td>5.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>7.0</td>
<td>5.0</td>
<td>8.0</td>
<td>6.7</td>
<td>7.0</td>
<td>3.0</td>
<td>5.5</td>
<td>5.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10.0</td>
<td>2.0</td>
<td>7.0</td>
<td>6.3</td>
<td>7.5</td>
<td>6.0</td>
<td>8.5</td>
<td>7.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Georgia</td>
<td>9.0</td>
<td>6.0</td>
<td>7.0</td>
<td>7.3</td>
<td>7.5</td>
<td>3.0</td>
<td>4.0</td>
<td>4.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Moldova</td>
<td>7.0</td>
<td>4.0</td>
<td>8.0</td>
<td>6.3</td>
<td>6.0</td>
<td>4.5</td>
<td>5.5</td>
<td>5.3</td>
<td>5.8</td>
</tr>
<tr>
<td>Romania</td>
<td>9.0</td>
<td>5.0</td>
<td>5.0</td>
<td>6.3</td>
<td>10.5</td>
<td>2.5</td>
<td>5.0</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Russia</td>
<td>6.0</td>
<td>2.0</td>
<td>7.0</td>
<td>5.0</td>
<td>7.5</td>
<td>3.0</td>
<td>5.0</td>
<td>5.2</td>
<td>5.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>9.0</td>
<td>5.0</td>
<td>7.0</td>
<td>7.0</td>
<td>10.0</td>
<td>4.5</td>
<td>6.0</td>
<td>6.8</td>
<td>6.9</td>
</tr>
<tr>
<td>Ukraine</td>
<td>4.0</td>
<td>2.0</td>
<td>6.0</td>
<td>4.0</td>
<td>7.0</td>
<td>3.0</td>
<td>7.0</td>
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Albania has made the greatest progress in this field, followed by Turkey and Bulgaria. Overall as literature points out actual corporate governance quality in most countries has overall improved (De Nicoló et al. 2008) as a result of the ongoing financial and economic globalisation, as it is also obvious for the countries of the Black Sea Region. This improvement has also been the result of ongoing legal reforms and practices across the region. Many of these changes have occurred in the aftermath and as a response to crises, and some reforms have been major, while others were more partial and changed only a few specific aspects.

The Bulgarian Securities Law in 2002 which provided protection against dilutive offerings and freeze-outs. Atanasov et al. (2006) document that following the change, share prices jumped for firms at high risk of tunnelling, relative to a low-risk control group. Minority shareholders participated equally in secondary equity offers. Mandatory legislation concerning Corporate Governance was introduced in 2002 in Greece (Law 3016/2002) and along with its amendments comprises the basis on which listed and state owned companies operate, and are governed (Antoniadis and Ananikas, 2005; Lazarides., 2010; Neraezidis and Filos., 2014). The main elements of the Greek legal system concern the composition of the Board of Directors and the participation of non-executive directors, the formation of committees, and the disclosure of information to investors. Further legislative acts were passed in order to embody European legislative directives (Law 3693/2008, 3884/2010) and to specify the governance of state owned enterprises (Neraezidis & Filos, 2014).
Disclosure of information is also a serious issue for the region despite the legal framework in place. Albu and Girbina (2015) point out the reluctance of Romanian listed companies to provide information concerning transactions of members of the board and of insiders.

4. CORPORATE GOVERNANCE MECHANISMS AND FIRMS’ PERFORMANCE

Legal and institutional framework alone cannot sufficiently tackle the agency problem. Corporate governance mechanisms in firm level should also be highlighted especially for emerging markets, as they can serve as substitutes for insufficient legal and institutional framework in reducing the cost of equity and hence capital (Claessens and Yutoglou, 2013). According to the majority of literature there is a positive and causal relationship between corporate governance quality and firm value and performance, a relationship that is present not only for developed but also for developing and transitional economies (Zheka, 2006).

Corporate Governance mechanisms and its effect in firms’ value and performance is the biggest and growing trend of the relevant literature. However it was only until recently that literature started focusing in emerging and transitional economies. Schleifer and Vishny (1997) have analyzed in depth corporate governance mechanisms and the effect they have in firms value and performance. Due to the limited scope of this paper we will focus in the two most important, ownership structure and Board composition.

Ownership structure and group-affiliation structures both interact with legal, political and regulatory institutions of a country. The identity of shareholders (family-owned or institutional, state, dispersed ownership etc.) also prove to be important in the level of their involvement in the governance of the firm. Ownership structures affect the nature of the agency problems between managers and outside shareholders, and among shareholders. Since insider-held firms dominate in the continental system, the principal–agent problems in most countries around the world, and certainly in the countries of the region will be minority-versus-controlling shareholder, augmenting the importance of protection of minority rights. Stanic (2012) demonstrated that conflict of interests in the Serbian banks, as dominant shareholders tend to appoint small and weak boards, which can lead to serious conflicts between dominant and minority shareholders.

Privatisation processes have played an important role in the development of ownership structure of the region. Estrin and Rosevar (1999) found that private ownership is not associated with improved enterprise performance in Ukraine, while on the contrary insider ownership is associated with improved performance. Kostyuk and Koverga (2007) studied ownership structure in Ukraine and pointed out the rise of insiders’ control within firms, combined with a decline in institutional ownership and the “hidden” role of oligarchs as a factor of leading to reduced accountability, a vital pillar to every corporate governance system (OECD, 2004). Orbay and Yurtoglu (2006) report a negative influence of the ownership-control disparity on investment performance in Turkey. Lazareva et al. (2008) found a non linear relationship between ownership concentration and corporate governance in Russia, and a similar effect in Ukraine, but only for managerial ownership.

Boards of Directors their composition and their committees constitute an important governance mechanism. Findings suggest that companies with boards comprised of a higher fraction of outsider/independent directors usually have a higher valuation. Board independence plays an important role in developing countries and emerging markets as well, where other control mechanisms on insiders' self-dealing are weaker. As stronger board structures reduce the likelihood of fraud, there will be less corruption in a country where corporate boards truly represent the interests of shareholders (Wu, 2005) and stakeholders.

Despite the importance that legal and institutional framework attributes to board composition, boards may appear to be ineffective or even hurt minority shareholders in countries (e.g., Turkey), where low levels of board independence are recommended by existing codes of governance (Ararat et al., 2011). The same authors also demonstrated this inefficient use of independent directors as they have identified a negative and insignificant statistical relationship between board composition and firm performance. That is also true and for other emerging economies as Romania where Romanian listed companies fail to comply with their obligations for creating and running board committees (Albu and Girbina, 2015) with the exception of large firms, that also have larger in size boards of directors.

On the other hand there is evidence for Ukraine, that board independence is important and relevant in transitional market (Zheka, 2006). Stanic (2012) found that bank profitability, measured by ROA
and ROE, increase as the number of directors on the board decreases, and that there is no significant relation between proportion of independent directors on the board and bank performance.

Some Russian companies have adopted two-tiered boards, a practice likely borrowed from France or Germany, and also the separation of roles between CEO and the Chairman of the Board was introduced (McCarthy and Puffer, 2002), but this separation does not look to increase the value of the firm nor its performance (Antoniadis and Ananikas, 2005), and the same evidence exists for boards of Directors in Ukraine (Zheka., 2006).

5. THE CONVERGENCE OF CORPORATE GOVERNANCE SYSTEMS

Literature widely recognizes the existence of two main corporate governance systems namely the Anglo-Saxon that is found mainly in the Common Law countries (UK, SA, Australia etc.) and the Continental that is dominant in countries with Civil Law legal systems (Germany, France, Russia etc.). The adoption and development of an individual corporate governance system by every country depends heavily on her history and culture (Monks and Minnow, 2011; Li and Harisson, 2008).

However, in a globalized financial environment where open financial markets can help improve with corporate governance, (Khanna et al., 2006; Kose et al., 2010), an important question is whether these codes and systems converge in a common set corporate governance practices (Gilson, 2001). At the same time the increasingly global seek of capital sources would tend to disadvantage firms of countries that would deviate from the norm. Thus convergence of codes and systems of governance should be expected as a reasonable outcome of globalisation, and could help promote further cooperation and investment attraction for the countries of the Black Sea Region.

Notwithstanding the progress of globalisation still there is few evidence on convergence of corporate governance systems around the world. Khanna et al. (2006) report evidence of formal convergence at the country level, but find actual corporate governance practices to remain heterogeneous. De Nicolò et al. (2008) reported cross-country convergence in corporate governance quality with countries that score poorly initially catching up with countries with high corporate governance scores. Yoshikawa and Rasheed (2009) also show that there is only limited evidence of convergence of systems mostly in form than in substance.

The convergence hypothesis faces serious criticism. A set of rules and standards that may be relatively effective in developed economies may not work at all in emerging markets, as modifications and adaptations may be appropriate in order to cope with the institutional issues of these emerging economy special characteristics (Peters et al., 2011). Convergence of corporate governance systems in the region has also faced considerable difficulties during the transition period the region went through in the 1990’s. The countries that have been a part of the USSR have demonstrated considerable delays in introducing effective corporate governance mechanisms compared to other Central European and Balkan countries (Estrin & Wright, 1999) that very soon joined the EU. These countries (Romania, Bulgaria) along with Greece had to embody in their legal systems all the legal requirements for corporate governance required by the EU legislation.

Russia’s corporate governance system initially came from international organizations and from the US, the system supporting the notions of convergence of systems. However at the same time new unique institutions emerged reflecting the unique cultural and historic characteristics of the country, leading to the emergence of a new Russian variation of the continental system (McCarthy and Puffer, 2002), and actively affecting the former soviet union countries of the region.

Arsoy and Crowther (2008) describe the corporate governance system in Turkey as the result of a deliberate attempt to emulate the Anglo Saxon model of corporate governance, with similarities to be present with other country, as the development process is a dynamic one that will continue in the future affected by the business environment of global and national economy.

Another common way of promoting convergence of corporate governance systems is complying with voluntary codes of corporate governance that are acceptable around the world. Adoption of voluntary corporate governance mechanisms, can lead to value increase, decrease of cost of capital, and higher operational performance (Claessens and Yurtoglu, 2013). Voluntary practices are more important and play a more crucial role in countries with weaker investor protection (Durnev and Kim, 2005) where firm-level practices cover for the lack of a stronger legal and institutional framework.

The evolution and adoption of voluntary practices for the region have not been examined substantially by relevant literature. In Greece apart from the compulsory legal framework that was first introduced in 2002 there is also a number of voluntary codes proposed by different institutions and associations. In 2010 two new voluntary codes were introduced by the Hellenic Federation of
Enterprises (SEV) and the Hellenic Association of Investors & Internet (Neratzidis and Filos, 2014). In 2012 the Hellenic Corporate Governance Council was formed in order to encourage the adoption of good practices, and issued a new and updated set of voluntary codes in 2013. The voluntary or “comply-or-explain” principle by Romanian listed companies was examined by Albu and Gîrbina (2015). The findings of their research indicate a modest (although increasing) percentage of Romanian listed companies that disclose the level of corporate governance compliance to voluntary codes and also trace issues in disclosing this information in English.

6. CONCLUSION

The development of a stable and sound corporate governance system could greatly benefit the Black Sea Region as it would lead to improved collaboration and cross-investments (Claessens & Yurtoglu, 2013). An improvement of corporate governance practices in emerging markets could be especially beneficial both to national minority shareholders, and western investors, but could also help attracting new investors (Peters et al., 2011). The importance of the development of regional economies and emerging markets with transparency and good governance practices, as a factor of regional and global stability can be vividly demonstrated in the Black Sea Region. Studying the corporate governance framework of the countries of the region and encouraging convergence between them could help strengthen existing ties or even heal problematic relations.

The reforms in both obligatory legal frameworks and voluntary corporate governance practices have led to an overall improvement of governance quality in most countries of the region, although in varying degrees. As far as the research in the topic for the Black Sea region, is concerned attention must be drawn in the lack of academic work for economies like Albania, Serbia, Armenia, and Azerbaijan, while there is a growing bibliography for the most developed countries of the region namely Russia, Ukraine, Turkey, Greece Romania and Bulgaria.

Further research through a comparative corporate governance approach should focus in three directions:

- The further systematization and in depth classification of the corporate governance practices of the countries in the region.
- The development of a framework and an index that would measure implementation and compliance of the OECD principles of Corporate Governance in the region, and,
- The impact that corporate governance has in the macroeconomic status of the countries in the region.

REFERENCES


A New Type Of Goods: Ecumenical Or Universal Goods

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ABSTRACT

In this paper, we attempt to define and investigate, in a new and radically different way, a class of goods which has recently started to appear in the international economic literature: the so-called global public goods, i.e., goods that do not offer competitive advantages to their individual country producer, despite their fundamental necessity. The novelty and exclusivity of our approach regarding this category of goods, and the new name that we will attempt to establish for them, will tentatively allow us to draw some unpleasant conclusions about the prospect of producing these absolutely necessary public goods.

KEYWORDS

public goods, global public goods, competitive advantage

JEL CLASSIFICATION CODES

H41, H87

1. INTRODUCTION

How do we define a public good? There are several ways to approach. Let's look at the most basic: 1) From Samuelson (1954) and on we define a public good as one a) which is not competitive in consumption, i.e., when someone uses it, this does not exclude any other to use it as well, b) it is not possible (or cost effective) to exclude someone from its consumption, i.e., it is impossible, difficult or expensive to impose a price on each of us for the consumption of the public good. There are finer distinctions, but reporting them here will not add anything to the argument we want to emphasize. And this is that, clearly, the definition of a commodity as a public good depends on whether or not it is expected to be materialized in the market. For these goods which, although desirable and / or necessary, no demand is expected (although the resources for their production are not available), the term “public goods” is reserved. Regardless of how we define a public good, economic theory states that the provision of it (not necessarily also the production - and in recent years less so) is publicly undertaken by funding its cost. There is no question, at least in theory: the State, after diagnosing the necessity or even just the desirability of providing the public good will seek to fulfill this claim. Otherwise, if left to market forces, the theory states that the desired and / required public good will not be produced at all (or will be produced in smaller quantities). But why the State will be forced to comply and / or arrange by its own will to provide the public good? Usually the above question does not arise, at least at the university / academic level. Before we answer this question we will proceed with a new definition.

2. GLOBAL PUBLIC GOODS

If on the two criteria mentioned above we add a third one we easily arrive to the definition of global public goods: in order to complete the definition, we refer to public goods that once produced, are available worldwide, without the possibility of exclusion of one State or the other, and without
blocking opportunities for all citizens on earth (in contrast to what happens with the classic public goods which are limited within the state boundaries). By adding one more criterion and, remaining within the limits of the approach of Samuelson from the demand side, we define global public goods as those for which (under normal conditions), while necessary, market demand will not manifest. The only differentiation between public and global public goods then, is limited to their spatial dimension: the use of simple public goods is limited within the boundaries of one State, whereas the use of global public goods lies outside these limits and, possibly, refers to the entire planet. There are many goods that can be placed under the above definition. In our text we will be confined to a very significant subgroup thereof: ecological global public goods (to mention probably the most important which is tackling global warming). This new approach has begun, though still at an embryonic level, to find its place in the teaching of public economics and in the international literature (Kaul et. al. 1999). It continues on the well-known line of simple public goods, suggesting to the international community to undertake the provision of global public goods – surely recognizing a higher degree of difficulty (due to the global scale of the problem), but nothing more. Sooner than later in view of the critical importance of providing global public goods, proponents of this concept hope that their global supply follows, on the steps of the preceding national paradigm. We believe that this approach, although useful, by following the paradigm of Samuelson step by step, leads to major bottlenecks. Let's see which and why.

3. A NEW CRITERION TO APPROACH THE CONCEPT OF PUBLIC GOODS: THE SUPPLY SIDE

We return to the question of the previous section: Why the state will be forced to comply and / or arrange by its own will to provide public goods? If this question is put emphatically may lead, as we will show, to a new criterion which will guide us to a new distinction in the general category of public goods. As mentioned above, this distinction is not based only on the demand side, but far more crucially, on the supply or production side and that will cast a pessimistic shadow on the production of global public goods. We will proceed with a distinction not based on neoclassical economics and the separation between individuals and the state and their closely related motives: on one hand, the profit for the individual and on the other social welfare (or even the re-election of governors) for the state.

This new distinction will highlight ideotypically two categories of public goods

a) public goods that provide a competitive advantage to the states and that the benefits of providing them are confined within the States that provide them,

b) public goods where the benefits are not limited to States-providers and, especially, do not offer competitive advantages to providers, but diffuse the benefits (albeit unevenly), either globally or locally to specific teams of other States. Therefore, their provision, while certainly entailing a cost to the State-provides, does not offer the option of exclusive (or mainly exclusive) absorption of the benefits, thus leading to the deterioration of the competitive position of the States in charge of the production of this type of public goods in the international system (since they spend, by default, scarce resources without the possibility of exclusively consuming them).

The first category of public goods can be called competitive or exclusive or classical, or even government public goods. The second category can be called global or, and this version we choose, ecumenical or universal goods, as the word “global” is sufficiently discredited by the recent period of globalization. In connection with this emerging distinction in the study of public goods and in relation to this new field of study (not to be understood solely as a subsector of economics and especially of public economics, but rather as an interdisciplinary branch, perhaps not exclusively scientific, but political also), the difference of our approach is the following: the emerging literature (Kaul op.cit.) on the current new distinction of public goods, follows the footsteps of the old division in public and private goods, emphasizing the consumption side alone: in this view, public goods are those where consumption is not, as we have already mentioned, competitive or exclusive. Based on this criterion, but now applied to the global scale, global public goods are defined as those that their consumption at the transnational level is not competitive or exclusive. If, for example, Brazil manages to preserve the
ecosystem of the Amazon intact, it will have a number of positive effects on the biosphere, biodiversity etc. globally, while at the same time the benefits will diffuse worldwide, without excluding possibilities or imposing a price to other states. Still so, the emphasis in the definition is placed on the demand side - the only difference being the scope of consumption (whether local-national or global). Our approach does not intend to contest these criteria, but by putting the central question of why a State wishes or is forced to produce public goods, introduces the production / supply side (and not just the consumption or demand one) of public goods in the discussion and therefore re-conceptualizes them. Let's see how:

There are several answers to the above question on why we produce public goods. Initially, we will restrict ourselves to the classic public goods and then we will talk about ecumenical or universal goods. For the classical public goods, the state producing them:

1) can meet the dictates of scientists, especially economists who, foreseeing an obvious gap in how the system of free private markets work, advise its coverage and then the state responds by arranging to provide the goods (in the sense of "benevolent ruler"). This could be characterized as the preferred explanation in academic literature, which as we all know, is catalytically dominated by neoclassical theory and its various versions.

2) Also the state can, though perhaps not moving from the charitable motives of the previous case, provide the classical public goods through the competitive electoral process, i.e., trying to satisfy its electoral clientele which understands that based exclusively on private plans these goods will not be produced (although desirable), and thus supports a provider - party with votes. This party provides them, fearing that if it does not comply with the voters will someone else will do (winning the election and consenting).

3) Thirdly, and crucially for our argument, even if the State is not benevolent, even if for any reason the citizens themselves do not realize the benefits from the provision of public goods, and so do not require nor consent to their provision, the State may provide public goods due to the existence of the competitive interstate system. We want to stress this reason, because we believe that it is of primary importance, for the provision of public goods in the real world (as opposed to the abstract world of theory), above and beyond the other two reasons. Of course, the second reason exerts considerable influence, while in our opinion the first has a lesser (even minimal) effect. The competitive interstate system by nature exerts enormous pressure on States to respond in different ways, if they do not wish to suffer losses in the hierarchical position within the system, depend on other stronger states, be endangered by territorial or population loss through wars, migration, brain drain, etc. The ruling elites in each State are confronted with obvious risks if they fail to keep to a high competitive level. The risks for these range from the loss of their hegemonic position within their State (in favor of another competitive leadership-team more convincing that it has a more effective vision of national supremacy), to their subordination into following other powerful elite groups (and therefore loss of independence and relative power) and, finally, the very loss of sovereignty through war or becoming a protectorate. Returning to the above primary reason on the provision of public goods (i.e. the existence of a "benevolent ruler"), we emphasize that in principle we would not exclude it. We do not necessarily think the people, and therefore their representatives, as exclusively selfish subjects, strictly "Homo economicus" and / or worse, competitively authoritarian, violent, aggressive beings etc. But, nevertheless, we will not hesitate to agree that the above mentioned reason (benevolent ruler) is rarely sufficient by itself and, in any case, does not cover the provision of public goods overall. Only at the margin left by the two other reasons, the electoral and the interstate competition, it can provide public goods, which are not restricted exclusively or predominantly in the interior, i.e. to offer ecumenical or universal goods, based just on scientific knowledge and good intention (i.e. the first reason).

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4 The idea of the competitive electoral process has been emphasized usually from political scientists since its Sumpeter’s (1944) classic exposition.

5 That is if more than enough resources of the state suffice for both types of competition (intra and interstate, i.e., when in limited space and limited time a State feels strong enough and is not threatened by internal and / or mainly international competition, which can happen only temporarily and only for the head State or coalition of States).
4. STATES AS 'FREE RIDES' OF THE INTERNATIONAL INTERSTATE SYSTEM, OR SO CALLED "INTERNATIONAL COMMUNITY"

We argue in this paper that a State, although it may have an interest to provide narrow or exclusive or classic public goods, limited mainly in its interior, it will avoid to provide what we call ecumenical or universal goods. But one might ask, why? The logic is simple and probably easily understood by any student of economics: precisely it is the same reason why a free private market does not provide public goods of the classic type, i.e. public goods to closed economies. Because, by not having the possibility to exclude from consumption the other States, it will find sooner or later that spending scarce resources on tasks that benefit the whole world, but cannot be appropriated privately, means to spend less for tasks that benefit its own power to the detriment of others. We invoke here the famous Stern report (Stern 2006) for the upcoming global warming and the associated financial risks. It characterizes global warming as the biggest and most dangerous case of market failure worldwide. We think that the above definition is imprecise but we do not blame the Stern report, it is just that we do not have the appropriate analytical tools to deal with: global warming, named in the report as the greatest market failure in the world, is not only (or mainly) that. It is mainly a grand failure of the transnational system, a failure of the State and the sum of States, but not in the usual sense that neoliberal economics familiarized us during the last 30-40 years, i.e. it is not only a failure to correct the market failure, but a failure of provision of ecumenical / universal goods. This is a double failure: first the failure of the State to correct the market failure and, second, the failure of the State to produce the required universal goods, all in all a failure in the square. And we think the reason became obvious: it is partly the classical problem of "free rider" (Olson, 1965), but at the same time more than that. We clarify: each individual country acknowledges, in trying to help solve the greenhouse effect (global warming), that it will have only a marginal contribution, while there is a risk that some countries will not contribute, just trying to take advantage of efforts of the others, without paying any cost. So far our analysis proceeds on the already known economic steps. But from here it goes beyond them: usually the problem of free-riding is handled as follows: if the number of people involved in the process is low, there is considerable potential to bring about understanding and through cost-sharing to produce the collective good. Obviously, ecumenical / universal goods do not fall within the above category. Furthermore if (whatever the number of people involved) a person is sufficiently strong to produce the collective good by undertaking the total cost (since her/his private benefit will exceed the collective cost), then again the collective good will be produced in the “free rider” theory. Obviously again, the production of ecumenical / universal goods hardly within the above category. In the Annex we would consider a case where even if we approach this case (the strong person undertaking the total cost) again the ecumenical / universal good will not be produced, possibly because of the inherently competitive nature of the international system, a dimension not covered by the “free rider” theory. Finally, this theory argues that, by providing selective incentives beyond the general collective incentives, it is possible to produce public goods. But, apparently, in the international interstate system there is no provider of selective incentives, as would be the case in a club or a union. We conclude, therefore, that insisting on the logic of free rider theory, the universal production of goods is led to a dead end. The question is, is the area of economic theory not appropriate to address such problems of international or global coordination?

5. THEORIES OF INTERNATIONAL RELATIONS AND UNIVERSAL GOODS

We will review briefly the capabilities of international relations theories, the natural, so to speak area for such problems. We can categorize the field of international relations into three existing theories, where interstate relations are covered with mixed multidisciplinary approach (economic, legal, political, etc.) and where we can hope that the problems of global or ecumenical / universal public goods belong (or are likely to acquire their natural position): the “realistic” theories of international
“anarchy” (Mearsheimer 2006), theories of “hegemony” and the neo-liberal theories of international relations of the type of the “invisible hand”. Then, we will see how each of them is expected to address the problem of ecumenical / universal goods. But, first, we will say a few words on the content of each one, always keeping in mind that the presentation will be made only with an eye to ecumenical / universal goods and not aspiring to a full-fledged presentation. We begin with the rather prevalent realistic school of international anarchy: in this, competition between member-States is considered inherent and non-deductible. The profit of one is the loss of the other. In such an international system of zero-sum games, it is unlikely for a State to cooperate in providing universal goods, pretty much relying on the logic of a free rider. In an inherently zero-sum world, my efforts to tackle global warming will be undermined by indifference or exploitation by the neighbor, so it is unlikely that I will initiate them at all. Even transnational agreements, when and if it were possible to conclude, without commonly accepted auditing mechanisms and mainly without imposing substantial penalties for offenders (particularly if they are strong), cannot work consistently and permanently to produce ecumenical goods. The case of the Kyoto agreements is indicative in this regard (Clark, 2012, Stern 2013, World Bank 2012). Based on this theory, perhaps the only possible case of providing universal goods would be if the international anarchic, competitive system ceased to exist and was replaced by a system of “imperial” control, so as to mitigate the inherent undermining of the provision of universal goods by competition or if the threat became so direct, active and pretty much equally serious for those involved, resulting in voluntary and unconditional compliance. But regarding the ecological universal goods this will not help anyway, sometimes because the threat is not evenly distributed (moreover because it is not even certain how it will be distributed - except for borderline cases, e.g., small Pacific islands sinking), sometimes because when its catastrophic effects become visibly, it will be too late\(^6\).

The phenomenon of universal weakness in the production of ecumenical goods is more difficult to examine using the two other theories. These are the various versions of theories of international hegemony, which draw inspiration from the hegemonic stability theory and the risks of hegemonic absence of C. Kindleberger (1973), which he used to explain the crisis of 1929. We briefly refer to theories of G. Modelski (1987), E. Wallerstein (1974, 1980, 1989, 2011) theories of Worldsystems, the American School of Social Structure of Accumulation (Gordon, 1982), the French School of Regulation (Aglietta1973), etc. All these theories perceive the existence of a world ruler who, within an otherwise competitive international system, provides among others, some kind of supranational - collective goods. In any case these goods, although by nature supranational, are included within the limits of serving the hegemony, which is competing against the previous international hegemony that it replaced and against its current and future competitors. The benefits of the Bretton Woods system (monetary stability etc.) during the ascent phase of American hegemony is a typical example. It is very difficult for the above theory, with its inherently competitive nature, within an internationally competitive system, to encompass the provision of universal goods, which by nature are destined almost for everyone. We conclude this section with the “invisible hand” strand of theories, such as that of R.Kehoane (1984). Assuming the existence of common interests, as undoubtedly is the case of universal goods, these theories consider how to overcome problems of cooperation among States. But, by not perceiving the relations between nations as inherently competitive, these theories are unable to respond to the realistic possibilities for cooperation in a context like that- which is probably closer to reality than any other.

We see therefore that there is no satisfactory theory that convincingly leads to the production of ecumenical goods. Let us return briefly to the distinction with the classic public goods.

**6. WHY THE PRODUCTION OF CLASSIC PUBLIC GOODS WAS PRESENT BEFORE ITS CONCEPTION BY ECONOMIC THEORY,**

\(^6\) “No nation will be immune to the impacts of climate change. However, the distribution of impacts is likely to be inherently unequal and tilted against many of the world’s poorest regions”, World Bank (2012), Executive Summary xiii.
BUT FOR THE ECUMENICAL GOODS IT CAN NOT MATERIALIZE EVEN AFTER?

We introduced the supply side on the production of what we call universal goods, posing the question about the motives of those who do offer and produce public goods. We have seen that, if we overcome the naive textbook view of direct State supply immediately after there is full awareness about their necessity, we are left with two others: a competitive bid within a multiparty election system and a competitive offer within a transnational system. In both cases, when indeed public goods are offered, the reasons for their supply rests mainly or exclusively on competition. A party fearing that it will be displaced by a rival, offers free education, security, etc. Still, again for the same reasons, a State seeks better national security, a higher level of education etc. So to a large extent for classic public goods, we return to the famous dictum of Adam Smith for the baker who provides bread, not from any love for his fellow men, or sense of duty, but from mere self-interest guided by market mechanisms - the famous invisible hand leading to the desired results. It is this logic that can be generalized for the majority of classic public goods. Although here we have to abandon the narrow individualistic adhesion to neoclassical economics, the logic is not going to change much. The party or the State (depending on whether we refer to electoral or transnational competition) will offer one or the other public good, not because of its natural benefits or because of the suggested economic theory, but simply from narrow “selfish” interests. Of course, because we are not referring to individuals, the calculations will be more complex, but we can be somehow reassured: after all, with more or less perfection, public goods will be offered, competition and the party or state “selfishness” will (at least partly) play their role and Adam Smith would not need to turn restlessly in his grave. This can be supported without great difficulty: since the law of Wagner, for over a century and long before economic theory started reflecting on public goods, the States begun to inflate their public spending, largely to provide the public goods that pretty much were described half a century later by Samuelson. Like Adam Smith, where markets did not need to take into account his theory, but long before already moved empirically in that direction, so with Samuelson, parties or States did not require his theoretical support. We see therefore, that the party or inter-state rivalry works to some extent at least, and offers classic public goods. Can we trust any of these three competitions (individual, party and State) to produce universal goods satisfactorily? A first question arises from the simple observation of facts. Staying at the most prominent example of ecumenical good, the preservation of the planet's ecological balance and sustainability we can observe that, although not necessarily for the whole, at least for the most recent of these, the individual, party and State competition rather leads to intensification than the alleviation of the problem. Unlike the upward trajectory that the provision of classic public goods followed during in the last 100-150 years, the offer of universal goods does not seem to evolve. Someone could argue that we should “give time to time”, so that the awareness and maturity of the problem sharpen globally. But, since the “Silent Spring” of R. Carson (1962), more than half a century elapsed, while since the “Limits to Growth” of the club of Rome (Meadows et. al. 1972) more than 40 years elapsed, and it is already more than 30 years since the greenhouse effect was documented. There is no need here to bore readers stressing the catastrophic failure of the hitherto international efforts for a reversal or at least a mitigation of the effects of global warming. This failure, in combination with other anthropogenic ecological disturbance causes, particularly the most recent reported above, lead us to second thoughts about the role of the competitive provision of public goods, precisely for the goods we called ecumenical / universal goods. This is an expanded version of the “Tragedy of the Commons” (Hardin, 1968), a “Tragedy of the Eco-commons” or a “Tragedy of the Oikoumeni”. From the moment we

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7 Which, of course, are not identified as in the case of individuals, but is relatively easy to jump from them to the individual’s selfishness, rather that transit from selfishness to selflessness.

8 Which can be subdivided into 12 sub-sections (Diamond 2006), 8 endemic in human society (deforestation and habitat destruction, problems of soil –soil’s erosion - salinisation - loss of fertility, water management problems, overhunting, overfishing, impact from imported species to native ones, increasing human population and increased per capita impact of people) and four recent (anthropogenic climate change, accumulation of toxic chemicals in the environment, energy deficit and full utilization of the Earth's photosynthetic capacity by men).
accept the crucial role of all kinds of competition in the provision of all kinds of goods (private, semi-private, with external economies or diseconomies, public in the strict sense and ecumenical / universal goods), we are heading to apparent dead ends. Even though our awareness of the fact is very limited - and unfortunately remains an acute paradox how the inherently individualistic and based on competition neoclassical economics, rather than encouraging, prevents the awareness of the limits of competition we do not know of another type to provide products, other than the competitive one. The predominance of neoclassical economic thought, oddly enough, made it easier to hide the deep competitive character of the provision of goods, not only for private or semi-private goods, but also for public goods, by using (erroneously in our view), the expression “public goods” to refer to non-privately offered competing goods, i.e., goods that can facilitate prevalence in competitive races between parties or countries, thus setting a false distinction between competitively offered private goods versus non-competitively publicly offered goods. Beyond the above useful but of secondary importance distinction, we must draw a fundamental distinction between competitively offered goods, with different but equally competitive procedures (markets - elections - interstate system) versus goods which cannot be competitively offered. The first category includes pure private, semi–private (with externalities) and also classic public goods which can bear a competitive advantage to their providers and the second refers to ecumenical goods offering no possibilities of appropriation to their providers as well as partial depletion of their scarce resources, therefore offering a more or less competitive disadvantage to them.

7. CONCLUSION

The above analysis showed that, if we realistically pose the question of who and why provides non private goods, we will discover a category of goods over the conventional / classic public ones which cannot be produced competitively, as is the case for all other goods. We named them ecumenical / universal non-competing goods. We argued that the classic Samuelsonian logic, which, even embryonically, has begun to be used for global goods, leads to a lack of understanding in a very central point: their underproduction or complete absence of production, globally. Obviously this is a very crucial point: no matter how useful it is to understand the presence of global or universal public goods, if the analysis does not inform us about their supply failures, rather leads to obfuscation. In view of the critical importance of understanding the absence of production of such goods for the future of the planet, it is time to take a position regarding a fundamental and extremely difficult to solve problem: mankind must find ways to overcome the competitive provision of goods (either we refer to obviously private goods, or to covertly public goods), if we are to respond to the ecological challenges of the future and provide the indispensable ecumenical goods: nothing less and therefore nothing more than a complete and universal shift of paradigm in understanding the operation of the intra-state and interstate system. The task is gigantic, but such is also the magnitude of the problem.

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ANNEX.

*Case Study: contrasting national or classic public goods with ecumenical / universal ones. The US military spending (as well as the corresponding spending of other leading countries), in contrast to the costs of combating global warming.*

We will present an extreme example: a country, let us assume the USA, has a remarkable amount of resources available and intends to use it for the provision of public goods: there are two options (we take two extreme scenarios in order to highlight almost ideotypically and clearly the difference). The first option refers to a classical public good: national security. The USA spent just under $ 700 billion in 2010, a crisis year, to provide this public good, while world total military spending reached $ 1.5 trillion dollars. The second option relates to the production of an ecumenical / universal good: to limit greenhouse gas emissions, thus mitigating the problem of global warming. According to the most widely recognized worldwide study of N. Stern, the annual allocation of 1% of global GDP to remedy the climate change, would be enough to avoid the catastrophic consequences in the mid to long term, which can vary between 5 and 20% (!) of global GDP annually. The Stern study, argues that the failure to take measures to avoid the greenhouse effect “is the greatest and widest-ranging market failure ever seen, presenting a unique challenge for economics” (http://en.wikipedia.org/wiki/Stern_Review). What is the amount needed to avoid this greater global market failure over time? According to Stern, an amount of around 1% of global GDP would suffice. Considering that the global GDP in the mid-2000s, when the Stern report was drafted, was somewhere in the $ 60 trillion dollars area, an annual sum of around 600 billion dollars could properly address this global problem and prevent future losses in the order of $ 3 to 12 trillion annually. These figures, even in the above coarse approach, can adequately highlight the problem. In the limit, the USA alone could offset the greenhouse effect (remember we are referring to about 600 billion), by transferring the biggest part of its military resources to this cause, downgrading its military budget at the level of the second military spender (China) - i.e., close to 100 billion (700-600 = 100). And do not think that this would be very dangerous for the USA. In conjunction with its allies in NATO and SEATO, Saudi Arabia etc., their military budgets would again exceed, at a scale of three or four to one, (theoretically) potential rivals such as Russia, China and Iran. Of course this scenario sounds unrealistic. But, still, a cut of about 45% of the US military budget and 35% of all the others could achieve the same result. This setting obviously does not change the military
balance worldwide in any way. But nobody dreamed to put the matter at hand on the global agenda, even for a first approach / discussion. Let us return to the classical non-comparative individualistic calculations of economics. As we mentioned, the 90% reduction in USA military spending would suffice to reverse global warming and would avert future losses between $3 and 12 trillion per year worldwide: as the USA produces a percentage between 20 and 25% of it, it could gain a sum ranging from $600 (3 trillion * 0.2) billion to $3 trillion (12 trillion * 0.25)! This is a classic Pareto optimal intervention, spending a certain amount otherwise (i.e., redistributing a certain amount of resources) along the curve of the productive potential of the economy, would result in acquiring an additional benefit of up to 500%!
The Contribution Of The Social Capital In Managing The Effects Of The Economic Crisis In The Urban And Rural Areas Of Eastern Thessaly

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ABSTRACT

Purpose: The present research has been inspired by the growing international interest in and recognition of the concept of Social Capital as an important factor and building block for the confrontation of the economic and social consequences of crises. The growing importance of social capital at the national level prompted the undertaking of its measurement, in order for this research to become a guide for further investigation and mapping of the existing dynamics in Greek society.

Methodology- design of the research: The literature review outlines the presence of social capital in Greece, the social research already undertaken on the subject, its special characteristics and its conclusions. The measurement of the social capital was carried out with the use of a questionnaire, which was based on the most dynamic dimensions of the concept found in international literature, in order to select and phrase the appropriate questions. The research was conducted in the region of Eastern Thessaly and more specifically in the city of Volos and the semi-urban and rural areas of the municipalities of Volos and Agia. We focused on the dimensions of general trust, the participation in informal networks, the political participation and the confidence in society and its institutions.

Findings: The results revealed low levels of general trust and specific trust in the civil society and its institutions, while we also found relatively high levels of participation in informal networks and satisfactory levels of political participation. These results confirm the respective results of previous similar studies while we also record the differences in the social capital stock among the residents of urban and rural areas as well as by gender.

Conclusions- recommendations: The mistrust and the negative attitudes in filling the questionnaires, in combination with the conclusions drawn from them, lead to the need to measure more aspects of the social capital. A wider research, at the national or regional level may add new dimensions such as participations in official networks and or social tolerance and behavior. The present research brings up to date the results of earlier work and contributes in a measurable way, to the reorientation of the goals and methods for the application of the necessary social and economic reforms.

KEYWORDS

Social capital, trust, participation, society, institutions, economic crisis.

JEL CLASSIFICATION CODES

H12, P48, E00

1. INTRODUCTION

Social Capital is a relatively new concept in Social Sciences. Nevertheless, in a relatively short period of time, international literature (Fukuyama, 1995, Stieglitz et al., 2009 and others) has focused on its importance as a basic component of a successful strategy of social and economic development. This interest on social capital comes at critical crossroads for Greece. The Greek economy is the midst of a multifaceted social and economic crisis with serious and omnipresent impact on growth, unemployment, competitiveness and moreover on equality, social cohesion, poverty and quality of life (Korres et al, 2014). The pressure on social cohesion intensifies the problems created by high
unemployment and lack of economic growth and brings about poverty and deteriorating quality of life. Existing research on the subject at a local and national level is scarce, which represents a challenge, therefore it was considered that a new localized investigation on the subject could promote further research and some targeted action for the development of social capital.

The annual report of the European Social Survey (ESS 2012) states that "social sciences, along with natural sciences, target a specific space and time, focusing on the social and institutional arrangements that structurally affect the human interaction". The present study intends to highlight, investigate and measure social capital. Social capital's importance is not limited to addressing the problems created by economic crises, but is also very valuable in promoting social recovery and economic restructuring. It constitutes a factor of stability and sustainable development in many facets of the economy (Christoforou, 2003).

In the authors' opinion, the consequences that the average Greek citizen experiences in his/her daily life generate feelings of insecurity and uncertainty. No future prospects are visible in the horizon and daily life revolves around securing survival needs. As the crisis deepens, people abandon their values and become distrustful and introvert. As a result, there is an all-around confidence crisis, cautiousness and devaluation of social institutions. We therefore undertake to measure social capital. We chose to measure the dimension of participation in social networks, in order to explore the resistance of basic social foundations such as family, relatives and friends. We also try to measure the dimension of political participation and the level of trust in various institutions. It has been established that lack of trust hinders economic development reforms, to the extent that policy makers do not take into account the role and attitudes of larger social groups and promote projects that enhance uncertainty and consequently generate social resistance (Christoforou, 2003).

The theories of holistic development are based on alternative approaches and new strategies where factors such as social innovation and social capital will form the foundations of a new model of development.

The central question is how can social capital contribute to the overcoming of the social crisis at the individual, the local and regional levels. A related question is whether social capital's stock can define the qualitative characteristics of individuals, regions or countries. On the other hand, one of the most difficult issues that are presently debated in the literature is how can a region with low levels of trust and community participation reestablish its social capital, replacing the various pressure groups with rules and networks of mutual trust and cooperation (Christoforou, 2003).

2. DEFINITIONS OF SOCIAL CAPITAL

The term "Social Capital" is relatively new in the social sciences. According to Putnam (1993), it is attributed to Coleman, who built the theoretical framework of the concept. Coleman, through his involvement with educational issues, introduced for the first time in 1998 the concept of human capital in its educational dimension, which describes the knowledge and capabilities of an individual. Next, he used the concept in relation to other aspects such as economic and physical capital and he established that it is productive, as it contributes to the achievement of goals, which could not otherwise be achieved (Coleman 1990). The term, however, appeared for the first time in Greg Loury's book titled "A dynamic theory of racial income discrepancies" (1977). In the papers of Bourdieu (1986), Coleman (1988), Putnam (1993) and Fukuyama (1995) the term social capital acquires a broader and more widespread utilization.

Bourdieu (1986) defined social capital as the "aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition". Bourdieu emphasizes the way in which social capital can contribute to the transfer of power and resources inside or across social groups (Knack and Keefer, 1997).

The fundamental approach in the social capital research can be found in the work of Putnam (1993), whose contribution in the widespread utilization and acceptance of the term has been major. According to R. Putnam, social capital refers to community characteristics such as trust, norms and networks that

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9 The European Social Survey (ESS) is an academically driven multi-country survey, which has been administered in over 30 countries to date. Its aims are, firstly - to monitor and interpret changing public attitudes and values within Europe and to investigate how they interact with Europe's changing institutions, secondly - to advance and consolidate improved methods of cross-national survey measurement in Europe and beyond, and thirdly - to develop a series of European social indicators, including attitudinal indicators.
can improve the effectiveness of societies, facilitating the coordinated actions of its members which aim at the common benefit. (Putnam 1993).

Portes (1994), proposed a distinction based on the sources of the social capital. He introduces four sources of social capital, the internalization of values, the exchanges based on mutuality, the forms of social solidarity and trust, according to the motives of the community members.

Fukuyama (1995) states that social capital is generated when trust prevails among the majority of the members of a society. Isuma (2001) defines social capital as the aggregate of relationships, networks and groups that function on the basis of certain rules which motivate their members and guide them into collective actions in order to achieve common goals.

According to White, L (2002) and Mathie, and Cunningham (2003), social capital consists of the institutions, the relationships and the rules that govern social groups. The functioning and application of the above drastically affect social interaction in a quantitative and qualitative level.

Finally, Portes (1998) maintained that social capital performs three basic functions: first, as a way of social control, second as a source of family support and finally, as a source of obtaining benefits through family networks.

Summarizing the above, and in a broader sense, social capital can be considered as a resource originating in collective actions, which creates results in the social and economic spheres. During the last years, the scientific interest around social capital keeps growing, especially in a period characterized by continuous immigration waves, the intensification of globalization of the national economies and the spreading of multiculturalism in advanced countries.

3. FORMS OF SOCIAL CAPITAL

A first distinction of social capital leads to two forms, participation and social networks. Each of those two forms is then analyzed in several different variables and each variable corresponds to different dimensions of social capital. Citizen participation contributes to the strengthening of social capital either through membership in a social organization or trough active participation in the public life of the area of residence. This is the so-called "official social capital" according to Pichler and Wallace (2007), since its prerequisite is participation in official and institutional organizations and activities, whereas social networks are informal.

A different categorization of the forms of social capital is proposed by Grootaert & Bastelaer (2002). The two forms they propose are distinguished on the basis of structural and cognitive aspects. The structural forms refer to networks, institutions and rules, including families, whereas the cognitive form includes intangible elements such as trust, values and reciprocity.

A third distinction is proposed by Putnam (2000) and Woolcock (1998), who introduce bonding social capital based on kinship and its opposite, bridging and linking social capital. Bridging social capital encompasses more distant ties of like persons, such as loose friendships and workmates while linking social capital reaches out to unlike people in dissimilar situations, such as those who are entirely outside of the community, thus enabling members to leverage a far wider range of resources than are available in the community (Halpern, 2005).

Further, there are informal social relations that are classified either in the social networks of Pichler και Wallace (2007), or in Putnam's kinship form or in the week or bridging social bonds (Granovetter, 1985).

The examination of the various forms of social capital brings out its negative aspects. Family bonds, friendship bonds or other groups, horizontal and vertical organizations and associations, cooperation among different social or political groups, sometimes breed negative outcomes that result from a series of erroneous manipulations. In Greek reality, we can point out many examples and traumatic experiences where associations and groups have functioned as guilds. Political parties can be included in this category. Sabatini (2006), spoke about unethical family power, taking as an example the existence of mafia in southern Italy and Sicily.

4. SOCIAL CAPITAL IN GREECE

The blooming of the social capital theories has been accompanied by a lively discussion and criticism about what constitutes social capital and what are its elements (Pawar, 2006). On the basis of that framework, social capital has been linked to issues such as health, (Poortinga, 2006), education,
In Greece, according to a study by the General Secretariat of Youth, (2011) there has been an abrupt transition to a prolonged phase of economic crisis, with adverse economic and social effects, which gave rise to feelings of generalized depreciation of values, rejection and insecurity. The level of active participation of the citizens has been greatly diminished, and lack of trust and suspiciousness has reached very high levels.

The low level of social capital in Greece has been indicated as one of the basic reasons for the slow pace of reforms and growth, which can be explained in historical, political and social terms (Christoforou, 2005). Several authors (Paraskevopoulos, 2006; Koniodos, 2006; Sotiropoulos, 1993), believe that from 1960 onwards, massive participation in the political process has been gradually reduced and is replaced by higher levels of individualism, lower levels of social trust, increased suspiciousness, which are the characteristics of low levels of social capital. All the above are reflected in the country's economy, and the result is that entrepreneurial activity in Greece is polarized among family enterprises and companies based on government subsidies. These characteristics affect development policy measures and limit wider cooperation initiatives, especially in agriculture. (Koutsou et al, 2014).

The questions that need to be investigated are: to what extend and how is it possible for a region with low levels of trust and citizen participation to reconstruct its social capital stock? These questions are especially interesting in the context of a country like Greece where narrow economic interest groups and protective client relationships with political parties pervade every angle of the public and private sectors, impeding social reforms and economic growth. (Karametou & Apostolopoulos, 2010).

Entzioni (1993) and Fukuyama (1995) consider that it is impossible for the government to contribute to the social capital formation/reconstruction. On the contrary, Evans (1996) and Skocpol (1996) maintain that positive contribution is feasible through decentralization and improved reflexes of the government functionaries. The usual practice of structuring development programs around the bureaucratic concentration of power and the counterproductive audit orientation, transforms these programs into rigid and sterile procedures with minimum added value for their final beneficiaries, the local communities. The culturally sensitive enterprises have better access to information networks and are knowledgeable about local customs and peculiarities. It is obvious that the social and human capital is linked with entrepreneurial culture and the possibility to benefit from changes. The high levels of social participation and association are thought to contribute to the overall prosperity of the individuals and their communities. (Australian Bureau of Statistics, 2004).

5. RESEARCH METHODOLOGY AND QUESTIONNAIRE.

In the present study, we concentrate our approach to the four main dimensions of social capital, where there the highest level of consensus is found. These are the measurement of trust, the participation in informal social networks, political participation and finally, trust in the country's institutions. Using specific basic indexes, we attempt to measure the social capital stock in the regions of our study.

According to Babbie (2010), and Brians et al. (2011), quantitative methods emphasize objective measurements and numerical analysis of primary data collected through questionnaires and surveys. They require a larger sample size in order to draw conclusions and to make inferences for the target population in various groups and communities. (Siardos, 2005). Therefore, we undertake to explain in some detail the design of the sample, the tools and the validity of the data and of the statistical methods used. We must also report some peculiarities and unforeseen difficulties faced during the data collection. Obviously, the actual research differs from the planned research, which necessitates the report of such missing data (Siardos, 2005).

In the present study we use the statistical analysis process to test hypothesis, minimizing any author bias based on their own beliefs and opinions in the interpretation of the findings.

5.1 Data collection

Our research is based on primary data, collected with the use of a questionnaire. The sampling framework refers to the definition of the statistical units from which the sample will be taken and which serves the purposes of the research (Siardos, 2005). In our case, we considered as statistical units the residents of the urban areas of Volos, Nea Ionia and Larissa and the residents of the suburban and
rural areas of the prefectures of Magnesia and Larissa. We took special care to include in our sample only permanent residents of the above-mentioned areas, excluding temporary agricultural workers or other professionals that work but do not live permanently in the areas under investigation. The time frame of the research was from December 15, 2014 to February 15, 2015.

The result of this sampling effort was the collection of a sample of 225 valid questionnaires. Based on the sampling design we can consider that our sample is representative of a population with similar characteristics and that its size is consistent with the requirements of the application of stratified random sampling (Stathakopoulos, 2001).

5.2 Choice of the questionnaire dimensions
The European Social Survey (ESS)\textsuperscript{10} represents the first official and documented effort to measure the various forms of social capital in the European area. The measurement of different issues in each round indirectly highlights the measurement difficulties as well as the differences in the scientific field. ESS's website includes articles by Anneli Kaasa (2009), Pippa Norris and James Davis (2007), Lisa Anne Neilson (2006), Dimitri Sotiropoulos (2007) as well as Loek Halman και Ruud Luijkx (2006).

The above authors agree on several of the dimensions that define social capital and they also coincide in many of the questions used for its measurement. The general trust and the participation in informal networks are common among the authors. These dimensions are also present in the definitions of: Wim van Oorschot & Wil Arts (2005), Ton van Schaik (2002), Nikoleta Jones, Chrisovaladis Malesios & Iosif Botetzagias (2009) and Christoph Hauser, Gottfried Tappeiner & Janette Walde (2010). The dimensions of participation in informal networks (except Sotiropoulos) and trust in institutions (with the exceptions of Norris και Davis) is common in all four papers. The same is also true for Wim van Oorschot & Wil Arts (2005), Ton van Schaik (2002), Nikoleta Jones, Chrisovaladis Malesios και Iosif Botetzagias (2009) and Christoph Hauser, Gottfried Tappeiner και Janette Walde (2010), who also agree on the dimensions of participation in informal networks, the trust in institutions and political participation.

5.3 Structure of the questionnaire
Our questionnaire was structured along the lines of the questionnaire of a similar research of many dimensions of social capital that took place in 2013 in the prefecture of Thessaloniki. (Tokalaki et al, 2014). Both questionnaires are based on the study of the relevant literature, using model questions and adjusting them as necessary in order to conform to the goals of the present research. (Oppenheim, 1992, Kiriazi, 1998. Siardos, 2005).

The questionnaire consists of 20 closed type questions on a 5 point Lickert scale and is structured in five sections:

1. Demographic and socioeconomic data (questions 14-20)
2. General trust (questions 1-3)
3. Informal networks, interpersonal trust (questions 4-6)
4. Political participation (questions 7-9)
5. Trust in society and institutions. (questions 10-13)

5.4 Validity, hypothesis testing and interpretation of the results
The questions aim to measure four dimensions of social capital however each one is differentiated by specific characteristics. Considering this fact, we tried the a-Cronbach methodology in each of the four dimensions. For the dimensions of general trust and informal networks, the coefficient was low. For the other two dimensions we got a very satisfactory value for political participation (coefficient value 0,763), therefore we grouped the two questions when analyzing the results. The value of the coefficient for the dimension of trust in institutions was marginally acceptable (0,57) but we still opted for the individual analysis of each question. Finally, we applied factor analysis, through which we detected a different grouping of the questions, as a grouping between the fourth, fifth and twelfth questions appeared.

The mean values for the sample as a whole along with their standard deviations were as follows:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Mean</th>
<th>Std. dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>V2 General trust</td>
<td>3.04</td>
<td>1.156</td>
</tr>
<tr>
<td>V3 General trust- negative</td>
<td>3.35</td>
<td>1.538</td>
</tr>
</tbody>
</table>

\textsuperscript{10} www.europeansocialsurvey.org/ [Access in 7-11-2014]
We observe that the measurement of generalized trust is rather low. The situation in the dimension of informal networks (questions V5, V6, V7) appears better. Trust in relatives is relatively low but devotion to family is very high and is accompanied by a relatively high importance of friendships. The satisfaction from the functioning of democracy in the country is rather low, as is the opinion on the decision making and functioning of local authorities and the feeling of security and satisfaction from the local community is also low (V10, V12 και V13). On the other hand, a question on whether more power to the local government could help improve the local economy displays a higher score, indicating hope. Finally, the dimension of political involvement received a quite high score, confirming that Greeks are more preoccupied than other Europeans with politics. (Sotiropoulos, 2006).

6. RESEARCH FINDINGS

The presentation of the results does not follow precisely the order of the questions in the questionnaire. This is because demographic characteristics of the respondents were at the end, so that respondents could concentrate in answering our questions.

The descriptive statistics (frequencies of the answers by question), provide the following insights:

Just 11% of the respondents definitely trust others, almost no one trusts absolutely whereas 35% show only partial trust. About one third of the respondents trust their relatives while 35% do not really trust them.

For 10% family is not central to their lives but 72% family is in the center of their thoughts. Most of the respondents (about 65%) spend a lot of time meeting and communicating with friends.

Regarding the functioning of democracy in the country, 60% of the respondents are little or not at all satisfied with only 6.7% of them indicating a high level of satisfaction.

A majority of 61% do not believe that local authorities take into account the citizens' opinions in their decision making process. The same picture emerges from the question on the level of satisfaction and feeling of security in the local community, where no one is perfectly satisfied and 61.3% are very or relatively unhappy.

Lastly, on the dimension of political participation, 66.7% discuss frequently about political issues or at least follows up political developments in the media while the percent of the politically indifferent is limited to under 7%.

6.1 t - test comparisons

Next, the answers were analyzed with the SPSS statistical program for the performance of t-tests, aiming to test the hypothesis of the difference of the means among sub-groups of the sample divided according to various demographical characteristics. The first test tries to answer the question of whether there are statistically significant differences in the social capital among the residents of urban areas on the one hand and suburban and rural areas on the other. The responses based on the residence of the respondent. Type (1) denotes suburban and rural and type (2) denotes urban residents. Using Levene's test we investigated the statistical significance of the observed differences, where a value of less than 0.05 confirms that the difference is significant at 95% or better.

The results are shown in Table 2 below:

| V4 General trust - mutual help | 3.72 | 1.247 |
| V5 Trust in relatives | 3.75 | 1.794 |
| V6 Importance of family | 5.91 | 1.029 |
| V7 Importance of friendships | 4.81 | 1.322 |
| V10 Satisfaction with democracy | 3.16 | 1.480 |
| V11 Potential for improvement in local community governance | 4.08 | 1.496 |
| V12 Satisfaction with local authorities | 3.00 | 1.273 |
| V13 Satisfaction and security in local community | 3.04 | 1.399 |
| Political involvement (grouped) | 5.22 | 1.328 |

11 Not presented here for space considerations. The questionnaire and the table of frequencies per question are available upon request by the authors.

12 SPSS 13.0 for Windows (2005), SPSS Version 13.0, Chicago IL (US): SPSS Inc.
Based on the results, we conclude that participation in informal networks is significantly higher in rural areas compared to urban residents (V7), as is the case of general trust in people (V2). The importance of family (V6) is also significantly higher in rural areas compared to urban ones.

In a further effort to test for differences in mean responses based on sex, no major differences were detected with some notable exceptions: political participation, the level of satisfaction with local community and the feeling of security were statistically different in favor of men.

The frequency analysis of the responses in question 13 showed that the only institution trusted by 50% of the respondents was the army, followed by trust in the Justice system and the church, as shown in Table 3, below:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Trust overall</th>
<th>Trust in Rural Areas %</th>
<th>Trust in Urban Areas %</th>
</tr>
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<tbody>
<tr>
<td>Justice</td>
<td>41,90</td>
<td>38,2</td>
<td>45,0</td>
</tr>
<tr>
<td>Church</td>
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<td>41,2</td>
<td>32,5</td>
</tr>
<tr>
<td>Government-parliament</td>
<td>2,70</td>
<td>4,8</td>
<td>0,8</td>
</tr>
<tr>
<td>European Union</td>
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<td>8,8</td>
<td>15,0</td>
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<tr>
<td>Army</td>
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<td>64,7</td>
<td>37,5</td>
</tr>
<tr>
<td>Police</td>
<td>24,30</td>
<td>29,4</td>
<td>20,0</td>
</tr>
<tr>
<td>Public Health system</td>
<td>5,40</td>
<td>1,9</td>
<td>10,0</td>
</tr>
</tbody>
</table>

It is worth noting that 4,9% of the respondents, according to their answers, do not trust any of the above institutions.

7. CONCLUSION

The general picture that emerges from the above findings is that the social capital stock in the east Thessaly area is at a rather low level. There is a positive element, and that is the high level of trust and participation in informal networks and in political participation, we must, however note that during the time of the survey the political developments were of crucial importance and interest was high.

On the negative side, the levels of trust in other people and in society and the community in general, coupled with the expressed low feeling of security, do not leave room for optimism for the future of the society and the economy. Moreover, the level of satisfaction with the functioning of the democracy at the national and the local levels appeared to be low. The lack of confidence in major institutions, with the only, not very comforting exception being the armed forces, generates concern for the immediate future. If we adopt Fukuyama's viewpoint, according to whom13 the existence of trust in the social network is a prerequisite for the social development which in turn will bring about economic growth, or

that of Stiglitz (Stiglitz et al., 2009), who considers that social capital is a basic ingredient for economic progress, then the reversal of the current economic depression seems very difficult.

The strong reliance on informal networks, according to Pichler & Wallace (2007) is an indication of weakness in the characteristics of a given society in the areas he studied, since in countries where family ties are dominant, it is more difficult for a lively citizens' society to emerge, as described in Putnam (1993, 2000).

In concluding, once the existence and importance of social capital becomes more widely accepted, and provided that the institutions in our country understand its added value in the fields of social development and economic growth, then the efforts to systematically monitor its levels will intensify, as will the efforts to enhance and grow the dimensions that constitute social capital.

The decisions for the necessary reforms in the political scene and in the social network must be taken and their results should be monitored through repeated measurements of the level of social capital. The superficial approach in measuring the impact of various measures, decisions and reform actions through opinion surveys of questionable value, cover up the true problems and offer only short term temporary gains. The transformation of a society and the structural reforms can be of value only through their acceptance and assimilation by the society in question. The key word in order for any changes to become incorporated in everyday life and bear fruit is the word trust. The promotion, the measurement and wider understanding of the concept of social capital, can and should be attempted in the fields of economics and sociology, opening up a new field in the area of human resources management. (Trigilia, 2001, Christoforou, 2005).

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Time Driven Activity Based Costing Applied In Hellenic Post Office

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ABSTRACT

The importance of Managerial Accounting has been proven for many years through the help it provides with the information that creates, so there can be a better understanding on how a company operates as a result of proper decisions. In this paper we will try to analyze one of the relative new methods of Managerial Accounting, the Time Driven Activity Based Costing. After we compose our theoretical frame that explains this model, we will pursue to apply this method based on our theory in a branch of the Hellenic Post Office. The results will give us information about the cost that is been assigned by the activities which use the company’s resources, which in our case are the employees, and furthermore we will discover the amount of capacity that is been used properly by these resources.

KEYWORDS

Management Accounting, Time Driven Activity Based Costing

JEL CLASSIFICATION

M41, M49

1. INTRODUCTION

Cost was and still is a permanent “headache” in the world of entrepreneurship. The consecutive effort to reduce cost as much as possible has always been one of the most important fields of study from the managers. During the last decades and specifically after the industrial revolution, there was a rapid development of companies, which it had created the solid ground for more wealth and income increase, but at the same time the use of new resources for production led to the substantial increase of expenditures. When this came to sight decisions had to be made and methods had to be established in order to trace and reduce cost.

Activity Base Cost (ABC) systems present a method in which cost is assigned in products or other cost objects based on how much these products or cost objects use the resources of production. Activity on the other hand is a procedure which the company uses to produce something. The more the activities the more the cost. So the essence of this method lies in the assumption that activities are the reason that cost is been created. In order for a system like that to be implemented has to be done in various stages of implementation. The privileges of ABC are reflected from the complicated procedure of its implementation. All the information that needs to be accumulated from the company’s resources regarding cost and how these resources are occupied by the various activities, sometimes reject the decision of implementing this model. On the other hand this utilities and the emphasis in detail is what gives these systems the liability of their results.

Time Driven Activity Base Costing was developed with the thought to overcome the difficulties of the ABC implementation. This model presents a different and more practical method for cost tracing in products or other cost objects. The system is based on measuring the time of the activities which they represent the springboard of cost allocation. The important issue with this method is that it can trace the practical capacity so there can be found that, in what percentage the company’s resources are used correctly, and if so which activities which does not add value and only create cost are traced. Despite all the positive characteristics and the details of these methods (ABC & TD – ABC), most companies still remain loyal to the usage of traditional costing systems.
2. LITERATURE REVIEW

Cost is the cash amount that is been sacrificed for goods and services that are expected to bring future or current incomes to the company (Mowen et al. 2014). Managers pursuit to reduce cost in order to increase the company’s efficiency. Some of the most known traditional costing systems are: The absorption costing; in this method it makes no difference if the cost is variable or not. Variable cost costing; in this system the elements of the product cost change with the production stage. Job – order costing; this system is applied in companies where in different periods we have large production of different kind of products (Garrison & Noreen 2010). Process costing; the fundamental characteristic of this method is that we have production of large quantities of products that are similar to each other and not specific orders.

According to Cooper & Kaplan (1998) Activity Based Cost systems can provide great help in a more accurate study of the production process compared to traditional cost systems and that’s the reason they provide detailed information regarding cost.

Carolfi (1996) stated that ABC systems provide detailed information about the activities that add value to the product as well as to those which do not. With this information the company can reduce cost by planning products and processes which consume less activity resources, emphasizing at the same time on eradicating the activities which do not add value to the product. Furthermore Borthick (1995) makes clear that activities such as measuring, control and displacement increase the length of the production process and with the current cost systems there can be a reduce on the production circle aiming in minimizing the delay.

According to Agliati (2002) the basic characteristic of cost systems in a multinational company can be explained by four factors: The structure of production cost of the product, the methodology that is been used for cost tracing, and the allocation methods which support the comparisons between service cost and support cost.

Roztocki & Weistroffer (2005) propose a new frame of work for the evaluation of information by implementing analyzed data based on ABC & Fuzzy systems. These systems rely on the thought that they will be useful for companies of under development economies, where the economic environment is unstable and exists a lack of historical accounting data.

Anand (2004) presented a practical application of ABC. Issues regarding the implementation of ABC were taken under consideration. These issues had to do with the level of success regarding the stage of implementation of the ABC and the factors which affects it. From the 53 companies that were examined, 23 used ABC systems for the billing the operational feedback of their products. Companies that implemented these systems had a significant advantage in tracing the most accurate information about cost compared to companies that had not implemented ABC systems.

Kaplan & Anderson (2007) presented Time Driven Activity Based Costing. This method demands fewer procedures than the common ABC and yields more accurate information about cost per product unit.

According to Bruggeman & Everaert (2007), TD – ABC isolates different characteristics of each activity by using time equations according to which the time consumed by one activity is an operation of different utilities. According to the equation time and cost of an activity equals the cost of the object based on its characteristics. The method is been comprised by six stages:

1. Identify of used recourses and activities
2. Define cost of the resources
3. Calculation of the practical capacity of every source
4. Calculate unit cost per time
5. Calculate the necessary time units of each activity
6. Calculate cost of every transaction.

Terungwa (2012) studied the practical application of TD – ABC in small service companies and analyzed the profitability of various customers. The purpose of the study was to make clear if the implementation of TD – ABC in small companies can enhance the efficiency by causing more profit. For making this study happen a restaurant was randomly selected and a questionnaire and interview were used for gaining data. The result showed that using TD – ABC compared to the existed methods already, td – abc provides more data and information regarding cost, and that managers of small companies can use time equations to calculate the necessary time of the activities so they can improve the costing procedure while increasing profitability.

In an article Monroy et al. (2012) there was a comparison between three methods: ABC, TD – ABC and Lean Accounting. The comparison was made based on what information each method
provides and impact do these informations have. The conclusion was that in Lean Accounting decision are made based on the value stream whilst in ABC are made in the stage that every product is and in the TD – ABC decisions are made based on the status of the product and the stage of the implementation.

Ilhan et al. (2009) studied the profitability of different groups of customers in a 4 star hotel in Turkey by implementing TD – ABC. The conclusion was that profitability varied in different groups and a determinant part on this had the implementation of TD – ABC compared to the traditional cost system that had already applied.

3. ABC AND TD-ABC THEORY

3.1 ABC

The effect ABC had since it was first presented in the 80s, led to substantial changes in regard to the already existed traditional cost systems. According to the traditional cost systems a large cost pool was used and based on that the cost allocation took place. During the production process the calculation of direct labor cost was the most common choice for overhead cost allocation, since it was a big part of production cost. There was this thought that a big correlation between direct labors work, total production units and overhead cost, existed.

When companies started to create more products and services, an abundance of production appeared. That inevitably caused a rise to overhead cost because now companies had to invest in production planning, hiring special qualified mechanics and product designers (Garrison et al. 2010).

ABC managed to correct mistakes in overhead cost allocation, by interpreting an activity as a cost driver. According to this method any procedure that consumes overhead resources constitutes an activity in the production process. The bottom of the ABC system lies on the idea that a product creates cost by causing activities which on their turn create cost. This leads us to the conclusion that since the cost is been caused by an activity, a complex in design product will make up a larger part of cost allocation. Next it will assign the activity cost on products, orders and clients based on the quantity of every consumption of each operational activity.

The implementation of an ABC system takes place in these stages (Hilton 2008, Garrison & Noreen 2010):

3.1.1 First Stage ABC

1. Activities identification, cost pool of activities and quantity of activities.

In this stage the activities that will make up the backbone of the system are identified. The resources and the activities are shared out in five categories (Hilton et al. 2008):

- Resources that were obtained and activities which carried out for specific product units or service.
- Resources that were obtained and activities that carried out so a group of similar products was able to be created.
- Resources that were obtained and activities which carried out for the production and sale of one specific product or service.
- Resources that were obtained and activities which carried out for the service of specific customers.
- Resources that were obtained and activities that carried out so they can provide the general capacity and warehouse for the production of goods and services.

2. Assign overhead cost to activities cost pools.

In the ABC systems the process of assigning overhead cost derives from the company’s general ledger. The methods for this procedure are three: Direct, driven, and allocated. The precision of the results is better during the direct and driven method. Also the cost pool activity provides more information that helps for specific decision to be made (Noreen 1991).

3.1.2 Second Stage ABC

1. Calculation of activities indexes.
The activities indexes represent the total cost of each activity, towards the total activity that the company requires so to be able to produce its current product and then to supply it to the customers.

2. Assign overhead cost to cost objects.
   Here the activity indexes assign with overhead cost the products and services. Each product or service is been assigned depending on how much quantity of the activity has consumed multiplied by its activity index.

3.2 TD – ABC

TD – ABC was designed as a simple version of its predecessor ABC. The thought was to simplify the complexity of gathering data. For every resources group two variables are calculated: Cost per time unit of supply resources and how many times the units of the products consume the available resources (Kaplan & Anderson 2004). The implementation process of the TD – ABC comprised by 6 steps (Kaplan & Anderson 2004):

1. Identify several resources groups that carry out the activities
2. Calculate the cost of each group
3. Calculate the practical capacity of each resources group.
4. Calculate the unit cost of each group by dividing the total cost of resources group with the practical capacity.
5. Define the time needed for each activity with different time drivers.
6. Multiply unit cost with the time needed, for the tracing of the cost in the cost objects.

Companies usually separate cost in direct and indirect, but if we separate cost in three categories by adding overhead cost then their relationship with cost objects is more suitable. Indirect cost can be measured immediately through company’s ERP system by gathering continuous information about cost object, indirect cost were the resources consumption is not traceable by first sight the activity based cost systems takes part as tools for that matter. Overhead cost that is not caused by cost objects such as clients or orders but remain crucial source of information for the company, can be calculated by TD – ABC.

Indirect cost is measured and allocated in cost pools. The cost of these used resources is actually the indirect cost compared with the cost object such as clients and orders. The cost objects typically are clients and products, so the starting points for an ABC model are those. TD – ABC is a simple solution specified in relation with the allocation of resource pools. The characteristics of this sector are that cost is not measured. The basic source here are the employees which produce services supported by the systems they use (computers etc.). The resources cost that they have available is calculated for each resource pool.

3.2.1 Time Drivers

Time Drivers are used for the calculation of the usage of resources that is been done by the cost objects. The epitome of TD – ABC lies in the fact that the measuring of resources consumption happens based on time. The capacity of a resource pool can be measured in minutes, hours or even years, with the total of those representing the capacity of the resource pool. There is a difference between paid capacity and practical capacity. For the practical capacity to be calculated the time considered for employees holiday absence, disease and matters of this nature, are not included in the resources pool, but are taken under consideration by assuming a practical capacity of 80% (Kaplan & Cooper 1998). In this model only the transaction drivers are been considered which are mostly time indexes and they are determined in advance.

Time driver can have three types as variables (Bruggeman et al. 2005):

1. Continuous variables: The weight of a pallet or a distance in km.
2. Isolated variables: The number of orders.
3. Index variables: The type of customer (old or new), the type of order (regular or express).

3.2.2 Activities

There are three types of activities:
1. The case where the resource pool is only one activity and one driver.
2. The case where a number of sub activities exists.
3. The complex situation in which the sub activities cannot be identified immediately but they have to be “designed” by a specific method studying the use of resources by the resource pool.

This model reveals us that a process usually comprised by several sub activities but not all steps of each reaction in a procedure are applied. In every process any likely sub activity has to be traced and explained. Also there is a fixed time for every activity and sub activity in which this time has to be assumed or even better measured.

3.2.3 Mathematical Formula

The mathematical formula of this system depends on the characteristics of every activity of the company as we mentioned (Bruggeman et al. 2005):

Cost of event E of activity A = t A,E * Ci

Ci = cost per time unit

Then with the use of time equations the time that event E of activity A consumes shows us the function of their several characteristics. In the end the equation has this form (Bruggeman et al. 2005):

\[ t_{A,E} = \beta_0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + ... + \beta_P * X_P \]

\[ t_{A,E} = \text{time needed for the event E of activity A} \]

\[ \beta_0 = \text{fixed time for activity A} \]

\[ \beta_1 = \text{time consumption of a time unit of driver } X_i \]

\[ X_i = \text{the time drivers} \]

\[ P = \text{the number of time driver that define the time needed for activity A}. \]

3.3 ABC & TD – ABC Comparison

Comparing the two methods we cannot clearly say which one is better because that depends from the circumstances of each company, the regulations of the country that the company carry out its activity, the kind of company and of course the competitive environment. Regarding the cost tracing we can say that the basic difference between the two lays on the element of unused capacity which TD – ABC is capable of measuring it whilst ABC cannot. The time drivers of TD – ABC play a significant part while the cost drivers of ABC are not adequate. Also ABC requires more time for any kind of upgrade of its system in any new circumstances that may appear, whilst TD – ABC can simply integrate any change by adding new driver in the time equations.

4. RESEARCH METHOD AND FINDINGS

Our method is based on theoretical frame we mentioned earlier. Under personal observation and interview of the manager of the current office, we managed to trace the basic activities. After one
month of observation we measured the time of each activity to lead us to the creation of the necessary
time equations and also calculated the practical capacity which it will lead us also to the final results
regarding cost and how much the resources which are assigned with cost are been used. This practical
application will be based in the cost created by the employees and results will help us to conclude in
what percentage the practical capacity concurs with the paid capacity, as well as if and how much of
the unused capacity exists.

4.1 Practical Application

Our first step is to divide the three sectors in which activities are been carried out:

1. Back Office
2. Front Line Office
3. Gathering of Arrivals & Shipping Office

The paid capacity of the current post office is 480 (8 hrs * 60min per hour) minutes per day. This of
course is practical impossible because we have lunch breaks or maybe some kind of malfunction
that can reduce this capacity time. Since there is no inside regulation about breaks, we will assume
that the practical capacity is 80% of the paid capacity (Kaplan & Anderson 1998). Thus our
practical capacity is 480min * 80% = 384 minutes per day or 11,520 minutes per month per
employee.

4.2 Back Office

Back office is responsible for the pickup and the filling of post objects, which they are comprised of
simple packages and registered with bar code. We also have the registered epistles. The fixed time
here is about 5 minutes and is the duration needed for the unload of the truck. Then the filling takes
place. Simple packages take about 2 minutes and registered about 5 minutes. The filling of the
registered epistles lasts about 3 minutes. So for the back office we have three main activities, the
filling of simple packages and the filling of registered packages and registered epistles.

The cost of this sector of activities is 5,162.69 Euros per month.

During the day we have:

1. Simple packages: 100 approximately, hence 3,000 monthly
2. Registered packages: 15 approximately, hence 450 monthly
3. Registered epistles: 80 approximately, hence 2,400 monthly.

Having this information we can proceed with our calculations:

Cost per time unit = cost of sector of activities / practical capacity = 5,162,29 / 23,040 (11,520 * 2
employees) = 0.22 Euros per minute.

Our fixed time is 5 minutes so our time equations will be:

- Time for 1st activity: fixed time + time for filing simple packages = 5min + 2min = 7 * 3.000 (monthly quantity) = 21,000 min per month.
- Time for 2nd activity fixed time + time for filling registered packages = 5min + 5min = 10 * 450 (monthly quantity) = 4,500min per month
- Time for 3rd activity = fixed time + time for filling registered epistles = 5min + 3min = 8 * 2,400 (monthly quantity) = 19,200 min per month.

Since we know the cost per unit and the time of each activity we can calculate the cost: Cost of
activity = time of activity * cost per time unit. Hence:
• Cost of 1st activity = 7min * 0.22 Euros = 1.54 Euros * 3.000 (monthly quantity) = 4.620 Euros per month
• Cost of 2nd activity = 10min * 0.22 Euros = 2.2 Euros * 450 (monthly quantity) = 990 Euros per month
• Cost of 3rd activity = 8min * 0.22 Euros = 1.76 Euros * 2.400 (monthly quantity) = 4.224 Euros per month.

If we sum the above calculations we will see that whilst our practical capacity is 23,040 minutes the total minutes required for the activities here are 44,700. Also the cost of the work capacity (employees) is 5,162.29 Euros but the cost created is 9,834 Euros. The variance of these is quite impressive.

4.3 Front Line Office

In this sector we have two types of activities: A) activities concerning post objects, b) activities of financial nature.

Post objects activities.

These activities deal with take & service of epistles and packages. During service of epistles and packages, we separate them in simple and registered also. Hence we have one activity of taking simple epistles one of registered and one activity of taking simple and registered packages. At the taking of simple packages the employee weighs the package and prepares it for shipment, this takes about 3 minutes. For simple epistles the process is the same but due to smaller size the duration is 2 minutes. In registered mail the process is the same but because of the scanning procedure it takes a little longer, about 4 minutes for packages and 3 for epistles. For the service of the post objects the employee after taking the notice ticket from the client, brings to him the current object. For simple packages the duration is about 4 minutes. Again for registered mail with the scanning process the time increases a bit in 6 minutes. If we have a package or epistle with C.O.D (cash on delivery) the time increases in 9 minutes.

The cost of this sector is 5,610.76 Euros per month and the practical capacity since we have four employees, is 46,080 minutes (11,520 * 4).

During the day for taking post objects we have:

1. Simple packages: 200 approximately, hence 6,000 per month
2. Simple epistles: 100 approximately, hence 3,000 per month
3. Registered: 350 approximately, hence 10,500 per month.

Regarding post objects for service the quantity is the same as the one in the back office plus the C.O.D. So we have:

4. Simple packages: 100 approximately, hence 3,000 per month
5. Registered packages: 15 approximately, hence 450 per month
6. Registered epistles: 80 approximately, hence 2,400 per month.
7. C.O.D: 20 approximately, hence 600 per month.

4.4 Financial Activities

1) First activity has to do with issuing order for Eurogiro payment. This service is about e-transferring funds through cash or deposit in an account. The whole process of identification and validation takes lasts about 3 minutes.
2) Secondly we have sending money and make payments through Western Union. The payment to the beneficiary is done through cash for domestic or abroad payments. There is a unique 10 digit code which the client receives after the validation of his id card etc. The time for this activity is about 5 minutes.
3) Third activity, payment for work insurance. This concerns part time working people (free lance or employers), which they a certain amount to the state in order to have insurance. Including the payment and the validation the process lasts 4 minutes approximately.

4) Next we have the simple post domestic checks. The client fills the required information on the sheet provided by the employee and after the validation the check is been sealed. Time is about 2 minutes.

5) Then we have the domestic post check with C.O.D. The process here is similar with the simple check plus that the employee after the validation has to take the invoice from a special deposit box. The duration is about 5 minutes.

6) As separate activity is considered the by phone post checks. This service is for people that wish to send money from a current post office to the recipients address. Here the employee delivers the phone check Money Express or Money Home to the client and after the fulfillment of all information and the validation the activity concludes. Time about 3 minutes.

7) Next activity is abroad check, simple and C.O.D. With these checks the client can send and receive money from countries that have contracted bilateral deals. Here also we have a process of fulfilling the necessary information by the client and then the validation by the employee. Time 4 minutes approximately.

8) Further more we have bill payments. These bills concern electricity bills, phone bills etc. The employee collects the invoice by the client and the amount of payment after checking the date so the payment date is not expired. After the validation and payment the employee gives the right receipt to the client and concludes the activity. Time 2 minutes.

9) Opening a Giro account. The Giro account is a charge account and its owners can be persons or companies. This account has no bankbook but a simple card like a credit card where all the account’s information is written down. The whole process of opening this account takes about 7 minutes.

10) Last activity is withdrawn and deposit money in a Giro account. The client proceeds with the card that validates he has opened a Giro account and after the validation by the employee, the employee checks the balance of the account and the client signs the withdraw or deposit receipt. Time about 4 minutes.

Until now we have traced 17 activities in the front line office. The fixed time for all activities is 2 minutes and has to do with the software preparation for any kind of transaction. During the day for financial activities we have:

1. Eurogiro: 2 per day approximately, hence 60 per month
2. Western Union: 1 per day approximately, hence 30 per month
3. Work insurance: 2 per day approximately, hence 60 per month
4. Simple domestic post checks: 3 per day approximately, hence 90 per month
5. Simple domestic post checks C.O.D: 8 per day approximately, hence 240 per month
6. Phone checks: 4 per day approximately, hence 120 per month
7. Abroad checks: 2 per day approximately, hence 60 per month
8. Electricity etc. bills: 2 per day approximately, hence 60 per month
9. Opening Giro account: 1 per approximately, hence 30 per month
10. Withdraw & deposit from Giro account: 2 per day approximately, hence 60 per month.

With this information we have:

Cost per time unit: 4.300, 47/ 34.560 = 0.12 Euros per minute

Fixed time is 2 minutes, so our time equations are:

• 1st activity = 2 + 3 = 5 minutes * 6.000 (monthly quantity) = 36.000 minutes per month
• 2nd activity = 2+ 2 = 4 minutes * 3.000 (monthly quantity) = 12.000 minutes per month
• 3rd activity = 2 + 4 = 6 minutes * 10.500 (monthly quantity) = 63.000 minutes per month
• 4th activity = 2 + 3 = 5 minutes * 3.000 (monthly quantity) = 15.000 minutes per month
• 5th activity = 2 + 4 = 6 minutes * 450 (monthly quantity) = 2.700 minutes per month
• 6th activity = 2 + 6 = 8 minutes * 2.400 (monthly activity) = 19.200 minutes per month
• 7th activity = 2 + 9 = 11 minutes * 600 (monthly quantity) = 6.600 minutes per month
8th activity = 2 + 3 = 5 minutes * 60 (monthly quantity) = 300 minutes per month
9th activity = 2 + 5 = 7 minutes * 30 (monthly quantity) = 210 minutes per month
10th activity = 2 + 4 = 6 minutes * 60 (monthly quantity) = 360 minutes per month
11th activity = 2 + 2 = 4 minutes * 90 (monthly quantity) = 366 minutes per month
12th activity = 2 + 4 = 6 minutes * 240 (monthly quantity) = 1.440 minutes per month
13th activity = 2 + 3 = 5 minutes * 120 (monthly quantity) = 600 minutes per month
14th activity = 2 + 4 = 6 minutes * 30 (monthly quantity) = 210 minutes per month
15th activity = 2 + 2 = 4 minutes * 60 (monthly quantity) = 240 minutes per month
16th activity = 2 + 7 = 9 minutes * 60 (monthly quantity) = 540 minutes per month
17th activity = 2 + 4 = 6 minutes * 60 (monthly quantity) = 360 minutes per month.

Since we know the cost per time unit and the time equation of each activity we can calculate the cost: Cost = time of activity * cost per time unit:

- Cost of 1st activity = 6 * 0.12 = 0.72 * 6.000 = 4.320 Euros
- Cost of 2nd activity = 4 * 0.12 = 0.48 * 12.000 = 5.760 Euros
- Cost of 3rd activity = 6 * 0.12 = 0.72 * 63.000 = 45.360 Euros
- Cost of 4th activity = 5 * 0.12 = 0.6 * 15.000 = 9.000 Euros
- Cost of 5th activity = 6 * 0.12 = 0.72 * 2.700 = 1.944 Euros
- Cost of 6th activity = 8 * 0.12 = 0.96 * 19.200 = 18.432 Euros
- Cost of 7th activity = 11 * 0.12 = 1.32 * 6.600 = 8.712 Euros
- Cost of 8th activity = 5 * 0.12 = 0.6 * 300 = 180 Euros
- Cost of 9th activity = 10 * 0.12 = 1.20 * 300 = 360 Euros
- Cost of 10th activity = 6 * 0.12 = 0.72 * 360 = 2.592 Euros
- Cost of 11th activity = 4 * 0.12 = 0.48 * 360 = 172.8 Euros
- Cost of 12th activity = 6 * 0.12 = 0.72 * 1.440 = 1036.80 Euros
- Cost of 13th activity = 5 * 0.12 = 0.6 * 600 = 360 Euros
- Cost of 14th activity = 6 * 0.12 = 0.72 * 360 = 259.20 Euros
- Cost of 15th activity = 4 * 0.12 = 0.48 * 240 = 115.20 Euros
- Cost of 16th activity = 9 * 0.12 = 1.08 * 270 = 291.6 Euros
- Cost of 17th activity = 6 * 0.12 = 0.72 * 360 = 259.2 Euros

If we sum the above calculations we will see that whilst our practical capacity is 46.080 minutes the total minutes required for the activities here are 159.090. Also the cost of the work capacity (employees) is 5.610,76 Euros but the cost created is 99.154,8 Euros. The variance here also is very impressive.

4.5 Gathering of Arrivals & Shipping Office

In this office the activities comprise of advancing the epistles to the front line office as well as gathering all the post objects that have been collected by the clients to be organized and ready for shipment. The fixed time for these activities is approximately 4 minutes and it’s the time needed for the post objects to be organized in certain areas of the office so to be ready for shipment and for service to the clients.

In simple packages the gathering time is about 1 minute whilst in registered epistles about 2 minutes. The same times goes for gathering cost objects for the preparation of the shipping. The cost of this sector is 4.829 Euros.

During the day we have:

1. Simple packages for service, 70 hence 2.100 per month
2. Registered epistles for service, 80 hence 2.400 per month
3. Simple packages for shipping, 200, hence 6.000 per month
4. Epistles for shipping 450, hence 13.500 per month.
Now we can proceed to our calculations: Cost per time unit = cost of activities / practical capacity = 4.829 / 23.040 (11.520 * 2 employees) = 0.20 Euros per minute
The fixed time is 4 minutes so we have:
• 1st activity = 4 + 1 = 5 * 2.100 = 10.500 minutes per month
• 2nd activity = 4 + 2 = 6 * 2.400 = 14.400 minutes per month
• 3rd activity = 4 + 1 = 5 * 6.000 = 30.000 minutes per month
• 4th activity = 4 + 2 = 6 * 13.500 = 81.000 minutes per month
Now that we have the time equations we can calculate the cost:
• Cost of 1st activity = 5 * 0.20 = 1 * 2.100 = 2.100 Euros
• Cost of 2nd activity = 6 * 0.20 = 1.2 * 2.400 = 2.880 Euros
• Cost of 3rd activity = 5 * 0.20 = 1 * 6.000 = 6.000 Euros
• Cost of 4th activity = 6 * 0.20 = 1.2 * 13.500 = 16.200 Euros.
If we sum the above calculations we will see that whilst our practical capacity is 23.040 minutes the total minutes required for the activities here are 135.900. Also the cost of the work capacity (employees) is 4.829 Euros but the cost created is 9927.180 Euros. The variance here again is very impressive.

5. CONCLUSION

Between ABC & TD – ABC there is a difference regarding the simplification of gathering data. Despite ABC uses very detailed methods on tracing cost, is difficult and requires a lot of time to for its implementation. TD – ABC came to make this fact easier so it can be a considerable choice by managers.

In this case study we wished to show if truly the TD – ABC application is easy. The basic components of implementation which are the activities were easily tracked down personal observation as well as interviews with the high staff. Of course in more organized company information such of these can be collected easier by the company’s ERP system. Based on our theory we were able to time measure the activities and form our time equations so further calculate the cost. With our calculations we were able to reveal the practical capacity, and we can conclude from the results that the practical capacity is at minimum rate compared to the capacity needed for the activities to be carried out. This means that the staff yields work more than three times their practical capacity which means in the current office exists a serious lack of staff. Regarding cost we can also report that with less cost created in the company (employees), is less than the cost created by the activities. Somebody can think of that like with less cost we carry out activities that costs three times more, but in the current status that is not so, because due to the lack of staff a serious problem of improper service to the clients is created as well as inexpediency in performance.

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APPENDIX

Payroll

<table>
<thead>
<tr>
<th>Position</th>
<th>Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Back office employee</td>
<td>2.442,60</td>
</tr>
<tr>
<td>Back office employee</td>
<td>2.719,69</td>
</tr>
<tr>
<td>Front line office employee</td>
<td>1.1369,19</td>
</tr>
<tr>
<td>Front line office employee</td>
<td>1.311,27</td>
</tr>
<tr>
<td>Front line office employee</td>
<td>1.620,01</td>
</tr>
<tr>
<td>Front line office employee</td>
<td>1.310,29</td>
</tr>
<tr>
<td>Gathering of Arrivals &amp; Shipping Office employee</td>
<td>2.220,90</td>
</tr>
<tr>
<td>Gathering of Arrivals &amp; Shipping Office employee</td>
<td>2.608,10</td>
</tr>
</tbody>
</table>
ABSTRACT
In this study Greek unemployed people’s general attitude to working across organizational boundaries is examined. In addition, the survey tries to supplement the shortage of relevant researches in Greece and it attempts to examine the employment mobility of Greek unemployed job seekers. The sample consists of 400 Greek unemployed people, who expressed their perceptions regarding occupation mobility and more specifically regarding boundaryless mindset careers. Boundaryless Career Attitudes Scale, constructed by Briscoe & Hall (2006) was used in this study. Analyse Factorielle des Correspondences was used for the analysis of the data. The results revealed a strong differentiation among respondents and showed positive, negative, or neutral attitudes towards boundaryless mindset career.

KEYWORDS
Employment, Boundaryless mindset

JEL CLASSIFICATION CODES
M41, M49

3. THEORETICAL FRAMEWORK

In the past the working landscape was characterized by traditional forms of employment such as full and stable employment in an organization for a lifetime (Cappelli, 1999). Nowadays the concept of career seems to get further and further from the old linear model moving towards a more dynamic and complex model of career (Cameron, 2009). This modern concept of career has influenced many theorists, who have produced contemporary career frameworks and models. The intelligent career model (Arthur, Claman & DeFillippi, 1995), is one of them and also the theoretical basis for the construction of Boundaryless Career Attitudes Scale (Briscoe, Hall & DeMuth, 2006).

4. RESEARCH METHODOLOGY

2.1 The sample

The sample consists of 400 Greek unemployed people, who expressed their perceptions regarding occupation mobility and more specifically regarding boundaryless mindset careers.

2.2 The instrument

Boundaryless Career Attitudes Scale consists of two scales related to boundaryless career attitudes, where the first one is designed to measure boundaryless mindset or in other words one’s general attitude to working across organizational boundaries (Briscoe et al., 2006, p. 33) and consists of eight statements. (e.g. mset_q_20: I like through my work to have the opportunity to learn something new, mset_q_21: I like working on projects with people across many organizations, mset_q_22: I enjoy job assignments that give me the opportunity to work outside of a single organization mset_q_23: I like to undertake work tasks that require me to work in other job positions that exist within an organization,
mset_q_24: I like to work with people outside a single organization, mset_q_25: I like jobs that require me to interact with people working in other organizations or businesses, mset_q_26: I like to seize opportunities that allow me to work outside of a single organization, mset_q_27: I am open in new job experiences and situations).

To analyze the data we used Correspondence Factorial Analysis (Benzecri, 1973). By using this type of analysis we manage to almost entirely describe the phenomenon with the help of a smaller number of new composite independent variables, the so called factors. These factors, which take the form of axes, vertical by two, are the factorial axes and they are created by the formation of groups of the initial variables. The result of this process is that the search for relations among the variables becomes all the more revealing.

The results of the Factorial Correspondence Analysis are interpreted in the first factorial level, the one created by the two first factorial axes.

The indices used by interpreting the results of the particular factorial analysis of correspondences, are the familiar indices ‘inertia’, ‘contribution’ and ‘correlation’. These indices allow us to immediately discern the most important and determining variables or objects, which contribute to the creation of factorial axes. We interpreted the results of this factorial analysis by means of inertia, which every factorial axis explains, and finally by means of correlation and contribution (Anastasiadou and Papadimitriou 2001; Anastasiadou and Anastasiadis, 2011a; Anastasiadou, 2011b). M.A.D. program created by Karapistolis (2000) was used for this specific analysis and it informs both for the quality of appearance and the contribution of variables’ attributes to the construction of factorial axes, thus the items/variables that contribute to the greatest degree to the construction of the axes, their graphs and their factorial planes.

5. RESULTS

Interpretation of the first factorial axis e1: The first factorial axis e1 interprets 46.67% of the total data dispersion (Diagram 1). Moving on to the axis from left to right we note the gradation of the respondents’ stance. Initially we observe a negative stance concerning not only the utilization of opportunities offering them the possibility to become active even outside the working environment of an institution or business (mset_q_261) (Cor=650, Ctr=86), the involvement in projects with people coming from different institutions or businesses (mset_q_211) (Cor=513, Ctr=81), the assignments requiring interaction with people working in other institutions or businesses (mset_q_251) (Cor=617, Ctr=81) but also the collaboration with people outside a single organisation or business (mset_q_241) (Cor=592, Ctr=71). Additionally, the questionnaire takers do not have a clear attitude as to whether they like to be given the possibility to learn new things within their work (mset_q_202) (Cor=430, Ctr=45).

Then we come across expressions of intensely negative attitudes concerning the potential feelings of enjoyment, deriving from being assigned duties, which allow them to work outside the premises of an institution or business (mset_q_221) (Cor=718, Ctr=81) and assuming duties, which require them to work in other posts too within an institution or business (mset_q_231) (Cor=554, Ctr=45). On the right side of the axis we find respondents, who like to exploit opportunities which offer them the possibility to work outside the premises of an institution or business (mset_q_223) (Cor=596, Ctr=51), who like working with people outside a single institution or business (mset_q_243) (Cor=720, Ctr=69), who like projects requiring them to interact with people working in other organisations or businesses (mset_q_253) (Cor=765, Ctr=75) and finally, they like assuming duties which dictate that they work in other posts too existing in an institution or business (mset_q_233) (Cor=515, Ctr=50).
In greater detail, on the left of the first factorial axis there are the classes determining the absolutely negative attitude of the respondents towards work outside the organizational frame and anything concerning assuming responsibility, duties or taking initiative within and without the work place. On the contrary, on the right of the first factorial axis there are the classes, which define the entirely positive mentality of the participants in the survey on labor mobility. Namely, the arrangement of the attitudes on the first factorial axis defines the divergence of work culture in the work place. Thus, we may assume that the first axis conveys a new composite variant, which determines the true divergence in the mobility culture.

We can therefore deem that the first axis expresses a new composite variable, which defines the differentiation of the culture mobility of the participants regarding work within and without organizational boundaries.

Interpretation of the second factorial axis e2: As we applied the Factorial Analysis of Correspondences we observe that the second factorial axis, which interprets 16,41% of total dispersion (Diagram 2) differentiates the respondents who are not in a position to accurately determine the role of the consolidated mentality of labor mobility from those who have a negative attitude in order to break free, and get out of the restrictive limits of the institution or business where they are professionally active.
More elaborately, on the left of the first factorial axis those participants are lined up, who do not have a crystallized view as to how much they like work that requires them to interact with people, who work in other organizations or businesses (mset_q_252) (Cor=634, Ctr=143) as well as how much they like to exploit opportunities, which offer them the possibility of becoming active outside the working environment of an institution or business (mset_q_262) (Cor=405, Ctr=95), how much they enjoy being assigned duties, which allow them to work outside the premises of an institution or business (mset_q_222) (Cor=352, Ctr=70), how much they like assuming duties which require of them to work in different posts within an institution or business (mset_q_232) (Cor=320, Ctr=57) and how much they like working in projects with people from different institutions or businesses (mset_q_212) (Cor=236, Ctr=42). On the right of the axis those respondents are lined up, who hold a negative stance as to whether they like projects, which demand of them to interact with people working in other institutions or businesses (mset_q_251) (Cor=217, Ctr=81).

We note that the arrangement of the perceptions on labor mobility begins with the lack of view as to the wish to interact with people of another work environment outside the institution or business developing new relationships and collaborations, participating in projects, undertaking responsibilities, to end up in denying the possibility of interacting with employees in other institutions or businesses. Thus, the arrangement of perceptions in the first factorial axis highlights a new factor, which can be considered as determining of the degree of neutrality in mobility culture.

First factorial plane e1 x e2: The first factorial plane e1x2 explains (Diagram 3) the 63.08% of total inertia – information, a particularly satisfactory percentage. Due to the fact that the first factorial axis juxtaposes the extreme cases and the second the one in the middle, we observe that the appearance of the cloud of the first factorial level takes the form of a parabola, which means we have the Guttmann case.

In the level e1xe2 in the extremes of the parabola we find the extreme situations while in the concave the medium ones.
Indeed, towards the endpoints of the parabola the stances of the participants in the survey are contrasted, the negative attitudes towards labor mobility on the left part, opposite the positive stances regarding the willingness for mobility both within and without the organization on the right. The cases in the middle are in the minimum of the curve where we locate the neutral attitudes regarding the mentality of boundaryless career. Between the endpoints and the minimum of the Guttmann parabola from the left to the right we find the negativeness of the respondents and the positive attitude. In the area of the minimum and around the center of gravity there are the neutral attitudes regarding the labor mobility culture.

More specifically we discern the creation of three clouds in the four quadrants clearly demarcated. Each cloud includes a series of variables, where the stances of individuals towards labor mobility are evidently imprinted.

In the first quadrant (e1 + e2+) we find participants in the survey, whose statements mset_q_233, mset_q_253, mset_q_232, mset_q_263, mset_q_213, demonstrate that they like to undertake tasks requiring them to work in other posts of the organization or business where they already work (mset_q_233) (Cor=515, Ctr=50), they like tasks, which require them to interact with people working in other institutions or businesses (mset_q_253) (Cor=765, Ctr=75), they like to cooperate with people outside a single organization or business (mset_q_243) (Cor=740, Ctr=69), they enjoy undertaking tasks which allow them to work outside the premises of an institution or business (mset_q_223) (Cor=596, Ctr=51), they like to utilize opportunities which allow them to become active not only inside but also outside the working environment of an organization or business (mset_q_263) (Cor=765, Ctr=57), and they like to work in projects with people from different institutions or businesses (mset_q_213) (Cor=653, Ctr=49).
In the second quadrant \((e_1-, e_2+)\) we find these people, whose attitudes towards boundaryless career are expressed in properties mset_q_251, mset_q_211, mset_q_241, mset_q_261, mset_q_221, mset_q_202, mset_q_231. More specifically, we observe statements conveying dislike to tasks requiring interaction with employees of other organizations or businesses (mset_q_251) (Cor=617, Ctr=81), they don’t like working in projects with people coming from different institutions or businesses (mset_q_211) (Cor=513, Ctr=59), they don’t like cooperating with people outside a single institution or business (mset_q_241) (Cor=592, Ctr=71), they don’t enjoy being assigned duties, which allow them to work outside the premises of an organization or business (mset_q_221) (Cor=718, Ctr=81), they have a neutral stance regarding if they like learning new things through their work (mset_q_202) (Cor=430, Ctr=45), they do not like undertaking tasks which require them to work in other posts within an organization or business apart from their own (mset_q_231) Cor=554, Ctr=45).

In the third \(( e_1-, e_2- )\) and fourth \((e_1+, e_2+\) quadrant we observe the team whose attitudes concerning boundaryless career are displayed by properties mset_q_212, mset_q_232, mset_q_222, mset_q_262, mset_q_242, mset_q_252, which state that people asked have a neutral stance regarding whether they like working in projects with people coming from different organizations or businesses (mset_q_212) (Cor=236, Ctr=42), if they like assuming work duties, which require them to work in other posts except their own within an institution or business (mset_q_232) (Cor=320, Ctr=57), if they enjoy being assigned responsibilities offering them the possibility of working outside the area of an organization or business (mset_q_222) (Cor=352, Ctr=70), if they like to make the most of opportunities, which allow them to become active outside the working environment of an institution or business (mset_q_262) (Cor=405, Ctr=95), if they like cooperating with people outside a single organization or business (mset_q_242) (Cor=549, Ctr=119) and finally, if they like projects requiring them to interact with people working in other institutions or businesses (mset_q_252) (Cor=634, Ctr=143).

6. CONCLUSIONS

Three groups of respondents were created. Two of them have a clear attitude and the third group is neutral towards the prospect of boundaryless career.

The first group of respondents does not negotiate their career outside the organization or business where they work. Even the prospect of cooperating with people working in other institutions or businesses seems unthinkable for them because even work duties and employment in another post within the same organization or business, or in tasks outside the institution or business do not agree with them or make them happy. This group is negative to any change at work.

The second group consists of respondents, who are flexible regarding their employment in other posts within the organization or business, they are positive towards associating with colleagues working in other institutions or businesses, they are happy to work not only in but also outside the work environment of the organization or business, where they already work.

The third and last group is neither favorably nor negatively disposed regarding boundaryless career.

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Legal And Regulatory Issues Of Financial Securities In Albania

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ABSTRACT

The capital resources in developing countries are very important for the country’s economic development. The development of capital markets provides the country with access to domestic and foreign financial resources. It channels funds from savers to investors and businesses and also attracts foreign investors. However, one of the conditions for this development is the existence of legislation related to securities. This kind of legislation does exist in Albania. This article tries to identify the evolution of this legislation, along with its deficiencies. By comparing it to the legislation in neighbouring countries, where the securities market is more developed than Albania’s (the stock market was closed a few months ago), we conclude that the regulatory basis exists, but it has some problems. The first securities law implemented in 1996 was not proven to be appropriate because of the absence of securities trading. Derivatives are an important element in developed financial markets and financial engineering, and their criteria are well specified in the respective legislation. The financial crisis in 2008, which started in the USA and spread throughout Europe, showed the importance of defining and predicting every element of derivative contracts. According to the Albanian legislation, these derivatives are not included in the securities category, making this legislation deficient.

Lending and borrowing securities are among the most risky and speculative financial activities. They are very profitable, but have limited usage due to the risks they carry. This process is mentioned in the law, but with no further specifications and without mentioning its limitations in the Albanian legislation. There are also other indications absent from the Albanian legislation, such as the rules for the sequence of executing an order. In addition, the type of orders, which are considered very important elements by the literature, are neither mentioned nor specified. All the above-mentioned elements make this topic a very important one to be studied in Albania.

KEYWORDS:

securities, legislation, financial market

JEL CLASSIFICATION CODES:

G2, K4, G1

1. INTRODUCTION

The legislature grounds of securities in America were introduced in the 1930s to re-establish public confidence in the securities market after the stock market crash of 1929. It aimed to protect small investors against companies that traded securities, which promised a high rate of returns.

Seventy-five years later, the market faced a similar problem, which required efforts and interventions to reinstate confidence in the securities market. However, this time market conditions were different from the initial ones. Today this problem does not stem from “speculative schemes” but from management errors or fraud. The financial crisis of 2007–2008 is perceived as the manifestation of the excessive risks that managers undertook incentivized by short-term bonuses, destroying long-term valuable companies. This collapse came as a result of inappropriate risk management and lack of managerial accountability to the corporate board of directors.

In Europe, the European Commission14 has for years reviewed the obstacles in the European securities markets in order to create a safe and highly functional market. The European Union (EU) has prepared the legislation in this area asking for the harmonization of legislation among member countries.

Recently, as a result of the financial crisis, important efforts were made by the regulatory institutions of the EU to create a sustainable financial system for the future. Legal uncertainties associated with instability risks create significant obstacles to the market. They limit cross-border activities among investors as well as lowering confidence against investors’ protection.

In 2007, Markets in Financial Instruments Directive (MiFID)15, a European Union directive, was approved in order to offer harmonized regulation for the investment services among 31 member states of the European Economic Zone (28 European Union members plus Iceland, Norway and Lichtenstein). The main objectives of the directive are increased competition and improved consumer protection in investment services.

MiFID is the foundation of the European Commission’s plan that assists the financial services. As of 1 November 2007, it replaced the Investment Services Directive (ISD) while preserving its principles but also including the concept of “maximum harmonization”, which emphasizes mainly the supervision of the country within its borders. This is different from the previous legislation of the European Union, which presented a “minimum harmonization” among countries with minimum freedom.

MiFID, which was validated through the standard procedures together with the decision of the European Union Council and European Parliament, specifies a detailed framework for the legislation. Twenty articles of this directive specify technical measures that need to be implemented. These measures were approved by the European Commission based on technical advice from the Committee of European Securities Regulators (CESR) and the supervision of the European Parliament. The measures were published in the form of an official directive on 2 September 2006 and it has been validated from November 2007.

2. SECURITIES AND THE LEGAL FRAMEWORK IN ALBANIA

Capital resources are essential for business as they secure funds not only to undertake investments but also to be able to finance operational activities. The cost of capital is affected by legislation on financial resources and securities16. The right of financing with capital instruments or debt instruments belongs to every legal person who satisfies the specified conditions from competent bodies such as the Albanian Financial Supervisory Authority.

Issuance, trading, and all other operations involving securities are regulated by law in each country. In Albania, the law determines the type of securities. It regulates the conditions for the issuance of securities, trading and registration, transactions, conditions for the public trading of securities, investors’ protection, conditions for the dematerialization of securities as well as the exchange and regulation for the securities market.

This long process is regulated by a number of laws:

• Law Nr. 9789, of 21 February 2008, on “Securities”
• Law Nr. 9901, of 14 February 2008, on “Traders and Commercial Companies”
• Law Nr. 9974, of 28 July 2008, on “Securities Repurchase Agreement”
• Law Nr. 10,158, of 15 October 2009, on “Corporate Bonds and Municipal Bonds”
• Law Nr. 10,198, of 10 December 2009, on “Collective Investment Undertakings”
• Law Nr. 10,236, of 18 February 2008, on “Taking control over public listed companies”

The first law approved on securities was that on “Securities”, Nr. 8080 of 3 May 1996, which was not applicable. It was replaced by another law, named “Title Securities”. This law, Nr. 9879 of 21 February 2008, defines securities as financial instruments that are issued and traded for profit purposes through the administration of the rights that come from their possession. Based on the definition of securities, they are composed of title securities and derivative instruments. Derivative financial instruments – instruments whose prices are directly or indirectly linked to securities prices, exchange rates, stock exchange indexes, or interest rates – according to the law, are not title securities. The definition given to “title securities” in this law is also appropriate for the derivative financial instruments because through them the holder aims to create profits by offsetting the possible losses. The law does not explain or argue why derivatives are not considered to be title securities or why they

15 http://ec.europa.eu/finance/securities/isd/index_en.htm
are not included in the definition of securities. In contrast to the Albanian law, in regional countries, derivatives are considered to be title securities and are widely traded as an alternative for investors.

The main regional stock exchanges where these titles are traded are: Athens Stock Exchange, Zagreb Stock Exchange and Bucharest Stock Exchange. Furthermore, one of the objectives of the Athens Stock Exchange is the development and organization of the title securities markets including derivatives\textsuperscript{17}.

The goal of financial derivatives is realizing speculative profits, in an attempt to profit from the fluctuations of a security’s price from its initial price. The term “derivative” indicates securities, prices of which are derived from the prices of stocks, goods, indexes, interest rates and exchange rates. Derivatives are very important in risk management and are considered a means of protection against losses. However, they are a source of risk for the stability of the financial markets and as a result for the whole economy. Evidence exists for this from 2,350 years ago, when Aristotle discussed an issue of manipulation of the market by the usage of derivatives.

Today, the derivatives market is considered very important and it is claimed that it exceeds the insurance and credit markets. Data from the Bank for International Settlements (BIS)\textsuperscript{18} shows that derivative transactions in the Over The Counter (OTC) market exceed $197.2 trillion. Despite the international development of derivatives in the global market, the Albanian law does not recognize derivatives as title securities.

In Section 70 of the law, it is stated that brokerage companies can borrow or lend without specified any procedure to be followed or any limitation concerning the activity of borrowing and lending. Borrowing and then lending securities involves one specific account, which is actually the short selling process mentioned in the section. As this is a highly risky transaction, the law should have...

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\textsuperscript{17} \url{http://www.ase.gr/default_en.asp}

\textsuperscript{18} \url{https://www.bis.org/}


\textsuperscript{20} “Effects of capital markets development on economic growth of Western Balkan countries.”, Artor Nuhiu, Arbër Hoti, Iliria International Review – 2012.
been better formulated in a more concise way to better specify the limitations. In addition, the bylaws associated with this law should have been well defined.

This law also treats the giving and holding process and the execution of the orders by brokerage companies. However, further specifications should have been made in the bylaws of the authorities. What this law does not define is the sequence of the order executions, which academia considers very important. Not only academia, but also the legislation in every country specifies aspects of such activities.

In the law and the regulation we observe another important figure in the title securities market, which in the law is stated as “investment adviser” and in the regulation “investment advisory company”. In the hope that the former and the latter refer to the same matter, I would like to add a few comments by comparing this figure with the commissioning company and the brokerage firm.

The law states that one of the activities that a commissioning company can undertake is “investment advice”, while the regulation states that it has to be involved in trading title securities as well as giving advice to clients regarding the purchasing and selling of titles as part of their activity. Meanwhile, in the regulation, the advisory process includes the continuous advice for profitable reasons. Under the law this is an activity that should be provided by the investment adviser or the investment advisory company. It seems that there is a conflict between the two above specifications, creating confusion in defining their functions. In general, literature refers to brokerage companies as companies that offer simple services such as purchasing or selling, known as discount brokers. Apart from these services they can also offer advice, which classifies them as full-service brokers. Regulation on the stock exchange and the activities of the participants specifies their activities in detail.

Furthermore, in the statute of all brokerage firms, based on the law of the country where they operate, the activity is well determined as well as the investor relations.

3. CONCLUSION

One of the main conditions for the financial development of an economy is the existence of legislation regarding financial titles. Legal uncertainties associated with stability risks present obstacles to the effective functioning of the market. They limit the cross-border market and traders’ confidence. Comparing our national legislation to that of neighbouring countries, where the securities market is more developed compared to Albania, we can draw the conclusion that a regulatory framework exists but has some gaps.

The first law, Nr. 8080 on “Securities” dated 3 May 1996, was not applicable; it was replaced by another law entitled “Title Securities”. Based on the definition given to securities, they are composed of title securities and derivative financial instruments. Hence, securities are not considered to be title securities. In contrast to Albania, the regional countries widely trade derivative instruments, which are also considered to be title securities.

The Albanian law does not specify the conditions of the contract, the rights and the obligations of the parties involved in the bond contract. In the Balkan countries the contract conditions are well specified. The absence of the capital market and the lack of the trade of instruments may have influenced the lack of proper specifications of the law.

To follow, the Albanian law does not specify whether a brokerage company would undertake all the activities presented in the sections of the law, or what would happen to the charter capital of it.

We recommend that this law, unlike the previous one on “Securities”, Nr. 8080 of 3 May 1996, should be applied rigorously.

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Auditing Procedures Applies In An SA For Control Of Vat, Withholding Tax And Property Taxation

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ABSTRACT

The aim of this paper is to meditate which are the audit procedures which external auditors should follow in order to edit the annual tax certificate of a SA. The work of the auditors is vital to be surrounded by clear procedures and plans, to ensure the validity and objectivity of the audit.

KEYWORDS

Auditor, Control certificate, Withholding tax.

JEL CLASSIFICATION CODES

M40, M42

1. INTRODUCTION

The business income is a key level of the economic growth. In recent years, the collection of revenue due to the economic crisis we are experiencing, it has become vital for the state. Therefore, in a constantly changing economic and political environment of the parties that compose it and their activities must be adapted as effectively as possible to the new conditions in order to achieve their goals. The result is to have more and better control of enterprises for any willful or unintentional irregularities. The business control is a key objective for the successful collection of revenues. An important role constitutes the audit profession, which is in control of the published financial statements of a company, to verify the reliability, objectivity and their validity. The auditors are obliged to issue the tax certificate that records if there are any tax offenses. The establishment of the tax certificate is an important step towards our tax system modernization and achieving transparency in tax audits of businesses.

2. PURPOSE OF THE PAPER

This paper aims to analyze which are the audit control procedures followed by the internal auditor in a Limited Company for the issue of the Annual Tax Certificate. Our audit will be based on the POL.1159 / 22-07-2011, that define the procedures for implementing regarding the Annual Certificate issued by statutory auditors or audit firms registered in the public register of L.3693 / 2008. The "Special Audit Program" issued by the Ministry of Finance in cooperation with ELTE, is upgraded annually, and is consistent with the International Business Assurance Standard 3000 (International Standard on Assurance Engagement-ISAE 3000). The control will be done in the following tax items in VAT, the withholding tax and the estate tax.

3. THE AUDIT PROCEDURES IN A S.A.

We will audit the records of a company to see whether the audited company follows good practice on the tax items which will be audited. We will prepare audit working papers which will indicate the...
methodology applied, and any observations existing for each item we will audit. Audit of tax items are: a) VAT, b) withholding taxes, c) property tax.

3.1. Program Control - Value Added Tax

Every company has its organization which constitutes an audit element for the auditor. The good organization and the informed staff is very important element and its vital in order to facilitate the audit and helps to create good image.

VAT is imposed on supplies of goods, more specifically on the sale of goods and generally in every act which ownership of tangible movable or immovable assets is transferred. Additionally, VAT is imposed to services which are within the Greek territory, if made in exchange, as well as on imports of goods within the country. (Karagiannis, 2011)

Based on the audit program, the first step is to determine the organization’s image by the winding VAT return of the enterprise in order to record its tax position. Then, our audit will become more detailed. Initially we will check the accounting checks and the proper competition of VAT declaration. The next step is the check the VAT outflows and the VAT inflows.

It is important to verify the company’s books with the submitted periodic VAT per tax year. In order to achieve the verification, there all be consistency of the balance, in full development of the 7th group “Sales Revenue,” and the amount of output of the corresponding periodic return VAT by a factor. The amounts of the group 7th are without VAT, so the reduction of each amount should agree with the amount of the corresponding VAT rate outflows of the account 54.00

Every information mentioned above for revenue the same application will be used for group 2nd “Purchasing”, in order the relative rules be conform per month with VAT inputs of the corresponding periodic return. In this case also, the relative values are without VAT so their reduction by rate should be consistent with the amounts in the account 54.00 and then in the presented periodically.

In the 6th group “Expenses” the accounts which contains VAT is usually the account 61 “Fees and Expenses of third”, the account 62 “Services of Thirds” and “Other Expenses”.

And finally we reach the stage where we audit two months of audited year for verifying the proper completion of Intrastat and Listing declaration forms where there isn’t detected any difference.

3.2 Audit Program - Withholding Tax

Depending on the company, its activities and transactions it will incurred varies obligations on withholding taxes. In this research we are going to mention taxes which have not attributed correctly or at all to the State as they should, also we are going to refer to some withholding taxes which have attributed correctly. Initially, we will check the withholding tax of freelances.

Below is a control panel model.

<table>
<thead>
<tr>
<th>Company: ALFA S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax year: 2013</td>
</tr>
<tr>
<td>Redactor: Michailidou Svetlana</td>
</tr>
<tr>
<td>Auditor: Zoitsas Agelos</td>
</tr>
</tbody>
</table>

WITHHOLDING TAX

TAX FEES OF FREELANCES: AUDIT ON OBLIGATIONS OF WITHHOLDING TAXES

(a) There were an audit on the declaration and return of the 20% tax withhold from wages of freelances (article 58 L.2238/94) where the transaction exceeds three hundred Euros (300).
From the audit which have been archived both on the records and the information of the target company and on the accounts 61.00 «Freelancers with withholding taxes» and 54.04.00 «Pay tax of freelancers» it emerged that there were three invoices from the company IKE, with vat ID 0000000, which does not constitute an act of freelancers, according to paragraph 1 of article 48 of L.2238/94, as its income is considered as source D (incomes from commercial operations) therefore should not be carried out withholding tax on its fees. As a result the withholding tax should be returned to the State.

In addition, the audit showed that there where invoices which are below 300 Euros which has conducted withholding tax, as opposed to the paragraph 1 of article 58 of the Income Tax Code, indicating that there is no withholding tax on invoices under 300 Euros. Finally, in the second two months the withholding tax has not been property because two invoices have been calculated incorrectly. The resulting difference should be attributed to the State.

Then we will focus on controlling of payroll, where there are numerous deductions from wages. Among the most important deductions are the deductions for social insurance tax, income tax for workers and since 2010 the special solidarity levy.

The controlled company during the accounting period examined has employed wage and salaried staff, which paid wages that are subject to withholding payroll tax (payroll tax), according with the provisions paid down in article 57 of L.2238/1994. The audit company is obliged to withhold and there give to the State the payroll tax corresponding to the aforementioned fees, as defined in article 59 paragraphs 1 of L.2238/1994.

From the audit which have been done both on the kept book’s and information of the company, especially on the monthly payroll statements and on the accounts 60.00 «Fees paid staff», 60.01 «Fess staff salaries» and 54.03 «Taxes and fees payroll», we found that the company did not paid, as it should, the withholding payroll taxes to State.

The audit found that there was incorrect withholding tax in six workers so we increase the sample in ten workers, which we found that the improper withholding tax continues, which should be attributed to the State.

Then we will try to present the image about the deductions which are made by the companies for the Social Insurance Contributions of workers in Europe.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Social Insurance Contributions</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>20,15%</td>
<td>The amount ranges from 19,9% until 20,4%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>6,3%</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>11,0%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>10,0%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>19,5%</td>
<td></td>
</tr>
<tr>
<td>Britain</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>-</td>
<td>The Social Insurance Contributions is a fix amount of 290€</td>
</tr>
<tr>
<td>Greece</td>
<td>28,6%</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>23,8%</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>7,2%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>29,4%</td>
<td>The amount ranges from 26,86% until 31,88%</td>
</tr>
<tr>
<td>Sweden</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>31,0%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>40,5%</td>
<td></td>
</tr>
</tbody>
</table>


According to the table, the observations which can be notes is that the charge received by companies for Social Insurance Contributions in the countries that take as an example, are evenly distributed than the average of the sample. However, there are some differences as there are countries which do not impose any charge such as Britain 0% while in France the contribution reaches 40,5%. Greece with a percentage of 28,6% ranks fifth largest place among these fourteen countries. It should be noted that the reason for not indicated a percentage for Denmark is that the social insurance is a fixed amount of 290 Euros.

In this point we are going to mention some withholding taxes which have attributed correctly to the State. The salaries of the member of the Board are any way supplied to them to the company.

Based on the provisions of commercial and tax law the remunerations of the board directors of the company are:
a) A percentage of profits.
b) Other fees
   • Fixed compensation per session or representation expenses
   • Fees due to special valuations
   • Remuneration paid in any other way

For the amounts which Board receives in any other way the company should the statements to the Authority until 25 of January, every year. From 1/1/2014 based on the new tax law 4172/2013 remunerations of board of the company or any other legal entity, is considered income from employment.

Based on the audit which have been done on the account 61.01.00 « Remuneration Meetings of Board », 54.04.03 «Tax fees of Board » and 54.09.04 « Stamp and Oga fees of Board », has shown that they done property and paid withholding tax to the State.

Additionally, according to new income tax law 4173/2013 article 64, obligated to apply statements and payment of the tax of 3% which is withhold is every legal entity or every individual which is doing business and has its tax residence in Greece, the general government bodies or every taxpayer which have not its tax residence in Greece but operates through a permanent establishment in Greece. These entities are obligated to present a temporary application the latest until the end of the second month on the website www.gsis.gr.

Below is a control panel model.

```
| Tax year: 2013 |
| Redactor: Michailidou Svetlana |
| Auditor: Zoitsas Agelos |

Company: ALFA S.A.

WORKTAKER TECHNICAL PROJECTS TAX 3%

TAX 3%: AUDIT ON OBLIGATIONS OF WITHHOLDING TAXES

(a) There were an audit on the declaration and return the withholding tax of 3% (1% from 27/05/2009 until 31/12/2010) on the value of the manufactured project or rent renting public, municipal or port annuities (Articles 55 and 60 L.2238 / 94).

The audit which have been done, based the regard to records and data of the controlled undertaking and accounts 61.93.23 "Subcontractors Fees science 3% VAT 23% "and 54.04.01" Taxes Contractors 3% "was properly withheld 3% and the paid tax to the State.

3.3 Audit Program - Property Taxation

All legal entities than own real estate in accordance with paragraph 1 of article 27 of Law 3842/2010 on January 1 of each year, should submit property tax declaration according to the last digit of their VAT ID, starting the digit one and completed within eleven working days.

On the application of "Information System Property Register" we received the printout "Certificate assets" at 31-12-12. The audit company had actually owns the property at 31-12-2012 therefore had obligation to submit property tax statement according to the article 33 of L.3842/2010. It has been checked in two properties of the business to a higher value it properly calculate the taxable value of real estate. However the audit found that the audited company failed to submit property tax declaration during the control period of 2012. As a result the tax should be attributed to the state arising from the data of books and records together with the legal increase, because a declaration of property and proprietary rights held by the audited company.

4. CONCLUSION
The current tax system in Greece is quite complicated because of too many provisions that change quite often and are imposed on both businesses and taxpayers.

In recent years, the collection of revenue due to the economic crisis we are experiencing, it has become vital for the state. This is the reason why business auditing has been increased. Based on what we have analyzed in this paper is perceived that most companies do not pay their obligations to the state.

In order to have an effective tax system is required a tax reform based on transparency, integrity, simplicity, stability and fairer laws. When all of these will be accomplished we will have a country that inspires confidence, will have a greater degree of attracting foreign direct investment and there will be no suspicion between government and business.

Several attempts have been made so that Greece can keep up with the other countries of the European Union. At first applied International Financial Reporting Standards (IFRS) in listed companies on the Stock Exchange. Then created the Greek Accounting Standards and after that the International Auditing Standards. All these standards are intended to correct and fully inform the investors, the shareholders and the public. They focus on the value and the importance of the control. They enhance confidence and transparency.

This study aims to verify in practice the control carried out by the auditors based Control Program regarding the special tax liabilities of companies. Proposal for further investigation would be to carrying out research on companies listed on the Athens Stock Exchange, before and after the implementation of the International Audit Standards, to be able to see what would be the differences that will result in control of tax.

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Risk Assessment In Cross-Border Acquisitions In Central And Eastern European Markets

Alen Sacek
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ABSTRACT

Company acquisitions play an important role in the corporate strategic development and international expansion. This paper investigates the risk assessment process in the pre-acquisition phase by means of due diligence. The purpose of the paper is to establish vital link between research and practice, exploring the risk areas to make an informed decision. Due diligence audit conforms to the organizational learning theory, proposing that the more the acquiring firm learns about the acquisition target, the higher the probability of successful acquisition. The empirical evidence is drawn by using data sample of acquisitions of German and Austrian automotive companies in the Central and Eastern European markets. The results support the proposition that due diligence audit is necessary for successful acquisition. The hypothesis of assessing business capabilities and workforce knowledge, technological skills and other capabilities enhances the probability of successful cross-border acquisition. In line with that, the trend of gaining further control along the chain value in the automotive industry is comprehended. The originality of the paper is given by unique acquisition risk analysis in the academic literature complemented by practical expert studies from mergers and acquisitions advising companies.

KEYWORDS
due diligence, emerging markets, mergers and acquisitions, risk assessment,

JEL Classification Code:
G 32, G 34

1. INTRODUCTION

The topic of mergers & acquisitions (M&A) has been increasingly investigated in the literature in the last two decades in response to the rise in M&A activities as well as the increasing complexity of such transactions themselves. In this paper the definition of M&A will be used as acquisition, as the purchase of shares or assets on another company to achieve full managerial and operational influence. Acquiring a company abroad can be motivated by the wish of entering foreign market and establish strong position very quickly. It enables the drawing on complementary knowledge and differing market prospective of the acquired company and enables a realization of synergetic potentials (Epstein 2005). However, acquiring a company is risky when the information of the targets business is beyond the reach of acquirer and he relies on assumptions delivered by seller. At this point, an information asymmetry occurs as the acquirer does not get reliable information about the target company to carry out thorough evaluation and determine the price. In line with the literature, the term information risk is used to describe the uncertainty surrounding information relevant to the acquirer’s valuations and expectations for future economic development (Gomes et al. 2013).

The basic argument is that the firm’s information environments play significant role in acquisition decision-making. This seems logically, then the acquirer identifies and evaluates acquisition targets on the basis of their existing knowledge and the information they gain through different information search contexts Schildt & Laamanen, 2006). This phenomenon is explained based on the information asymmetry phenomenon, which develops when the seller has more information than the buyer about the goods or services to be exchanged. Acquirer identifies and evaluates the acquisition target on the basis of existing – or from the seller signaled information. On the other side, the seller needs to signal the necessary information; otherwise the equilibrium cannot be established.
The acquirer’s lack of accurate information regarding the target limits the acquisitions as combining companies can only occur when the information asymmetry can be managed. Hence, the acquirer needs to accumulate information about the target firm with screening the available information. In the acquisition process, due diligence is used to overcome the information asymmetry. The Figure 1 outlines the information flow and exchange in the context of due diligence as the tool for abolishing the information asymmetry. Due diligence comprises of detailed investigation and risk assessment in wide area of the targets specifications, either quantifiable or non-quantifiable. Ideally, all information is placed in the acquisition contract which serves as the document for determining the acquisition legal framework.

Due diligence in this research paper conforms to the learning theory, in particular the exploratory learning, when the acquirer learns about the target firm, its business environment and capabilities, and country specific aspects. Such target learning process enables the reduction of the information asymmetry in cross-border acquisition.

2. PREVIOUS RESEARCH AND THE SCOPE OF DUE DILIGENCE

In general, cross-border acquisitions and related risk assessment largely remain under-explored compared to domestic acquisitions (Bertrand & Betschinger 2012). The previous research concentrates on the objectives of the cross-border acquisition claiming that acquisitions propose an important mechanism through which the firms grow and gain access to new resources. Shimizu et al. (2004) show that market entry, learning process and value creation are among the main aims of cross-border acquisition. Similar argumentation deliver Bertrand & Betschinger (2012) emphasizing the speed of establishing market position compared with direct investments and enables the drawing on complementary knowledge and differing market prospective of the acquired company and enable a realization of synergetic potentials.

The major channels through which the acquirers gain value are synergies, economies of scale and scope, improved efficiency and improved market access Gomes et al. (2013). Bruner (2004) analyzed 16 studies on M&A value creating and performed interviews with 50 financial directors, but concluded that the synergies, efficiencies and value creating growth are difficult to obtain. Georgieva et al. (2012) found evidence of impact of the legal, regulatory and cultural as well as overall business environment in cross-border acquisitions joint ventures. This evidence can partly be reflected to the cross-border acquisitions, as the market access is the main aim. Acquisition experience effects can occur through a firm’s own acquisitions or by learning from the competitors (Barkema & Schijven 2008). Despite the importance of due diligence and the pre-acquisition evaluation, there are not many studies which have researched the scope of due diligence, especially in case of cross-border M&As (Schweiger & Very 2003). There is also a lack of comprehensive study considering the full range of factors in the due diligence process Gleich et al. 2009, Shimizu et al. 2004, Very & Schweiger 2001).
The purpose of the paper is to show the practical use of due diligence in the pre-acquisition phase and link the extent of the due diligence with transaction success. The empirical evidence is done investigating the use of due diligence in the car manufacturing industry. In the literature study where academic and practical studies have been analyzed, the characteristic fields to be assessed in the pre-acquisition phase are:

2.1 Strategic Fit

Strategic fit of the acquisition is the degree of how the target firm’s profile augments and complements strategic orientation and thus contributes identifiable to his financial and non-financial aims. The emphasis lies on the proposition that the more similar the business models and served markets and clients are, the higher the value creating effects after the acquisitions [6, 20]. The importance of the strategic fit and organizational fit have even higher weigh in the context of successful cross-border acquisition (Gomes et al. 2013, Harvey & Lusch 1995). Angwin (2001) proved that national cultural distance affects the acquirer’s perception of the target company because differences generate integration problems. Further problem fields are located in the operational environment, i.e. the IT-compatibility systems and their integration in the operational set up of the acquiring firm. The compatibility of the system is time consuming and costly and as such, an important success factor in the acquisition process.

2.2 Financial factors and acquisition premium

A substantial amount of studies have identified that payment of high price premiums is one of the most significant reasons for acquisition failure, as the future growth is the main variable in determining the acquisition price (Gomes et al. 2013, Harvey & Lusch 1995). The main item in the risk assessment of financial positions, i.e. cash flow generation, debt volume, balance sheet leverage, asset valuation etc. The effects of overvaluation of financial position bear the risk of forecasting unrealistic growth of the target firm, which may have serious effects on the valuation and the acquisition price (Perry & Herd 2004, Harvey & Lusch 1995). In line of determining realistic price, the due diligence requires enhanced proceedings to attain deeper information in order to achieve reasonable basis for evaluation models. The payment of high price premium is often that high that the synergy value of the combined unit cannot be realized. Hopkins (1999) researched this phenomenon of “synergy trap” indicating an unsuccessful acquisition.

2.3 Business capabilities and knowledge management

When acquiring a foreign existing business, acquirer obtains resources like knowledge base, human resources, business capabilities and an established market access in the destination country (Schweiger & Very 2003) Such resources strengthen acquirer's endowment and deliver complementary resources leveraging existing resources. Their evaluation in the due diligence proceedings provide the acquirer to estimate the potential of realizing synergy effects and subsequent transaction success. In this context, human resources are considered as essential part in the realization of the synergy potentials influencing the success of the acquisition (Perry & Herd 2004, Schuler & Jackson 2011). High number of acquisitions failed when the integration of different management skills and operational skills were not identified. Knowledge is considered as one the most strategically significant resource in the organization and the combined knowledge of two firms’ scales up knowledge utilization and effectiveness. In the due diligence phase, the assessment of HR potentials and knowledge potentials gives insight in quantifying the synergy potentials when successfully combined.

2.4 Macro factors and business environment

The need for consideration differences in the business environment, in particular investigation legal and tax aspects of the target country has been strongly asserted as the success factor (Hitt et al. 2009) The macro-economic and corporate governance arrangements also affect the decision to acquire firms in cross border markets (Rossi & Volpin 2005). The nature of the local environment and its nationality (i.e. government policies, strong unions) impact acquirer’s implementation practices during post-merger integration, such as changes in salary and benefits, recruiting, turnover, and labor relations. Such differences in legal and institutional environment need to be considered the risk assessment because they
can lead to integration difficulties and induce further cost lowering the synergy effects (Epstein 2005, Firstbrook 2007).

The choice of acquisition partner according to strategic and organizational fit, the compatibility of the business capabilities and knowledge, as well as the macroeconomic factors and business environment have led to fragmented mergers and acquisitions research separating it into large research fields. Based on existing research streams as well the criticism of these streams, the model set up a comprehensive framework that integrates the research fragments (Figure 2). The intention is to develop the theoretical rationale for a comprehensive framework as well as to test the model empirically.

The dependent variable in the model is the transaction success (endogenous variable). Empirical studies mostly research the success factors from the perspective of the acquirer’s owner or shareholder, as the acquisition risk directly impacts the financial results and pay-out ratios. The focus of the paper is the overall transaction success including the realization of the synergy effects and stand-alone optimization benefits. The measurement of the variable Transaction Success is based on five different variables (Dunne & Hodgson 2013, Epstein 2005):

- Synergy Value in Research & Development, indicating the optimization of benefits in the technological competence due to the acquired firm
- Disposal of the acquired company indicating if the acquisition’s synergy effects have been realized or not
- Overall Profitability indicating the quantitatively measurable value contribution of the acquired firm
- Return on Investment indicating the linear relation of return on invested capital
- Overall Success of the acquisition is a qualitative measure indicating the acquirer’s judgment about the firm’s either intangible or tangible contribution to combined success.

In wake of the richness of factors, the research design has been constructed with structural equation modeling (SEM) as a multivariate data analysis method that is often used when testing theoretically supported linear and additive causal models. The criteria for the use of PLS model, which is a variance based model, are: small sample size with n=52, the independent variables are normally distributed (univariate approach) and the research paper has cause-effect research character. PLS is useful for structural equation modeling in applied research projects especially when there are limited participants and that the data distribution is skewed and this is the case in the survey (Hair et al 2012, Sarstedt et al. 2011).

In the present research model, the inner model explains if the dependent variable performance (Transaction Success) is influenced by the independent latent variables previously described: Strategic and organizational fit, Business capabilities and knowledge management, Financial factors and acquisition premium, and macro-economic factors and business environment (exogeneous variables). However, the independent variables are not directly observable and therefore, they are explained by 19 manifest variables that have been derived from the literature review. Graphically summed up, the research framework can be established as follows:
The inner model consists of the four main hypothesis including elements of thorough due diligence and the transaction success. The outer model consists of manifest and independent variables and the dependent variables which explain the transaction success.

3. EMPIRICAL RESULTS

The empirical research was performed with questionnaire survey collecting data from a sample of German automotive industry involved in cross-border acquisitions between 2007 and 2013 in the Central and Eastern European region. A list of the finalized deals was compiled from the Mergermarket Database and complemented by Thomson Financial data. The sample consists of 52 evaluated transactions in the cross-border acquisitions. This represents ca. 34% of the full population (N= 155) in the automotive industry and geographical region. The reliability of the survey was supplemented by pre-testing of the questionnaire with independent industrial experts.

With SEM, the relationship between multifaceted risk factors in the due diligence and the transaction success model is being operationalized with formative measurement model. The reliability and predictive relevance is being judged using Stone-Geisser criteria and additionally with the coefficient of determination. With the coefficient of determination of 0,69 and the predictive estimation with 0,35 the model shows high usefulness. Having selected the variables, the results of the relationships are visualized in Figure 3.

The path coefficients of the constructs “Business Capabilities and Knowledge Management” and “Macro-Factors and Business Environment” are significantly different from 0 and suggest positive predictability characteristic for the latent variable “Transaction Success” in the structural model. Considering the t-values, the variables “Business Capabilities and Knowledge Management” and “Financial Factors and Acquisition Premium” have strong influence on the latent variable “Transaction Success”. The variable “Macro-Factors and Business Environment” has a middle strong influence on the latent variable “Transaction Success”. The construct “Choice of Strategic Partner” is non-significant and does not have influence on the independent variable.
The central proposition is that complete due diligence scope in the pre-acquisition phase is necessary to make successful cross-border acquisition. Consequently, statistical methods of outer model analysis and inner model analysis were utilized to test the proposition. In the framework, the main proposition, three of four constructs were proved significant in relation to the transaction success. The significant impact was proven in both, the inner and outer model analysis. Summed up, the results show:

<table>
<thead>
<tr>
<th>Table 1 Significance of the constructs</th>
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<tr>
<td>Proposition</td>
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<tr>
<td>1</td>
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<td>3</td>
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The findings support the organizational learning factor and its role in balancing information asymmetry and suggest, the more information the firms analyzes in the pre-acquisition phase, the more better the foundation for due diligence. In other words, the findings suggest the more the firm learns about the target in the due diligence audit, the better will be the cross-border acquisition success.

4. CONCLUSIONS

The literature research shows no comprehensive study which considers the full range of factors to be considered in pre-acquisition evaluation within the due diligence process. The contributed development of a model incorporating different risk areas delivers theoretical implications in the field of risk assessment in cross-border acquisition management. The linkage between the organizational exploratory learning and removing information asymmetry has been proven. The results of the tested model indicate that there is a positive relationship between successful acquisition and appropriate scope of due diligence proceedings. The main result lies in pinpointing the specific area by which the business capabilities and knowledge transfer build the main asset in the realization of synergy values in the acquisition phase. In this context, the valuation of the business capabilities of the acquisition targets can be classified as the main challenge reflecting suitability of the acquisition price.

The managerial implications are that in the pre-acquisition phase the due diligence proceedings should selectively be audited especially in case of evaluating business knowledge capabilities. The determined low importance of strategic, cultural and organizational fit, which is usually one of the most named
aspects in transaction success, is indeed surprising. However, the strategic focus of the German automotive firms is to capture capable contributor in the manufacturing chain and deepen the technological knowledge of the overall enterprise. The motive for vertical integration of operations along the chain value implies the exercise of market power. The cost pressure forces automotive industry to maximize joint surplus, up and downstream of the chain value, as this maximizes its profits and increases the competitiveness.

The tested financial issues go beyond the information provided and this will provide the basis for forecasting future performance and identifying possible capital short falls has been supported moderately for the German acquirers in the car manufacturing industry. The high impact of acquisition premia on transaction success but the obvious low importance for survey participants is not logical but supports research results from Gomes et al. (2013) conclude that acquirers tend to be driven by prices of comparable acquisitions, rather than assessing relevant risks in the valuation and price building phase. In line with that, the identification of the most efficient tax and legal structure is not significant aspect for German car manufacturer. The reason lies in the financial power of the global enterprises which can offset such potential burdens. Afterwards, such evaluated risks are reflected in the acquisition price which help to ensure that the M&As deal intelligence gets wider scope of the risk assessment methods and finally improve the success rates in cross-border acquisitions.

The limitation of the research is the small sample and the narrowing effect of the industry limitation. Considering further primary data and broader sample could lead to more complex analysis, contributing more confidence in the findings.

REFERENCES


Customer Satisfaction Development In Retail Business

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ABSTRACT
The aim of our paper is to identify attributes and elements of customer satisfaction that individually and collectively influence seniors’ evaluation of and satisfaction with retail stores and the consequent contribution towards repeat purchase behavior or loyalty. Customer satisfaction per se refers to a set of particular attributes. However, any single attribute of customer satisfaction (for example low prices), may not necessarily ensure satisfaction with the store or the loyalty. Developing satisfaction with a store involves a revision in various instruments of the marketing mix, such as product, place, price, promotion, as well as people, processes, and physical evidence, that collectively build the resources and capabilities of a store. From marketing point of view, customer satisfaction indicates consistently doing something valuable for customers in the way meeting their expectations. This could influence consumers’ attitudes during their subsequent decisions and enhance repeat purchase behavior and positive word-of-mouth communication.

The research method integrates a qualitative technique (focus group discussions) with a quantitative approach (survey, implementing a structured questionnaire) to enhance the validity and reliability of data. Focus group of 8 participants was used to discuss and settle the construction of the scales and the content of the questionnaire. The final version of questionnaire was distributed among 365 respondents (seniors) and consisted of 2 parts. The core part of the questionnaire was respondents’ judgment of the importance of customer satisfaction attributes. On a five-point scale respondents weighted all 21 attributes. Second part of the questionnaire was aimed on satisfaction rating of individual attributes in customers’ real life. On a five-point scale participants rated their satisfaction with individual attributes in that retail store, where they mostly purchase their grocery products. All 21 attributes have been assigned to 6 broader elements. To explain the complexity in satisfaction judgments and to arrive at limited number of explanatory variables, factor analysis was applied to the empirical data. Factor analysis identified three complex factors of customer satisfaction that are significant in seniors’ satisfaction with the chosen store. They are: convenience of shopping, value for money and store image and they collectively indicate the interconnectedness of individual satisfaction attributes and explain the complexity of the term „satisfaction”. The findings confirm that participants tend to compromise among individual attributes in favour of an „overall shopping experience”; which reinforces the belief that seniors’ rating of individual satisfaction attributes should be considered less important than that of a collective rating of satisfaction factors in judgment of shopping satisfaction. The research in this paper was conducted within the Research project VEGA 1/0224/15.

KEYWORDS
Retail, satisfaction, marketing management, seniors.

JEL CLASSIFICATION CODES
M 30

1. INTRODUCTION
Development of customer satisfaction as a precondition of survival in a competitive market has been discussed frequently in recent years (Nielsen, 2002; Seybold, 2001). Satisfying the customers is an essential goal of the whole business. Companies satisfying their customers achieve better results, while those with dissatisfied customers, fail. These findings are valid across consumer goods, services and store selection (Giese and Cote, 2000).

Customers evaluate shopping experiences and arrive at „satisfaction judgments” by comparing what they really received with their expectations (Schiffman and Kanuk, 2010). This framework has been tested many times: customers form judgments of satisfaction by comparing what they get to what they expected (Payne, 2008). Research has confirmed that satisfaction is an important variable driving positive word of mouth and loyalty. Loyalty as a tendency of customers to stay with a store or a brand, is closely related to satisfaction and finally to store profitability. The dissatisfaction of consumers can
result in negative word of mouth and lost sales. Building satisfaction is especially important in the retail sector (Hayley and Lumbers, 2008).

Retailers develop their business in a highly competitive environment, where competitors are located in a small distance of one another, knowing that if they do not satisfy customers wants properly, these customers will very quickly find another store that fulfills their expectations (Oates et al., 1996). Therefore the constant feedback from seniors’ attitudes towards the stores where they conduct their purchasing is vital for retailers survival (Moschis, 2003).

In order to remain competitive and growing, marketers need to satisfy their customers. It has been documented that customer satisfaction positively influences repurchase rate and loyalty (Buttle, 2004; Huddleston et al., 2009). Cheng et al. (2011) argue that satisfying customers is more important than short term profit goals, because as long as customers are satisfied, the business has a perspective of profit for the future.

Several authors (Goodwin and McElwee, 1999; Lambert, 1979; Lesakova, 2013) define customer satisfaction as the ability of an organization to provide a service performance that exceeds the customer expectations. Deng et al. (2010) identified two types of satisfaction: the transaction specific satisfaction and the general satisfaction. While the transaction satisfaction refers to satisfaction after completing the purchase act, the general satisfaction describes the consumers’ overall rating. In order to satisfy consumers, retailers need to understand the particular attributes of satisfaction, because customers can derive satisfaction from diverse satisfaction elements (Peterson and Wilson, 1992).

Cronin et al. (2000) suggest that any evaluation of customer satisfaction that takes into account only individual attributes, is not complete. A set of attributes provides a complex tool for explaining the interrelated aspects of customer satisfaction in a store in terms of the whole – total experience of satisfaction with a particular store.

2. THE CONCEPT OF CUSTOMER SATISFACTION

The elements of customer satisfaction are represented by the physical, human and operational resources / attributes that affect customers’ perception of the retail store and that may patronize a specific store (Thang and Tan, 2003).

These elements include 6 categories:

- **Products – Element E1.** Following attributes within the core element of product serve as an attraction to the store: product quality, freshness of products, large product variety, practical packaging. Packaging influences the decision-making process in the purchase, because it determines product image, communicates product information, protects the product, determines shelf life (Lumpkin et al., 1985).

- **Price – Element E2.** Price is one of the most important aspects in satisfaction development in older people segment (Levy & Weitz, 2001). While price is often used to attract consumers, affordability (lower / reasonable prices) in conjunction with quality, contribute to consumers’ perception of service value (Cronin et al., 2000).

- **Promotion – Element E3.** Marketing communication with the aim of advertising store offerings and boosting store image belongs to distinctive elements enhancing store attraction (Shiffman and Kanuk, 2001).

- **Sales personnel – Element E4.** Employees with the courtesy, empathy, experience and knowledge, with a customer oriented approach, are frequently cited to be critical in encouraging positive word-of-mouth communication (Clopton et al., 2001).

- **Store environment (Place) – Element E5.** The store environment could contribute to customer satisfaction with such attributes as: well organized store design / layout, convenience of store location, comfortable and clean trolleys, pleasant environment, store cleanliness and practical shelf layout (Levy and Weitz, 2002).

- **Processes and services – Element E6.** Customer satisfaction with retail stores involves various additional services such as complaint handling, internet access, free parking places, etc., that contribute to consumers’ perception of the store as an business with commitment. This may even lead to patronizing a store that is not the cheapest, the nearest, or the most impressive.

<table>
<thead>
<tr>
<th>Satisfaction elements</th>
<th>Attributes of customer satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

-100-
Evaluation of customer satisfaction (e.g. as superior) may not necessary be based on individual attributes that are considered in isolation (e.g. low prices that could make an impression of superior satisfaction). A complex picture of satisfaction is derived from the collective contribution of the several elements and attributes of customer satisfaction. Although consumers obviously express their views and comments on individual attributes of satisfaction, the collective contribution of these attributes determines the interpretation of customer satisfaction.

Consumers' evaluation of satisfaction (e.g. as excellent) may be the result of some special attributes, like a combination of affordability (lower prices) and broad assortment, at the cost of store design and layout.

Consumers value all attributes of their satisfaction with the aim to achieve a final „score“ for each visited store. The preferred store will be the store with the highest total score. Two stores may be rated as acceptable, although individual „scores“ for satisfaction attributes might differ significantly. In some cases even a store with a high score will not be attractive to customers, if the most important attributes (high price, poor design) are unacceptable. If a customer is satisfied with the overall purchase experience, the probability of repeat purchase will increase.

3. GOALS AND METHODS

The main goal of this paper is to identify attributes and elements of customer satisfaction that individually and collectively influence seniors‘ evaluation of and satisfaction with retail stores and the consequent contribution towards repeat purchase behavior.

The research method integrates a qualitative technique (focus group discussions) with a quantitative approach (survey, implementing a structured questionnaire) to enhance the validity and reliability of data. Focus group of 8 participants was used to discuss and settle the construction of the scales and the content of the questionnaire.

The final version of questionnaire was distributed among 365 respondents (seniors aged 65+) and consisted of 2 parts. The core part of the questionnaire was respondents’ judgment of the importance of customer satisfaction attributes. On a five-point scale respondents weighted 21 attributes (belonging to six elements of satisfaction, discussed in previous text). They responded to the question: „How important is the attribute X in perceiving your satisfaction with the store?“?

Second part of the questionnaire was aimed on performance rating of individual satisfaction attributes in customers’ real life. On a five-point scale participants rated their satisfaction with individual attributes in that retail store, where they mostly purchase their grocery products. Finally, mean and standard deviation were calculated for each attribute both for satisfaction importance and satisfaction performance.

<table>
<thead>
<tr>
<th>Product - E1</th>
<th>E11 - Freshness of products</th>
<th>E12 - High quality products</th>
<th>E13 - Large product variety</th>
<th>E14 - Practical packaging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price – E2</td>
<td>E21 - Lower price, cheaper products</td>
<td>E22 - Frequent discounts / bargains in store</td>
<td>E23 - Products affordability</td>
<td></td>
</tr>
<tr>
<td>Promotion – E3</td>
<td>E31 - Regular promotions / demonstrations</td>
<td>E32 - Regular advertising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel – E4</td>
<td>E41 - Friendly staff with commitment</td>
<td>E42 - Knowledgeable and professional staff</td>
<td>E43 - Efficient staff assistance</td>
<td>E44 - Staff uniform</td>
</tr>
<tr>
<td>Physical Store Environment - E5</td>
<td>E51 - Convenient store location</td>
<td>E52 - Comfortable and clean trolleys</td>
<td>E53 - Pleasant environment</td>
<td>E54 - Store with a fresh appearance</td>
</tr>
<tr>
<td>Processes and services – E6</td>
<td>E61 - Short queues at cashiers</td>
<td>E62 - Packaging services</td>
<td>E63 - Internet access</td>
<td>E64 - Free parking places</td>
</tr>
</tbody>
</table>

Table 2. Importance and performance levels of satisfaction
4. DATA ANALYSIS AND RESULTS

Participants’ rating of the importance of a list of individual attributes reveals that:

- price, quality and freshness of products, knowledgeable staff, staff assistance and cleanliness of the store are required as very important and important by more than 90% of the respondents;
- store location, short queues at the cash and practical shelf layout are valued by more than 80% of respondents; while
- frequent discounts, products affordability and pleasant environment is required by more than 70% of respondents.

Less than half of respondents demanded as very important and important: free parking places, staff uniforms, regular advertising and promotion and practical packaging. Surprisingly to our expectations, product variety and broad assortment seems to be not very important in shopping decisions.

An analysis of the specific elements of customer satisfaction reveals that attributes that are considered as very important and important (on a scale 1-5) by more than two-thirds of the participants are:

1) place-related: store design / layout, store cleanliness, store location, good access to the store;
2) product-related: high quality products and freshness of products;
3) personnel-related: knowledgeable, friendly and efficient staff; and
4) process-related: minimum waiting time at cashiers and clean trolleys.

In-store demonstrations, staff uniforms or internet access were considered least important.

Performance rating of individual attributes of customer satisfaction with the particular store reveals that more than 75% of the participants were satisfied or highly satisfied with the performance of the attributes that were: 1) place-related: convenience of store location (90,3%); in-store design / layout (85,3%); cleanliness of store (85,2%); and 2) product-related: quality of products (85,0%); and freshness of products (83,9%). Participants were mostly dissatisfied with price-related aspects and
staff in particular. A significant percentage indicates that friendly approach and politeness are often disappointing.

To identify attributes and factors that are critical in terms of their contribution towards the complex customer satisfaction, factor analysis was used. Factor analysis suggested three main factors, which were then used for varimax rotation. An attribute loaded on a specific factor, when the loading was 0.3 or greater for that factor. Nine items loaded on the first factor, four on the second and six on the third factor. Table 3, Table 4 and Table 5 reveal attributes and corresponding factor loadings.

The factors were named with regard to their distinct attributes. The first factor, convenience of shopping, contains 9 attributes that can be associated with comfortable shopping and minimum frustration. The second factor, indicating value for money, consists of four attributes that have relevance to the financial site of the shopping and communication of the value-for-money aspect. The third factor, store image, contains six attributes related to the quality of the products, quality of the store and quality of the staff.

Instead of 21 partial attributes and 6 elements of customer satisfaction discussed earlier in the paper, only these three factors were identified as crucial in terms of satisfaction judgment. Table 3, Table 4 and Table 5 present the factor loadings.

Table 3. Factor 1 and relevant attributes – Convenience of shopping

<table>
<thead>
<tr>
<th>Customer satisfaction code</th>
<th>Attributes relevant to factor 1</th>
<th>Factor loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>E13</td>
<td>Comfortable and clean trolleys</td>
<td>0.352</td>
</tr>
<tr>
<td>E14</td>
<td>Practical packaging</td>
<td>0.308</td>
</tr>
<tr>
<td>E21</td>
<td>Convenient store location</td>
<td>0.498</td>
</tr>
<tr>
<td>E22</td>
<td>Practical shelf layout</td>
<td>0.412</td>
</tr>
<tr>
<td>E24</td>
<td>Well-organized store design / layout</td>
<td>0.374</td>
</tr>
<tr>
<td>E25</td>
<td>Store cleanliness</td>
<td>0.346</td>
</tr>
<tr>
<td>E26</td>
<td>Pleasant environment</td>
<td>0.344</td>
</tr>
<tr>
<td>E61</td>
<td>Short queues at cashiers</td>
<td>0.398</td>
</tr>
<tr>
<td>E63</td>
<td>Large product variety</td>
<td>0.311</td>
</tr>
</tbody>
</table>

Percentage of variance (in %) 24.41
Source: own calculation

Table 4. Factor 2 and relevant attributes – Value for money

<table>
<thead>
<tr>
<th>Customer satisfaction code</th>
<th>Attributes relevant to factor 2</th>
<th>Factor loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>E31</td>
<td>Lower price, cheaper products</td>
<td>0.883</td>
</tr>
<tr>
<td>E32</td>
<td>Frequent discounts / bargains in store</td>
<td>0.690</td>
</tr>
<tr>
<td>E41</td>
<td>Regular promotions / demonstrations</td>
<td>0.421</td>
</tr>
<tr>
<td>E42</td>
<td>Regular advertising</td>
<td>0.368</td>
</tr>
</tbody>
</table>

Percentage of variance (in %) 21.95
Source: own calculation

Table 5. Factor 3 and relevant attributes – Store image

<table>
<thead>
<tr>
<th>Customer satisfaction code</th>
<th>Attributes relevant to factor 3</th>
<th>Factor loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>E12</td>
<td>High quality products</td>
<td>0.399</td>
</tr>
<tr>
<td>E23</td>
<td>Pleasant store atmosphere</td>
<td>0.379</td>
</tr>
<tr>
<td>E11</td>
<td>Freshness of products</td>
<td>0.341</td>
</tr>
<tr>
<td>E27</td>
<td>Store with a fresh appearance</td>
<td>0.311</td>
</tr>
<tr>
<td>E52</td>
<td>Knowledgeable and professional staff</td>
<td>0.545</td>
</tr>
<tr>
<td>E53</td>
<td>Efficient staff assistance</td>
<td>0.612</td>
</tr>
</tbody>
</table>

Percentage of variance (in %) 13.02
Source: own calculation

Linear regression and calculation of Pearson correlation coefficients were used to determine whether the three identified factors of customer satisfaction can be used to predict satisfaction in general. Significant correlation is found between factor 1 (convenience of shopping) and customer satisfaction, as well as between factor 2 (value for money) and customer satisfaction. There is also a smaller, yet significant correlation between factor 3 (store image) and satisfaction. Both two first factors of
customer satisfaction, namely shopping convenience and value for money make a significant contribution in terms of satisfaction.

Table 6. Pearson correlation coefficients for 3 factors of customer satisfaction versus overall customer satisfaction

<table>
<thead>
<tr>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convenience of shopping</td>
<td>Value for money</td>
<td>Store image</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.3109</td>
<td>0.3864</td>
</tr>
<tr>
<td>&lt;0.0001</td>
<td>&lt;0.0001</td>
<td>&lt;0.0001</td>
</tr>
</tbody>
</table>

Source: own calculation

5. CONCLUSION

The findings reveal the interactive contribution of individual attributes of shopping satisfaction to the overall satisfaction judgment by senior shoppers. Seniors argued that the attribute „affordability“ prevents them from patronizing the stores that they are more satisfy with. Despite a dissatisfaction with a store, seniors shop there because of „value for money“ aspect in conjunction with convenient location of the store, which evidently negates certain unacceptable attributes. This confirms the initial assumption that consumers criticize a certain attribute of satisfaction for a particular store when this attribute is evaluated in isolation, but that they will nevertheless eventually shop there. Participants tend to look for balance in terms of an „overall - complex shopping experience“ with the importance attached to collective satisfaction of all attributes.

Three factors – namely convenience of shopping, value for money, and store image – can be identified as crucial in terms of customer satisfaction. A significant correlation of value for money and shopping convenience with customer satisfaction indicates the importance of affordability in conjunction with product quality, as well as the need for an offering of additional processes, comfortable environment, well organized store, practical shelf layout, short queues at cashiers etc.

The attributes that are used to describe the factors of customer satisfaction, that is, attributes of shopping convenience, store image and value for money, confirm the importance of the context in a discussion of satisfaction development in Slovak grocery retail and suggest that strategies specifically designed for the grocery retail could be beneficial to enhance customer satisfaction.

ACKNOWLEDGEMENT

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REFERENCES

Subsidized Crop Insurance In Poland – Analysis Of 10 Years Of Functioning

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ABSTRACT

Polish accession to the European Union resulted in loss of the use of multiple instruments hedging Polish farmers from sudden changes in the market. An alternative to intervention or production subsidies have become initiated in 2005 with subsidized crop insurances. It should, however, be argued that these insurance do not meet the expectations of farmers, and are not security against threats that the farmers actually fear of. Commonness, but still restrained, was not reached until introducing the obligation to insure crops. Analysis of available statistical data and specific provisions of the acts allows the assessment of the effectiveness of their use by farmers in Poland.

KEYWORDS

crop insurance, subsidized insurance, agriculture, compulsory insurance, famer.

JEL CLASSIFICATION CODES

Q14, G22,

1. THE ROLE OF AGRICULTURE IN THE ECONOMY AND COMMUNITY

The aim of plant production realized by farmers is to fulfill the following functions:
• economic (productive) – involves production of food and industrial resources (for instance cotton, flax, etc.), feeds and renews energy sources (mainly biomass); in this aspect agriculture has its share in creating GDP,
• socio-cultural – provides employment and protects the society from impoverishment, creates opportunities for recreation and leisure, protects cultural heritage of rural areas,
• spatial (environmental) – protection of landscape, biodiversity, lands or ground water.

However, realization of part of these functions involves certain financial resources and remuneration for their offering. As for the first (economic) function, agricultural producers receive remuneration on the basis of market mechanisms. In the other two areas, a wide range of services offered to the society is not remunerated in this form and their specific character should be perceived in the perspective of local or public goods (FAPA 2009, p.3).

Table 1. Classification of goods depending on the degree of their social utilization

<table>
<thead>
<tr>
<th>Degree of social utilization</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private goods</td>
<td>Club goods</td>
<td>Local public goods</td>
<td>Global public goods</td>
</tr>
<tr>
<td>Competitive in consumption</td>
<td>Not competitive in consumption for a small group of users</td>
<td>Not competitive in consumption with high risk of stock-out in the case of excessive number of consumers</td>
<td>Not competitive in consumption, though risk of stock-out in the case of excessive number of consumers is possible</td>
</tr>
<tr>
<td>Exclude from consumption subjects not being owners</td>
<td>Limited group of users, exclude others from consumption</td>
<td>It is possible to exclude others from consumption only by incurring high costs</td>
<td>No possibility to exclude others from consumption</td>
</tr>
<tr>
<td>For instance agricultural products</td>
<td>For instance private parks</td>
<td>For instance regional landscape, local springs of drinking water</td>
<td>For instance climate, biodiversity</td>
</tr>
</tbody>
</table>
When discussing the character of agriculture, it needs to be stressed that agriculture has functions which are not measurable in market terms and they result in certain limitations of the process of decision making concerning farm management. In the theory of economy, the existence of transaction costs is stressed (costs incurred ex ante and ex post that are connected with contract preparation and realization). Apart from the regular production costs, these costs constitute a cost factor. A contract preparation, costs of searching information regarding prices, costs of admonishing the other contract party, storage costs or costs regarding protection from other parties’ claims are costs that agricultural producers can include in the price. Yet, at the meso and macro level occur special categories of costs which can be treated as external effects (Samuelson, Nordhaus 2006). In this situation, a producer is forced to accept the level of incurred costs and changes of utilization function as a result of transaction elements imposed on them by other subjects (Czternasty, Czyżewski 2007). It, therefore, constitutes the economic dimension of realizing multifunctionality of agriculture.

2. THE DECISION MAKING PROCESS IN AGRICULTURE AND THE THREATS FUNCTIONING OF THE FARMS

Nonetheless, it is important to take into account economic goals that agricultural producers set in respect to their activity. They may aim at maximizing production level and, consequently, revenue or reaching proper level of revenue from all undertaken activities. In the minimum approach, they may aim at having sufficient financial resources for initiating production in another growing season.

Greater knowledge regarding cultivation of particular plant species, more effective methods of conditioning qualities of plants or improved systems of harvest are aimed at increasing revenues and profits realized by agricultural producers. However, all these meticulous preparations and investments can be wasted in a situation when a crop is hit by an unexpected atmospheric phenomenon which completely damages or seriously reduces the crop yield. In the present article, the authors focus on the phenomenon of negative winter survival which affect winter crops during wintertime. In particular, they refer to the condition when temperature drop in winter or other weather phenomena make further plant cultivation in spring economically unviable – i.e. expenditures necessary to incur are too high in relation to expected profits.

The character of management process, particularly with respect to agricultural plant production, is a sequence of consecutive decisions and actions which have far-reaching future results. In order to carefully outline the decision process of an agricultural producer, lets us analyze the following figure.

This scheme illustrates only basic decision-making areas in plant production presented in the perspective of one season. Decision whether to use land for winter or spring cultivation as well as selection of specific grain species are basic actions taken when planning land use. Further come decisions regarding sowing dates or performed treatments and, finally, decisions concerning plant...
3. AGRICULTURE AND AGRICULTURAL INSURANCE IN POLAND - THE FACTS

Agriculture is very strongly linked to natural conditions and the environment in which farming activity takes place. So besides universal, common to most types of business risks, farmers are exposed to risks, which are highly related to environmental conditions over which a man has no control.

Poland is said to be an agriculture country. The bare facts show us that Poland is the 3rd biggest country with the area dedicated to agriculture. Nearly one of third of the population are involved in this sector of economics. We should notice that more than 90% of farms are smaller than 20 hectares. It is said that a profitable size of a farm in Poland is 50 hectares if one wants to earn for one’s own living by farming.

Table 1. Major data regarding agriculture in Poland

<table>
<thead>
<tr>
<th>Specification</th>
<th>POLAND</th>
<th>Share of Poland in EU (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arable land in thousands ha</td>
<td>13 850</td>
<td>3th place</td>
</tr>
<tr>
<td>Arable land in % of total area</td>
<td>44.3</td>
<td>10.1</td>
</tr>
<tr>
<td>Agricultural population</td>
<td>15.2 mln</td>
<td>26.3</td>
</tr>
<tr>
<td>Yields of cereals per 1 ha in dt</td>
<td>34.3</td>
<td>8.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Farms by area groups of agricultural land in 2011 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5 ha</td>
</tr>
<tr>
<td>Poland</td>
</tr>
<tr>
<td>EU-27</td>
</tr>
</tbody>
</table>

Source: Statistical Yearbook of Agriculture 2013, Data of 2011

It is known that the socialist period of our history was very strange. In economics many decisions depended on the acts or decisions of officials and not on the will of the entrepreneur. In agriculture and in insurance there was similarly. In socialist period (in the of the 80's) each farmer was obliged to participate in 11 different types of insurance. As a result, almost every farm had several types of insurance. After the political changes most insurance obligations were abolished. We still have a lot of farm buildings insured - because it is a compulsory insurance - and a very small number of crop insurance.

Table 2. Changing approaches to agricultural insurance in Poland - the period of socialism and post-

<table>
<thead>
<tr>
<th>Years</th>
<th>Buildings insurance (ths)</th>
<th>Property insurance (ths)</th>
<th>Crop insurance (ths)</th>
<th>Animal insurance (ths)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nr of insured</td>
<td>Nr of damagedes</td>
<td>Nr of insured</td>
<td>Nr of damagedes</td>
</tr>
<tr>
<td>1985</td>
<td>3 098</td>
<td>79</td>
<td>3 098</td>
<td>3 098</td>
</tr>
<tr>
<td></td>
<td>3 098</td>
<td>32</td>
<td>3 098</td>
<td>799</td>
</tr>
</tbody>
</table>
The collapse of socialism and the abolition of compulsory insurance in the analyzed types of insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Premiums</th>
<th>Claims</th>
<th>Settlements</th>
<th>Payouts</th>
<th>Subsidies</th>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>2,966</td>
<td>170</td>
<td>2,966</td>
<td>24</td>
<td>2,966</td>
<td>299</td>
</tr>
<tr>
<td>1987</td>
<td>2,901</td>
<td>48</td>
<td>2,901</td>
<td>35</td>
<td>2,901</td>
<td>489</td>
</tr>
<tr>
<td>1988</td>
<td>2,886</td>
<td>113</td>
<td>2,886</td>
<td>23</td>
<td>2,886</td>
<td>428</td>
</tr>
<tr>
<td>1997</td>
<td>1,486</td>
<td>97</td>
<td>354</td>
<td>4</td>
<td>75</td>
<td>3</td>
</tr>
<tr>
<td>1998</td>
<td>1,449</td>
<td>21</td>
<td>373</td>
<td>3</td>
<td>61</td>
<td>6</td>
</tr>
<tr>
<td>2001</td>
<td>1,357</td>
<td>33</td>
<td>393</td>
<td>4</td>
<td>45</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: K. Rojewski 2012

As it is shown in the table, the economic changes of the early '90s, farmers stopped insure their crops. In 1988, almost 3 million farmers bought crop insurance, and in 2001 there were only 45 thousands contracts. The main reason that farmers mentioned was the fact that the prices for crop insurance were too high.

Noticing this problem, the Polish government decided in 2005 to introduce the subsidized crop insurance.

4. SUBSIDIZED CROP INSURANCE IN POLAND

4.1 Reasons to initiate subsidized insurance and the obligation to enter into agreements

In 2005 Poland introduced a legal solution which, according to its creators, was aimed at facilitating in the first phase of the use of state budget subsidies to insurance premiums covering random events causing losses in plant and livestock production. The authors of this project stressed that low ratio of insurance universality in agriculture results in the fact that in the case of unexpected natural disasters, various aid forms for aggrieved farmers from the state budget or public finance units are required. Additionally, the accession of Poland to the European Union precluded the use of numerous instruments applied earlier (Łuczak 2006). An important argument supporting implementation of this solution was, among other things, a lack of common use of crop insurance among agricultural producers. In effect, farm owners, due to intensive occurrence of weather phenomena, lack of insurance coverage or state support (which did not have sufficient instruments) ceased agricultural production or engaged in non-agricultural activities.

In the course of works on this project it was emphasised that a number of conducted analyses indicated the scale of all funds targeted at settlement of negative effects resulting from natural disasters occurring in Poland. These funds came from the Agency for Restructuring and Modernisation of Agriculture and were realized in the form of subsidies to interest of the so-called disaster loans (with subsidies from state budget). However, it was pointed that these loans serve to replace farm assets and frequently, on the basis of state experiences from 2005, were associated with drought or flood. Struck by these type of perils, farms lose the so-called financial credibility and, as a result, cannot raise loans targeted at farm development (for instance, purchase of additional land or new facilities). Conducted analyses indicated that a significant part of two-year working capital disaster loans in commercial banks is reclassified into five years. This is clear evidence that farmers have serious problems with paying such liabilities from current receipts.

The Act of July 2005 in its material scope incorporates basic crops (grains, corn, rapeseed, agrimony, potatoes or sugar beet) and major species of livestock (cattle, horses, sheep, goats and pigs).
Nonetheless, the further part of the present article concentrates on the scope of offered insurance protection as well as prices used by insurance companies with respect to crop insurance and, particularly, drought insurance.

In the primary draft of the bill, after amendments made to the scope of insured events, subsidised insurances regarded crop protection against: hurricane, flood, torrential rain, hail, thunder, landslide, avalanche, drought, negative effects of overwintering or spring frosts. Simultaneously, this scope was offered only jointly, in package which meant that drought was included. However, the amendment of 2007 introduced the possibility of peril separation. It was feared that insurance companies would not be interested in offering such a wide range of insurance services with concurrent reduction of maximum premium collectible by insurers so that farmers retain the right to obtain subsidies.

Still, a key change introduced in that market situation was the amendment of July 2008, which referred to the scope of obligatory insurances. Since July 2008, agricultural insurance coverage has been compulsory for Polish farmers. Farmers have to get insurance for at least 50 percent of their acreage, but only for crops such as: cereals, corn, rape, hop, tobacco, vegetables, fruit trees and bushes, strawberries, potatoes, sugar beets or leguminous plants. Crops should be insured from at least one of following risks: winterkill, spring frost, hail, drought or flood. The representatives of local authorities (e.g. village major) could check every year that obligation in any farmer who obtained land subsidies from EU. If this obligation doesn’t fulfill he will bear a fine of 2 Euro for 1 hectare. Additionally in case of catastrophic damage (e.g. flood, drought) and establishing financial help for farmers, he will obtain only half of this assistance.

Consequently, it is the producer who determines the scope of their obligatory insurance scheme, but, on the other hand, it complicates the process of insurance adjustment since the scope of insurance could be shaped in accordance with the actual needs of farmers, i.e. shaping individual risk construct (Kłoczko-Gajewska, Sulewski, 2009).

Figure 5 Declaration of insurance conclusion within a specified scope

Crop insurance have significant impact on total insurance cost for every farmer. CATI research conducted within the project unequivocally shows that in the group of subjects the most frequently declared were insurance against spring frosts and hail. Drought insurance was declared by 22% of subjects, with ratio of 30% among small farms. However, these data are not representative of the whole population of farmers in Poland due to the fact that 2/3 of interviews were conducted on areas of drought risk (Kaczała, M., Łyskawa, K., 2013). Therefore, to analyse interest in particular scopes of crop insurance, it is recommended to use actual reports from the Ministry of Agriculture.
4.2 A way to use subsidized insurance in risk management in farms in Poland

Since the concept of package insurance has been rejected, farmers frequently limit themselves and purchase hail insurance due to its costs. With respect to grains insurance, the price of hail insurance ranges (depending on the region) from 0.4% to 1% - irrespectively of state budget subsidy amounting to 50%. But according to EU definition that subsidy is available only for small and medium economic entities (see: Commission Regulation (EC) No 800/2000 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption Regulation). Yet, insurance companies, aiming at full use of legal provisions, offer scopes of insurance in packages. As for winter crops, the package frequently refers to three risks: bad overwintering effects, spring frosts and hail. In the case of spring crops, insurance package includes spring frosts and hail. In this respect, official data indicate increasing popularity of these insurance forms which is also reflected by the results of conducted research. 27% of subjects declared purchase of a package including three insured risks while 22% opted for two risks. The tendency among bigger farms was to choose package solutions while among farms with 1 to 7 ha of land insurance against one risk, i.e. probably hail insurance, were predominant.

Nonetheless, drawing attention to the subject matter of the present year problem (2015), i.e. drought, it needs to be observed that the number of agreements covering this event is systematically decreasing. In 2008, this number reached 14 000 agreements, realized in PZU within a cheap package insurance. Additionally, it must be observed that compensation claims were realized for almost all concluded agreements. This number decreased in 2009 to 9 000 agreements and in 2013 it did not exceed 100 and in 2015 it was only 86. This may indicate a lack of risk construction in the material scope, which is inadequate to the economic reality of drought definition or involves huge costs.

4.3 Drought as a phenomenon not insured in previous years in Poland

Having in mind drought experiences in 2004-2006, creators of the Act on subsidized insurance claimed that ‘the whole system of insurances and subsidies will be of no significance as long as it does not include the drought risk’. Therefore, a key element for coverage effectiveness was to create a relevant drought definition and provide financial coverage for insurance companies in the case when damage events cumulate.

In the primary draft, drought was defined after the Institute of Meteorology and Water Management: ‘a period of at least two subsequent months with rainfall shortage in relation to mean total sum of years which is lower than 50% of standard determined by the Institute of Meteorology and Water Management’. This definition, however, caused a lot of controversy, particularly among farmers. They stressed a lack of reference to a growing phase of particular plants or class of soils under agricultural activity, or, finally, unclear reference to mean sum of years – without specified dimension. In effect, provisions regarding drought definition became the subject of debate. In 2007, the Ministry of
Agriculture and Rural Development held a special meeting for representatives of insurance companies (PIU committee on agricultural insurance), officials from the Department of Finance at the Ministry of Agriculture and scientists from the Institute of Soil Science and Plant Cultivation (pl. IUNG) and the Institute of Geodesy and Cartography. Definition suggested by IUNG was accepted by all participants and was reflected in the Act: ‘the occurrence of decreased climatic water balance below values determined for particular crop plant species and soils in any six-decade period from April 1 to September 30’.

Yet, the need to further clarifying provisions in detail and specify particular types of crops was emphasised, especially in the light of changing material scope of the Act where subsidy would incorporate further types of field cultivations (for instance, vegetables, fruit, hops). Also, IUNG was obliged to create historical digital drought maps on the basis of available data that would allow insurers to examine regional diversification of this phenomenon’s occurrence. However, insurance companies highlighted the fact that this method is new and in reference to phenomena occurring in the past does not allow to verify correctly the assumed model.

In addition, the state offered insurers support in financing compensation claims for losses caused by drought. This support involves subsidies in the case when paid compensation claims exceed 90% of drought insurance premiums. Also, insurance companies are entitled to partial coverage of compensations amounting to 60% of compensation claims over the specified limit.

### 4.3 Claims in subsidized insurance in Poland

A detailed analysis of claims paid by insurance companies since 2008 have indicated that there appeared an atmospheric phenomenon for couple of years consequently which resulted in significant payments. However, analyzing the subject in this study – winter-kill – caused significant payments in 2011. In that year almost 40 million Euro were paid by insurance companies, and most of them concerned rapeseeds. The reasons for this situation are primarily effects: the presence of snow mold, waterlogging plants in the early spring, smothering crops that were covered long time by snow, thawing during the day and freezing water at night from melting snow (GUS 2011). It should also be emphasized that the difficult weather condition which caused that rapeseed was sown in the autumn in a later date than providing a good agronomic practices. In effect, many farms in the Zachodniopomorskie Voivodeship have lost exceeded 60% of the acreage of rapeseed.

### Table 2. The amount of claims paid in subsidized insurance of the risks (2008-2012) in Euro.

<table>
<thead>
<tr>
<th>Type of event</th>
<th>2008 (PLN/Euro)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>YEARLY AVERAGE RATES</strong></td>
<td>3,5166</td>
<td>4,3273</td>
<td>3,9946</td>
<td>4,1198</td>
<td>4,185</td>
<td>4,1975</td>
</tr>
<tr>
<td>Drought</td>
<td>44 882</td>
<td>313 625,12</td>
<td>151 282,23</td>
<td>524 232,97</td>
<td>27 772,28</td>
<td>9 332,70</td>
</tr>
<tr>
<td>Flood</td>
<td>86 545,81</td>
<td>362 275,78</td>
<td>1 092 130,63</td>
<td>459 879,12</td>
<td>258 401,43</td>
<td>404 465,75</td>
</tr>
<tr>
<td>Winter kill</td>
<td>255 604,85</td>
<td>524 183,21</td>
<td>7 882 567,72</td>
<td>38 993</td>
<td>140 448</td>
<td>3 105</td>
</tr>
<tr>
<td>Spring frosts</td>
<td>827 523,46</td>
<td>7 608</td>
<td>2 015 187,25</td>
<td>33 314</td>
<td>1 765</td>
<td>791 472,78</td>
</tr>
<tr>
<td>Hail</td>
<td>8 941</td>
<td>19 108</td>
<td>13 303</td>
<td>14 499</td>
<td>29 234</td>
<td>31 767</td>
</tr>
<tr>
<td>others</td>
<td>933,40</td>
<td>572,32</td>
<td>971,36</td>
<td>971,12</td>
<td>275,03</td>
<td>162,12</td>
</tr>
</tbody>
</table>

Source: Data from the Ministry of Agriculture and Rural Development
5. ASSESSMENT OF THE CURRENT CONDITION OF CROP INSURANCES IN POLAND AND NECESSARY CHANGES - CONCLUSION

Controlling the threats (especially atmospheric phenomena) in terms of crops is a complicated activity and the instruments for covering losses in agriculture is still imperfect. Many agricultural producers refrain from purchasing an insurance. Although, since 2006 we have been observing a systematic increase of the number of concluded insurance contracts, only 20% of the areas with direct payments are covered with insurance protection and in most cases the protection refers only to the lowest (and least expensive) risk (hail). Farmers also tend to ignore the events of low probability, even if such events can result in serious losses and they concentrate on searching for other sources of financing based on the state budget (ad hoc aid).

The limitation and inadequacy of the risk control instruments in agriculture is also visible in the insurance companies, which do not have proper offers adequate to the farmers’ needs. What is more, in Poland only three insurance companies offer subsidised crop insurances: PZU SA, Concordia Polska TUW and TUW TUW. It is caused by the difficulties in constructing such a product, an increasing intensity of atmospheric phenomena, lack of experience in claims adjustment and an imposed method of determining the prices.

Subsidised insurances are a form of public-private partnership. In order for this partnership to work efficiently, periodical assessment of spending public resources should be carried out. Unfortunately, there are no tools which would allow for such an assessment. The tools need to be established and implemented in order to determine which farmers receive financial aid, which types of farms purchase the insurance policies and what is the method of providing compensation for agricultural losses.

An important modification to the crop insurance system could be the introduction of guidelines for the claims adjustment or providing various principles for claims adjustment, but under state control. Without such modifications we cannot have any assurance about the quality of insurance protection.

Modification of the current solutions means also the search for such a level of insurance premium, which would allow for the achievement of stability of functioning of the subsidised crop insurance system. On one hand, we should assess the demand of the insurance companies to abolish the maximum level of premium for subsidies (such a solution could function on condition that the mechanisms of verification of the loss ratio and of the costs of functioning of subsidised insurances in particular insurance companies would be established). On the other hand, we should also assess the acceptable level of crop insurance price for farmers (Janowicz-Lomott, M., Łyskawa, K., 2014).

It is necessary to constantly monitor actions on the crop insurance market and the improvement of forms of cooperation between the involved parties. In order to efficiently modify the agricultural insurance system a platform should be established for the exchange of experience, discussions on changes in the system and for the coordination of actions associated with new directions for the development of the system. The group of experts in this field should consist of representatives of insurance companies, Ministry of Agriculture, economic or agricultural scientists and representatives of agricultural producers.

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The System Design and Implementation of Request Development System on the Focus of Decision Support System

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ABSTRACT

Today, information technologies are changing constantly and rapidly. In parallel with this, business organizations must develop and optimize their business processes to gain competitive advantage. It can easily be said that IT units of most business organizations spend most of their time in correcting the errors affecting the user’s work negatively and in the changing of the IT components causing these problems. In general, the number of errors and the problems detected by IT or the number of necessary changes exceed its capacity. Therefore determining which methods will be used in the use of resources is of great importance. In today's technology it can easily be seen that web-based applications are becoming widespread. The main reason for that is that web-based applications have caught up with the form-based applications and can offer strong results in its own favor. In today's systems where electronic transactions are being popularized, the execution of a paper-based project causes different problems. A desktop business tracking program named Order Development Management (ODM) is being used in the SAP department of the firm Schneider-Electric. ODM program has some disadvantages. The aim is to use this tool more effectively to decrease the loss of time, to reduce the risk of the documents’ being damaged and lost, to prevent the failure in business processes by developing new extensions. In this study, a new web-based application called “request development management system (RDMS)” has been designed and carried out to perform the purposes mentioned.

KEYWORDS

Work Tracking System, Web Applications, DOM, RDMS, PHP, HTML5

JEL CLASSIFICATION CODES

C80, L86

1. INTRODUCTION

As an updated perspective, information technologies (BT) have several components; such as computer equipment, computer software, computer networks, communication technologies, specialized manpower, procedures, internet, intranet and communication tools. In this sense, information technologies have become a term composed of a series of technologies and tools which are “creating value and adding value”. In the past, information technologies were used to be known as control and management tool, but now it is playing the most significant role in making strategic decisions and reaching the correct data.

From now on, directors of corporations need to use information technologies effectively for evaluating numerous informations coming from different sources, making decisions and implementing decisions in a short time. For this reason, it should be possessed of a good organisation and strategy to define requirements properly and developing correct solutions. In today’s technology, it is seen that web based applications are gradually becoming widespread. The main factors of this are increasing speed of access in time, increasing security on web based applications and web-based applications offer strong results.

This study is composed of three sections. In the first section, terms of information, data and informatics, in the second section, decision support systems have been examined. In the third section, lacking side of current desktop application and solution suggestions for these lacks were mentioned,
and the purpose, scope and method of developed application were mentioned. The study was completed by evaluating the obtained results.

2. THE ANALYSIS OF BASIC CONCEPTS

The term, information, thousands of year ago, was the basis of human evolution. Discussing the information started with a question of boundaries of information in 5th century B.C. by philosopher Socrates (Güçlü, Sotirofskis, 2006: 352). Knowledge is obtained by collecting experiment, experience, comment and opinion. It is a high value information type which is ready for use in social events, decisions and acts. Information is arranged in a personal sense and generally composed of experiments and experiences (Özcan, 2006: 15). In the hierarchy of data, information and knowledge, computational methods play a major role in the initial processing of data to extract information, but they alone become less effective to compile knowledge from information (Kanehisa, Goto, Sato, Kawashima, Furumichi, Tanabe, 2014: 1).

Before discussing the information as a term, the closely related terms, data and informatics should also be known. To create information data should be arranged in a formula. On the other hand creating knowledge is to use useful and productive information for a specific purpose (Yılmaz, 2009: 166). While data are in records and procedures, knowledge is obtained from people or people having knowledge and sometimes from the routine operations of the organization (Özdemirci, Aydın ,2007: 166). Although the first production cost of the knowledge is high, the cost of second use is low. So knowledge spreads faster than the labor force, asset and service. The speed of knowledge create an unlimited society and also enable everybody to enter the competition system (İşevi, Çelme, 2002: 6).

Data is raw. It simply exists and has no significance beyond its existence (in and of itself). It can exist in any form, usable or not. It does not have meaning of itself. In computer parlance, a spreadsheet generally starts out by holding data. Information is data that has been given meaning by way of relational connection. This "meaning" can be useful, but does not have to be. In computer parlance, a relational database makes information from the data stored within it. (Bellinger, Castro, Mills, 2004; 1).

3. THE IMPORTANCE OF KNOWLEDGE ON ORGANIZATION AND INFORMATION SYSTEM

In today's increasingly competitive conditions, knowledge has been the most valuable production factor for the organizations. Managing information that enables the organization sustainable competitive advantage has also been one of the most discussed topics (Atılgan, 2009: 204). While return on investments for businesses was measured with products and equipment before, today created intellectual asset has become an important concept for the business and it is accepted that knowledge is the main source of this asset (İraz ,2005: 246). In short, it can be said that knowledge is a strategic weapon in both gaining an advantage in sectoral competitive advantage and in operational activity. The data which is the raw material of knowledge that is an important factor of production should be stored in a systematically, should be recorded and should be reported to the managers who need the information by using necessary scientific analysis. Administrators are the experts who manage the organization on behalf of the owner or owners. They are always in decision-making environment and they also have to make decisions while performing their duties. Table 1 shows changes in the key factors that have an impact on the decision-making. The results show that decision-making today is much more complex than in the past. There are two reasons for this. The first reason is that the number of viable alternatives identified in order to decide is higher than the ones observed before due to improved technology and communication systems.

The second reason is that the cost of error gradually increases because of the fact that a failure can have a knock-on effect on all units of the organization and that the processes is multiple and complex (Koçoğlu, 2010:80).

Table 1. Factors That Have Influence on Managerial Decision Making

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>Trend</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>Increase</td>
<td>More alternatives should be selected</td>
</tr>
<tr>
<td>Information / Computer</td>
<td>Increase</td>
<td></td>
</tr>
<tr>
<td>Structural Complexity</td>
<td>Increase</td>
<td>Increasing the cost of</td>
</tr>
</tbody>
</table>
Managers must be supported in order to get the most rational decisions. In this sense, decision support systems, structures stand out.

4. DECISION SUPPORT SYSTEM (DSS)

Decision Support Systems are computer-based information systems that support interactive information to managers in the decision making process. These systems use analytical models and interactive computer-based modeling process covering specific databases to support the adoption of semi-structured and unstructured business decisions (Arslan, Yılmaz, 2010: 78).

Systems aiming at offering computerized support in the decision making process first appeared in the late 1960s. Decision Support systems (DSS) have been defined as “interactive computer-based systems, which help decision makers utilize data and models to solve unstructured problems” (Gorry and Scott-Morton, 1971).

Decision Support Systems (DSS) are a specific class of computerized information system that supports business and organizational decision-making activities. A properly designed Decision Support System is an interactive software-based system intended to help decision makers compile useful information from raw data, documents, personal knowledge, and/or business models to identify and solve problems and make decisions. There are three fundamental components of DSSs, figure 1 is show this situation.


Within the current research, many works are focused on developing DSS in a combination with appropriate operations research methodologies to improve cost efficiency and achieve greater flexibility in industrial management (Tarantilis et al., 2005; Repoussis et al., 2009). DSS literature comprises two main streams: data-based DSS, dependent on data mining to derive decision rules, and model-based DSS, reliant on optimization, simulation, heuristic, and statistical models (Hand et al., 2001; Pearl, 2000; Loebbecke and Huyskens, 2009).

Decision support systems allow people at many levels to systematically analyze problems before making a decision. In the process, these systems extend the range and capability of the decision-making process, increasing its effectiveness (Gallegos, 1999). Marakas describes the common characteristics of DSS as listed at below (Marakas, 2003).

- Employed in semi structured or unstructured decision contexts
- Intended to support decision makers rather than replace them
- Supports all phases of the decision-making process
- Focuses on effectiveness of the process rather than efficiency
- Uses underlying data and models
- Facilitates learning on the part of the decision maker
- Is interactive and user-friendly
- Is generally developed using an evolutionary, iterative process
- Can support multiple independent or interdependent decisions
- Supports individual, group or team-based decision-making

5. APPLICATION
Schneider Electric company, has developed and implemented a new software due to lack of current software being used.

5.1. Current Application

Current application, which is used by software developers and administrators in Schneider Electric SAP department, ensures a change or a report to be made on SAP editing / adding to who did what job in the work and monitoring of the completion in how much time doing this job. This application is called “Development Order Management (DOM)”. The data obtained from the application provides workload of employees by organizing weekly meetings of managers in the department and the reviewing what they deal with business. Managers have to make some decisions by making review completed jobs. This application is developed with Microsoft DotNet and the Microsoft SQL Server is used as database.

5.1.1 Problems of Current Application

• In the absence of a uniform reporting mechanism which process about who makes a request and can not be reached by extracting the data, such as how long it takes for this process,
• Due to lack of authentication mechanisms while program opening, persons appointed on the business can make changes to the expected date but can not be seen who did this change end of the business.
• In some cases, two records which has the same request number can be created.
• If desired to modify the software, users have to close the open programs and require to make related changes later.
• Other users, which has lack of access privileges to the system, can not see the stages of their works.

New software has been developed to overcome these problems which has listed above, should be handled in a project.

5.2. Request Development Management System (RDMS)

Developing the new web-based application aims to overcome the shortcomings of current program and to assist managers in making better and more accurate decisions. New plug-ins are added and shared with the department for using. The foundation was laid in the project web-based application to be made in the future is expected to become a more professional nature with the new improvements.

Objective:
The primary objective of this study is to rescue the Schneider-Electric company of software developers working with department managers working in the SAP application from current bulky structure. Eliminating the missing side of existing applications obtain more meaningful data, so that data is ensure the decisions of the managers in the department while taking better decisions. For now, this application is designed to be used Schneider-Electric company only, but to open up the use of different companies aims in later times.

Scope:
The implementation covers the SAP s department of Schneider-Electric company. Schneider Electric company uses SAP as their ERP software solution and all business segments of the company are managed with SAP software. SAP department, which can change the report pulled out of the SAP, create a new reports and develop a software located in Çiğli location in Turkey serving all Middle East countries. This study used the Development Order Management (DOM) which is a desktop program that enables a more smooth and efficient operation of moving to the web database.

Method:
PHP is used when developing the project in general. The purpose of choosing PHP is used by a wide audience and is a scripting language that can be embedded into HTML. PHP with HTML5, CSS3 and jQuery web programming languages are also used. In-house hosting and database services due to the specific information you have been provided with a server installed in the local WAMP Server program. The NetBeans IDE editor as writing code and MySQL database as available from within the program WAMP Server as the database are used. HTML5 and CSS3 are directly used together to keep main code and the design codes in different places and to eliminate code complexity. As a result, it has
moved to using the four web programming languages and web environment with desktop software is provided for use in a more efficient manner. Flow chart of a project shown in Figure 2.

Figure 2. RDMS Flow chart

5.3. Steps of Application

User control, which is one of the biggest shortcomings of the present application has been implemented in this work and employees who want to access the system are now reported that they can log in with their password and e-mail address. In this way, employees can see things in more quickly on them and can plan their work in this direction, which allows them to gain time. In addition, everybody log in with their credentials, these changes can be seen in reports when and who made a change when a work-related.

Current user, after logging into the system, can see the list of all jobs assigned to on your own in the home screen. On the left side of the screen, the screen can be customized from us as desktop applications are available at the opening search menu. If prompted, "My Jobs" menu that works on just works can expect to find jobs or completed jobs. If desired it can be created on a new request or to change an existing request from the menu of "New / Change RDMS". Reports filed with the job is accessible to "Reports" menu.

RDM must be entered when creating new fields are taken from the current desktop. After the new RDM Creating the required fields on the page entered the "Save" button is pressed, the system yours automatically assigns a new RDM number and created RDM as a warning on the screen’s number tells us, so that one of the problems that the current desktop application has been prevented duplicate registry.

The user can change desired by entering the RDM number for any business that has been created before at RDM changing page. In the report page, users can access the information they want to receive the report by entering the RDM number. RDM entering the desired number of past transactions may be listed for that request. From these data it can be informed that how many people get involved and how much time that worked there. In later times more for the application to become a professional of some data is automatically calculated and displayed on the screen, such as adding some different functions are planned.

6. CONCLUSIONS

Given that the right decision to obtain a competitive advantage against the competition with increased productivity. In this study, a decision support system aimed at improving efficiency has been designed and developed. Thus, the desktop application DOM, where using in Schneider Electric SAP department, moved to web environment and also provided the opportunity to access the system from locations located in countries other than Turkey. Problems experienced in the previous program has
been corrected and increased the managers ability to make their decisions with more consistent data were obtained for in the department.
The benefits received by the program can be listed as follows:

• The occurrence of any changes relating to the work done is provided by the report screen.
• Authentication mechanism was created. Thus, it can be followed which user made which changes now.
• Duplicate records were prevented to occur.
• Accessing to the system facilities by other users in your business are provided (if desired).
• Abroad SAP Schneider Electric employees are provided to make tracking work through the system.

In summary, due to the mentioned problems, working as a desktop study of this software, web based development as proposed and started to work in this direction. Adding new application authentication system and reporting screens to eliminate the problem is to assist managers in decision-making it easier for them to decide. Developed a web-based system development life cycle by working more on the later times of the RDMS program in principle; automatic e-mail feature, the approval mechanism, an e-mail alert system, work time, language preference, global project and so features new plug-ins and for inclusion in the necessary work are recommended. Developing with this add-on may increase the effectiveness of the software

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ABSTRACT

Nowadays, interest in corporate environmental strategies has shifted from cleaner processes to green products. The relevant literature of "Porter Hypothesis", argues firms have the opportunity to pioneer through green products' innovation, allowing them to differentiate and thus gain competitive advantage. On the other hand, products' environmental burden during entire lifecycle is undeniable. Yet, bearing in mind the weakness of previous work to adequately address a commonly accepted green product definition, as well as the inconclusive academic empirical results on firms' competitiveness, there were many cases of corporations' green-washing behavior that come as no surprise.

In this exploratory paper we proceed with an exhaustive literature review, aiming to fill the gap of terminology absence. We develop an integrative concept that regards green product from "cradle to grave" and provides a combinatory framework for defining and evaluating the degree to which a product / procedure contributes to social and environmental sustainability.

KEYWORDS

Green products and procedures, social and environmental sustainability

JEL CLASSIFICATION CODES

Q56

1. INTRODUCTION

Nowadays multidimensional crisis calls for simultaneous economic stability, social equity and environmental protection pushing firms to actively engage and complete their "corporate social responsibility". Dynamic relationship between firms and environment has undergone progressive change (De Bakker et al., 2002). In the 1960s and 1970s, environmental problems were basically neglected from firms, while in the 1980s biophysical environment - seen as an externality and thus additional cost - led some businesses to simple compliance with end-of-pipe technologies. Until then, the majority of US-products did not incorporate environmentally friendly characteristics with the exception of organic foods in the food industry (Air Quality Sciences, 2010). After the publication of Brundtland Report in 1987 with the alongside emergence of "sustainable development" terminology, the 1990s were marked by the revolutionary approach of "Porter Hypothesis" (De Bakker et al., 2002; Berry & Randinelli, 1998). According to Porter and van der Linde (1995), environmental innovation as response to ecological challenges may offer multiple competitive opportunities that stem from differentiate and/or cost strategies, in a win-win logic.

Since then, "green" became a hot topic in academia and there has been a growing number of references regarding terms such as "green products", "green strategies", "green labeling" and so on (Air Quality Sciences, 2010). The problem is that every term including the notion "green" / "environmental" seems to totter and be quite complex. So, the correct definition should be the starting point. That is the reason why we turn to the very basics: what is finally a "green product"?

Main objective of this work is to identify works on the field of "green product" definition and thereafter to see the progress that has been made in theoretical as well as empirical studies concerning the relationship "green vs. competitiveness" in the last years. The exhaustive literature review seems to be the necessary methodological approach helping to the conceptual content of the field and guiding us
towards proper theory development, in an attempt to establish a functional term in order to fill the existing gap.

The rest of the paper is structured as follows: next section presents the environmental management literature review, in which we see the transition from “green processes” to “green products”. Section 3 provides the theoretical background of the field, in order to help us define clearly the concept “green product” through relevant terminology. In the forth section we explore the debate on the empirical studies concerning “green vs. competitive”. Last but not least, section 5 summarizes this study and provides conclusions and proposals for further research.

2. ENVIRONMENTAL MANAGEMENT

The emergence of environmental management that cares for coordinating organizations with environment, arose in order to minimize the ongoing and conspicuous environmental degradation, caused by the prolonged industrial production and is traced in the 1990s (Chen, 2008; Lee, 2009). It became quite fashionable since the new millennium and concepts such as “green management”, “green innovation”, “environmental strategies” have come to the forefront and have been widely researched (Chen, 2008; Orsato, 2006). Although there is no common classification among the forces that motivated businesses’ sensitiveness and led to the acquaintance of environmental management, two of them seem to be mainly addressed in the literature: the stringency of environmental legitimacy, which took place in international and national scale and the rise of consumerism (Wong, 2012).

Firstly taken strategies of corporate environmental management have started to go beyond regulatory compliance - an approach that flourished since 1960s - as the continuous emergence and adjustment of environmental laws led to increased costs (Ross & Evans, 2002; Tien et al., 2005). At that time the existing corporate environmental management focused on reactive strategies. Later on, the shift that took place was from end-of-pipe pollution control technologies (e.g. filters) to corporate environmental management of environmental proactivity (Charter et al., 2001).

These proactive strategies are distinguished in organizational and operational/ functional, with the later to further divide in process oriented and product oriented strategies (González Benito & González Benito, 2006). At first, the focus was on cleaner production processes, aiming at reduction of impacts through a more environmentally conscious production process (González Benito & González Benito, 2006; Frondel et al., 2007).

The progressive change that followed, next to cleaning production technologies and pollution prevention, caused the environmental management to entail forms of product stewardship (De Bakker et al., 2002). Over the last decades, corporations' shift towards proactive environmental protection strategies shifted from processes to products due to stringent environmental regulations that aim at minimizing the ecological footprint of products since there has been the understanding that products can create an environmental burden during their whole lifecycle, from production to consumption and finally to disposal (Albino et al., 2009; Boons 2002; Triebwetter & Wackerbauer, 2008). According to Wong (2012), the “green product” innovation seemed to be more influential than “green process” innovation. Moreover, there are major markets for eco-products that require businesses’ full compliance (Wong, 2012).

Nowadays, it has been perfectly clear that economic growth should be accompanied by minimization of ecocological degradation as well as attention to social problems. Thus, an increasing number of companies are working on the development of environmentally friendly products that will function as a differentation tool, aiming at competitiveness (Chen, 2013). Consequently, concepts such as integrated environmental management (Margerum, 1999), integrated product policy (Commission of the European Communities, 2001), product-oriented environmental management (De Bakker et al. 2002), environmental design (Tien et al., 2005), green supply-chain management (Shrivastava, 2007), green product design (Chan, 2011), green product development (Jasti et al., 2015), design for the environment (Us term) / eco-design (European term) / environmental conscious design (Bauman et al., 2002; Van Weenen, 1995; Tukker et al., 2015), green product innovation (Wong, 2012) and product stewardship (De Bakker et al., 2002) have come to the forefront and are researched in academia, while at the same time have led to the development of new methodologies for the evaluation of environmental impacts such as Life Cycle Analysis, Strategic Environmental Assessment, Environmental Management Systems and many more (Albino et al., 2009; Bauman et al., 2002; De Bakker et al. 2002; Finnveden et al. 2009).
3. WHAT MEANS A “GREEN PRODUCT”

Although "green" caught the attention of nowadays political speech (that seeks for the new paradigm of "green growth") and has become mainstream in hitherto literature review, there exists a definitional issue since research in the field is underdeveloped and the concept of what really constitutes a “green product” still remains unclear (Durif et al., 2010; Hartmann & Ibáñez, 2006). That was as well empirically confirmed by Durif et al. (2010), who studied the concept of "green product" in a 30-year old period from three different viewpoints: academia, businesses and consumers. Durif et al., (2010) concluded that the concepts neither match nor even converge. The concept of “green” is characterized as evocative and powerful since consumers and companies seem to be attracted to this differentiator (Air Quality Sciences, 2010). No wonder why the problem regarding the terminology absence seems to be mostly addressed in the marketing and management field (Chen et al., 2006; Russo & Fouts, 1997).

There is no unified definition, thus "green products” are interpreted in different ways. The most prominent notions used in the literature are ‘green’, ‘eco’, ‘environmental’ and ‘sustainable’. Albino et al. (2009) argues that "green" and "eco" in terminology are used interchangeably, but the term “sustainability” shows a broadening in scope, taking into consideration the so-called “3 pillars” of sustainable development: economic vitality, environment and social fair, that are also commonly referred as triple bottom line. According to Yanarella et al. (2009), “green” is a much easier and convenient term to follow, since sustainability calls for radical changes in our growth model. Maybe that justifies the rise in the use of the term “green” in recent years.

The term also seems to depend every time on the field of research (Durif et al., 2010; Saha & Darnton, 2005). For instance, there exists a terminology gap between business management and environmentalists (Chen, 1991; Jasti et al., 2015). At the same time, there is no terminology convergence even in economic sectors. For example, a “green product” in health sector might be a product that minimizes the damage in human health whereas in manufacturing business, it should combine economic and environmental protection (Saha & Darnton, 2005).

Moreover the concept itself, which is under research, is never the same thus we have a plethora of concepts. In prior literature, concepts such as green products (Albino et al., 2009, Chen, 1991; Durif et al., 2009), green product innovation (Chen et al., 2006; Kam, 2012; Wahid & Lee, 2011), eco-products (Karlsso, 2006), environmental innovation (Costantini & Mazzanti, 2012), and eco- innovation (Rennings, 2000) were addressed. Finally, concepts aim at different elements such us environmental impacts (Albino et al., 2009), parts of life cycle analysis (Pickett-Baker & Ozaki, 2008), green core competence (Chen, 2007).

The absence of a universal definition of the term and the ongoing debate of what really constitutes a “green product” has led to a twofold problem. At first, there is a methodological deficiency in academic research because the term is quite ambiguous, which is considered as the main reason to conflicting empirical results (López-Gamero et al., 2009). In praxi, on the other hand, the industrial sector and third party authorities have long started to communicate their “greenness” in the market, mainly by establishing standards for “green products” (e.g. eco-labeling) and personal declarations that come through their environmental policy reporting, thus they are in several cases dealt with skepticism and accused of "greenwashing” their products (Albino et al., 2009; Durif et al., 2010). It is remarkable that 32% of the so called “green products” are fake, according to the 2010 TerraChoice Report, which saw a 6% rise in comparison to 2009 (Air Quality Sciences, 2010). The rise of a properly developed term will solve the above problem and at the same time will lead to proper environmental strategies.

From a conceptual point of view, despite the terminology variation, there seems at least to be a convergence that “green product” should take into consideration the environment and that there must be a life cycle thinking, since environmental impacts are generated at each stage of product life cycle (Air Quality Sciences, 2010; Chen, 1991; Wong, 2012). That was apparent from the early 1990s because every product causes multiple ecological impacts on extraction of raw materials, energy use, air and water consumption, production of intermediate and end products (in general “green” manufacturing, which if further divided in end-of-pipe and integrated/ clean technologies), distribution, consumption (products generate private environmental benefits for the consumer such cost and energy savings, toxic free), recycling and finally disposal (Chan, 2011; Frondel et al., 2007; Wahid & Lee, 2011). Thus, bearing in mind the product lifecycle management, the same classification was applied to “green products”, leading to the development of Environmental Life Cycle Analysis as a tool in order to measure the ecological impact of products’ (Finnveden et al., 2009).

Although “green product” definition is not frequently found in the literature, an early relatively proper concept is Ottman’s (1998, p.89), according to which: “Green products are typically durable, non toxic, made of recycled materials, or minimally packaged. Of course, there are no completely...
green products, for they all use up energy and resources and create by-products and emissions during their manufacture, transport to warehouses and stores, usage, and eventual disposal. So green is relative, describing products with less impact on the environment than their alternatives". The term of course falls short because it does not incorporate the intangible (services) together with the tangible (physical) which would represent a significant increase in scope and is too long. On the other hand, the OECD (1998) term according to which “environmental goods and services include all activities that measure, prevent, limit, minimize or correct environmental damage” does not refer to products effect from “cradle to grave” (Fankhauser et al., 2013).

The right definition should interpret the boundaries of the concept clearly so that it will constitute the foundation for valid inferences. The main goal is the contribution to the conceptual understanding by harmonizing the different terms to a general that could be implemented in all fields. Thus the term must be short but at the same time exhaustive and inclusive. Thus the following laconic concept could be proposed: green is a product/service that minimizes its environmental impact during its whole life-cycle.

4. GREEN AND COMPETITIVENESS

Firms in global scale are continuously trying to develop innovative ways to enhance their competitiveness in 21st century and be led to a win-win situation. The empirical confirmation is thus of utmost importance.

Firstly it was the impact of the constantly changing environmental regulations on firms that gave rise to many academic debates since early 1990s (Ambec & Barla, 2006). During these last 25 years, academia has witnessed a transition in empirical investigation to more complex and specific empirical researches, from case study analysis to micro and macro frameworks, from examining effects of end-of-pipe technologies to the effects of proactive ones (Costantini & Mazzanti, 2012; Frondel et al., 2007). But hitherto empirical investigation still varies in studies that depict positive relationship between environmental variables and firms’ competitiveness and in those that show negative or no relationship (Eiadat et al., 2008; Iraldo et al., 2011).

Since there is not a universal term of what constitutes a “green product” with no solid theoretical core, mixed empirical results come as no wonder. The reasons for this debate have not been yet exhaustively examined (Horváthová, 2010). There exists a long list of environmental as well as economic variables that have been used (López-Gamero et al., 2009). According to Horváthová’s (2010) meta-analysis investigation, the problem seems to merely focus on the environmental variables. At the same time there is a plethora of parameters (such as firm size) and techniques that might influence the results (with multiple regression and panel data techniques to be more objective) (Horváthová, 2010; Iraldo et al., 2011).

5. CONCLUSION

Concluding, there has been a shift in corporations’ interest to “green products” over the years. Hitherto literature review though still seems to be inconclusive in theoretical investigation. Despite the development on the field, there exists a terminology gap maybe due to the fact that the field is considered relatively new. Our effort was to contribute to this discussion by providing a laconic yet inclusive term in order to fulfill this gap in literature. Finally, there is an ongoing debate in empirical investigation as well.

Last but not least, on a further research there should be a list of the environmental and economic variables as well as of the techniques that have been used in past researches in order to find the most suitable and objective ones and then move to a thorough empirical investigation to examine the relationship “green vs. competitive”. That would be of course quite challenging, since the majority seems to be based in questionnaire surveys (Chen et al., 2006; Triebwetter & Wackerbauer, 2008) and would require suitable data. Lastly, since the majority of empirical examination focuses on the US economy (Darnall et al., 2008) it would be of great interest to focus on European Union.

REFERENCES


INFORMALITY Or Corruption? The Case Of Ukrainian Firms

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ABSTRACT
Corruption is considered by the vast majority of researchers and policymakers as one of the primary obstacles to economic growth. At the same time, the most corrupt countries have remained at a stable level of corruption for decades, showing limited or no progress in fighting the evil. Why is corruption so persistent if it brings such negative outcomes for a country? A growing body of literature has investigated the different mechanisms that lead to these outcomes. The persistence of corruption might reflect some natural equilibrium in the society, in which being corrupt is the natural way of doing business. Such a value-based culture of corruption might be inherent in the everyday culture of a society as a social norm. In addition, corruption may have rational social and/or institutional roots that have persisted for a long time. Social capital, for example, might not always produce positive externalities and may in fact lead to corrupt behavior.

This paper investigates the relationship between social capital and corruption within the business community in Ukraine. It explores how the strategies that businesses employ to build trustful relationships with their peers might contribute to their perception of and involvement in corruption. The authors hypothesize that building trust by formalizing trustful relationships (via building reputations, using middlemen, etc.) might be conducive to creating a less corrupt business practices. And, in contrast, building trust by informalizing trustful relationships (via using connections, giving presents or making family friends, etc.) might lead to more corrupt business practices.

The empirical analysis is based on a representative survey of Ukrainian companies, which was conducted in spring 2013 and describes a wide range of firm characteristics together with questions related to corruption and trust perception, among other things.

In order to test the hypotheses, the authors introduce and estimate artificial measures for a firm’s perception of corruption and the formal and informal ways that firms can build trustful relationships with their business partners. These measures are derived from a principal component analysis based on specific questions from the survey related to corruption and trust perception among firms. Alternative measures are estimated in order to verify robustness. Regression-based empirical analysis indicates that there is no significant relationship between a firm’s practice of formal methods of trust building and its perceived corruption; at the same time, however, the authors find a significant positive relationship between a firm’s practice of informal methods of trust building and its perceived corruption related to their business operations. The relationship is robust with regard to different measures of perceived corruption and the inclusion of other explanatory variables. Additionally, the authors find a weak positive relationship between a firm’s age and its perceived corruption. The results indicate that firms functioning on the B2C market are less inclined to corrupt behavior. At the same time, there is no indication that firm size and integration into international markets relate in any way to a firm’s corrupt or informal practices in doing business. Interestingly, the results indicate a strong negative relationship between the size of the city where a firm operates and its perceived corruption.

KEYWORDS
Corruption, trust, informal and formal relationships, Ukraine

JEL CLASSIFICATION CODES
D22, D73, L2

1. INTRODUCTION
Corruption24 is considered by the vast majority of researchers and policymakers as a primary obstacle to economic growth, posing significant risks for investors and/or increasing inequality (Rose-

24 Transparency International defines corruption as ‘the abuse of entrusted power for private gain’. Private gain is usually understood not only in a financial sense, but also in a sense of status or influence (cf. Ledeneva 2009: 258).
Ackerman, 1978; North, 1990; Gupta, Davoodi, & Alonso-Terme, 2002). At the same time, the most corrupt countries have remained at the same level of corruption for decades, showing limited or no progress in fighting the evil (Mauro, 2002; Mishra, 2006; Warren & Laufer, 2010). What limited data is available on corruption in Ukraine indicates its stunning persistence. Transparency International’s corruption perception index (Figure 1) shows little movement either in terms of the score or the percentage of countries that are above Ukraine on that study25.

Figure 1. Corruption Perception Index and Percentage of Countries with Higher Index Scores than Ukraine

![Corruption Perception Index and Percentage of Countries with Higher Index Scores than Ukraine](image)

Source: Transparency International (http://www.transparency.org/research/cpi/overview)

Why is corruption so persistent if it brings such negative outcomes for a country? A growing body of literature has investigated the different mechanisms that might lead to these outcomes. It might reflect some natural equilibrium in the society, when being corrupt is the natural way of doing business. Such a value-based culture of corruption might be inherent in the everyday culture of a society as a social norm. Barr and Serra (2010) find support for the cultural roots of corruption by using an experimental approach to show a positive, statistically significant relationship between the level of corruption prevailing in a home country and the likelihood of engaging in corruption within the context of their experiment.

In addition, corruption may have rational social and/or institutional roots. This paper explores one of such social mechanisms looking for a link between corrupt behavior of firms and the ways they build their social capital, particularly, the ways they establish trustful relationships.

Social capital might not always produce positive externalities and may in fact lead to corrupt behavior (Tanzi, 1995; Warren, 2004). Tanzi (1995) argues that strong social connections might help to internalize corruption, meaning that hidden corruption will spread. This might be especially true in the case of countries of the former Soviet Union, where strong collectivist social structures have been inherited from the past. On the contrary, Putnam (1993) argues that social capital decreases corruption by increasing the civility of a society. Kingston (2007) indicates that much of the ambiguity inherent in the relationship between social capital and corruption comes from the lack of a generally accepted definition of social capital. To overcome this problem, he uses the notion of social structure rather than social capital, and distinguishes between an “integrated” social structure, in which individuals have a large number of weak informal connections, and a “collectivist” social structure, in which people tend to have a smaller number of strong informal connections. He argues that latter is conducive to corruption, while the former inhibits it.

25 Similar results can be seen in the surveys done in Ukraine by the European Research Association in 2007, 2008, 2009 and 2011 (http://uniter.org.ua/upload/files/PDF_files/Publications/corruption_in_ukraine_2007-2009-2011engl.pdf). They show that more than 60% of the respondents were involved in corruption within the last twelve months of the corresponding period. Within the period of the study, there was no single sector and/or institution that showed any statistically significant improvement. The most corrupt public areas indicated in 2011 were healthcare institutions (66%), schools (61%), police (53%) and universities (50%).
In the same vein, trust and trustworthiness as components of social capital are closely related to corruption. Vertical (institutional) trust is usually seen as a prerequisite for compliance with the law, leading to a decrease in corruption. Analyzing Russia, Wintrobe (2001) argues that if people do not believe the government they will attempt to evade their taxes; reflexively, if people assume others are trying to evade their taxes they will attempt it themselves. Similarly, Svendsen (2003) describes the vicious circle of corruption that leads to a lower level of trust and hence a slowdown of economic growth that, in turn, increases the centralization of state power and leads to even more corruption. The influence of horizontal trust (generalized trust, trust in other people) on corruption is ambiguous. On the one hand, a high level of trust in others reduces the transaction costs; this lead to an increase of aggregate benefits that leaves no room for corruption (Putnam, 1993). Indeed, Bjørnskov (2003) shows that the direction of influence proceeds from trust to corruption; that is, an increase of trust in one’s fellow citizens causes less corruption with weak reverse causality. On the other hand, trust within a family or an informal network can lead to increased parochial corruption by reducing the enforcement problem that arises when two parties are involved in a bribe transaction (Kingston, 2007). We find support for such a case in a great deal of anecdotal evidence from Ukraine and other post-Soviet countries, where many companies become members of closed clubs or membership organizations like charitable funds in order to assist in tax evasion and/or reduce authority control. The ambiguity of the relationship between trust and corruption in Ukraine is reflected in Neutze and Karatnycky (2007). They indicate a mixed picture of corruption practices in the private sector in Ukraine. While corruption remains a major mechanism by which companies evade taxes, obtain market access and favorable or even monopolistic conditions and resolve complicated bureaucratic procedures, many big companies strive for transparency, as precondition for trust, in order to get access to the international capital market. At the same time, small and medium-sized enterprises strive for a decrease in negative, blat-related trust in order to have equal access to corruption. In the same vein, when describing a post-Communist society like Russia or Ukraine, Rose (1999) classifies social capital networks that are based on market norms and formal relations between economic agents as modern, and those that rely on informal relations and connections to get things done outside the rules as anti-modern. In order to carry out business activities in such a society, entrepreneurs usually combine both modern and anti-modern market approaches. On the interpersonal level, Ledeneva (1998) points to blat as a widespread informal exchange system based on interpersonal trust that people use to solve their everyday problems in the countries of the former Soviet Union. A similar trust-based system of exchange of favors, called “compadrazgo”, exists in Chile (Adler & Sheinbaum 2004).

Thus, it turns out that the ways in which businesses build trustful relationships with their peers might contribute to their perception of and involvement in corruption. In this paper, we hypothesize that, within the business community, building trust by formalizing trustful relationships (via establishing reputations, using middlemen, etc.) might be conducive to creating a less corrupt business practices. And, in contrast, building trust by informalizing trustful relationships (via using connections, giving presents or making family friends, etc.) might lead to more corrupt business practices.

Indeed, Tanzi (1995) distinguishes arm’s-length vs. close relationships in a society, where latter is more conducive to the spread of corruption. He mentions that corruption within formal, arm’s-length relationships would clearly reflect unwarranted and anti-social behavior that is easy to identify and, hence, punish. On the other hand, close informal relationships would make corruption more frequent, hidden or even invisible, making punishment much more problematic and possibly leading to the spread of corruption. Similarly, Putnam (2000) admits that social capital, like any other form of capital, can be conducive to anti-social purposes. He distinguishes between two forms of social capital: bridging (or inclusive) capital, which links individuals from different social groups; and bonding (or exclusive) capital, which builds strong ties between individuals within the same social group. He points out that bonding social capital might not always have a positive societal effect. Harris (2007) develops on this, showing empirically that a high level of bonding social capital, which is characterized by a high level of particularized trust and reciprocity amongst families and close friends, increases corruption. Although there is no strict relation between our distinction of formal and informal practices of building trustful relationships and Putnam’s bridging and bonding social capital, by definition, bonding social capital is characterized by strong in-group loyalty and reciprocity, which is often is built via informal relations. This provides additional support for our hypotheses.

In order to test the hypotheses, we introduce and estimate artificial scales to measure a firm’s perception of corruption and the formal and informal ways that firms can build trustful relationships.

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26 While Ledeneva mostly refers to Russia, blat is inherited from the Soviet era; hence, it is typical for most post-Soviet countries.
with their business partners. Our analysis is based on a representative business survey of Ukrainian companies, which was conducted in spring 2013 and describes a wide range of firm characteristics together with questions related to corruption and trust perception, among other things. We add to the empirical literature on corruption by showing a positive relationship between respondents’ practices of trust building with peers via informal connections and their perceived corruption related to their business operations.

The rest of this paper is organized as follows: Section 2 introduces the data, outlines some descriptive statistics, the measurement of our main variables and an estimation strategy. Section 3 presents the estimation results and discussion. Section 4 concludes.

2. DATA AND MEASUREMENT METHODOLOGY

One of the biggest challenges in empirical corruption research is the measurement problem. As a rule, firms are typically guarded or even false in their responses to direct questions related to their corrupt practices. Therefore, researchers usually avoid asking direct questions, but code corruption in different informal practices that are widespread in the country of study. Here we follow the approach developed and tested by Shekshnia et al. (2013, 2014) for business corruption in Russia. The same approach to the assessment of business corruption is used in Denisova-Schmidt and Huber (2014), who investigate regional differences in business corruption in Ukraine based on the same survey data we use in this study.

This paper is based on a unique representative survey of Ukrainian firms. The sample is comprised of 625 firms, which are stratified according to region and size. 25 firms were sampled in each of Ukraine’s 25 administrative regions (24 oblasts and the Republic of Crimea). In each region, 20% of the sample were small businesses of 20 to 50 employees; 50% were mid-sized companies (51 to 250 employees); and 30 percent were large enterprises (251 to 1,000 employees). Additionally, firms were stratified by sectors of the economy in proportion to each sector’s contribution to Ukraine’s GDP in 2010.

Apart from a wide range of firm-specific characteristics (financial indicators, ownership structure, employee quantity and structure, etc.), the survey contains information on and judgments of the respondents’ (firm’s owner or top manager) perception of the occurrence and severity of corruption and informal practices within their peers and with the relevant authorities. It also addresses trust-related issues, attitudes towards risk, etc.

Our measure of firm’s perception of corruption is based on the responses of the firms’ representatives to the block of questions related to the frequency of usage of specific corrupt informal practices among firms shown in the Table 1. The simple average response (\(\text{Corr}_{\text{average}}\) and the weighted average response (\(\text{Corr}_{\text{factor}}\) with weights derived from the Principal Component Analysis based on these six questions are used as two alternative measures of a firm’s perceived corruption, where a higher value indicates a higher perception of corruption in a given firm. The analysis revealed a high correlation among responses to all these questions. The percentage of the total variance explained is 65.3%. The factor loadings for the use of different informal practices on the principal component are (0.75) in public procurement, (0.77) when dealing with suppliers and customers, (0.77) in the remuneration of employees, (0.82) in the job application process, (0.87) in the use of firm resources for private purposes and (0.86) in competing with other firms. These factor loadings were used as weights to construct \(\text{Corr}_{\text{factor}}\) measure of a firm’s perceived corruption.

Table 6. Firms’ Usage of Corrupt Informal Practices in Doing Business in Ukraine. Question: How often do firms comparable to your own face the informal practices listed below? (scale from 1 – never to 5 – systematically)

<table>
<thead>
<tr>
<th>Informal Practices as known to participants</th>
<th>Forms of corruption in the Transparency International classification</th>
<th>Mean</th>
<th>St.dev</th>
<th>No of answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selecting vendors/contractors/winners of open tenders on the basis of informal relationships and agreements</td>
<td>Cronyism, Nepotism, Lobbying</td>
<td>2.37</td>
<td>1.24</td>
<td>530</td>
</tr>
</tbody>
</table>

27 The Public Administration sector was excluded from this survey.
Receiving kickbacks or other informal rewards (for example, expensive gifts) from vendors, suppliers, buyers
Paying salaries and bonuses to staff in cash without paying taxes and social fees
Receiving kickbacks or other material benefits from job candidates
Using company funds, facilities or staff for personal gain
Using unethical informal tools such as kompromat against competitors

Gift, Conflict of Interest
Fraud
Gift, Conflict of Interest
Abuse of Power or Office
Influence Peddling

It should be noted that a firm’s perception of corruption and informal practices is not a clear and direct indication of that firm’s experience with and/or involvement in corrupt practices. However, the spread of the perception of corruption among firms may indeed cause a spread of corruption via a self-fulfilling prophesy mechanism. For example, based on the data from 30 West and East European countries, Frey and Torgler (2007) show that the spread of corruption in terms of tax evasion increases if taxpayers perceive that tax evasion is widespread. Therefore, here we assume that a firm’s high perception of corruption indicates the degree of that firm’s involvement in business corruption.

The frequencies of the firms’ practice of formal and informal methods of building trustful relationships are derived from the firms’ answers to the block of questions shown in the Table 2.

Table 2. Firms’ Practices of Formal and Informal Strategies of Building Trustful Relationships. Question: How often do you practice the following strategies for establishing trust with your partner? (scale from 1 – never to 5 – always)

<table>
<thead>
<tr>
<th>Strategies</th>
<th>‘Informal’ Strategies factor coefficients, % variance explained: 33%</th>
<th>‘Formal’ Strategies component factor coefficients, % variance explained: 21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Try to show that I am an expert in this field. 2. Use patronage (connections on all levels).</td>
<td>Mean: 4.13, St.dev: 1.08, -0.122</td>
<td>Mean: 0.790</td>
</tr>
<tr>
<td>3. Attend training sessions to develop communication skills. 4. Make gifts.</td>
<td>Mean: 2.34, St.dev: 1.20, 0.319</td>
<td>Mean: 0.629</td>
</tr>
<tr>
<td>5. Use notaries and lawyers to make parties feel secure (i.e., in contracts).</td>
<td>Mean: 2.09, St.dev: 1.05, 0.748</td>
<td>Mean: 0.230</td>
</tr>
<tr>
<td>6. Invite him/her to a restaurant or party. 7. Introduce him/her to my family and friends.</td>
<td>Mean: 2.45, St.dev: 1.35, 0.302</td>
<td>Mean: 0.591</td>
</tr>
<tr>
<td></td>
<td>Mean: 1.79, St.dev: 0.98, 0.814</td>
<td>Mean: 0.135</td>
</tr>
<tr>
<td></td>
<td>Mean: 1.5, St.dev: 0.88, 0.773</td>
<td>Mean: -0.007</td>
</tr>
</tbody>
</table>

We count practices (1), (3) and (5) as representing strategies of formal trustful relationship building, while practices (2), (4), (6) and (7) represent strategies of informal trustful relationship building. Interestingly, such a division was supported by the Principal Component Analysis (PCA) using the Varimax with Kaiser Normalization rotation method. It revealed two principal components with the same division of firms on formal and informal practices of building trustful relationships. The last two columns of Table 2 present the factor coefficients from PCA that were used as weights to construct two artificial measures - indices of a firm’s practice of formal and informal methods of trustful relationship building. The results remain unchanged when we used a simple mean of responses to corresponding questions to form additive indices.

28 The results remain unchanged when we used a simple mean of responses to corresponding questions to form additive indices.
relationship building\textsuperscript{30}. A higher value for each index indicates higher reliance of a firm on either formal or informal strategies of building relations with potential partners.

We use regression analysis to investigate our hypotheses on how firms’ practice of formal and informal methods of relations building relate to the usage of corrupt, informal practices in doing business. The direction of causality from trust to corruption is widely discussed in the literature. Harris (2007) provides theoretical considerations of such relationship, showing both direct and indirect effects from bonding social capital (trust) to corruption. Bjørnskov (2003) shows the same direction of causality from generalized trust to corruption by employing both the principal-agent theoretical model and empirical estimations. At the same time, Uslaner (2001) and Bjørnskov (2003) report weak evidence of the reverse causality. Hence, our estimation model can be written as follows:

\[
Corr_i = \alpha + \beta \text{Trust}_i + \gamma X_j + u_i, \]

Here,\textit{ Corr} denotes our proxy of firms’ corruptness measured via a level of perceived corruption of firms. As mentioned above, for the sake of robustness, we use two alternative measures of perceived corruption by calculating the average of the responses to the corresponding questions from the Table 1 and by forming weighted indices using factor coefficients from PCA.\textit{ Trust\_rel} denotes two variables - the measures of the frequency with which firms apply formal (the variable: \textit{Formal relations}) and informal (the variable: \textit{Informal relations}) methods for building trustful relationships, derived from PCA as described above. \textit{X} represents other factors that are likely to influence the firms’ perception of corruption; \textit{u} is the error term. The other factors we consider that might influence firms’ perception of as well as participation in corruption are the following: Ownership structure (\textit{domestic ownership} = 1, foreign ownership or joint venture = 0), we expect that exclusively domestic ownership may be conducive to corruption and/or informal practices; type of firm’s business model (\textit{Business-to-Customer model} (B2C) = 1, Business-to-Business model (B2B) = 0) and firm’s size (measured by actual number of employees) – we expect that firms functioning on the B2C market as well as big firms are more open and pay more attention to their reputation, hence, are less inclined to corrupt/informal practices; \textit{year of firm establishment} – we expect a positive relationship between a firm’s age and its practice of corrupt/informal behavior\textsuperscript{31}; the size of the city where firm operates (two dummies: \textit{regional (oblast) capital}\textsuperscript{32}, and \textit{provincial city with less than 50 thousand inhabitants} with the reference group - provincial city with more than 50 thousand inhabitants). In order to capture a firm’s perceived corruption in relation to the extent of its integration into international markets, we include as explanatory variables the share of products/services sold on the domestic market (the variable: \% \textit{products/services sold domestically}) and the share of products/services bought on the domestic market (the variable: \%\textit{ products/services bought domestically}). We also use \textit{firms’ income} for the last year reported (six dummy variables for seven income categories) and \textit{regional dummies} (24 dummy variables for 24 oblasts and the Republic of Crimea)\textsuperscript{33} as control variables.

Table 3 outlines the descriptive statistics of the data we use.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Mean</th>
<th>St.dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corr_average (average from the scale from 1 – never to 5 – systematically)</td>
<td>443</td>
<td>1</td>
<td>5</td>
<td>1.91</td>
<td>0.89</td>
</tr>
<tr>
<td>Formal relations (average from the scale from 1 – never to 5 – always)</td>
<td>625</td>
<td>1</td>
<td>5</td>
<td>2.98</td>
<td>0.85</td>
</tr>
<tr>
<td>Informal relations (average from the scale from 1 – never to 5 – always)</td>
<td>625</td>
<td>1</td>
<td>4.75</td>
<td>1.90</td>
<td>0.76</td>
</tr>
<tr>
<td>Year of firm establishment</td>
<td>624</td>
<td>1930</td>
<td>2013</td>
<td>1995</td>
<td>17</td>
</tr>
</tbody>
</table>

\textsuperscript{30} A reliability analysis of these two indices shows a high reliability of the informal practices index (Cronbach’s alpha = 0.72) and a weak reliability of the formal practices index (Cronbach’s alpha = 0.49).

\textsuperscript{31} We base this assumption on the fact that the longer a firm is in business, the more chances it has to internalize its business practices and to establish informal connections with its partners.

\textsuperscript{32} The smallest regional capital population is 117,000; the largest 2,814,000 people.

\textsuperscript{33} The six-region division of Ukraine on Western region (Lviv, Ternopil, Ivano-Frankivsk Volyn , Rivne, Chernivtsi, Zakarpattia), Northern region (Zhytomyr, Chernihiv, Kyiv, Sumy), Central region (Khmelnytskyi, Vinnitsa, Cherkassy, Poltava, Kirovograd), Southern region (Odessa, Kherson, Mykolaiv, Crimea), Eastern region (Donipropestrovsk, Zaporizhzhia, Kharkiv) and Donbas region (Donetsk, Luhansk) was used for robustness check and revealed similar estimation results not reported here.
3. ESTIMATION RESULTS

The results of the Ordinary Least Squares regression estimation are presented in the Table 4. We use three different specifications of the base model. Model (1) only employs the explanatory variables on firm’s practice of building relations with partners. While Model (2) additionally uses the variables on firm’s age, firm’s size and firm’s location (big city, small city) that might be count as strictly exogenous and/or they define long-term strategy of a firm. Finally, Model (3) employs all the variables from the survey that are likely to influence the firm’s corruptness including income and regional control variables.

All specifications show a significant positive relationship between a firm’s practice of informal methods of building trustful relations and its systematic usage of corrupt/informal practices in doing business measured by its perceived corruption. The relationship is robust with regard to different measures of perceived corruption and the inclusion of different explanatory variables. At the same time, we found no relationship between a firm’s practice of formal methods of building trustful relationships and its systematic usage of corrupt/informal practices in doing business measured by its perceived corruption.

The inclusion of different explanatory variables presents us additional interesting results. The results show a weak positive relationship between a firm’s age and its perceived corruption. As we supposed and estimation results reveal those firms functioning on the B2C market are less inclined to corrupt behavior. There is no indication that firm size and integration into international markets relate in any way to a firm’s informal/corrupt practices. Interestingly, the results show a strong negative relationship between the size of the city where a firm operates and its informal business practices. It appears that firms operating in small cities are less involved in corrupt informal practices than firms from bigger cities. One possible explanation of this phenomenon might be in the fact that the firms in small cities are more visible and, hence, pay more attention to their reputation, which discourages them from becoming involved in corrupt/informal practices.

Table 4. Regression estimation results

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model (1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-1.90***</td>
<td>-0.01</td>
<td>9.98*</td>
<td>0.50*</td>
<td>6.47</td>
<td>5.54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.04)</td>
<td></td>
<td>(0.05)</td>
<td>(5.13)</td>
<td>(5.73)</td>
<td>(5.20)</td>
<td>(5.80)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formal relations</td>
<td>-0.01</td>
<td>-0.01</td>
<td>-0.31</td>
<td>-0.31</td>
<td>-0.02</td>
<td>-0.02</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.04)</td>
<td></td>
<td>(-0.05)</td>
<td>(0.04)</td>
<td>(0.05)</td>
<td>(0.04)</td>
<td>(0.05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal relations</td>
<td>0.25***</td>
<td>0.28***</td>
<td>0.26***</td>
<td>0.29***</td>
<td>0.20***</td>
<td>0.22***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.04)</td>
<td></td>
<td>(0.05)</td>
<td>(0.04)</td>
<td>(0.05)</td>
<td>(0.04)</td>
<td>(0.05)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year of firm establishment</td>
<td>-0.004</td>
<td>-0.005*</td>
<td>-0.002</td>
<td>-0.02</td>
<td>-0.002</td>
<td>-0.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.003)</td>
<td></td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.003)</td>
<td>(0.003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City with less than 50 000 inhabitants, dummy</td>
<td>-0.23*</td>
<td>-0.27*</td>
<td>-0.31***</td>
<td>-0.35***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(0.13)</td>
<td></td>
<td>(0.14)</td>
<td>(0.12)</td>
<td>(0.13)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**That is, the smaller is firm’s year of establishment the higher is its perceived corruption.**
City, a regional capital, dummy & 0.09 & 0.08 & 0.03 & 0.02 \\
Domestic ownership & 0.18 & 0.20 \\
B2C business model & -0.25** & -0.26*** \\
% products/services sold domestically & -0.000 & 0.000 \\
% products/services bought domestically & -0.001 & -0.002 \\
Firm’s income dummies & No & No & No & Yes & Yes \\
Regional dummies & No & No & No & Yes & Yes \\
Observation & 442 & 442 & 441 & 441 & 414 & 414 \\
Adjusted R^2 & 0.08 & 0.08 & 0.10 & 0.10 & 0.27 & 0.27 \\

Ordinary Least Squares estimator. Dependent variable \( \text{Corr\_average} \) and \( \text{Corr\_factor} \) are the simple average response and the weighted average response with weights derived from the principal component analysis, respectively, calculated based on the firms’ responses to six questions related to the frequency of carrying out specific corrupt informal practices among firms (see Table 1 for details). ***, **, * indicate significance at the 1, 5 and 10 percent level, respectively.

It is worth mentioning the limitation of this study that comes from possible endogeneity problem. Indeed, using of the kind of survey data we use in this study does not allow to fully accounting for endogenenity. The inclusion of a series of potentially confounding variables and obtaining robust estimate for the variable of interest together with the findings of other researches of the topic who report causal connection that goes from trust to corruption and not the other way around (Uslaner, 2004; Bjørnskov, 2003 and Harris 2007) allow us to consider limited exposure to the problem in our case.

Also, it is important to note that the measure of informal methods of building trustful relations and the measure of corrupt practices both include such item as gift giving in their measurement. The lists of items to include in calculation of both measures were based on the interviews with managers of Ukrainian companies who mentioned gift-giving as a part of Ukrainian culture and, at the same time, as possible informal/corrupt practice used for keeping close relations with a partner. This makes not a big surprise to get a strong positive correlation between these measures. In order to avoid having common factor for both dependent and independent variables we re-estimated all the specifications with a new dependent variable calculated from the reduced list of items in the Table 1, not including the gift-giving items, using the same methodology as for the original dependent variable(s) \( \text{Corr\_average} \) or \( \text{Corr\_factor} \). The results of such estimation do not differ considerably from the stated results and all the conclusions remaining valid.

4. CONCLUSIONS

The persistence of corruption in a country might have different reasons. It may come from cultural root of a society and/or from some specific social/institutional mechanisms. Social capital is one of them. There is widespread agreement about the importance of social capital for economic growth; at the same time, the literature is ambiguous when it comes to explaining the effect of social capital on corruption. Based on the data from business survey in Ukraine, the paper explores the relationship between firms’ practices of establishing trustful relations with their partners and their perceived corruption that is used as a proxy of firms’ involvement in corrupt/informal practices.

This paper has shown that the ways in which firms build trustful relationships with their partners matter for the persistence of business corruption in the case of Ukraine. Building trustful relationships based on informality leads to a higher level of perceived corruption, which itself might increase actual business corruption. The policy implications from these results suggest an increasing role of government, the business community and business schools in directing the business community toward the formalization of business relationships.
REFERENCES


Examining The E-Gamblers’ Behavior: An Empirical Study

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ABSTRACT

E-gambling is nowadays one of the fastest growing sectors of e-commerce. Every day even more individuals are moving from terrestrial to online gambling venues and wagering through numerous playing options. Consequently, the dynamics of this e-commerce activity has forced various researchers and practitioners to investigate e-gambling area from different perspectives trying to gain an improved insight into the behavior in the cyberspace. The purpose of the present paper is to examine an underexplored area of e-gambling behavior; that is the compound and situational characteristics of e-gamblers. Based on extant literature a proposed conceptual framework is developed and analyzed through factor analyses and stepwise regression analyses. The empirical results presented are believed to provide useful insights to both academia and the gambling industry.

KEYWORDS

e-gambling, e-gambling behavior, e-business, compound characteristics, situational characteristics

JEL CLASSIFICATION CODES

M30, M390

1. INTRODUCTION

Internet gambling, also known as online gambling or electronic gambling can be defined as the procedure of laying bets of real money over the Internet. It characterizes all forms of wagering via the World Wide Web through varied media including computers, wireless devices, such as mobile phones & tablets, and interactive television (Wood & Williams, 2011). Beginning in the early 1990s, when the Internet access expanded into private residences and workplaces, it introduced a novel area of betting opportunities to terrestrial gamblers and potential participants. Therefore, any form of traditional gambling soon appeared in its electronic format and have since been easily reached to any person with an Internet connection and means of electronically transferring money (Wood & Williams, 2011). Skill games, such as poker and blackjack, lucky games, such as slot machines roulette, sports betting, as well as many other e-gambling games have been widely available providing plentiful e-gambling features and playing options.

E-gambling, nowadays, is a highly profitable business with numerous e-business models varied from enterprises offering pure gambling choices to others providing relevant information, such as odds and payout rates. By 2015 the global internet gambling gross market is expected to exceed US$43 billion (Global Betting and Gaming Consultants, 2011; Holliday, 2011) growing at a rate of about 12% per annum; and represent a critical sector (around 9%) of the gambling market (Global Betting and Gaming Consultants, 2010; Kelleher, 2010; PricewaterhouseCoopers, 2011). It is also characterized as one of the fastest growing sectors of e-commerce.

Given the continuing growth and the dynamics of this particular type of e-business activity, a comprehensive understanding of e-gambling has become a pursuit of various researchers, as well as many practitioners. Thus, several studies have been carried out in the e-gambling field from different perspectives trying to gain an improved insight into consumer behavior in cyberspace (Griffiths, 2009). The purpose of this paper is to examine the consumer behavior of e-gamblers focusing on their compound and situational characteristics. The extant literature on segmentation emphasizes the importance of employing both behaviourl and attitudinal variables for segmenting and targeting customers (Phillips et al., 2004; Hawkins & Mothersbaugh, 2009; Rundle-Thiele & Bennett, 2001). Increased competition in the gaming industry has resulted in the need for gambling companies to
identify consumer segments and target customers with a view to establishing appropriate communication strategies and tactics.

Until recently, this scientific approach of e-gambling has been slightly investigated. By understanding e-gamblers’ behavior and involvement patterns, the relevant e-business models as well as potential e-gambling ventures would be able to more successfully segment the market and incorporate suitable marketing strategies, moderate gamblers’ concerns, structure right enticements in order to keep the e-players in the game and convince even more people to gamble online. Furthermore, they would make it possible to persuade current e-gamblers to increase the amount of money spent.

The rest of the paper is organized as follows: in the first section, the literature review and hypotheses development are presented; this is followed by the methodology and the results of the survey whereas the last section concludes with the implications of the study, its limitations and directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The expansion of e-gambling has motivated many researchers to focus on the critical characteristics that determine e-gambling behavior and attitudes. Several studies on gambling have focused on personality, the situational characteristics of gambling environments, and also on the structural characteristics of the games. Across different gambling games, the relevant research has shown that gaming customers are motivated to gamble for money, excitement, challenge, social contact, social interaction and escape (e.g., Aasved, 2003; Fang & Mowen, 2009; Griffiths, 1995; Lam, 2007; Rogers, 1998; Walker, 1992).

The present study, with a view to develop the constructs of the proposed conceptual framework (Figure 1), is focused on the 3M model of motivation and personality (Mowen, 2000), which was partially applied. The model proposes that individual difference variables can be arranged into four levels based on their stage of abstraction; elemental, compound, situational and surface traits. According to Mowen (2000), the elemental characteristics are at the most abstract level and result from genetics and the early learning history of individuals. These are followed by compound traits which result from the effects of multiple elemental characteristics, as well as the early socialization of individuals. In the proposed conceptual framework four compound traits, competitiveness, impulsiveness, interest in numeric information and present-time orientation are examined. Situational characteristics are the next level in the 3M model hierarchy. “These enduring dispositions to respond occur within a general situational context and result from the effects of elemental and compound traits, as well as from a person’s reinforcement history within the situational environment” (Fang & Mowen, 2009, p. 122). In the current study, four situational characteristics, money, socialization, escape and excitement are investigated. The last level of the 3M model which is influenced by the other three levels is surface traits. These are the most concrete characteristics of all, because “they assess enduring dispositions to respond within specific contexts and are highly predictive of behaviours that occur at a particular time and place” (Fang & Mowen, 2009, p. 122).

The 3M model has been utilized in various studies investigating the antecedents and consequences of a variety of phenomena, such as customer-oriented behavior (Lanjananda & Patterson, 2009) word of mouth communications (Mowen et al., 2007), retail shopping behavior (Arnord & Reynolds, 2009), trust (Mooradian et al., 2006) competitiveness (Mowen, 2004), service employee performance (Licata et al., 2003) and consumer innovativeness and perceived risk (Hirunyawipada & Paswan, 2006). Regarding e-gambling, as far as we are concerned, there is only one paper in which the trait and functional motive antecedents of four gambling activities (Fang & Mowen, 2009) are examined. Thus, the proposed conceptual framework and its empirical examination pursue to study a slightly researched scientific field and address the existing gap.

The research hypotheses of the compound and situational characteristics are analyzed as follows.
2.1 Compound characteristics

2.1.1 Competitiveness

Competition is a situation which characterizes a vast majority of individual’s actions. Human beings are competitive by their nature. Thus, it is common to be found in participants’ e-gambling behavior where e-gambling games are highly competitive. For example, Cotte & Latour (2009) found that Internet gamblers are engaged in gambling in a completely different manner than terrestrial gamblers. In detail, they revealed that internet gambling appears to be used systematically in a more competitive manner. Fang & Mowen (2009) stated that competitiveness has a positive effect on sports betting and skilled card games. Furthermore, Parke et al. (2004) found a positive relationship between compulsive gambling and competitiveness. They proposed that competitive individuals might be less likely to stop gambling after losses, resulting in a chasing behavior. This would happen in circumstances where people are competing against each other, such as when they are betting on themselves in a football or basketball match. Despite the fact that their study focused more on compulsive gamblers, it is reasonable to hypothesize that the same relationship is valid for a typical e-gambling behavior as well:

H1. Competitiveness has a positive effect on e-gambling behavioral intention.

2.1.2 Impulsiveness

Mowen (2000) added impulsiveness as a construct on its 3M model because of human’s direct reaction in various every day situation. Regarding e-gambling, the majority of its forms elicit an impulsive feature. Thus, e-gambling enterprises are greatly based on individuals’ impulse after a win or loss in a betting event. Especially in a defeating situation, an individual’s prompt reaction is to try to get back what he/ she owned. Additionally, e-marketers regularly place online advertisements about gambling games in various websites where an impulsive act may occur. For example, e-gambling advertisements are extremely common in websites with sports content. Fang & Mowen (2009) suggested that impulsiveness has a positive impact on sports betting, slot machines and promotional gambling games. Therefore, based on the above literature, the following hypothesis can be formulated:

H2. Impulsiveness has a positive effect on e-gambling behavioural intention.

2.1.3 Numeric interest

There are a lot of gambling games which are based only on luck. Slot machines and the roulette are the most popular between them. On the other hand, another category of gambling games requires sufficient mathematical and numerical skills. These games are based on luck to a lower extent than others. Thus, they require comparable skills from their participants. For example, all the card games necessitate

-138-
mathematical and numerical skills in order to increase winning chances. Additionally, gambling regularly involves using numbers to calculate odds and how much can be won or lost. Thus, the importance of numeric interest in e-gamblers participation has driven us to include it as a construct in the proposed conceptual framework. Concerning previous studies, Fang & Mowen (2009) claimed that the interest in numeric information has a positive impact on skilled card games. Thus, regarding the behavioural intention towards e-gambling, it is hypothesized that:

H3. Numeric interest has a positive effect on e-gambling behavioural intention.

2.1.4 Present time orientation

The fourth compound characteristic added to the proposed conceptual framework is present time orientation. Hershey & Mowen (2000) developed a similar construct, which represents a continuing disposition to think about outcomes in the present time rather than in the future. Thus, it is expected that e-gamblers might have a short time horizon when they participate in e-gambling games because they tend to look for instant gratification. Additionally, the absence of real money makes them more vulnerable to the numerous e-gambling options provided. As a consequence, they gamble more and more in direct outcome events in order to satisfy their internal gambling needs. Hence, it is reasonable to hypothesize that:

H4. Present time orientation has a positive effect on e-gambling behavioural intention.

2.2 Situational characteristics

2.2.1 Money

The basic feature of individuals’ e-gambling participation is to win, that is to make money. Humans are greatly lured by the various e-gambling features and playing options. Thus, they participate in order to have a financial gain. Various studies, such as Gibson & Sanbonmatsu (2004) and Cotte (1997), suggest that one important motive for gambling is to make money. Fang & Mowen (2009) stated that gambling for money has a positive impact on skilled games and sports betting. Based on this literature review, the money construct is added to the proposed conceptual framework. Thus, it is reasonable to hypothesize that:

H5. E-gamble for money has a positive effect on participants’ behavioural intention.

2.2.2 Socialization

The second situational characteristic included to the proposed conceptual framework is socialization. There are many e-gambling games in which humans meet each other in e-platforms in order to participate in e-gambling events. Neighbors et al. (2002) identified as a gambling motive to be with friends and socialize with others. Furthermore, humans’ interactions with each other in the real world might be attributed to their e-gambling activity. For example, many sports betting e-gamblers make friends through e-business models which they visit in order to get informed about relevant information, such as odds and payout rates. According to Fang & Mowen (2009), the gambling motive of socialization takes place in skilled games and sports betting. Therefore, regarding the behavioural intention towards e-gambling, it is hypothesized that:

H6. E-gamble for socialization has a positive effect on participants’ behavioural intention.

2.2.3 Escape

The relative prevalence of problem gambling among e-gamblers is a serious situation that takes place worldwide. According to Wood & Williams (2011), a total of 16.4% of e-gamblers are either moderate or severe problem gamblers, compared to a rate of only 5.7% among terrestrial gamblers. There are
numerous factors that influence them negatively (e.g., family environment, friends, poor school achievement, etc.). According to Neighbors et al. (2002), people might gamble in order to escape their troubles and problems and cope with depression and anxiety. Characteristically, Fang & Mowen (2009) approved that the gambling motive for escape takes place in slot machines. Thus, it is likely for someone to try to find alternatives in order to forget and/or run away from his/her troubles and problems. Based on the aforementioned issues, the escape construct is added to the proposed conceptual framework. Therefore, it is hypothesized that:

H7. E-gamble for escape has a positive effect on participants’ behavioural intention.

2.2.4 Excitement
The last examined situational characteristic is gambling for excitement. There are many people who resort to e-gambling games for having fun and entertaining themselves. For example, a vital goal of casinos is to build a highly pleasant environment where humans will have a good time. They count on the atmosphere provided in order to attract gamblers. Fang & Mowen (2009) suggested that many gamblers participate in skilled games and slot machines for excitement. Thus, regarding the behavioural intention towards e-gambling, it is reasonable to hypothesize that:

H8. E-gamble for excitement has a positive effect on participants’ behavioural intention.

All the hypotheses formed above, are summarized in Table 1.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Description</th>
<th>Path</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Competitiveness has a positive effect on Behavioural Intention</td>
<td>CO → BI</td>
</tr>
<tr>
<td>H2</td>
<td>Impulsiveness has a positive effect on Behavioural Intention</td>
<td>IM → BI</td>
</tr>
<tr>
<td>H3</td>
<td>Numeric Interest has a positive effect on Behavioural Intention</td>
<td>NI → BI</td>
</tr>
<tr>
<td>H4</td>
<td>Present time orientation has a positive effect on Behavioural Intention</td>
<td>PTO → BI</td>
</tr>
<tr>
<td>H5</td>
<td>E-gamble for money has a positive effect on participants’ behavioural intention</td>
<td>MO → BI</td>
</tr>
<tr>
<td>H6</td>
<td>E-gamble for socialization has a positive effect on participants’ behavioural intention</td>
<td>SO → BI</td>
</tr>
<tr>
<td>H7</td>
<td>E-gamble for escape has a positive effect on participants’ behavioural intention</td>
<td>ES → BI</td>
</tr>
<tr>
<td>H8</td>
<td>E-gamble for excitement has a positive effect on participants’ behavioural intention</td>
<td>EX → BI</td>
</tr>
</tbody>
</table>

3. METHODOLOGY AND RESULTS

3.1 Research methodology

3.1.1 Data collection and sample characteristics
Data were collected through an electronic questionnaire which was uploaded on a website for two months – October 1st to November 30th 2014. Additionally, contacts from various e-gambling mailing lists were asked to fill in the questionnaire, and also members of two popular social networks—Facebook and Twitter—were encouraged to participate in the survey. The questionnaire was based on prior surveys approved for their validity and reliability (e.g., Eysenck B. & Eysenck J., 1977, 1978;
Fang & Mowen, 2009). A pilot study using a sample of fifteen responses helped to identify possible problems in terms of clarity and accuracy. Thus, comments and feedback from respondents improved the final presentation of the items. Twenty-two participants gave incomplete answers and their results were dropped out. As a result, the final sample consisted of 80 respondents who gamble online. The demographic characteristics of the sample are: 56.3% are male and 43.7% are female; 70% have at least some college education; and 55% of the respondents were between 18 and 24 years old. As can be seen, the sample is fairly young and more educated than the general public; been in accordance with previous studies (e.g., Wood & Williams, 2011). Schema 1 presents the flow of the survey design.

Schema 1: Survey design

3.1.2 Operationalization of variables/constructs

For each variable/construct, a multiple-item scale was developed where each item was measured based on a 5-point Likert scale, ranging from 1 - “Completely Disagree” to 5 - “Completely Agree”. Three items were used for competitiveness, present time orientation, money, socialization, escape and excitement, whereas four items were used for behavioural intention, impulsiveness and numeric interest (Appendix).

3.2 Data analysis and results

Following Cattell (1978) and Sapnas & Zeller (2002) research studies, the small data sample of the paper was sufficient for the data analysis methodology applied. Thus, in order to test the proposed conceptual framework, this data analysis was conducted in two stages. The first step employed two factor analyses using principal component analysis (PCA) and orthogonal rotation (VARIMAX) in order to test the data validity and reliability. More specifically, a separate factor analysis was applied to both compound and situational traits. These are followed by two related separate stepwise regression analyses in order to examine the eight hypotheses. According to Hair et al. (2006), the results of factors analysis are appropriate variables for subsequent application to other statistical techniques, such as stepwise regression analysis. These methodology steps have been previously applied in relevant scientific researches (e.g., Crabbe et al., 2009; El-Kasheir et al., 2009; McCloskey, 2006; Rao et al., 2007; Wei et al., 2009) in order to give the final, valid constructs of the suggested framework.

3.2.1 Data validity and reliability

Factor analysis was applied to test the validity of the variables, classify and reduce questions into sub-variables when possible, and calculate factor loadings. Specifically, the principal component analysis (PCA) using orthogonal rotation (VARIMAX) was firstly performed to assess the underlying structure of the data. The PCA method is particularly suited to summarize the most of the original information
(variance) in a minimum number of factors for prediction purposes (Hair et al., 2006). Orthogonal extraction, using VARIMAX rotation, was suited for research goals and the need to reduce a large number of variables to a smaller set of uncorrelated variables. Additionally, VARIMAX rotation attempts to minimise the number of variables that have high loadings on a factor, and, hence, enhance the interpretability of the factors (Hair et al., 2006).

Nevertheless, in order to test the appropriateness of the data for factor analysis, several measures were applied to the entire population matrix. More specifically, Bartlett’s tests of sphericity (p = 0.000) in both factor analyses confirmed the statistical probability that the correlation matrix has significant correlations among the variables, whereas the results of Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy were 0.703 and 0.726, which are meritorious. Additionally, the measures of sampling adequacy (MSA) values all exceed 0.50 for both the overall tests and each individual variable (Hair et al., 2006). All the aforementioned measures indicated the suitability of factor analysis in both compound and situational items.

By applying the Kaiser eigenvalues criterion, five factors extracted to both factor analyses that collectively explained 68.613% and 74.587% of the variance in all items correspondingly. Regarding construct validity, which testifies how well the results obtained by the use of the measure fit the theories on the basis of which the test is designed (Crabbe et al., 2009), it was tested by the use of two broadly applied tests, convergent and discriminant validity. In detail, “convergent validity is demonstrated if the items load strongly (>0.50) on their associated factors, whereas discriminant validity is achieved if each item loads stronger on its associated factor than on any other factor” (Hair et al., 2006). Tables 4 and 5 show that all items have loadings greater than 0.50 and load stronger on their associated factors than on other factors. Thus, convergent and discriminant validity are demonstrated. All the factors proved to be relatively easy to interpret, owing to the strong variable loadings. Finally, construct reliability was assessed using Cronbach’s alpha. Tables 4 and 5 also show that values ranged from 0.729 to 0.865, which is in accordance to the generally agreed upon lower limit for Cronbach’s alpha of 0.70 (Hair et al., 2006).

Table 2: Compound characteristics – Rotated Component Matrix

<table>
<thead>
<tr>
<th>Items</th>
<th>Numeric Interest</th>
<th>Impulsiveness</th>
<th>Competitiveness</th>
<th>Behavioural Intention</th>
<th>Present Time Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NI1</td>
<td>0.872</td>
<td>0.030</td>
<td>0.067</td>
<td>0.067</td>
<td>0.061</td>
</tr>
<tr>
<td>NI2</td>
<td>0.839</td>
<td>-0.008</td>
<td>0.258</td>
<td>0.055</td>
<td>0.165</td>
</tr>
<tr>
<td>NI3</td>
<td>0.772</td>
<td>0.164</td>
<td>0.096</td>
<td>0.186</td>
<td>0.056</td>
</tr>
<tr>
<td>NI4</td>
<td>0.761</td>
<td>0.289</td>
<td>0.135</td>
<td>0.099</td>
<td>0.097</td>
</tr>
<tr>
<td>IM1</td>
<td>0.043</td>
<td>0.790</td>
<td>0.279</td>
<td>-0.087</td>
<td>0.187</td>
</tr>
<tr>
<td>IM2</td>
<td>0.063</td>
<td>0.725</td>
<td>0.207</td>
<td>0.147</td>
<td>0.041</td>
</tr>
<tr>
<td>IM3</td>
<td>0.132</td>
<td>0.693</td>
<td>0.077</td>
<td>-0.031</td>
<td>0.156</td>
</tr>
<tr>
<td>IM4</td>
<td>0.150</td>
<td>0.688</td>
<td>0.048</td>
<td>0.216</td>
<td>0.065</td>
</tr>
<tr>
<td>CO1</td>
<td>0.146</td>
<td>0.142</td>
<td>0.804</td>
<td>0.105</td>
<td>0.085</td>
</tr>
<tr>
<td>CO2</td>
<td>0.210</td>
<td>0.177</td>
<td>0.770</td>
<td>0.036</td>
<td>0.266</td>
</tr>
<tr>
<td>CO3</td>
<td>0.159</td>
<td>0.297</td>
<td>0.721</td>
<td>0.178</td>
<td>-0.166</td>
</tr>
<tr>
<td>BI1</td>
<td>0.195</td>
<td>0.011</td>
<td>0.039</td>
<td>0.810</td>
<td>0.277</td>
</tr>
<tr>
<td>BI2</td>
<td>0.119</td>
<td>0.239</td>
<td>0.300</td>
<td>0.787</td>
<td>0.042</td>
</tr>
<tr>
<td>BI3</td>
<td>0.047</td>
<td>-0.140</td>
<td>0.207</td>
<td>0.741</td>
<td>0.054</td>
</tr>
<tr>
<td>PTO1</td>
<td>0.149</td>
<td>0.104</td>
<td>0.007</td>
<td>0.036</td>
<td>0.845</td>
</tr>
<tr>
<td>PTO2</td>
<td>0.087</td>
<td>0.330</td>
<td>-0.041</td>
<td>0.166</td>
<td>0.762</td>
</tr>
<tr>
<td>PTO3</td>
<td>0.086</td>
<td>0.035</td>
<td>0.370</td>
<td>0.220</td>
<td>0.657</td>
</tr>
</tbody>
</table>

Cronbach’s alpha = 0.865  0.763  0.785  0.740  0.729

By applying the Kaiser eigenvalues criterion, five factors extracted to both factor analyses that collectively explained 68.613% and 74.587% of the variance in all items correspondingly. Regarding construct validity, which testifies how well the results obtained by the use of the measure fit the theories on the basis of which the test is designed (Crabbe et al., 2009), it was tested by the use of two broadly applied tests, convergent and discriminant validity. In detail, “convergent validity is demonstrated if the items load strongly (>0.50) on their associated factors, whereas discriminant validity is achieved if each item loads stronger on its associated factor than on any other factor” (Hair et al., 2006). Tables 4 and 5 show that all items have loadings greater than 0.50 and load stronger on their associated factors than on other factors. Thus, convergent and discriminant validity are demonstrated. All the factors proved to be relatively easy to interpret, owing to the strong variable loadings. Finally, construct reliability was assessed using Cronbach’s alpha. Tables 4 and 5 also show that values ranged from 0.729 to 0.865, which is in accordance to the generally agreed upon lower limit for Cronbach’s alpha of 0.70 (Hair et al., 2006).
### Table 3: Situational characteristics - Rotated Component Matrix

<table>
<thead>
<tr>
<th>Items</th>
<th>Socialization</th>
<th>Excitement</th>
<th>Escape</th>
<th>Money</th>
<th>Behavioural Intention</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO1</td>
<td>0.874</td>
<td>0.102</td>
<td>0.071</td>
<td>-0.007</td>
<td>0.046</td>
</tr>
<tr>
<td>SO2</td>
<td>0.850</td>
<td>-0.040</td>
<td>0.163</td>
<td>0.025</td>
<td>-0.002</td>
</tr>
<tr>
<td>SO3</td>
<td>0.803</td>
<td>0.186</td>
<td>0.291</td>
<td>0.032</td>
<td>-0.048</td>
</tr>
<tr>
<td>EX1</td>
<td>-0.009</td>
<td>0.779</td>
<td>0.173</td>
<td>0.190</td>
<td>0.086</td>
</tr>
<tr>
<td>EX2</td>
<td>0.128</td>
<td>0.759</td>
<td>0.215</td>
<td>0.172</td>
<td>0.217</td>
</tr>
<tr>
<td>EX3</td>
<td>0.191</td>
<td>0.727</td>
<td>0.214</td>
<td>0.356</td>
<td>0.148</td>
</tr>
<tr>
<td>ES1</td>
<td>0.146</td>
<td>0.019</td>
<td>0.897</td>
<td>-0.001</td>
<td>0.207</td>
</tr>
<tr>
<td>ES2</td>
<td>0.229</td>
<td>0.273</td>
<td>0.803</td>
<td>-0.083</td>
<td>0.052</td>
</tr>
<tr>
<td>ES3</td>
<td>0.196</td>
<td>0.358</td>
<td>0.769</td>
<td>0.149</td>
<td>-0.019</td>
</tr>
<tr>
<td>MO1</td>
<td>-0.032</td>
<td>0.294</td>
<td>-0.092</td>
<td>0.807</td>
<td>0.111</td>
</tr>
<tr>
<td>MO2</td>
<td>0.076</td>
<td>0.029</td>
<td>0.075</td>
<td>0.785</td>
<td>0.124</td>
</tr>
<tr>
<td>MO3</td>
<td>-0.030</td>
<td>0.406</td>
<td>0.028</td>
<td>0.715</td>
<td>0.025</td>
</tr>
<tr>
<td>BI1</td>
<td>-0.146</td>
<td>0.181</td>
<td>0.072</td>
<td>0.104</td>
<td>0.843</td>
</tr>
<tr>
<td>BI2</td>
<td>-0.014</td>
<td>-0.061</td>
<td>0.086</td>
<td>0.333</td>
<td>0.803</td>
</tr>
<tr>
<td>BI3</td>
<td>0.205</td>
<td>0.315</td>
<td>0.082</td>
<td>-0.116</td>
<td>0.716</td>
</tr>
</tbody>
</table>

**Cronbach's alpha**
- a = 0.836
- a = 0.822
- a = 0.854
- a = 0.761
- a = 0.740

### 3.2.2 Hypotheses’ testing

#### 3.2.2.1 Compound variables affecting e-gambling behavioural intention

An inter-item correlation analysis (Table 4) revealed moderate positive correlation, but significant relationships between e-gamblers behavioural intention and all of the compound predictors at the 0.01 level. More specifically, numeric interest has the highest correlation coefficient \( r = 0.304 \), followed by competitiveness \( r = 0.302 \), present time orientation \( r = 0.299 \) and impulsiveness \( r = 0.247 \) in correspondence.

**Table 4: Results of correlations analysis for compound variables**

<table>
<thead>
<tr>
<th>Factors</th>
<th>BI</th>
<th>IM</th>
<th>CO</th>
<th>PTO</th>
<th>NI</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IM</td>
<td>0.247**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO</td>
<td>0.302**</td>
<td>0.444**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PTO</td>
<td>0.299**</td>
<td>0.367**</td>
<td>0.294**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>NI</td>
<td>0.304**</td>
<td>0.315**</td>
<td>0.395**</td>
<td>0.308**</td>
<td>1</td>
</tr>
</tbody>
</table>

**p = 0.001**

A stepwise regression analysis was conducted to assess the best predictors among the independent compound variables believed to have an impact on e-gambling behavioural intention. Additionally, it revealed which of the four hypotheses were supported. According to Hair et al. (2006), stepwise regression is considered as the most popular sequential approach to variable selection. The results presented in Table 5 indicate that 13.9% of the variance in e-gambling behavioural intention is explained by two predictors in the model. Numeric interest has the highest explanatory value of 9.2% \((b = 0.21, t = 2.107, p = 0.038)\), followed by present time orientation 4.7% \((b = 0.231, t = 2.046, p = 0.044)\). From the four compound hypotheses only two, namely H3 and H4 (the impact of numeric interest and present time orientation towards e-gambling behavioural intention), were supported.
Table 5: Compound results of the stepwise regression analysis for behavioural intention towards e-gambling

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td>1</td>
<td>0.304</td>
<td>0.092</td>
<td>0.081</td>
<td>0.95676</td>
<td>0.092</td>
</tr>
<tr>
<td>2</td>
<td>0.373*</td>
<td>0.139</td>
<td>0.117</td>
<td>0.93780</td>
<td>0.047</td>
</tr>
</tbody>
</table>

* Predictors: (constant), numeric interest, present time orientation

3.2.2.2 Situational variables affecting e-gambling behavioural intention

An inter-item correlation analysis (Table 6) also revealed moderate positive correlation, but significant relationships between e-gamblers behavioural intention and all the situational predictors at the 0.01 level. More specifically, e-gambling for excitement has the highest correlation coefficient \( r = 0.403 \), followed by e-gambling for escape \( r = 0.310 \), e-gambling for money \( r = 0.288 \) and e-gambling for socialization \( r = 0.184 \) in correspondence.

Table 6: Results of correlations analysis for situational variables

<table>
<thead>
<tr>
<th>Factors</th>
<th>BI</th>
<th>MO</th>
<th>SO</th>
<th>EX</th>
<th>ES</th>
</tr>
</thead>
<tbody>
<tr>
<td>BI</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO</td>
<td>0.288**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO</td>
<td>0.184**</td>
<td>0.048**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EX</td>
<td>0.403**</td>
<td>0.516**</td>
<td>0.263**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>ES</td>
<td>0.310**</td>
<td>0.120**</td>
<td>0.422**</td>
<td>0.470**</td>
<td>1</td>
</tr>
</tbody>
</table>

** \( p = 0.001 \)

Thus, a stepwise regression analysis was conducted to assess the best predictors among the independent situational variables believed to impact on e-gambling behavioural intention. Additionally, it revealed which of the four hypotheses were supported. The results presented in Table 7 indicate that 16.2\% of the variance in e-gambling behavioural intention is explained by one predictor in the model; e-gambling for excitement \( (b = 0.403, t = 3.865, p = 0.000) \). Therefore, from the four situational hypotheses only one, namely H8, was supported.

Figure 2 depicts the final formation of the proposed conceptual framework.

Table 7: Situational results of the stepwise regression analysis for behavioural intention towards e-gambling

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R Square Change</td>
<td>F Change</td>
<td>df1</td>
<td>df2</td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>0.403*</td>
<td>0.162</td>
<td>0.152</td>
<td>0.91847</td>
<td>0.162</td>
</tr>
</tbody>
</table>

* Predictors: (constant), e-gamble for excitement
4. CONCLUSION

The present paper comprises the first part of a research in progress which aims to shed light on the broad topic of e-gambling. More specifically, its main scope was to investigate the compound and situational characteristics of the individuals involved. The research findings are believed to provide interesting implications to both academia and practicing managers. The theoretical and managerial implications, as well as the survey’s limitations and its future research directions are described as follows.

4.1 Theoretical and managerial implications

Various researchers and practitioners have investigated e-gambling from different perspectives trying to gain an improved insight into e-gambling behavior in cyberspace. As a step forward, this paper encompasses a number of studies and examines the compound and situational characteristics of e-gamblers based on the 3M model proposed by Mowen (2000). As far as it is concerned, there is an extremely limited research on gambling behavior which has utilized the trait categories of the 3M model. Thus, the paper examines an underexplored area and its results are believed to help the academia by providing new inferences and insights on e-gamblers’ compound and situational characteristics that affect their behavioural intention. To our knowledge, the impact of some characteristics examined and the non-significance of some others are believed to be vital for the academic community. Therefore, concerning the theoretical implications, the paper is expected to set the groundwork for further scientific research and improvement.

In addition, practising managers and marketers are anticipated to get a benefit from the results drawn in the present study. More specifically, the survey results can help them better evaluate their e-gambling ventures and their online and digital forms and follow analogous e-business strategies in order to adjust their e-structures with a view to offer playful experiences, satisfying not only the current customers’ desire to e-gamble, but also to attract prospective online gaming customers who have preferred the traditional way of gambling so far. Additionally, by understanding the e-gamblers’ behavior, the relevant websites would enable to incorporate suitable marketing campaigns, moderate gamblers’ concerns and apart from convincing even more people to be transferred from offline to online gambling, persuade current e-gamblers to increase the amount of money spent on e-gambling games. The specific e-gamblers’ preferences and motivations discussed in the present research are crucial to marketers’ designing more effective, user-centered, promotional strategies for targeting and retaining e-gambles. To clarify, the influence of numeric interest and present time orientation on e-gambling behavioural intention can be interpreted in various ways from the industry. Since many
people involved in gambling judge the level of risk in terms of frequencies than probabilities in percentage formats (Roller, 2011), gamble sites, in order to offer attractive win/lose ratios, could be modified on number formats and presentations accordingly. In addition, more marketers should place greater emphasis on the importance of time perspective in their communication strategies as regards the present-oriented e-gamblers. On the other hand, the non-significance of impulsiveness and competitiveness is believed to alter some long established thoughts and cliché about their influence on e-gambling. Commonly, as regards the situational characteristics, the impact of excitement and the non-impact of money, socialization and escape are expected to undeniably modify current e-gambling standpoints. Online casino owners could make online games more exciting by combining critical ingredients of the e-casino related to the situational (i.e. sounds, colors, luminosity) and structural characteristics of the actual online games being played (i.e. intermittent schedules for reward and loss, near-misses especially in games of skill and choice opportunities). According to Ahmad et al. (2010), understanding and predicting consumer behavior is a critical feature in marketing and a necessary requirement for firms which are marketing oriented, thus, profitable, as it underpins all marketing activities pursued by them. Alternatively, practising managers who are willing to invest in an e-gambling business model, could use the survey results as a consulting tool while organizing their work and implementing their e-business ideas.

To sum up, it is believed that the present survey can add value to aspects involving both the academia and the gambling industry, as it provides useful insights concerning the behavior of e-gamblers and their attitude towards e-gambling. Therefore, the results can be interpreted through various customized approaches.

4.2 Limitations and future research

Despite the fact that the results provide meaningful implications, there are three limitations in the present research. First, it is restricted to a small sample of respondents; thus, it did not enable more advanced statistical methods for data analysis, such as Structural Equation Modeling (SEM). Furthermore, the small sample forced the researchers to analyze the data of the compound and situational characteristics in separate factor and regression analyses. Consequently, the utilization of SEM, which aims at developing a proposed model, would certainly offer a more holistic view and may provide additional important insights to the scientific community and practicing managers as well. Second, the sample is comprised of people who are fairly young and more educated than the general public. Therefore, the specific sample characteristics bias the results and merit further investigation. Third, as only the compound and situational characteristics of the 3M model were studied, it is required that all four levels of the 3M model be investigated so that further information could be provided to both the academia and the gambling industry.

REFERENCES


Political Risks And Their Impact On Western Companies In Russia

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ABSTRACT

Western enterprises tend to be accustomed to work in a business environment which is comparable from their respective domestic markets. These are usually characterized by a consolidated democracy, an efficient application of the rule of law and a well-established free market framework. The expansion in search of new opportunities sometimes entails the need to establish themselves in transformation markets. When working in such an environment, companies may be confronted with uncertainties related to informal institutions and rules existing in the new country of destiny.

Drawing on evidence gained through interviews, this study is to examine the impact of informal institutions such as political corruption, favoritism and legal uncertainty on the business environment in Russia. In addition to that, coping strategies adopted by Western enterprises are to be analyzed. This paper will focus on the third term of President V. Putin.

Results indicate that corruption is a common risk for an overwhelming majority of Austrian companies regardless of their size and sector they are working in. The incidences of two abovementioned remaining risks are of minor importance and depending on these two factors. This paper shows how enterprises are dealing with these challenges.

This study has been written for two model readers: an entrepreneur may use its findings for the improvement of the understanding of business conditions on the spot. Anybody from academia, be it e.g. an economist or political scientist, may study this paper in order to get a useful foundation for further in-depth research both on the political risks and individual factors.

KEYWORDS


JEL CLASSIFICATION CODES

FO 17, FP 48

1. POLITICAL RISKS IN TRANSITION ECONOMIES

After the breakup of the Soviet Union in the early 1990s, Russia – as its main successor – seemed to most observers to be on a path towards a Western-style democracy and free market economy. Two decades of transformation show that many informal institutions inherited from the Soviet period are still present in the political and economic life of the country. The transformation process, however, appears to have changed their character and scale.

The political system of the Russian Federation has been characterized by a plethora of terms and concepts, such as “neo-Soviet, patrimonial, oligarchic, plutocratic, authoritarian, plebiscitarian, traditional, bureaucratic and pseudo-democratic” (Mommsen 2012: 77). None of them see Russia as a consolidating or consolidated democracy.

Informal institutions such as corruption do not only influence the domestic market but also exercise an impact on the business environment of foreign companies operating on the spot. This article attempts to demonstrate the impact of informal institutions embedded in political-institutional frameworks of a state on economic activities of Western private firms.

The lack of relevant research in this field probably results from the general absence of multidisciplinary approaches including political science and business administration. In neither discipline there is any universally accepted definition of political risk. In search of matching ideas we can find the concept of neopatrimonialism which covers specific factors related to the political and economic system in transition countries. When defending their interests, stakeholders have to choose between two types of political domination: formal and informal.
The aim lies in answering the following research questions: In which ways is Russian business environment characterized by the neopatrimonial practices and how do Western enterprises react on such system? The second question mainly looks at coping strategies to adjust to the specific Russian market conditions.

Firstly I will discuss research and methodology. The second part consists of a more detailed case analysis of the consequences of on political risks on Austrian firms in Russia. The final part will outline coping strategies adopted by these companies to deal with the business environment they operate in. At the end of the paper, the main conclusions are to be provided.

2. LITERATURE REVIEW

There are a few relatively recent publications, which pay attention to the interrelationship between political and economic spheres in Russia using a neopatrimonial prism (cf. Bach 2013; Burkhard 2013; Ledeneva 2013a; Robinson 2011, 2013) The concept of patrimonial capitalism applied by Robinson can be seen as a variant of Weber’s patrimonialism and neo-patrimonialism in the economic sphere (Robinson, 2011: 4). D. Bach has analyzed the state capture under a neopatrimonialist system in various world regions, including Russia, Ukraine and Uzbekistan (Bach 2011). F. Burkhard provided us with a study about the informal behavior of German companies in their interactions with neopatrimonial system in Russia (Burkhard 2013). A. Ledeneva analyzed the nature, norms and methods of informal governance under Putin drawing on this concept (Ledeneva 2013a: 1136). All these studies have been very important for the practical shaping of this paper.

The renowned Ukrainian scholar O. Fisun was the first to classify specific forms of neopatrimonialism in the post-Soviet space (Fisun 2012). According to him we have to distinguish between three types of neopatrimonialism in this part of the world: “bureaucratic neopatrimonialism”, “oligarchic neopatrimonialism”, and “sultanistic neopatrimonialism” (Fisun 2003: 6). Russia under Putin/Medvedev was seen as “bureaucratic neopatrimonialism”. This subtype is characterised by the “state bureaucratic monopolisation and semi-coercive decentralisation of neopatrimonial domination, operating via secret police structures” (Fisun 2003: 6).

If we take a broader look on the relevant literature relating to the interplay between politics and economics in Russia without direct reference to the neopatrimonial concept we may observe different lines of research. The first line focuses on the role of informal institutions in the political and administrative sphere. The role of informal relations in politics and red tape used to be in the focus of Russian and Western scholars (see Ledeneva, 1998, 2006, 2013; Gel’man 2004).

As informal practices are much more difficult to describe by their illegal and consequently secretive nature, we may not wonder that there are very few works on them especially in the branch of bureaucracy responsible for the enforcement of the law. Solomon (2010) nevertheless took the burden to analyze the formal and informal realities and the power of informal practices in the judicial system in Russia.

Another line of research has elaborated on the role and structure of networks in political and economic spheres. Krystanovskaya and White (2013) have analyzed the networks within the ruling elite and state networks (Krystanovskaya and White, 2013), Ledeneva the informal practices within public administration (Ledeneva 2013) and Hanson networks in domestic business state relations (Hanson 2013). Some scholars sought to define the dominating players in the state-business interactions and showed a change in this relationship from state capture to business capture (c.f. Frye 2002; Yakovlev and Zhuravskaya 2004; Yakovlev 2006).

A lot of interest has been paid on one particular informal institution: corruption. This instrument is widely discussed as a practice present in the bureaucracy and the political system (Anderson 2012; Hanson 2013; Holmes 2012; Nisnevich 2013; Yakovlev 2014). Business corruption constitute a theme of many very interesting analyses (c.f. for instance Ledeneva 2011; Mommsen 2012). The market for informal mediation between state and business in Russia has not yet received much attention by academia. There are only a few studies on bureaucratic mediation (see Olimpieva 2008, 2010; Polishuk 2003, 2004).

There are only a few studies showing the empirical evidence of private business coping with particular informal institutions, especially corruption. Kouznetsov and Dass have conducted a qualitative field research on the areas of corruption among Russian distributors of foreign goods (Kouznetsov and Dass 2010). Another aspect was in the focus of Karhunen and Kosonen who have designed strategic responses to corruption of foreign companies describing the behavior of Finish firms (Karhunen and Kosonen 2013).
There are also a few quantitative studies on informal practices related to corruption used by domestic and foreign business in Russia (c.f. Denisova-Schmidt 2014, Ledeneva 2006; Shekshnia 2014). These researchers have analyzed the business sector in general without clearly distinguishing between domestic and foreign companies.

There is only one piece analyzing publicly accessible quantitative data on institutional barriers to entry and exit business in Russia (Aidis and Adachi 2007). The impact of a set of informal institutions on foreign business has not yet been addressed. This article attempts to close this gap.

3. CONCEPTUAL FRAMEWORK: NEOPATRIMONIALISM AND POLITICAL RISKS TO INTERNATIONAL BUSINESSES

So far, there is no accepted universal definition of political risk in business administration, let alone indicators. However, despite the proliferation of definitions and theoretical concepts, there is at least a common understanding. Agarwal and Feils (2007) describe political risks as the consequence of government interference with business operations. They also relate it to certain events of both political and economic nature such as expropriation, devaluation, political turmoil, or war. In search of matching ideas suitable to apply for transition countries, we may find the concept of neopatrimonialism, mainly used in political science.

The coexistence of formal and informal institutions is a phenomenon described in the concept of “neopatrimonialism” (Bratton and Van de Walle 1997, Eisenstadt 1973). Its initial application in the 1970s refers to developments in Africa but has been used over time with reference to other regions. Neopatrimonialism describes a type of a system in which the tradition of patron-client networks is interrelated to some kind of rational-legal structure of bureaucracy. Formal structures and rules do exist, although the separation of the private and public sphere is not always observed in practice. (Erdmann and Engel, 2007: 105). This situation creates a lot of uncertainty for stakeholders. Under a neopatrimonial organization, “people have a certain degree of choice as to which logic they want to employ to achieve their goals and to best realize their interests” (Erdmann 2012: 48). According to O’Neil, formal and informal rules are often contradictory and thus produce uncertainty of which rules will be enforced (O’Neil 2007: 2ff).

Although the concept is still underdeveloped and ill-defined due to a lack of coherency, some factors such as corruption, rent seeking, patron-client relationships and legal uncertainty are widely used to describe this phenomenon. These informal factors are embedded in political system but due to the interplay between politics and economics they mainly infringe on the latter.

This paper focuses on informal institutions working in a neopatrimonial system and their consequent impact on the operational environment of Western companies. Informal institutions are “mainly unwritten, socially shared rules and procedures, which are put into social live, distributed and implemented “outside of officially sanctioned channels” (HelMike, Levitsky 2004: 725).

Corruption is an umbrella term which covers various forms of corruption such as collusion, cronyism and nepotism, fraud, gifts, hospitality, lobbying, abuse of power or office and influence peddling (cf Shekshnia et al. 2014: 5). This wide understanding can be found in the widely cited definition by J. Nye (Nye 1967: 419) and I. Admusen (Amudsen 1999: 3).

According to this author, corruption is a behavior which deviates from formal duties or rules of conduct governing the actions of an officeholder because of their private motives such as wealth, power, or status.

Such a behavior can be detected in various forms, i.e. bribery, nepotism and misappropriation. The first practice is always of monetary nature, the last two can also have a non-monetary character.

This definition has a very broad scope in terms of types of corruption gains. For this paper, I adopt a narrow definition of corruption, which is limited to bribery. Systemic corruption means that officials use their authority in order to sustain their status and wealth to collect illegal payments systematically.

Taking into account importance of non-monetary aspect of relations within informal institutions a term of systemic favoritism is introduced and applied. Systematic favoritism means the systematic use of public office to foster the interests of the ruler himself or the ruler’s clientele, while impeding initiatives by actors not part of the ruler’s network.

Clientelism, patronage and corruption constitute part and parcel of neopatrimonialism. In a neopatrimonial system, however, the absence of the rule of law or a flawed system constitutes an essential element. Informal rules are formulated in a way which promotes the interests of incumbent political and economic elites. Thus, the claimants of the system are those social groups which organize the legal framework (Schlumberger 2008: 634). This leads to legal uncertainty in a respective regime,
where "laws and regulations are more or less systematically abused by the rulers, side-stepped, ignored, or even tailored to fit their interests" (Amundsen 1999: 3).

4. METHODOLOGY

This paper presents the findings of a field study conducted by the author between March and September 2015 in Austria and Russia. The decision for using a qualitative approach was justified by the sensitive character of the research problem. It helped me to investigate “how” of managerial behavior in organizations. Based on an extensive literature review we designed a questionnaire and consequently a category system. The interviews were conducted following the virtue of guidelines for which purpose a questionnaire was designed. Expert interviews were selected as date collection method. One to one interviews conducted in a confidential manner proved to be the appropriate tool to provide access to information that would not have been accessible otherwise.

The collected data result from 24 qualitative interviews conducted with managers of Austrian companies about their operations in Russia. Furthermore, I have had discussions with Russian experts from academia, journalism and NGOs about the general business environment. The interview partners from the business sphere represented a wide range of sectors and companies from SMEs to large enterprises.

The interviews were conducted by me in a language of choice of the interlocutor: English, German or Russian. The 20 face to face personal interviews were supplemented by four interviews via phone or Skype. All 24 conversations were taped with the consent of the participants. On average, the duration of an interview was no less than one hour. Due to the confidentiality I have codified the firms as numbers.

After the data collection, I have transcribed the entire interviews in the original languages. The category system provided me guidance through the analysis of the interview material. In this respect I followed Mayring’s (2000) content analysis while applying the deductive approach. The reason to opt for the deductive approach was that a plethora of literature, providing rich variables and concepts, can be found. This provided me with a solid basis for my research.

5. CONSEQUENCES FOR WESTERN BUSINESS

The impact of the three aforementioned informal institutions on Western business is presented and analyzed in the following section. The three factors are interdependent and go hand in hand. The manifestation of particular aspects varies between the respective interviewed companies. The root analysis for these differences, however, would go beyond the scope of the work.

5.1 Political corruption

Corruption exists in many forms and is conducted at various levels in Russia. Due to the hidden nature of such transactions it is very difficult to identify the structure and scale of this phenomenon. Western firms are confronted with the need for providing this kind of services mostly in the state administration where public officials demand favors which they are not allowed to theoretically (interview 5, interview 19, and interview 30). Each body has a certain sphere of specialization. Corruption is especially visible in some state regulatory bodies (at the senior official level) such as the finance police, tax inspectorate, customs service, fire department, work inspectorate or sanitary inspectorate (interview 21).

It is not centrally controlled (interview 4) and has no clear pyramid structure, where an official with decision-making power on each level is involved (interview 4, interview 9 and interview 17). This phenomenon seems to be some way of privilege for those involved providing them with additional money and power (interview 9).

As of the corruption scale the number of corruption transactions drops but in contrast the size of the money involved grows (interview 8, interview 16). This constitutes some kind of compensation. As salaries in public administration tend to be rather high compared to the average income there is a higher risk for an official to engage in corrupt practices.

Companies are also using it for the acceleration or delaying decisions or processes (interview 2, interview 5, interview 8 and interview 21). The rate for corruption payments depends on the size of the
contract and the type of service. The average rate of bribery is estimated at 30-40 percent of a transaction (interview 9 and interview 11). In extreme cases like the IT sector it approaches 90 percent (interview 9).

The official combat against this phenomenon makes the basis corruption more difficult. The traditional practice of being bribed via money in an envelope is not possible any more (interview 9, interview 15 and interview 17). Supervision of corruption acts has become stricter, but the companies have learnt to adopt and invent new instruments which are still not formally banned by law (interview 9, interview 13).

The frequency of such acts depends on the size of a project and business sector. A foreign company can encounter such a demand when awarding a state contract or a contract with or companies close to the government. In Russia the chance of solicitation of bribes is bigger when the involved company is large and/or when it is applying for a federal state project (interview 6, interview 15).

Companies have experienced demands in state procurement (interview 4, interview 9) and when dealing with public tenders (interview 15, interview 19, interview 21, interview 23 and interview 24). Any kind of illegal procurement of tenders is still present in infrastructure projects, especially in cases of state sponsored projects (interview 15). It is also used in branches working with projects (interview 19). Obtaining an official document such as a certificate, permission or license is also usually connected with corruption (interview 5, interview 13, interview 19 and interview 21).

It is difficult to trace corruption at customs because there is a common practice to outsource this kind of services. Some companies point at situations where customs officers delayed the clearance process arbitrarily in order to have it sped up with an extra payment (interview 13, interview 19, interview 20).

There is no problem with meeting the compliance standards in getting official gifts. In Russia, there is a tradition that officials can receive gifts at the occasion of a national holiday. Companies have only to stick to the allowed limits (interview 21). A Western company may escape corruption demands if it offers an innovative product or service which is connected with know-how or a high-tech commodity (interview 6, interview 7 and interview 16).

In the Russian market some formal institutions are sometimes used for informal ends. A system of intermediaries which cooperate with bureaucracy has been established. They cover supportive issues such as issuance of certificate or drawing up a plan. Officials are frequently affiliated with such an office by family or friends (interview 5, interview 9, interview 17). It may happen that such a service turns out to be “compulsory” in order to be awarded with the contract. The official will reject your application if you do not follow their recommendations. The charges are obviously higher there but there does not seem to be an alternative (interview 9).

Also legal offices can serve as mediators. If a company or public official is interested in that, a package of the shares of a Western company may be transferred by virtue of such an office (interview 17).

5.2 Political favoritism

There are only a very few companies, which conduct projects with partners who are politically well-connected and belong to one of the client-patron networks in the country (interview 10, interview 22, interview 24).

In principle, Western companies in Russia are no subject of raider attacks. Such cases are frequent within the Russian Community, but as an informal rule, such schemes are not applied against Western companies (interview 15, interview 21). There are very few cases, when an Austrian or German company has been threatened (interview 15, interview 21, interview 24). If a company ignores a raider threat in such an instance, the other party usually refrains from further actions (interview 21).

An attempt of an unfriendly takeover is likely to take place in a sector where Russian oligarchs are operating (interview 32). Especially care is advised for enterprises which offer good standards in production or trade (interview 21).

There are various options in use. A company will get an offer of sharing shares with a local political businessperson. A company reaching a certain level of turnover or sales volume can also become a subject of raider attack (interview 21, interview 17).

If Russian businesspeople (usually: businessmen) become dissatisfied with a new Western competitor, it may happen that the ownership of the latter becomes disputed on the basis of falsified documents concerning the ownership. The first step then is – usually – an inspection accompanied by the collection of informal pieces of information or insider (interview 4). As an alternative, Western businesspeople are persuaded in the strongest terms to sign a document passing the ownership to the raider (interview 15). Sometimes the latter does not stop short of using law enforcement agencies to support his demands. The third option is to provide some criminal claim to the court supported by
bribery in order to have the illegal sentence imposed. The illegal sentence is used to compensate the money to the law enforcement agencies for taking the companies over physically or use some sort of goods raiders (interview 4).

5.3 Legal uncertainty

Starting from 2002, the Russian government produced 180,000 different laws, governmental resolutions and other legal acts (interview 8). As a result, a bloated system of regulations exists, which is supposed to regulate some areas of business activity of foreign companies. Consequently, enough room for interpretation and the laws exists, including variables which help a company to interpret any regulation according to a desired direction. (interview 5, interview 9, interview 16 and interview 19). In Russia, laws are formulated in a way that makes it easy for a company to fall in trap of the grey zone even if one behaves correctly according to common sense. It makes every company involved potentially vulnerable (interview 19). There are, for example, some import possibilities which are also used by certain companies in order to paying lower customs duties or pay less value added taxes. Should any entrepreneur use such an opportunity, they move deep into the grey area and make themselves vulnerable (interview 19).

To some interview partners, the current legal regime is excessive but at the same time very contradictory (interview 8). Some companies stated that due to the legal constructions they are not sure whether they will be punished even if they try to work according to the rule of law (interview 14). Many firms have no experience with judicial proceedings. They strive for an out-of-court settlement (interview 15, interview 19 and interview 21) in order to settle the problem. In proportion to the total number of companies, there were only a few court cases. Firms involved in a litigation stated that the large part of all decisions takes place in the way the law foresees (interview 2, interview 18) or that one needs to go through all instances in order to get a fair judgment (interview 16, interview 24). Some corrupt practices can happen, but the quality of judges in the commercial courts is quite high these days and the system is much more transparent (interview 8). The payment of the judges remains one of the problems (interview 5, interview 21 and interview 24), making them potentially open for bribery.

The evidence of the Austrian companies shows that a trial at a commercial court can be lost but also won (interview 20, interview 21). In the case of an action of a foreign company against a company close to the state the sentence may be politically influenced and the verdict will fall in favor of the latter (interview 9, interview 17 and interview 24).

Concerning the judiciary, the system of intermediaries may work as well (interview 4, interview 9). One needs some sort of mediation, be it that a law firm provides intermediation due to the fact that one cannot corrupt a judge directly (interview 9). If one comes to the court with such an intention there is a suspicion of provocation and no judge is ready to risk their job. Among foreign firms, there is some kind of general knowledge about two types of lawyer offices working in Russia (interview 9, interview 17). The first type of legal offices deals with defending interests of their client lawfully and the second one provides their good connections to corrupt judges (interview 9).

5.4 Coping Strategies of Western business

Western companies have developed some strategic options which help them minimize potentially losses coming from the institutional environment. They try to adapt to the local model in order to be successful. Foreign businesspeople understand that running a business could be risky in Russia, but can also bring large profits. Companies reduce some risks by seeking contacts to informal networks. If a large company has established a good reputation with high-ranking government representatives or the President in best case and made an arrangement regardless of its form, they will have no problems in their business activity in Russia. This is a kind of political “krysha” (Russian for “roof”, meaning “special protection”). Companies not having such a direct contact may look for support through a business partner with a political clout. It may help to outsource the corruption problem or obtain state contracts. A company can also cooperate with a local domestic consulting company which has regular connections with the regional authorities and know what their demands and requirements. The largest companies have their own departments with some good-informed and well-connected employee who are very familiar with the peculiarities of Russian landscape.

A second set of strategies set covers corruption. The first one seeks to avoid corruption. Some enterprises give up doing business with public authorities and try to cooperate with independent “private” partners. They consequently decide not to participate in public tenders or state procurement.
A second option is to find a niche where foreign products are sought-after and local competition is low or they offer a high-tech product which cannot be provided by domestic companies. Another kind of corruption avoidance is to obtain the control of any sensitive area of the own company like finances or accounting to external specialized companies. These companies report directly to their headquarters in Europe and thus give only the outer control on the regional manager. A more pragmatic strategy may be to outsource corruption. This entails the shift of responsibility for some business operations such as sales and distribution to the Russian partner or the cooperation with independent local companies in these areas. In sectors where state permissions, licenses or certificates are obligatory, a company can use a mediator to solve any related problem. A specialized company may then become responsible for getting the needed certificate for them. It seems to be a common practice to outsource customs services. The role of the broker is usually played by a Russian company. In order to avoiding potential problems with Russian customs services, Western business invented a system where tracks pass always the same state border and work with the same broker on a permanent basis. If problems are looming, Western business can always use the respective national embassies or chambers of commerce in the host country as another instrument. The Austrian embassy and the Chamber of Commerce are always ready to intervene for Austrian enterprises in the area of the legislation or licensing. A company having a special problem may handle it unilaterally with the support of national embassy of the economic chamber. The intervention on EU level is only an option if a common problem appears for a group of EU countries. In the case of a small contract with a Russian firm it is better to make Russia as a place of jurisdiction. And it is also cheaper to do it in Russia than in one of the European Arbitrary Courts. If you have a more complicated deal, especially if stakes are high, it would be better to regulate it under non-Russian law.

6. CONCLUSION

When it comes to informal institutions there seems to be clear evidence that corruption, political favoritism and legal uncertainly are a part of business activities of Western companies. The interviews show that these factors differentiate in the impact on foreign business. The results of this study show that corruption is a problem for almost every company regardless of the size or line of business. There is only a slight deviation in the high-tech sector. The involvement in local networks tends to be generally low. The contact with the judiciary is in general very sporadic. Thus, while corruption affects all the size of a company as almost all sectors, political favoritism and legal uncertainty are perceived as playing only a minor role in conduct of business. Corruption is the dominant informal institution and we can find certain methods and some scale of the problem. Looking at the results we may come to the conclusion that business should be able to survive without any access to local political-economic networks and/or within the current state of judiciary. The question whether these three informal institutions constitute political risks can neither be answered by “yes” or “no”. Results of this research attempt to shed a light on some aspects and could serve as a starting point for further research. Several themes may emerge from these findings and consequently require additional work. Further exploration could provide important insight into the accessibility of local networks, corruption schemes in particular sectors or use of legal intermediaries in problem solving process. Furthermore, practitioners interested in entering the Russian market could also benefit from these findings. They could easier develop entry strategies and be warned of the role of informal institutions.

REFERENCES


ANNEX

Interviews:

Interview 1, am 25.03.2014
Interview 2, am 25.03.2014
Interview 3, am 25.03.2014
Interview 4, am 26.03.2014
Interview 5, am 26.03.2014
Interview 6, am 27.03.2014
Interview 7, am 27.03.2014
Interview 8, am 28.03.2014
Interview 9, am 28.03.2014
Interview 10, am 31.03.2014
Interview 11, am 01.04.2014
Interview 12, am 01.04.2014
Interview 13, am 01.04.2014
Interview 14, am 02.04.2014
Interview 15, am 02.04.2014
Interview 16, am 02.04.2014
Interview 17, am 03.04.2014
Interview 18, am 03.04.2014
Interview 19, am 10.04.2014
Interview 20, am 22.04.2014
Interview 21, am 14.05.2014
Interview 22, am 21.05.2014
Interview 23, am 03.07.2014
Interview 24, am 24.09.2014
ABSTRACT

Lithuania has unique characteristics and smart human resources which should be used to foster competitiveness. This could be achieved only with an agreement on clear and achievable goal to fund human resources and Research and Innovation (R&I) which would cater the needs of knowledge-based development. Smart specialization has become a key element of the strategy Europe 2020, which refers to the guidelines for the next decade in the development of regional innovation systems, also consolidates a "smart-growth principles", "green growth" and "inclusion increase" in the EU's Cohesion Policy. Smart specialization is a strategic approach to priority education together with culture and religion is a key for sustainable growth and development in the society. The aim of this paper is to achieve two objectives. Firstly, to analyze statistics and to define the smart specialization in the context of the personality creativity and innovation. Secondly, to analyze the main indicators based on expert interviews about measuring the sustainability and foresight/intelligence of educational processes, individual institutions, organizations and regions. Finally, to argue that education is a central indicator for integration and universal sustainable development. This is encouraged by additional focus on simulations and education based on creative design. It encloses indicators associated with the needs of local community, meaningful and creative business of children, youth, women and elderly people.

KEYWORDS

Sustainable development; smart education; positive socialization

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7. INTRODUCTION

Smart Education is positive socialization strategy, which relies on positive psychology (Anthony D. Ong and Manfred H. M. Van Dulmen, 2006) methodological provision and use of innovative technologies of how social partnership approaches family, institutional, community, regional and global levels. This investigation will select and reveal 12 smart education indicators reflecting smart educational levels, enabling people to master and operate the 3D model (Kvieskiene G., Celiesiene e., 2014) model with multifunctional, multicriterial, multisectoral approach.

Smart Education - is positive socialization strategy, which relies on positive psychology methodological provision and use of innovative technologies of social partnership approaches family, institutional, community, regional and global levels. The investigation will select and reveal 12 measurement indications and criteria of smart education (Kvieskiene G., Celiesiene E., 2014) reflecting intelligent educational levels, enabling young people to master and operate the 3D model (multifunction, multicriteria, multi-sectoral) approach.

Positive socialization we understand how smart educational tool that through a systematic institutional, political, technological, social and regional systematic approach in order to discover the criteria to ensure the public interest in shaping the socio-economic policies and decision-making. Over the past decades, youth empowerment models and strategy becomes increasingly important not only in research but also in the global development organizations studies. The youth policy-oriented research, social networks and international organizations initiative enables young people to participate more in
the national and global level decision-making. A systematic analysis of implied and synthesis, which will create new of smart education of youth empowerment is based on the theory underlying the adequate formation of young people competences portfolio of options and measurement criteria. Smart and sustainable education and its sustainability, as well as the quality of education are widely discussed and controversially perceived in theoretical literature.

Smart Education as a central indicator of integration and growth is encouraged by additional focus on simulation and education based on creative design. Happy and creative personality is the most important starting point for positive socialization and sustainable education system. Smart Education in the practice and theoretical research analyzes peculiarities through quality services, public arena, tradition, fashion, software, tourism, leisure industry and connects it with creativity and social safety. This phenomenon is directly related to Creative Economy and Social Capital, which is rapidly increasing through the creation of new jobs, creating new market requirements in response to market expectations. The creative economy and social capital is based on ideas rather than on physical capital, it includes social industries and social communication technologies. The new information, digital content technologies, startups opens up new spaces and reduces costs. The second feature – increasing interactivity which bounds together creative view of the creator and the consumer. For managing this new phenomenon, we analyze smart positive socialization scenarios. We understand positive socialization (Kvieskienė G., 2005) as a smart educational tool, that through systematic institutional, political, technological, social, ecological and regional approach discovers the criteria to ensure the public interest in shaping the socio-economic policies and decision-making. Over the past decades, citizen empowerment models and strategy becomes increasingly important not only in research but also in the global development studies. The research oriented to citizen enabling policy, social networks and international organizations initiatives enables people to participate more in decision making on the national and global levels. A systematic analysis of preferences education and synthesis, will create new forms of smart education and of citizen empowerment is based on the theory underlying the adequate formation of people competencies portfolio of options and measurement criteria. Smart and sustainable education and its sustainability, as well as the quality of education, are widely discussed and controversially perceived in theoretical publications.

Smart Education as a central indicator of integration and growth is encouraged by additional focus on simulation and education based on creative design. Happy and creative personality is the most important starting point for positive socialization and sustainable education system. Creation of economic impact is greatest in traditional creative industries, while adapting skills and business models for the creation of organizations and the value and management of intellectual capital. Different practices of how to separate processes, creativity and economy has evolved independently for many centuries, but in the twenty-first century they acquired a new common denominator - they became a creative economy, with intellectual property as a key element in this new economy character (Levickaite, 2011). Today, organizations are becoming increasingly dependent on creativity, because of the abandonment of the traditional physical raw materials and increasing use of the intangible, intellectual raw materials. Creativity is considered highly important for innovation and economic success (Asheim, B., 2006, Huggins, R., Izushi, H., Prokop, D., Thompson, P., 2014). Companies in the creative industries, such as design, publishing, software or the arts, are normally seen as particularly innovative (Lazzeretti, L., 2012, 6. Di Maria, E., Grandinetti, R., Di Bernardo, B., 2012). Cities and communities are important for these relationships: creative industries tend to be urban industries, which take advantage of shared knowledge and of a density of specialised customers, suppliers, and workers to create new products (Asheim, B. T., Ebersberger, B., & Herstad, S., 2012). Businesses benefit both from the diversity of urban environments, which may provide a range of stimuli, and from the specialisation, allowed by the urban environments. Furthermore, recent research states that such externalities will be related to city size: larger cities provide greater externalities, making firms in large cities more innovative (Duranton and Puga, 2003; Stolarick and Florida, 2006).

For this paper, sustainability is defined broadly in order to include not only environmental concerns but also economic and socioeconomic issues — the triple bottom line now being adopted in the private, public, society and civic communities with creative approach. Sustainability defined as creating and maintaining institutions, communities, economies, and societies that can coexist in harmony with the natural world and with each other far into the future.

2.1. Community based industries for creative economy

The importance of European Cohesion Policy is in designing multi-sectoral, multi-functional, multicriteria educational, cultural and religious analysis of smart specialization as research and development (R&D) and innovation development priorities are tailored to cater personal, communal,
After evaluating modern trends, it can be said that Lithuanian cities can create a full quality of life. Success will depend on various factors: state policy and financial instruments, development strategies, investment and efficient management of public assets, urban centers, residential areas renewal, and most importantly - sustainable development of community participation. Sustainable development is an important community mobilization tool that develops positive leadership and community capacity, in which it is necessary to validate the local government or other laws (Kvieskienė G., Bardauskiene D., 2014). We define smart positive socialization as social innovation and creative industries synergy, which is based on a 3D model of education in enabling sustainable integrated communication and social capital (sustainable social partnership) (Celesiene E., Kvieskienė G., 2014).

The creative industries concept emerged in Australia in the early 1990s, but was given much wider exposure by policy makers in the United Kingdom in the late 1990s, when the Department for Culture, Media and Sport (DCMS) set up its Creative Industries Unit and Task Force. In the process, the DCMS moved the understanding of the concept of creativity a long way from its common association with activities having a strong artistic component, to any activity producing symbolic products with a heavy reliance on intellectual property and created for a wide audience. Emphasizing the key role of intellectual property, has classified creative industries into four broad subsectors where the copyright, patents, trademarks and design structure are the final product. Creative industries are a diverse set of industries, defined by DCMS as: advertising; architecture; art and antiques markets; designer fashion; video, film, and photography; music and the performing and visual arts; publishing; software, computer games, and electronic publishing; radio and television; craft; and design. Globally, creative industries are estimated to account for more than 7 per cent of the world’s gross domestic product (GDP) (World Bank 2003) and are forecast to grow on average by 10 per cent yearly (PriceWaterhouseCoopers 2003). Already these industries represent a leading sector in the OECD (Organisation for Economic Co-operation and Development) economies, showing annual growth rates of 5 to 20 per cent (EESC 2003). In the United Kingdom, for example, creative industries already generate revenues of over £110 billion and employ 1.3 million people (UK Dept. for Culture, Media and Sports 2003). Several other developed countries, such as Australia, Canada, Ireland, New Zealand and Sweden, have also been successful in exploiting their foothold in these industries and are increasingly seeing them as a gateway to the new information economy (United Nations Conference on Trade and Development Distr., 2004).

Going towards a sustainable, community-based development highlights a several key elements reflecting the positive impact of 3 D:

- the importance of vision,
- enabled social partnership and civil society,
- the critical importance of leadership,
- maximum inclusion of civil society - considering the rating and selection of actions (projects or groups).

Community businesses in many cases are more innovative than others. Businesses may sort into particular areas based on their relative competitive advantage, and would otherwise not survive. The innovative performance of businesses in rural communities accessing knowledge from elsewhere and innovating in alternative ways. For example, research on Lithuania case has suggested that community based innovation is more important for people's welfare and local knowledge spillovers. While some high profile ‘innovative communities’ may appear innovative, whether this is because of local linkages or more prosaic profit and sustainability of those innovations, the importance of communities for innovation may be exaggerated. In 2014-2020 in Lithuania, the structural funds will support an integrated regional development, focused on social inclusion; demographical changes stabilization and citizens' involvement (Kvieskienė G., Bardauskiene D., 2014).

The object of this research is community, focused on smart and sustainable education. The goal is to define smart positive socialization and community-oriented tasks in theory and practical examples. Research methods include literature analysis and successful case studies, focus group interviews and survey in experts and responsible civil society members.
2.2. Ecosystem Approach

Human services, intellectual and social capital are inarguably essential to the 21st century economy, which is dynamic, knowledge-based, and increasingly global. Indeed, the United Nations Conference on Trade and Development’s Creative Economy Report 2010 asserts: “Adequately nurtured, creativity fuels culture, infuses a human-centred [sic] development and constitutes the key ingredient for job creation, innovation and trade while contributing to social inclusion, cultural diversity and environmental sustainability” (Introducing the first report on the Creative Economy of California, 2014). The research on socio-ecological systems always uses transdisciplinary mode of operation in order to achieve an adequate problem orientation and to ensure integrative results (Jahn, T., Becker, E., Keil, F., and Schramm. E., 2009). Problems of sustainable development are intrinsically tied to the socio-ecological system defined to tackle them. This means that scientists from the relevant field of research as well as the involved societal stakeholders have to be regarded as elements of the socio-ecological system in question (Jahn, T., Becker, E., Keil, F., and Schramm. E., 2009).

This reality is powerfully evident in Lithuanian regional and community strategies (Neil Adams, Neil Harris, 2005). To assure investment in social industries, creative economy, social capital and regional development theory is related to the social economy (Kvieskiene G., Kvieska V., 2012). Social economy can be influenced by culture and the new challenges arising in respect of the economic crisis and the growing criticism of modernism in relation to social partnership, social innovation, networking, clustering concepts and ecosystemic approach. The ecosystem approach was formulated during the 1990s as a strategy for the integrated management of land, water and living resources (Development of the ecosystem approach). The twelve principles were set out at a meeting in Malawi in 1998 (Convention on Biological Diversity, 1998), which was organised under the auspices of the Convention on Biological Diversity (CBD). The social economy is based not only on individual skills, but also on collective knowledge of the various social industries. Successful communities and regions are based on smart and innovative and multifunctional design of environment, public spaces which includes social partnership between public, private and civic organizations. The ecosystem approach is a holistic and inclusive look to the natural environment. It helps to apply current thinking about ecosystem services (what nature does for people) in line with the commonly accepted goal of ‘sustainable development. It is the primary framework for action under the international Convention on Biological Diversity (CBD) (What is the ecosystem approach?).
2.3. Case study

It should be emphasized that smart specialization strategies and scenarios prepared in preparation for a new EU financial programming phase (2014-2020) to all the European Union countries. Some of them, like Lithuania, is preparing its own strategy for the entire country, others are developing separate strategies for different regions or communities. These changes in the socio-political forces help to make a more intelligent analysis of socialization, which calls for a review of existing socialization strategies and practices to ensure compliance with inclusive and creative public education priorities (LSPA feasibility study in 2014) (NLP Association, 2014). In order to integrate the optimal criteria for assessing the sustainability of intelligent education, we have to select 12 of global indexes, which can measure the adaptation of the educational insights of this is crucial for the assumptions and factors on a global, national, regional and individual institutional / organizational levels.

Table 1. Smart Education Indicators

<table>
<thead>
<tr>
<th>Sustainability Measurement Index</th>
<th>Acumen Determinants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education Policy Index</strong></td>
<td>Identification insight / intelligence - this is a compromise between each individual's unique skills learning processes and learning individualization in connection with the integration into a common learning space, operating under uncertainty.</td>
</tr>
<tr>
<td>(structure: cost of education of (1) the learner in high school; (2) the learner institution of higher education; GDP to science (4), pre-school coverage (3), informal (4) education, community / public interest activities (5))</td>
<td></td>
</tr>
<tr>
<td><strong>Education Competitiveness and social differentiation Index</strong></td>
<td>Alternatives and promotion of diversity / Equal Opportunities insight / intelligence - the ability to adapt social integration and inclusion, and ensuring the education of socialization.</td>
</tr>
<tr>
<td>(structure: the quality of secondary education in scientific production and dissemination (publications, citation index, number of monographs) (1), inclusion rate (students, students with disabilities or special needs) (2), higher education ended a number of people). (PISSA, PIAAC studies) (3).</td>
<td></td>
</tr>
<tr>
<td><strong>Integral sustainable educational prerequisites Index:</strong> Structure: (1) State welfare (“Legatum” the world's wealth index); (2) Child Welfare (UNICEF index); (3) globalization (Maastricht index); (5) The index of democracy, social networks (clusters) and the number of changes; unemployed and not studying of young people (NEET indicator).</td>
<td>Impact and autonomy insight / intelligence - this is a problem solving generation, living in a new or unfamiliar environment in a broader (or interdisciplinary) context of work and academic environments in the context of synergy in education.</td>
</tr>
<tr>
<td><strong>Smart modeling of positive socialization.</strong> Responds to active citizenship in order to prepare the younger generation to evaluate themselves and to project positive social change.</td>
<td>Positive socialization insight / environments - is an integral sustainable educational empowerment through active citizenship initiating positive change.</td>
</tr>
</tbody>
</table>
Smart positive socialization as social innovation is based on the idea of the embodiment, based on 3D (multisectoral, multi-functional, multiple criteria) modeling in educational, cultural and religious arenas to simulate sustainable development and social capital. In this way, the smart positive socialization running (or) creating breakthrough trends and new opportunities to quickly and creatively use knowledge, innovation, learning, networking and widest possible range of individual and public (community) well-being, with rational costs now and in the future (3 Fig.).

Fig. 3. 3D smart socialization scenario

Smart positive socialization strategy develops in 5 steps:

1. Diagnostics. This stage involves the knowledge-based data collection and summarizing the necessary adaptation of personalized smart socialization strategies for individual, organizational or multi-regional/multi-sectoral level. Identified existing situation (resources and investments) helps to assess the current situation and design deliverables (products or services).

2. Model of social partnership. The second stage involves the social partnership and / or clustering design. Smart positive socialization scenarios are necessary for the implementation of different professional involvement and active participation.

3. Strategy. The third phase involves the search for alternative strategies and evaluation. Each smart positive socialization scenario evaluates the existing resources and risks and includes three basic approaches: zero (neutral), positive and negative.

4. The action plan and implementation. The fourth stage is assigned to the chosen strategy conceptualisation and elaborating the action plan. This phase includes smart positive socialization of participant’s responsibilities and creating a timeline of activities implementation.

5. Monitoring. Summarizing and self-assessment of the implementation of the action plan is the fifth phase of the activity for discussion. Each step and its results are discussed sequentially, highlighting key challenges and the good practice.

During the Lithuanian-Swiss project "Sustainable Development of the Academy of institutional capacity-building, in a balanced and sustainable development of the Lithuanian community" in April-May 2014 (Kvieskiene G., Barauskiene D.), Lithuanian Real Estate Development associations founded the Sustainable Development Academy. Also, they conducted a survey and organized training seminars on sustainable development and community development, modern urban development challenges and critical factors determining the EU's policy for the period of 2014-2020 and made the analysis and evaluation of best practices.

The investigation has formed a group of 12 experts, of which the majority was women (11). Respondent’s age is from 41 years old (41-50 - 1 participant, 51-60 - 7, more than 61 - 4). The survey showed that all participants in the discussion has a university level education. Most of the discussion participants (11) live in urban areas, and only one in the rural area. Actualization of respondents experience takes into account the sector in which they operate. The survey results showed that 6 respondents are experts in a non-governmental sector, 4 are private and 2 are public sector agents.

During another survey, representatives and experts of sustainable development and civic society organizations from private, public and civic sectors were interviewed. In 2013 - 2014, 250
questionnaires were sent for selected representatives. 165 questionnaires were received back: 49 from representatives of civic society organizations, 101 from experts. The efficient use of changing demographic situation, existing infrastructure and the management of resources reduction are important priorities, it is proposed to foster local traditions, protect the natural and cultural heritage, avoid disproportionate field investments. Survey participants believe that the greatest community challenges, issues to be addressed are energy resources, territorial planning, demography and weak communities (Celesiene E., Kvieskiene G., 2014).

Participants suggest these features of strong communities: • Community develops an important, positive leadership;
• Decisions are made on a "bottom-up" approach;
• Businesses and community work together on the construction investment project from conception to implementation;
• Local culture and traditions are fostered, the environment identity is built and protected;
• A system for dissemination of information is set up on community level which allows members to provide timely feedback;

Good practices are openly shared between neighboring communities and the wider community network in order to work for the sake of the city or town, not to compete.

3. CONCLUSION

Main components of sustainable education are the education policy, competitiveness and social differentiation, integral sustainable educational prerequisites and smart positive socialization indexes, which can be analyzed through the social, creative and socioecological approaches.

Previously understood almost as the exclusive preserve of the non-profit sector, social innovation is now seen as a broader concept that is increasingly being applied in 3D model (multisectoral, multifunctional and multifactoral), notably the public, private, for profit or NGO sectors, as well as the scientific or socioecological approach.

This broadening of our understanding of the concept and expanding application to new multifunctional design of Preference of Education for Universal Sustainable Development Context and gives socioeducational innovation new impetus and energy.

New ways for organizations to work together, new forms of networking, and new possibilities to work across sectors appear to be proliferating. New kinds of public/private/NGO social partnerships create conditions for social innovation, where Small and Medium-sized Enterprises (SMEs), Social Economy Organizations optimizes the costs and accumulates Social Capital. As such, the proposed subject would be “Social Partnerships influenced by Innovative Solutions” with the objective to analyze the Social Partnerships on Innovation and Social Capital development.

The existence of social mechanisms for transformability, such as those identified in this article, is essential to move away from a less desired trajectory toward a socio-ecological approach with the capacity to manage ecosystems sustainably for human well-being. Adaptability will be needed to strengthen and sustain such a desired state and make it resilient to future change and unpredictable events.

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